

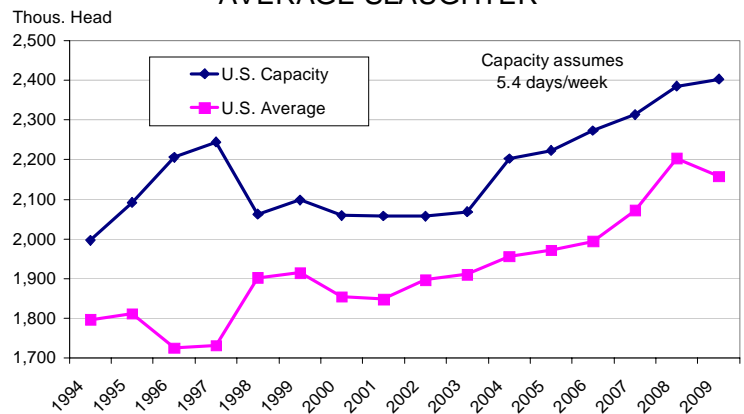
Daily Livestock Report

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Last week's announcement by Smithfield Foods that it would close its John Morrell plant in Sioux City, Iowa was disappointing but not much of a surprise to knowledgeable participants in and observers of the U.S. pork industry. Smithfield President and CEO Larry Pope pointed out that the plant, built in 1959, was the most antiquated and least efficient of the facilities operated by Smithfield and its subsidiaries. The plant's largest shortcoming was a lack of processing facilities that caused large quantities of wholesale cuts to be either sold unprocessed or shipped to other Smithfield operations for final processing into value-added products such as hams, bacon, sausages and luncheon meats that are the real profit generators for pork packers. And there was little way of rectifying this limitation since the plant's layout, footprint and location all precluded expansion or remodeling. The plant itself is one of the last vestiges of the glory days of the Sioux City livestock trade that was centered on the terminal stockyards just east of the downtown area. While the city no doubt hates to lose 1450 jobs, losing this plant near a downtown area that has been substantially rebuilt and revitalized will cause many to celebrate rather than mourn.

But the closure begs a few more important economic issues. First, the primary driver of this closure is fewer hogs in both the U.S. and Canada and strong prospects of even fewer hogs over the next couple of years. Higher costs and mandatory country-of-origin labeling both played a role in this reduction of supplies and both may yet add more to that story. Second, the closure of any pork packing plant causes some terrified flashbacks to 1998 when the summer closure of Thorn Apple Valley in Detroit took out a substantial piece of packing capacity just as U.S. and Canadian hog supplies were burgeoning. The resulting extraordinary level of capacity utilization left hog prices in a freefall to record lows. We are confident that this closure does not pose the same fate for cash hog prices this fall. As can be seen in the chart at right, capacity utilization fell in 2009. Average U.S. weekly slaughter is expected to fall further this year while total U.S. hog slaughter capacity will fall to about 2.33 million head per week after the Sioux City plant is closed. The relationship of capacity to average slaughter will not be nearly as close in 2010 as it was in either 1998 or 2003. Finally, we doubt that the closure will have much impact on cash hog prices, even those close to Sioux City. Tyson, JBS Swift, Hormel and Smithfield's Farmland and Morrell units still operate a total of 8 plants within a 150 mile radius of Sioux City. There will very likely still be plenty of competition for the hogs previously processed at the Sioux City facility which will close on April 20.

U.S. WEEKLY SLAUGHTER CAPACITY & AVERAGE SLAUGHTER



Readers can find a complete listing of U.S. hog slaughter plants in the May edition of National Hog Farmer magazine (go to <http://nationalhogfarmer.com/may09/>). DLR author Dr. Steve Meyer compiles the list and writes this summary annually for National Hog Farmer.

Canada's Hog Farm Transition Program announced the result of its third tender on Monday. The numbers for this tender as well as the previous two tenders are shown in the table below. Tender #3 was not quite as large in terms of bids received or numbers of sows and weaned pigs removed but is the largest yet in terms of the removal of pigs from 30kg to market weight and both average and total cost. The program was funded at \$CAD75 million. The fourth and final tender will utilize the remaining \$CAD14.7 million and will be announced on March 10. The program was retroactive to April 1, 2009, meaning that some portion of the animals shown here were already gone when the first tender was accepted in November. Information from the Canadian Pork Council indicates that about 45% of the sows included in the first two tenders were shipped between April 1 and November 1, leaving 55% (about 36,000) as a net removal of the program since November 1.

No data are available on tender #3 but it is probably safe to assume that a lower percentage were liquidated in the pre-program period. Note that nearly 800 farms that wanted, at least to some degree, to be included have not yet been accepted.

CANADA'S HOG FARM TRANSITION PROGRAM – RESULTS TO DATE

Date	Bids		Animals Removed			Average Cost (\$CAD/AUE)	Total Cost (MM \$CAD)
	Received (Number)	Accepted (Number)	Sows	<30kg (Head)	31kg to Mkt Wt (Head)		
11/9/09	261	74	22,777	45,664	60,903	\$767.28	\$10.547
12/14/09	469	115	43,182	99,469	123,654	\$872.91	\$24.504
1/25/10	403	145	38,572	76,585	149,735	\$925.42	\$25.230
Total	1,133	334	104,531	221,718	334,292		\$60.281

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