

Hog Production Costs Expected In The Low \$50 Cwt Range



GLENN GRIMES AND RON PLAIN
Agricultural Economists • University of Missouri

outlook

The 2007 broad-based energy bill has the potential to impact farm markets and crop production decisions for years to come.

Congress' ultimate goal is for the nation to use 36 billion gallons of renewable fuels by the year 2022. According to plans in the bill, corn-based ethanol production will peak at 15 billion gallons per year in 2015 and stay at that level. This will mean roughly doubling the current corn-based production capacity.

Building that much more corn-based production facilities is not the most challenging aspect of reaching the goal. It will be producing enough corn to keep these plants supplied without shortchanging other corn users such as the pork industry and supplying acres for other crops.

In fact, the current mid-\$4 per bushel corn futures price is not due to the current supply of corn based on 2007-2008 marketing year needs, but the battle for acres with soybeans for the 2008 crop year.

The cost for producing hogs in the U.S. in 2008 is likely to be in the low-\$50 per cwt for the average-cost producer. With hog prices expected to average in the low- to mid-\$40 per cwt live for 51-52 percent lean hogs this year, the average-cost producer will lose money most of the year unless they have taken advantage on the prices for hogs in the futures market or have marketing contracts tied to grain prices.

We still see no signs that producers have started reducing the breeding herd. Therefore, the time between when producers start losing money and producers reduce production may

be longer than in the past due to the current structure of the production segment of the industry.

Based on data from Iowa State University, hog producers lost money in March of 2007 but then had good profits during the summer months. In the past, the time elapsed from the start of losses until production was reduced was 15-16 months. If we reduce production in 15 or 16 months, we would see less marketings by the summer of 2008. However, the December Hogs and Pigs report indicates production throughout the year of 2008 will be above year-earlier levels.

Live barrow and gilt weights in Iowa-Minnesota last week at 271.1 pounds were up 2.6 pounds from a week earlier and up 1.3 pounds from a year earlier. Weights are likely to increase again this week due to the January 1 holiday-shortened slaughter week.

Pork cutout per cwt of carcass Thursday afternoon at \$56.26 per cwt was down \$2.33 per cwt from a week earlier. Loins at \$74.62 per cwt were down \$0.89 per cwt, Boston butts at \$62.25 per cwt were down \$0.10 per cwt, hams at \$37.26 per cwt were down \$3.44 per cwt, and bellies at \$71.25 per cwt were down \$1.91 per cwt from seven days earlier.

Live hog prices Friday morning were \$1.00-\$2.00 per cwt lower compared to a week earlier. Weighted average carcass prices Friday morning were \$1.80-\$2.21per cwt lower compared to seven days earlier.

The live top prices Friday morning for select markets were: Peoria \$29.00 per cwt, St. Paul \$30.00 per cwt and interior Missouri \$32.50 per cwt.

The weighted average negotiated carcass prices Friday morning were: western Cornbelt \$47.12 per cwt, eastern Cornbelt \$44.53 per cwt, Iowa-Minnesota \$47.17 per cwt and nation \$45.81 per cwt.

Slaughter this week under Federal Inspection was estimated at 2009 thousand head, up 8.9 percent from a year earlier. Δ