


## York Animal Hospital -- March 2009

# Hog and Pork Outlook

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

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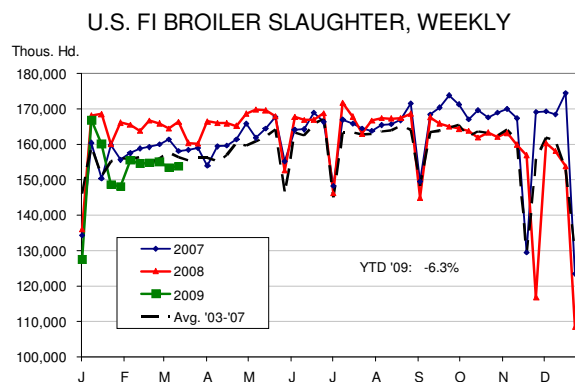
1


COMPETITORS  
(IT COULD BE WORSE, YOU  
COULD BE IN ONE OF THESE  
BUSINESSES!)

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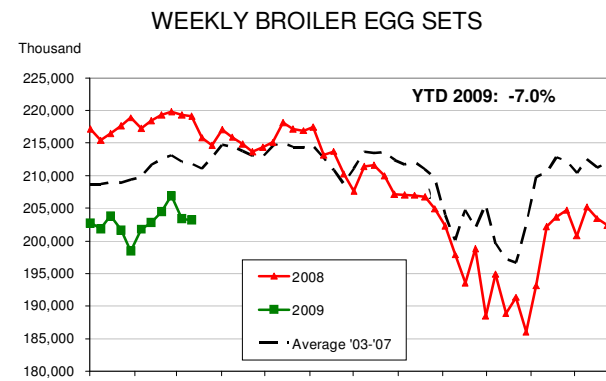
**'09 YTD broiler slaughter: DOWN 6.3% ...**  
**... After '08 annual and Q4: -0.7% and -4.7%**



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**And HUGE cutbacks continue with egg sets ...**  
**... down 2.9% for '08, 7.6% for Q4-08**

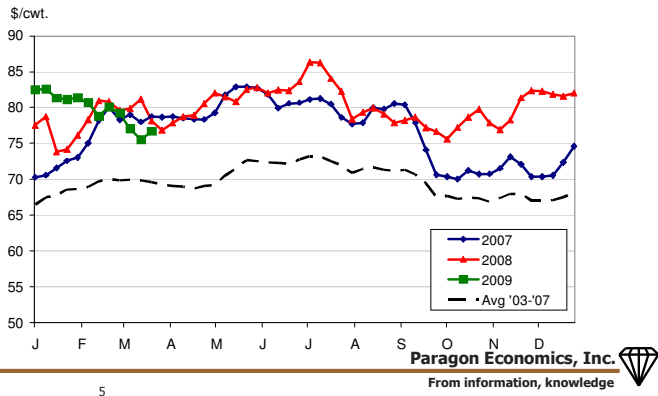


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**Prices WERE doing better this year but ...**  
**... still below costs and last 3 weeks - UGH**

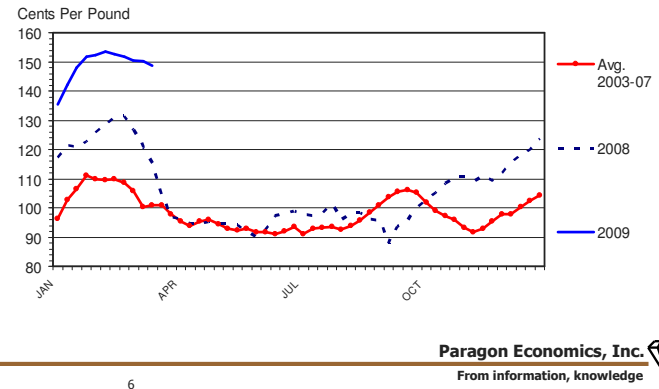
12-CITY WHOLESAL BROI LER PRICE



5

**Example of goofy world: Wing prices > \$1.50**

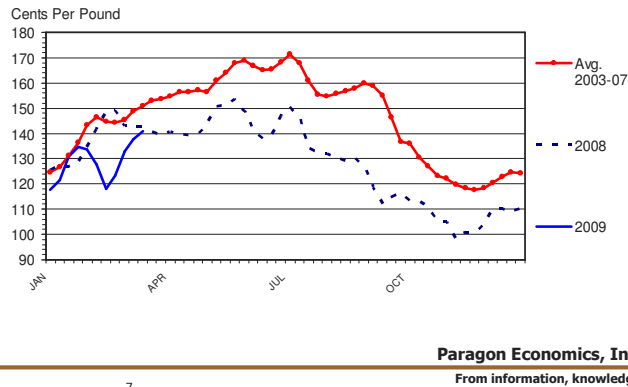
WHOLESALE CHICKEN WING PRICES  
 Northeast, Truckload, Weekly



