

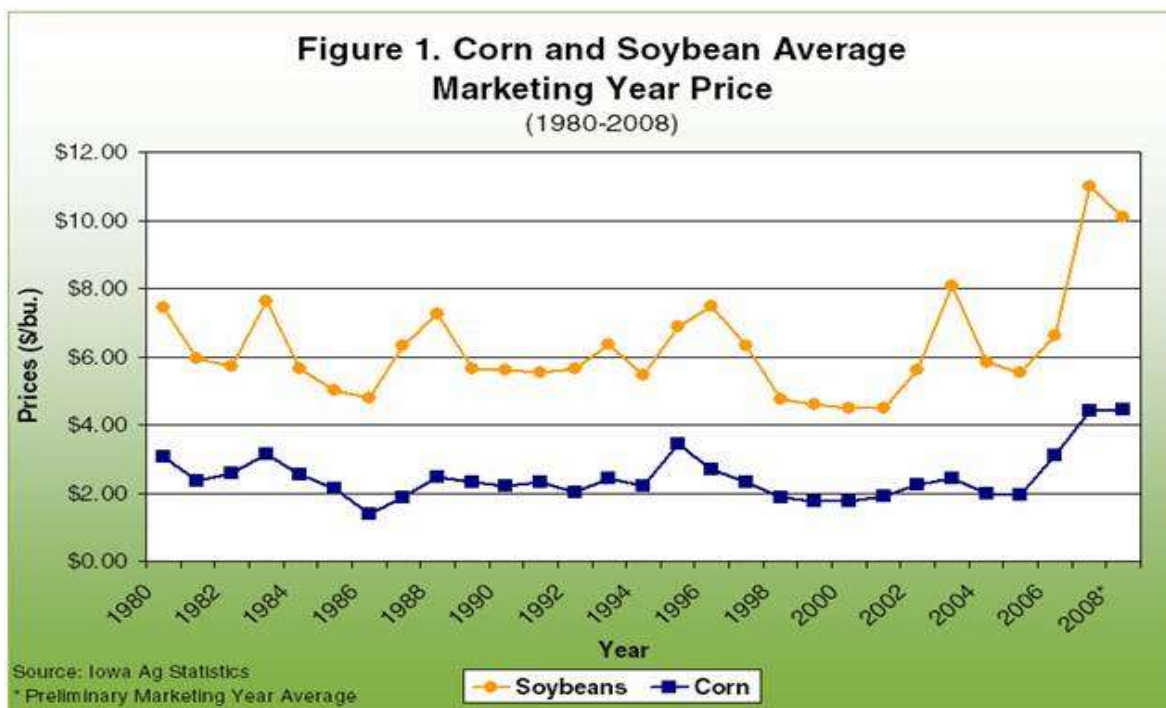
Impact of Rising Feed Prices on Pork Profitability

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Corn and soybean meal are the major feed components for pork production. These feed costs have varied over the years based on supply and demand conditions. As shown in Figure 1, there have been years of price spikes for corn and soybeans. These spikes have been the result of reduced crop supplies due to drought or other adverse growing conditions. After the rise, prices returned to normal levels the following year due to a return to normal growing conditions.

Recent corn and soybean prices have risen to record levels and remained at these levels for two years. In contrast to previous price rises, current price levels are a result of expanding demand and have occurred during a period of good growing conditions. The future direction of these price levels is a question of open debate. American agriculture has seldom found itself in a position of demand driven shortages for an extended period of time.



