CONSORTIUM OF ANIMAL AGRICULTURE
RESOURCE DEVELOPMENT (CAARD)

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CONSORTIUM OF ANIMAL AGRICULTURE RESOURCE DEVELOPMENT

Adapt

Adopt

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Blue Ribbon Animal Agriculture Leadership Committee

Wisconsin Agribusiness Council
Wisconsin Agri-Services Association
Wisconsin Aquaculture Association
Wisconsin Association of Meat Processors
Wisconsin Bankers Association
Wisconsin Cattlemen's Association
Community Bankers of Wisconsin
Wisconsin Egg Producers Association
Wisconsin Farm Bureau Federation
Wisconsin Farm Credit System
Wisconsin Farmers Union
Wisconsin Federation of Cooperatives
Wisconsin National Farmers Organization
Wisconsin Pork Producers Association
Professional Dairy Producers of Wisconsin
Wisconsin Sheep Breeders Cooperative
Wisconsin State Grange
Wisconsin State Horse Council
Wisconsin Turkey Federation
Wisconsin Veal Growers Association
Wisconsin Veterinary Medical Association
Wisconsin Women for Agriculture

Agencies

Wisconsin Department of Agriculture, Trade, and Consumer Protection
Wisconsin Department of Commerce
Wisconsin Department of Natural Resources
University of Wisconsin - CALS - Extension

1998 Priority Issues and strategies for enhancing Wisconsin's animal industries follows. The committee applies a broad inclusive definition to the term animal industries.

Wisconsin's animal industries should:

1. **Explore alternative arrangements and opportunities through informal partners, networks, contracts, alliances and joint ventures that can contribute to profitable production, marketing alternatives and new market development.**

2. **Become involved in local and state land use discussions including policy development and implementation, assist in developing and publicizing successful models and examine local zoning laws and rules for obstacles to competitive and profitable agricultural production systems.**

3. **Lead in developing alternative agricultural business structures and production systems for new, current, transitioning and exiting livestock operations and assist in developing new intergenerational business transfer and succession methods.**

4. **Provide livestock producers with education and training programs to develop personal, business, management and strategic leadership skills that will enhance long term changes for improved competitive and profitable livestock operations.**

1998 Priority Issues and strategies for enhancing Wisconsin's animal industries.

1. **Wisconsin's animal industries should explore alternative arrangements and opportunities through informal partners, networks, contracts, alliances and joint ventures that can contribute to profitable production, marketing alternatives and new market development.**

Strategies

A. Develop a series of case studies that model successful livestock marketing systems.

   1. Develop educational materials for successful existing models used in poultry, swine, turkey and vegetable industries.

   2. Develop and implement educational and informational strategies for bringing producers together as informal partners, networks, contracts, alliances, joint ventures and other more formal arrangements.

   3. Educate and inform producers about the financial benefits of networking production systems and market systems.

B. Develop suggested checklists of procedures and supporting educational materials for owners and managers of beginning, transitioning and expanding livestock operations.

   1. Develop resource teams for strengths, weaknesses, opportunities and threats (S.W.O.T.) analysis including WDATCP, DNR, DOC, UW-Extension, and other supporting institutions as appropriate.

C. Encourage assistance of the Wisconsin Bar Association in educating producers on the legal and liability obligations of alternative arrangements and opportunities.

2. Wisconsin's animal industries should become involved in local and state land use discussions including policy development and implementation, assist in developing and publicizing successful models and examine local zoning laws and rules for obstacles to competitive and profitable agricultural production systems.

Strategies

A. Become involved as individuals and organizations in local and state land use discussions, policy decisions and implementation.

B. Encourage and participate in increasing the information for landowners, producers, and the public about land use issues and options.

   1. Publicize the rules and legal status of Agricultural Land Preservation.

   2. Develop local understanding of private land development rights and zoning.

   3. Identify and understand issues of extra-territorial land use.

   4. Inform people on the types of land use restrictions based on land type: wet land, wooded, etc.

   5. Develop local understanding of legal rights and responsibilities of landowners.

C. Demonstrate and promote a "good neighbor" philosophy and policy for a better understanding among landowners, farmers and the public.

   1. Inform people of agriculture's benefits to the local community's economic strength.

   2. Describe to the public agriculture's contributions to the local town and community tax base.

   3. Demonstrate and highlight agriculture's contributions to the local wildlife habitat.

   4. Describe the contributions of agriculture to the community's outdoor recreational enjoyment.

   5. Work with the media to promote positive facts about agriculture.

   6. Develop suggested checklists of procedures for beginning, transitioning and expanding livestock operations.

D. Develop and promote opportunities for rural and urban cooperation.

   1. Develop and promote a statewide speakers bureau to further rural and urban dialog.

   2. Explore and understand recreational and agricultural land ownership associations used in other states and explore their applicability to Wisconsin.

   3. Investigate and develop an understanding of private land development rights.

   4. Inform and educate landowners on their legal rights and responsibilities.

3. **Wisconsin's animal industries should lead in developing alternative agricultural business structures and production systems for new, current, transition and exiting livestock operations and assist in developing new intergenerational business transfer and succession methods.**

Strategies

A. Develop alternative agricultural business structures and production systems for new, current and transition operations, which have contributed significantly in other states and industries.

1. Examine and publicize informal partners, networks, contracts, alliances and joint venture arrangements for combining existing operations which have been successful in other industries (poultry, swine, turkeys, vegetables) and in their states.

2. Develop and publicize new business structures for livestock production units such as limited liability partnerships, limited cooperatives, family corporations, investment partners, and joint ventures.

3. Develop suggested checklists of procedures and educational materials for beginning, transitioning and expanding livestock operations.

4. Encourage assistance of the Wisconsin Bar Association in educating producers on the legal and liability obligations of alternative agricultural business structures.

B. Encourage and assist in developing, promoting and coordinating public and private sector funding programs for the animal industries and rural Wisconsin.

1. Promote and publicize the availability of Wisconsin Department of Commerce planning funds available through the Rural Economic Development (R.E.D.) Program.

2. Encourage livestock producers to explore the use of combined public and private funding options for modernization, expansion and the development of new animal production enterprises.

C. Increase the educational capacity of professional consulting teams and their use in family farm transfers.

1. Encourage the use of professional consulting teams by farm families for reviewing and planning major changes in animal production systems.

2. Encourage development and use of specialists, counselors and facilitators for intergenerational succession of the farm business.

3. Develop and promote linkages between retiring operators and beginning farmers.

4. Encourage creative financing arrangements for beginning, current and transitioning producers.

4. Wisconsin's animal industries should provide livestock producers with education and training programs to develop personal, business, management and strategic leadership skills that will enhance long term changes for improved competitive and profitable livestock operations.

Strategies

A. Develop and implement educational programs for producers on farm business planning which will encourage and attract competitive production systems for existing and new livestock operations.

1. Develop and implement educational programs on:

   A. Short and long range strategic planning.

   B. Alternative farm business arrangements and operating agreements.

   C. Financial management and analysis.

   D. Human resource development and management.

   E. Production and business management information systems.

   F. Alternative livestock production systems.

   G. Farm business risk management

   H. Product marketing systems, alternative marketing systems and exports.

B. Determine specific research and training needs and encourage cooperation and coordination of agriculture colleges and other appropriate educational agencies to help Wisconsin farmers become more competitive and profitable.

1. Encourage direct communications among Boards of Visitors, Advisory Committees, Deans, Department Chairs and faculties.

C. Communicate positive messages on the value of animal agriculture to the local and state economy, local tax contributions by agriculture, and improved operational procedures in livestock production.

1. Encourage local agricultural leaders to communicate directly with local county Boards of Supervisors, Chambers of Commerce (or local equivalent), local community leaders and society.

(Madison Office)

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at pork to aid farms, says Thompson

Governor orders state institutions, urges residents to do their part to ease glut

By Meg Jones
of the Journal Sentinel staff

Alarmed at the lowest hog prices in almost six decades, Gov. Tommy G. Thompson on Wednesday ordered state institutions to serve more pork and urged consumers to pick up hams and pork roasts for holiday meals.

In an effort to help bail out Wisconsin's ailing hog industry, the governor took the unusual step of directing the Department of Corrections and Department of Health and Family Services to put more pork on their menus.

That's almost 50,000 meals a day. Thompson also encouraged residents to eat more pork.

"If you haven't made your choice yet, take a look at pork," the governor said in a statement. "Serving pork for the holidays is a nutritious and tasty way to help our rural friends and neighbors greet a brighter New Year."

Pork farmers and agriculture officials hailed the move but said it'll take more than that to relieve the burden on farmers.

"There has to be a lot of pork to be eaten before there's a turnaround in price," said Tom Thieding, spokesman for the Wisconsin Farm Bureau Federation.

Prices have hit rock bottom because of a large supply of hogs just as the demand for exports to Russia and Asia has dropped. Cash prices haven't been this low since the early

Please see **HOG** *page 7*

Hog/Eat more pork, governor urges

From page 1

.940s.

Although Wisconsin has nany more dairy farmers and :ows, 4,400 farms raise approxi-nately 800,000 hogs in the state. n Wisconsin, pork is a $194 mil-ion industry.

In Iowa, which produces a uarter of the nation's pork, Gov.-elect Tom Vilsack already as urged state agencies to buy s much pork as possible and ought federal assistance, ccording to The Associated Press.

Wisconsin's hog producers re losing between $60 and $75 or each animal they sell. That's utting a lot of family farms at isk, said state Rep. DuWayne ohnsrud (R-Eastman).

"It's not going to be a very ice Christmas for a lot of them. only have 10 (hog farmers) left n Crawford County and I'm robably going to lose half of hem as soon as they can get rid f their hogs," Johnsrud said.

"My motto is — more pork on your fork. It means we literally have to eat our way out of this surplus of pork," said Johnsrud, who is a hog and cattle farmer.

While pork prices are plummeting for farmers, retail prices have dropped very little.

Through October, average retail pork prices were $2.30 a pound, compared with $2.31 a pound for all of 1997. Prices paid to farmers have dropped 38% to an average of 32 cents a pound, according to the U.S. Department of Agriculture.

Thompson is directing the Wisconsin Housing and Economic Development Authority to examine its agricultural financing programs to determine how that agency can help hog farmers. The governor also has asked U.S. Secretary of Agriculture Dan Glickman to determine whether Canada is dumping hogs into the U.S. market and helping depress prices.

Dan Poulson, president of the Wisconsin Farm Bureau Federation, said farmers are seeing trucks loaded with Canadian hogs being unloaded at the same time prices are dropping.

State Rep. Eugene Hahn (R-Cambria) also said Canada is part of the problem.

"They say the imports from Canada are not impacting the market. That's baloney. It's up 20%. They're sending (their hogs) to us to get slaughtered."

Earlier this week, the federal government announced the purchase of 50 million pounds of frozen pork at a cost of $15 million to help eliminate the glut. That's in addition to the $50 million special purchase of as much as 50 million pounds of more expensive canned pork that the Department of Agriculture announced last month.

Leonard Zabel, who has been a hog farmer in Eastman near the Iowa border for more than four decades, said the governor's pork edict won't get Wisconsin producers out of their jam, but "when we're in a disaster like this, every little bit will help."

Nine children exposed to radiation while playing

Associated Press

Tokyo — Nine junior high school students in northern Japan were exposed to low levels of radiation while playing with radioactive cubes they found near a power plant monitoring station, an official said Wednesday.

The students were exposed again when workers from the station, located near their school, asked them to help search for the devices, said Nobutoshi Sato of the Miyagi prefectural, or state, nuclear power safety office.

Five teachers helping search for the cubes, used to measure radioactivity, also were exposed, he said. The incident took place Dec. 2 in Onagawa, 225 miles northeast of Tokyo.

Officials first announced the exposures Tuesday, saying the amount of harmful material in the cubes was so low that medical checks on the students and teachers were not necessary, Sato said.

Agribusiness Guarantee

What is Agribusiness?

The Agribusiness Guarantee helps small businesses develop new products using Wisconsin's raw commodities.

Does my business qualify for Agribusiness?

It probably does if it is located in a community with a population under 50,000, purchases a substantial percentage of its raw agricultural commodities from Wisconsin suppliers, and;

1. Develops a new product, method of processing, market, or improved marketing method for a Wisconsin product, or;
2. Produces a specialty cheese product that is new to the business, or;
3. Commercially harvests whitefish in Lake Superior.

How much guarantee is available?

Your maximum guarantee is 80% on loans up to $750,000.

How can I use an Agribusiness Guarantee?

Agribusiness can be used for equipment, land, buildings, permanent working capital, inventory and initial product marketing expenses.

Interested in growing your operation? Then pick up the phone!

Before beginning your project, contact your lender or call WHEDA at:

1-800-334-6873

TTY/TDD

Teletypewriter/Telecommunication Device for the Deaf: 1-800-943-9430

Wisconsin Housing and Economic Development Authority

201 West Washington Avenue
Madison, Wisconsin
53703
(608) 266-7884

WHEDA Milwaukee

101 West Pleasant Street
Milwaukee, Wisconsin
53212-3962
(414) 227-4039

World Wide Web

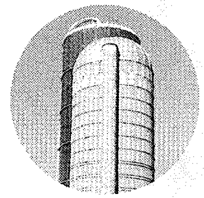
wheda.com

Created 2/98

WHEDA AGRICULTURAL FINANCING

Giving Farm Families Credit

PRESERVING A PROUD TRADITION



CROP: Your production financing resource.

What does CROP offer me?

CROP features 90% guarantees on loans of up to $20,000 made by local lenders. Interest rates are competitive, and payment is not due until March 31 of the following year.

Do I qualify for CROP?

You probably do if you can answer "yes" to three questions:

1. Are you unable to get conventional financing at the lender's standard interest rate?
2. Is your debt-to-asset ratio 40% or greater?
3. Do you meet your lender's prudent underwriting standards?

How can I use CROP?

CROP can be used for feed, seed, fertilizer, pesticides, land rent, custom hire, animal feed, UCC filing fees, crop insurance, feeder animals, tillage services, equipment rental or repair, or utilities for commodity production.