6

**While S/B Breasts are barely \$1.40!**

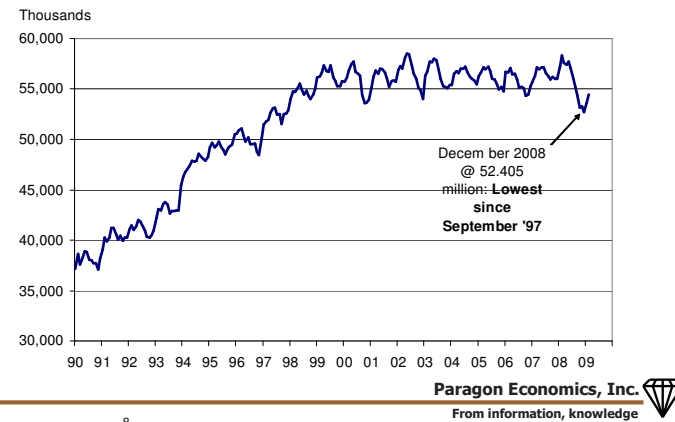
WHOLESALE CHICKEN BREAST PRICES  
 Skinless/Boneless, Northeast, Truckload, Weekly



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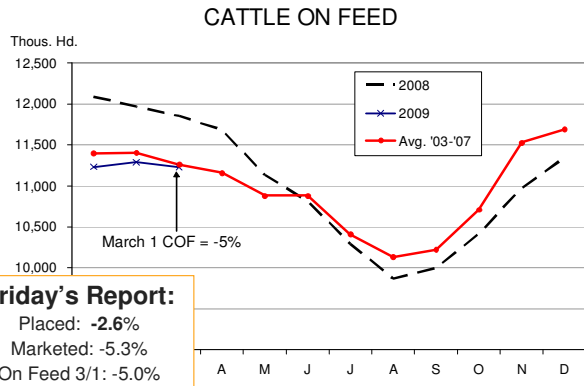
**Signs of longer-term reductions ...**

BROI LER HATCHING HENS



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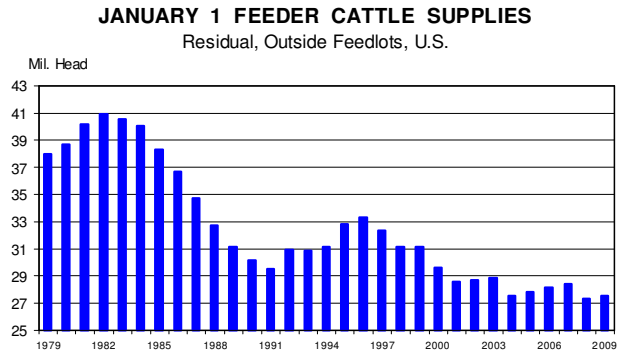
**COF: Lower, yr/yr, since July '08...**  
**... Nov-Feb were 6-7% lower, March was -5%**



**Friday's Report:**  
 Placed: -2.6%  
 Marketed: -5.3%  
 On Feed 3/1: -5.0%

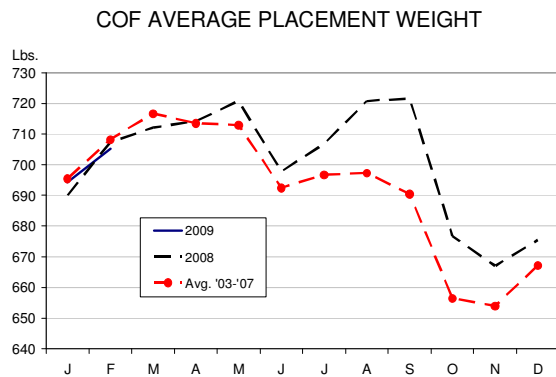
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**But Jan feeder cattle inventories were +1%**  
**... it appears that USDA has over-counted**



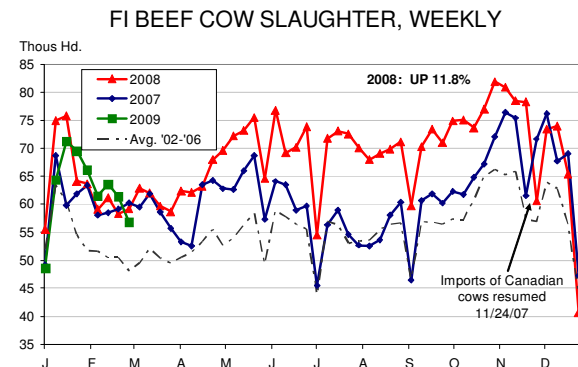
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**Placement weights FINALLY lower, yr/yr ...**  
**... poor wheat, lower feed costs**



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**Longer term – fewer beef cows ...**  
**... YTD beef cow slaughter is -1.5%**



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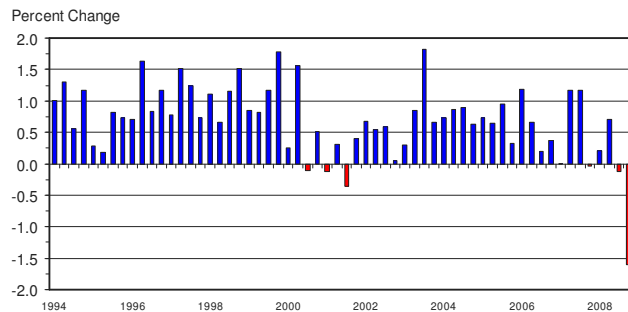
## My expectations

- Higher chicken prices will EVENTUALLY lead all meats upward at retail
- Beef will continue to struggle until they get weights down – still +19 lbs., yr/yr
  - Lower feedlot inventories have to work eventually – don't they?
  - A dairy buyout would NOT be good!
  - Appears that beef is, as expected, catching the brunt of the economic downturn