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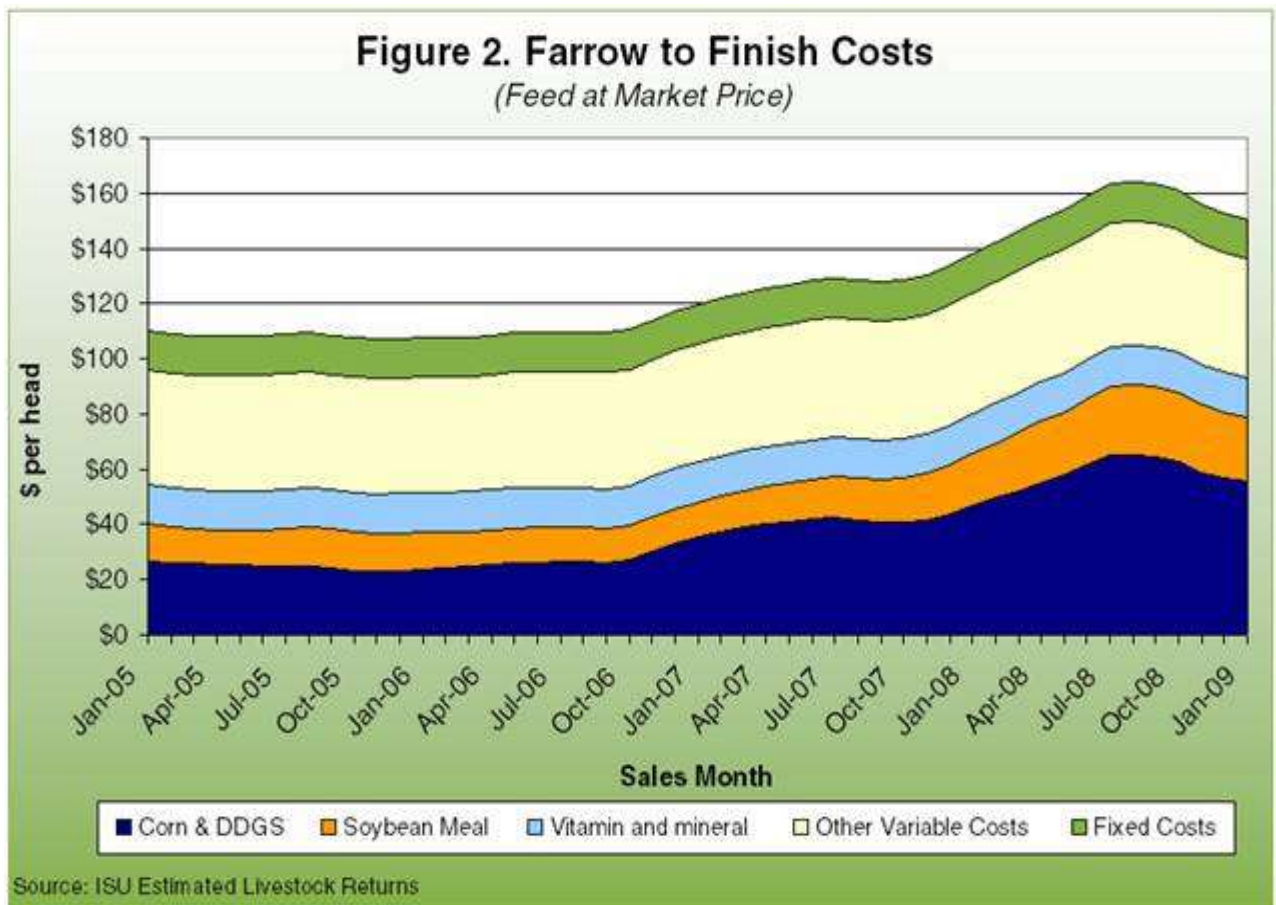
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Higher corn and soybean prices in recent years have had a significant impact on the cost of feed for swine operations. Iowa corn price has increased from an average of \$1.90 in 2005 to \$4.77 per bushel in 2008. Likewise, Iowa soybean price has increased from \$5.88 to \$11.33 during the same period.

