


AAEA Extension Livestock Outlook -- 2008

Hog and Pork Outlook

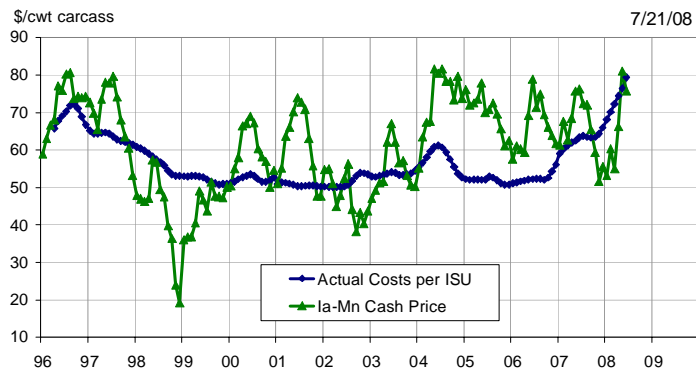
Steve R. Meyer, Ph.D.
Paragon Economics, Inc.

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From information, knowledge

Hog prices have not been that bad . . .

. . . but the problem has been COSTS!

ACTUAL & PREDICTED HOG PRODUCTION COSTS* AND PRICES

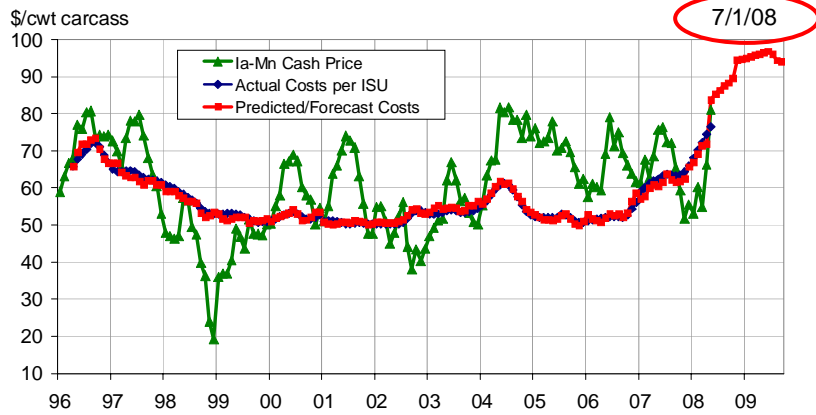


*Based on relationship between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur

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And the BIG problem WAS future costs!

ACTUAL & PREDICTED HOG PRODUCTION COSTS* AND PRICES

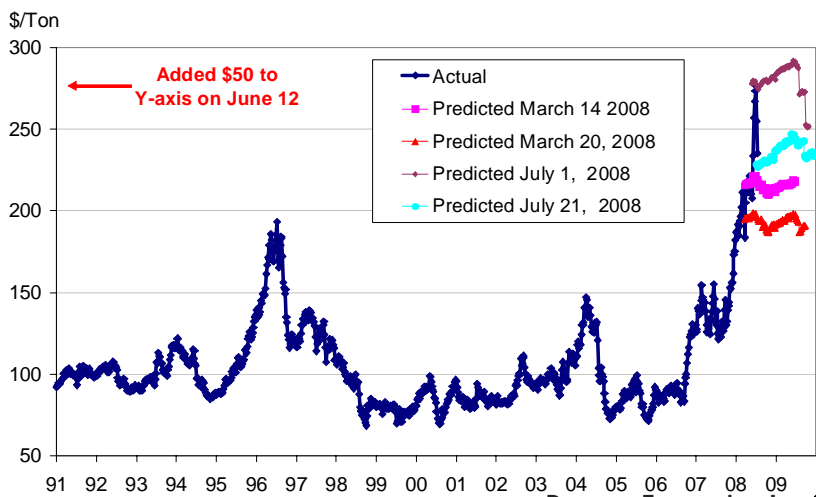



*Based on relationship between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices

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July 22: Feed is \$40-\$50/ton LOWER!!

CORN-SOY COST, 16% CR. PROTEIN DIET

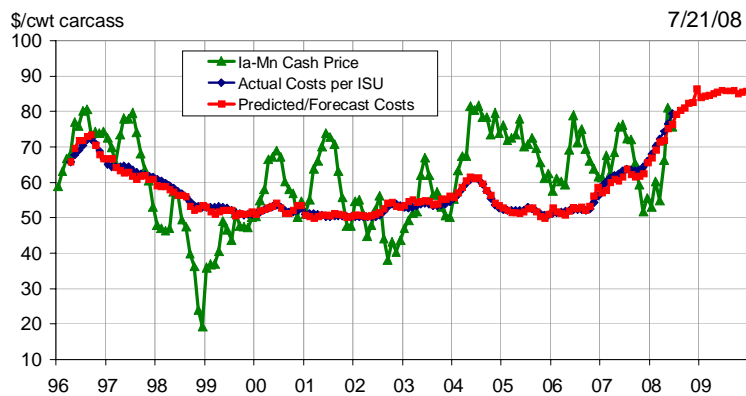


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What a difference 3 weeks can make . . .

