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Hog Profitability

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CORNHUSKER ECONOMICS

Hog Profitability

Market Report	Yr Ago	4 Wks Ago	4/6/07
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$80.37	98.10	\$99.77
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	131.20	127.35	127.61
Nebraska Feeder Steers, Calves Med. & Large Frame 750-800 lb	105.37	104.82	109.22
Choice Boxed Beef, 600-750 lb. Carcass	138.69	155.70	156.20
Western Corn Belt Base Hog Price Carcass, Negotiated	51.11	59.42	60.61
Feeder Pigs, National Direct 50 lbs, FOB	52.38	76.30	70.33
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	57.48	68.32	65.15
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct	68.00	85.25	85.50
National Carcass Lamb Cutout, FOB	223.03	244.63	248.76
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	3.90	4.59	4.36
Corn, No. 2, Yellow Omaha, bu	2.13	3.90	*
Soybeans, No. 1, Yellow Omaha, bu	5.17	7.13	*
Grain Sorghum, No. 2, Yellow Columbus, cwt	3.00	6.48	5.54
Oats, No. 2, Heavy Minneapolis, MN , bu	1.97	2.74	2.90
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	130.00	*	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton	65.00	*	92.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	55.00	*	90.00
* No market.			

Pork producers have enjoyed several years of profitable production. In 2002 we began keeping data on estimated breakeven cost and potential profits. Our data is based on an updated production budget for an efficient 1,200 sow farrow to finish unit. Corn and soybean meal costs are taken from the Chicago Board of Trade futures prices, to stay current with changing feed costs. For Nebraska feed costs, soybean meal is valued at the current board price and corn is valued at the board price plus a negative 30 cent basis.

Lean hog futures prices are taken from the Chicago Mercantile Exchange. For Nebraska lean hog futures price plus a negative \$2.00 basis value is used. Periodically, numbers were revised with current data, and the profitability of Nebraska average producers and the top ten percent of producers were calculated. Complete data, using the same format, was calculated from 2003 and the results from 2003 through 2006 are shown in Chart 1 on the next page.

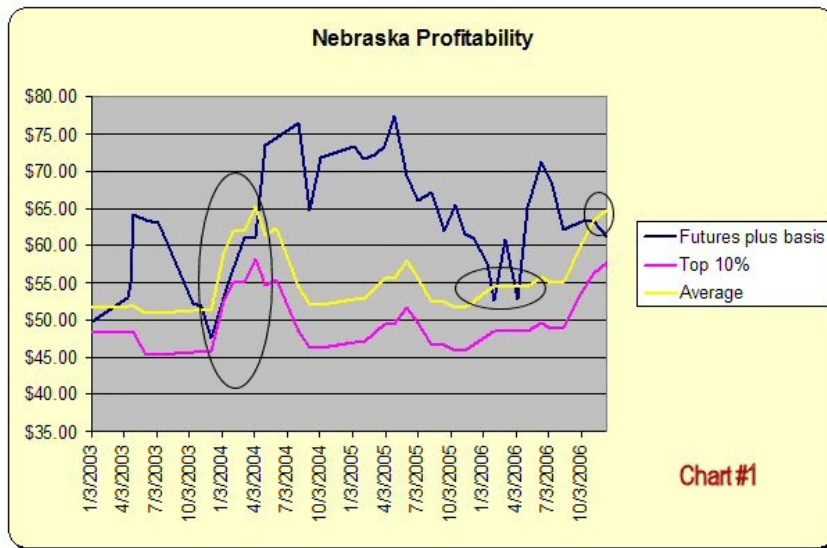
Average producers had a period of loss in early 2004 when feed prices rose sharply. The top 10 percent of producers were near breakeven. However, this represents only producers who would have had to buy feed on each increment of rising prices. It quickly illustrates the value of cost controls and forward planning and contracting. Again, in 2006 the average producer may have been near cost of production. As corn prices rose sharply in the fall of 2006, average producers may have faced some losses if they were buying corn on an as needed basis.

U.S. hog operations with more than 5,000 head accounted for 82 percent of the pig crop in 2005.¹ Also in 2005, these operations had 1.75 more pigs per breeding animal per year than the operations having less

than 5,000 head. Nebraska's operations numbers were similar to the U.S. average and it is safe to say that the majority of hogs sold by Nebraska producers from 2003 through 2006 were sold profitably.

This prolonged profitable production cycle has been driven by two factors. Producer restraint in expansion of the breeding is one, and a strong export market is the other.

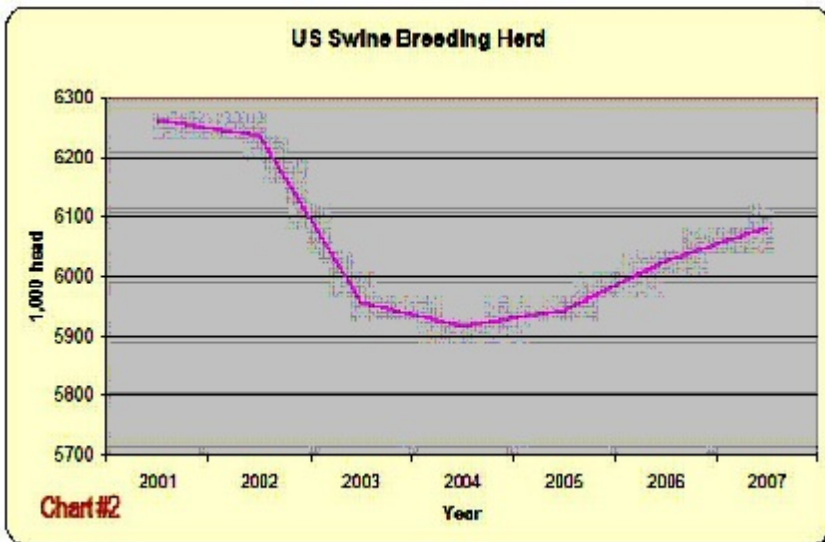
Producers have shown great restraint in breeding herd expansion during the past 3½ years. Chart 2 shows that instead of expanding to take advantage of short-



January 2007 pork exports were up 17 percent over January 2006.³ With continued strong exports and despite high corn prices, Nebraska's pork producers may see continued profitability.

References:

- ¹ U.S. Hog Breeding Herd Structure, Released September 22, 2006 by the National Agricultural Statistics Service (NASS), Agricultural Statistics Board, U.S. Department of Agriculture.
- ² FAS Online through 1995 and U.S. Meat Export Federation for 1996 to 2006.
- ³ USDA and U.S. Meat Export Federation.



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term gains, producers reduced and then maintained the breeding herd to prolong the gains. When the breeding herd began increasing, they expanded less than half the amount of the previous reduction, over similar time periods of about 3½ years.

The second factor to influence profitability is the continued strong export market. Pork exports have continued to increase year over year for 15 years.² Chart 3 shows the year over year increases in pork exports. As the chart shows, the increase since 2004 has been dramatic. Continuing that performance (exports are off to a strong start in 2007) will be important.