You cannot use CROP for property taxes, farm house utilities, existing loans, capital improvements, CROP loan interest, accounting services, or revolving lines of credit.

FARM: Is your operation ready for the 21st Century?

Is FARM for me?

FARM is for the producer who wants to expand or modernize an existing operation. You qualify if your debt-to-asset ratio is 85% or less (including your FARM loan and newly acquired assets), and you meet your lender's underwriting standards.

What does FARM offer me?

FARM gives you access to credit by guaranteeing a loan made by your local lender. The maximum loan guarantee is the lesser of your net worth, 25% of the loan amount, or $100,000.

Your loan term can be up to ten years for facilities/land acquisition, or up to five years for agricultural asset purchases or facilities/land improvements. FARM can be used with other loan programs.

How can I use FARM?

You can purchase agricultural assets including machinery, equipment, facilities, land, and livestock. You can also make improvements to farm facilities and land for agricultural purposes.

FARM cannot be used for a farm residence, existing loans, maintenance, or other working capital needs that are eligible under CROP.

Beginning Farmer Bonds: Isn't it time for your own operation?

How can I use a Beginning Farmer Bond?

Use a Beginning Farmer Bond to purchase your first farm including land, equipment, livestock, or buildings.

Do I qualify for a Beginning Farmer Bond?

You probably do if your net worth is less than $250,000, the farm will be your primary livelihood, and you have adequate training and experience in the type of farming for which the loan will be used.

If you previously owned farmland, you may still qualify. Check with WHEDA or your lender for details.

What are the terms?

Your interest rate will be below prevailing market rates. Your maximum loan is $250,000. Loan terms and credit decisions are negotiated between you and your lender, and approved by WHEDA. Beginner Farmer Bonds can be used with other loan programs.

Can I purchase assets from a family member?

Yes. The law has been changed to allow Beginning Farmer Bonds to be used for transactions between related persons.

Growing Wisconsin Growing Wisconsin Growing Wisconsin Growing Wisconsin

Organizations and Agencies

Organizations:

- Wisconsin Agribusiness Council
- Wisconsin Agri-Services Association
- Wisconsin Aquaculture Association
- Wisconsin Association of Meat Processors
- Wisconsin Bankers Association
- Wisconsin Cattlemen's Association
- Community Bankers of Wisconsin
- Wisconsin Egg Producers Association
- Equity Cooperative Livestock Sales Association
- Wisconsin Farm Bureau Federation
- Wisconsin Farm Credit System
- Wisconsin Farmers Union
- Wisconsin Federation of Cooperatives
- Wisconsin National Farmers Organization
- Wisconsin Pork Producers Association
- Professional Dairy Producers of Wisconsin
- Wisconsin Sheep Breeders Cooperative
- Wisconsin State Grange
- Wisconsin State Horse Council
- Wisconsin Turkey Federation
- Wisconsin Veal Growers Association
- Wisconsin Veterinary Medical Association
- Wisconsin Women for Agriculture

Agencies:

- Wisconsin Department of Agriculture, Trade, and Consumer Protection
- Wisconsin Department of Commerce
- Wisconsin Department of Natural Resources
- University of Wisconsin - CALS - Extension

Developed by the:

Consortium of Animal Agriculture Resource Development

Wisconsin Department of Agriculture Trade & Consumer Protection

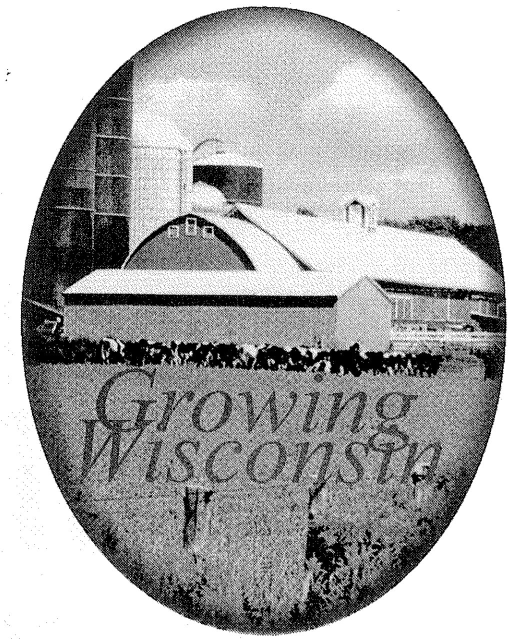
Wisconsin Department of Commerce

Wisconsin Department of Natural Resources

University of Wisconsin - Madison

SO-0111

One-Stop Shop *for farmers*



Information *and* Resources *for* Livestock Producers *and* Agricultural Consultants

http://badger.state.wi.us/agencies/datcp/

One-Stop Shop for farmers ... the business map to growing your livestock operation.

An index of links, information and resources designed to help livestock producers improve their operations.

Your Online Guide to Success!

Need help navigating the maze of local, state and federal regulations governing livestock operations?

The One-Stop Shop provides information on key government contacts, legal requirements, and questions to ask the experts.

Livestock Business Development Checklist

✔ Farm Business Planning

is the place to start. The One-Stop Shop for farmers provides links to assistance with:

- business and marketing plans
- financial plans and assistance
- enterprise and partial budgets
- risk management
- estate planning
- real estate and business loans
- beginning farmer loans
- loan guarantees
- cost sharing programs

✔ Land Use Regulation & Zoning

can vary from township to township. The One-Stop Shop provides you with a click-and-go county map, showing the office and phone numbers of town and county officials in every county in the state. Also included is info on:

- town and county zoning
- exclusive agricultural zoning
- county regulations

✔ Building Permits

are required to build or improve a facility. The One-Stop Shop will show you where to get information on the permit requirements in your area.

✔ Nutrient & Manure Management

plans are required by most government units for operations over 1,000 AU or with unique problems. Nearly half of the state's counties also have in place manure storage facility requirements. The One-Stop Shop will link you to:

- water and odor quality programs
- crop nutrient needs
- cost sharing programs

✔ Animal Health Regulations & Biosecurity

points you to local and state experts on:

- intrastate and interstate regulations
- national import requirements
- disease control programs
- animal movement and certification
- biosecurity and quarantine

✔ Licensing & Marketing Permits

may be necessary to start up, grow or change your operation. Check the click-and-go interactive county map for contacts, or get a phone number for the state experts.

✔ Farm & Business Risk Management Resources

show operators how to control and share the risk of farming. Links to information on liability, fire, theft, causality, life, storm and crop insurance, plus:

- USDA Farm Service Agency
- Wisconsin Farm Service Agency
- Wisconsin Banking Association
- State Commissioner of Insurance
- Emergency Assistance Programs

✔ Alternative Livestock Production Systems

may help you reach your family's goals. The One-Stop Shop helps you develop your business mission, goals, and objectives, and links you to information on the 80 or more different production systems that work for Wisconsin farmers, including beef cattle, dairy, horses, sheep, swine, poultry, and newer species including bison, red and fallow deer, ostrich and emus.

The Livestock Business Development Checklist is accessible by computer on the home page of the Department of Agriculture, Trade & Consumer Protection

http://badger.state.wi.us/agencies/datcp/

Pig Farmers in Crisis As Hog Prices Collapse

By DAVID BARBOZA

MARSHALLTOWN, Iowa, Dec. 8 — It is just after 7 A.M., and Rex Hoppes is shuttling a herd of squealing pigs out of a long gooseneck trailer and onto the loading dock at a bustling meat-packing plant here.

On this cool wintry morning, Mr. Hoppes, a 34-year-old fifth-generation farmer, has just driven an hour and a half northeast of his farm near Des Moines to bring 22 plump hogs to the market. But as he watches a steady stream of giant 18-wheelers pull in to unload thousands of additional hogs, he begins to sour. The price he will get for his hogs is about as welcome as the frost that has painted the surrounding fields a snowy white.

"In my wildest dreams, I wouldn't have believed we could have gone this low," Mr. Hoppes said. "This is the lowest I've ever sold hogs, and I hope I never see these levels again."

A year ago, Mr. Hoppes was selling pigs or hogs — the terms are used interchangeably in the industry — for $46 every hundred pounds, or about $118 for a 250-pound hog; the price this morning: $17 every hundred pounds or $45 a pig.

Not since 1971 has the market for hogs slipped so low, and economists say that with inflation factored in, hog prices stand at their lowest level since the Depression.

The causes of the crisis are simple, and yet devastating to thousands of people who have staked their lives on hogs. After years of spectacular growth and soaring demand for pork products around the globe, the nation's hog farms — many of which are now huge corporate operations — produced the equivalent of a bumper crop of pigs, a supply so huge and unwieldy that slaughterhouses this fall are overflowing.

As a result, meat packers are no longer bidding up the prices of hogs, and farmers — who have plowed great sums into new hog operations — are facing devastating losses and the prospect of financial ruin.

"This is the most stressful time for a hog producer that I have ever seen, and I have been on the scene for 50 years," said Glenn Grimes, an emeritus professor of agricultural economics at the University of Missouri at Columbia. "This is going to break an awful lot of farmers."

Though the economy in this part of the country remains strong, with unemployment at just 2.6 percent in Iowa, farmers throughout the Midwest are beset with problems. Slowing demand from Asia and large stores of grain have sent corn and soybean prices down 20 percent from a year ago. Meanwhile, the sense of crisis in the hog industry — a powerful engine of the nation's farm economy — is so sharp that the National Pork Producers Council has asked meat packers to further stretch their capacity, and the National Farmers Union has petitioned Congress to hold hearings to "investigate the devastating plunge in hog prices."

Here in Iowa — where swine are king and where the state elects a "pork queen" each winter — farmers are beginning to talk of shooting pigs that are too costly to feed and too undervalued to sell.

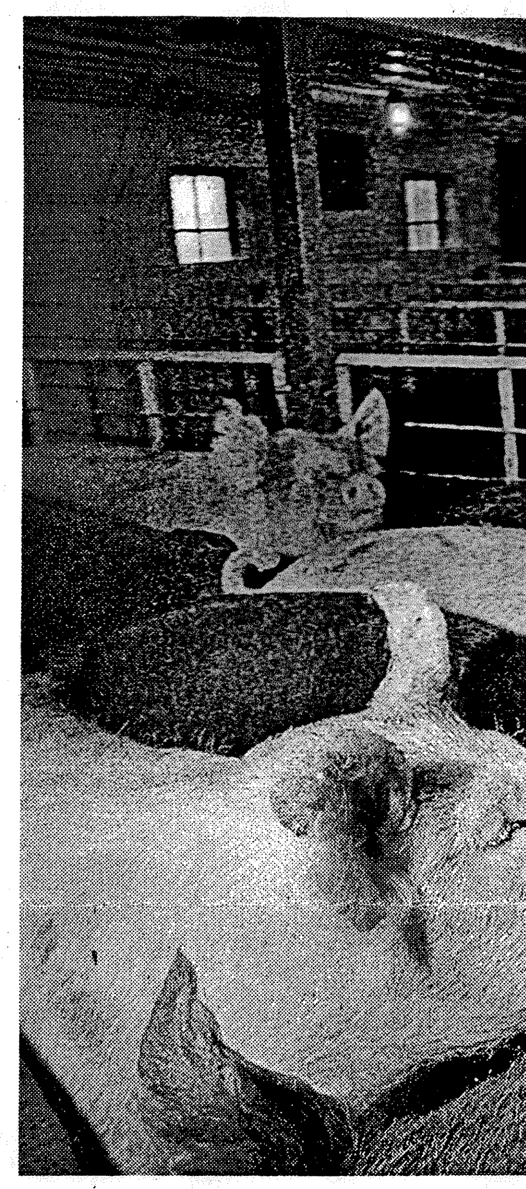
Around here hogs were once known as "mortgage lifters," and it was almost a cliché to hear farmers call hog stink the "smell of money." But the nation's leading hog state, where more than $12 billion a year in revenues and 94,000 jobs are at stake, is making a reassessment.

Many people in the hog industry are wondering whether smaller farms are doomed. Government officials are rushing to the aid of farmers. The newly elected Secretary of Agriculture in Iowa is commissioning a blue-ribbon panel; the State Attorney General is conducting an investigation into whether hog farmers are being cheated, and outgoing Gov. Terry E. Branstad is honking the horn for Federal assistance.

"In the early 60's I was raising and selling hogs for the prices they are right now," Governor Branstad said in an interview. "It's pretty bleak. I bought a Ford convertible in 1963 for $1,725, so you can see what happened to automobiles and what happened to hog prices. I'd like to see pork go to the Food for Peace program."

The steep decline in hog prices has not yet reached the nation's consumers, who continue to pay an average of about $2.20 a pound for pork, about the same as a year ago, according to the United States Department of Agriculture. Indeed, economists say that the spread between the price hog farmers get when they sell to meat packers and the price of pork at the supermarket counter is at or near a historic high. A pig that garners $45 for Mr. Hoppes yields as much as $331 worth of pork at the supermarket, economists say.

That is because retailers are reluctant to slash prices (partly out of fear that a future increase might be more disturbing to consumers). But they are offering more discounts.



Rex Hoppes feeding his pigs on his 160-acre
they did last year — has forced him to take

"We're moving product," said Paul Bernish, a spokesman at Kroger Company, one of the nation's largest supermarket chains. "But if your question is why haven't our prices come down, that doesn't generally happen. They don't go up when hog prices are up and go down when hog prices are down."

Farmers who are losing $50 to $75 for every pig are not pleased about the enormous profit imbalance. Nor are they optimistic about the future.

"I've farmed for 20-something years," said Craig Hill, a tall, lean middle-aged farmer in Sandyville, Iowa, who sent 230 hogs to the market this morning at a loss of more than $14,000. "I've had droughts, I've had interest rates at 18 percent, I've had all sorts of calamities. But these prices make me wonder whether I can stay in this business."

There is a sense among some farmers that something bigger is amiss; the National Farmers Union thinks that the advent of large corpo-

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rate hog farms is squeezing smaller pig farmers out, and many find it disturbing that meat packers and retailers are ringing up huge profits while producers face collapse.