. . . \$10-\$12/cwt carcass cost decline

ACTUAL & PREDICTED HOG PRODUCTION COSTS* AND PRICES

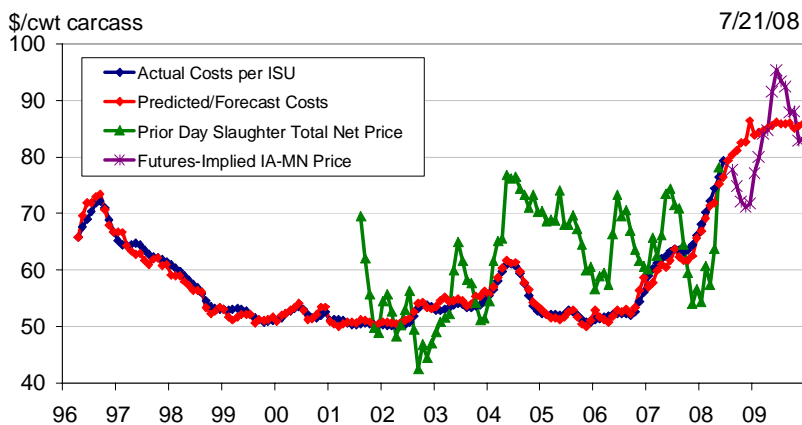


*Based on relationship between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices

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Smaller losses in '08 and profits in '09

ACTUAL & PREDICTED HOG PRODUCTION COSTS AND PRICES*




*Based on relationship between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices

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Bottom line for costs

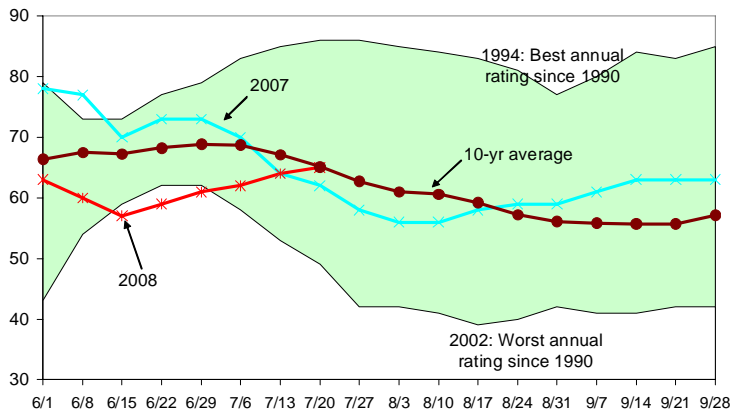
- Looks MUCH better than just 3 weeks ago
 - Lower oil prices
 - Soft equity market = funds moving out of commodities?
 - Steadily improving crop conditions


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Corn crop condition was the lowest ever ...

... but are above '07, equal to 10-yr average

CORN CROP PROGRESS
Percent rated Good or Excellent



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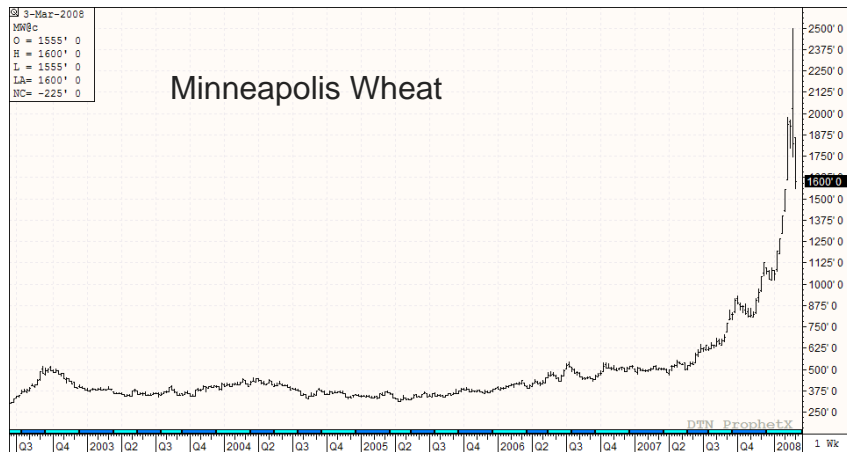
Bottom line for costs

- Looks MUCH better than just 2 weeks ago
- This is a buying opportunity – but don't get in a hurry
- Corn is still breaking – with major technicals within reach
- SBM is breaking also – EVERY SBM contract broke the 50-day average Monday
- Develop a profit margin plan – and work with your banker

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We will NOT run out of corn ...

... but the price may be VERY high!



