Hog and Pork Outlook

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Paragon Economics, Inc.

Hog prices have not been that bad . . .

. . . but the problem has been COSTS!

ACTUAL & PREDICTED HOG
PRODUCTION COSTS* AND PRICES

7/21/08

$/cwt carcass

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

7/1/08

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

CORN-SOY COST, 16% CR. PROTEIN DIET

Added $50 to Y-axis on June 12
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

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
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

Corn crop condition was the lowest ever . . .

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

We will NOT run out of corn . . .

. . . but the price may be VERY high!

Minneapolis Wheat

My advice: Get 3 months usage IN HAND!
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

NOTE: Adjustments have been made to compensate for the March-April '07 slaughter surge driven by circovirus vaccines and to account for more Canadian market hogs in late '07 and feeder/weaned pigs from March 1 thru September.
Weights did come down in April – a bit . . .
. . . but are just 1-2 lbs. below 2007 levels

Record pork production – +10.1% YTD
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 slghtr surge in late June – what now?

U.S. SOW SLAUGHTER

Thousand Hd.

2007

2008

Avg. '02-'06
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

Paragon Economics, Inc. From information, knowledge
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!

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

...now -8% YTD and -54% wk. of 7/12
FP imports are +14% YTD – but declining . . .

. . . 7/5 plunge appears to be correct

FEEDER PIG IMPORTS FROM CANADA

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
# June Quarterly Hogs & Pigs Report

## USDA Quarterly Hogs and Pigs Report

**June 27, 2008**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Inventories on June 1¹</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All hogs and pigs</td>
<td>63,951</td>
<td>67,861</td>
<td>105.8</td>
<td>104.6</td>
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<tr>
<td>Kept for breeding</td>
<td>6,120</td>
<td>6,069</td>
<td>99.2</td>
<td>98.6</td>
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<tr>
<td>Kept for market</td>
<td>57,830</td>
<td>61,591</td>
<td>106.5</td>
<td>105.1</td>
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<tr>
<td>Under 60 lbs.</td>
<td>21,782</td>
<td>22,587</td>
<td>103.7</td>
<td>102.9</td>
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<tr>
<td>60-119 lbs.</td>
<td>14,339</td>
<td>15,167</td>
<td>105.8</td>
<td>104.7</td>
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<tr>
<td>120-179 lbs.</td>
<td>11,790</td>
<td>12,907</td>
<td>109.5</td>
<td>106.8</td>
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<td>180 lbs. and over</td>
<td>9,920</td>
<td>10,931</td>
<td>110.2</td>
<td>107.7</td>
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<tr>
<td>Farrowings²</td>
<td></td>
<td></td>
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<tr>
<td>Mar-May sows farrowed</td>
<td>3,033</td>
<td>3,092</td>
<td>101.9</td>
<td>101.3</td>
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<tr>
<td>Jun-Aug Intentions</td>
<td>3,132</td>
<td>3,070</td>
<td>98.0</td>
<td>97.9</td>
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<tr>
<td>Sep-Nov Intentions</td>
<td>3,180</td>
<td>3,052</td>
<td>96.0</td>
<td>96.7</td>
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<tr>
<td>Mar-May Pig Crop¹</td>
<td>27,896</td>
<td>29,000</td>
<td>104.0</td>
<td>102.0</td>
</tr>
<tr>
<td>Mar-May pigs saved per litter</td>
<td>9.20</td>
<td>9.38</td>
<td>102.0</td>
<td>100.8</td>
</tr>
</tbody>
</table>

¹ Thousand head  
² Thousand litters

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## Since June 1: Actual 0.7% lower than frcst . . .

**FI HOG SLAUGHTER, WEEKLY**

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

- But FAR HIGHER slaughter the rest of '08

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**Thous. Hdl.**

- Actual 08
- Actual 07
- Pred '08
- Pred '09

**Paragon Economics, Inc.**

From information, knowledge
HUGE slaughter runs through Q4 - 2008 . . .

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

**June 2008 Commercial Slaughter Forecasts**

<table>
<thead>
<tr>
<th></th>
<th>Mizzou</th>
<th>Meyer</th>
<th>Lawrence</th>
<th>LMC</th>
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<tbody>
<tr>
<td></td>
<td>Mil. Hl</td>
<td>% Chng</td>
<td>Mil. Hl</td>
<td>% Chng</td>
</tr>
<tr>
<td>2008 Q1</td>
<td>29,597</td>
<td>11.0%</td>
<td>29,597</td>
<td>11.0%</td>
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<tr>
<td>2008 Q2</td>
<td>27,917</td>
<td>9.4%</td>
<td>27,899</td>
<td>9.3%</td>
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<tr>
<td>2008 Q3</td>
<td>28,800</td>
<td>8.4%</td>
<td>28,375</td>
<td>6.8%</td>
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<td>2008 Q4</td>
<td>31,200</td>
<td>2.6%</td>
<td>30,941</td>
<td>1.8%</td>
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<tr>
<td>Year</td>
<td>117,514</td>
<td>7.6%</td>
<td>116,812</td>
<td>7.0%</td>
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<tr>
<td>2009 Q1</td>
<td>29,300</td>
<td>-1.0%</td>
<td>29,084</td>
<td>-1.7%</td>
</tr>
<tr>
<td>2009 Q2</td>
<td>27,100</td>
<td>-2.9%</td>
<td>26,769</td>
<td>-4.1%</td>
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</tbody>
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Demand
Through April – EXCELLENT pork demand

