Pork Industry Economic Outlook

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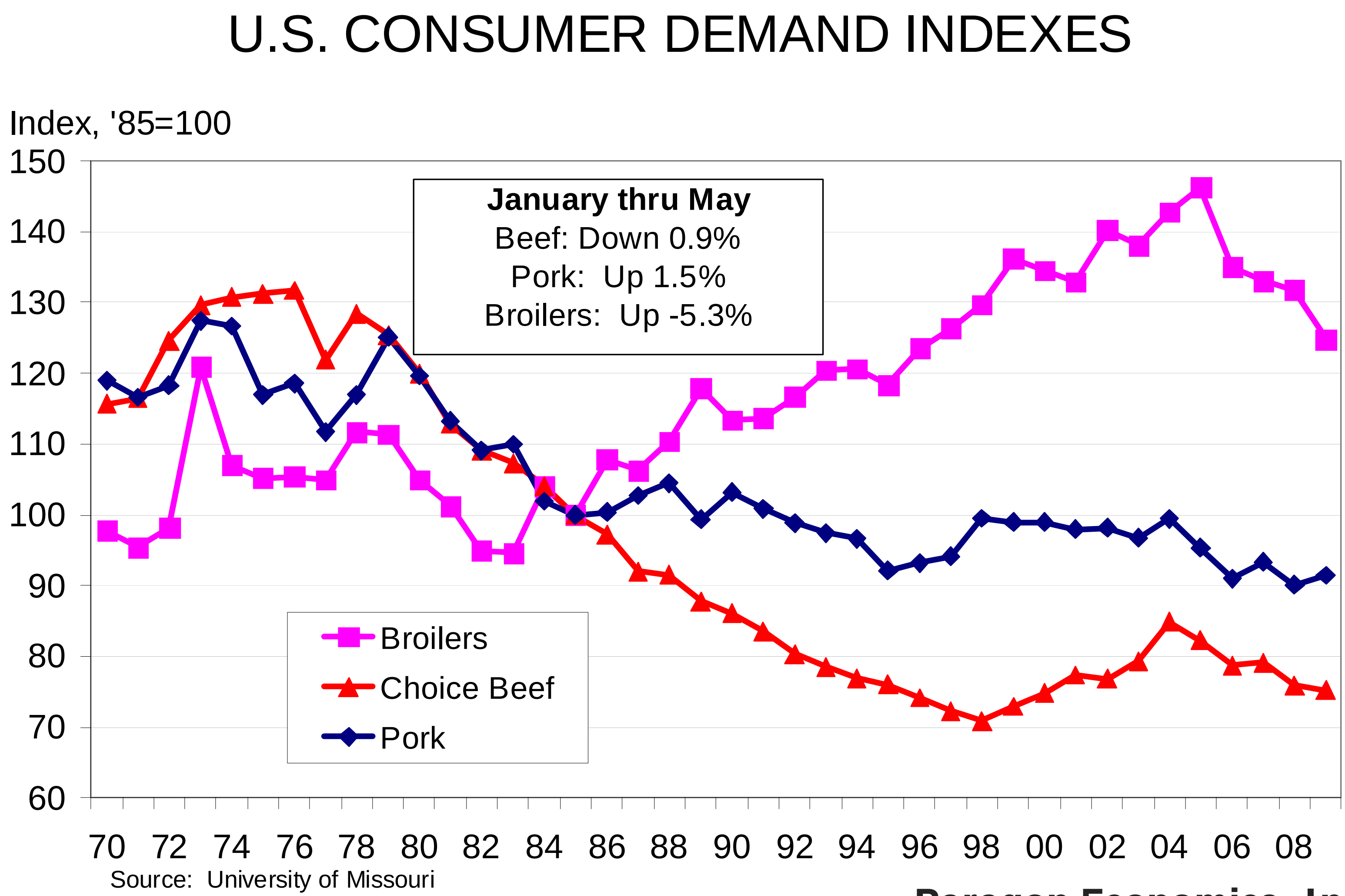
DEMAND – THE LARGEST RISK FACTOR OF 2009

(And that was an understatement!)

U.S. pork demand: Stronger than others . . .

. . . And note that this is THROUGH MAY



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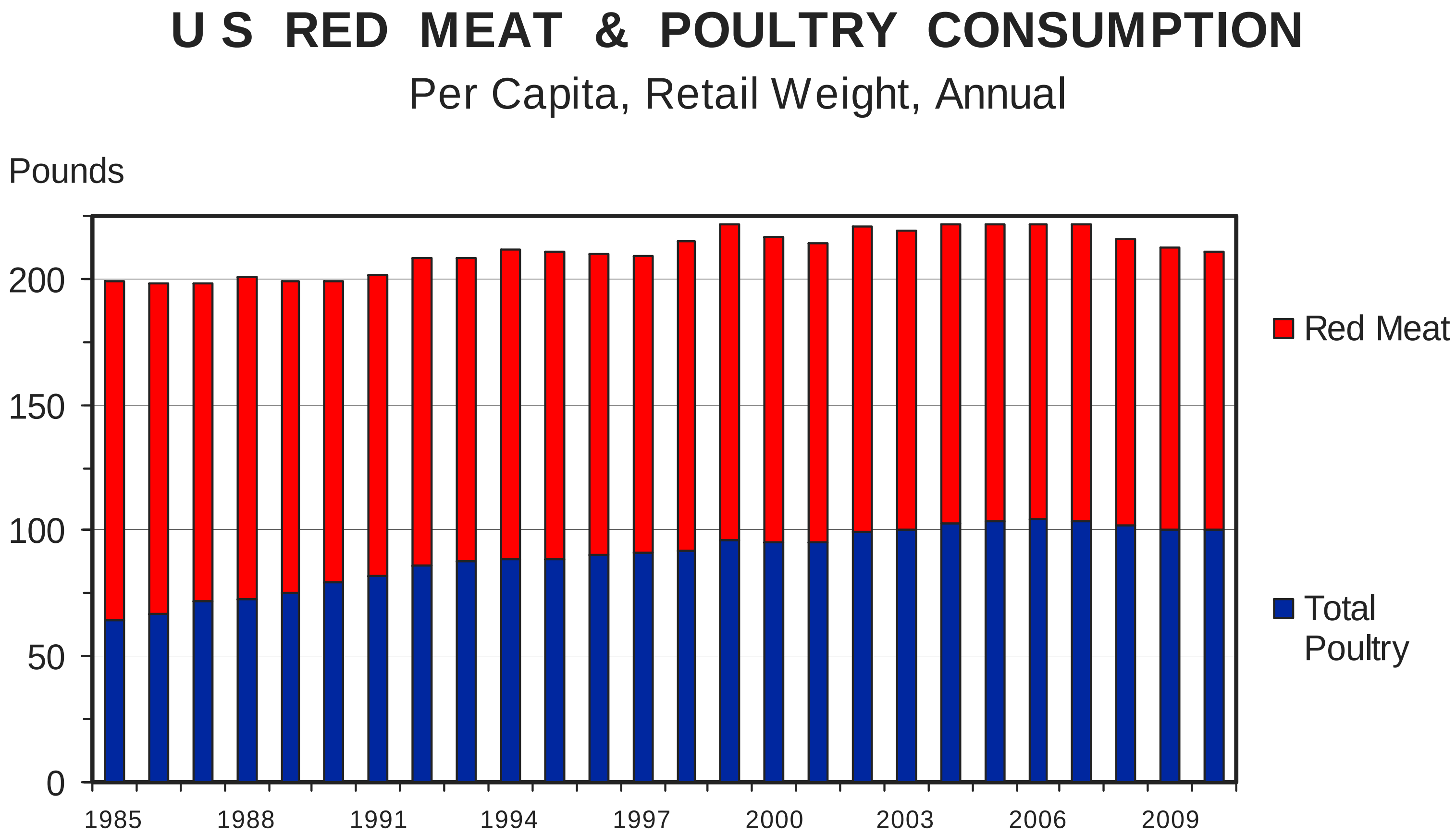
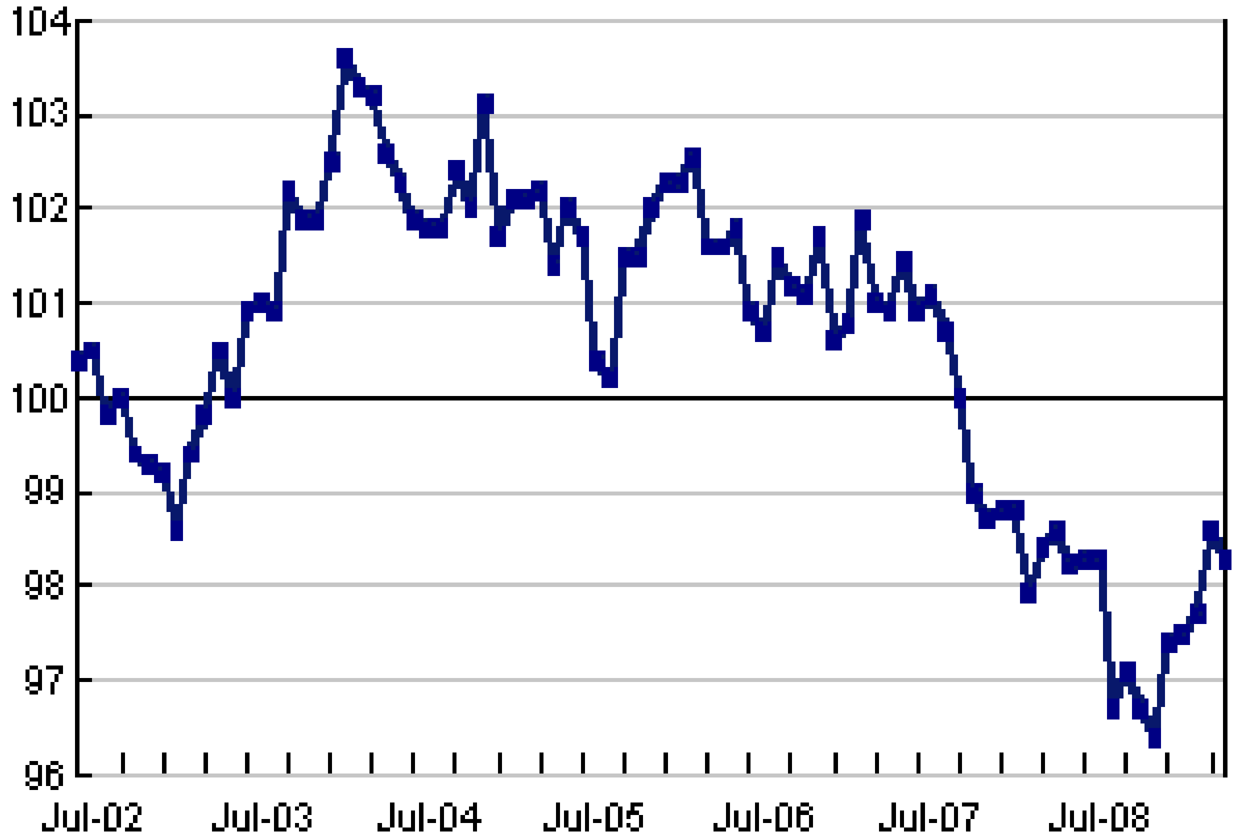
Have we reached a saturation point?



The economic crash hit restaurants hard . . .

. . . And May was first decline in 5 months

RESTAURANT PERFORMANCE INDEX



Source: National Restaurant Association

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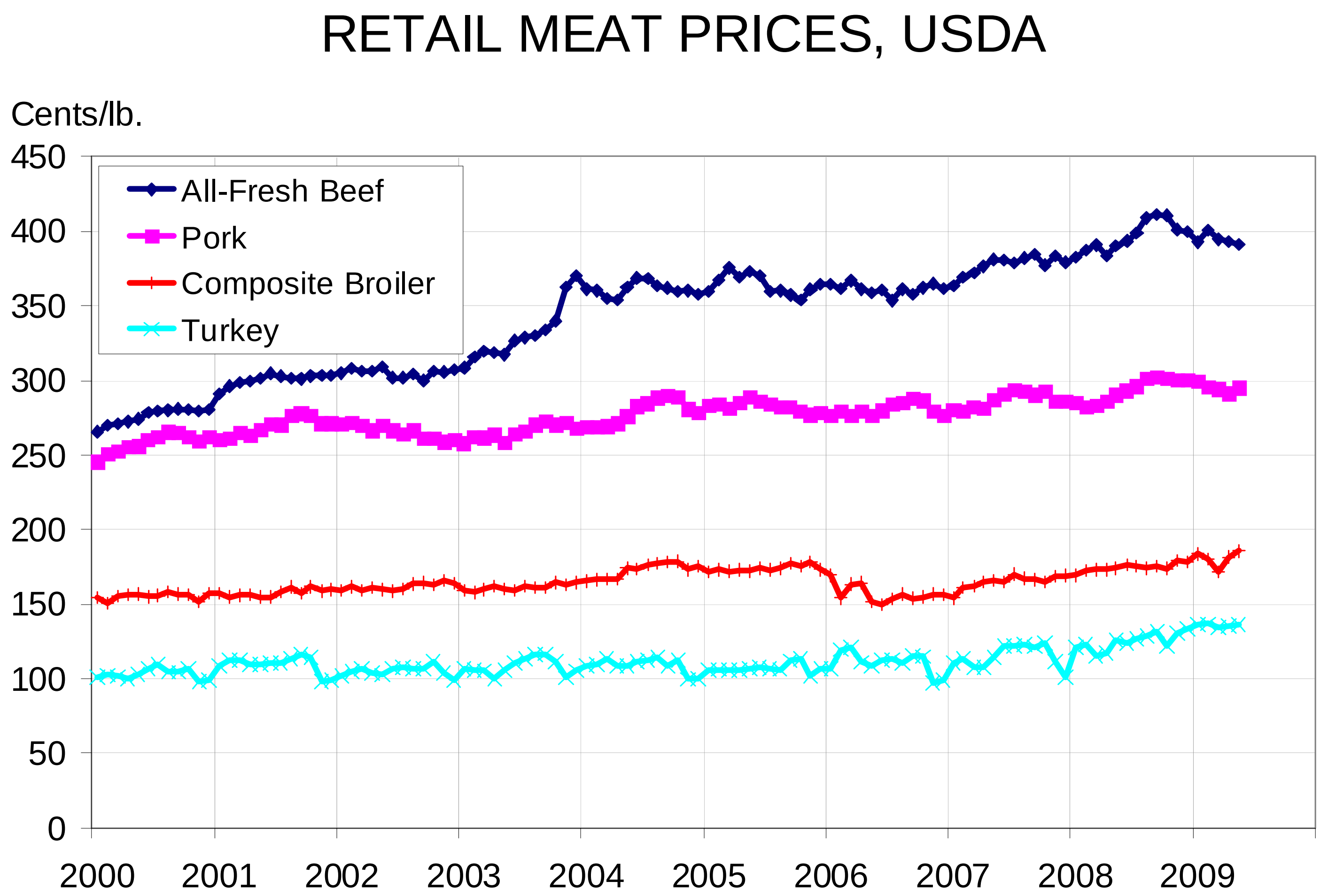
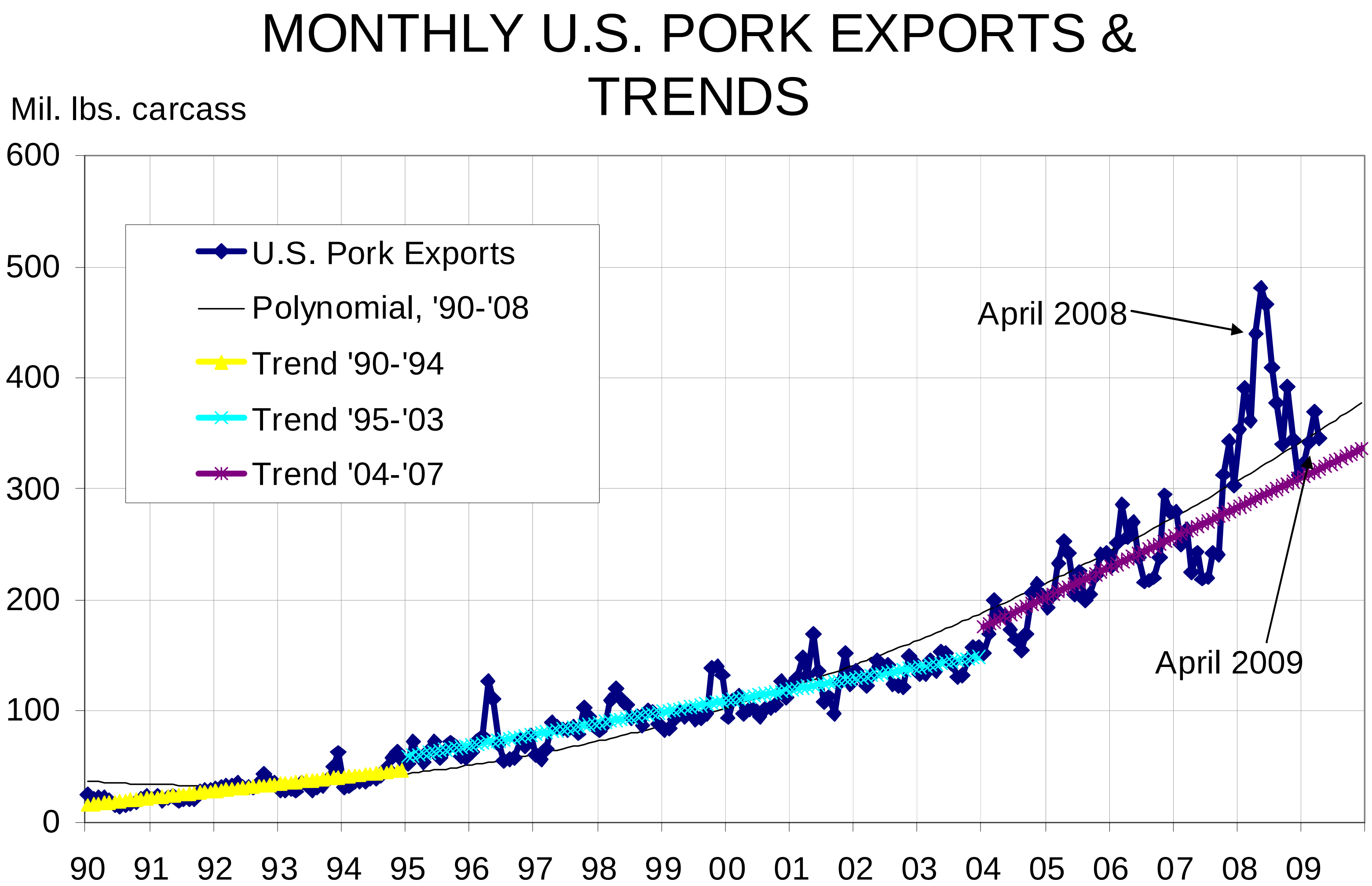
Retail meat/poultry price remain high . . .