My advice: Get 3 months usage **IN HAND!**

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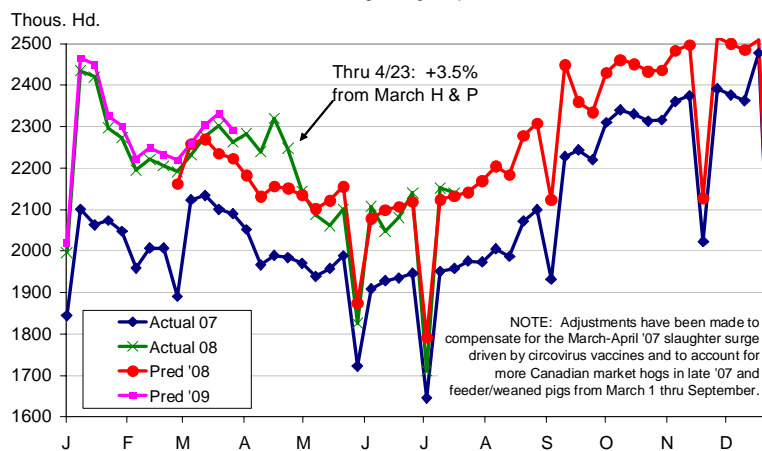
Hog Supplies

April slaughter was MUCH higher ...

... due to efforts to lower weights?

FI HOG SLAUGHTER, WEEKLY

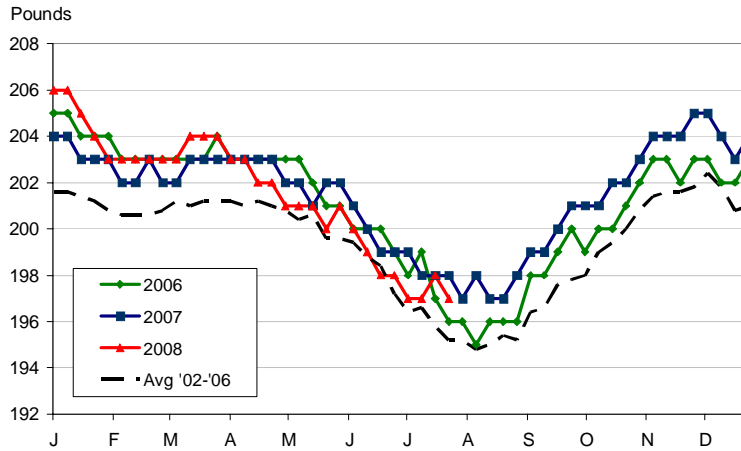
Based on USDA Hogs & Pigs Report, March '08



Weights did come down in April – a bit ...

... but are just 1-2 lbs. below 2007 levels

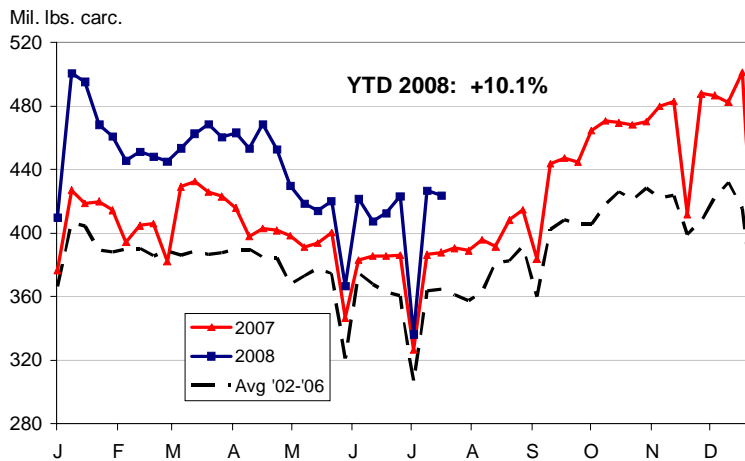
FI CARCASS WEIGHTS, HOGS




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Record pork production – +10.1% YTD

FI PORK PRODUCTION, WEEKLY

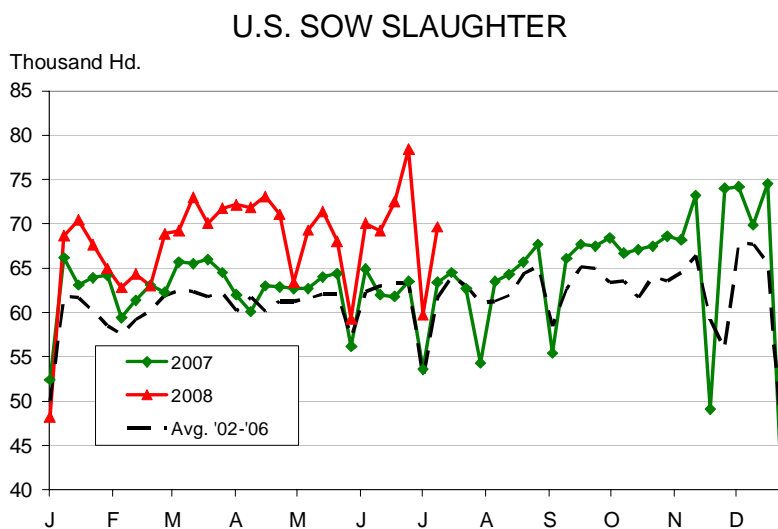


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Reasons for higher supplies:

- U.S. sow herd growth of 1-2%, yr/yr, for the past 11 quarters – Until June H&P Report

Big sow slghtsr surge in late June – what now?



