2-16-1999

Hogs: 1998 Revisited; Cattle: 1998 Revisited

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ECONOMICS COMMENTATOR

South Dakota State University No. 396 February 16, 1999

HOGS - 1998 REVISITED

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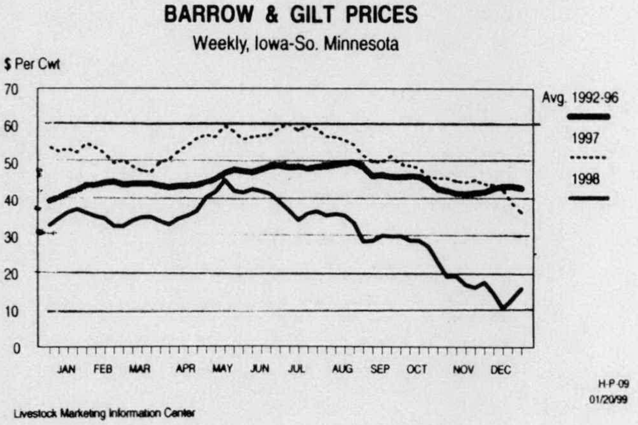
Hogs

For hog producers, 1998 was a year of two parts. Neither part was good, but one was much worse than the other. In the first half of the year, prices for barrows and gilts generally were in the $35.00-40.00 range. That price was approximately breakeven for efficient producers but was $15 below 1997 levels and $5 below the 1992-96 average. In the last half of 1998, prices were on a down hill slide. By December, prices were close to $10 and there were times when prices were in single digits. July through December prices were $20 or more per hundred below 1997, the 1992-96 average and breakeven.



Several factors contributed to the downturn in prices. Certainly, supply had an impact. Yearly hog slaughter was over 100 million head, 10 percent above 1997. The largest increase over 1997 was in the Fall. Then, there were many weeks when slaughter was over two million head. That taxed the slaughter capacity of many plants and prices were pushed lower.

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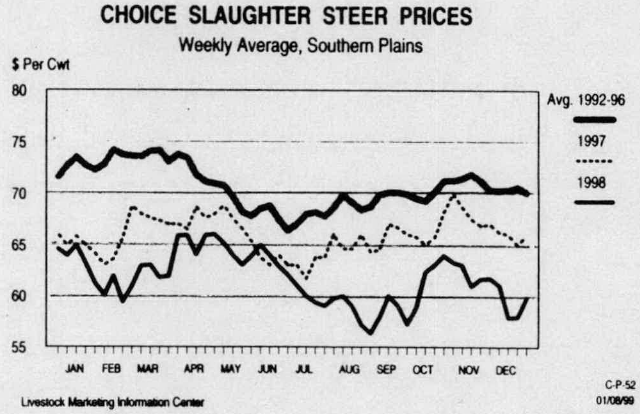
Fed Cattle

For the cattle feeder, 1998 will be remembered as a breakeven (at best) year. Prices in the $60-65 range early in the year to a narrow range around $60 late in the year certainly were not high enough to generate large (if any) profits. Somewhat lower feeder cattle prices, especially late in 1998, and sharply lower corn prices lowered breakeven levels. Even then, $60 fed cattle usually are not something about which to get excited.



There were several reasons for the lackluster price performance in 1998. One of these is the supply of beef. While slaughter numbers were below 1997 levels, average slaughter weights were 30 pounds or more above 1997 and the 1992-96 average. The net result was more beef produced.

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Added to a record U.S. supply were increased imports from Canada. While the number increase was not large (at least compared to 1997), there were more hogs to slaughter. In some cases, hogs from Canada were needed to keep a plant operating at close to capacity. Local production had decreased enough so that more than local hogs were needed. In other cases, the added supply of hogs may have pressured prices. And, more hogs meant more pork to sell.

One growing market for pork is the export market. During the first half to three-quarters of the year, pork exports were well above 1997 levels. However, late in 1998 pork exports were about equal to 1997 levels. How did the export market have a negative impact given the above facts? While exports were indeed higher in 1998, they were not as much higher as the trade expected. With a 10 percent increase in production (some of which was intended for the foreign market that didn't develop), more pork had to be sold in a U.S. market already faced with large supplies of pork, poultry and beef.

The processing sector must share in the blame for low hog prices in 1998, but probably not as much to blame as some claim. It didn't help the processor argument when IPB announced huge profits for the last quarter of 1998, at the exact time many producers were losing their shirt (I wanted to use another word here but decided not to.)

The retail sector is not blameless. While wholesale pork prices generally moved up and down with hog prices, retail prices remained steady or moved higher. In spite of the retailer arguments that retail prices are overstated (they claim the retail price series doesn't allow for sales) or that they needed profits to cover losses from earlier periods, it seems unlikely that their contentions (even if true) account for all of the widening gap between retail and wholesale prices.

There was some indication that there were problems in price reporting. In some cases, prices paid were not provided by the buyer. And, in some cases, it appeared that prices reported were not the same as actual prices paid.

In total, there were many factor which made 1998 a bad year for hog producers. And, the impact was greater on producers who didn't hedge or forward price. That description fits most small-scale producers in South Dakota.

What about 1999?

Given current conditions, don't expect 1999 to be a year that will provide large profits to hog producers. First, production likely will be lower in 1999 than in 1998 but not enough lower to provide a much higher price for farmers. It should be noted that some market forecasters are looking for 1999 production to be 5% or more below 1998. A decrease that big seems unlikely, but even if so, 1999 production still would be well above 1997. Second, we likely will see fewer live hog imports from Canada. A solution to some labor problems and the opening of a new plant there should help. But, even then, the number impact will not be big enough to help a lot.