Hog production is up a record 10 percent this year, and since late October, more than two million hogs a week have entered the nation's slaughterhouses. And with plants at or near capacity, meat packers no longer have to bid up prices.

To deal with the overflow, meat packers are lengthening their hours. But expanding operations means hiring and training new workers in one of the tightest job markets in decades. And packers have just so much cold storage in an industry whose motto has long been "sell it or smell it."

"We're already operating as close to 100 percent as possible," said Gary Mickelson, a spokesman at IBP Inc. in Dakota City, Neb., one of the nation's largest packing plant operators. "And yes, there's no question we're making money. But ultimately, it's the law of supply and demand. Pork processing margins in '96 and '97 were poor and that forced packers to close plants."

And so farmers, who must sell their hogs about six months after weaning or risk producing a flabbier, less desirable hog, have little choice but to sell at a loss.

"Producers have an unstorable commodity and therefore no bargaining power," Steve Meyer, an economist at the National Pork Producers Council in Des Moines, said over lunch as he and two colleagues washed down pork tenderloin and a grilled pork loin sandwich. "Right now, all the power's with the buyers."

Those within the industry, however, concede that they simply overproduced. Huge investments in new facilities, temperature-controlled rooms and sophisticated breeding techniques created a boom in the number of pigs produced and sent to market. The system has worked so well that even though the number of hog operators has steadily declined, to 138,000 today from three million in the 1950's, the industry will produce a record 19 billions pounds of pork this year.

Now, there is talk about liquidations. But Mr. Meyer at the pork council says that "cutbacks now won't show up until the fourth quarter of '99."

As for Mr. Hoppes, who has pulled $40,000 out of a retirement account to keep going, prospects are gloomy. Hog farming has been a lifelong dream; he began showing hogs at the county fair as a 9-year-old. But pulling out of the packing plant in Marshalltown, the boyish, blond Mr. Hoppes says that when he is thinking about his wife, Joyce, and his two boys, 4-year-old Reid and 2-year-old Grant, one question keeps playing in his mind: "Why am I sticking my neck out so far for this dying dream?"

Low prices make hog debate moot

CT 12-10-98

By Margery Beck

Associated Press

OMAHA, Neb. — The David-and-Goliath debate between giant hog facilities and small, independent operations may be a waste of energy — at least as long as producers are losing $25 to $30 a hog, producers and analysts say.

"When prices are this low, no one is thinking about expansion," said Gale Schafer, agriculture operations manager for Sand Livestock Systems Inc. of Columbus.

Though Sand Livestock intends to complete projects already under way in western Nebraska, other plans for expansion have been put on hold.

"I think all of us in the business are reassessing those plans," Schafer said. "There (aren't) really a lot of domestic projects that are too attractive to us at this time. This has been devastating."

Nancy Thompson, an analyst with the Center for Rural Affairs in Walthill, said several large operations nationwide have announced plans to halt expansions that have fired controversy in the industry in recent years.

Smaller pork producers, she added, are predicted to leave the industry in droves.

"I think it's affecting everybody," Thompson said. "But I would say it's affecting the smaller producers more heavily than the larger ones, because they don't have the deep pockets that will allow them to hold out as long."

If pork prices do not rebound soon, 20 to 25 percent of producers will go out of business in six months, Thompson said, citing national reports.

Jim Pillen, part owner of Progressive Swine Technologies of Columbus with facilities in a six-county region, also said expansion plans within the industry will not materialize if the market stays where it is.

"I guess I would say that for any size facility, when you go through something like this, it's like getting cancer — it doesn't discriminate," Pillen said. "It affects any size producer. The only producers that are going to survive are the most efficient producers."

But Pillen does not agree with predictions that many farmers — even the smaller ones — will be leaving the industry voluntarily.

"Nobody's going to be excited to get out of the business," he said. "Everybody that's in the business is there because they feel they can compete. The only reason they'll get out is if they're forced to — because there's no more money to pay the bills."

Steve Cady of Hickman, the new director of the Nebraska Pork Producers Association, argues that the forced exodus already has begun.

"Yes, there are a lot of them getting out," Cady said.

BUSINESS

By Betsy Freese, Livestock Editor

What a nightmare! Cash hogs are $18 as I write. If this isn't the bottom of the market, then hogs will be free. I never thought I'd miss the days of $30 hogs, but that day is here.

Since releasing the 1998 Pork Powerhouses® sow numbers [October, page 19], I'm often asked, "How long will this market stay unprofitable?" I've gone back over my numbers to see how many sows went into the breeding herd within the past six months, meaning their pigs haven't come to market. I find 145,000 gilts being bred this summer by the largest producers. Murphy Family Farms alone has 40,000 sows that haven't sent any pigs to slaughter yet.

This means market hog prices could stay unprofitable for quite a few more months, unless we get massive liquidation.

Seeing some liquidation

Carroll's Foods in North Carolina sent 10,000 pregnant sows to market this fall – there was no finishing space for the pigs and no profit in selling them. Other producers in the Southeast are dropping contract sow farms. "By next year, we will have 8,000 fewer sows," says one North Carolina producer. "We are getting rid of some inefficient units."

"We are seeing depopulation among folks with 600 to 3,000 sows," reports another producer. "They are closing down the oldest parts of their units."

The Midwest is not immune. One 1,600-sow unit has liquidated and another 3,000-sow farm is just about out of money. Another 400 and an 800 are depopulating now, along with three 200-sow farms.

It's a buyer's market

Two 10,000-sow units in Minnesota may change owners this winter, with a couple thousand of those sows heading to market. Any diseased units will be cleaned out and sit empty until the market improves.

A big unit in Colorado has given up and is shipping sows to market, I hear. The prospects for large-scale production in Colorado dimmed on November 3, when voters approved an amendment requiring strict environmental regulations for large hog farms.

When will this nightmare end? It may take months – 145,000 new sows haven't sent pigs to slaughter yet.

Betsy Freese

Keep your eyes on the biggest players in the industry, especially the packers and grain traders. I hear one packer is in the process of buying a 20,000-sow producer right now. Speculation is that another packer will buy one of the largest producers by the time we emerge from this black hole. I'm told the players involved in this deal will shock me. Wrong. Nothing would shock me about this industry anymore.

The highly leveraged hog companies have hung in there longer than some people expected this fall. Cheap feed and good marketing contracts have helped a few. One large producer reports he hedged all his hogs in November and December of 1997 for $44. He's hedged at that profitable price all the way through April 1999. "We weren't smart," he says. "We just figured we couldn't stand to lose any more."

We've learned something

Another producer says he's learned something about borrowing money. "If I borrow $10 from you, it's my responsibility to pay you back. But if I borrow $100 million from you, it's your job to find out how to get it back from me."

Last week, I drove by a $2 million home under construction in a gated community outside Des Moines. The house is being built by the CEO of one of the Pork Powerhouses®. It's not uncommon for company executives to build mansions, but the timing of this one is a bit hard to stomach.

I'm not going to forecast prices, but I'll tell you what I heard yesterday from one of the largest producers: "People who wish us ill are going to be disappointed. But the next six months will be rough. It's going to be very dark by April." SF

BUSINESS Highlights

File-Hogs
ARBY

The Contract Collapse

Plummeting hog prices create legal nightmares

Most farmers who sign contracts think of them as written in stone. After this year's market collapse, many hog farmers may now think they were sealed in blood.

Both ledger and weaned pig contracts experienced chaos in 1998. Many farmers who had signed producer-to-producer segregated early weaning (SEW) contracts learned they were worth little more than the paper they were written on. And finishers who did honor contracts were bound to lose money.

IOUs gone bad. Perhaps worse, farmers who had ledger contracts, also known as cash flow contracts, learned they could end this marketing cycle owing their packer so much money their whole operation was at risk. A 500-sow farrow-to-finish operation with a $43 payment ledger contract could wrack up $600,000 in annual debt to their processor, says Paul Strandberg, who handles contracts for the Minnesota Attorney General's Office.

"Ledger contracts could be as bad for producers as hedged-to-arrive," says Steve Reno, contract attorney with the Iowa Attorney General's Office. Here's why: Although they vary, ledger contracts are structured to provide packers with an established market price and farmers with an even cash-flow. In most cases, the contracts offered producers somewhere around $40 per cwt. for the life of a contract, often five to seven years.

If prices go above $40, as they have in years past, the processor or buyer merely puts that money in an escrow account and the producer-seller continues to receive $40. If prices fall below the contract rate, the difference is debited from the escrow account. Or, should the debit eat up the account, the farmer could find himself in a negative cash position to the processor. If farmers are in a debit situation at the end of the contract, many contracts give them the option to renew.

"What no one counted on was a 27-year low in hog prices," says Reno. The end result was that some producers were wracking up hundreds of thousands of dollars in debts to their processors—and farmers worried that processors would close their doors rather than continue to pay.

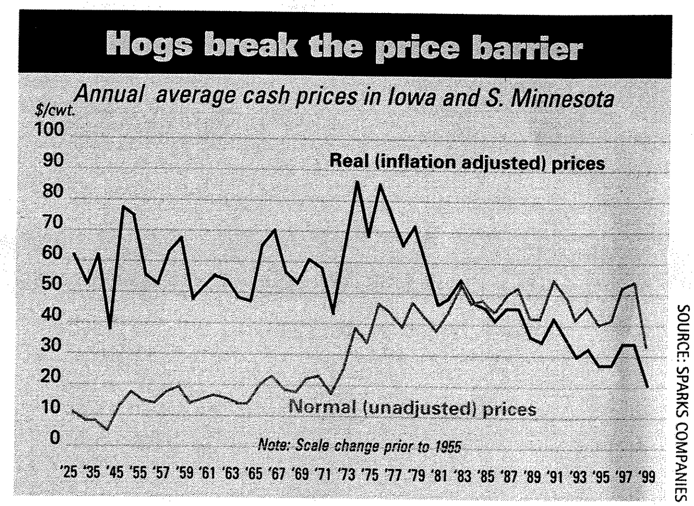
If plants close, or change ownership this winter, some contracts automatically terminate, allowing processors to demand immediate payment instead of carrying the contract to term, warns Reno. "We have heard stories where producers simply won't be able to pay back the money," he adds. Farmers with ledger contracts had best see a lawyer—some of the contracts allow the packer to demand payment, some don't, he says.

SEW contracts, which tend to be producer-to-producer, also collapsed. Often buyers backed out of contracts for SEW pigs, valued in recent years for $30 to $35. Prices soon plummeted to as low as $4 to $7 a pig in Iowa and Illinois.

If there are lessons from the contract crunch of 1998, it may be that there is no ironclad security. Contracts do give producers and their lenders the sense of price security, "but realistically no one should be surprised that people don't want to perform on contracts in this environment," notes Neil Hamilton, director of the Drake University Agricultural Law Center, Des Moines, Iowa.

Flexibility may be necessary. "There are often unforeseen circumstances. If people buying hogs have a loan, their lender might have cut them off," Hamilton says.

In the end, the choice may come down to renegotiation or litigation. "It may be cheaper to try to patch interim deals together that reflect the new market reality," says Hamilton. "Otherwise you face a long legal action that could cost you $40 a hog." ■



Prices in 1998 will be remembered as the cheapest U.S. hog prices in more than 70 years, once adjusted for inflation. Unadjusted prices were the lowest since 1972.

By Laura Sands

Hog File APRS

Locked in Limbo

State mandates put ag on hold

Anti-corporate farm initiatives approved by voters in South Dakota and Colorado last November are creating economic havoc, business leaders and economists say.

In South Dakota, voters approved a constitutional amendment tightening corporate farming bans. The law "has implications reaching far beyond the large hog integrators targeted by Amendment E's proponents," warns Denny Everson, a vice president with First Dakota National Bank in Yankton, S.D., and chairman of the American Bankers Association Agricultural Committee. "It's a poorly written constitutional amendment designed to block Tyson or Murphy Farms from moving into the state," Everson says. "But the provisions are so broad, they'll drastically affect the rights of family farmers."

The new South Dakota law clearly prohibits non-family corporations and syndicates from contracting livestock more than two weeks ahead of slaughter. "That will prohibit a family-run cow-calf operation from forward contracting with a corporate feeder," says Everson. "In an era when risk management is more important than ever, we've done a great disservice to the state's producers."

The rules also effectively outlaw the use of limited liability companies (LLC), a business structure that many independent family farmers had used to compete with corporate integrators. "In the last 13 months, our bank alone financed four hog units, totaling 9,600 head of sows," says Everson. "Those units were owned by 60 farmers and 17 investors. The 200,000 pigs they produced should eat 10 bu. of corn per pig. You can do the math and see the impact of what losing a 2-million-bushel market for local corn means to grain producers, but these are the kinds of arrangements that will be illegal in the future."

Bye-bye markets. South Dakota's inhospitable business climate and a 38% drop in hog numbers since 1992 discouraged a packing plant from locating there last year, says National Pork Producers Council executive Al Tank. "That's kill capacity the industry desperately needed today to handle record-level slaughter," Tank says.

Action by voters in Colorado poses an even more ominous trend for U.S. agriculture, Tank says. Voters approved a statewide initiative imposing rules on waste handling, groundwater monitoring, financial assurance and odor control for farms with more than 800,000 lb. live weight. Starting in July, covers will be required for anaerobic lagoons. One-mile setbacks for waste application and manure storage structures are also imposed.

"The hog initiative is a lose-lose situation for livestock and crop producers," says Jim Geist, a pork producer and the executive of the Colorado Corn Growers. The pork industry purchases 11% of the state's corn crop, and other livestock consumes the balance, he says. "There is no other use for corn in this state if livestock is chased out," Geist says. But that is a very real concern since the state legislature is expected to consider similar regulations for other confinement animals in the next session.

With pork prices at 27-year lows, "I wouldn't be surprised if some of these hog guys just walked away from their investments," says Geist. "Even with $30 market hogs, you can't justify the investment" Colorado demands. One farm estimates it will spend $10 million to cover about 8 million square feet of lagoon surface.

