Cattle and Hog Outlook
2010 and Beyond

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Iowa State University
Current Situation

• Total red meat and poultry
  – 2009 at 210# lowest since 1996
  – 2010 at 206# lowest since 1991

• Spending on food
  – Domestic spending on food down.
    • 1999-08 avg. growth of 5.1%/year, Q2’09 -0.3%
  – Global recession hampering exports
Current Situation

• Poultry production
  – 46% of total red meat and poultry
  – Year-to-date 2009
    • Broiler production -4.4%
    • 7-weeks: Chick placement -1.4% / Egg set -1.8%
  – Forecast for 2010 & 2011 (yr/yr % change)
    | Production   | Consumption |
    |--------------|-------------|
    | Broilers     | +1.3 & +2.9 | 0.3 & +1.0 |
    | Turkeys      | -3.3 & +2.7 | -3.4 & +1.6 |
YTD Beef Supply Summary

• Steer: Slight -4.3%, wts +1.3%
• Heifer: Slight -3.2%, wts +1.6%
• Beef Cow -8.7%
• Dairy +10.8%
• Since MCOOL change in live imports
  – CN Feeders -51% or 342,000 head
  – CN Slight S&H -28% or 207,000 head
  – MX Feeders +9% or 68,000 head
BEEF PRICE-QUANTITY RELATIONSHIP
Annual, Retail Weight, Deflated All Fresh Retail Price

$ Per Pound
SLAUGHTER STEER PRICES
5 Market Weighted Average, Weekly

$ Per Cwt.

2003-07
2008
2009

Livestock Marketing Information Center
Feeder cattle prices lower than 2008 and the 5-yr average.
COMMERCIAL BEEF PRODUCTION
Quarterly

Livestock Marketing Information Center
## Cattle Price Forecast

<table>
<thead>
<tr>
<th>Year Quarter</th>
<th>Live Sltr. Steer Price 5-Mkt Avg</th>
<th>Feeder Steer Price 7-800#</th>
<th>5-600#</th>
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</thead>
<tbody>
<tr>
<td>2010 I</td>
<td>84-87</td>
<td>94-98</td>
<td>106-110</td>
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<tr>
<td>II</td>
<td>87-91</td>
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<tr>
<td>III</td>
<td>83-88</td>
<td>102-108</td>
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<td>IV</td>
<td>87-93</td>
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<td>Year</td>
<td>86-89</td>
<td>99-105</td>
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<tr>
<td>2011 I</td>
<td>88-95</td>
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<tr>
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<td>86-95</td>
<td>106-117</td>
<td>117-130</td>
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<td>IV</td>
<td>90-100</td>
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<tr>
<td>Year</td>
<td>90-96</td>
<td>103-113</td>
<td>114-126</td>
</tr>
</tbody>
</table>
ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

$ Per Cow

Livestock Marketing Information Center
ISU Estimated Returns to Finishing Yearling Steers

http://www.econ.iastate.edu/faculty/lawrence/Lawrence_website/livestockreturns.htm
Cattle Crush Margin

Return over corn and feeder cost considering basis adjusted futures and

- Live weight 1250 pounds
- Feeder weight 750 pounds
- Corn 50 bushels

Farms differ, but approximately a $150 margin is needed to breakeven

Projected Yearling Cattle "Crush Margin", November 18, 2009

http://www.econ.iastate.edu/outreach/agriculture/periodicals/ifo/ Margins at bottom
Cattle Summary

• Demand recovers slowly with the economy
• Tight supplies, but at time larger than the year before should support prices
• Herd liquidation continues into 2012+
  – Higher cost for cowherds
  – Higher cost of gain pressure calf prices
• Narrow feeding margins
• Manage risk through transition
YTD Pork Supply Summary