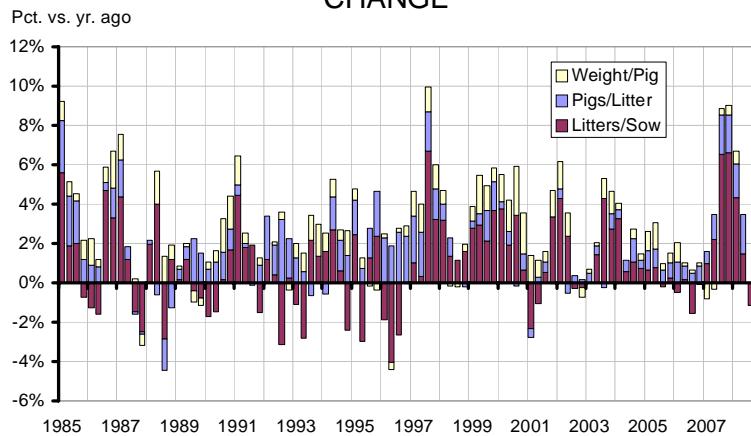
Reasons for higher supplies:

- U.S. sow herd growth of 1-2%, yr/yr, for the past 11 quarters – Until June
- Growth in litter size and a dramatic rebound of litters per breeding animal

Reasons for '07 surge: No added sows? ...

... Circo vaccines? Undercounted BH?

U.S. PORK INDUSTRY PRODUCTIVITY CHANGE



Reasons for higher supplies:

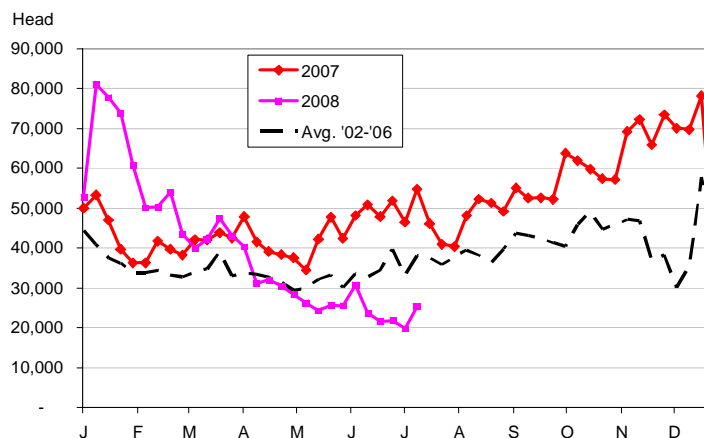
- U.S. sow herd growth of 1-2%, yr/yr, for the past 11 quarters – Until June
- Growth in litter size and a dramatic rebound of litters per breeding animal
- Higher imports of Canadian feeder pigs and market hogs – but this is ending QUICKLY!

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MH imports have been below '07 since 4/1 ...

...now -8% YTD and -54% wk. of 7/12

MARKET HOG IMPORTS FROM CANADA

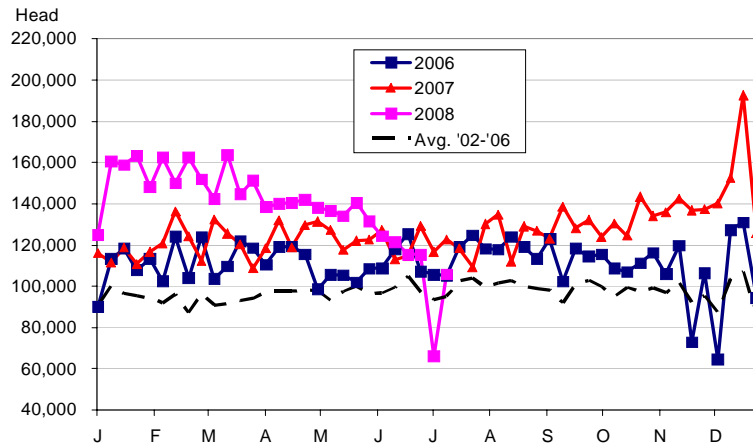


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FP imports are +14% YTD – but declining...