There really is no strong evidence that the "Asian flu" that hit many of the pork importing countries is over. Exports of pork may be up a little over 1998, but even that is questionable.

Yes, the production (including imports) and demand (including exports) situation should be improved. That doesn't mean $50 liveweight hogs. But, it should mean $35-40 hogs at least by mid-year. That would mean prices close to the first half of 1998 and close to breakeven. It would mean prices well above the last half of 1998, but almost anything would beat late 1998 prices.

The futures market for lean hogs in mid-February was in the mid-to-upper $50s for the last half of 1998. That translates to the low-$40s for live hogs. Given the unusually wide basis in 1998, that probably means prices in the upper $30s for many producers and higher than that for producers of very lean hogs sold direct to packers.

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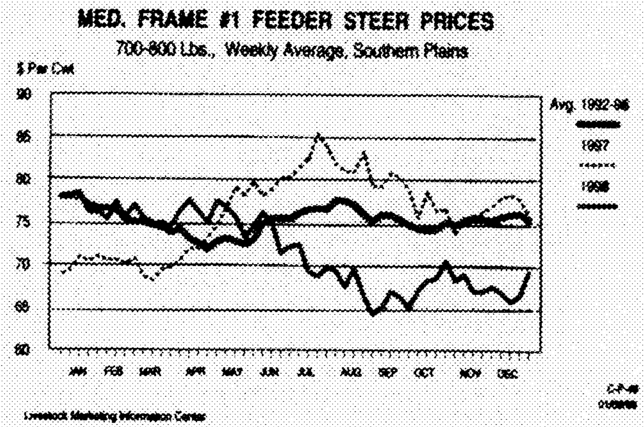
The export market, while above the 1992-96 average and close to the 1997 level, was not enough to boost prices. Exports of beef were affected by the Asian flu and other problems in the economies of our major trade partners. The weakened export market also was responsible for sharply lower hide and offal prices. The net impact probably was in the $2-3 area on a live-weight basis.

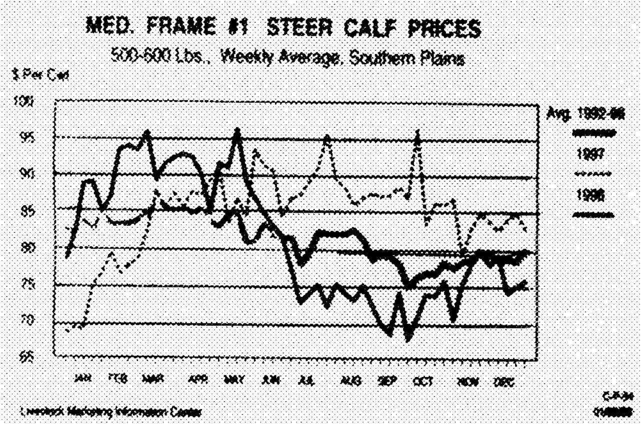
Some problems with food safety (e coli and others) didn't help the beef situation. While these problems may not have caused the loss of many customers (who knows for sure?), it did make it difficult to attract new customers and sometimes even keep old customers.

The "other meats" area didn't help beef in 1998. Consumers had plenty of other choices, often at much lower prices than beef, and that made it difficult to move beef in some areas (at least fast enough to help beef producers).

Feeder Cattle

Feeder cattle prices are related to three major factors: (1) expected fed cattle prices; (2) the supply of feeder cattle; and (3) corn prices. In 1998 it appears that the negative impact from low fed cattle prices more than offset a small positive impact from slightly lower feeder cattle numbers and a big positive impact from sharply lower corn prices. Regardless of the weight category evaluated, in 1998 feeder cattle prices were higher in the first half of 1998 than in the second half. For example, prices for 700-800 pound medium frame #1 feeder steers moved from the mid-$70s early in the year to the $65-70 range late in the year. Prices for similar quality 500-600 pound steers dropped from the $90 area to the $70-75 range.





What about 1999?

There are some market observers who are talking about $70 fed cattle in 1999. That is possible, but conditions expected likely will make that level a little difficult to reach.

First, numbers on feed and placements of cattle on feed are below late 1997 and early 1998 levels but not enough to provide a lot of encouragement. Low corn prices, now and expected in 1999, may help support feeder cattle prices but likely will cause feeding to heavier weights and, therefore, price pressure.

Educated guesses based on current and expected conditions would be as follows:

Fed steers -- mid-$60s
700-800 lb. steers -- mid-$70s
500-600 lb. steers -- mid-$80s

If, in fact, the above prices are realized, they should be breakeven or better for efficient producers. However, the prices are not high enough to create a lot of excitement for most producers.

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COMMODITY PRICE OUTLOOK 1999

SDSU Economics Department

Holiday Inn Convention Center

Brookings SD

February 25, 1999

Morning Session

9:30 Registration and Coffee

10:00 Introduction and Welcome

10:15 Livestock Outlook for 1999

Gene Murra, Professor Emeritus SDDU

10:45 Sunflower Outlook for 1999

Guy Christiansen, Merchandiser, Northern Sun-A Division of Archer, Daniel, Midland

11:15 Corn and Soybean Outlook for 1999

Dennis Inman, Grain Origination Manager, Cargill, Inc.

12:00 Lunch

Afternoon Session

1:00 Wheat Outlook for 1999

Randy Englund, Executive Director, South Dakota Wheat Commission

1:45 Update on the Potential impact of La Nina and other Weather Factors for 1999

Al Bender, State Climatologist, SDSU Ag Engineering Department

2:15 1999 Farm Risk Planning and Strategies

Dick Shane, Department Head – SDSU Economics Department

Burton Pflueger, Extension Farm Management Specialist – SDSU Economics Department

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