State attempts to outlaw corporate structures in agriculture are fighting a powerful economic trend, cautions Mark Drabenstott, an economist with the Kansas City Federal Reserve. Technology knows no boundaries and can easily skip to the state or country where investments are welcome, he says. Manitoba, Canada, for example, is the fastest-growing pork region in the world.

"Farmers in those states that adopt a tough approach [to livestock regulation] may wonder if they can stay in business for the long haul," Drabenstott says. "States are closing the door on one important part of agriculture's future."

Neil Harl, an Iowa State University ag law expert, agrees. Ad hoc environmental or anti-corporate farming rules just create pressure for producers to leave states for greener pastures, says Harl. "I don't think South Dakota offers any special economic attraction over other states," he says, so the net impact is that South Dakota could lose out on economic development. ■

By Marcia Zarley Taylor

Time to step up

■ One of the main causes behind today's headlines about falling commodity prices, crumbling stock markets and currency devaluation in other countries lies close to home. The U.S. has abandoned the fight in expanding world trade. And in doing so, it could send global capitalism, which has allowed the economies of many developing countries to flourish, into retreat.

While the U.S. weighs the merits of the North American Free Trade Agreement (NAFTA), our competitors are negotiating trade agreements that provide preferential treatment against our products. In short, their governments have fast-track negotiating authority.

The world economy today is stronger because the U.S. historically plays a forceful role in trade talks. We led the way in negotiating and signing the General Agreement on Trade and Tariffs (GATT), followed by NAFTA. As a result, millions of high-paying jobs have been created worldwide. Many impoverished economies that required food aid during the past three decades are now cash buyers of agricultural products. Farm product prices are higher than they would have been otherwise, resulting in more income for farmers and more investment in America's heartland. However, not every sector or region of agriculture benefited from this trade boom. Some aspects of our existing agreements have fallen short of expectations. To fix these problems, we must continue to negotiate in good faith.

As I see it, we have only one option—the United States must resume its leadership role in global trade. We must reinvigorate a strong global trade policy that opens markets and promotes the economic development of our international customers, thus strengthening our own economy.

Later this fall, Congress will debate two critical pieces of legislation in this regard. First is the replenishment of the International Monetary Fund (IMF), which provides stability and credit to countries at no cost to the U.S. taxpayer. Second is the passage of fast-track negotiating authority.

These two measures will fortify our nation's commitment to world prosperity through a free-market system. The more comprehensive our trade policy, the greater the potential for individual Americans and businesses to thrive internationally.

With this in mind, Congress and the administration chose to continue normal trade relations with China.

By being a reliable, consistent and competitive supplier to promising markets around the globe, we ensure that U.S. industry will continue to hold sway in the future.

For the world economy to be healthy, countries must also have sound fiscal and monetary policies. Countries that maintain these policies are better trading partners and more quickly improve their citizens' standard of living. This is why we must fund the IMF. One critical difference between the world economic depression of the 1930s and the situation we face today is that the IMF is there to stabilize the world economy in times of need. Without the necessary funding to this organization, Asian and Russian financial difficulties would linger and pass their ill effects to our own economy.

> ***"The U.S. has abandoned the fight in expanding world trade"***
>
> ***—Harry Cleburg***
> ***Farmland Industries***

We must also be mindful to see that American agricultural producers are not unduly burdened when U.S. economic policy intersects with foreign policy. Many trade sanctions have hurt American agriculture largely because of the industry's exposure to international markets. However, a significant stride was made in June when Congress passed a temporary relief measure from mandatory sanctions on agricultural goods to India and Pakistan. This was a step in the right direction, but much work is still needed. While sanctions are an important foreign policy tool, they need to be reformed, goals need to be set, and eventually sanctions need to be removed. And most important, we should not deny people of poor and developing nations food and agricultural products for purely political reasons.

Finally, while these items are important for differentiating us as world leaders and expanding the global marketplace, they would be hollow victories without fast-track negotiating authority. Fast-track authority provides our negotiators legitimacy in current and future international trade talks. This authority is necessary as negotiations commence in 1999 at the World Trade Organization (WTO) and continue this fall in Miami for the Free Trade Areas of the Americas (FTAA).

The economic-well being of individual Americans, farmers and businesses is dependent upon a strong trade policy. Congress has the chance to underscore our nation's conviction to a free-market system that has spurred progress in many emerging nations, providing U.S. industry with long-term customers. Some Congressional members are poised to find refuge in protectionism, while others are forward-thinking and believe in America's ability to compete and win in the global marketplace.

On behalf of independent farm families, I urge Congress to trust in America's ability and pursue a strong trade policy this fall and in coming sessions.

—H.D. "Harry" Cleberg
President and
Chief Executive Officer
Farmland Industries Inc.

Editor's Note: *This Kansas City–based company is the largest farmer-owned cooperative in North America and one of the top 200 of Fortune 500 companies. In 1997, company sales of $9.1 billion encompassed all 50 states and 80 countries. When third-party sales of Farmland's venture businesses and the gross sales of its international grain marketing subsidiary are included, total sales exceeded $11.7 billion.*

With its half-million farmer-owners in the United States, Canada and Mexico, Farmland is a highly diversified company with major business lines in crop production products, livestock feeds, petroleum, grain processing and marketing, and the processing and marketing of pork and beef products.

Back to basics

■ As we tighten the belt and think about the prospects for a long siege of relatively low prices, some questions are crossing everyone's mind. Will expansion stop? Is there anybody still making money? Should I continue full speed with the growth plans I already have in place? Who is best prepared to weather a long period of relatively low prices?

If two producers have the same total costs of production, are both of them equally vulnerable to low prices? The role of fixed and variable costs sheds considerable light on these questions.

Remember your basic definitions: *Fixed costs* are any costs that the business incurs unrelated to the amount of output produced. If you build a building, you incur fixed costs—even if you never put a pig in it, you still have to pay for it. Some people think you can avoid fixed costs by keeping buildings to a minimum. This is true to a point, but the cost of a sow is also a fixed cost. Even if you never breed her, you will have to pay for her. Fixed costs do not change in a production period. Therefore, fixed costs are not reduced by slowing production or increased by ramping up throughput.

Variable costs are costs directly related to the level of output produced. If you increase output, variable costs increase. If you decrease output, variable costs decrease. If you stop production altogether, variable costs go to zero. Feed is a good example of variable costs.

Fixed costs plus variable costs equal total costs of production. In order to remain in business indefinitely you must cover all costs of production. For the time being, you can restructure debt, postpone the payment of debt or borrow more money, but if you never cover all the costs of production, sooner or later you will be forced to throw in the towel.

In the short run, there are three outcomes which are possible. The first is that you make enough income through sales to cover all expenses and perhaps more. In this case you are getting the signal to continue production.

The second case is that sales do not cover all costs. When you tally things up, sales cover all of the variable costs but do not quite cover total fixed costs. You pay the feed bill but may be coming up short for scheduled principal and interest payments. The amount of the loss is the portion of fixed costs you are unable to pay.

Economic theory demonstrates you will minimize losses by staying in production and working to reduce costs or ride out what is hopefully a temporary period of low prices or production. If you exit the business at this point, you will lose all of your fixed costs, and this is much greater than losing a portion of the fixed costs.

DENNIS DIPIETRE

Remember, if you quit the business, variable costs go to zero but fixed costs are not affected. This is called loss minimization strategy.

The shutdown point comes when you enter a sustained period where sales will not cover the variable costs of production. In this case, you will be better off to exit the business than to remain in production since you are losing an amount equal to all the fixed costs and some of the variable costs. By shutting down the business, you stop incurring variable costs and loss is limited to the fixed costs.

With Econ 101 behind us, consider the fact that the industry 20 years ago was characterized by large numbers of producers who had relatively low fixed costs. Most of the cost of production was tied up in feed, vet expenses, utilities and labor. Most people had little invested in buildings. Average costs of production were in the mid-$40s/cwt., and they were primarily variable costs. This helps explain why the industry developed a cyclical price pattern.

As prices for live hogs rose due to increases in demand (population growth, higher beef prices, etc.) producers would ramp up production and increase supply. This was relatively easily done since it primarily required only variable-cost investment. When supply began to exceed demand, prices would fall and then relatively quickly move below the variable costs of production for many producers. When this happened, they sold all of their production and their sow herd (maybe retaining a few gilts for the next year) and waited for prices to rise again.

Since fixed costs were relatively minimal, quitting business temporarily did not subject these producers to continuing fixed-cost burdens. This was the day of the "inners and outers".

Today, much of production is in confinement. The total cost of production has a much different mix of fixed and variable costs than a decade ago. As animals moved indoors, efficiency increased and variable costs were lowered. The trade-off gain in efficiency was used to finance confinement buildings. This shifted the mix of total costs toward a higher percentage of fixed costs. We observe many producers today with the same total costs but different fixed and variable cost structures.

Back to the question of two producers with same costs of production. Both have total costs of production of $42/cwt., but may have very different shutdown points. Remember, it depends on the mix of fixed and variable costs. The first producer has $32 in variable costs and $10 in fixed costs per cwt. produced. The second producer, with limited confinement and less efficiency, has $36 in variable costs and $6 in fixed costs per cwt. produced.

Which will go out of business first as prices fall? If prices fall to $34 and remain there for six months, the first producer will lose money but will lose less if he or she remains in production. The second producer will minimize losses by going out of business.

Is a low variable cost/high fixed cost mix in total costs of production always advantageous? The answer is: It depends! We will unpack some of these mysteries in the next few months. In the mean time, what is your vulnerability to low prices? Have you added up your variable costs lately? ◀

Dennis DiPietre is a University of Missouri agricultural economist and member of the Commercial Agriculture Program hog focus team. He consults with hog producers and their lenders on financial matters.

Narrow pass

■ As we enter a time of sustained low prices, it is easy to get frustrated and fearful regarding the future of the industry (and your part in it). Nearly everyone on the production side of the industry is losing net worth due to this sustained period of below-cost prices. As you think about strategies to pinch pennies and get your operation through the "narrow gate," it is probably best to revisit the basics of profitability.

First, for most producers this means concentrating on a few key costs. Even though all costs are paid in U.S. currency, not all costs are created equal. The cost of some items has a much bigger impact on profitability than others. As you might suspect, feed costs are the biggest concern since they are the greatest cost associated with pig production.

However, not every operation will have the same cost structure. Farrow-to-wean farms have a much different distribution of costs than farrow to-finish operations. The primary difference is how much of total cost is carried in any one item. Because weaned pigs are sold before they consume practically any feed, total feed costs as a percent of the cost of a pig marketed will be much less than for farrow-to-finish production.

Note in Tables 1 and 2, feed costs are currently about one-third of the total cost of producing a weaned pig. For the finished animal, feed makes up almost two-thirds of total cost.

This means other costs of production tend to be more important in the overall cost structure of weaned pig production. For instance, labor can approach 20% of the total cost of a weaned pig, whereas it tends to be only about half of that or about 11% for farrow-to-finish production. The cost of genetics also weighs in at a substantially heavier percent of total cost for the weaned pig producer compared to the farrow-to-finish operation.

Regardless of the percent, the most important costs of pig production tend to be captured in four or five key input costs. These are feed, labor, genetics, building costs (both depreciation and interest) and utilities. A good cost-control strategy will address these issues in order of importance. Take a look at your records and break out the costs of these items on your farm. With that information, develop a set of detailed strategies to control cost for each of the key items.

DENNIS DIPIETRE

Keep in mind the figures in the tables presume a reasonable level of total production. In each case, a 75th percentile level of production/breeding female is assumed. This is approximately 20 weaned pigs/breeding female for the farrow-to-finish case and about 21 weaned pigs/breeding herd female for the weaned-pig farm. Maintaining these levels helps keep average costs/pig marketed low. While some costs/unit of sales are not primarily affected by throughput (notably feed costs), almost every other cost is fixed. This means the more you produce, the less it costs per unit of production.

Previous articles have demonstrated that the long-run break-even level of output for a newly constructed farrow-to-wean farm is about 18 to 18.5 weaned pigs/breeding female. Since the farrow-to-wean farm cannot make up for lost opportunity in the nursery or finisher, the value must be there in numbers of weaned pigs produced.

For the 75th percentile farrow-to-finish farm, the long-run break-even number of pigs required/breeding female is closer to 16. For 90th percentile farms only 14.5 pigs/breeding female are required to break-even in the long run since more money is captured in the finishing phase to subsidize poor performance in the breeding herd.

Table 1. Farrow-to-weaned pig costs/pig marketed

Farrow-wean costs/pig	% Total cost
Feed	35.34
Labor (including benefits)	18.87
Net genetics cost	15.10
Building and equipment depreciation	8.85
Interest on long-term debt	6.02
Utilities	4.18
Building maintenance	2.18
Equipment maintenance	1.45
Line of credit interest	1.30
Insurance, taxes	1.09
All other costs (each item < 1% of total)	5.61

Table 2. Farrow-finish costs/pig marketed

Farrow-to-finish costs/pig	% Total cost
Feed	65.47
Labor (including benefits)	11.25
Building and equipment depreciation	6.19
Net genetics cost	4.99
Interest on term debt	4.51
Utilities	2.14
Taxes	1.86
Marketing, production transport	1.82
Insurance, taxes	1.30
All other costs (each item < 1% of total)	5.45

Paradoxically, in times of low prices, producers who are receiving a price for their output greater than feed costs should continue to produce as much as possible since this lowers the total loss. If prices received for output consistently fall below the cost of feed, it may be time to consider exiting the business.

We all know that costs are only half of the picture. Profits are determined by revenue minus costs. Total revenue is determined by the amount of output (salable throughput) times the price of output. An audit of issues affecting price can ensure you are covering the important bases in minimizing the impact of this protracted, low-profit period.

No doubt the future holds tremendous promise. Getting there will not be easy for most producers—not as easy as it was to reach the current level of weekly salughter. Unfortunately, this period of low prices is the only means a free economy has to allocate precious opportunities to 21st century producers. Plan to be there if you possibly can. We're pulling for you. ◀

Dennis DiPietre is a University of Missouri agricultural economist and member of the Commercial Agriculture Program hog focus team. He consults with hog producers and their lenders on financial matters.

