10-22-09

Pork producers' continuing losses highlighted in House hearing

By Jon H. Harsch

With U.S. pork producers facing continuing losses, at a House hearing on the industry Thursday, witnesses and congressmen variously blamed H1N1, the global financial collapse, industry overexpansion, and government regulatory and trade policies.

USDA's Michael Scuse, Deputy Under Secretary of Agriculture, Farm and Foreign Agricultural Services, listed most suspected causes: "The reasons for the recent economic distress in the U.S. hog sector are varied and complex. Some are similar to the reasons for the distress suffered in the dairy sector: overexpansion in response to higher than normal profits in previous years, combined with recession-driven declines in domestic and international demand. In addition, the U.S. hog sector has also been unfairly linked to the emergence of the novel H1N1 influenza reducing demand for pork and pork products." But he added that "The hog sector, like dairy, is expected to improve substantially over the next year as the breeding herd continues to contract and domestic and international demand improve."

Scuse, a Delaware grain farmer himself, went into detail in his testimony to the House Agriculture Committee's Subcommittee on Livestock, Dairy, and Poultry:

- "Hog production is cyclical, with a period of profits normally inducing expansion, followed by a period of losses that induce contraction. September 2009 was the 22nd month of losses on hogs marketed since losses began accruing in the down phase of the current hog cycle in October 2007."
- "According to Dr. John Lawrence of Iowa State University, a typical Iowa-Southern Minnesota farrow-to-finish operation experienced monthly losses per hog marketed averaging about $20 for the 24 months from October 2007 to September 2009, with losses as high as $40-$46 per head in November and December 2008."
- "Given 200 million domestically-produced hogs marketed during this 2-year period from October 2007 through September 2009, losses to the hog sector are estimated at approximately $4 billion."
- "These losses compare to average monthly profits, calculated by Dr. Lawrence, of $24.27 per head over the 43 months from February 2004 to September 2007.

Those profits were due to rapid increases in domestic and export demand for pork, driven by strong worldwide economic growth and a depreciating U.S. dollar."

- "That period of profitability was a contributing factor to the expansion of the hog sector in 2007. Annual farrowings in 2007 increased 5.3 percent over 2006 farrowings, and in the last half of 2007, farrowings were up 7.7 percent over farrowings in the last half of 2006."
- "In contrast, farrowings between 2004 and 2006 increased an average of only 0.6 percent annually."
- "Moreover, imports of live hogs from Canada increased 14 percent in 2007, to 10 million head, as Canada's hog sector also expanded, and represented over 9 percent of hogs slaughtered in the U.S. in 2007. Hog imports from Canada began to drop below year ago levels in May 2008 and are down 32 percent so far in 2009."
- "Both countries have continued to experience increases in litter size, with litter size in the United States increasing 4.3 percent between the 4th quarters 2006 and 2008, for example."

Scuse noted that other causes for the pork industry's collapse include worldwide recession, "the increase in feed prices starting in the fall of 2006," and non-science-based trade barriers that countries such as China and Russia imposed using H1N1 as the excuse. On the trade front, he reported that "Russia has rescinded all of their bans. China continues to maintain bans on all U.S. pork and pork products and the administration is using every opportunity to press China to remove these unscientific bans."

Looking ahead, Scuse said "Losses are expected to moderate from now through 2010 due to recovering exports, a lower-valued dollar, and a "return to domestic and global economic growth." Predicting "improved profitability in the U.S. hog sector in 2010," Scuse said positive signs include continuing declines in production, breeding herd, farrowing intentions, and live hog imports from Canada.

On prices, Scuse said "USDA expects live hog prices to increase from the current mid-to-high-$30 per cwt range to the high-$40 per cwt range, and feed costs to average about the same in the last half of 2010 as in the last half of 2009. Unfortunately, the 4th quarter is the seasonal low for hog prices and the 4th quarter 2009 price for live hogs is expected to average $35 per cwt, down from a 3rd quarter average $38.90. Hog prices are expected to increase during the first three quarters of 2010. The 1st quarter 2010 price is expected to average $40 per cwt; the 2nd quarter average is an expected $45, and the 3rd quarter 2010 price is forecast to average $49 before seasonally declining to $45 in 4th quarter 2010. Feed prices are expected to increase seasonally, through the first and second quarters of 2010 before declining in the third and fourth quarters."

Scuse listed the wide range of USDA efforts to help the pork industry, including pork purchases, credit assistance, expanded export promotion programs, and expansion of USDA's underutilized Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) programs

Subcommittee Chair David Scott (D-GA) said that "one calamity after another" has cost the pork industry over $5 billion since 2007. He warned that "Clearly if this situation persists, we will lose producers altogether at an ever-increasing rate. . . Something must be done both in the short term and in the long term in order to aid the pork industry in turning itself around."

Rep. Bob Goodlatte (R-VA) called on committee members to consider "the adverse effects on producers that are the result of the actions of government, actions such as trade policies and additional regulatory burdens like mandatory country-of-origin labeling." He said the pork industry's problems highlight the need for Congress to avoid unintended consequences by carefully considering possible impacts before it votes on "policy proposals like cap and trade, health care, antibiotic legislation, energy policy, animal welfare, industry structure, and changes to tax law."

Rep. Phil Roe (R-TN) said he was concerned that the cap-and-trade climate legislation supported by the administration will worsen farm-sector problems by increasing production costs. Scuse responded that USDA's own concern about rising energy costs "is one of the reasons why we need to look at the alternative energies, the biofuels, to become more self-sufficient on energy and to look at what we can do to keep our energy costs low." On cap-and-trade, he said "we believe that agriculture will actually benefit from cap-and-trade legislation, especially the livestock sector, we believe that there will be opportunities for them to profit from this, just not be a financial liability but also be able to make additional revenues from their farming operations through the cap-and-trade."

Roe responded that "I may have a different opinion."

Farm Credit System lender Mark Greenwood of AgStar Financial Services in Mankato, Minnesota warned that the pork industry's bad situation appears to be getting worse. He said "We've seen cost of production from September 7th to today actually increase by 15 to 20%. This is in the span of six to seven weeks. This is unprecedented." He said pork producer owner equity has declined to the point where "We're probably currently at about 30% owner equity," creating dramatically greater credit risk. He said that "From a lender's perspective, the last thing we ever want to do is put people out of business. However, it does not make sense for us to keep funding losses forever. The outlook for the next six months shows that more losses are coming. Without clear indications that this downward spiral in equity will change, prudent lenders and producers face difficult decisions about whether the best choice is to exit the business."

Greenwood pointed out that "we had producers with no debt in 2007 that are now insolvent." Given such a sudden reversal, Greenwood warned USDA that "The industry needs your help and support. As a lender, rest assured, we are doing all that we can to stay with the industry and our borrowers but we can't put the institution at risk by doing so."

To read the written testimony from the Oct. 22 House hearing on the pork industry, go to: http://agriculture.house.gov/hearings/statements.html

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