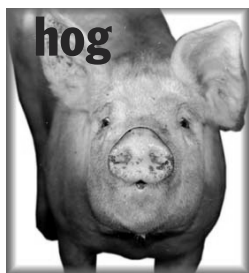


# High Hog-Price-To-Cutout Ratio Causes Packer Problems



**GLENN GRIMES AND RON PLAIN**

Agricultural Economists •  
University of Missouri

## outlook

Lately, there have been a few restaurant chains saying they will require, at some time in the future, all of their pork to come from farms that use open pen gestation facilities. At the request of the National Pork Producers Council, I have just completed a survey of 70 large hog firms which have 3.6 million sows (roughly 62.6 percent of all U.S. sows). The results indicate that 17 percent of their sows are currently housed in open pen gestation once confirmed pregnant. The group plans to increase this to 23 percent over the next two years. So, there are hogs available from open pen gestation facilities. The next question is how to track their pork all the way to retail.

USDA's Thursday afternoon calculated cutout value was \$83.86/cwt, up \$1.91 from the previous Thursday, but \$6.85 lower than on this week last year. The negotiated hog carcass price this morning is 104.4 percent of the pork cutout value. Over the last 10 years, the national base carcass hog price averaged 91.3 percent of the pork cutout value. Thus far this year, the average is close to 100 percent. There have been 11 weeks thus far this year in which the base hog price has been above the cutout value. Why so high? First, there is a lot of volatility in the relationship of hog prices to cutout value. The lowest annual average in the last decade was 2002 at 84.5 percent and the highest average was 2005 at 95.5 percent. Second, the byproduct has been adding to hog value lately. The

ten-year average is byproduct equals 11.9 percent of hog value. This year's average is 13.6 percent. The high hog-price-to-cutout ratio is causing problems for packers. The packer gross margin (cutout value plus byproduct value minus hog price) averaged \$23/hog for 2002-2011. Thus far this year it has averaged \$17/head. Look for very low Saturday slaughter until packer margins improve.

The national average negotiated carcass price for direct delivered hogs on the morning report today was \$87.51/cwt, up \$6.15 from last Friday. The eastern corn belt averaged \$87.56/cwt this morning. The western corn belt had an average of \$86.32/cwt on the morning report. There were not enough early sales in Iowa-Minnesota for a price quote. Both Peoria and Zumbrota had a live top today of \$59/cwt. The top for interior Missouri live hogs Friday was \$63.75/cwt, up \$5.25 from the previous Friday.

Hog slaughter totaled 2.007 million head this week, up 9.7 percent from the week before (which was light due to the Memorial Day holiday last Monday) and up 0.2 percent compared to the same week last year. Barrow and gilt carcass weights for the week ending May 26 averaged 204 pounds, down 1 pound from the week before, but up 2 pounds from a year ago. The average barrow and gilt live weight in Iowa-Minnesota last week was 274.9 pounds, up 0.6 pounds from a week earlier, up 4.3 pounds from a year ago, and above a year earlier for the 28th consecutive week.

Friday's close for the June lean hog futures contract was \$93.02/cwt, up \$2.30 from the previous Friday. The July hog futures contract settled at \$92.92/cwt, up \$1.35 for the week. August ended the week at \$92.45. October settled at \$82.95/cwt. Δ

*GLENN GRIMES AND RON PLAIN: Agricultural Economists, University of Missouri*