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Article on industry stress

Economic conditions, H1N1 impact, plants being de-listed by other countries. It's no wonder members of the pork industry feel some concern about their collective and individual futures. In what we think is one of the best unbiased assessments we've seen on the current hog industry situation, we're reprinting below an article written by Kent Thiesse, a former University of Minnesota Extension educator and current vice president of MinnStar Bank. His article is reprinted here with permission from Corn and Soybean Digest. It's available on that Web site here <http://sn.im/o2la3> Let us know what you think.

## **Livestock Industry Under Stress**

By Kent Thiesse

At a time when many crop producers continue to show profits, even with sharply higher input costs, the entire livestock industry is under extreme financial stress. Livestock producers have been hit hard with a combination of declining market prices, higher feed costs and operating expenses, declining export markets and unforeseen events. The negative profit margins and financial stress are especially prevalent in the swine and dairy industries – two very important segments of Minnesota's economy. The continued negative profit margins and potential future reductions in the livestock industry should be a concern to crop producers, local communities and the state of Minnesota.

The growth of the biofuels industry in recent years has driven much of the discussion on future usage of U.S. corn and soybean production. The total amount of the U.S. corn supply used for ethanol production has increased by nearly one-third in the past two years, from just over 3 billion bushels/year in 2007-2008, to an estimated 4.1 billion bushels for 2009-2010. However, feed usage for livestock production is estimated to utilize approximately 5.2 billion bushels of corn in 2009-2010, or about 41% of the total U.S. corn usage. As recently as 2007-2008, livestock feed usage accounted for nearly 50% of the total U.S. corn usage. In addition, the other byproduct from increased Midwest ethanol production is increased volumes of dried distillers grains (DDGs), the vast majority of which are used for cattle and hog feed. The interaction with the livestock industry is very similar for soybeans. Nearly 60% of the soybeans produced in the U.S. are processed into soybean meal and soybean oil at plants such as ADM in Mankato and CHS in Fairmont and Mankato. Over 90% of the soybean meal produced is utilized as livestock feed.

## **Swine Industry's Negative Profits**

The recent worldwide concern over the H1N1 virus (so-called "swine flu") has had a major impact on the pork industry, and led significant financial losses for producers. This followed highly negative profit margins in 2008, due to rapid increases in feed costs and production expenses and a struggling U.S. and

worldwide economy. Let's review some of the numbers and facts leading to the current negative financial situation in the swine industry:

- In May, it was estimated that swine producers were receiving an average of \$110-115 gross value for every market hog produced, while the average cost of production was approximately \$140 per hog, resulting in a loss of \$25-30/hog.
- Iowa State University (ISU) calculates the actual estimated breakeven price for sow operations and hog finishing operations on a monthly basis, based on changes in hog market prices, feed costs and operating expenses. Sow operations have shown losses in the past 15 straight months, with losses of \$15-31/head for each 50-lb. feeder pig produced in the six-month period from September 2008 through February 2009. The hog finishing segment of the industry has not fared much better, showing losses in 17 of the past 19 months. Losses from finishing feeder pigs have averaged approximately \$20/head from January to April 2009, after losses of over \$40/head late in 2008.
- The feed cost for finishing a market hog rose from just over \$50/head in July 2007, to nearly \$80/head by July 2008. Current feed costs are near \$65/head.
- To some extent, the swine industry is a victim of its own success in recent years. Pork producers with sow operations have steadily improved genetics, herd health and production practices, which has led to producing more pigs per sow per year. While this is good for the financial bottom-line of the individual producer, it adds to the available supply of pork and thus puts pressure on hog prices. The pork production per sow has increased by over 11% in the past four years. So, even though the total number of sows in the U.S. has declined by 3.6% since 2007, the total supply of pork has continued increase.
- The May lean futures price for hogs at the [Chicago Mercantile Exchange](#) (CME) dropped about \$10/cwt in one week following the H1N1 outbreak, dropping from a closing price of \$69/cwt on April 24 to near \$59/cwt on May 1. The CME May futures price actually fell to a low of \$55.50 on May 4, a loss of nearly 20% of market value in just over 10 days. CME hog futures have rebounded somewhat, and were near \$60/cwt in mid-June. Following the H1N1 virus outbreak, U.S. pork exports dropped by 15-20%.

### **Dairy Industry Struggles**

In 2007 and early 2008 dairy producers had very profitable times, with milk prices rising to above \$20/cwt for several months. Almost overnight, the milk price dropped from near \$20/cwt in mid-year 2008 to below \$12/cwt by early 2009. Exports of dairy products dropped dramatically in late 2008, after significant increases in 2007 and early 2008. Approximately 10% of U.S. dairy production was exported in 2008.