## DEMAND – THE LARGEST RISK FACTOR OF 2009

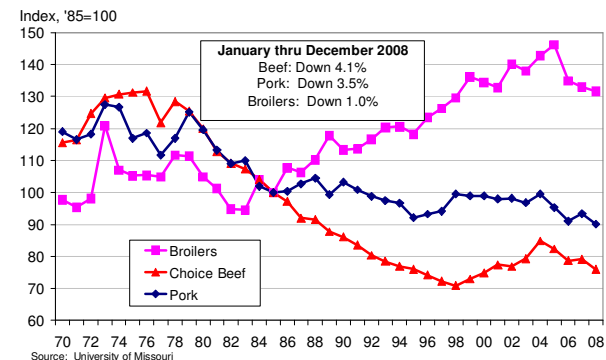
## The economy has slowed QUICKLY

**QTRLY GROSS DOMESTIC PRODUCT (GDP)**  
Real Dollar (2000) Change from Previous Quarter



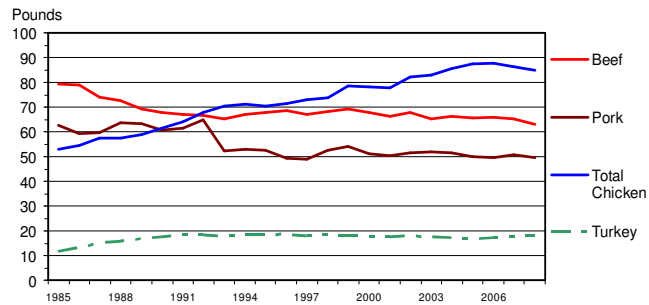
## Will meat and poultry demand hold up? ... Worse: Are we on a new downward trend?

U.S. CONSUMER DEMAND INDEXES



## Per cap consumption of beef, pork & chicken ... declined in 2008 – 2<sup>ND</sup> time EVER

**U S RED MEAT & POULTRY CONSUMPTION**  
Per Capita, Retail Weight, Annual

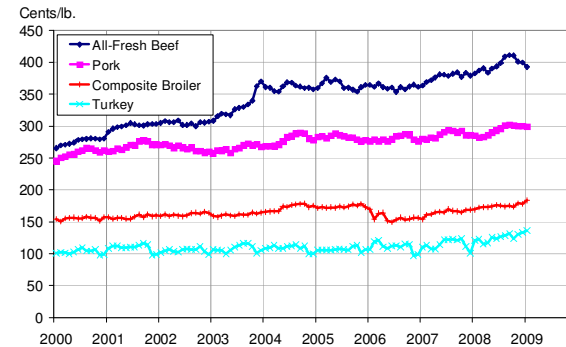


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## Record-high retail pork and beef prices ... .. rising chicken prices - but not high enough

RETAIL MEAT PRICES, USDA

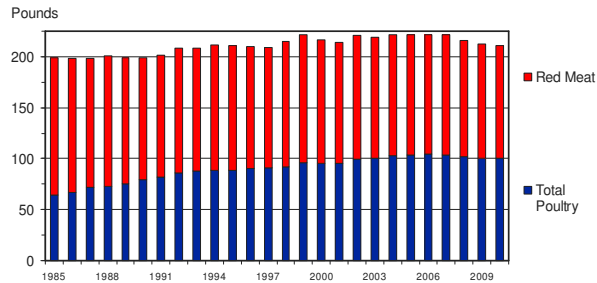


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## Have we reached a saturation point?

**U S RED MEAT & POULTRY CONSUMPTION**  
Per Capita, Retail Weight, Annual

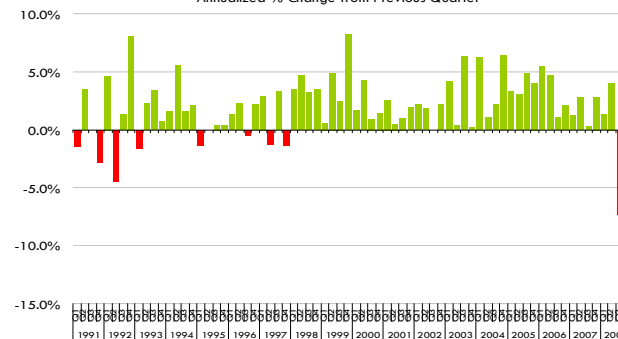


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## BEA: An alarming drop in Q4 food spending

PERSONAL CONSUMPTION EXPENDITURES: FOOD  
Annualized % Change from Previous Quarter



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## Record-low restaurant performance in Dec



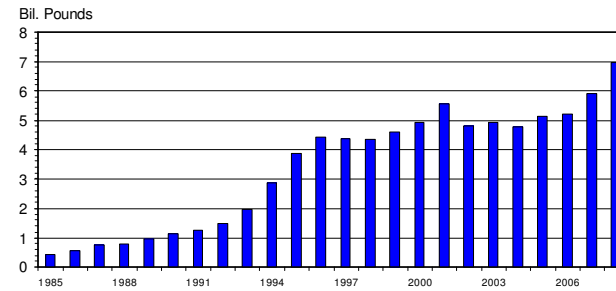
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## Exports were a bright spot in '08 ... 18%

... with broiler exports +18% & record high

U S BROILER EXPORTS  
RTC, Annual



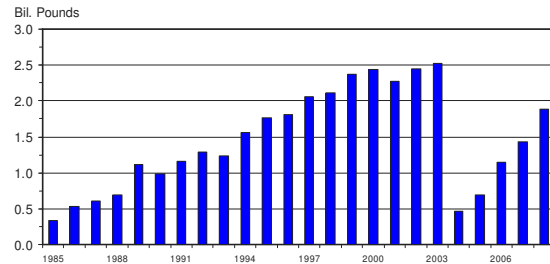
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## And beef exports +32% ...