Dealing with doomsday prices

■ Producers at the recent Purdue Swine Day are prepared for the worst. "We're in for pretty tough sledding," says Rob Mann of White Oak Farms, Cloverdale, Ind. "We may see a year of losses."

His thinking parallels that of Chris Hurt, Purdue University economist, who doesn't see this fall's chaotic hog market getting much better before next spring or summer.

White Oak Farms is an 850-sow farrow-finish operation and produces about 7,000 acres of crops. "We're fortunate to have pretty low grain prices to help minimize losses," Mann adds.

Expansion at White Oak Farms has included adopting new technology to reduce costs. This includes new wean-to-finish buildings in a two-site setting.

To make even better use of the new buildings, the Manns double-stock wean-to-finish pens until pigs weigh 60 lb. "This means a little more labor when we have to move half of them."

But after nearly a year with the new facilities, the family is happy with overall results. Records show a 3% death loss wean-to-finish and an 18.5¢ feed cost per pound of gain.

"We try to be least-cost producers, at least in the top third," Mann says. He plans to be around when pork prices turn around.

PHOTO BY THE AUTHOR

"We'll be there when this turns around," says Illinois producer Jon Hoek, as he plans for the future.

So does Jon Hoek of Belstra Milling Company, DeMotte, Ind., with a 4,500-sow PIC multiplier herd across the state line in Illinois.

"This, too, shall pass," says Hoek of the current hog market and previous cycles. He talks more in terms of the year 2000 for the return of profitability to most pork producers. His own business has "never been better," he says.

"We're selling a lot of gilts and semen right in the midst of low hog prices," Hoek reports. "That's a sign people still are excited about the hog business."

One customer is White Oak Farms.

Purdue'e Hurt calls the present hog cycle "much like what we've seen in the past" when there was about a one-year lag between the start of losses and the return to profitability.

He also said history suggests that prices like now "don't stay very long."

"Nobody can raise hogs at $26 and make money," Hurt says. "Producers respond to profits."

Profusion of pork

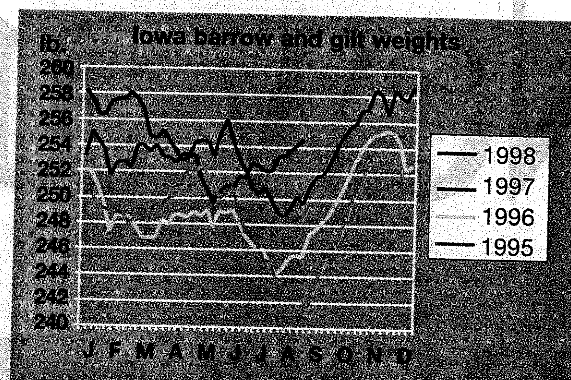
■ Consumers certainly can have their pick of pork cuts at the meat counter this month. Retail prices, however, remain high and are likely to keep robust pork sales at bay.

"We are awash in pork, and retailers are not lowering basic counter prices," says Dale Durchholz, Agrivisor Services, Inc., Bloomington, Ill. "October is National Pork Month, and consumers are paying too much for the product."

Retailers have not lowered consumer pork prices despite sharp wholesale and cash hog price declines this year, which has widened the price spread between the retail and wholesale markets to more than 300%, says Durchholz. Retail pork prices have been cut only 5% from a year ago, while cash hog prices are down 50%.

"Pork producers need to start a letter-writing campaign to major newspaper and magazine editors and tell them consumers are paying too much for pork," he says. "Consumers should know that hog and wholesale pork prices are low and that retail prices aren't dropping."

Retailers do not need to fear rising hog prices, either, says Joe Kropf, Kropf and Love Consulting Services, Bucyrus, Kan., who predicts pork should remain competitively priced through at least the second quarter of 1999.



SOURCE: MORGAN CONSULTING GROUP LTD.

Pork will be well positioned to capture counter space into 1999, adds Ron Gietz, Sparks Companies, Memphis, as total per capita meat supplies fall for the first time since the mid-1980s. Pork will command a nice share of the mix, as beef supplies decline next year and poultry production stalls.

The one exception: bacon. Pork belly prices are high in relation to cash hog prices, says Durchholz. Bacon is in demand by fast food chains and other institutions. "There are no bellies in frozen storage," he says. "We are eating them as we produce them."

On the other hand, stock market turmoil here and abroad has had little impact on pork sales. "Pork generally does well when the economy does not, even though retail prices are too high right now," says Durchholz. "If we could get meat counter prices down, I think it would be a boon for U.S. pork demand."

Pork prices are relatively cheap overseas, but whether customers will keep buying at the current pace is unknown. "The last time the Japanese stock market fell apart [early 1990s], Japan kept importing pork," says Durchholz. "It is possible that Russia may have been the last piece in this negative puzzle. People will realize that commodities are cheap."

Until that happens, Kropf believes pork exports will decline from levels posted in the first half of the year. "Russia can't be counted on, and we don't know what will happen in Japan," he says. "Mexico may continue to buy, but they are a smaller market."

Total pork exports were up about 32% during January-June, adds Kropf. "To maintain that level through the end of the year or even increase exports may be more than this market can do."

PRICE TRENDS:

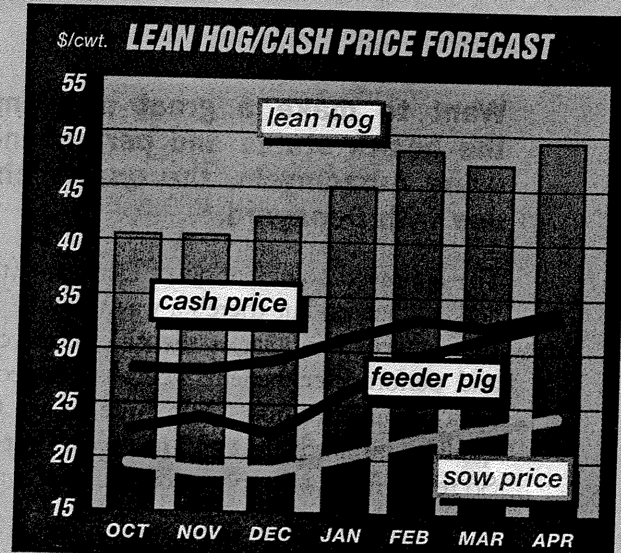
■ Cash hog prices are likely to remain depressed through the rest of the year, but how low they go will depend partly on weekly hog slaughter and packer margins.

Ron Gietz, Sparks Companies, Memphis, anticipates cash hog prices in the upper $20s, assuming a smaller-than-normal seasonal supply increase and reasonable Saturday slaughters. Anything more could keep prices in the low $20s.

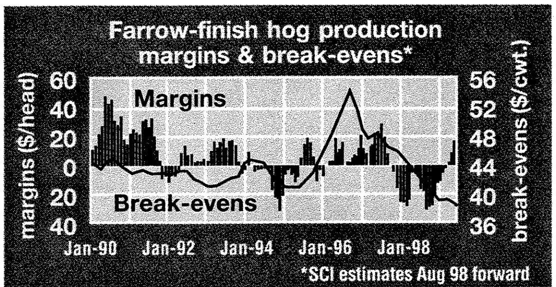
Tom Morgan, Morgan Consulting Group Ltd., Paola, Kan., also expects the seasonally larger pork supplies to push hog prices lower. "However, prices may decline less than usual," he says. "Market hog supplies were much larger than expected this summer, and indications are that supplies will increase less than usual this fall."

Morgan predicts prices will rebound modestly from the mid-$20s to the low $30s into the winter, although any move by retailers to lower pork prices or any surge in exports could further support the market.

Lower feeder pig prices are also expected this fall, although they will trend higher into 1999 with cheap feed.



SOURCE: MORGAN RESEARCH GROUP LTD.



SOURCE: SPARKS COMPANIES INC.

The urgency to find a home for the profusion of pork will only heighten. "We will see increasing slaughter into November and December," says Kropf.

Slaughter supplies could run more than 2 million head per week from mid-October through mid-December if seasonal patterns hold, says Gietz. But the impact of those kills will be determined by packers. Gietz figures Saturday kills may run 155,000 head in November, compared to 256,000 head on Saturdays in November 1994, when prices tanked.

"The flow of hogs will determine fall prices and the downside potential will almost all come from packer margins," he confirms. "Packers will need a cushion to get the job done."

Packer margins in November 1994 were about $18, compared to $9 in 1997.

Analysts are waiting to see if slaughter weights contribute to slaughter pressure. "Weights are down, which means less tonnage. Producers aren't going to feed any more than they have to," says Durchholz. "Packers are claiming there are not enough big hogs, so it may be an uphill struggle for weights to increase."

Conversely, Tom Morgan, Morgan Consulting Group Ltd., Paola, Kan., says seasonally adjusted Iowa barrow and gilt weights have begun to rise modestly, having increased to 254.6 lb. by the first of September. That's up 4.9 lb. from the week ending May 22.

Actual slaughter weights bottomed at 248.1 lb. during the weeks ending July 24 and Aug. 7, he says, and have now increased 1.1 lb. Morgan says the bottom came earlier than normal and was an increase of more than the average amount for this time of year.

"While weights were increasing on a seasonally adjusted basis, prices declined more than seasonally to their lowest levels in almost three decades," says Morgan. "It appears the increase in weights indicates that hog marketings were beginning to backlog due to the large supply of market-ready hogs."

Take cover. Cheap feed has likely not contributed much to recent slaughter weights. "Cheap feed is good news for producers, but it eventually means cheap meat," Kropf says. "Hog prices are not profitable right now, even with cheap feed factored in, so why feed more?"

Producers should take advantage of cheap corn and protein this fall by locking in costs. Durchholz expects a $5^1/_2$-year low in corn and a 24-month low in soybeans before prices head higher. John Lawrence, Iowa State University, agrees. "Lock in feedstuffs if you have the opportunity, for the coming year or longer," he says. "It's hard to drain the swamp when you're up to your arms in alligators, but you should consider it."

Cheap feed may only prolong the agony of the low point in the hog cycle. "Liquidation is starting to occur," says Lawrence. "Sow slaughter has begun to increase, and may result in a smaller breeding herd by December."

In the meantime, Durchholz expects a major $3^1/_2$-year low in the hog market, perhaps this fall. "It may not be rosy for a couple of years, but it will eventually get better," he says.

Before the clouds clear, Kropf anticipates the cash hog market to trade in the low to mid-$20s, depending on fourth-quarter supplies and slaughter.

"The lows will be in place by this month or in November," he says. "I don't think prices will fall as much as usual from the fourth quarter to the first. We are unlikely to move higher until December at the earliest."

Kropf pegs cash hog prices in the upper $20s to low $30s in the first quarter with more improvement in the second quarter. Prices may peak seasonally in June-July in the high $30s.

To get through the next few months of slim or zero profits, Lawrence suggests producers work with lenders to restructure debt and spread it out over a three-to-five-year period, if necessary. "If you had good years in 1996 and 1997, and you wanted to pay debt back in 1998, restructure it over a longer period of time," he advises.

"It's hard to find a bright spot in the market right now," he says. "This cycle might be different than the others, and we may not see $50 to 60 prices."

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From Pro Farmer:

■ When the June *Hogs and Pigs* report came out, stunning the market into another free fall, dire predictions were that the fourth quarter could see cash hog prices dip into the upper $20s before hitting another three-year cycle low. But we got to those levels before the third quarter was over. Forecasters began wondering if that meant fourth-quarter lows could hit the low-$20s!

With slaughter continuing to run heavier than expected, there are only two possible explanations: a lot of farrowing intentions have been short-circuited or USDA undercounted pigs in the lighter-weight categories in its June report. Bulls would like to think the first. But we've not heard of any increase in the gilt-to-barrow ratios at slaughter plants so it's more likely the latter.

Nonetheless, futures managed to stage a minor rally in early September, and sure enough, we saw a bit of recovery in cash prices. Maybe futures did such a good job of forecasting a fourth-quarter disaster that they scared producers into taking actions that will keep it from happening, and we just haven't detected that yet.

It also could be that we're just in the "eye of the hurricane" until traders evaluate the September *Hogs and Pigs* report. After all, you don't have to turn bullish to stop being bearish. And until the report, a lot of traders had probably just decided it was as risky to stay short with prices at 20-year lows as it would be to stay long if prices had reached 20-year highs.

Outlook Editor:
Barb Baylor Anderson

Cash crisis

Pork producers ask for help as low prices threaten industry's future

By Dean Houghton

America's pork producers were once the "free-est" of the free trade advocates. Open the borders, keep Uncle Sam out of our business and let the markets do their job was the rallying cry of pork producers over the past three decades.

Now that hog prices have hit a 43-year low, however, the rallying cry has changed to a cry for help. Pork producers want to restrain the flow of hogs from Canada, are asking for inquiry into marketing margins, and, in what would once have been considered heresy, asking for direct government aid.

The National Pork Producers Council (NPPC) has been agitating for help in slowing the movement of hogs from Canada. In its Nov. 20 letter to President Clinton, NPPC pointed out that Canada was slaughtering 50,000 less hogs per week than its current total weekly slaughter capacity, while sending about 60,000 hogs per week to the United States. Due to swine health regulations, the United States cannot send live hogs to Canada for slaughter.

Western Canada continues its build-up of pork for the expected opening of the Maple Leaf Pork plant in Winnipeg next summer. "Unless the world falls apart, the premise is still sound," says Larry Martin, ag economist at the University of Guelph, Ontario. "There is not a better place in the world to grow hogs than in western Canada." Manitoba hog farmers, however, claim to be losing $3 million per week following the hog market crash and have asked for government aid.

With hog prices at record lows, everyone from pork producers to the *New York Times* to Dan Rather has asked the question: Why haven't pork prices fallen at the grocery store?