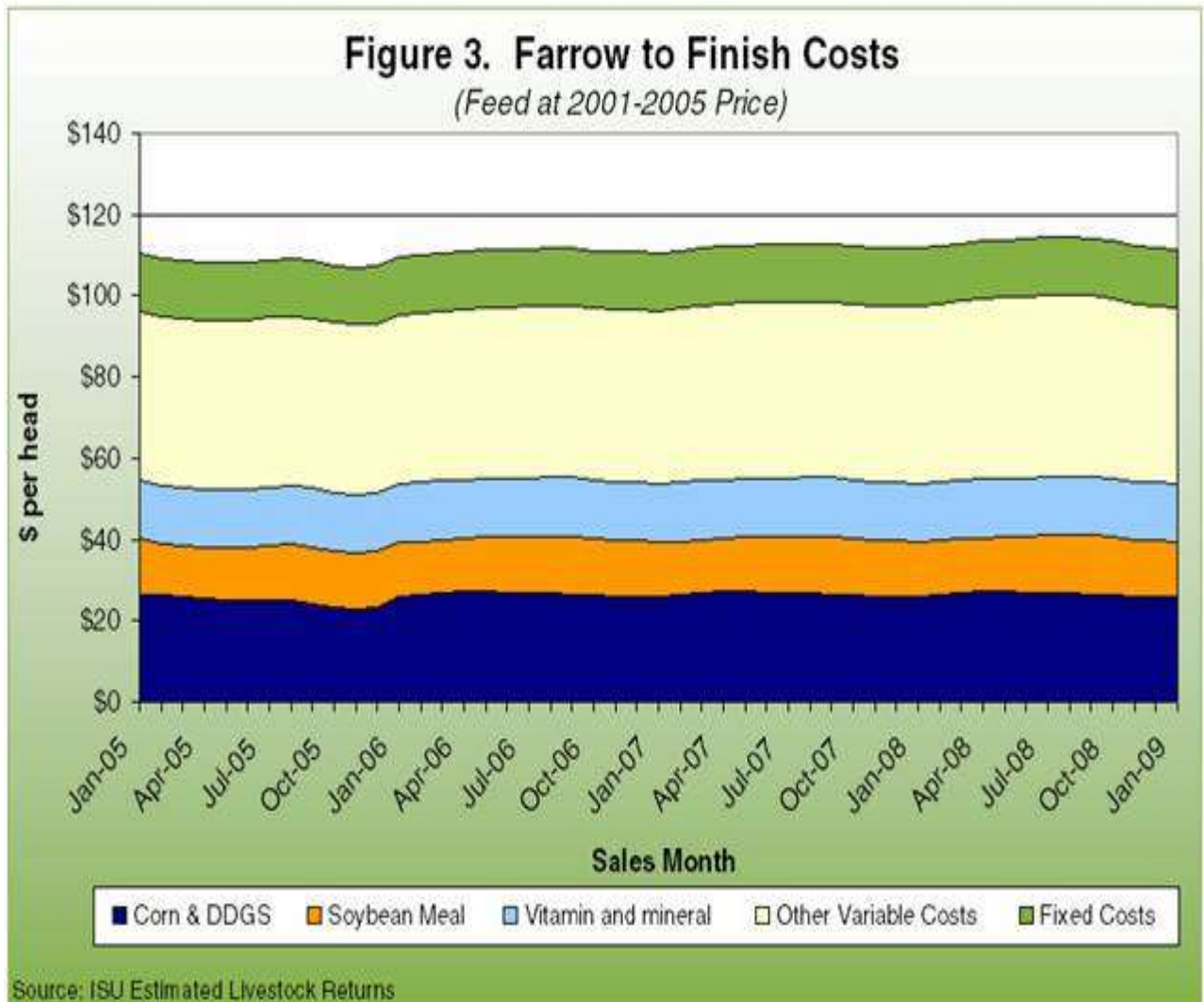
If feed prices remain at elevated levels, a return to profitable pork production can only be achieved through higher pork selling prices. In the long-term, reduced pork supplies will lead to higher pork prices and a return to profitability of the remaining pork producers. However, the transition period can be extremely difficult for all pork producers.