... as BSE recovery continues slow & steady

U S BEEF AND VEAL EXPORTS  
Carcass Weight, Annual



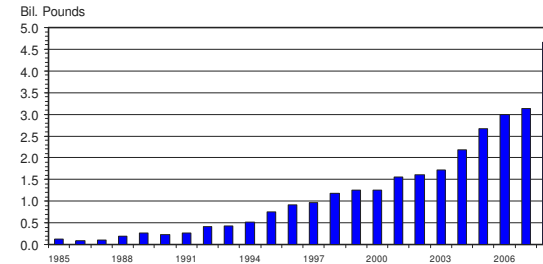
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## And pork exports explode -- +49% ...

... to set the 17<sup>th</sup> straight annual record

U S PORK EXPORTS  
Carcass Weight, Annual

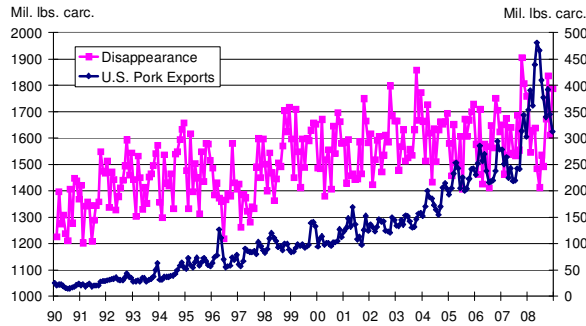


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**Exports were a big reason for soft indexes ...  
 ... higher exports = lower per cap cons.**

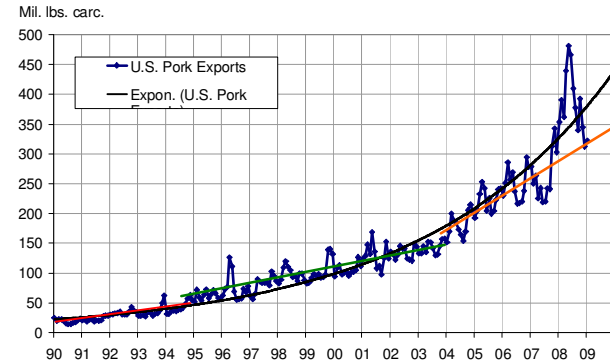
**U.S. DOMESTIC PORK DISAPPEARANCE  
 AND EXPORTS**



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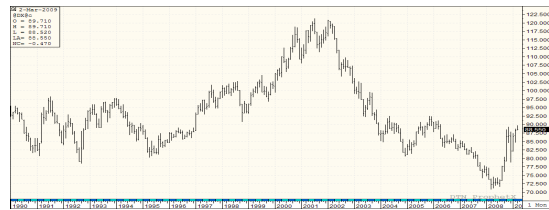
**Exports -- Can we stay on the '04-'07 trend?**

**U.S. PORK EXPORTS - MONTHLY**

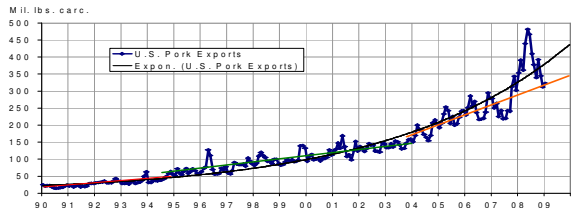


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**And a weak dollar helped as well ...**



**U.S. PORK EXPORTS - MONTHLY**



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**What does 2009 hold?**

- Continued trouble for restaurants
  - Beef and chicken will take the brunt of it
  - Pork will be okay – lower exposure to lunch and dinner, helped by lower-cost breakfast
- Difficulties for convenience products at retail –now have more time than money?
- Lower but still large exports in 2009 – especially for pork
  - Customer countries' economies
  - The U.S. dollar – big question mark!

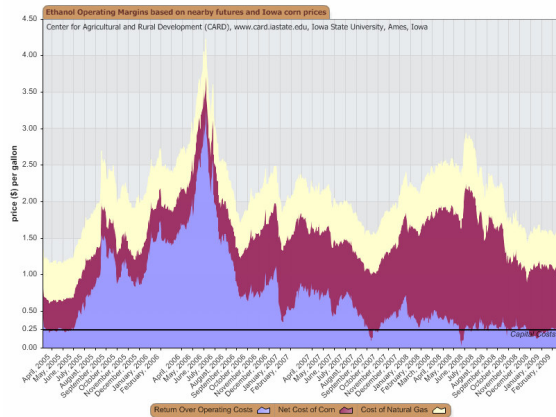
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# FEED PRICES AND COSTS