. . And will likely set records this year or next



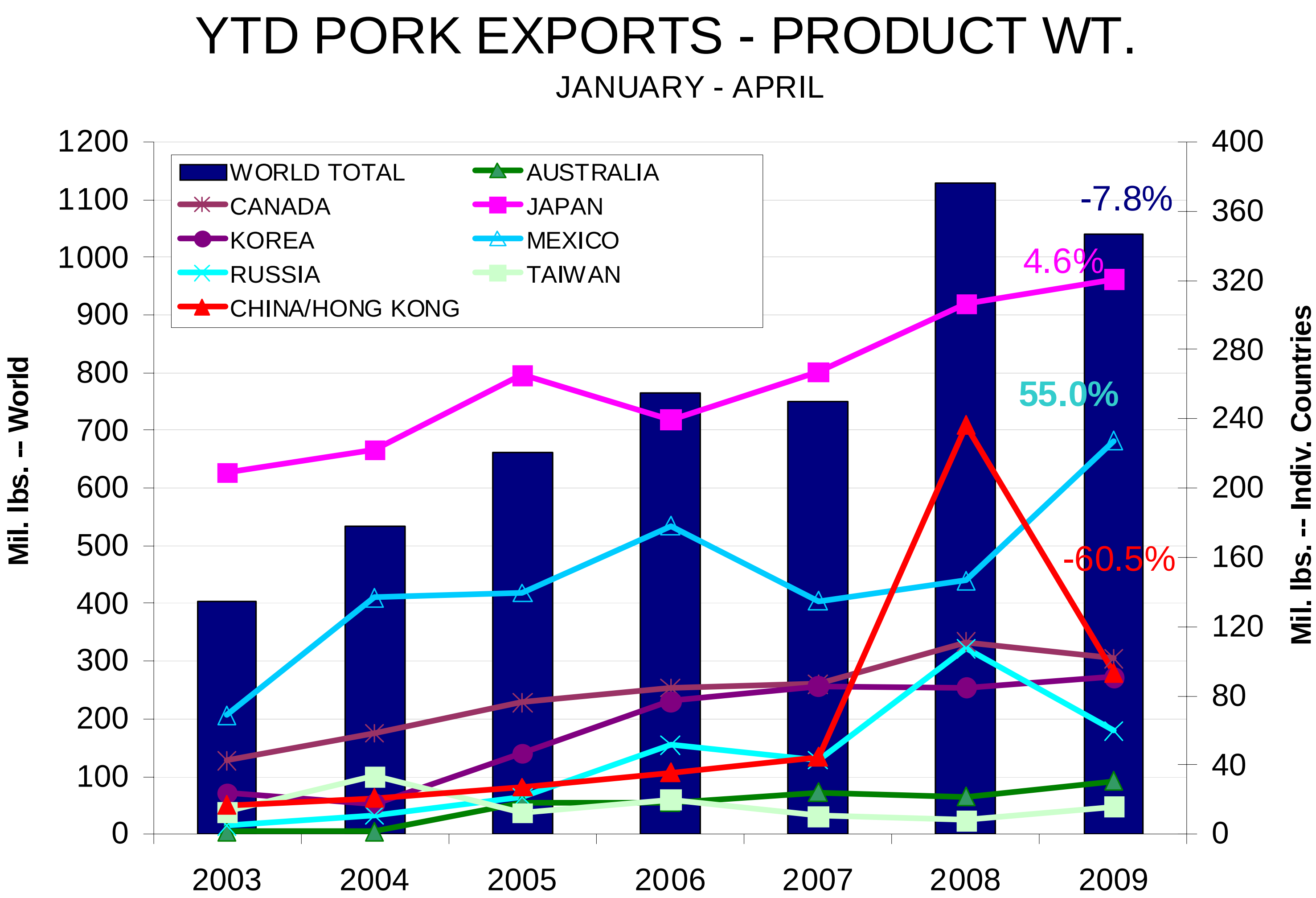
Exports -- Can we stay on the '04-'07 trend?

. . . Through April? Yes. May? Probably not



YTD exports: Down 7.8% -- note countries . . .

. . . But YTD value is down only 0.2%



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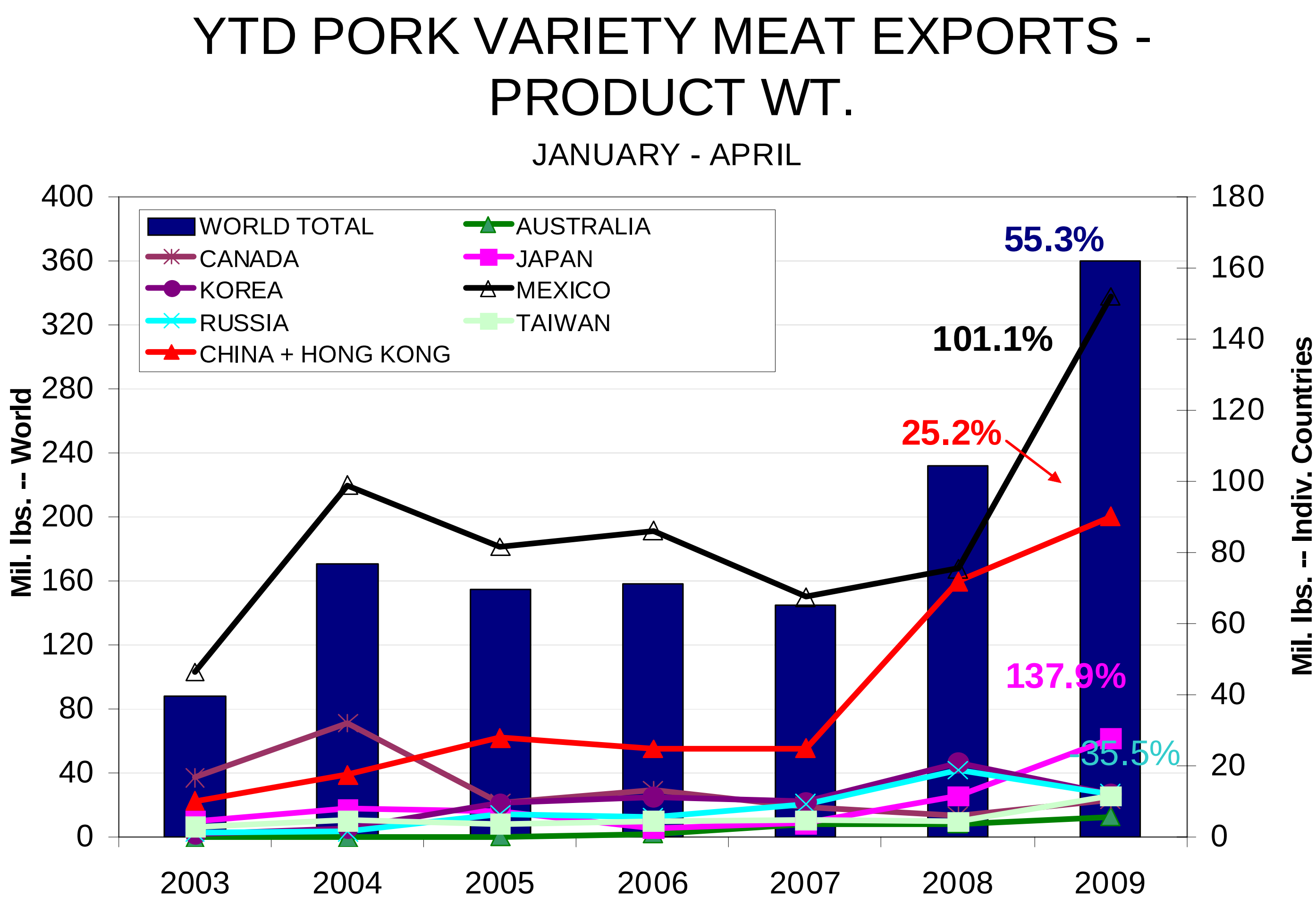
Var. meat exports are up SHARPLY . . .

. . . And value is up 53% -- steady prices



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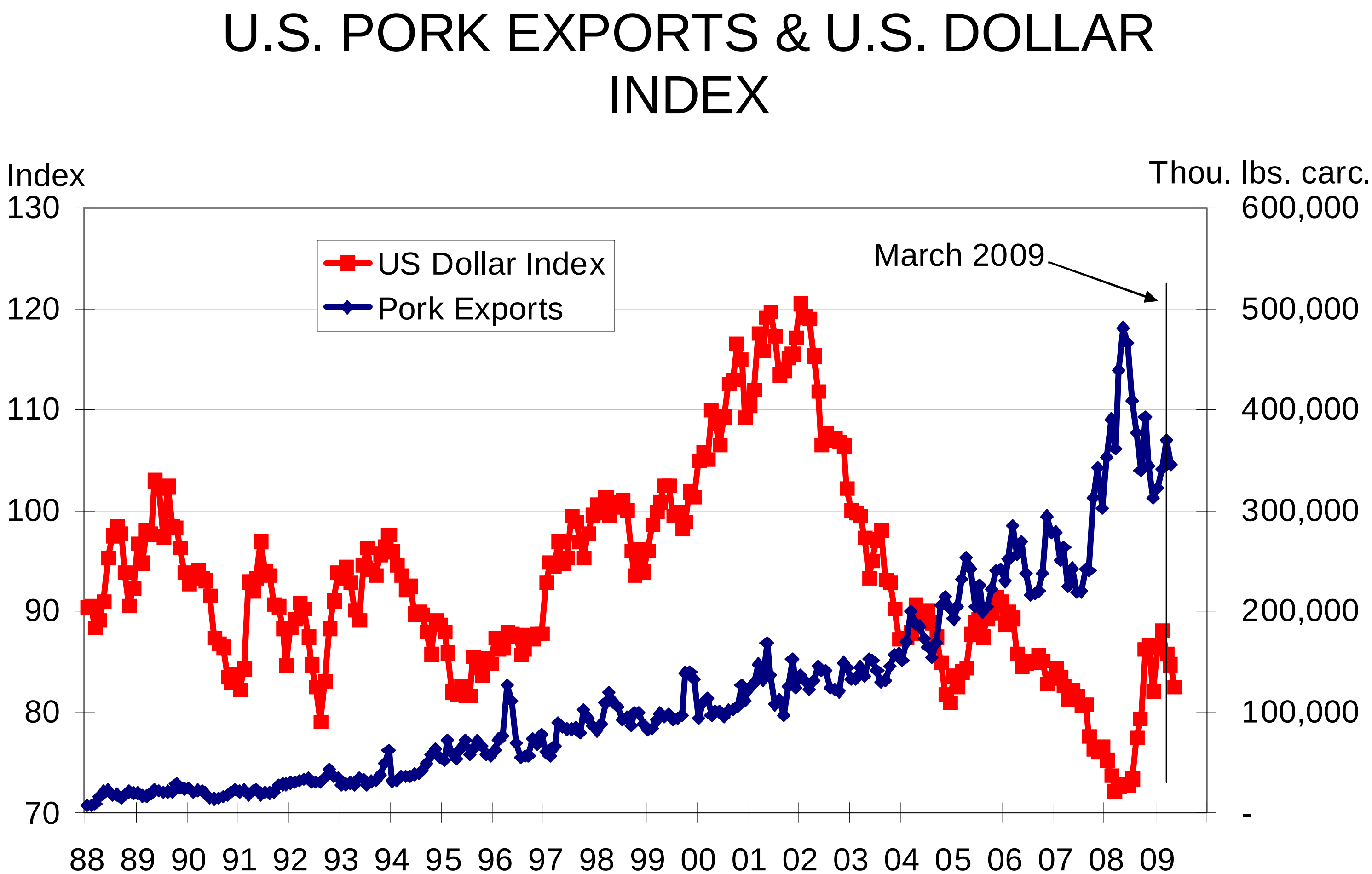
A weaker dollar helped U.S. exports in Q1 . . .

. . . But will it last?



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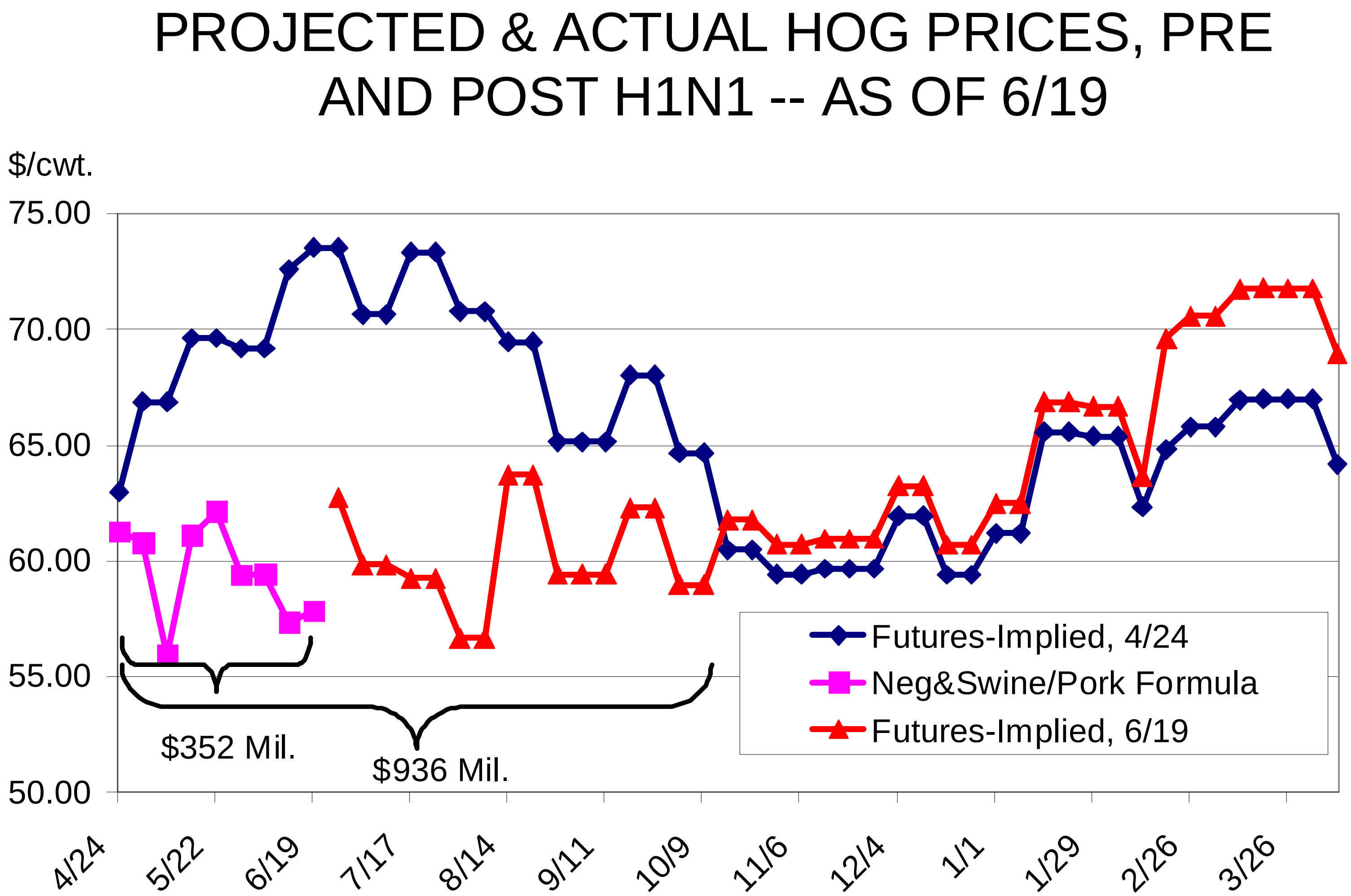
H1N1 damage to potential profits . . .



