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Murra, Gene E. and Mends, Clarence, "South Dakota Livestock Industry: A review of 1987 and A Peak into 1988" (1988). *Economics Commentator*. Paper 253.

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No. 257

January 30, 1988

SOUTH DAKOTA LIVESTOCK INDUSTRY: A REVIEW OF 1987 AND A PEAK INTO 1988



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Last year could be viewed as one of contrast in the state's livestock economy. While some producers still were faced with a large debt load and struggled to keep their heads above water, others had one of their best years ever. The more positive factors for 1987 for hogs, cattle, and sheep are reviewed below along with a brief outlook for 1988.

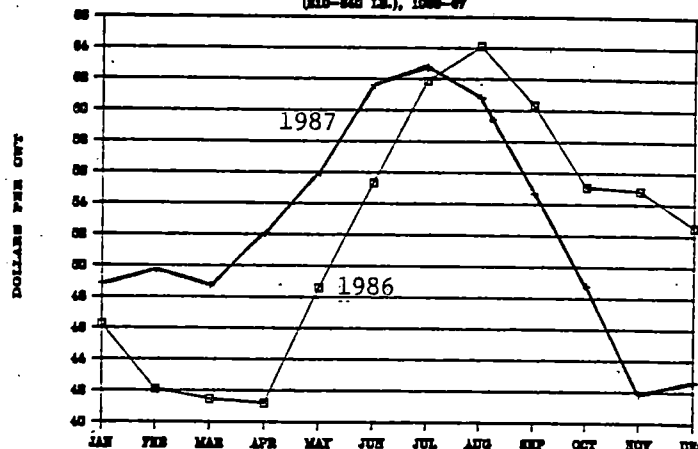
HOGS

Hog prices in 1987 generally were above 1986 levels during the first half of the year but below 1986 prices the last half of the year. Peak prices, above \$60, were noted for both years during the summer (Figure 1). The 1987 average annual price in Sioux Falls for barrows and gilts was \$52.56. That was only slightly above the \$51.96 average for 1986. With the exception of February, March, and April in 1986 and November and December in 1987, prices generally were well above breakeven levels for most producers. As a result, per hundredweight profits of \$5 to \$25 or more were recorded by many producers.

The major reasons for the profitable year, in addition to the high prices received, include generally favorable weather, low input prices (especially corn), and a successful promotion program ("The other white meat"). Because profits were high for many producers, expansion in hog production was, and continues to be, expected. Thus far, producers have not expanded production as much as expected. Producers apparently have recognized that too much expansion will lead to low prices. Also, the desire to repay debt with profits rather than to expand helped hold down expansion.

Because there still will be some expansion in hog production in 1988, at least at the national level if not in South Dakota, and because production of competing meats, especially chickens and turkeys, is expected to be above 1987 levels, 1988 is not expected to be as profitable as 1987. Even then, prices should be above breakeven levels for most producers for most of the year.

Figure 1
BARROW AND GILT PRICES, SIOUX FALLS
(HED-845 LB.), 1986-87



Major factors which must be watched in 1988 include the weather, demand and the competition from other meats, input prices and the continued possibility of expansion of hog production. Currently, prices in the \$40's are expected for most of the year. Prices could go above \$50 during winter weather markets and again in the Spring and early Summer. Prices could go below \$40 late in 1988. Since breakeven levels seem to be between \$35 and \$40 for the more efficient producers, 1988 should be another good year for hog producers.

