

Daily Livestock Report

Profits in the pork and cattle feeding sectors have been hard to come by in recent months and recent changes in both grain and market animal prices suggest that they may not be just around the corner in 2009. The graphs at right contain historical cost and price data as well as estimated costs.

The top graph is based on Iowa State University's Estimated Returns for Iowa Farrow-to-Finish Operations. The historic data seen here can found at Dr. John Lawrence's ISU website — jdlaw@iastate.edu. Note that the blue line represents ISU's actual cost estimates while the red line is a prediction equation using corn and soybean meal futures lagged 1 and 6 months and a time variable as the independent variables. The prediction equation has an R-square of 0.97 meaning that it explains 97% of the historic variability in ISU's cost estimates. The green line is for Iowa-Minnesota butcher hog prices. The losses of late 2007 and most of 2008 are apparent from the relationships between the price and cost lines. Only last summer's impressive and rather unexpected hog price rally prevented 2008 from being even worse.

Hog production costs have fallen sharply since last summer when they peaked out in the low \$80s for pigs sold in July and August. The reason, of course, is the sharp reduction in grain prices since a) the 2008 crop became obviously adequate and b) oil prices fell by over \$100/barrel. Projected production costs for 2009 are in the \$67—\$69/cwt carcass range using corn and meal prices from Monday. At the time of last summer's cost peak, futures prices for corn and beans implied breakeven costs for 2009 above \$90/cwt carcass. But don't let the cost decline, though significant and VERY welcome by pork producers, distract you from the fact that 2009 breakeven costs are still nearly \$20/cwt carcass above the pre-2007 "normal" level of \$52—\$54. Only summer CME Group Lean Hog futures lie above that price level at present.

The bottom graph shows estimates of Southern Plains cattle feeding costs from Denver's Livestock Marketing Information Center. The forecast costs run only through July. As can be seen, the average price of cattle in the Southern Plains has failed to cover estimated costs since mid-2007 and was \$20/cwt. live (\$240/head or so) short in December. Projected breakeven costs for fed cattle are on their way down but CME Live Cattle futures through June are still nowhere near high enough to cover these projected breakeven cost levels.

Readers might ask "Why the difference in cost patterns for hogs and cattle - especially in 2004-2005 and now projected for 2009?" The answer is feeder cattle prices. They exploded when BSE was discovered in Canada in May 2003 and cattle imports from Canada were banned. The feeder cattle price increase drove breakevens from around \$75/cwt live to the upper \$80s. The cost increase driven by corn prices from 2006-2008 was then not nearly as dramatic for cattle feeders as for pork producers simply because part of that increase was taken out of feeder cattle prices. Now, lower feeder cattle prices and lower corn prices suggest a much sharper reduction in fed cattle production costs than for hog production costs in 2009. There is no feeder pig market reflected in the farrow-to-finish (ie. birth to market weight within one business entity) operation modeled by the top chart so the cost changes are driven exclusively by lower input prices.

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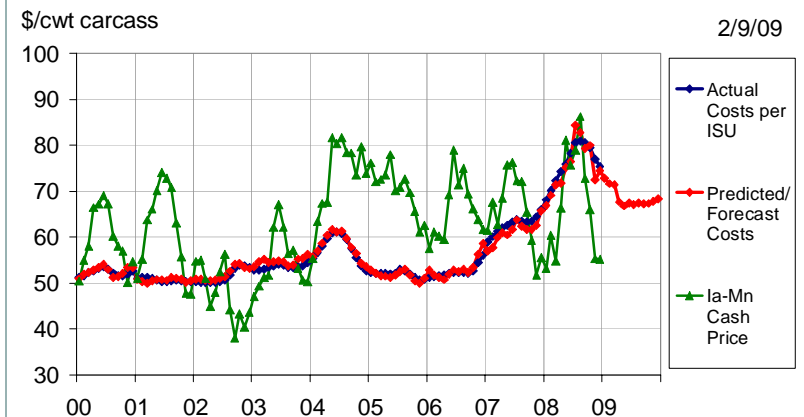
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E-Livestock Volume	2/9/09	2/6/09	2/2/09
LE (E-Live Cattle):	11319	13005	17019
GF (E-Feeder Cattle):	1245	1640	928
HE (E-Lean Hogs):	6319	8713	9780

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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

CHOICE STEER PRICE vs BREAKEVEN