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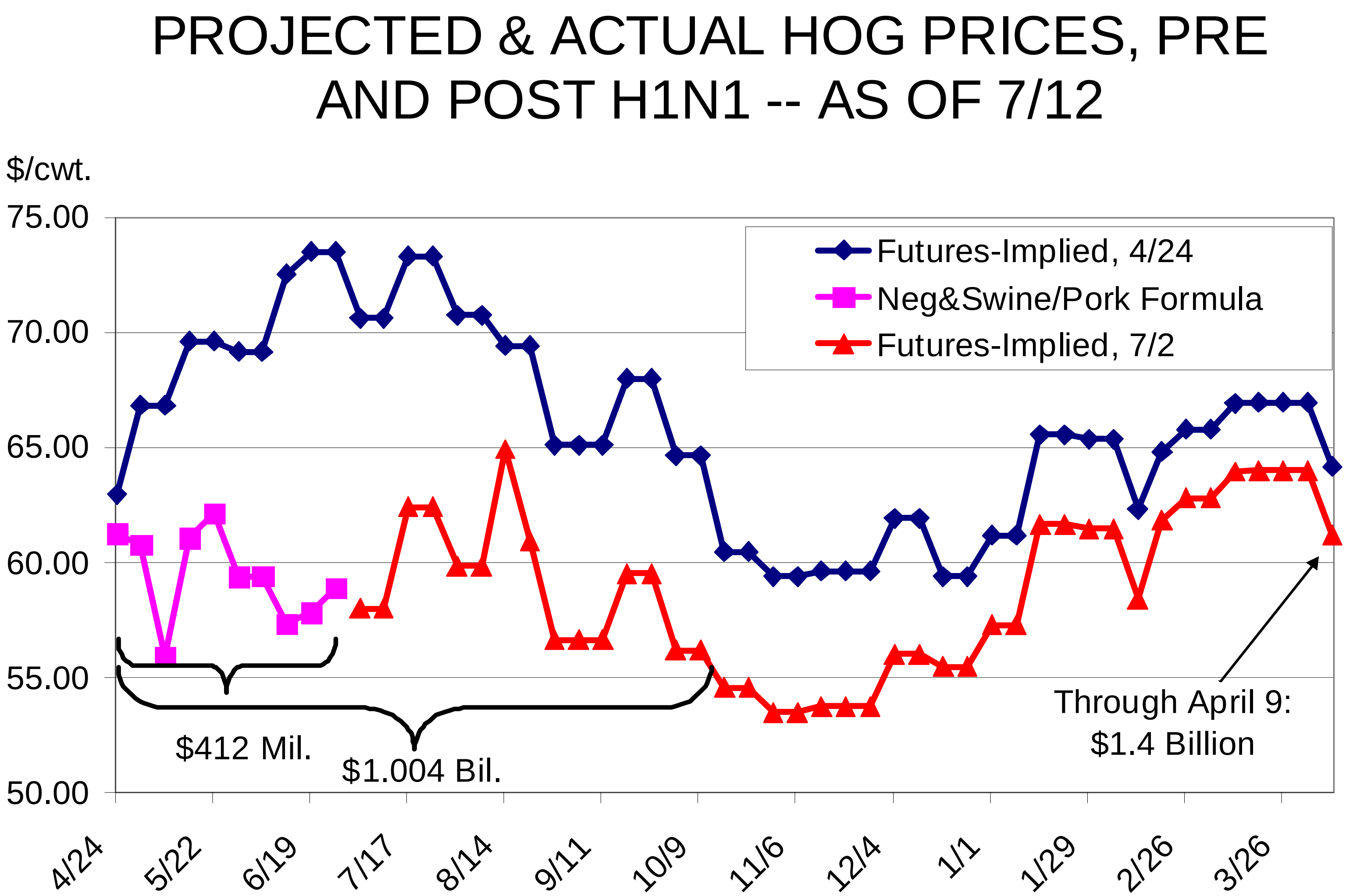
Impact grew dramatically in late June

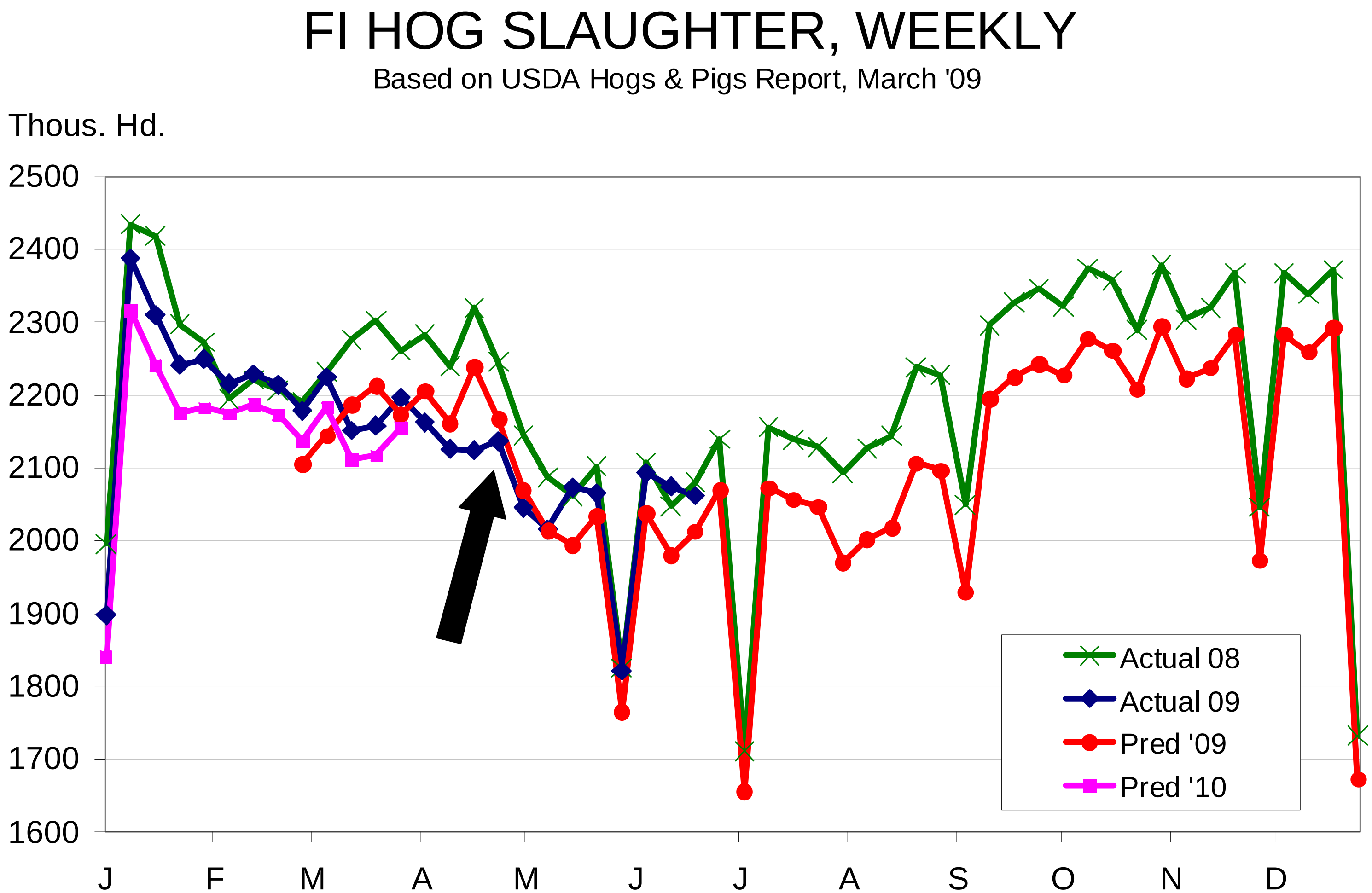


A demand problem – right? Consider:

- Through March, U.S. exports . . .
  - To Mexico = 3.7% of production
  - To Russia = 1.3% of production
  - To China = 0.7% of production
- Most of Mexico was lost through mid-June
- Virtually all of Russia is stopped yet today
- China is not a big factor since Hong Kong has remained open
- TOTAL – About 4 to 4.5% of production has remained on the U.S. market since 4/24

Since 4/24: Slaughter +1.4% from expected . .

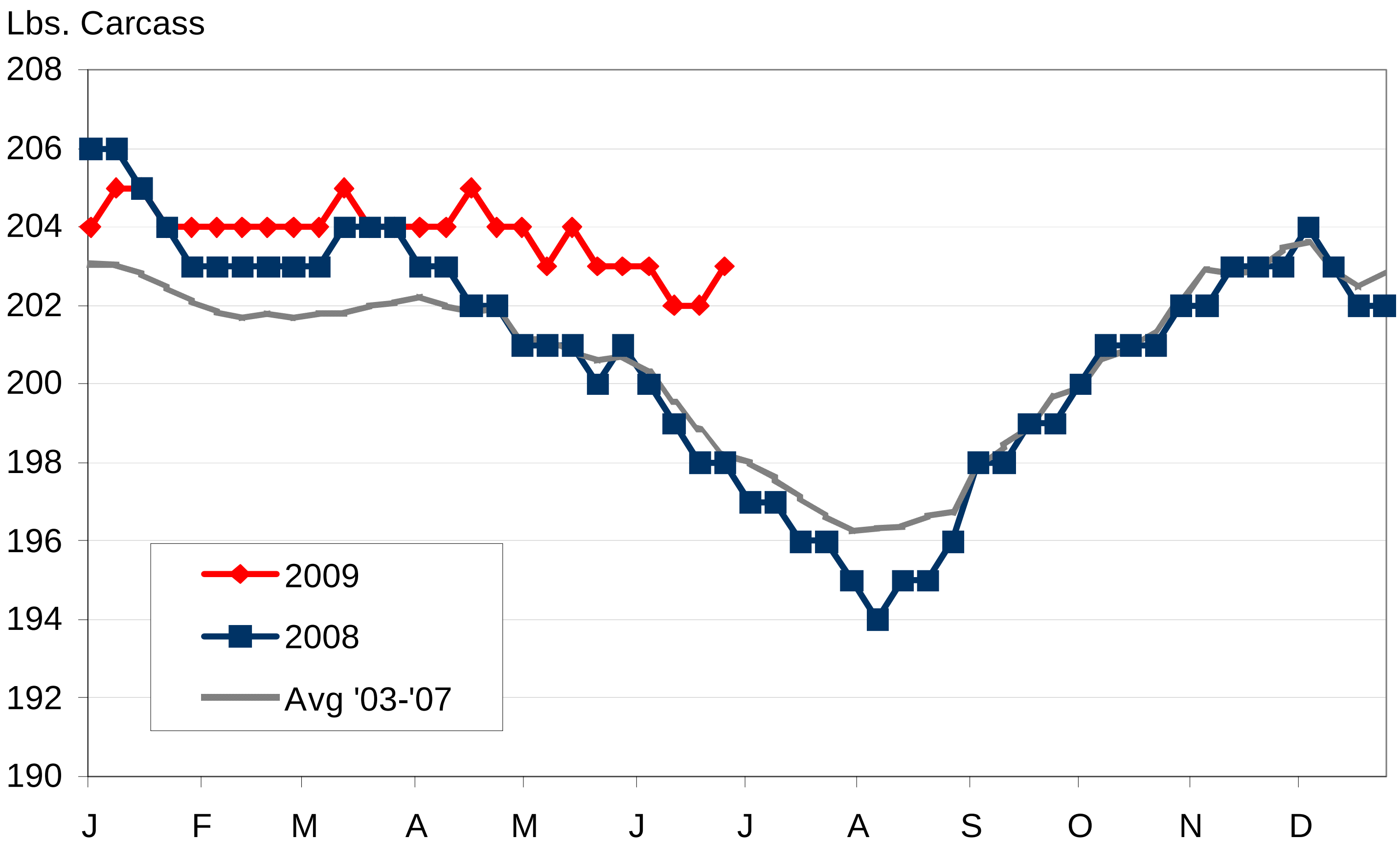
. . . By the March Hogs and Pigs Report



Since 4/24, weights have been +3 lbs. . . .

. . . and I expected them to be +1 lb. -- +1%

SLAUGHTER WEIGHTS, MPR HOGS

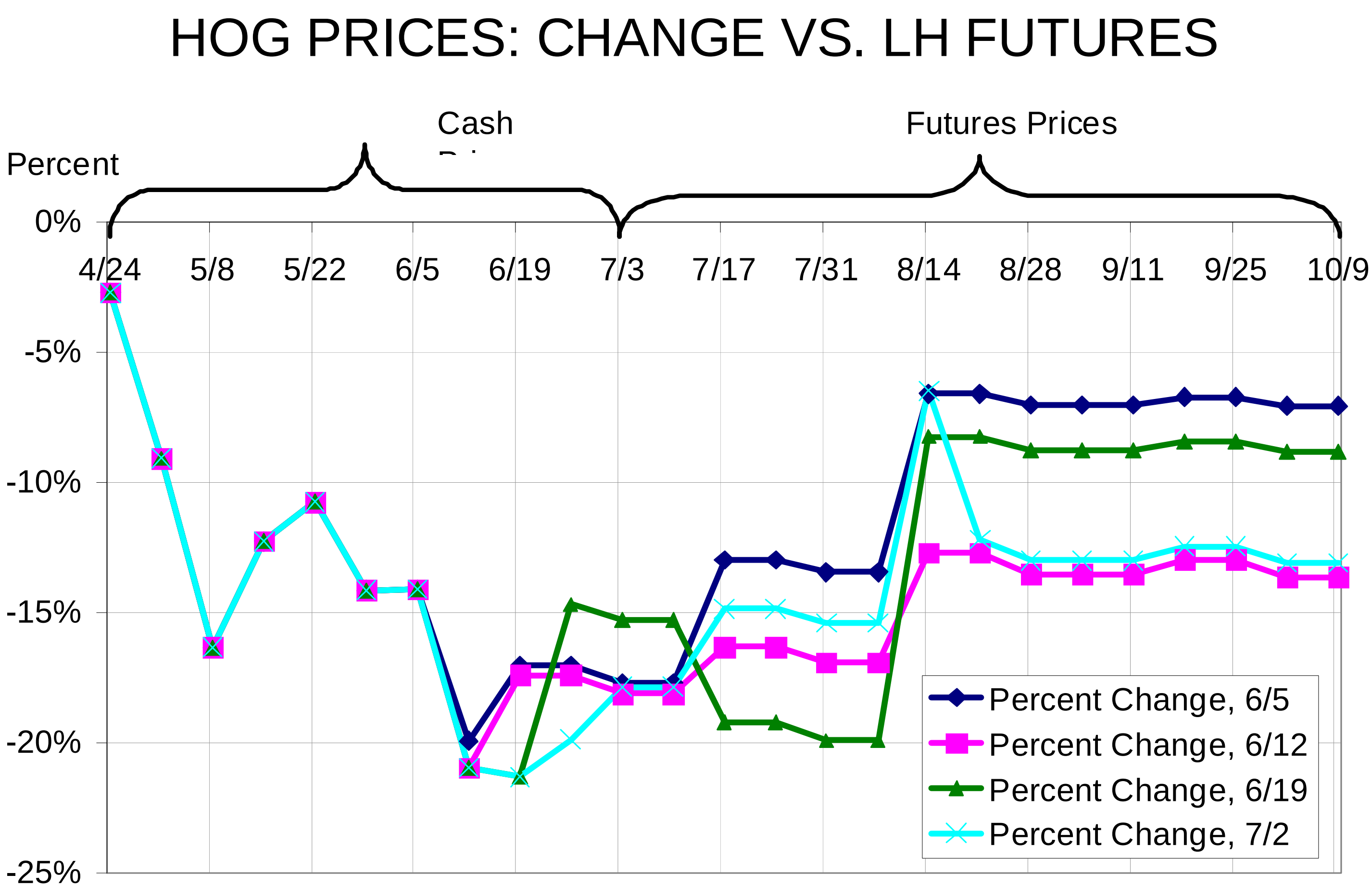


How much more pork on the U.S. market?

- Slaughter: +1.4%
- Weights: +1%
- Reduced exports: 4 to 4.5%
- All of these mean that domestic pork supply since 4/24 has been <u>6.5 to 7.0% LARGER THAN WAS EXPECTED ON 4/24</u>
- Price flexibility of -2 to -2.5: Prices would be expected to be 13-18% lower

And the percentages, if anything, are better!

. . meaning domestic demand is solid!



What will happen for demand?