... 7/5 plunge appears to be correct

FEEDER PIG IMPORTS FROM CANADA



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Reasons for higher supplies:

- U.S. sow herd growth of 1-2%, yr/yr, for the past 11 quarters – Until June
- Growth in litter size and a dramatic rebound of litters per breeding animal
- Higher imports of Canadian feeder pigs and market hogs – but this is ending QUICKLY!
- **BIGGEST FACTOR:** Effective circovirus vaccines
 - Greatly diminished death losses
 - Far fewer light hogs when barns emptied
 - Better growth rates – until diet fat was removed

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June Quarterly Hogs & Pigs Report


USDA Quarterly Hogs and Pigs Report

June 27, 2008

Category	2007	2008	2008 as Pct of 2007	Pre-Report Estimates
Inventories on June 1 ¹				
All hogs and pigs	63,951	67,661	105.8	104.6
Kept for breeding	6,120	6,069	99.2	98.6
Kept for market	57,830	61,591	106.5	105.1
Under 60 lbs.	21,782	22,587	103.7	102.9
60-119 lbs.	14,339	15,167	105.8	104.7
120-179 lbs.	11,790	12,907	109.5	106.8
180 lbs. and over	9,920	10,931	110.2	107.7
Farrowings ²				
Mar-May sows farrowed	3,033	3,092	101.9	101.3
Jun-Aug Intentions	3,132	3,070	98.0	97.9
Sep-Nov Intentions	3,180	3,052	96.0	96.7
Mar-May Pig Crop ¹	27,896	29,000	104.0	102.0
Mar-May pigs saved per litter	9.20	9.38	102.0	100.8

¹Thousand head

²Thousand litters

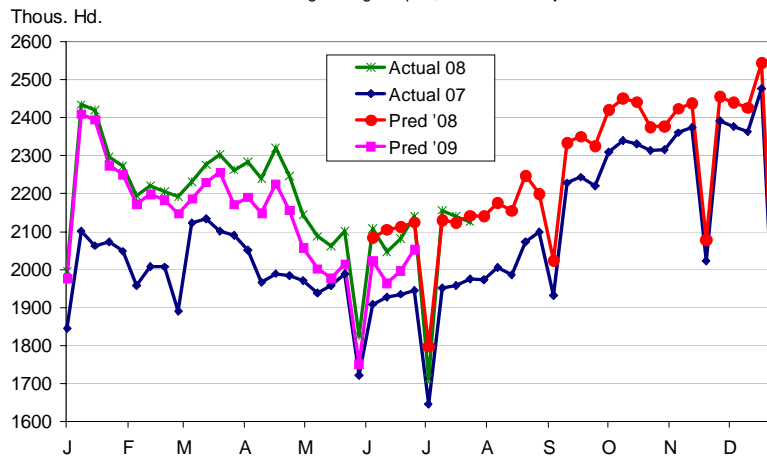
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Since June 1: Actual 0.7% lower than frfst ...

... but FAR HIGHER slaughter the rest of '08

FI HOG SLAUGHTER, WEEKLY

Based on USDA Hogs & Pigs Report, June '08 w/ Adjustments



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HUGE slaughter runs through Q4 - 2008 ...

... but significant yr/yr decline by Q2-09

June 2008 Commercial Slaughter Forecasts

		Mzzou		Meyer		Lawrence		LMC	
		Mil. Hd	%Chnge	Mil. Hd	%Chnge	Mil. Hd	%Chnge	Mil. Hd	%Chnge
2008	Q1	29.597	11.0%	29.597	11.0%	29.610	11.0%	29.597	11.0%
	Q2	27.917	9.4%	27.899	9.3%	27.900	9.3%	27.929	9.4%
	Q3	28.800	8.4%	28.375	6.8%	28.426	7.0%	28.531	7.4%
	Q4	31.200	2.6%	30.941	1.8%	31.308	3.0%	31.383	3.2%
	Year	117.514	7.6%	116.812	7.0%	117.244	7.4%	117.441	7.6%
2009	Q1	29.300	-1.0%	29.084	-1.7%	29.600	0.0%	29.118	-1.6%
	Q2	27.100	-2.9%	26.769	-4.1%	26.784	-4.0%	26.984	-3.6%

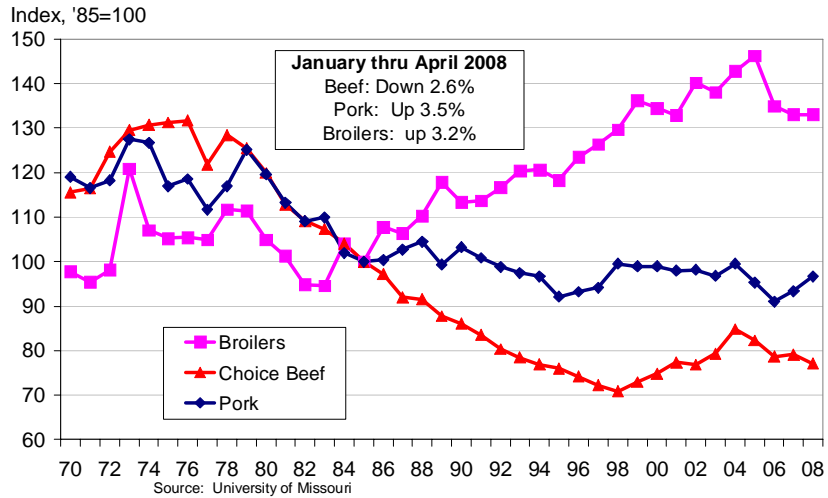
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Demand