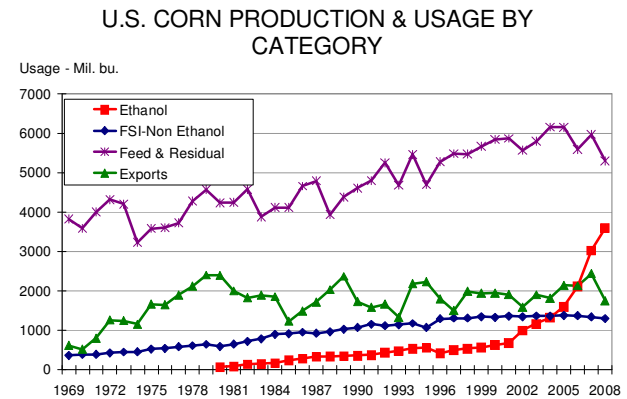
## Ethanol plants and capacities

- One year ago from ISU: 200 plants, 13.4 billion gallons by early 2009
- Actual from RFA website, March 5, 2009
  - 193 plants
  - 12.375 billion gallons of capacity
  - 23 plants with capacity of 2.066 billion gallons still under construction or expanding
- PLANTS ARE CURRENTLY OPERATING AT ONLY 10.358 BILLION GALLONS – 16% under capacity

## The reason, of course is AWFUL margins



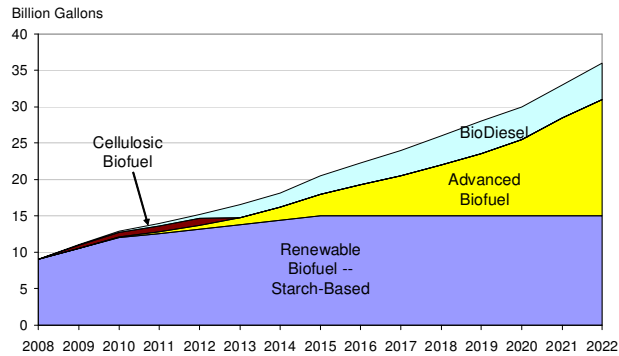
## But the increase of corn usage continues ...






## And the RFS WILL BE BINDING this year!

### U.S. RENEWABLE FUEL STANDARD



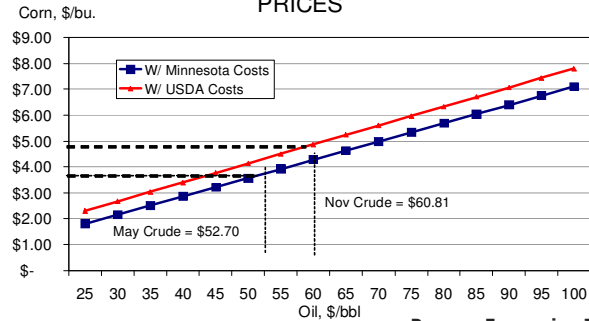
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## Oil prices are rising – and at today's prices...

### ... ethanol will keep corn at \$3.50-\$5.00

### MAXIMUM CORN PRICE ETHANOL PLANTS CAN PAY AT VARIOUS OIL PRICES

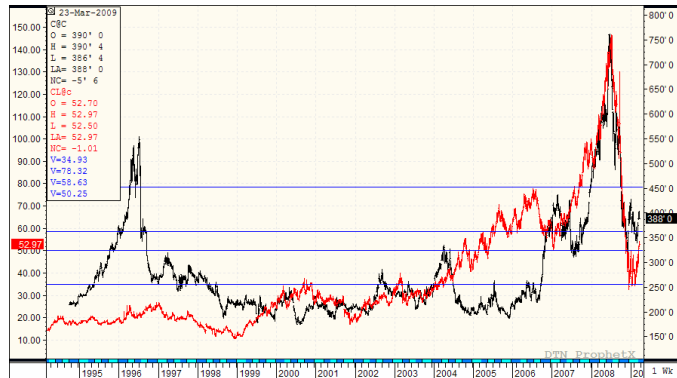


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## Corn and oil correlation broke down ...

### ... but is certainly not dead – past 3 weeks



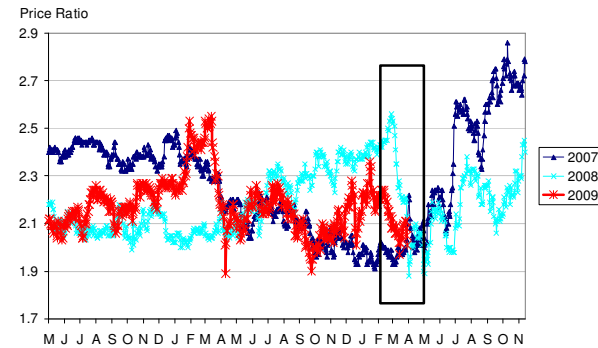
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## Corn has gained on beans since Feb 1 ...

### ... But beans have risen since mid-March

### NOVEMBER BEANS / DECEMBER CORN

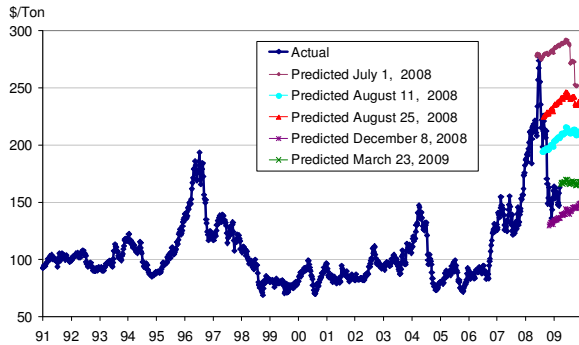


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**Feed costs had reached Dec levels 3/9 ...**  
**... but have risen \$25-\$30/ton since then**