- Pork is, as expected, weathering the economic storm better than others
- Anecdotal evidence of a pick up in demand in Mexico – much better business in last few weeks
- What will happen with H1N1 this fall?
  - The virus has been very mild -- “a cold”
  - Health officials are not AS concerned
  - Not bad in Southern hemisphere winter

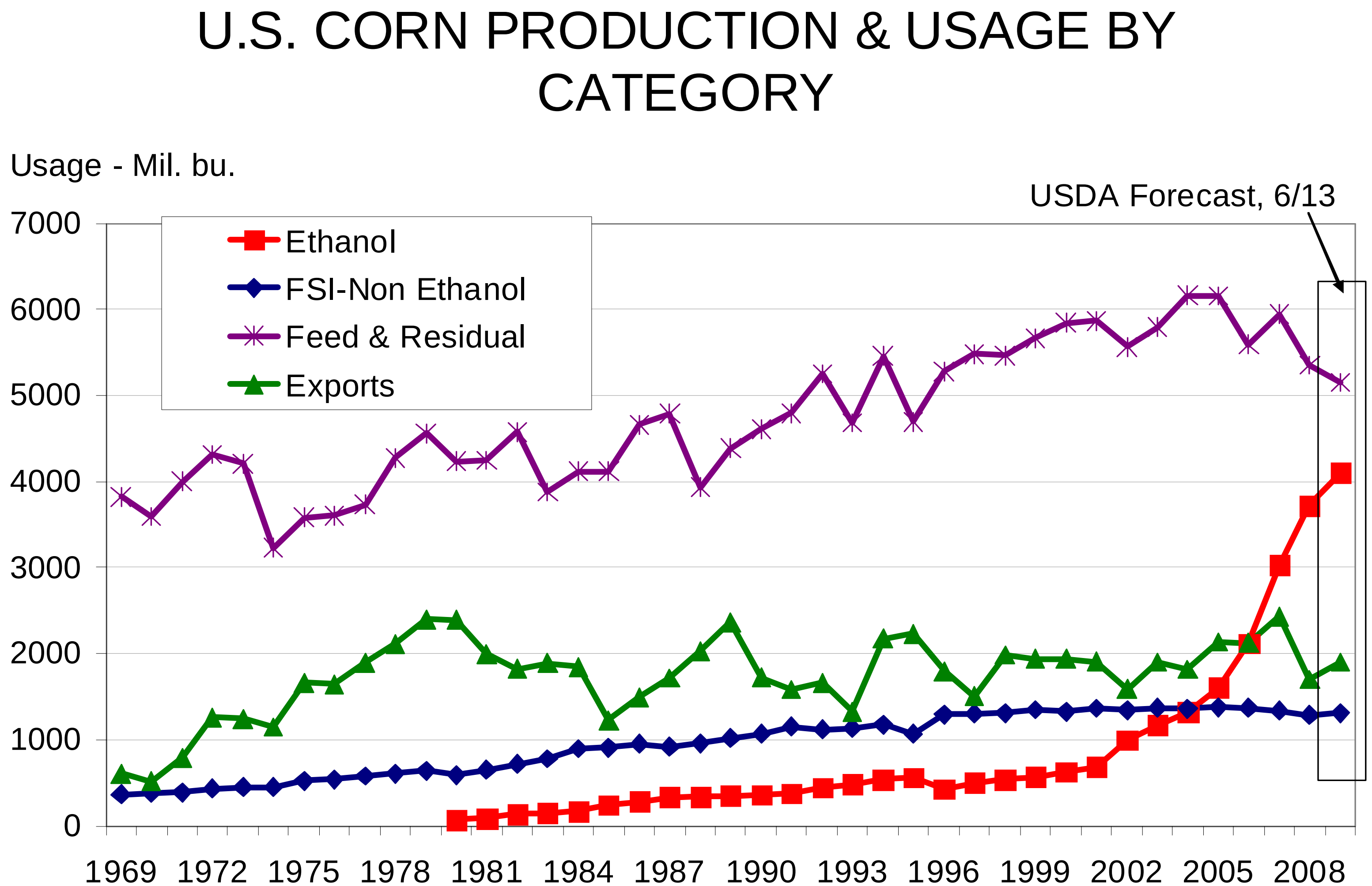
FEED PRICES AND COSTS

Crops – started rough but improving

- Higher fertilizer costs and soybean prices caused a shift from corn to soybeans
- EXTREMELY wet conditions in the eastern Corn Belt and Missouri delayed planting
- June 30 Acreage report was a surprise
  - Corn @ 87 mil. acres– 2^{nd} largest since '46
  - RECORD-HIGH 77.5 mil. acres of soybeans
- Crop condition is outstanding as of 6/29
  - Corn: 71% G/E vs. 61% in '08
  - Beans: 68% G/E vs. 58% in '08

And we are going to need every kernel . . .

. . . RFS (10.5 bil. gallons in '09) and oil prices



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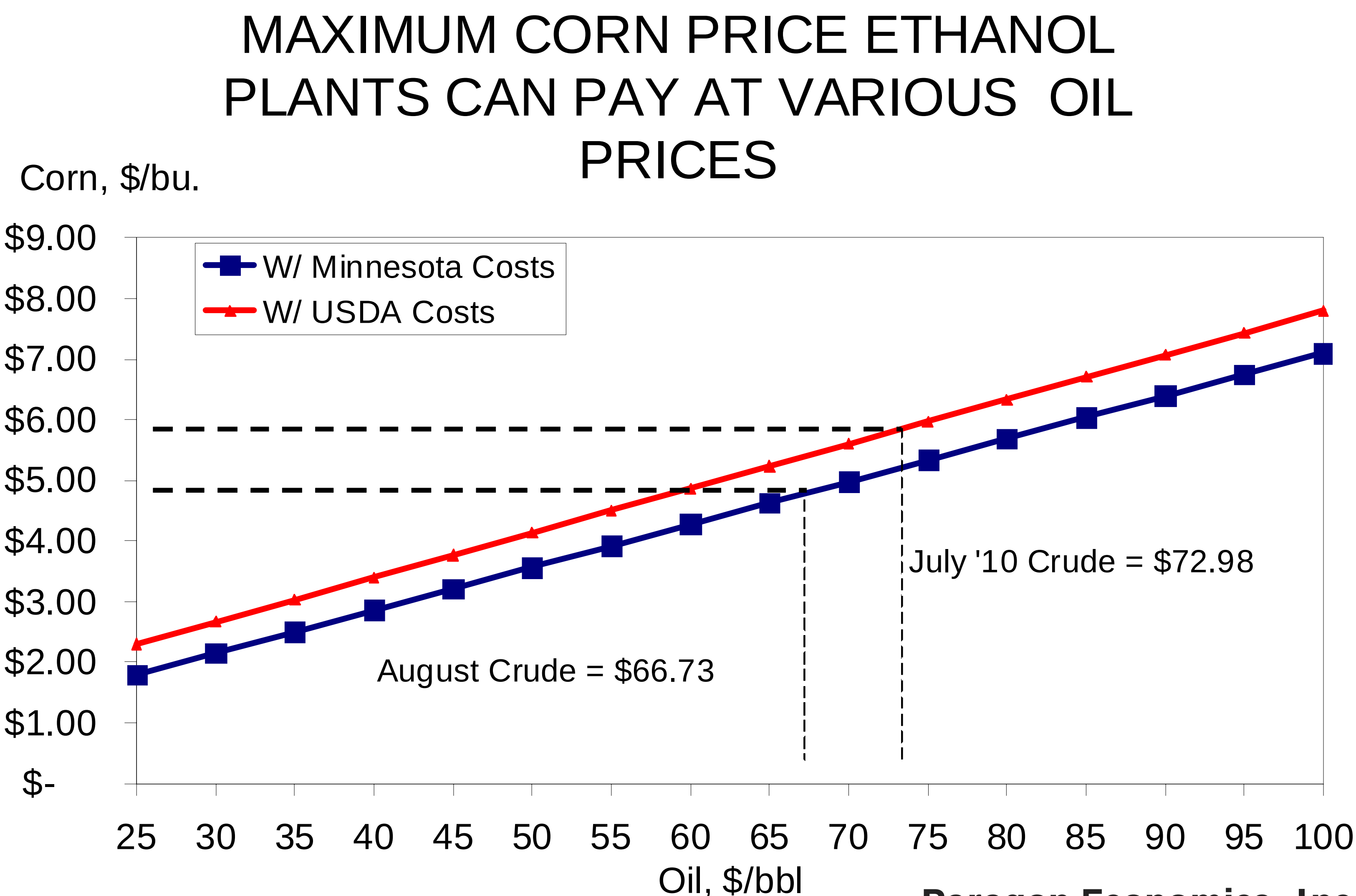
Higher oil allows ethanol to pay more



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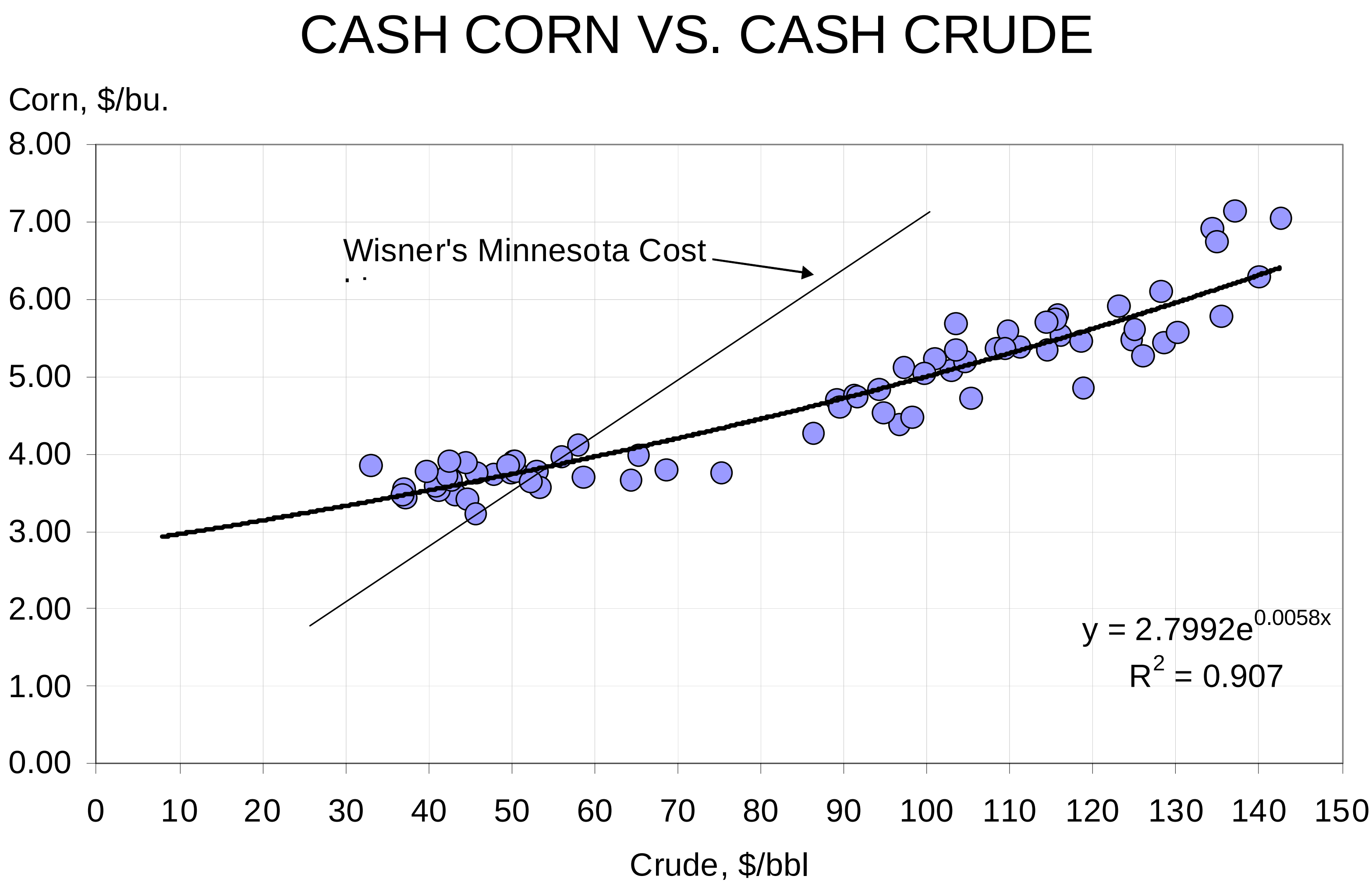
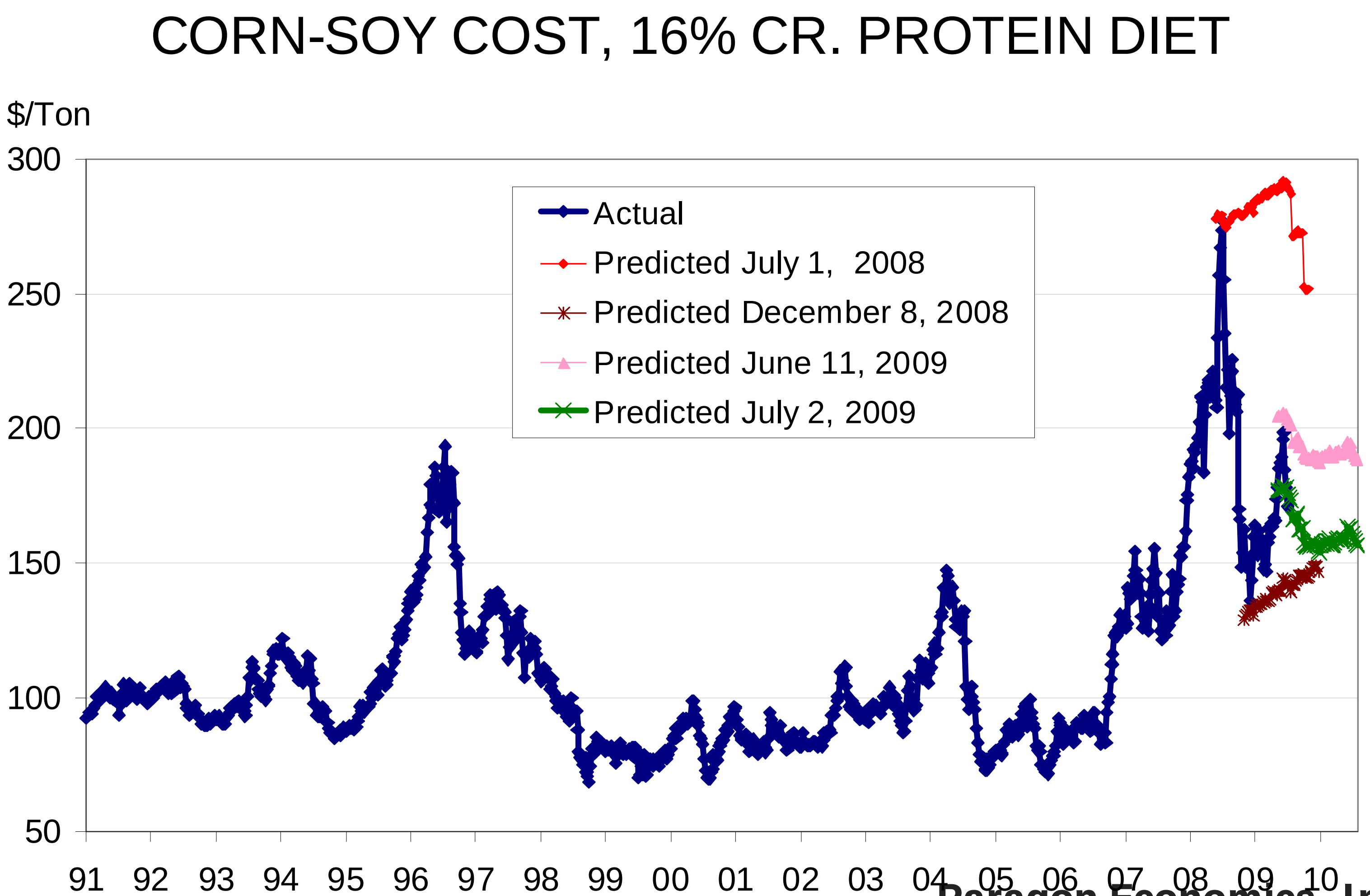
Actual relationship is a bit different . . .

. . . "Can" and "Have to" are different things



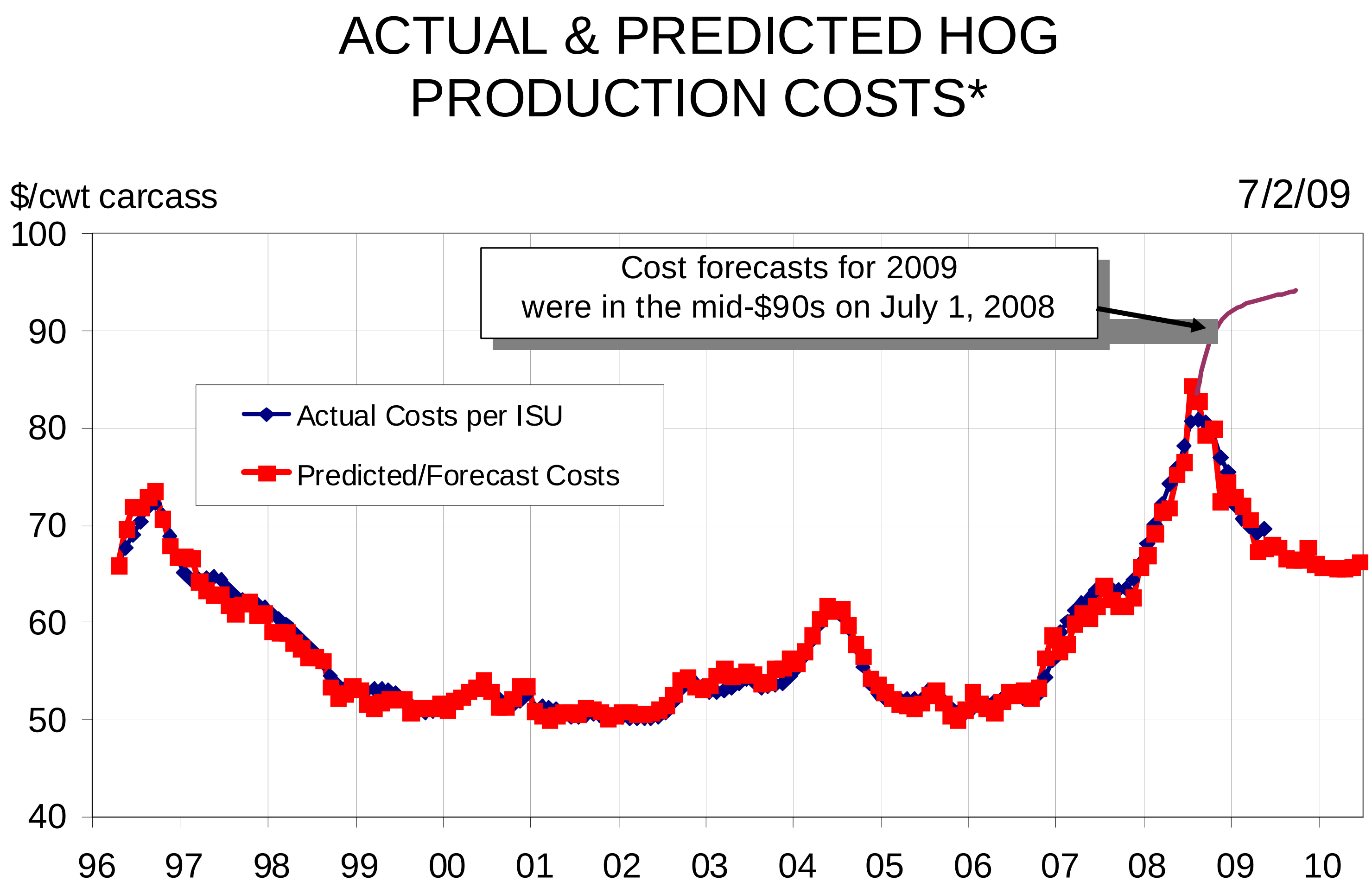
Feed costs had risen since early March . . .