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Through April – EXCELLENT pork demand

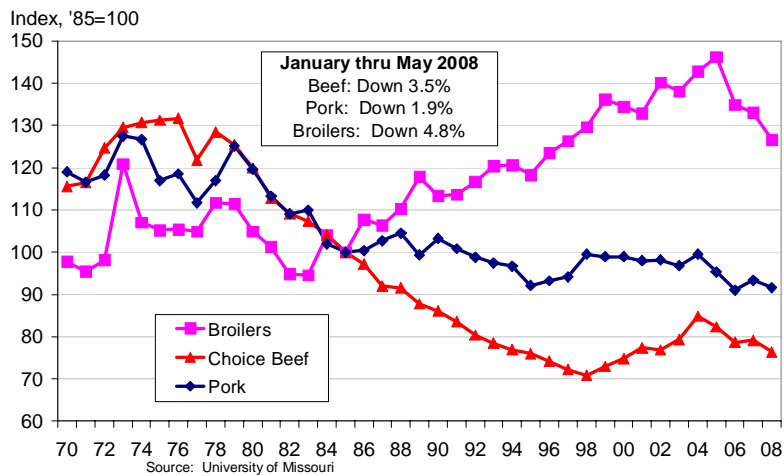
U.S. CONSUMER DEMAND INDEXES




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May was a wreck – now -1.9% YTD

U.S. CONSUMER DEMAND INDEXES



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HOW DID DEMAND FALL SO ABRUPTLY?

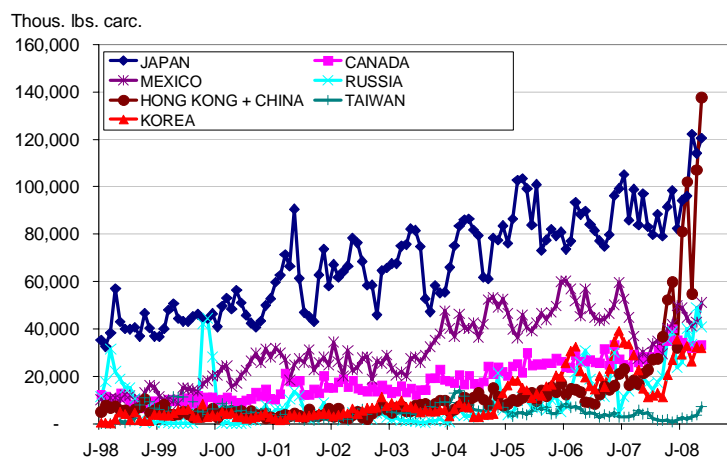
- Record exports – reduced domestic availability=disappearance=consumption
- Retail prices (per BLS/USDA) increased but did not keep up with inflation – Real price fell
- Lower Quantity and Lower price = Lower demand
- Lag relationship between Q and P – Retail prices will likely rise but that will take some time


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Record exports -- China/HK, Japan, Mexico

... YTD '08 +61%, +96% in April, +98% in May!

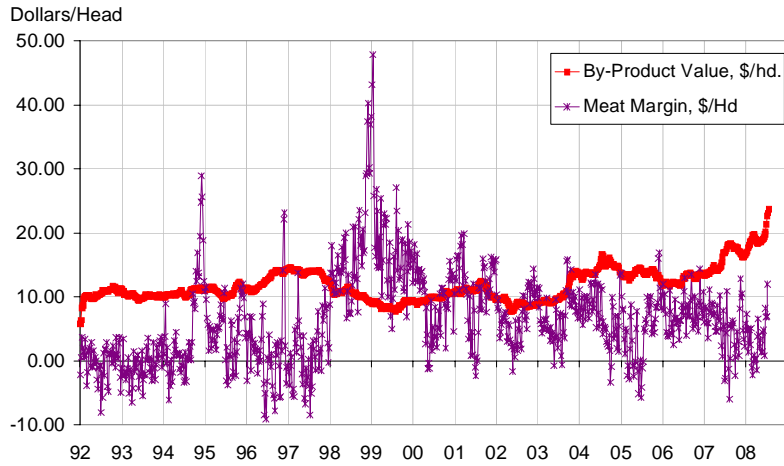
U.S. PORK EXPORTS BY DESTINATION



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Key factor: More value from by-products