A lack of packer capacity and high retail prices have delayed increases in pork consumption, says Purdue University Extension marketing specialist Chris Hurt. "Marketing margins have been extremely wide," he says. "My estimates for 1998 show that huge margins have negatively impacted producers and consumers by up to $4 billion."

Investigation of these margins "should be considered by USDA and public regulators," he says. "Why have retailers not lowered pork prices more this year to send consumers the clear signal that an abundant supply of pork awaited them at favorable prices?"

USDA's Economic Research Service confirmed that pork producers received a record low 21% of the consumer dollar in September. That's only about half of the 37% share that producers received on average since 1986.

Those figures prompted the National Farmers Organization (NFO) to ask for investigation into market margins. "The consumer is getting ripped off," says Merle Suntken, NFO livestock director. Iowa senator Charles Grassley said he would support such hearings into the farm-to-retail spread.

In protest of wide margins, Ron and Sharon Mohr of Baldwin, Iowa, gave away 38 hogs last month rather than sell them for less than $15/cwt. Their action received national attention and led to media coverage about wide price spreads from farm to retail.

With the cash crisis worsening, pork producers are beginning to demand government assistance. "Two things are similar between now and the start of the 1980s farm crisis," explains University of Missouri agricultural economist Ron Plain. "Financial problems facing pork producers are much worse than those facing crop producers, and government assistance is focused on crops, not livestock."

He points out that the recent omnibus budget bill provided billions in assistance for crop producers, "but not one dime for pork producers. There was even $200 million for dairy farmers, despite the fact that they have rarely enjoyed a more profitable year than this one," Plain says.

Michigan Rep. Fred Upton asked, in a letter to Agriculture Secretary Dan Glickman, for a comprehensive program to help pork producers. "If this situation is not immediately reversed, it will result in the failure of hundreds of pork producers in my district alone," he said.

The Iowa Farm Bureau Federation decided after much debate last month not to ask for government subsidies for hog farmers. The group did, however, approve resolutions calling for the government to do all it can to increase capacity of U.S. packers, authorize emergency disaster loans for livestock farmers and increase pork exports.

In its letter to President Clinton, the NPPC asked for similar measures, as well as increased government purchases of pork products. The NPPC also asked for the creation of an Economic Crisis Task Force to pool resources from federal government agencies to address the crisis.

"Losses are of such historic proportions," wrote pork producer and NPPC president Donna Reifschneider, "that if this dangerous situation is not reversed quickly, it will result in the failure of tens of thousands of pork producers and a massive restructuring of pork production in the United States." ◀

A producer's plea

Mark Schindler is an independent pork producer from Elgin, Neb., who was so fed up with low prices last month that he sent the following letter to Washington. "I haven't received any replies," he says. "Maybe no legislation is needed if Americans are content to have three car makers, three grain merchants and three livestock producers." His sentiments, however, reflect those of the dozens of pork producers who have called HOGS TODAY with similar concerns.

I don't really know where to begin or how to say what has been on my mind lately. I'm not political in the least and I've never written to anyone in government until now. But with the recent happenings in agriculture, I feel compelled.

After a two-year associate's degree in technical agriculture, I went to work for a 'mega' hog producer. I worked about five years and then went on with my goal to be an independent farmer and hog producer. I moved back to my hometown in 1988 and began renting hog facilities and producing feeder pigs, which I sold to my dad to finish out. It worked well, and soon I was expanding my herd and building barns of my own. I then began renting some farm ground. Soon after, a younger brother moved home and began doing the same things.

It has all been working pretty well for my dad, brother and myself. We share machinery costs in the farming operation and help each other out on the labor. The hogs have almost always made money and have allowed me to buy some farm ground.

This brings me to my point. Hogs currently are 18¢ to 20¢/lb. This price compares to about a dollar a bushel for corn. The hog and cattle producer is losing way more money than the grain producer, yet receives no government help. Why help one sector of agriculture and not the other?

I'm going to share some of my ideas about this dilemma. We need a farm bill to protect livestock producers from times like these. The bill needs to be written in a way to help the young independent producer. How about a $50,000 limit on deficiency payment for each hog producer? For example:

$40/cwt. target price – $20/cwt. current price = $20/cwt.

$20/cwt. × lb. pork sold = deficiency payment.

Payment cannot exceed $50,000 in one year.

You have to be cautious on who fits the definition of hog producer. Each megafarm counts as only one producer and thus receives the limit, and not a penny more. A mega hog producer doesn't take the risk all by himself, and therefore should not stand to gain as much by the aid payment. This would put us on a level playing field. Their payment would probably only amount to pennies per hog.

We have these low prices because of overproduction. The overproduction isn't coming from the family farm; it is coming from the mega hog farms with outside investment. The outside invested farms are more apt to use bankruptcy as a management tool, change a few names and keep on producing in the blink of an eye. The family farm producer is simply forced to sell out.

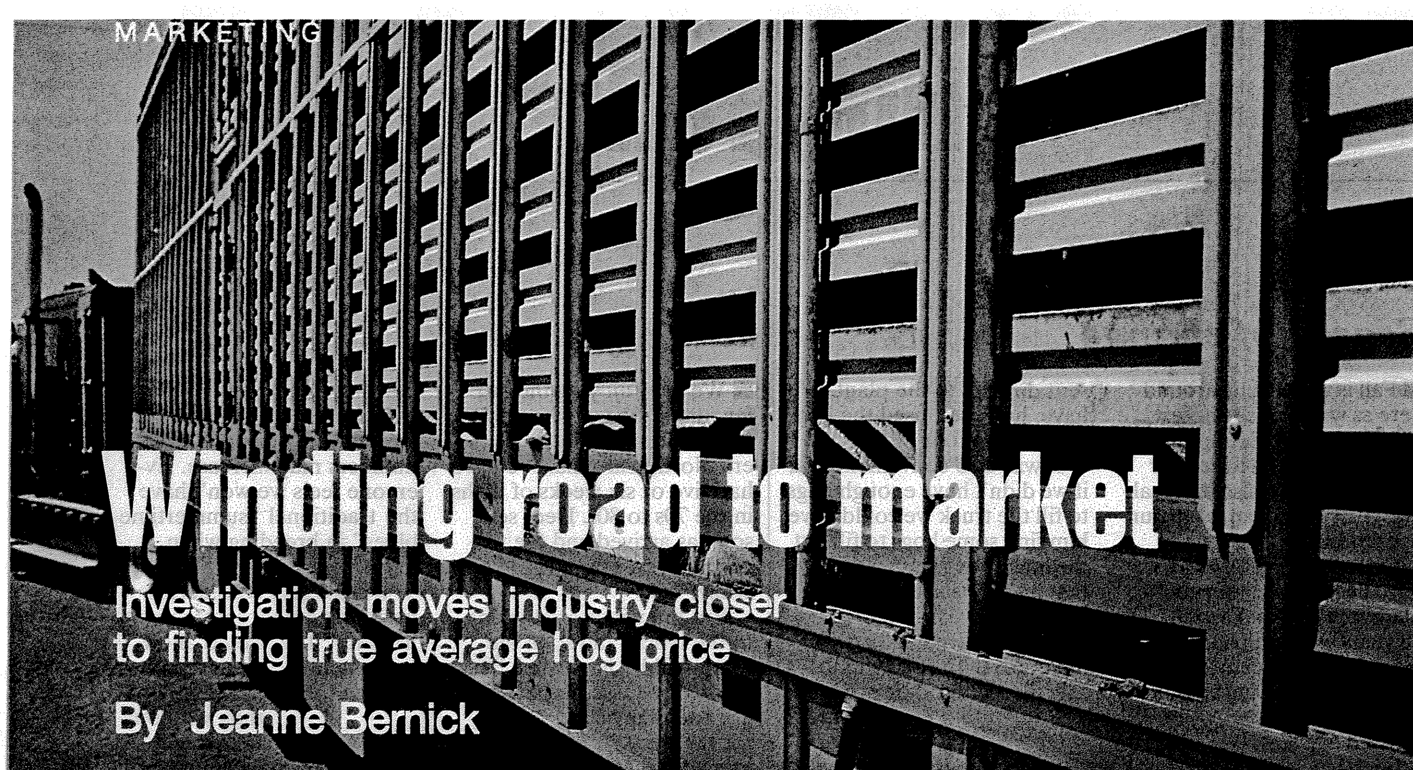
If a good bill could be written, it would solve a lot of problems. It would encourage independents to stay in the hog business and entice young producers to get started in agriculture.

Eventually it would solve the wars between rural communities and the mega hog farms. This bill would greatly help the family farm pork producer and would hardly help the outside invested mega farm. This could help some of the hogs get back into the family farmer's hands. Maybe if that happened, hogs wouldn't be so concentrated so heavily in one area, resulting in pollution problems.

I hope something can be done before it is too late. I don't know if any business should be controlled by just a few, and that is exactly what is happening. If we don't act now and make things a little less enticing for outside invested agriculture, we are going to lose the family farm.

If competition is limited, so is efficiency.

Hogs Today 01/99



Winding road to market

Investigation moves industry closer to finding true average hog price

By Jeanne Bernick

If information is the path to success, then producers who rely solely on reported prices for marketing their hogs are headed down a long, winding road.

An investigation into procurement practices for the Western Corn Belt found that prices reported are not the same as the actual transaction price paid for hogs, reports USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA). Spot market prices reported for the "base" hog are regularly $1 to $4 lower than prices actually being received by producers.

"This just made official what most of us already knew," says Ron Plain, pork industry economist at the University of Missouri. "Most people who sell hogs or study the market have figured out that the price being quoted daily is for an inferior hog."

In truth, the price reported is for a hog that doesn't even exist today, says Harold Davis, deputy administrator of USDA's Packers & Stockyards program. "The market is reporting a 47% to 49% lean base hog," Davis says. "That's the low end of what's out there today, and producers are getting paid more than the base hog reported.

"If you're a producer and don't understand that process, you may have less than good information for marketing your hogs," Davis says.

The pork producer's cry for more price information helped launch the USDA investigation into Western Corn Belt hog procurement practices. Over a one-month period in January 1996, GIPSA officials gathered data on hogs from four firms and 12 packing plants in a geographic area including Iowa, southern Minnesota, eastern Nebraska and the southeastern corner of South Dakota.

Possibly the more important finding from the study is that there are significant differences in the prices large and small producers receive. According to the investigation, smaller producers tend to get less money, but also tend to have lower percent lean hogs and sell hogs on the spot market. Larger producers tend to get more money, but have higher percent lean hogs and generally sell hogs under some type of value-based marketing agreement.

> The price reported is for a hog that doesn't exist

"Based on what we see in this report, any type of value-based marketing brings a producer more money," Davis says. He believes the investigation proves the importance of marketing agreements.

But National Pork Producers Council economist Steve Meyer sees something more disturbing from the investigation: "The most disconcerting thing is that small producers don't have hogs that are anywhere good enough in terms of leanness," Meyer says. "It proves that leanness matters, and it's disconcerting that leanness is size-correlated."

Producers should know that USDA's market reports always have been accurate in what they report, Davis says. The problem is simply *what* has been reported—the wrong type of hog.

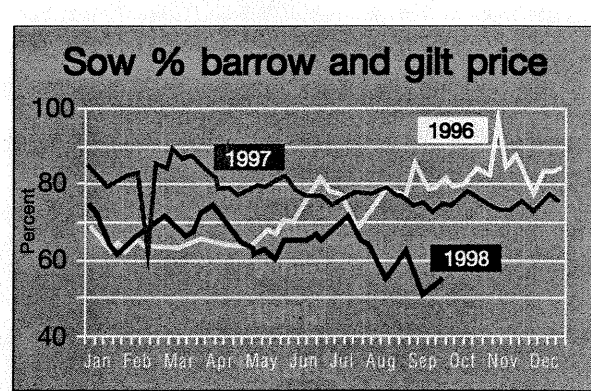
The current price reporting system does a very good job reporting day-to-day changes in the marketplace, Plain adds. "While you may not know the exact average price of hogs, you can see if hogs are up $1 or down 50¢, which is a great gauge," Plain says. "Besides, if they didn't report any price at all, then where would producers be?"

As a result of the investigation USDA's Agricultural Marketing Service is working to overhaul the entire price reporting process, says Michael Dunn, assistant secretary for USDA marketing and regulatory programs. New reports will be adjusted for a base hog that is closer to 51% to 52% lean, which is more representative of the type of hog being sold today. Revised base hog price reports are to begin in early November.

"This investigation of procurement and pricing practices in the heart of the nation's pork-producing region serves as a significant benchmark for continued monitoring of the hog market," Dunn says. "USDA is committed to providing transparency in public price reporting." GIPSA has opened an office in Des Moines, Iowa, to better focus on major pork industry issues.

For economists like Plain, the revised price reporting brings a few more headaches. "Now I'll have to make a conversion when comparing hog prices over time," Plain jokes. "The new reports will give producers a more accurate average to go on, but it makes life more difficult for me." ◀

Believe it or not?



SOURCE: MORGAN CONSULTING GROUP LTD.

■ Guessing where hog prices may be in six months is a little like taking a shot in the dark . . . and largely dependent on whether or not you believe USDA's most recent quarterly outlook.

"There is no middle ground in this report. Either you believe farrowing intentions and look for further herd growth and sub-$40 live hog prices for the next 15 months, or you look for continuation of the gradual pullback in the breeding herd, lower production and higher prices by next June," says Ron Gietz, Sparks Companies, Memphis.

Analysts don't put much faith in USDA's predictions for farrowing intentions to rise above year-ago levels, primarily because the statistic's track record is so poor. Gietz notes farrowing intentions often miss turns in the hog cycle. In addition, recent farrowings have fallen short of intentions.

"To follow through with intentions above year-ago levels, producers would have to add sows during one of the worst periods of losses in history," says Gietz, adding that the bearish tone was fueled by the September report. "Expansion during the last quarter occurred only in Oklahoma, Missouri and Minnesota."