. . . but dropped over $30/ton in three weeks



BE hog costs went from $71/cwt on 6/11 . ..

. . . to $65-66 on 7/2 – volatility, anyone?



*Based on relationsip between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices

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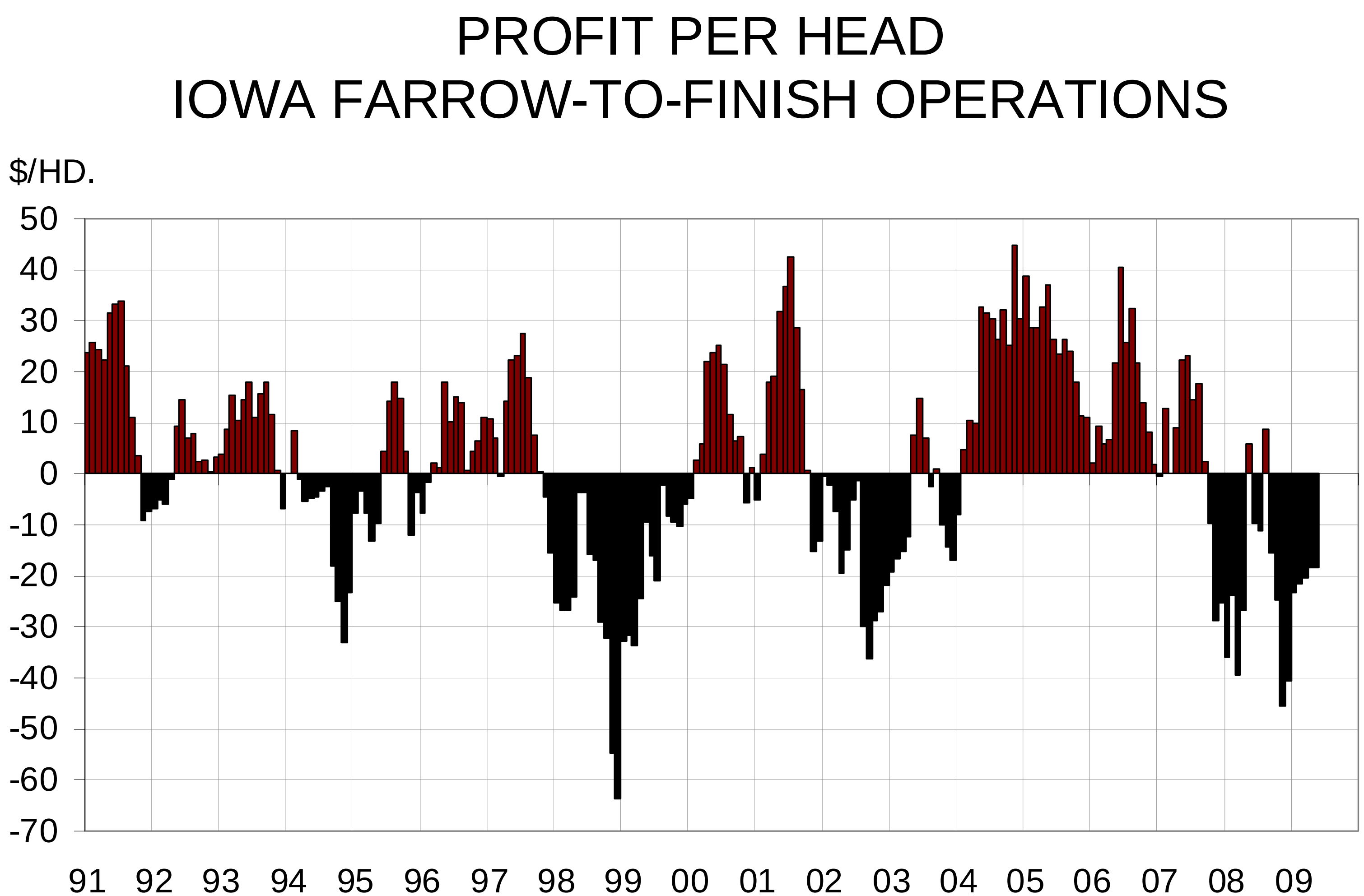
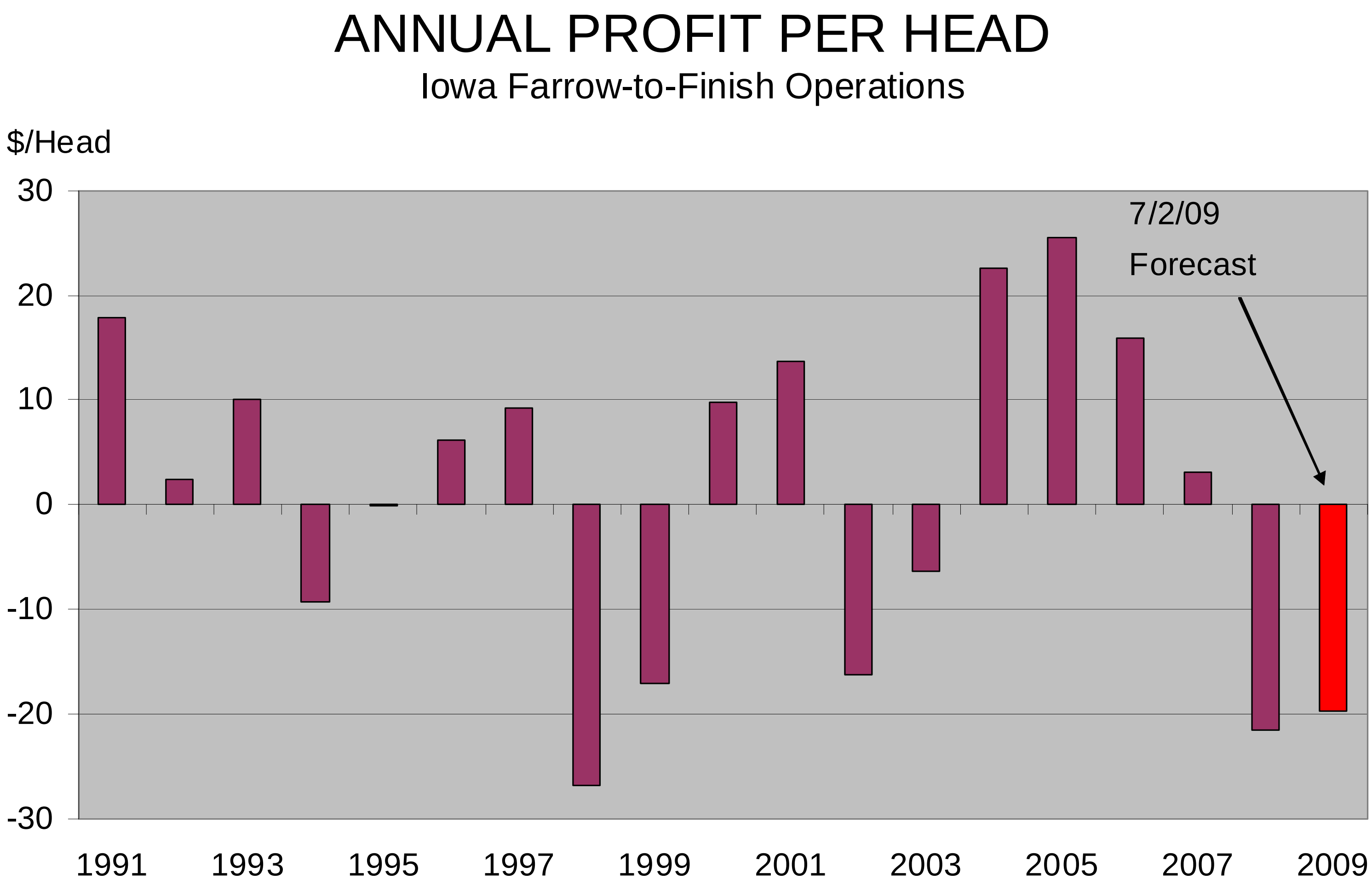
Losses are still large -- $18/hd. in May . . .



Source: Estimated Costs and Returns, Dr. John Lawrence, Department of Economics, Iowa State University

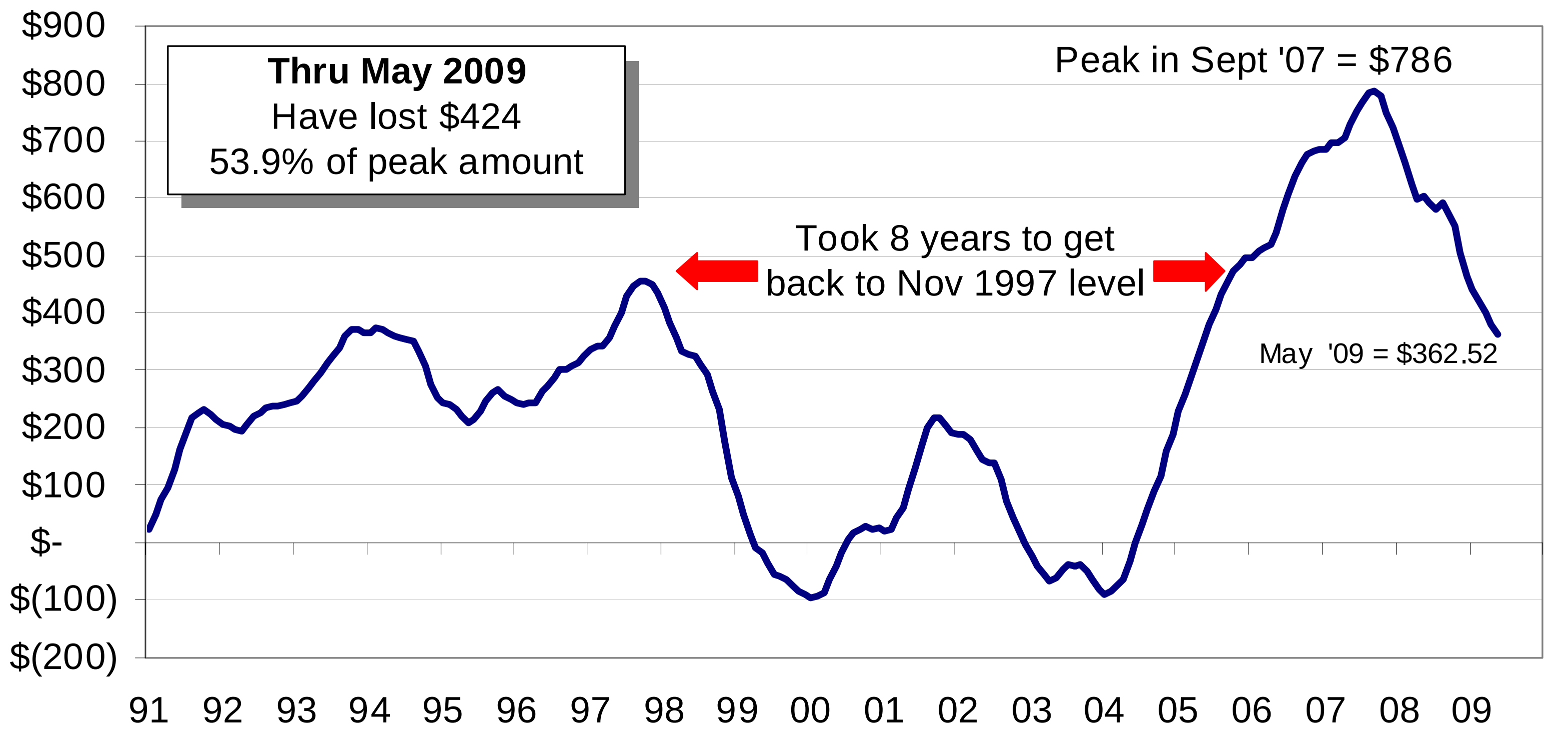
2008 was the second worst year EVER . . .

. . . with 2009 forecast a bit better – for now



Producer wealth is now at '97 and '06 levels

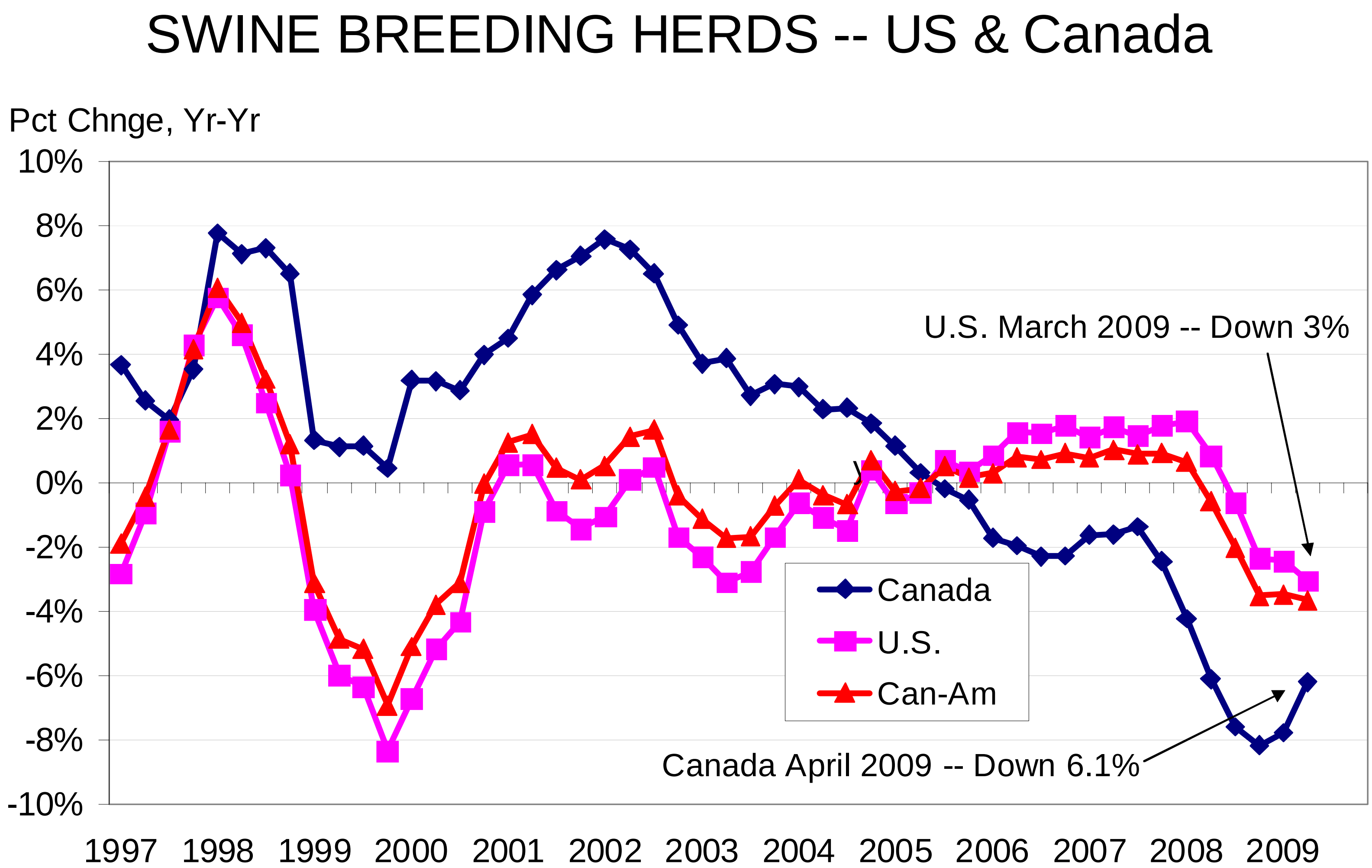
ACCUMULATED PROFITS
IOWA FARROW-TO-FINISH OPERATIONS
(Sum of the profit from selling one pig per month since January 1991)