CORN-SOY COST, 16% CR. PROTEIN DIET

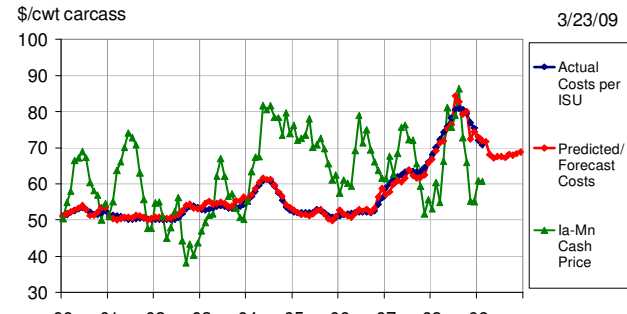


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**BE hog costs have risen to ~\$68/cwt**

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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**HOG SUPPLIES**

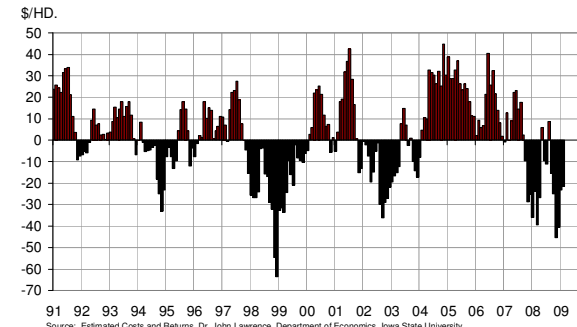
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**Losses are still substantial -- \$23 & \$21/hd ...**

**... Following LARGE losses last year**

PROFIT PER HEAD  
 IOWA FARROW-TO-FINISH OPERATIONS



Source: Estimated Costs and Returns, Dr. John Lawrence, Department of Economics, Iowa State University

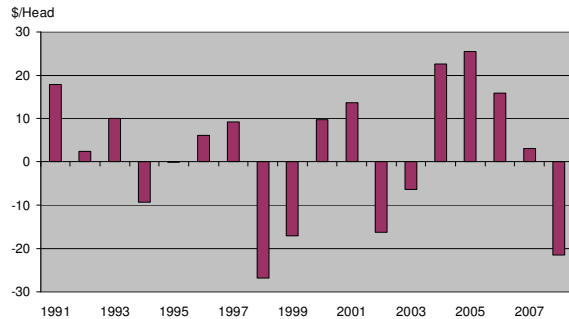
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## 2008 was the second worst year EVER ...

... At \$-21.78, second only to 1998

ANNUAL PROFIT PER HEAD  
Iowa Farrow-to-Finish Operations

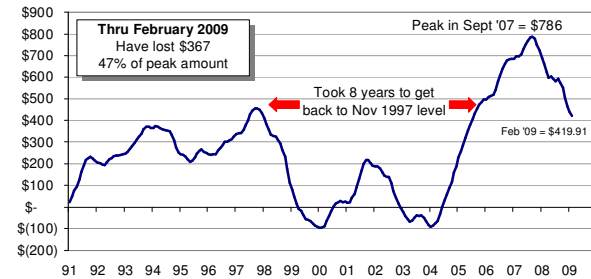


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## Producer wealth is now at '97 and '06 levels

ACCUMULATED PROFITS  
IOWA FARROW-TO-FINISH OPERATIONS  
(Sum of the profit from selling one pig per month since January 1991)



Source: Paragon Economics, Inc. using data from Estimated Costs and Returns, Dr. John Lawrence, Department of Economics, Iowa State University

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## March H&P Report: Some mixed signals

USDA Quarterly Hogs and Pigs Report

March 27, 2009

Category	2008	2009	2009 as Pct of 2008	Pre-Report Estimates	Actual - Estimate
<b>Inventories on December 1<sup>1</sup></b>					
All hogs and pigs	67,218	65,389	97.3	96.9	0.4
Kept for breeding	6,200	6,011	97.0	97.9	-0.9
Kept for market	61,018	59,378	97.3	96.8	0.5
Under 60 lbs.	22,137	21,458	96.9	96.8	0.1
60-119 lbs.	14,490	14,126	97.5	96.2	1.3
120-179 lbs.	13,193	12,862	97.5	96.2	1.3
180 lbs. and over	11,199	10,932	97.6	97.7	-0.1
<b>Farrowings<sup>2</sup></b>					
Dec-Feb sows farrowed	3,071	2,978	97.0	96.6	0.4
Mar-May Intentions	3,052	2,962	97.1	98.0	-0.9
Jun-Aug Intentions	3,075	2,952	96.0	98.5	-2.5
Dec-Feb Pig Crop <sup>1</sup>	28,987	28,230	97.4	98.5	-1.1
Dec-Feb pigs saved per litter	9.24	9.48	102.6	101.7	0.9

<sup>1</sup>Thousand head

<sup>2</sup>Thousand litters

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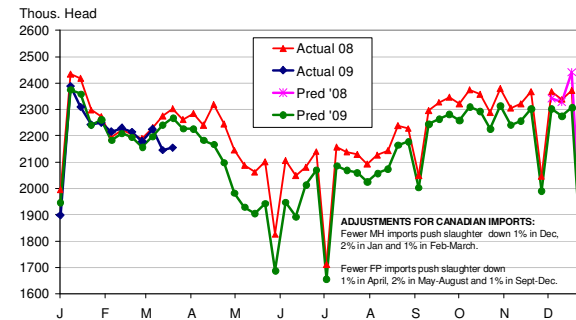
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## Dec report was VERY accurate ...

.. Until last two weeks – Is the “hole” here?

