Pricing feeder pigs

J H. McCoy
R V. Price
M L. Manuel

See next page for additional authors

Follow this and additional works at: https://newprairiepress.org/kaesrr

Part of the Other Animal Sciences Commons

Recommended Citation
McCoy, J H.; Price, R V.; Manuel, M L.; and Ward, C E. (1975) "Pricing feeder pigs," Kansas Agricultural Experiment Station Research Reports: Vol. 0: Iss. 10. https://doi.org/10.4148/2378-5977.5964

This report is brought to you for free and open access by New Prairie Press. It has been accepted for inclusion in Kansas Agricultural Experiment Station Research Reports by an authorized administrator of New Prairie Press. Copyright 1975 Kansas State University Agricultural Experiment Station and Cooperative Extension Service. Contents of this publication may be freely reproduced for educational purposes. All other rights reserved. Brand names appearing in this publication are for product identification purposes only. No endorsement is intended, nor is criticism implied of similar products not mentioned. K-State Research and Extension is an equal opportunity provider and employer.
Pricing feeder pigs

Abstract
Recent increases in specialized production of feeder pigs has stimulated interest in various methods of pricing pigs outside traditional marketing channels. Most such methods are either negotiated pricing or formula pricing. In privately negotiated transactions, both seller and buyer must have approximately equal knowledge of markets and of grade and weight characteristics of the pigs. In addition, each should have about equal bargaining ability.; Swine Day, Manhattan, KS, November 13, 1975

Keywords
Swine day, 1975; Kansas Agricultural Experiment Station contribution; no. 505; Report of progress (Kansas State University. Agricultural Experiment Station and Cooperative Extension Service); 283; Swine; Feeder hogs; Weight; Grade characteristics

Creative Commons License
This work is licensed under a Creative Commons Attribution 4.0 License.

Authors
J H. McCoy, R V. Price, M L. Manuel, and C E. Ward

This research report is available in Kansas Agricultural Experiment Station Research Reports: https://newprairiepress.org/kaesrr/vol0/iss10/124
Pricing Feeder Pigs

John H. McCoy\textsuperscript{1}, Robert V. Price\textsuperscript{1},
Milton L. Manuel\textsuperscript{1}, and Clement E. Ward\textsuperscript{1}

Recent increases in specialized production of feeder pigs has stimulated interest in various methods of pricing pigs outside traditional marketing channels. Most such methods are either negotiated pricing or formula pricing.

In privately negotiated transactions, both seller and buyer must have approximately equal knowledge of markets and of grade and weight characteristics of the pigs. In addition, each should have about equal bargaining ability.

Formula pricing ordinarily bases feeder pig prices on current slaughter hog prices with some adjustment for weight of pigs. A survey of Kansas feeder pig producers showed two major formulas. We called one "Feeder-pig/Slaughter-hog Price Ratio" and the other "Slaughter-hog-price-minus-a-constant." The first is commonest and uses a base slaughter hog price (taken from a specified terminal market) multiplied by a selected factor (or factors)--the selected factor may be adjusted for weight of pigs. One version of the first formula takes top barrow and gilt slaughter hog price as the base. For pricing 40 lb. pigs, the base price is multiplied by 1.8 to set feeder pig price per hundredweight. That price per hundredweight is then multiplied by 0.4 (40 lb. pig) to determine feeder pig price per head. The factor varied from 1.8 to 2.25 for 40 lb. pigs among those we surveyed. An adjustment for pig weight was to reduce the factor by 0.1 for each 10 lb. increase in weight above 40 lbs. When we compared feeder pig prices at southern Missouri auction markets with slaughter hog prices at the St. Joseph, Mo., terminal market (1968-1974), we found the average difference in this factor per 10-lb. weight interval to be 0.26 for light pigs and about 0.17 for heavy pigs. Changing feed prices also affect the factor. A 25-cent-per-bushel increase (decrease) in corn prices offset (or was offset by) a $4.32 increase (decrease) in slaughter hog prices.

One of the simplest formulas we found in the survey was to select a base slaughter hog price (as explained above) and subtract from that base price some constant (fixed) amount. Many producers we surveyed used $5 as the common constant amount to subtract. The result is the price per head for feeder pigs. Adjustments for various pig weights were identical with those for the Feeder-pig/Slaughter-hog Price Ratio. The following examples apply both approaches to pricing 40 lb. feeder pigs. Two price ratios are used in the Feeder-pig/Slaughter-hog Price Ratio approach, and two constants are used in the Slaughter-hog-minus-a-constant approach. The base slaughter hog price

\textsuperscript{1}Department of Agricultural Economics, Kansas State University.
in both cases is assumed to be $50 per hundred-weight. Here are the two hypothetical examples:

**Feeder-pig/Slaughter-hog Price Ratio:**

\[
\text{Price ratio} \times \text{Base price} \times \text{weight factor} = \text{Feeder pig price per head}
\]

\[
1.8 \times 50.00 \times .4 = 36.00 \\
2.0 \times 50.00 \times .4 = 40.00
\]

**Slaughter-hog-price-minus-a-constant:**

\[
\text{Base price} - \text{Constant} = \text{Feeder pig price per head}
\]

\[
50.00 - 5.00 = 45.00 \\
50.00 - 7.00 = 43.00
\]

Break-even pricing is sometimes used by potential purchasers. It necessitates estimating prospective selling price for finished hogs, then subtracting the cost of finishing pigs for slaughter.

The futures market can be used in pricing feeder pigs by hedging the selling price of hogs and the cost of feed.

(Additional details of this study are in "Pricing Feeder Pigs," Kansas Agricultural Experiment Station Bulletin 586, June 1975. Copies may be obtained by writing Distribution Room, Umberger Hall, Kansas State University, Manhattan, Kansas 66506).