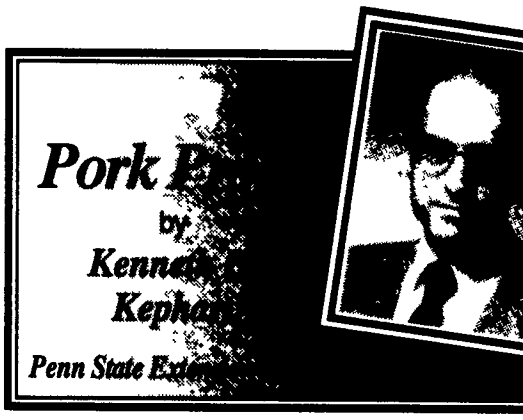

STATE OF THE SWINE INDUSTRY — 10 OBSERVATIONS

1. Operations Are Getting Fewer And Larger

The number of swine operations has dropped from 661,700 in 1975 to 208,780 in 1994. In 1988, only 3 percent of operations had 1,000 hogs or more, and they accounted for about 36 percent of the national inventory. By 1994, the number of operations with at least 1,000 hogs doubled, now accounting for 55 percent of the inventory.

2. Production Is Going Up, Price Is Going Down

About a year ago, the National Pork Producers Council predicted a "mountain of meat" for 1995, which corresponds to the 1995 projections here. However, the price disaster in the fall of 1994 seemed to catch everyone off guard. If this production trend continues, low market prices may become a way of life.

Year	Slaughter (millions)	Price $/cwt
1990	85.1	54.48
1991	88.2	48.88
1992	94.9	42.30
1993	93.1	45.44
1994	95.6	39.53
1995*	97.0	39-41

* Projected. Grimes and Plain, 1995.

3. Producer/Packer Price Contracts Are Becoming A Reality

Many of the major U.S. packers are engaged in price arrangements with producers:

Farmland Foods — Serious and open about contracting efforts.

Monfort (ConAgra) — Not discussed openly, but reportedly price varies with location and carcass quality.

Hatfield Quality Meats — Available to some producers depending on quality and numbers.

Excel (Cargill) — Some contracting, volume uncertain.

IBP — Ties to producers but not to price.

4. The Retail-To-Farm Price Spread Is Increasing

The Morgan Research Group (Garnett, Kan.) has calculated various indexes relating to marketing trends. Using 1985 as the base year for comparison, they set the live hog demand index and the retail demand index at 100. Since that time, the retail demand index has fallen slightly to 95, while the live hog index has dropped to 85. This indicates consumers are willing to pay nearly as much for pork, but live hog prices have not remained as strong. This phenomenon frustrated many producers this past fall who were selling hogs at $25/cwt while retail prices remained relatively unchanged.

5. North Carolina Is A Force To Be Reckoned With

North Carolina, as a state, now ranks number two in hog production just behind Iowa. In the table below, note that North Carolina's inventory has more than doubled in just four years. Its inventory is half as large as that of Iowa's, but there are only one fourth as many producers. The state has probably led the nation in the adoption of new production practices, including large-scale facilities, multiple site production, and the use of artificial insemination.

Iowa:
14.2 million hogs in Mar '95 (13.5 million in '91)
29,000 producers
Breeding herd inventory was down 18 percent in Dec. '94, and dropped another 9 percent by Mar '95

North Carolina:
7.2 million hogs in Mar '95 (2.9 million in '91)
7,000 producers
82 percent of production contracted
Cash receipts for hogs now roughly equals that of tobacco.

6. If IBP Locates A Plant In The Carolinas, Changes Will Be Felt

Iowa Beef Processors (IBP) has been reportedly considering the construction of new packing plant for processing hogs somewhere in the Southeast. The increased slaughter capacity it would bring to the region would hopefully boost the market price base for the entire East Coast.

But there are producers who fear that other packers may not be able to compete, leading to consolidation or even an eventual loss in kill capacity.

7. There Is Little Profit In $40 Hogs

Using a hypothetical 1000-sow farrow to finish operation, corn at $2.75/bushel and productivity at 18 pigs/sow/year, the current bottom line with $40 hogs is about minus $7,500. Increase sow productivity to 20 pigs/sow/year and the profit jumps to $79,000. Shave 25 cents off the price of corn, and profit increases another $58,000. Add $5/cwt onto the price of hogs, and net income jumps by another $230,000 to $367,000.

These numbers simply tell us that, in order to make money in the hog business, things must go right. Minor changes in productivity, the cost of inputs, or price of hogs have an incredible influence on income.

8. The Industry Is Beating A Path To Integration

Here are six of the top-ten hog producers and their ties to packing plants.

National Rank	Name	No. Sows	Packer Connection
1	Murphy's	200,000	Owns 3% of Smithfield Packing
2	Carroll's	110,000	Owns 13% of Smithfield Packing
3	Tyson	97,000	Owns a packing plant
4	Premium Std Farms	96,800	Owns a packing plant, building another?
6	Cargill	77,000	Owns Excel Smithfield
		70,500	Owns two packing plants

9. All That Glitters Is Not Gold

As fast as the industry seems to be expanding, and as immune as the "big" producers appear to be to price squeezes, there are signs that the armor is cracking:

• Recently it was reported that Premium Standard Farm's (PSF) plans for sow expansion 20,000 to 80,000 sows in Hereford, Texas are on hold. Plans to build a packing plant in the same area to compliment the sow operation are also on the back burner.