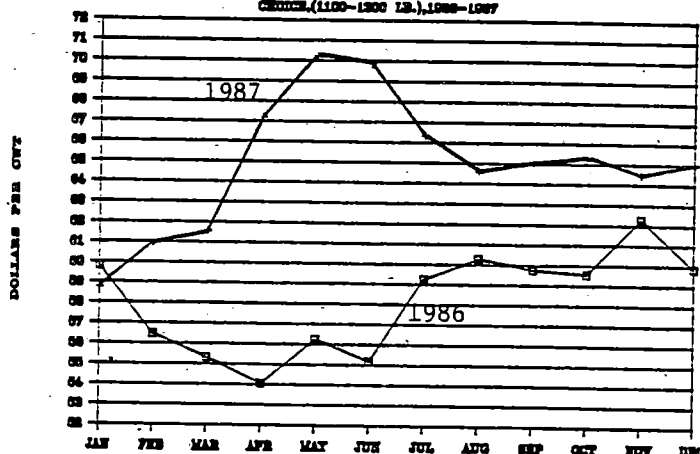
FED CATTLE

Fed cattle prices were well above 1986 price levels for all of 1987. In 1986, prices did not move far from \$60 and often were below \$60. In 1987, prices generally were between \$64 and \$70 (Figure 2). The average 1987 price for 1100-1300 pound choice steers in Sioux Falls was \$64.97, or \$6.72 above the 1986 average of \$58.15. Prices at that level meant profits for most producers, partly because feeder cattle prices were favorable for the cattle feeder late in 1986 and early in 1987 and because grain prices also were low. That caused breakeven levels to be generally in the low to mid- \$50 range.

Figure 2

SLAUGHTER STEERS PRICES, SIOUX FALLS

CHOICE, (1100-1300 LB.), 1986-1987



Prices were higher in 1987 compared to 1986 for several reasons. Demand was a positive factor, partly due to a positive promotion campaign and partly because of negative news (salmonella) about poultry.

Prices in 1988 could average fairly close to 1987 levels. Early in the year, weather already has affected the market, helping send prices \$8-10 above early 1987 levels. Prices at or maybe above 1987 levels are likely early in 1988. There is a good chance that prices could slip below 1987 levels by late in 1988.

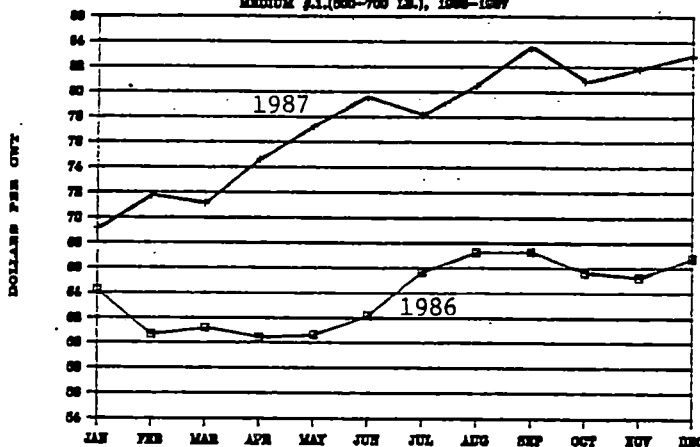
If prices remain in the mid-\$60's or higher for the first part of 1988 and then drop to the lower \$60's late in the year, cattle feeders probably will not earn large, if any, profits. Higher production costs (higher grain prices), less favorable weather (colder and more snow), and very high feeder cattle prices all will contribute to higher breakeven levels in 1988. That means some producers probably will lose money feeding cattle in 1988, while others will earn only modest profits.

FEEDER CATTLE

Most feeder cattle producers should have enjoyed a very favorable year in 1987. Prices were well above 1986 levels for most weight and grade categories of feeder calves and yearlings throughout 1987. That is illustrated in Figure 3, which includes 1986 and 1987 prices for 600-700 pound steers in Sioux Falls. Prices at other locations throughout the state often were even higher as buyers bid up prices.

The 1987 yearly average price for 600-700 pound steers in Sioux Falls was \$77.66, or almost \$14 above the 1986 average. The 1987 yearly average prices for 400-500 pound and 700-800 pound

Figure 3
FEEDER STEERS PRICES, SIOUX FALLS
MEDIUM (511-700 LB.), 1986-1987



steers were \$85.25 and \$73.67, respectively. Those averages were about \$17 and \$12, respectively, above 1986 averages.

Reduced supplies of feeder cattle, relatively favorable (low) grain prices, and better than expected fed cattle prices all helped push feeder cattle prices higher in 1987. In addition, an extremely mild, open winter helped hold costs down so that many producers were able to realize a profit, something which hasn't been extremely noticeable recently.

