Lower Pork Costs Also Driven by Lower Meal Costs

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Soybean meal is an important but an "economically" secondary feed ingredient in hog diets compared to corn. My estimates suggest that soybean meal costs have been about 22 percent of the total costs of raising hogs over the past decade, compared to 32 percent for corn.

In recent years, meal has been high priced. For the calendar years of 2012, 2013 and 2014 USDA reports that Decatur, Illinois high-protein meal has had annual averages between $440 and $480 per ton. But with a record U.S. soybean crop in the fall of 2014 and with the second largest crop in 2015, Decatur prices are expected to average about $350 per ton for 2015 and then fall further to average near $325 per ton for calendar year 2016. This would be the lowest annual meal price since 2007.

How much have lower soybean meal prices contributed to lower hog production costs? From 2014 highs at $480 per ton to the projected $325 in calendar 2016, costs of production would drop by $5.40 per live hundredweight due to the meal price reduction.

Livestock producers may adjust the corn to meal ratios in diets somewhat depending upon the prices of these two primary feed ingredients. For example, the 2012 drought caused corn prices to be very high relative to soybean meal prices. This relationship caused some shifting to higher protein diets because meal was relatively lower cost than corn. Then for the 2013 and 2014 crops, corn shifted to be cheaper relative to meal. This caused some to reduce their protein levels. In the coming year, corn and meal prices are returning to a more normal long-term relationship.

Estimated total costs of production for a hundredweight of live hogs reached the highest calendar year average in 2012 at $67 per live hundredweight. That dropped to an estimated $51 for 2015. Current projections for 2016 are that total costs will remain about $51. For 2016, lower meal costs are offset by somewhat higher anticipated corn costs, keeping total costs similar to 2015. Clearly a $16 per hundredweight drop in feed costs from 2012 to 2015 and 2016 is a major reduction.

Record costs of production was a contributor to higher retail prices that reached the highest level in September 2014 at $4.22 per pound for USDA's composite pork average. Of course, PED death losses also contributed to reduced pork production in 2014 as well. Lower priced feed and better control of PED has resulted in higher pork production and as a result consumer pork prices have fallen to $3.77 per pound in July 2015.

Hog producer margins are expected to be near breakeven for both 2015 and 2016. Estimated costs are near $51 and expected live hog prices are near $50. This means a $1 to $2 loss per head. Breakeven implies that supply and demand are close to an equilibrium and that all resources are receiving a "normal" rate of return. This implies that producers have little financial incentive to expand, or to contract. It also means that the lower feed costs over the past few years have been built into more pork production and consumers will now be the beneficiaries of reduced retail prices.