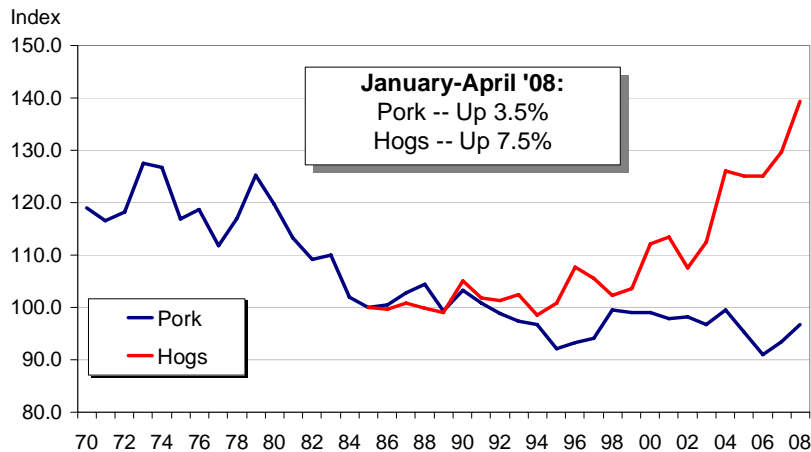
PORK PACKER MARGIN COMPONENTS



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Sum: EXCEPTIONAL LIVE HOG DEMAND!

DEMAND INDEXES, 1985=100



Source: University of Missouri

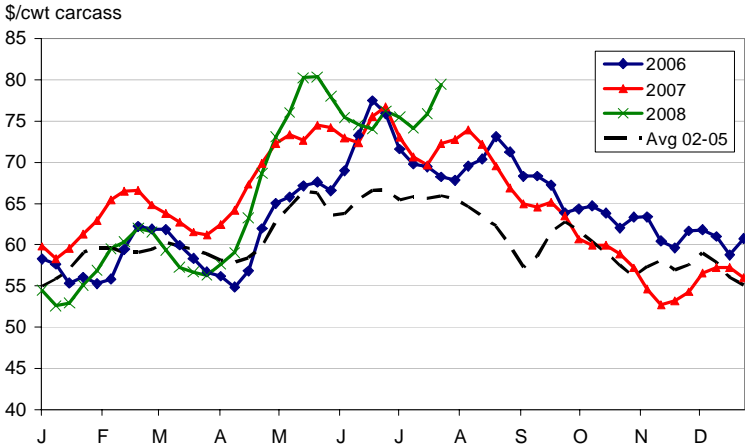
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Hog Prices

2008 hog prices have been higher than '07!

... And may make a seasonal top this week

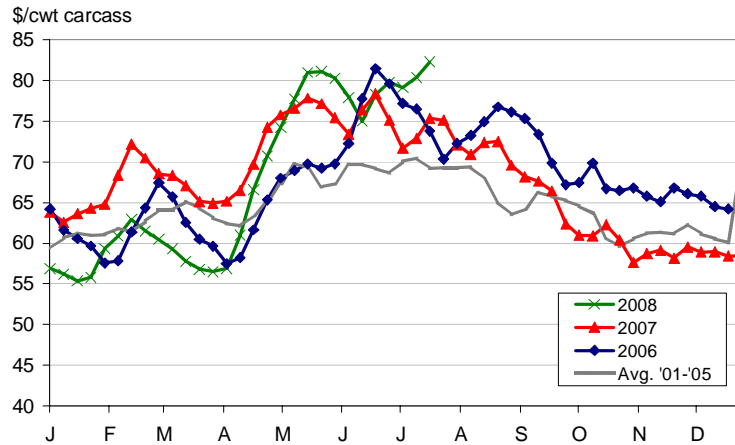
HOGS, NATIONAL, TOTAL NET WTD. AVG.




Why? -- It all start with meat value ...

... last week was the 3rd highest cutout EVER

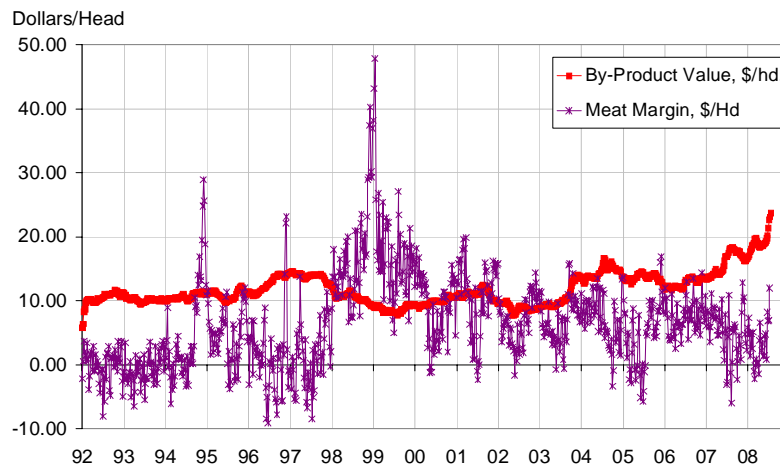
51-52% LEAN CARCASS CUTOUT VALUE




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Add in RECORD by-product values