Mike Zuzolo, Utterback Marketing Services, New Richmond, Ind., can make a case for adding sows to the herd but believes liquidation is more likely. "Large hog producers are either at a point of expansion, with the assumption that good times in the global economy will come back in 1999, or are considering liquidation with continued weak hog prices," he says. "We think the greater likelihood is for liquidation. We will not infer that expansion is going on until USDA tells us that in December."

Sow slaughter this fall may be the most accurate indicator. "We've seen some bigger slaughter weeks already, but we'll have to continue to watch," says Gietz.

Tom Morgan, Morgan Consulting Group Ltd., Paola, Kan., says sow culling rates have been below average, yet sow prices are low relative to market hogs. "This may indicate that demand for sow meat is down," he says.

Sow prices relative to barrow and gilt prices dropped to their second-lowest level ever, and the lowest since 1994 during a September, Morgan says. "Sow prices for the week ended Sept. 11 averaged 51.8% of barrow and gilt prices," he says. "The only time they were lower was the week ended Dec. 22, 1994, when they reached 51.2%."

The rate of gilt retention may also hold some clues to producer thinking. Gietz says producers surprisingly kept back more gilts during the June-August quarter vs. a year ago, which implies new gilts were added to the herd. But assuming market gloom persists, he says fewer gilts will be added during September-November vs. a year ago.

USDA's forecast for herd expansion is not the only factor weighing on the hog market. "We think it is extremely negative to see USDA's all hogs and pigs at 108% of September 1996 estimates and market hogs at 109%," says Zuzolo.

PRICE TRENDS:

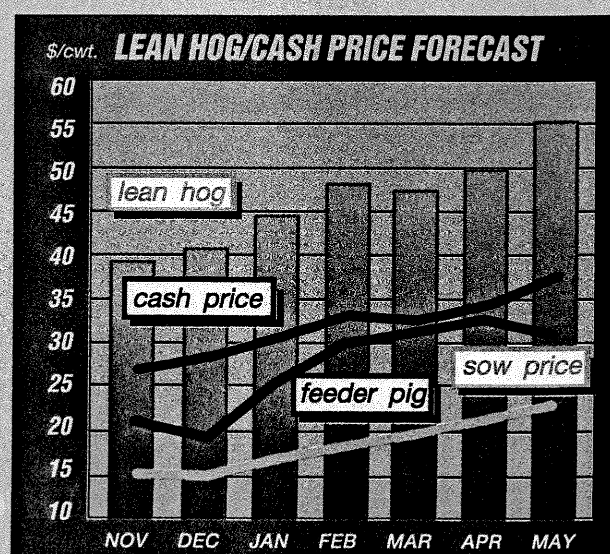
■ There's not much good news for hog producers, although cash prices could bottom this month, says Tom Morgan, Morgan Consulting Group Ltd., Paola, Kan. While Morgan says prices should advance into winter on seasonally declining pork production, he expects prices to remain low, given production above year-ago levels.

Jim Mintert, Kansas State University, says hog prices this fall could trade at the lowest level for any quarter since 1972, and the lowest fall average since 1971.

Ron Gietz, Sparks Companies, Memphis, agrees that cash hog prices are likely to remain in the $20s through year's end, but says the risk of prices trading in the $20-to-$25 range is less likely now.

"Packer margins won't go out that extra notch now because slaughter won't be as big as earlier expected," he says, pegging the fourth-quarter cash average at $29; the first quarter at $37. He assumes weekly slaughter at 1.9 to 1.95 million head.

Sow prices are expected to trend at discounts to barrow and gilt prices, says Morgan, but will be influenced by decisions on liquidation. Feeder pig prices will bottom in December, he adds, before gaining into 1999.



SOURCE: MORGAN RESEARCH GROUP LTD.

Weekly slaughter levels have been tracking above levels implied by USDA, which suggests the government may have underestimated the March-May pig crop, observes Gietz. He expects big slaughter to continue this fall, but with less of an increase than last fall.

"We will see more 2-million-head-per-week slaughter levels this fall, but we will peak in mid-November under 2.1 million," he predicts. "We could see a decline in slaughter from a year ago by late December or by Jan. 1."

Zuzolo is not ruling out some weeks of slaughter exceeding 2.1 million head. "The most disturbing and reliable data is that the 120-lb. and 180-lb. categories were both up 6% over last year, implying major league weekly slaughter for the next couple of months," he says.

One saving grace may be market weights, which are still below a year ago. Gietz suspects producers are staying current out of fear of even lower prices.

In order for the market to absorb all of this pork, Zuzolo says hog producers need the active demand seen in 1996/97. However, he doesn't foresee the global economy changing course quickly, especially if U.S. consumption slows.

"There is every indication that the Fed is telling us a domestic slowdown is imminent and, therefore, consumption here may have peaked and may slide as we close out the year," he explains.

Gietz expects a lift at the retail meat counter. The anticipated increase in fall pork production may be good news for consumption during the holidays. "Hams may fare better than usual against turkeys for the holidays," he says.

U.S. consumers could end up with more chicken at their disposal this fall than originally thought, though. "Increasing poultry supplies due to a decline in Russian purchases, may make up for decreasing beef supplies and very low belly supplies," says Zuzolo.

The virtual loss of the Russian market has also pressured pork trimmings prices. "Recent trimmings prices have been 50% to 60% below year-ago and are exhibiting the largest price declines of all pork products," notes Jim Mintert, Kansas State University. "Continued weakness among lower-valued pork cuts is expected this fall and winter, which will contribute to price declines."

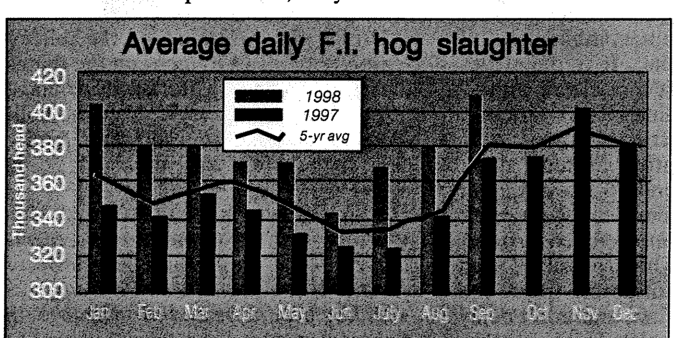
Fourth-quarter average cash prices may bottom in November, says Zuzolo. He pegs the November live average price at $25 and December at $29. "The weight breakdown in the *Hogs and Pigs* report is the primary reason for our bearish outlook," he says. "When I look at the December futures chart and see the contract low in September at $35.52, we can at least match that low during October-December if demand doesn't pick up."

Low prices don't offer hog producers much in the way of forward pricing opportunities or hope of higher prices, says Gietz. He recommends concentrating on lowering production costs by locking in input costs when appropriate.

Locking in low feed costs should not be difficult. Dan Zwicker, AgriVisor Services Inc., Bloomington, Ill., says upside price potential is limited the next several months. "Cash corn prices are near 10- or 11-year lows," says Zwicker. He suggests locking in six months of feed in the bin or on paper and maintaining that supply.

"Worldwide corn inventory is not excessive, which means that the door is open for price gains," he warns. "Dollar weakness now should keep U.S. commodities competitively priced in world markets and the export pace may pick up."

Zwicker expects $2.50 on the lead corn futures contract before spring, barring a weather event, and $6 soybean futures, depending on South American production and weekly export sales.



SOURCE: USDA AND KANSAS STATE UNIVERSITY

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■ What will it take to halt expansion? When report data were gathered, prices were in the low to mid-$30s, but have since slid into the $20s on and off. Why? There's too much pork in the pipeline. Kill rates are at 2 million head per week and 4% to 5% above year-ago.

Weight breakdowns suggest we've got plenty of hogs to work through this quarter. But lighter-weight categories aren't holding as many hogs as the trade expected, according to USDA.

Pork production in August was up 11% from the previous year and just above the previous record high for August, set in 1995. The hog kill was also 11% above 1997. The average live weight was 1 lb. above the previous year, at 252 lb., but unlike cattle, average weights have not been a major problem.

Given the pork poundage pushing through the pipeline, exports are the best hope to keep a floor under the market. Asia's downturn has trimmed some optimism, but ideas Japan is getting its financial house in order are turning the corner on export thoughts. The U.S. dollar has fought other currencies the past few months, but the yen has strengthened and helped get the U.S. back on the competitive track. USDA's 1999 pork export forecast stands at 2.135 billion pounds, which is above the 2.11 billion pounds forecast for 1998.

So what does it take to stop expansion? We've seen that the combination of cheap corn and moderately low hog prices wasn't enough. The test of mid-$20 hog prices and still cheaper corn will be revealed when USDA releases its next *Hogs and Pigs* report Dec. 29. Until then, markets will be watching the pounds of pork move through kill lines, hoping that exports have started to turn the corner to several destinations.

Outlook Editor:
Barb Baylor Anderson

Pre-emptive Strike for Clean

The pork industry led dialogue on water standards

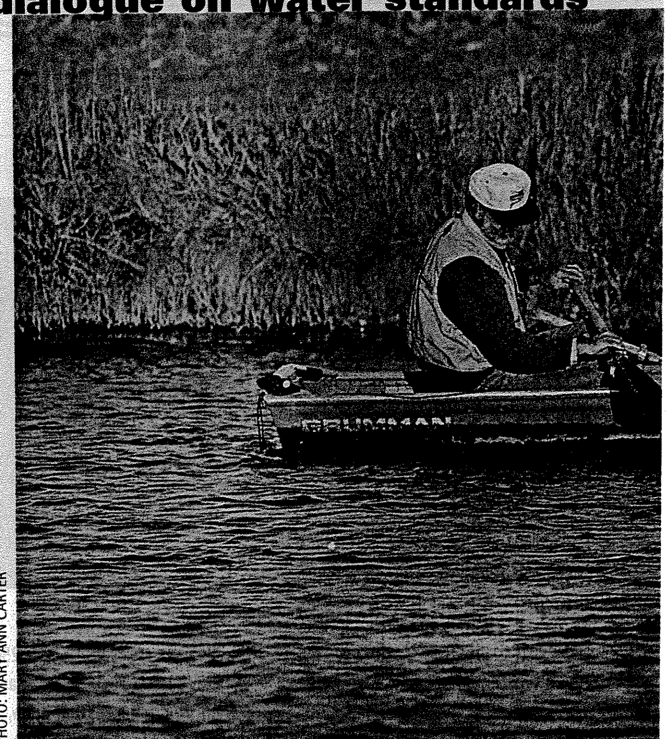


PHOTO: MARY ANN CARTER

The U.S. timber industry never recovered from the public backlash over spotted owls. NPPC leaders didn't want the U.S. pork industry to suffer a similar fate.

Finding its industry besieged by county, state and federal regulators last year, the U.S. pork industry surprised some of its sharpest critics. It launched an aggressive campaign to clean up water pollution—and its public image. And the industry's pact could become a regulatory framework for poultry and other livestock groups.

"It took guts for the pork industry to step forward and say, 'Let's talk about this,' " says Geoff Grubbs, director of the Assessment and Watershed Protection Division of the Environmental Protection Agency (EPA).

Peace talks. Pork producers haven't always been a subject of EPA praise. A series of lagoon discharges in 1995 and 1996, including a 25 million gallon spill that closed a popular recreational river in North Carolina, pummeled the industry. For years, EPA claimed agriculture runoff contributed to degradation of 60% of the nation's polluted rivers and streams. The agency identified manure from livestock operations as a major source of impairment and planned strict rules that could impact the nation's 450,000 animal feeding operations.

Instead of stonewalling, the National Pork Producers Council (NPPC) organized a dialogue with environmentalists and regulators. Admittedly, industry leaders had tired of pork's negative publicity.

"Pork had been separated from the [agricultural] herd because we had odor and image problems," says NPPC executive Al Tank. State legislatures throughout the country were imposing moratoriums, setbacks and other stiff regulations.

By Darrell Smith

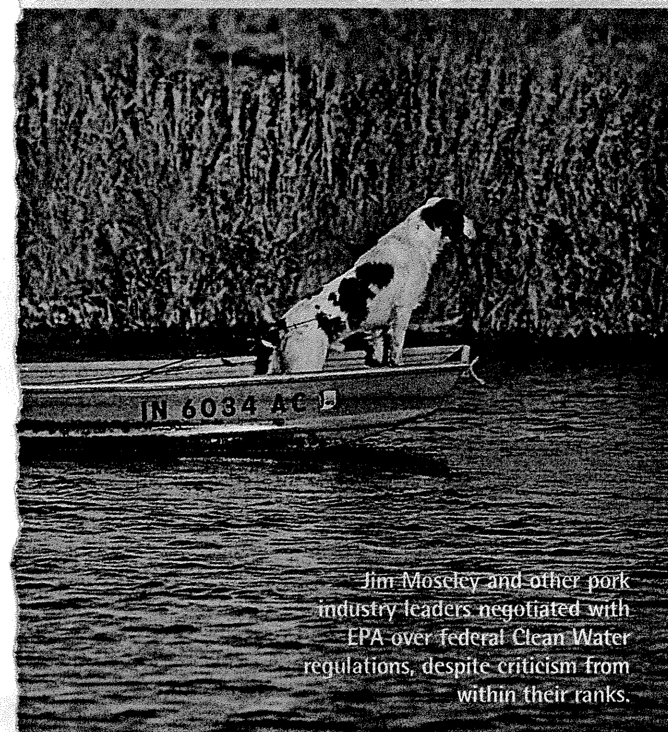
EPA was working on its strategy for animal feeding operations, and planning, down the road, to publish effluent limitation guidelines for hog farms (and, later, for other livestock operations). "Like it or not, we are moving from a mostly non-regulated industry to a regulated industry," says Tank. "We had to control our destiny."

Jim Moseley, a pork producer from Clarks Hill, Ind., helped lead the charge. Under the Bush administration, he had served as USDA assistant secretary for natural resources and environment and as ag adviser to EPA's administrator. He knew what damage hard-liners could do.