Farrow-to-Finish

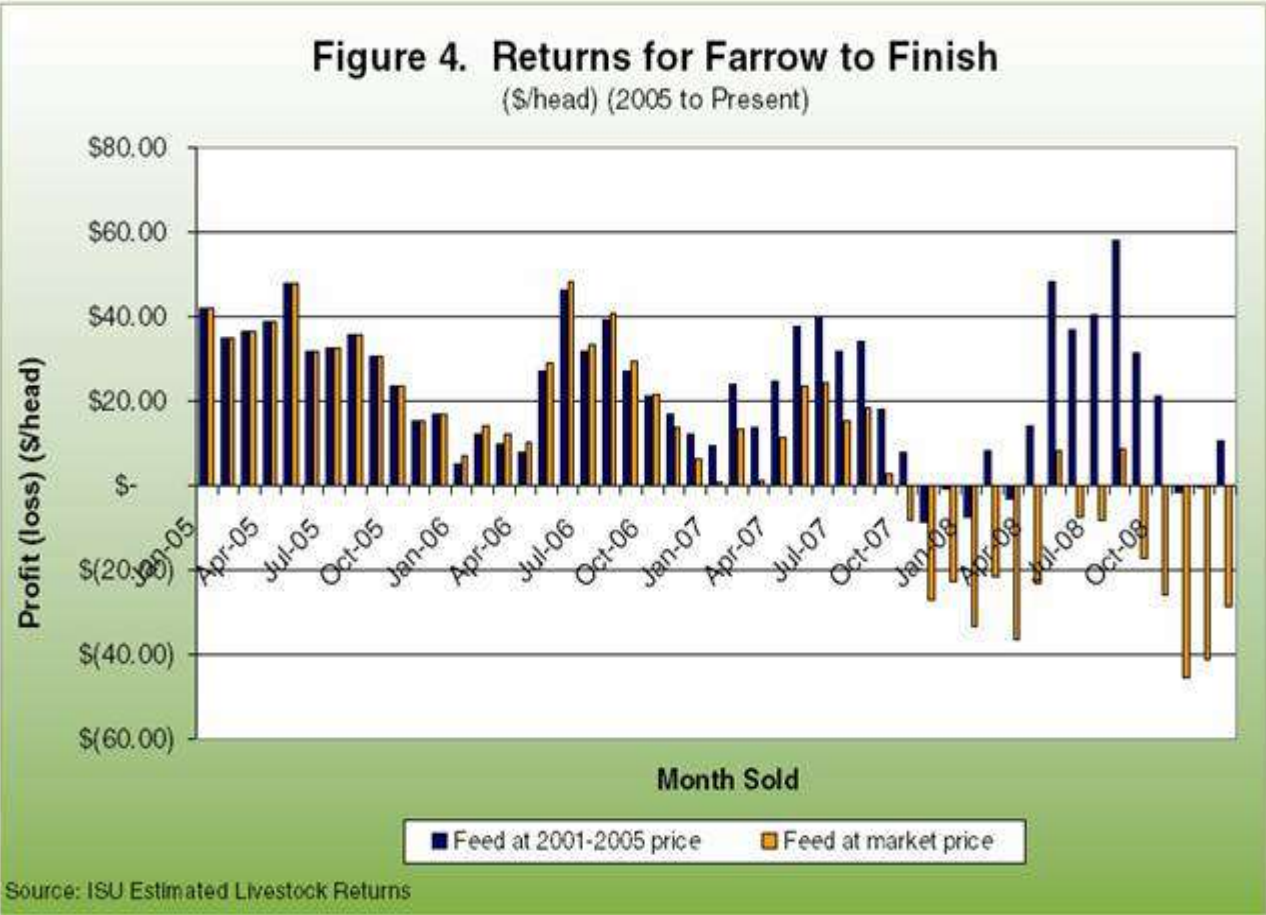
The impact of increased feed prices for a typical farrow-to-finish operation is shown in Figure 2. This is an economic data series of a typical farrow-to-finish operation created by Iowa State University Extension. It tracks changes in profitability due to changes in feed prices and pork selling prices.



Breakeven selling price has increased from an average of \$108.42 per head (\$40.16 per cwt.) in 2005 to \$154.03 per head (\$57.05 per cwt.) in 2008. However, if feed prices would have stayed at the 2001-2005 average price during 2008, the breakeven selling price would have increased from \$108.42 to only \$113.26 per head (\$40.16 to \$41.95 per cwt.), as shown in Figure 3.