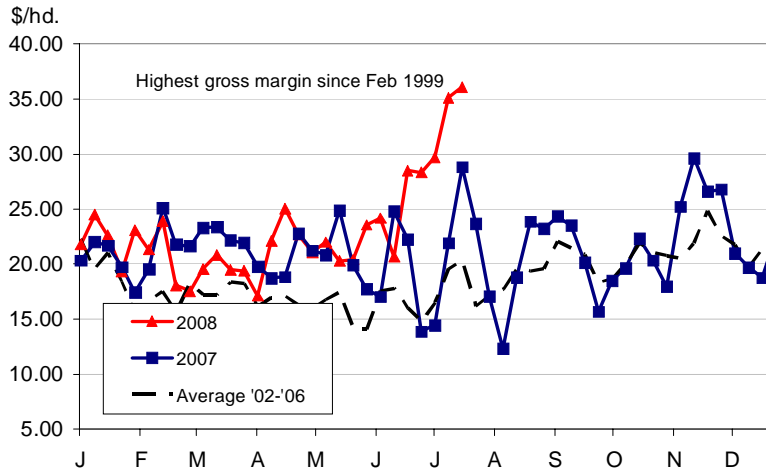
PORK PACKER MARGIN COMPONENTS




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Strong packer margins - -usually bid away

PORK PACKERS' EST'D GROSS MARGIN



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Futures are still FAR higher than forecasts

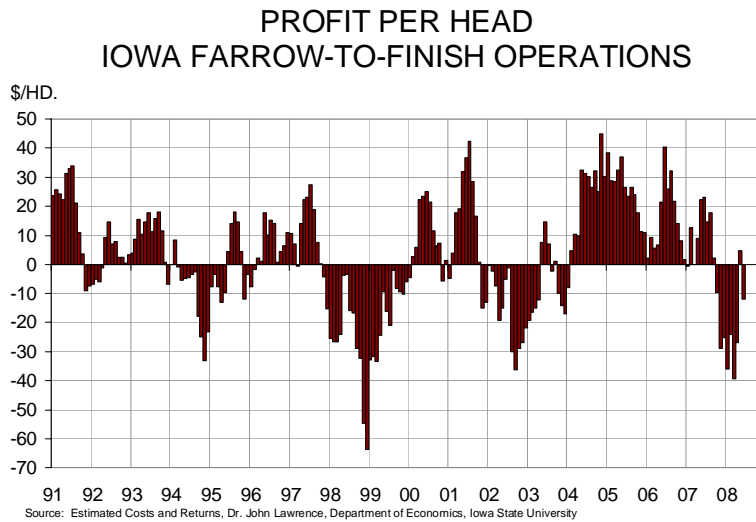
		June 2008 Price Forecasts				
		Meyer National Net Neg'd Price, Wtd. Avg.	LMIC National Wtd Avg. Base Price	ISU Ia-S. Mn. Live Price ¹	Missouri 51-52% Lean, Live ¹	CME Lean Hog Futures 7/22/08
2007	Q1	62.23	\$60.54	\$63.23	62.21	
	Q2	71.72	\$68.84	\$72.88	71.01	
	Q3	67.98	\$66.50	\$68.03	68.02	
	Q4	53.01	\$54.61	\$54.06	53.29	
	Year	\$63.74	\$62.81	\$64.55	\$63.63	
2008	Q1	\$53.19	\$55.11	\$53.33	\$53.62	\$54.26**
	Q2	\$71.39	\$69.84	\$72.47	\$70.76	\$71.66**
	Q3	63-67	65-69	64-68	64-69	\$78.75
	Q4	55-58	56-59	60-64	53-59	\$74.78
	Year	60-63	61-63	62-65	60-63	\$76.77
2009	Q1	57-60	63-66	73-77	57-63	\$81.08
	Q2	77-81	70-74	83-87	73-80	\$92.29


¹Converted to carcass using a yield of 75%

**Average of CME Lean Hog Index

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STILL: Losses for the remainder of 2008!



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What can producers do?

- Get ready to move on corn and soybean meal needs
 - Let the trends run and watch technicals
 - Move when markets show a bottom

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What can producers do?

- Get ready to move on corn and soybean meal needs
 - Let the trends run and watch technicals
 - Move when markets show a bottom
- Adjust your idea of “low” price – This year: \$7?
Long term: \$5/bu will be very good
- Watch for opportunities to minimize losses
- Hogs – Historical seasonals
 - October in early August
 - December in early September
 - February and April in early November
 - www.cmegroup.com/moore

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Questions & Discussion

CME's Daily Livestock Report
www.dailylivestockreport.com

National Hog Farmers'
North American Preview
www.nationalhogfarmer.com

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