The profitable 1987 thus far has not, and probably won't, create rapid expansion in the production of feeder cattle. First, the reproduction process just does not allow rapid expansion. Second, producers have been reluctant to expand. Rather, they have repaid debts or tried to build up reserves in case the future is not as kind to them.

Feeder cattle prices in 1988 may average close to 1987 levels. However, the price pattern may be somewhat different. Generally, prices moved higher throughout 1987. Price patterns in 1988 may be more sideways or even a little downward in direction. If so, feeder cattle prices in the first

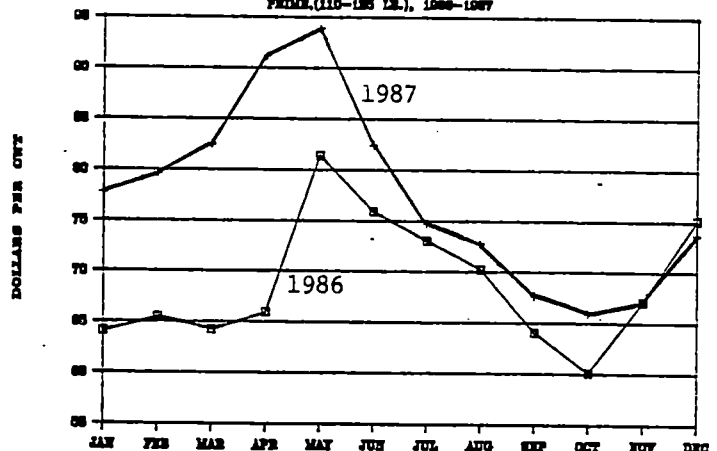
part of 1988 likely will be above 1987 levels, probably by \$10-15 per hundredweight. Late in 1988, feeder cattle prices likely will be below 1987 levels, maybe by as much as \$10-15 per hundredweight.

While 1988 should be a good year for the feeder cattle producer, profits probably will be below 1987. Lower prices late in the year along with higher production costs probably will be noted and that will put a squeeze on profits.

SHEEP AND LAMBS

Year to year price comparisons for sheep and lambs are more difficult because of a lack of meaningful prices for any one category for every month. However, a rough approximation can be noted in Figure 4. Prices there are for the Sioux Falls market and include a combination of Spring and Fall slaughter lambs, both woolled and shorn.

Figure 4
SPRING LAMBS PRICES, SIOUX FALLS
FEEDER (110-125 LB.), 1986-1987



Prices in 1987 generally were considerably above 1986 prices for the first six months and then prices were much closer the rest of the year. The seasonal patterns for the two years were similar.

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The 1988 outlook is slightly optimistic. Prices in the mid-to-upper \$70's with a good chance of \$80 and above are possible early in 1988. Prices may trend lower again by the end of the year, with the yearly average close to or slightly lower than 1987 levels.

In addition to the prices received for slaughter lambs and cull ewes, producers can receive payment through the wool price support program. That will be available again in 1988.

CONCLUSION

For the state's livestock economy, 1987 was a good one--better than 1986. The industry probably will not be quite as prosperous in 1988, as both lower prices for some species, especially hogs, and higher production costs will reduce profits. Even then, the good manager, the efficient producer, should do well in 1988 unless something totally unexpected happens.

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* S E M I N A R *
* 1988 CROP PRICE OUTLOOK *
*
* February 18, 1988 *
* Holiday Inn -- Brookings *
* Starts at 9:30 a.m. *

9:30 - 10:00	Registration and Coffee M.C.
10:00 - 11:00	Row Crops - Corn & Soybeans Denis Smith, Continental Grain Co.
11:00 - 11:30	Feed Grains - Oats & Barley Bruce Roskens, Quaker Oats Co.
11:30 - 12:00	Livestock Outlook Gene Murra, SDSU
12:00 - 1:00	Lunch
1:00 - 1:45	Wheat Lise Poirier, Pillsbury
1:45 - 2:30	Input Markets Gary Goodroad, Harvest States
2:30 - 3:00	Technical Outlook Jim Julson, SDSU
3:00 - 3:30	Grass Seed Martin Beutler, SDSU
3:30 - 3:50	Government Program Update/PIK Certificates Dick Shane, SDSU