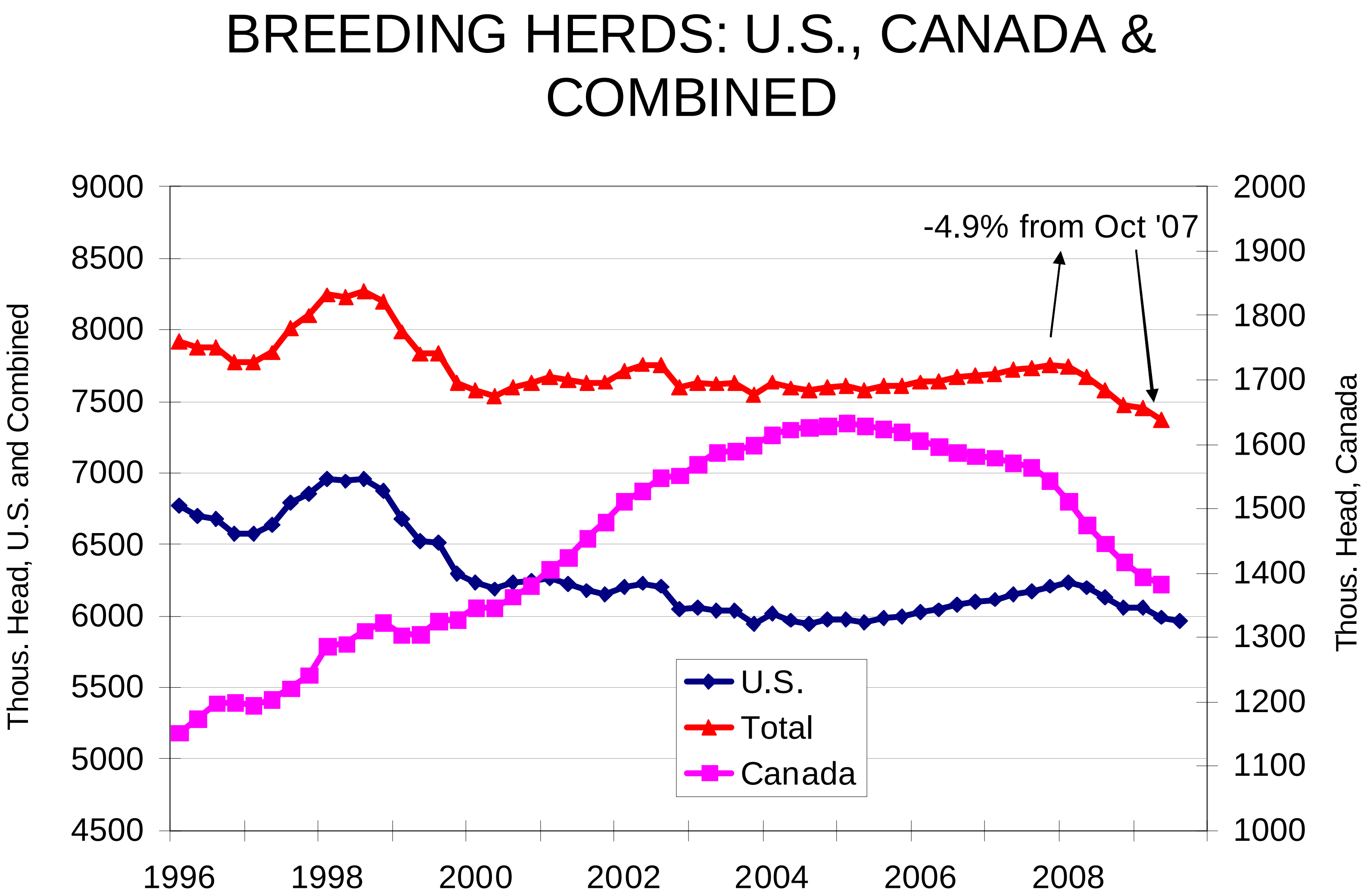
Source: Paragon Economics, Inc. using data from Estimated Costs and Returns, Dr. John Lawrence, Department of Economics, Iowa State University

Breeding herds are falling . . .

. . . But are just getting started, I fear!



April Can-U.S. BH was smallest since 1986



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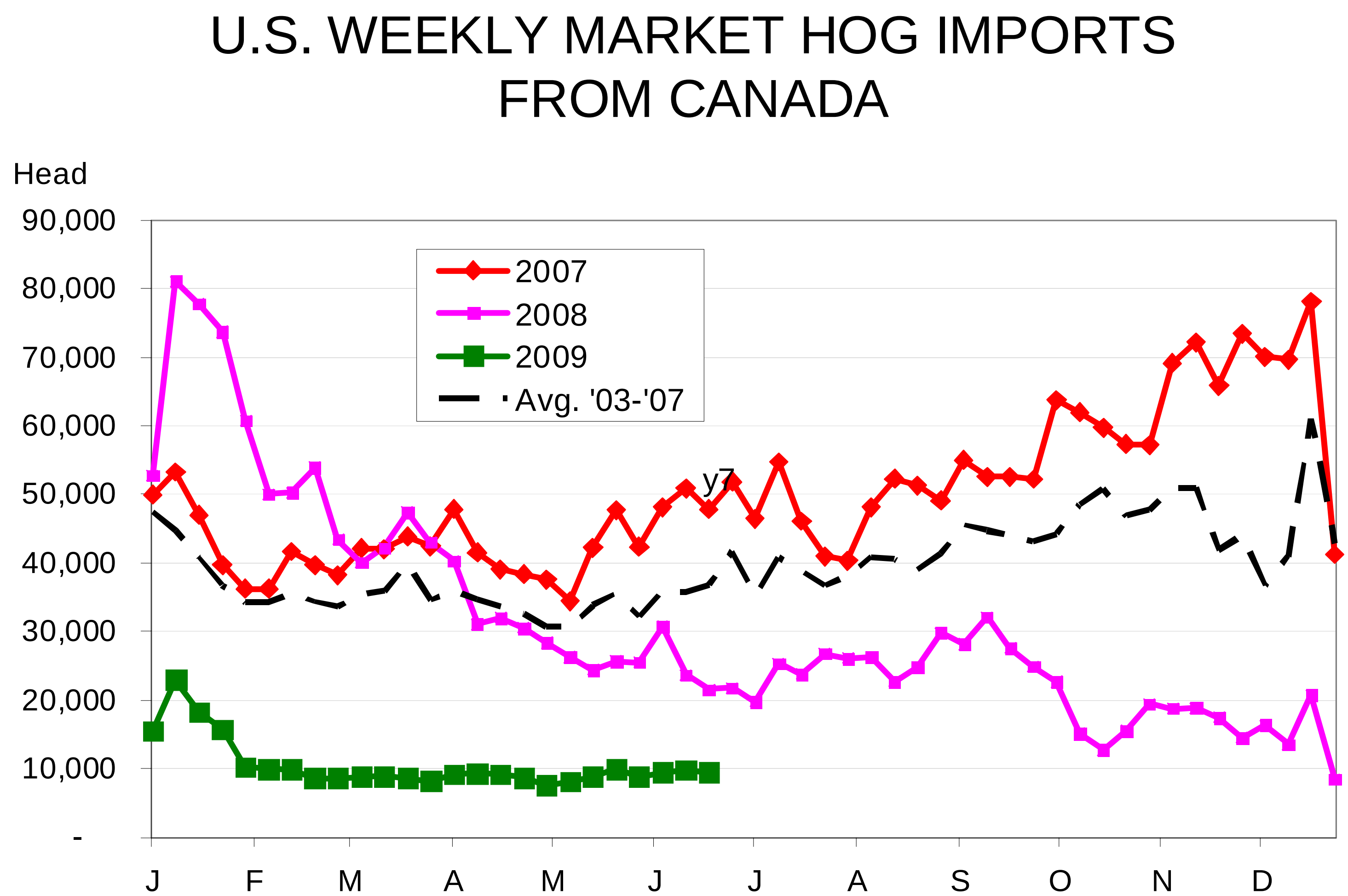
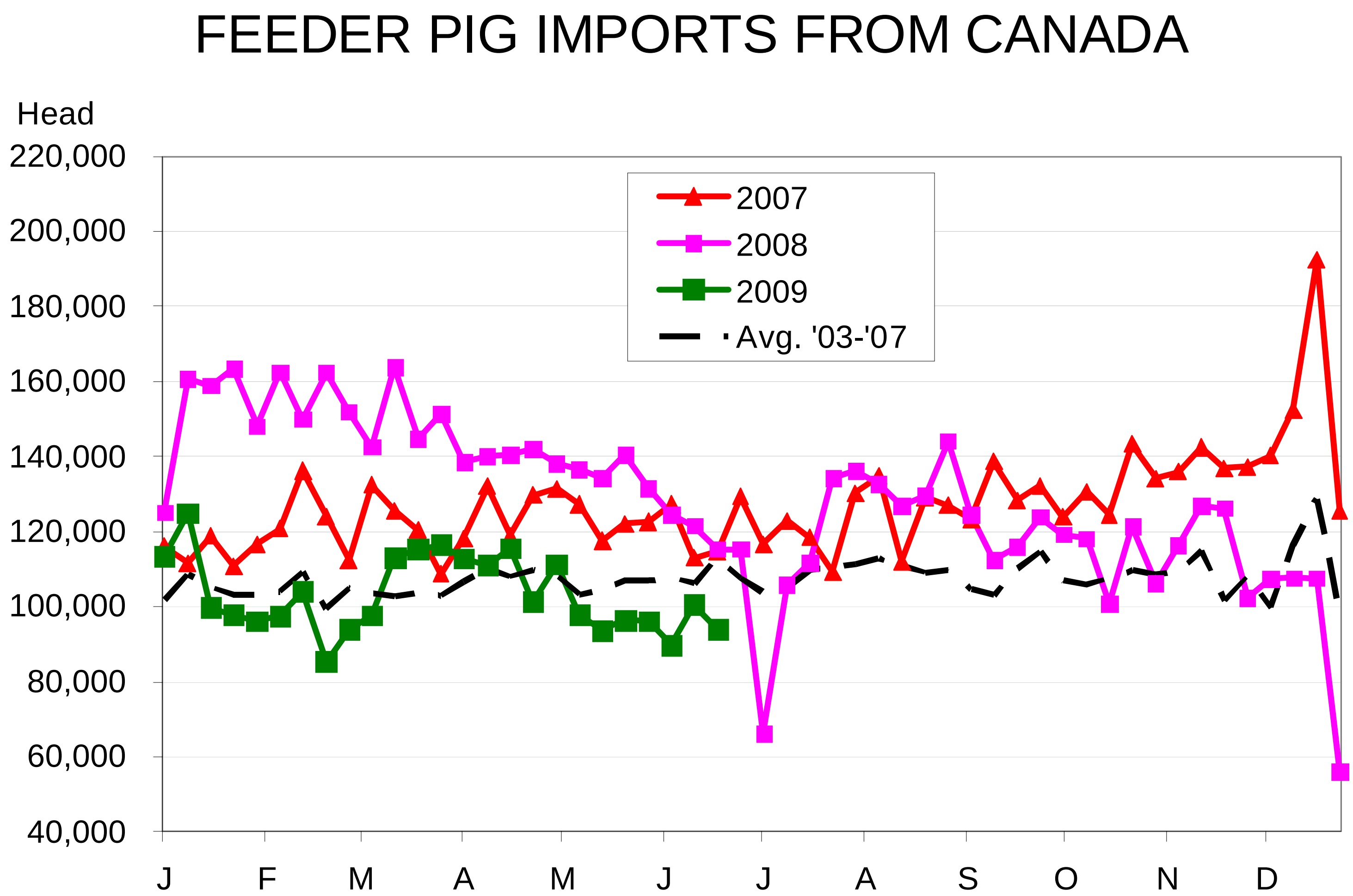
Fewer Canadian market hogs -- MCOOL & $C

. . . down 75% year-to-date



FP imports: 6.7 mil in ’08, 5 to 5.2 mil in ’09?

. . . YTD down 28% from ‘08

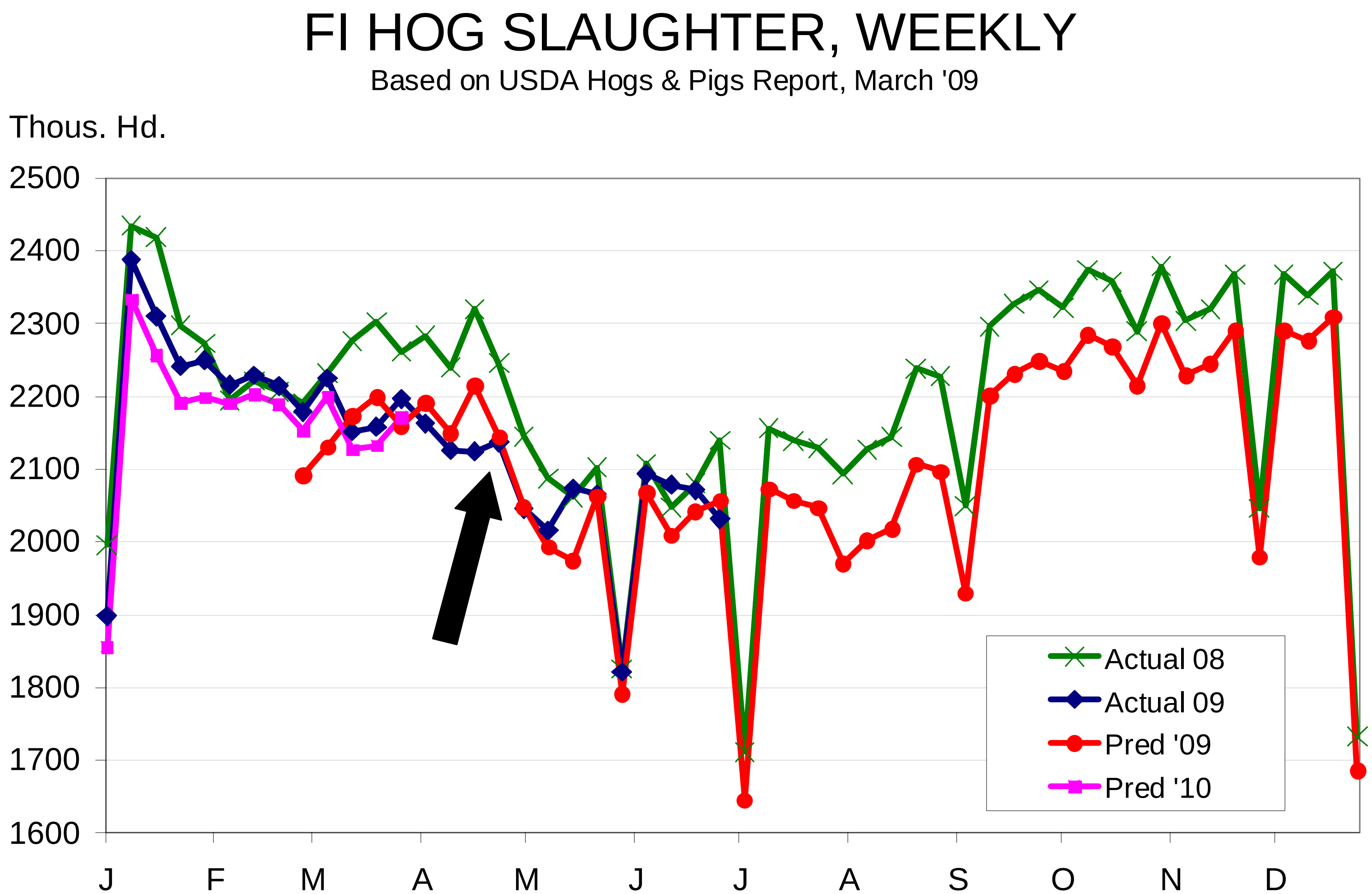


Status of MCOOL

- As predicted, a non-factor for consumers
- As predicted, some “USA only” packers are changing their tune and accepting Canadian-born, U.S.-fed pigs
- No more noise from Sec. Vilsack on “voluntary” labels – and there probably won’t be if label percents match production percents
- As predicted, a trade-distorting policy – Canada is pursuing their trade case -- Consultations
- I hope they punish someone else when they win!

Slaughter has been as expected since 3/1 . .