FI HOG SLAUGHTER, WEEKLY

Based on USDA Hogs & Pigs Report, December '08



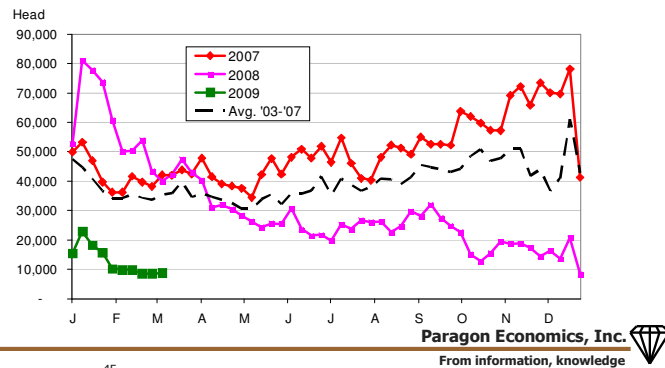
ADJUSTMENTS FOR CANADIAN IMPORTS:  
Fewer MH imports push slaughter down 1% in Dec, 2% in Jan and 1% in Feb-March.  
Fewer FP imports push slaughter down 1% in April, 2% in May-August and 1% in Sept-Dec.

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## Fewer Canadian market hogs -- MCOOL & \$C ... down 78% year-to-date

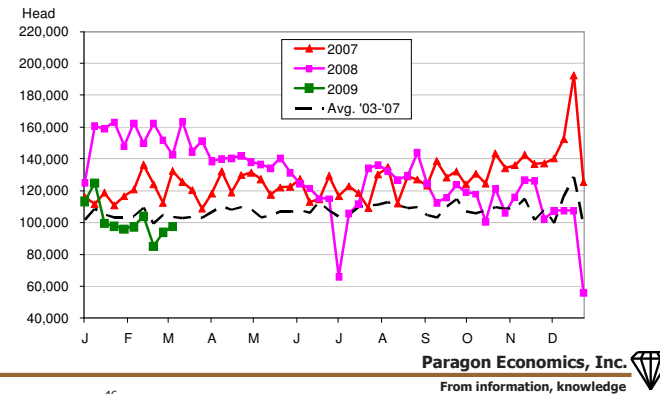
U.S. WEEKLY MARKET HOG IMPORTS FROM CANADA



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## FP imports: 6.7 mil in '08, 5 to 5.2 mil in '09? ... YTD down 34% from '08

FEEDER PIG IMPORTS FROM CANADA



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## MCOOL: What is going to happen?

- The final rule provides LOADS of flexibility – probably too much for MHs
- The final rule changes came from the office of U.S. Trade Rep – avoid trade war
- Government rules were pretty well understood – until Secretary Vilsack's muddying the waters!
- USDA: They will NOT enforce Vilsack's "voluntary" labels – NOT LEGAL HERE OR AT WTO

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## The ultimate judge will be the consumer

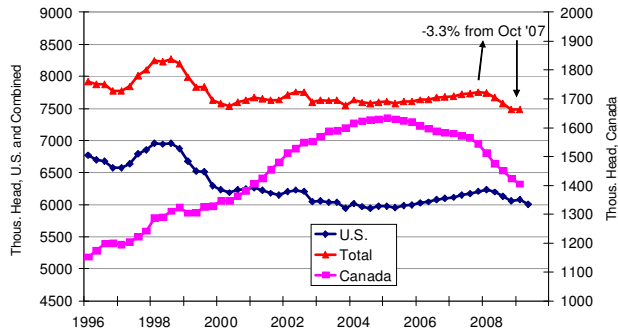
- I still think the issue is: How will consumers react to multi-country label?
- My expectation: Consumer will NOT discriminate against "U.S & Canada" label
  - Canadian feeders/weaners will be wanted
  - But will they be available?
    - » Shrinking Canadian herd
    - » Renewal of Canadian feeding – Hytek
- How do we get from here to there?

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## Oct Canada-U.S. BH was smallest since 1986

BREEDING HERDS: U.S., CANADA & COMBINED



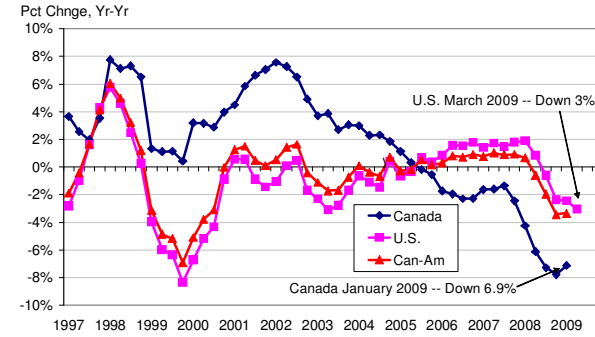
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## Breeding herds are falling rapidly ...

### ... But the incentives have changed

SWINE BREEDING HERDS -- US & Canada

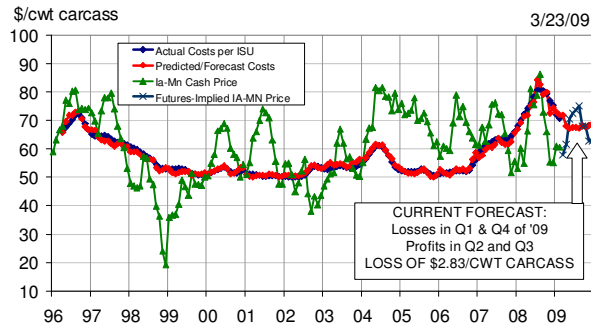


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## Projected '09 loss of \$2.83/cwt

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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## Quarterly slaughter forecasts ...