"Environmentalists shut down the timber industry in the 1980s," says Moseley, recalling his first crisis at the Forest Service. "The issue was clear cutting and over-harvesting. The industry could have negotiated an agreement to reduce harvest from 4 billion board feet per year to 3.2 to 3.4 billion. Instead, they pushed for increased harvest."

So environmentalists sued under the Endangered Species Act, arguing that timber harvesting destroyed spotted owl habitat. By then, it was winner-take-all. Timber harvest fell

Water



Jim Moseley and other pork industry leaders negotiated with EPA over federal Clean Water regulations, despite criticism from within their ranks.

to 400 million board feet. "Small and intermediate-size timber companies got hammered," says Moseley. "I saw tears in people's eyes as they told me how their family businesses were devastated. I knew something like that could happen again."

No tolerance rule. In reality, pollution from hog farms is well down the list of ag's environmental problems, says Moseley. (Soil erosion remains No. 1, he claims.) But the industry had given its opponents an opening, he says, "by defending some operators who were knowingly getting by with environmental violations."

NPPC leaders decided to try to shape the regulatory issue. They promised to bar membership to known offenders, and proposed science-based standards that all pork producers could afford to comply with. The standards could provide a pattern for state legislators, who were searching for guidance.

"It's important that NPPC kept states in the forefront," says Grubbs. "It is states that do the regulating [by issuing discharge permits under EPA guidelines]."

To succeed, all "stakeholders" had to sign off on the package the industry wanted to propose to EPA. Pork producers asked America's Clean Water Foundation—a neutral party—to facilitate the dialogue between the diverse parties.

Negotiations lasted most of 1997. But the environmentalists dropped out after one meeting. They charged that environmental, family farm and grass-roots groups weren't sufficiently represented, that NPPC was using the dialogue to "derail" state legislation and that "the apparent agenda was not sufficiently directed towards environmental improvements." NPPC thinks they left because the producers refused to link farm size issues to environmental issues.

"We had to decide whether to continue or fold up," says Moseley. "We decided to write a document so good they couldn't say anything bad about it."

Two organizations representing local governments also pulled out after producers insisted on keeping regulatory authority at the state level. "That was a make-or-break issue with pork producers," says Becky Doyle, director of the Illinois Department of Agriculture. "And representatives of state governments knew that local control would be almost impossible to administer."

The framework was adopted in USDA/EPA's draft strategy for managing animal feeding units. It calls for permitting of new and existing hog operations of all sizes, with public participation for permitting of new or expanded operations. It includes setback requirements for new lagoons and manure application areas; requirements for nutrient management plans; emergency response planning; inspections; and penalties for producers who intentionally pollute.

Still, not all farm groups blessed the effort. Farm Bureau faults the pact because it fails to exempt small producers.

However, NPPC earned points with regulators. "If the framework's provisions are adopted by other states, they will level the playing field for producers across the country," says Allen Stokes, director of the Environmental Protection Division of the Iowa Department of Natural Resources. That may stop corporate farms from shopping for the states with the weakest environmental oversight.

Negotiations "are in the best interest of agriculture," says Doyle. "If you can show that you're doing everything necessary to prevent pollution, the majority of the populace will say, fine, we'll leave you alone." ■

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Richard H. Tanger
Market News Reporter

FARM MARKET NEWS RECORDED INFORMATION SYSTEM

WDATCP, MARKETING DIVISION IN COOPERATION WITH UNITED STATES DEPARTMENT OF AGRICULTURE, AGRICULTURAL MARKETING SERVICE

Market News, in an effort to supply current, up-to-date market information, has incorporated the use of an automated telephone answering system to better serve the agriculture industry. By simply calling one phone number, individuals can get information on dairy, livestock, grain, fruit and vegetables, poultry, and tobacco. This system runs 24 hours a day, 365 days a year. Market reports are updated throughout the day so users are assured of the most up to date information. There are 12 phone lines into the system to handle all the inquiries. Simply answer the questions the system asks by using the touch tone pad of your telephone. The following pages list the reports available on the system. If you have any questions about the telephone answering system call 608/224-5097.

MARKET NEWS RECORDED INFORMATION SYSTEM

DIAL 608-224-5088

- **FOR LIVESTOCK** Press 2
  - **WISCONSIN** PRESS 1
    - WI DIRECT HOGS PRESS 1 (Daily - 10:00am)
    - WI LIVESTOCK AUCTIONS PRESS 2 (Daily - 8:00am)
    - WI FEEDER CATTLE PRESS 3 (varies - 8:00am)
  - **REGIONAL & NATIONAL** PRESS 2
    - USDA- BLUE SHEET PRESS 1 (Daily - 4:00pm)
    - IOWA & SO. MINNESOTA DIRECT CATTLE PRESS 2 (Daily - 3:00pm)
    - CHICAGO MERCH. EXCHANGE PRESS 3 (Daily - 2:00pm)
    - EQUITY ELECTRONIC CARCASS AUCTION PRESS 4 (Daily - 1:00pm)
- **FOR GRAIN** PRESS 3
  - **WISCONSIN** PRESS 1
    - WI COUNTRY ELEVATORS PRESS 1 (Daily - 3:00pm)
    - WI HAY PRESS 2 (seasonal)
    - WI TOBACCO PRESS 3 (seasonal)
    - MILWAUKEE & CHICAGO TERMINALS PRESS 4 (Daily - 3:00pm)
  - **REGIONAL & NATIONAL** PRESS 2
    - CHICAGO BOARD OF TRADE PRESS 1 (Daily - 2:00pm)
    - MN GRAIN EXCHANGE PRESS 2 (Daily - 2:00pm)
    - MS & IL RIVER BARGE PRESS 3 (Daily - 4:00pm)
- **FOR FRUIT & VEGETABLE** Press 5
  - **POTATOES & CABBAGE** PRESS 1
    - WI, MN, & ND POTATOES PRESS 1 (seasonal, Daily - 8:00am)
    - ID, CO, & WA POTATOES PRESS 2 (seasonal, Daily - 8:00am)
    - WI POTATO SHIPMENTS PRESS 3 (seasonal, Daily - 8:00am)
    - WI CABBAGE PRESS 4 (seasonal, Daily - 8:00am)
- **FOR POULTRY & EGGS** PRESS 4
  - WISCONSIN EGGS PRESS 1 (Daily - 12:30pm)
  - CHICAGO EGGS PRESS 2 (Daily - 12:30pm)
  - NEW YORK EGGS PRESS 3 (Daily - 12:30pm)

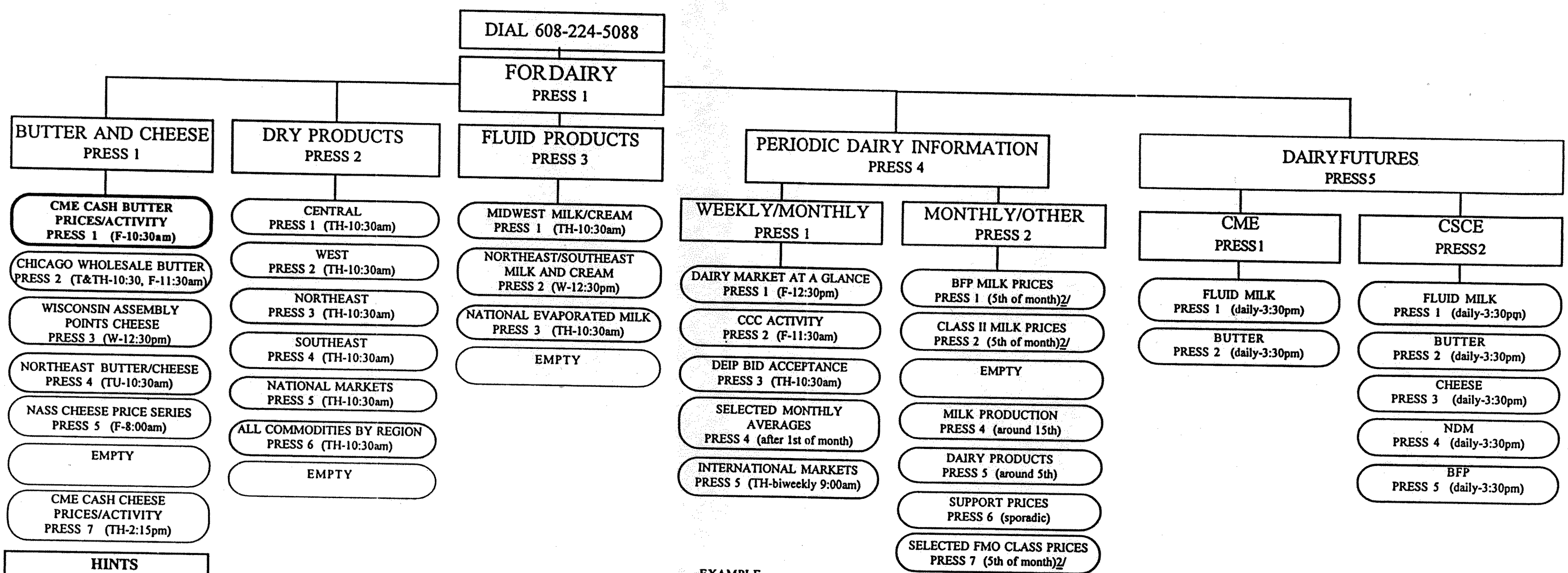
HINTS

-press 8 to repeat a message
-press 9 to back out one level
-press * before exiting system
(allows system to reset line for next user)

7/97

MARKET NEWS RECORDED INFORMATION SYSTEM

The continued growth in the availability and demand for dairy market information has neccessitated that the current system structure be revised. The biggest change is the consolidation of dairy futures, which can now be found on the back side of this page. The new CME cash cheese price will now be found by pressing 1-1-7. Other changes are noted by bold cells. The system is accessible via a touch-tone telephone. Recorded instructions prompt the caller in the use of the system. By listening to menus and pressing numbers on your touch tone telephone you will have access to the latest market information. Please note that you do not have to listen to the entire menu before pressing your number choice. Use the flowchart below as a guide for accessing dairy information. Release day and Central time are in parenthesis. 1/



HINTS
- press 8 to repeat a message
- press 9 to back out one level
- press * before exiting system (allows system to reset line for next user)

EXAMPLE

TO ACCESS CENTRAL & WESTERN DRY PRODUCTS:
DIAL 608-224-5088
--PRESS 1 FOR DAIRY MENU
--PRESS 2 FOR DRY PRODUCTS MENU
--PRESS 1 FOR CENTRAL PRICES
(SYSTEM RETURNS TO DAIRY MENU)
--PRESS 2 FOR DRY PRODUCTS MENU
--PRESS 2 FOR WESTERN PRICES
STAY ON LINE FOR DAIRY MENU
OR PRESS * KEY IF EXITING SYSTEM.

1/ Holidays may affect recording days and times. 2/ If the scheduled release date for these price series fall on a weekend or holiday, the price will be announced on the preceding weekday.

UNITED STATES DEPARTMENT OF AGRICULTURE
DAIRY MARKET NEWS
P.O. BOX 8911
MADISON, WI 53708-8911

05/97

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December 1, 1998

Attention:

Name:	**Al Ott**
Affiliation:	Wisconsin State Assembly
Telephone:	(608) 266-5831
Fax:	**(608) 282-3603**

Number of pages being transmitted *(including cover sheet)*........................ 19

Representative Ott,

I assembled some information to provide you with an overview of the pork industry and to address some of the issues that we discussed after the USDA/EPA Animal Feeding Operation listening session. Because the amount of material is sizable, I will organize it into issue areas and refer to page numbers that can be found on each sheet. I will be out of my office until Wednesday morning at which time I will call you to discuss any questions you might have and additional information that you might need.

Vern Leibbrandt
Vernon D. Leibbrandt
Extension Livestock Specialist, Swine

Contents of Materials Transmitted

Page	Description
	Ledger Contracts
1-2	This recent Wall Street Journal article provides general information about the "hog price crisis" on page 1 and on page 2 mentions ledger contracts and related concerns.
3-5	The article written by Neil Harl and John Lawrence, two Iowa State Univ. Ag Economists, discusses packer contracts and raises financial and legal questions regarding ledger or loan contracts

Page	Description

Summary of Pork Price Spreads & Profitability

6-9
- The graph on page 6 shows the profitability for farrow-to-finish operations over the past 14 years and draws values from the table in the middle of page 7.
- The table at the bottom of page 7 shows the value per pound of retail weight at farm, wholesale and retail levels. Pages 8 & 9 shows a letter from the National Pork Producers Council which mentions the disproportionately high share of the retail pork dollar that retailers received during September 1998 compared to values for 1986-1998.

The nature of the Pork Industry in Wisconsin and the US

10 The table at the top of the page shows a breakdown of pork operations by size. Note that in Wisconsin, 160 operations are larger than 1000 hd inventory (approximately equivalent to a 120 sow farrow-to-finish operation).

11-12 These pages concern the distribution of pork operations by size in Wisconsin.
- The tables on page 11 show the distribution of Wisconsin pork operations based on size for the years 1992 through 1997. Note that during 1997 operations having grater than 1000 hd on hand (160 operations) accounted for 44% of the inventory (see bottom table).
- The graph on page 12 depicts the size distribution using the values from page 11. Note the trend toward decreasing percentage of production over time for farms having < 1000 hd while the percentage increases over time for those farms having greater than 1000 hd.

13-14 These pages show production volume over time.
- Sheet 13 shows that US hog slaughter reached a high of 96.5 million head in 1996. The number of hogs to be slaughtered during 1998 is projected to reach 100 million head and demonstrates why market prices are low and packing capacity is becoming a limited.
- Page 14 shows that annual Wisconsin hog production reached a high of 4 million head twice, during 1943 and again during the late 1950s. Hog production has decreased steadily since the early 1980s.

Other Items for your Information

15-16 This letter from the President of the NPPC to President Clinton lays out many of the issues facing the pork industry nationally. The points presented show policy changes that might help pork producers during the financial trauma.

17 This page contains comments by Dr. Ron Plain, a University of Missouri Ag Economist who studies the pork industry. His comments provide a concise statement of production prospects and pricing characteristics for pork.