. . . Until the past 7 weeks -- +1.7%



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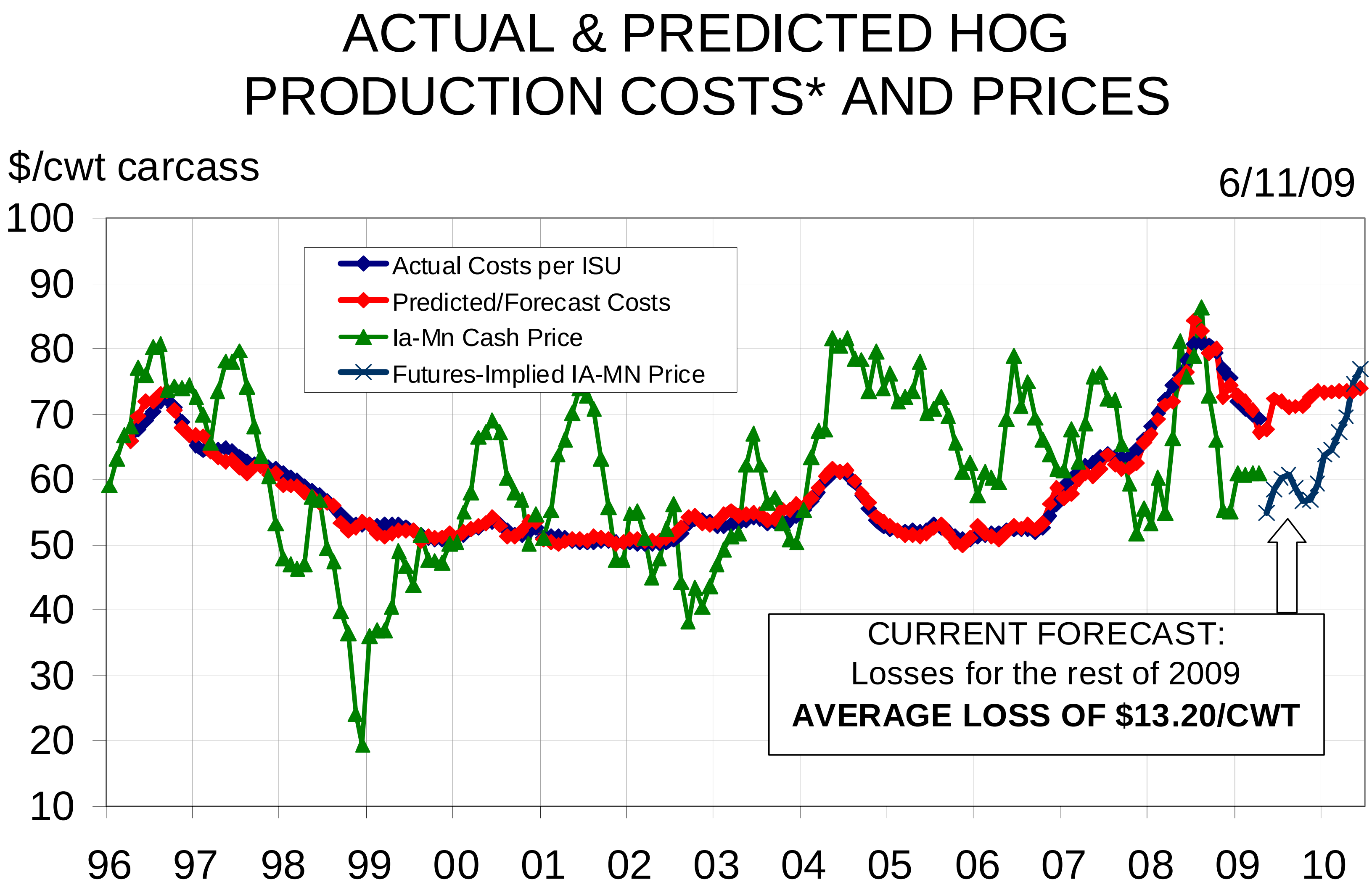
Projected '09 loss on 6/1: $13.20/cwt carc.



*Based on relationsip between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices

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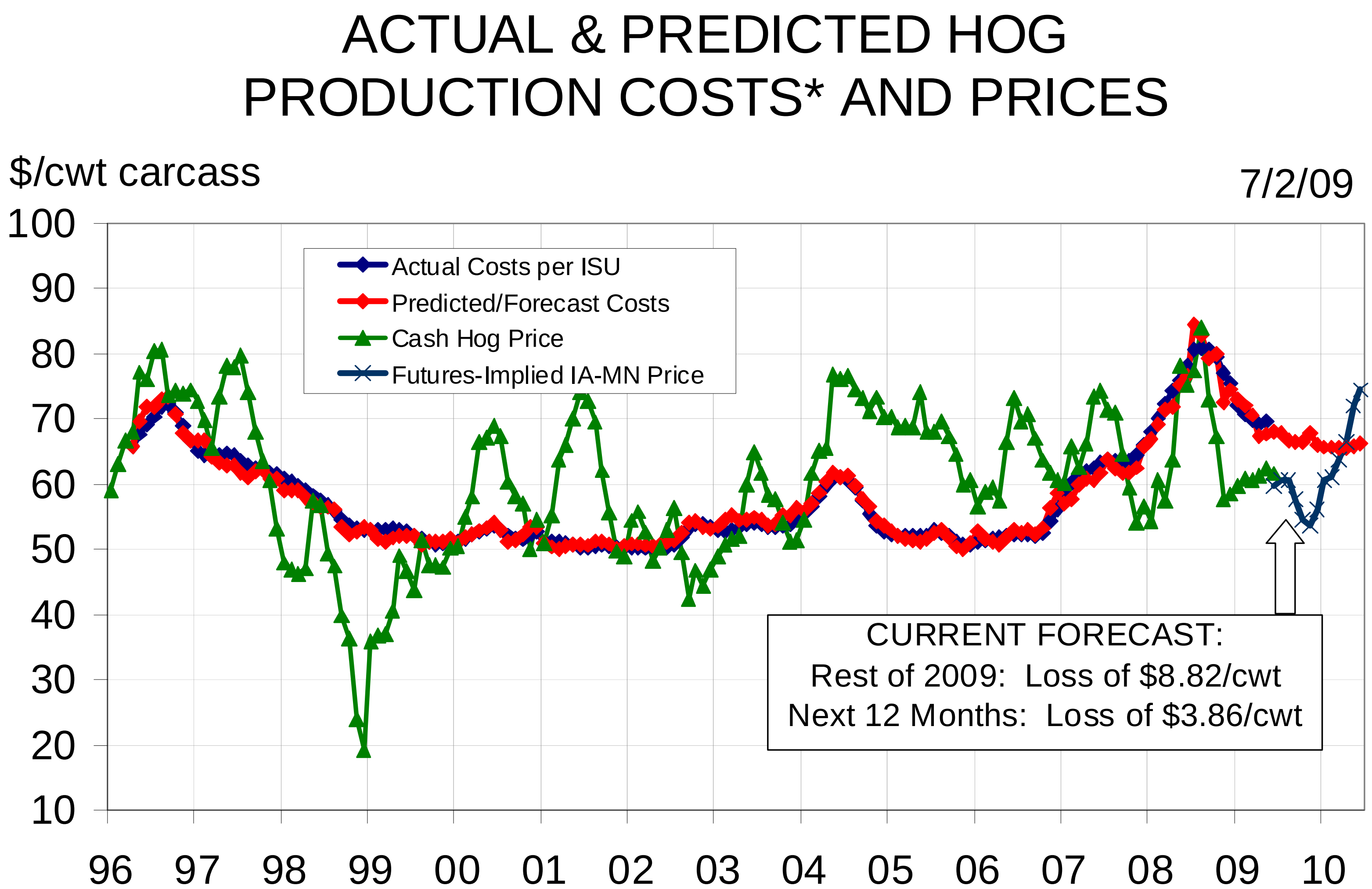
But some improvement last week



*Based on relationsip between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices

June Hogs & Pigs: About as expected . . .

. . . Except for RECORD litter size

USDA Quarterly Hogs and Pigs Report

June 26, 2009

Category	2008	2009	2009 as Pct of 2008	Pre-Report Estimates	Actual - Estimate
Inventories on June1[1]					
All hogs and pigs	67,400	66,079	98.0	98.1	-0.1
Kept for breeding	6,131	5,967	97.3	97.6	**-0.3**
Kept for market	61,269	60,112	98.1	98.0	0.1
Under 60 lbs.	22,197	21,673	97.6	98.2	-0.6
60-119 lbs.	15,321	15,008	98.0	97.7	0.3
120-179 lbs.	12,892	12,584	97.6	97.7	-0.1
180 lbs. and over	10,860	10,847	**99.9**	98.6	1.3
Farrowings[2]					
Mar-May sows farrowed	3,052	2,971	**97.3**	97.3	0.0
June-Aug Intentions	3,075	2,974	96.7	96.7	0.0
Sep-Nov Intentions	3,028	2,962	97.8	97.5	**0.3**
Mar-May Pig Crop1	28,630	28,547	**99.7**	99.1	0.6
Mar-May pigs saved per litter	9.38	9.61	**102.5**	101.8	**0.7**

[1]Thousand head [2]Thousand litters

Quarterly slaughter forecasts . . .

June 2009 Commercial Slaughter Forecasts

		Mizzou		ISU		LMIC		Meyer	
		Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge	Mil. Hd	% Chnge
2008	**Q1**	29.601	**11.1%**						
	Q2	27.941	**9.5%**						
	Q3	28.696	**8.1%**						
	Q4	30.214	**-0.05%**						
	Year	**116.452**	**6.7%**						
2009	**Q1**	**28.488**	**-3.8%**	**28.488**	**-3.8%**	**28.488**	**-3.8%**	**28.488**	**-3.8%**
	Q2	**27.042**	-3.2%	**27.111**	-3.0%	**26.972**	-3.5%	**27.111**	-3.0%
	Q3	27.775	-3.2%	28.553	-0.5%	27.454	-4.3%	28.007	-2.4%
	Q4	29.195	-3.4%	29.610	-2.0%	29.09	-3.7%	29.338	-2.9%
	Year	**112.500**	**-3.4%**	**113.761**	-2.3%	**112.004**	-3.8%	**112.944**	-3.0%
2010	**Q1**	27.825	-2.3%	27.918	-2.0%	28.316	-0.6%	27.918	-2.0%
	Q2	26.250	-2.9%	26.569	-2.0%	26.797	-0.6%	26.745	-1.1%

ACTUAL DATA FOR 2008

Green figures are actual data from USDA. Red figures are based on partial USDA data.

Revised price forecasts – MUCH LOWER . . .

. . . But look at the deferred futures - - HOPE

June 2009 Hogs & Pigs Price Forecasts

		Missouri	ISU	LMIC	Meyer	CME
		51-52% Lean, Live[1]	Ia-S. Mn. Live Price[1]	National Wtd Avg. Base Price	National Net Neg'd Price, Wtd. Avg.	CME Lean Hog Futures
						7/2/09
2008	**Q1**	$52.85	$53.05	$55.27	$53.40	$54.26**
	Q2	$70.01	$73.80	$69.92	$71.66	$71.66**
	Q3	$76.36	$80.02	$75.60	$77.48	$78.45**
	Q4	$55.89	$57.25	$59.00	$56.70	$58.51**
	Year	$63.78	$66.03	$64.95	$64.81	$65.72**
2009	**Q1**	56.15	56.80	58.42	57.22	$58.14**
	Q2	57.67	58.48	59.72	58.18	$59.03**
	Q3	**57 - 63**	**56 - 60**	**65 - 68**	**62 - 66**	**$60.57**
	Q4	**53 - 59**	**53 - 57**	**62 - 65**	**57 - 61**	**$57.72**
	Year	**56 - 59**	**56 - 58**	**61 - 63**	**58 - 61**	**$58.89**
2010	**Q1**	**55 - 60**	**59 - 63**	**60 - 63**	**58 - 62**	**$63.80**
	Q2	**60 - 65**	**63 - 68**	**64 - 67**	**61 - 65**	**$71.81**

[1]Converted to carcass using a yield of 75%

**Average of CME Lean Hog Index

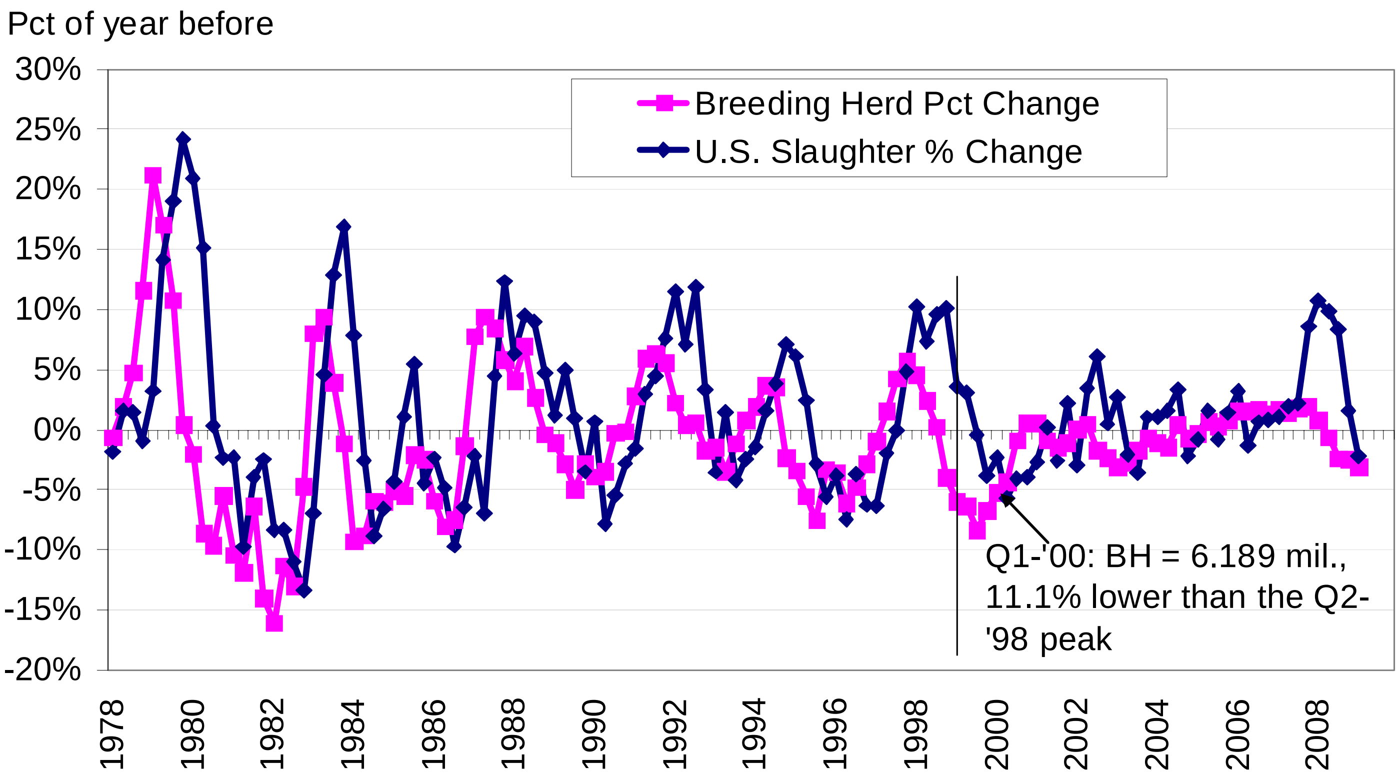
Will we overshoot the needed reduction?

- I do not think so – at least not buy a LOT
  - It takes time – sales of “sow” products to consumers will dictate the pace of reduction
  - People are constantly evaluating – new information will lead some to stay in
  - Resources – mainly capital – are freed up by exiting firms
- History says we don’t grossly over-shoot the needed level

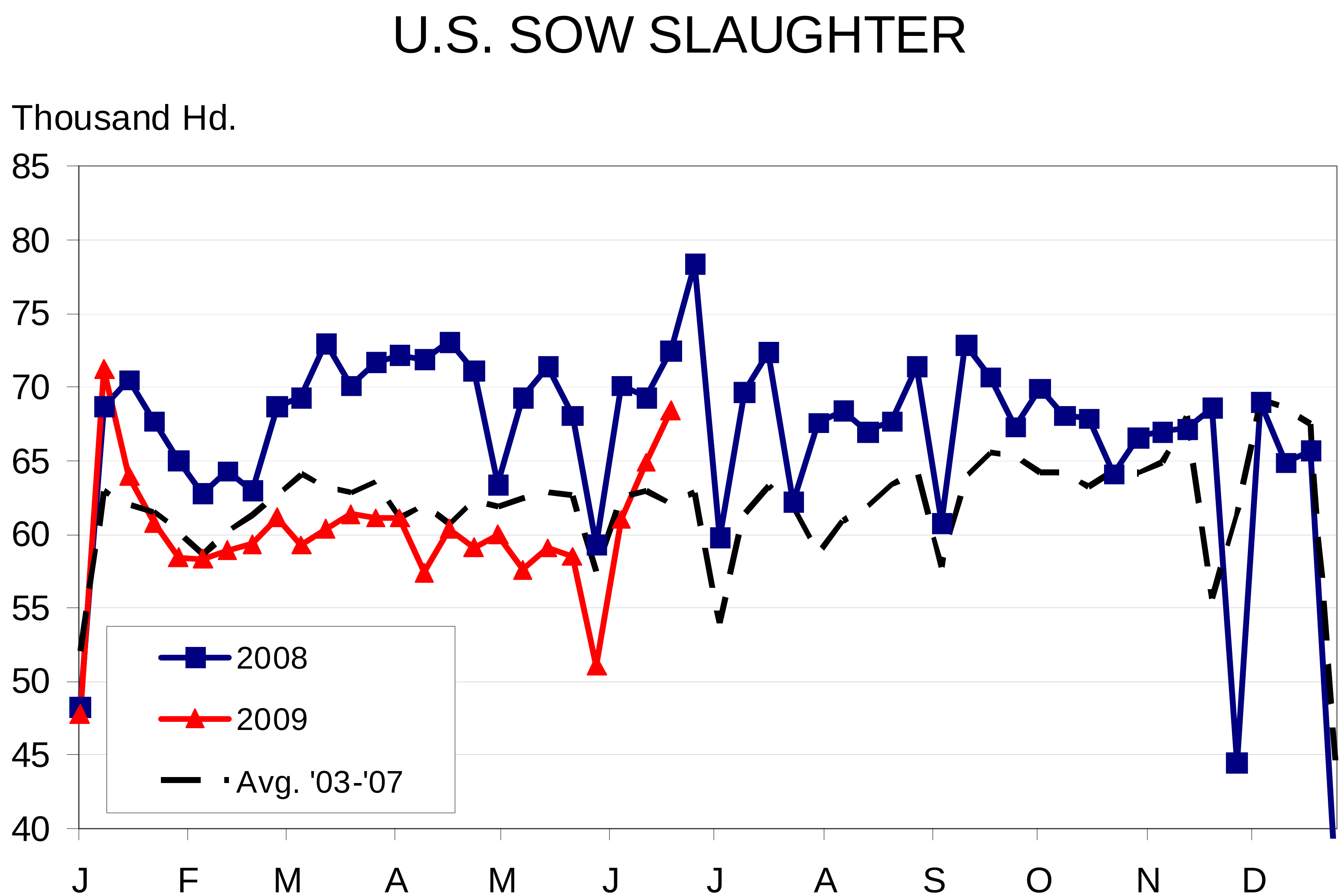
Consider 1998 to 2000 . . .