March 2009 Commercial Slaughter Forecasts

		Mizzou		ISU		LMIC		Meyer	
		Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge
2008	Q1	29.597	11.0%						
	Q2	27.942	9.5%						
	Q3	28.702	8.9%						
	Q4	30.290	-0.04%						
	Year	116.531	7.8%						
2009	Q1	28.500	-3.7%	28.500	-3.7%	28.500	-3.7%	28.500	-3.7%
	Q2	26.700	-4.4%	27.104	-3.0%	26.966	-3.5%	27.159	-2.8%
	Q3	27.250	-5.1%	27.841	-3.0%	27.708	-3.5%	27.025	-5.8%
	Q4	29.300	-3.3%	29.684	-2.0%	29.195	-3.6%	28.932	-4.5%
	Year	111.765	-4.1%	113.129	-2.9%	112.636	-3.3%	111.617	-4.2%
2010	Q1	27.600	-3.2%	28.358	-0.5%	28.834	1.2%	28.420	-0.3%

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## Price forecasts based on March H&P ...

... w/ futures lower re. cash forecasts

March 2009 Hogs & Pigs Price Forecasts

		Missouri	ISU	LMIC	Meyer	CME
		51-52% Lean, Live <sup>1</sup>	Ia-S. Mn. Live Price <sup>1</sup>	National Wtd Avg. Base Price	National Net Neg'd Price, Wtd. Avg.	CME Lean Hog Futures 3/31/09
2008	Q1	\$52.85	\$53.33	\$55.11	\$53.22	\$54.26**
	Q2	\$70.03	\$72.47	\$69.84	\$71.28	\$71.66**
	Q3	\$77.33	\$79.07	\$75.59	\$77.45	\$78.45**
	Q4	\$55.88	\$57.72	\$59.00	\$57.59	\$58.51**
	Year	\$63.80	\$65.65	\$64.89	\$64.89	\$65.72**
2009	Q1	56-27	57-12	58-45	56-91	\$58.14**
	Q2	64-69	71-75	67-71	74-78	\$67.37
	Q3	68-73	71-75	70-75	74-78	\$72.00
	Q4	59-73	60-64	63-68	61-64	\$65.75
	Year	61-65	65-68	65-69	67-71	\$65.82
2010	Q1	56-61	59-63	60-63	56-60	\$68.70

<sup>1</sup>Converted to carcass using a yield of 75% <sup>\*\*</sup>Average of CME Lean Hog Index

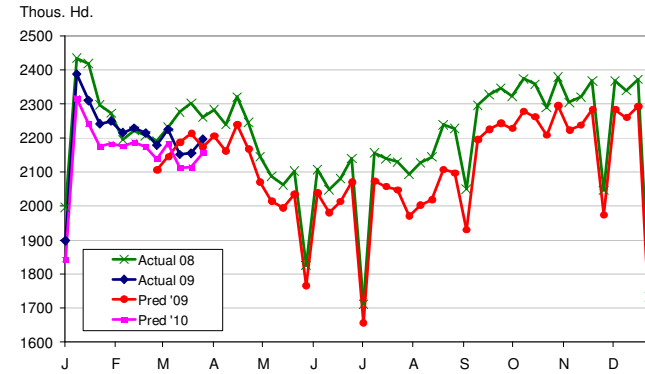
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## March report: Higher Q2, Lower Q3 & Q4

FI HOG SLAUGHTER, WEEKLY

Based on USDA Hogs & Pigs Report, March '09



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## Supply and price expectations

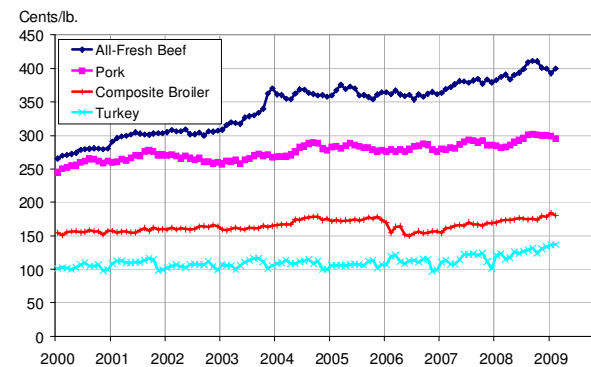
- HIGHER meat prices LED by chicken – Ethanol's impact on food is finally here!

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## Retail meat prices will all set new records ...

RETAIL MEAT PRICES, USDA



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## Supply and price expectations

- HIGHER meat prices LED by chicken this winter
- Hog prices – GOOD but not good enough. Profits Q2 and Q3, losses Q1 and Q4
- More breeding herd reduction – Canada's is slowing but will U.S. cut back more?
- Weights constant to growing slightly
- Productivity is increasing sharply -- Will the cutbacks be enough to keep the industry profitable?

## Risks

- Demand, both domestic and international, given the financial crisis
- Exports – Will be VERY difficult to keep them from falling
  - 2008 w/ China-HK "normal" = exports +31%
  - Back to 2004-07 trend: -15% from 2008
- Productivity growth may out-strip breeding herd/flock reductions
- A new round of cost increases in '09 -- bidding for acres? weather?
- MCOOL – impacts?

## QUESTIONS AND DISCUSSION?