• The Hunter/Fitch Bill is being debated in the North Carolina legislature that would affect hog operations statewide. Provisions of the bill would institute permits, setbacks, inspections, and quarterly inventory reports.

• An April 1 rally in Putnam County, Mo. was recently staged against PSF's plans for construction of swine facilities. PSF claimed that a Missouri township passed zoning ordinances after sites were procured, and the company was asking the court for nearly $8 million in damages. PSF later dropped the request after the intervention of Jesse Jackson.

10. Anything That Can Go Wrong Usually Does

The major problem in the hog industry has been the low market price. Not far behind is a swelling concern for the environment. Producers can handle nutrients safely and effectively, but because the pig retains less than half of what we feed him, there are a lot of nutrients to handle. This issue is solvable, within certain constraints, not the least of which is manure volume. But there are few solutions to the odor problem. The best technology so far is maximizing distance from the farm to the neighbor. If there were (as so many companies claim) a material available to render manure nearly odorless, everyone would be using it. But there isn't and the potential for environmental problems increases with the size of the operation.

The demand equation is ever changing. Competition from poultry continues to mount in the form of more pounds and more creative products. So far, pork has taken minimal hits from the drug residue/hormone debate. Will that change if and when PST is approved? As if there weren't enough challenges already, enter the Porcine Reproductive and Respiratory Syndrome virus. This new virus is taking its toll across the nation (including Pennsylvania) in the form of reduced sow productivity and major respiratory problems in the growing pig. Control measures continue to evolve, but an effective solution has not yet been developed.

Summary

Changes in the swine industry are inevitable. Depressed prices over the past eight months have created negative cash flows for even the best of producers. Many have rushed to establish ties with packers and the situation has hastened the trend toward total vertical integration.

In Pennsylvania, many good producers have been forced to liquidate.

Sources

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RISA Announces Field Days

(Continued from Page D6)

•September 12, 10 a.m.-12 p.m. — Managing Milkhouse Waste Water with Jet Pulse Irrigation, Lane and Judy Sollenberger Dairy, Fayetteville, Franklin County. For information: Carrie Clark or Lantz Soubier, (717) 264-3480 Falling Spring Environmental Services Inc.

Field day will host speakers and demonstration of this equipment. Lane, a fourth generation farmer on the farm, is PA DHIA President. The farm features 3 x/day milkings, 170 registered Holstein cows, and 130 head of replacements. With limited manure storage and proximity to streams, new ways to manage dilute milkhouse wastes is a concern. Irrigation instead of storage is being considered. A nutrient management plan is in place.

Sponsored by Ridge & Valley Network, Falling Spring Environmental Services Inc., PA Crop Management Association, Dairy Network Partnership, and PASA.

•September 21, 10 a.m.-2 p.m. — Considerations for Late Season Dairy Grazing, Titus Martin Farm and Curtis Knepper Farm near Fayetteville, Franklin County. For information: Titus Martin, (717) 352-3740 or PASA.

These two dairy operations will host pasture walks and speakers to discuss the nuts and bolts of planning for this fall and next spring's grazing. Features Knepper's 65 cow Holstein/Guernsey herd in their first year as graziers and Martin's 90 cow Holstein herd in their third full year. Farmers will share ideas on how to get started in grazing, and equipment, nutritional programs and information that they have found useful and economical. Lunch will be provided.

Sponsored by Ridge and Valley Network, Franklin County Graziers, Dairy Network Partnership, and PASA

•September 23, 1 p.m.-4:30 p.m. — Community Composting Field Day, Barbara and Kerry Sullivan, Kimberton CSA, David Griffith, Seven Stars Dairy, Kimberton Waldorf School, Kimberton, Chester County. For information: Cary Oshins (610) 683-1415.

Four different composting technologies, all involving community waste resources, will be highlighted. These composting systems will be relevant for consumers, farmers, students, and municipal leaders. The Sullivans operate one of the oldest community supported agriculture farms in the U.S. using biodynamic methods. They compost wastes generated from their vegetable and fruit operation. Seven Stars, a biodynamic/organic dairy, is composting its dairy manures. The Waldorf school composts its lunch food wastes. Municipal leaves from Phoenixville are composted and utilized on the farming operations. The PAWS system (passively aerated windrow) of composting will be featured.

Sponsored by RISA and the Biodynamic Association.

•October 26, 10 a.m.-2 p.m. — Using Small Grains/Brassicas to Extend the Grazing Season, Nevin and Audrey Mast Dairy Farm, Oley, Berks County. For information: Jonda Crosby (610) 378-1135.

The Mast Farm is a dairy crop farm of 50 cows and 120 acres, using minimum chemicals in the crop production system. About 50 acres is used for intensive grazing. The field day will look at use of small grains and brassicas as a strategy for extending the grazing season. This trial will provide graziers with an opportunity to evaluate acceptance, palatability, growth and preference of small grain and brassica species for Oct./Nov. grazing. Presentation by Penn State dairy specialists.

Refreshments provided. There will be a charge for lunch.

Sponsored by RISA.

•Coming in September or October — Environmentally Sound Milk House Waste Water Management, Leonard and David Crooke, Crooked Acres Dairy, New Hope, Bucks County. For information: Jim Barnum (215) 322-0200.

Field day will look at low-cost technology to utilize milkhouse waste water to irrigate pasture and divert from stream. System features automatic distribution cycle, no pumping or energy costs, terraced diversion. Pasture will be harvested for bedding and possibly feed.

Sponsored by RISA.