. . . And Canada kept growing then!

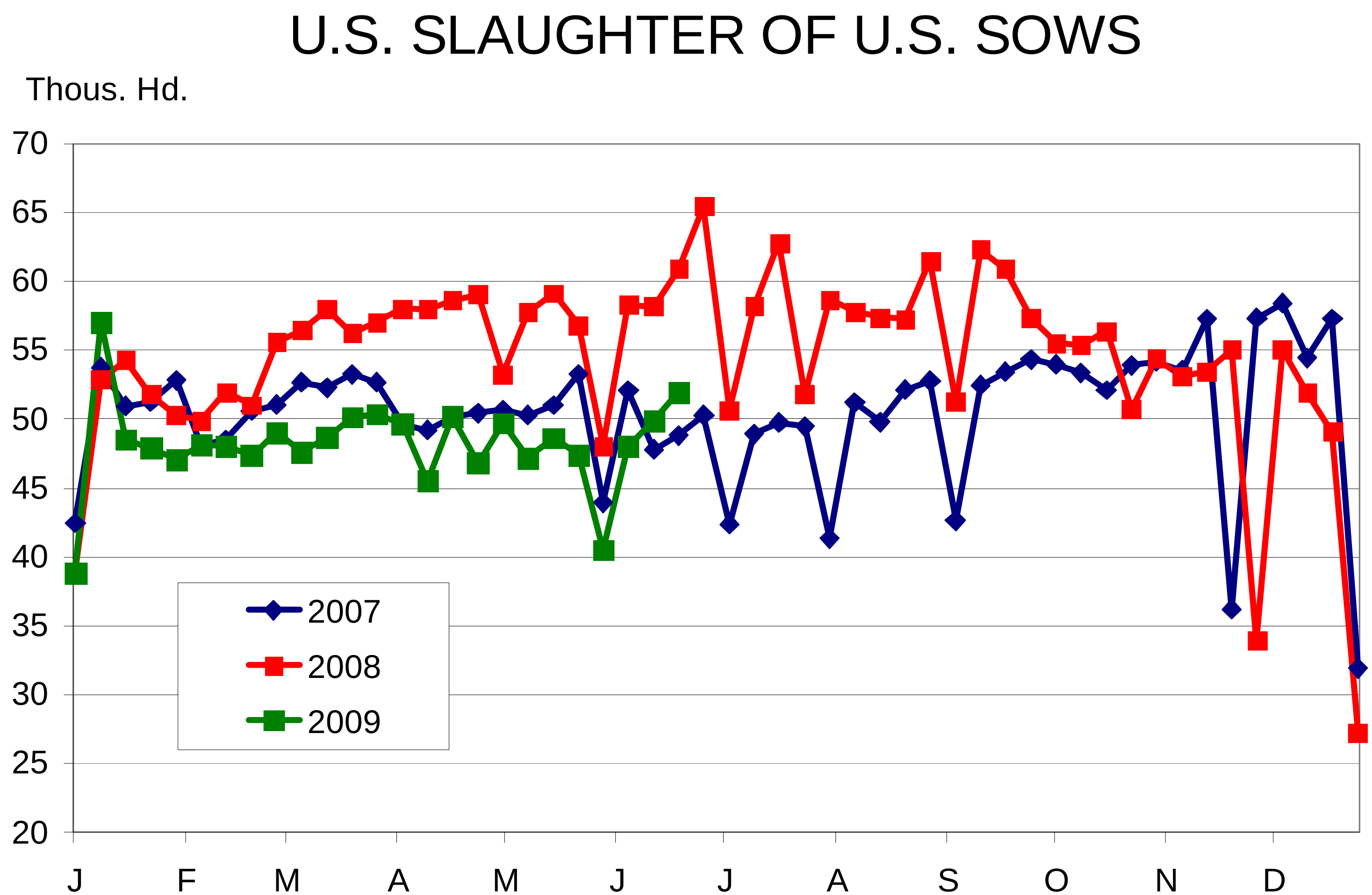
U.S. BREEDING HERD -- PCT. CHANGE
YR/YR



Slaughter has jumped – likely to 70k+/wk



But slaughter of U.S. sows is lagging . . .



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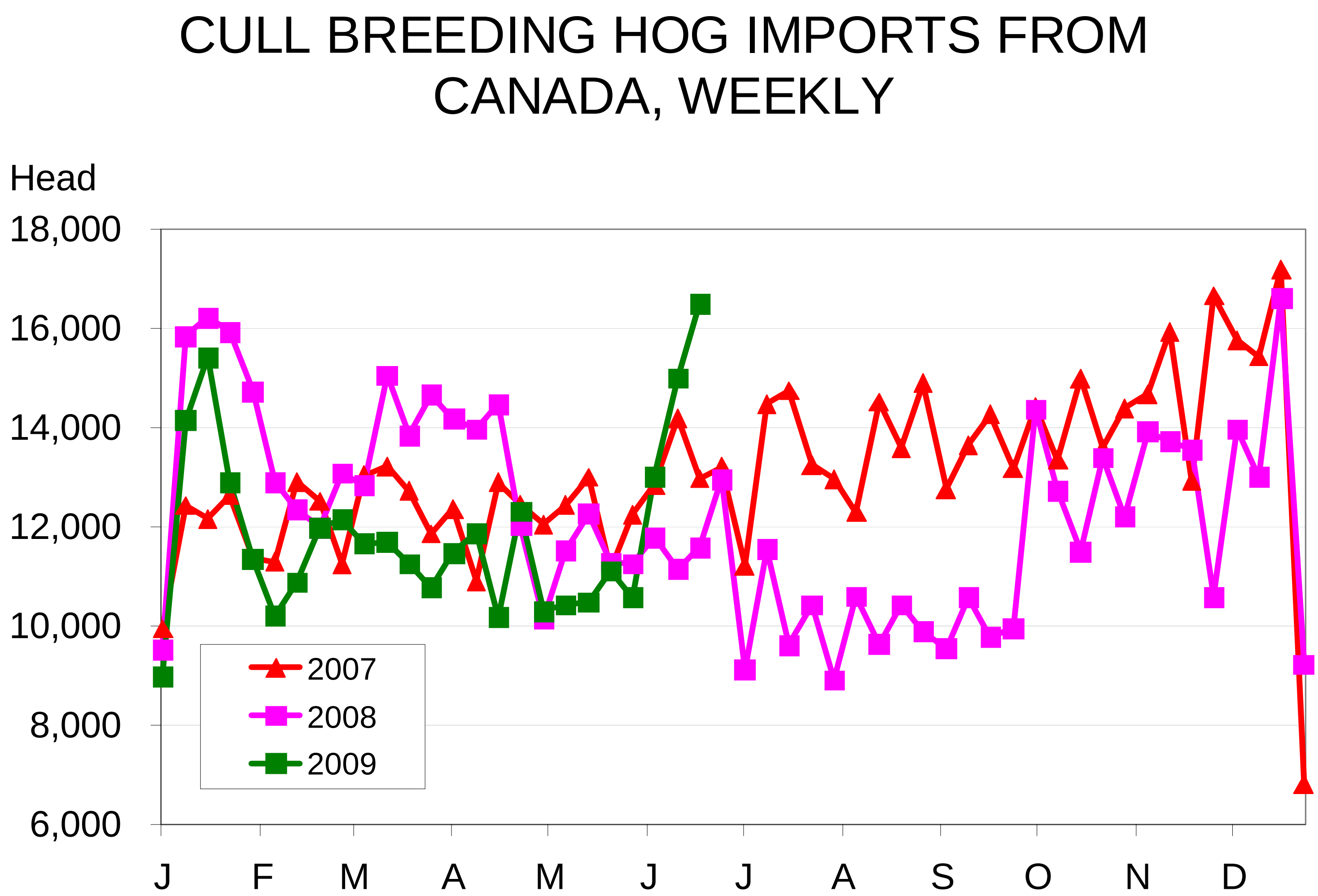
A surge of Canadian sows coming south . . .

. . . Stomp Farms liquidation -- for now.



Supply and price expectations

- Hog prices
  - Prospect for any profits in '09 are LOW
  - Demand is the key
- More breeding herd reduction
  - Canada's was slowing but has sped up again
  - WHEN will U.S. cut back more? It has begun.
- Weights are 2% higher – BIG factor
- Productivity is still growing – cutbacks must be enough to more than offset the growth

Risks

- Demand, both domestic and international, given the financial crisis and H1N1
- Exports
  - Had performed VERY well thru March
  - When will H1N1 impact abate?
- A new round of cost increases in ’09 – Higher feed prices are NOT GOING AWAY!
- MCOOL – impacts?
- H1N1 this fall – a real wild card

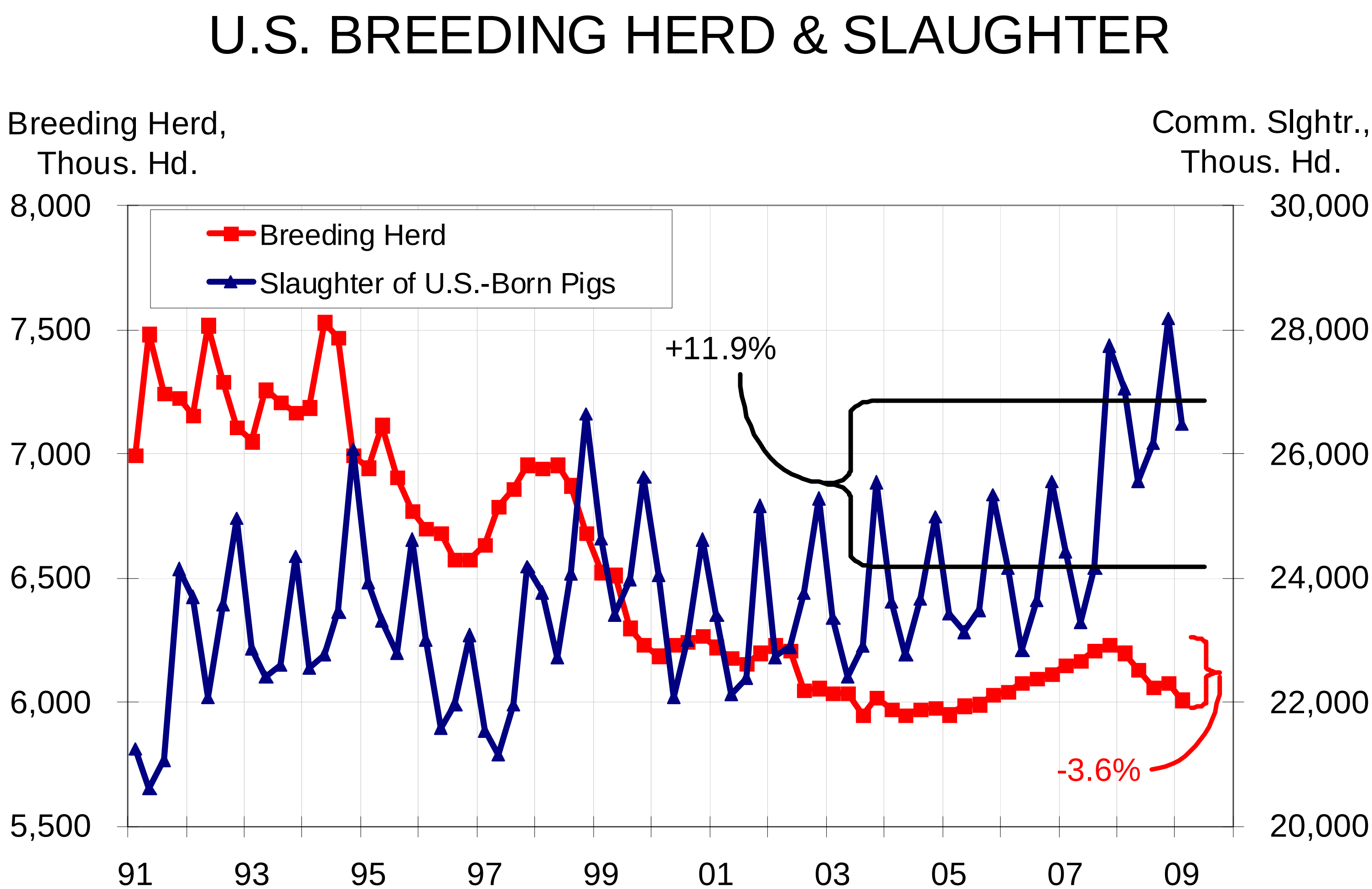
Will the pork industry survive?

- Absolutely – but some (perhaps many) producers will not
- Herd MUST downsize to adjust for:
  - Circovirus vaccine (7-10% increase in output)
  - Higher costs that may wane seasonally but are not going away (+20 to 30% requires a 10-15% lower output to get prices profitable)
  - Future: Changing eating patterns?
    - » Demographics
    - » U.S. government "knows what is good for us"

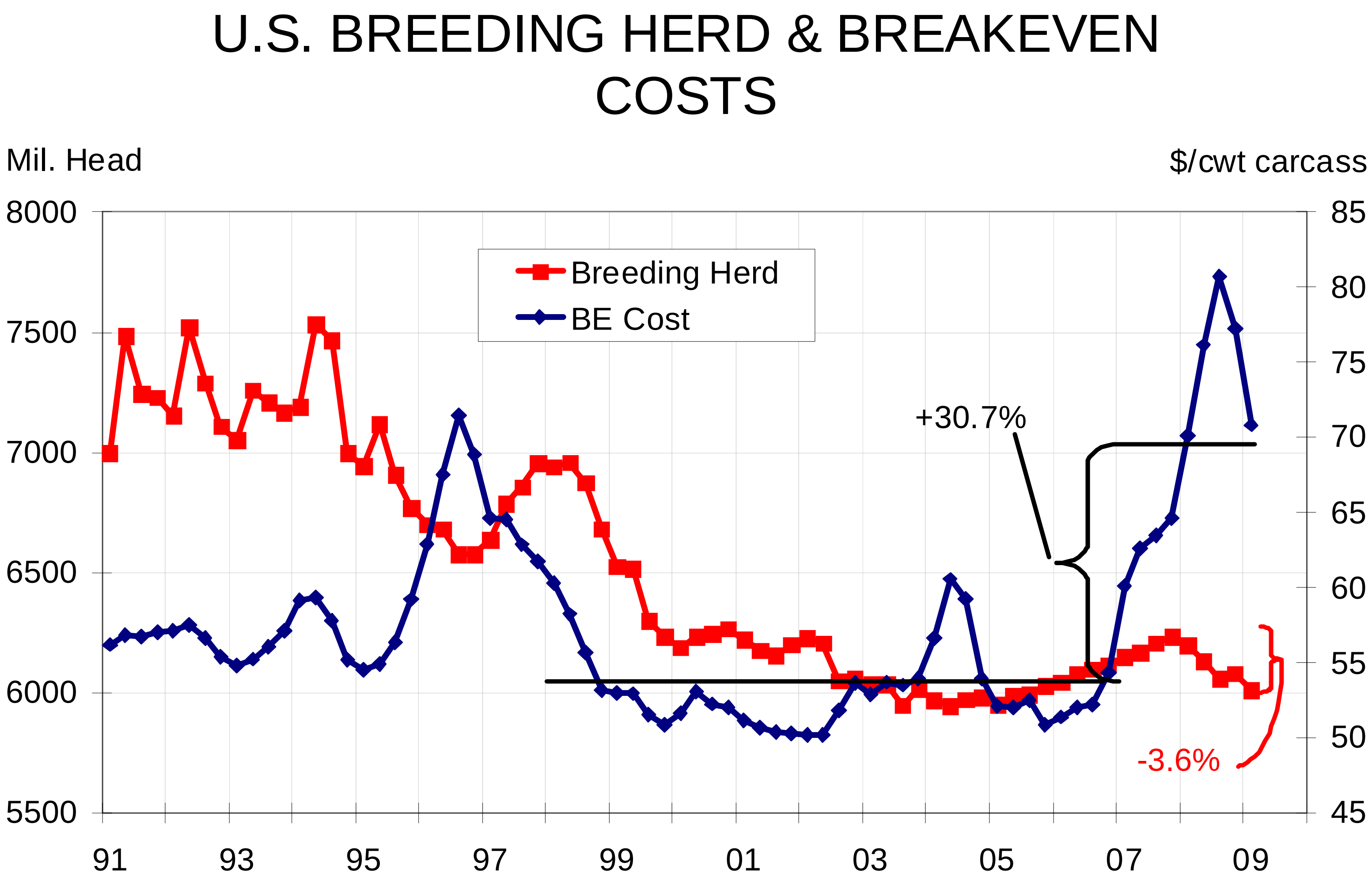
The US-Canadian industry must get smaller

- Canada has cut back substantially is doing so again – 16,503 sows/boars wk. of 6/21
- Productivity growth has offset U.S. cuts so far
- Who is going to blink?
  - “Small” farms have too little a share to help
  - Diversified farms have some staying power
  - Specialized producers – especially weaners – are in a very precarious spot.
- Bankers may have to force the issue

Circovirus vaccine impact



Breakeven cost impact



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QUESTIONS AND DISCUSSION?