• B&G: Slight -1.8%, wts +1.4%
• Total Sow Slight -7.9%
• US Sow Slight -11.9%
• Since MCOOL change in live imports
  – CN Feeders -24% or 1,673,500 head
  – CN Slight B&G -73% or 1,716,600 head
  – CN Slight Sows 24% or 126,900 head
PORK PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated Retail Price

$ Per Pound

2.20 2.30 2.40 2.50 2.60 2.70 2.80 2.90

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COMMERCIAL PORK PRODUCTION
Quarterly

Bil. Pounds

Yr/yr %

Prd & Con

Avg. 2004/08
-0.8 & +1.7

2009
-0.6 & -2.5

2010

2011
-1.3 & -3.1

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## Hog Price Forecast

<table>
<thead>
<tr>
<th>Year Quarter</th>
<th>National Wtd Avg Base</th>
<th>Weaned Pig Avg Base</th>
<th>ISU Sep 30 ISM Live</th>
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</thead>
<tbody>
<tr>
<td>2010 I</td>
<td>56-59</td>
<td>30-32</td>
<td>40-42</td>
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<td>61-64</td>
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<td>65-68</td>
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<tr>
<td>Year</td>
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<td>30-32</td>
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<tr>
<td>2011 I</td>
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<td>Year</td>
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<td>33-36</td>
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</table>

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Estimated Returns to Farrow to Finish Hog Production, $/Head, Iowa State University Extension

The graph shows the estimated returns to farrow to finish hog production from January 2001 to July 2009. The returns vary significantly over the period, with some months showing positive returns and others showing negative returns. The chart highlights the volatility in the hog production market and the importance of understanding market trends for effective management.
Accumulated Returns Selling one head a month Dec 2008 = Jan 2006

Firms financially sound in 2004 and that survived disease problems in 2005-07 still have equity
Hog price increase 5% over Nov 23 Futures each month for 6 months and hold at 30% higher

Reach Dec 2008 equity position by Oct 2010
The Ugly

Feed price increase 2% over Nov 23 Futures each month for 6 months and hold at 12% higher

Equity position continues to decline throughout 2010

Accumulated Return Relative to Total Cost per Head Marketed Per Month

Reported

Projected based on Nov, 23 futures

Equity position at end of Dec 2008 equal to Jan 2006

Equity position at end of Dec 2008 equal to Jan 2006
# ISU Estimated Returns Carcass Break-even for Farrow-Finish Production

## Estimated Total Cost of Production per Cwt Carcass

<table>
<thead>
<tr>
<th>SBM/Corn</th>
<th>3.00</th>
<th>4.00</th>
<th>5.00</th>
<th>6.00</th>
<th>7.00</th>
<th>8.00</th>
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<td>300</td>
<td>64.41</td>
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<td>350</td>
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<td>77.38</td>
<td>83.27</td>
<td>89.16</td>
<td>95.05</td>
<td>100.95</td>
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</table>

**Estimate of total cost of production**

**Cash cost estimate, subtract $5/cwt for depreciation**
The Crush Margin is the return over pig, corn and SBM cost. The Crush Margin is based on the following assumptions.

- Carcass weight: 200 pounds
- Corn: 10 bu/hd
- Pig price: 50% of 5 month out LHF
- SBM: 150 lbs/hd

Farms differ, but approximately a $40 margin is needed to breakeven.

Projected Wean-Finish "Crush Margin", November 18, 2009

http://www.econ.iastate.edu/outreach/agriculture/periodicals/ifo/ Margins at bottom
Pork Summary

• Breeding herd decreasing slowly, but production efficiency offset some decline
• Export demand low in 2009, but expected to be stronger in 2010 and beyond
• Breakeven prices expected in mid-2010
• Industry downsizing will idle some facilities
• Manage margins
ISU Resources for Difficult Times

- Pork, dairy and beef program specialists to help assess production efficiency
- Farm management program specialists to help evaluate management alternatives
- Iowa Concerns Hotline 1-800-447-1985
- Farm Financial Associates
- Center for Agricultural Law and Taxation