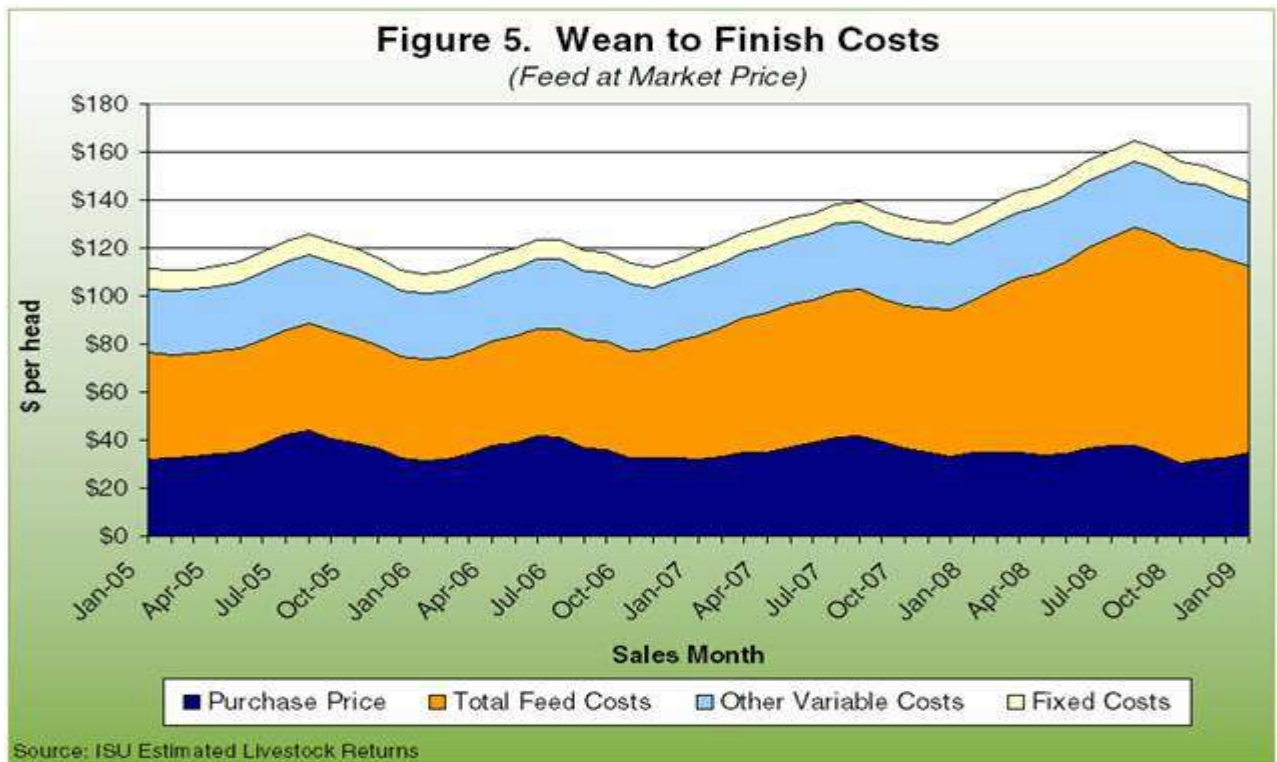


This \$46 per head (\$17 per hundredweight) change in cost has had a substantial impact on profitability, turning periods of profitability into periods of losses. The bar chart in Figure 4 shows this change. The navy colored bars show the monthly profits (losses) if feed prices would have been maintained at their 2001-05 levels. The orange colored bars show the monthly profits (losses) actually incurred due to higher feed prices. You can see that the difference in profitability becomes much more evident from 2006 onward. This shift in profitability has had a major impact on the viability of farrow-to-finish operations.