*U.S. CONSUMER DEMAND INDEXES*

Index, *’85=100*

January thru April 2008
- Beef: Down 2.6%
- Pork: Up 3.5%
- Broilers: Up 3.2%

Source: University of Missouri

May was a wreck – now -1.9% YTD

*U.S. CONSUMER DEMAND INDEXES*

Index, *’85=100*

January thru May 2008
- Beef: Down 3.5%
- Pork: Down 1.9%
- Broilers: Down 4.8%

Source: University of Missouri
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

Record exports -- China/HK, Japan, Mexico

... YTD '08 +61%, +96% in April, +98% in May!
Key factor: More value from by-products

PORK PACKER MARGIN COMPONENTS

Dollars/Head

By-Product Value, $/hd.
Meat Margin, $/Hd

Sum: EXCEPTIONAL LIVE HOG DEMAND!

DEMAND INDEXES, 1985=100

January-April '08:
Pork -- Up 3.5%
Hogs -- Up 7.5%

Source: University of Missouri
Hog Prices

2008 hog prices have been higher than ‘07!

... And may make a seasonal top this week
Why? -- It all start with meat value . . .

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

51-52% LEAN CARCASS CUTOUT VALUE

Add in RECORD by-product values

PORK PACKER MARGIN COMPONENTS
Strong packer margins - usually bid away

PORK PACKERS' EST'D GROSS MARGIN

Highest gross margin since Feb 1999

Futures are still FAR higher than forecasts

June 2008 Price Forecasts

<table>
<thead>
<tr>
<th></th>
<th>Meyer</th>
<th>LMIC</th>
<th>ISU</th>
<th>Missouri</th>
<th>CME Lean Hog Futures</th>
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<tr>
<td>National Net</td>
<td></td>
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<td>Neg'd Price,</td>
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<td>Wtd. Avg.</td>
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<td>National Wtd</td>
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<td>Avg. Base Price</td>
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<td>Ia-S. Mn. Live</td>
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<td>Price¹</td>
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<tr>
<td>51-52% Lean,</td>
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<tr>
<td>Live¹</td>
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<tr>
<td>Year</td>
<td>$63.74</td>
<td>$62.81</td>
<td>$64.55</td>
<td>$63.63</td>
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<tr>
<td>2007 Q1</td>
<td>62.23</td>
<td>$60.54</td>
<td>$63.23</td>
<td>62.21</td>
<td>7/22/08</td>
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<td>Q2</td>
<td>71.72</td>
<td>$66.84</td>
<td>$72.88</td>
<td>71.01</td>
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<td>Q3</td>
<td>67.98</td>
<td>$66.50</td>
<td>$68.03</td>
<td>68.02</td>
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<tr>
<td>Q4</td>
<td>53.01</td>
<td>$54.61</td>
<td>$54.06</td>
<td>53.29</td>
<td></td>
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<tr>
<td>Year</td>
<td>63.74</td>
<td>$62.81</td>
<td>$64.55</td>
<td>$63.63</td>
<td></td>
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<tr>
<td>2008 Q1</td>
<td>$53.19</td>
<td>$55.11</td>
<td>$53.33</td>
<td>$53.62</td>
<td>$54.26**</td>
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<td>Q2</td>
<td>$71.39</td>
<td>$69.84</td>
<td>$72.47</td>
<td>$70.76</td>
<td>$71.66**</td>
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<td>Q3</td>
<td>63.67</td>
<td>65.69</td>
<td>64.68</td>
<td>64.69</td>
<td>$78.75</td>
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<td>Q4</td>
<td>55.58</td>
<td>56.59</td>
<td>60.64</td>
<td>53.59</td>
<td>$74.78</td>
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<tr>
<td>Year</td>
<td>60-63</td>
<td>61-63</td>
<td>62-65</td>
<td>60-63</td>
<td>$76.77</td>
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<tr>
<td>2009 Q1</td>
<td>57-60</td>
<td>63-66</td>
<td>73-77</td>
<td>57-63</td>
<td>$81.08</td>
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<tr>
<td>Q2</td>
<td>77-81</td>
<td>70-74</td>
<td>83-87</td>
<td>73-80</td>
<td>$92.29</td>
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</tbody>
</table>

¹ Converted to carcass using a yield of 75%

**Average of CME Lean Hog Index
STILL: Losses for the remainder of 2008!

PROFIT PER HEAD
IOWA FARROW-TO-FINISH OPERATIONS

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
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

Questions & Discussion

CME’s Daily Livestock Report
www.dailylivestockreport.com

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