Following are some additional facts and figures relative to the current state of the dairy industry:

- According to an ISU dairy budget in February 2009, the breakeven cost for a dairy cow producing 20,000 lbs. of milk/year in Iowa was \$15.62/cwt to cover all costs and expenses. The average February milk price was around \$11/cwt.
- In Minnesota, it is estimated dairy producers have been losing \$3-5/cow/day, or \$100-150/cow/month in the past few months.
- Dairy producers are aided by the federal [Milk Income Loss Contract](#) (MILC) Program, which compensates dairy producers in times of depressed milk prices. However, the MILC payments are about \$1.50-2/cwt, which certainly helps, but may still be below breakeven levels for many producers. Also, there is a cap on MILC payments based on production, which is equivalent to a herd size of about 150 cows.
- Similar to the swine industry, dairy producers are also victims of their own success. Even though the total number of dairy cows in the U.S. has been declining for decades, the average milk production per cow has been increasing at a more rapid rate.

### **Bottom Line**

The dairy and swine industries are both key segments of Minnesota's economy, and create thousands of jobs in rural communities throughout the state. It is estimated that each dairy cow creates \$15,000 of economic impact in local communities. In 2008, Minnesota had an estimated 4,700 dairy farms, and 468,000 dairy cows. Minnesota ranks third in the nation in hog production, with approximately 4,400 swine operations that produce over 11 million hogs annually, which is just under 10% of the U.S. total. Over 40% of Minnesota's hog production originates from south-central Minnesota, with Martin, Blue Earth, Nicollet, Waseca and Brown counties all in the top hog-producing counties in the state. For the

future demand for corn and soybeans, and for the future economic stability of rural communities in the region, it is very important for livestock production to return to profitable levels and greater financial viability. Unfortunately, in order to stabilize the livestock industry, it will require overall production of meat and milk to shrink, which will require some producers to exit the livestock business.

(Editor's note: Kent Thiesse is a former University of Minnesota Extension educator and now is Vice President of MinnStar Bank, Lake Crystal, MN. You can contact him at 507-726-2137 or via e-mail at [kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com).)

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NEWS

First H1N1 flu victim identified

The first known victim of H1N1 influenza has been identified. Celia Alpuche of the Institute of Epidemiological Diagnosis and Reference in Mexico City says the then six-month-old girl (who is alive) had no known contact with pig farms. According to Alpuche, the child first showed symptoms of the virus on Feb. 24. "It's complicated to say where it originated but the earlier samples are not from rural areas, that's to say areas with farms (or) pigs," Alpuche said. Read the article describing the finding on the Times Online Web site at this URL <http://sn.im/o0a8d>

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Quality Management System project report available

IPIC and the Iowa Beef Center at ISU led a Leopold Center-funded project that looked at functional quality management systems for livestock producers. Now completed, the project was designed to help farmers improve their management techniques and cost-control skills, and increase market access. You can read a one-page brief of the project here <http://sn.im/o092b> or read the project summary on the Leopold Center Web site <http://www.leopold.iastate.edu/research/grants/2009-1/M2006-03.pdf>

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IT'S A DATE

Continuing. PQAPlus™ and TQA certification sessions. See the IPIC web site here <http://www.ipic.iastate.edu/PQAPlus.html> for date, location and contact information.

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Aug. 5. Swine Transition Seminar. Northwest Iowa Community College, Sheldon. 9:30 a.m. to 3:30 p.m. Options and opportunities for pork producers in current economic conditions. Two tracks during the day; one optional session from 4 to 8 p.m. Cost is \$15 per person or \$20 per couple. Register soon to ensure adequate meals and materials. See this news release <http://sn.im/n57ta> for more information. Here's the link <http://www.ipic.iastate.edu/events/SwineTransition.pdf> to the registration brochure.

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Aug. 13-23. Iowa State Fair. "State Fair Time." Check it out here <http://www.iowastatefair.org/>

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DID YOU KNOW?

Iowan to lead National Pork Board

Northwest Iowa pork producer Tim Bierman has been elected as president of the National Pork Board. This one-year term follows his vice president duties. Bierman said he recognizes the difficulties that fellow pork producers are facing, and encourages all to be optimistic that the industry will rebound. Read a news release about his election on the NPB Web site here <http://sn.im/ntihm>

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FOR THE RECORD

Canadian research shows easier handling with larger groups

Results of a Prairie Swine Centre research project on swine handling seems to show that pigs raised in large groups are easier to handle than those raised in small groups. Dr. Harold Gonyou of PSC said several hundred pigs were included in this study, with small groups numbering 16-20 and large groups numbering 240. One specific finding: loading time for pigs from the large groups was reduced by one-third. This link to the Farmscape Web site <http://sn.im/o09qr> provides a written transcript of the program and links to audio versions.

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