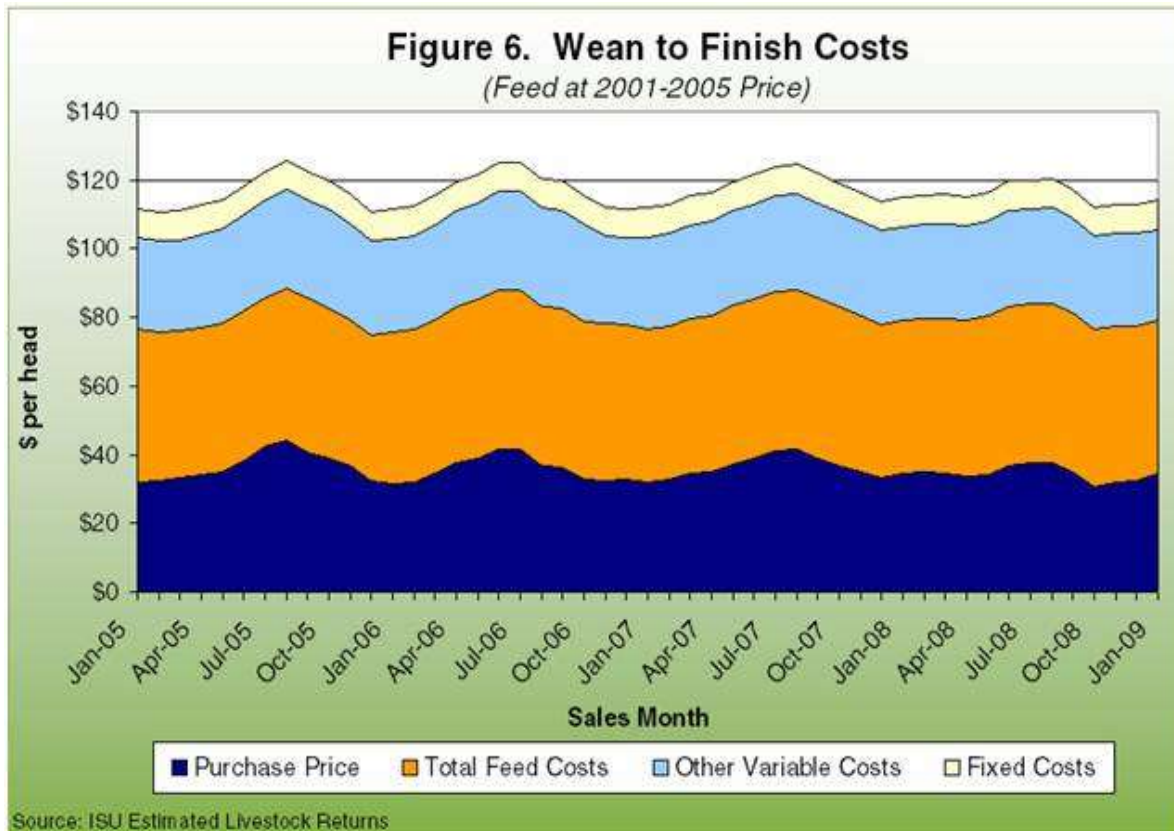


Finishing Weaned Pigs

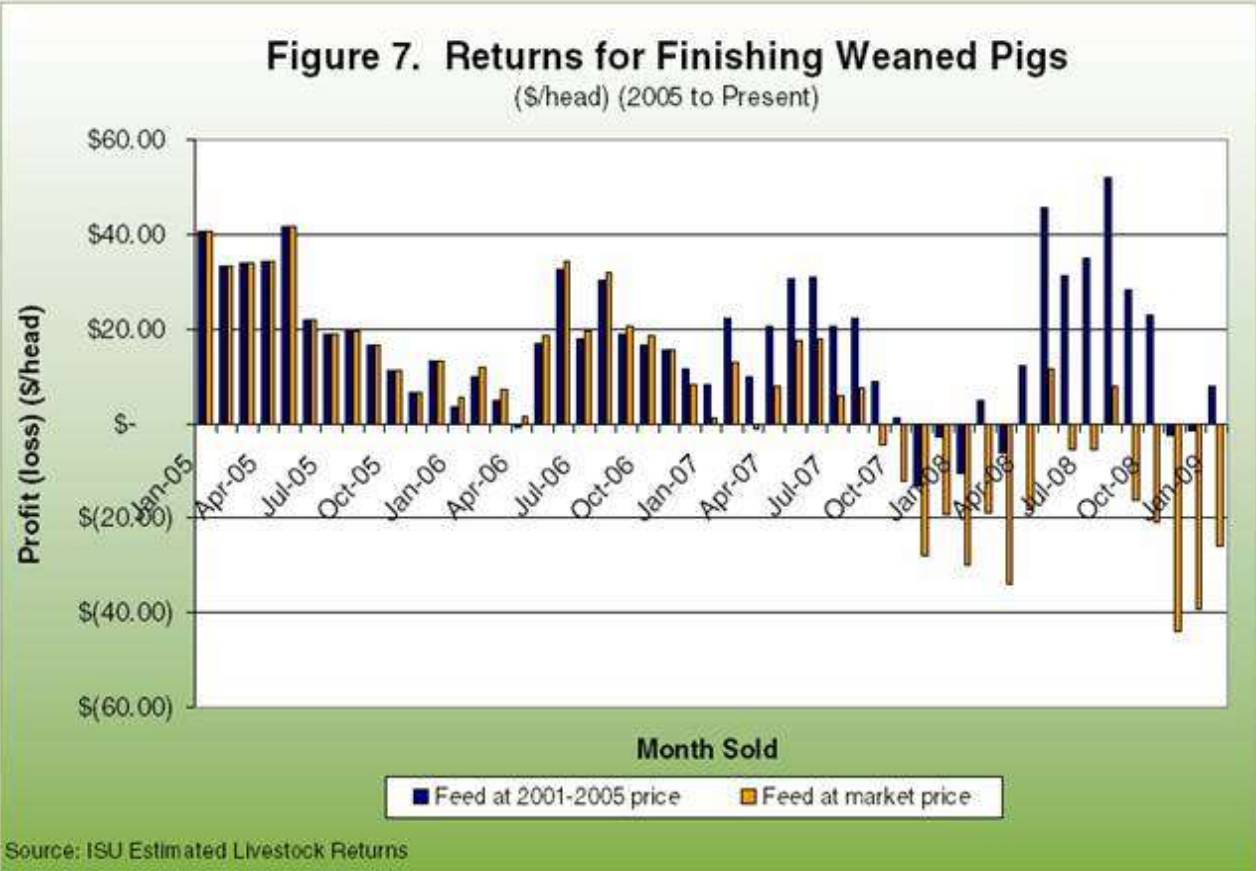
The impact of increased feed prices on finishing weaned pigs is shown in Figure 5. This is a monthly economic data series from ISU of a typical weaned pig finishing operation that tracks the impact of changes in feed prices, weaned pig purchase price and pork selling price.



Breakeven selling price has increased from an average of \$116.31 in 2005 to \$151.53 per head in 2008 (\$43.08 to \$56.12 per cwt.). However, if feed prices would have stayed at the 2001-2005 average price during 2008, the breakeven selling price would have remained essentially unchanged from \$116.31 to \$116.12 per head (\$43.08 to \$43.01 per cwt.), as shown in Figure 6.



This \$35 per head (\$13 per hundredweight) change in cost has had a substantial impact on profitability, turning periods of profitability into periods of losses. The bar chart in Figure 7 shows this change. The navy colored bars show the profitability if feed prices would have been maintained at their 2001-05 levels. The orange colored bars show the profitability actually incurred due to higher feed prices. You can see that the difference in profitability becomes much more evident from 2006 onward. This shift in profitability has had a major impact on the viability of weaned pig finishing operations.



Causes of Feed Price Increase

Many factors have conspired to cause corn and soybean prices to increase in recent years. Expanding world economies and decreases in the value of the dollar are two examples that have affected prices. However, the major factor has been the expansion of the ethanol industry. Without the expansion of the corn-ethanol industry, corn and soybean prices would be similar to the levels before the ethanol expansion. This is discussed in a September, 2008 article in the AgMRC Renewable Energy Newsletter titled Impact of Biofuels on Corn and Soybean Prices. Without the increased corn demand due to the corn-ethanol expansion, corn and soybean prices would be low and carryover stocks would be growing. Although this would be beneficial for the pork industry, continued government support would be needed to maintain the viability of corn and soybean producers.

With corn and soybean trend yields expected to increase at a substantial rate in coming years, it is important that the biofuels industry continue to expand to utilize the increased supplies of corn and soybeans. However, the biofuels industry needs to ride the fine line between utilizing excess supplies of corn and soybeans but not driving corn and soybean prices to levels that are unduly harmful to the livestock industry.