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University of Missouri-Columbia
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2009 Hog Market Outlook
Summary

- 2008 should have been a disastrous year for hog producers. Slaughter was 7% above the old record and feed costs were unbelievably high. Fortunately pork demand was very strong.

- 2009 should be a good year for hog producers. Supply of meats will be down. Unfortunately meat demand is very weak.
The key driving forces are oil prices, biofuels policy and the economy.

High oil prices led to high gasoline prices, high ethanol prices, high corn prices and red ink for the livestock industry.

A weak economy is doing the same in reverse.
Dow Jones Industrial Average

As of 01/12/09
First, high energy prices created an economic slowdown, then subprime lending created a crisis.
Crude Oil Prices 1946-2007

Annual Average Price, Illinois

Recent U.S. recessions were preceded by a jump in energy prices.

Source: U.S. Energy Information Administration
Subprime Lending?

- Greed
- Fraud
- Mortgage backed securities
- Good intentions
- Community Reinvestment Act
- Stupidity
OVERCONFIDENCE

This is going to end in disaster, and you have no one to blame but yourself.
UNEXPLAINABLE

This picture can not be explained.
Housing Units Completed 1968-2007
New Privately Owned, Single Family

Source: U.S. Census Bureau
Median House Price Index,
Quarterly Data, 1975-2008
Falling Prices

Since early July 2008…

- Crude oil prices have declined 74%
- Copper prices have declined 65%
- Lumber prices have declined 38%
- Corn prices have declined 55%
- Soybean prices have declined 50%
- Fed cattle prices have declined 22%
- Hog prices have declined 30%
- Gold prices have declined 10%
Falling Prices

From September to October…

The CPI declined by 1%, the biggest drop in 60 years

The core CPI (ex food & energy) dropped for first time in 25 years

From October to November the CPI declined 1.9%

From November to December the CPI declined 1%
Spot Crude Oil Prices 1995-2009
WTI, Monthly Average Price, Cushing, Oklahoma

$/barrel

Source: U.S. Energy Information Administration
U.S. Retail Gasoline Prices,
All Grades, All Formulations, 1996-2009

Source: U.S. Energy Information Administration
March Crude Oil Futures Prices

$40/barrel = $0.95/gal

Source: New York Mercantile Exchange on 2/2/09
Weekly U.S. Gasoline Prices, 2007-09

Source: U.S. Energy Information Administration
Weekly Gas & Ethanol Prices, 2007-08

Source: U.S. Energy Information Administration
Ethanol-Gasoline Price Relationship

Source: Ron Plain
2007 Ethanol-Corn Price Relationship

Source: Ron Plain
Weekly Corn & Ethanol Prices, 2007-09

Source: LMIC
Weekly Gas & Corn Prices, 2007-09

Source: U.S. Energy Information Administration
Corn Milled for Ethanol

% corn for ethanol:

2000-01: 6%
2005-06: 14%
2006-07: 20%
2007-08: 23%
2008-09: 30%

Forecast
Omaha Corn Prices
Weekly Average, 2006-09

$ Per Bu.
Weekly Corn & Soybean Meal Prices, 2006-09

- Corn/bu.
- SB Meal/ton
Northwest Iowa Prices, 2006-09

$ Per Ton

Source: LMIC
DDGS Price as % of Corn Price, Northwest Iowa, 2006-09

Source: LMIC
WDGS Price as % of DDGS
Price, Northwest Iowa, 2006-08

Source: LMIC
Beginning in 2015, the U.S. will use more corn annually to make ethanol than the U.S. produced in any year before 1971.
U.S. Soybean/Corn Price Ratio, 1975-08

The chart shows the ratio of U.S. soybean to corn prices from 1975 to 2008. The ratios vary significantly across the years, with some periods showing a ratio close to 1.0 and others much higher. The highest ratio is seen in 1975-76, while the lowest ratio is observed in 1997-98.
U.S. Average Corn Price, 1908-2007

Source: USDA/NASS
The 1940s step raised corn price 62%; the 70s step 88%. A 75% step will take corn to $4.15/bu
Impact on Livestock
Corn usage is up 30% since 2000
U.S. Feeding of Corn, 2005-06

Source: PRX ProExporter Network
A dime increase in the price of corn reduces the value of feeder cattle by $6-9 per head.
Choice Steer Price & Breakeven
S. Plains Cattle Feedlots, Monthly

$ Per Cwt

2004 2005 2006 2007 2008 2009

Breakeven
Projected Breakeven
AVERAGE RETURNS TO CATTLE FEEDERS
Feeding 725 Lb. Steers, S. Plains, Monthly

$ Per Head

Cost of Slaughter Hog Production
Iowa State University Calculations, 1987-2008

$ Per Live Cwt

Marketing Month

Source: John Lawrence, Iowa State University
2008 hog prices were $2.60 above the 13 year average
2008 production cost was $13.85 above the 13 year average
U.S. Average Corn & Broiler Price, 1960-1985

Source: USDA/NASS

Source: USDA/NASS

Source: USDA/NASS
In 2007, the average American consumed 60 pounds (34%) more meat than in 1960.
Production Efficiency

Since 1930, the U.S. has reduced sow inventory by 42% and increased annual pork production by 221%
Litters Per Sow Per Year, 1930-2008
Pigs Per Sow Per Year, 1930-2008
USDA Hogs & Pigs Reports
Average U.S. Hog Carcass Weight, 1930-2008

Pounds
Annual U.S. Pork Production Per Sow, 1930-2008

1930-80 growth rate: 2.027%
1980-07 growth rate: 2.793%
Hog Cycle
Terminal Market Barrow & Gilt Price
Quarterly Data 1970-2008

% change from year ago

Chart showing the percentage change from year ago in Terminal Market Barrow & Gilt Price from 1970 to 2008.
In 9 of last 18 quarters, price & slaughter moved in the same direction.
International Trade
Top Pork Producing Countries-2007

Source: USDA/FAS
## Forecast Change in Pork Production

<table>
<thead>
<tr>
<th>Country</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>+4.0%</td>
<td>+3.2%</td>
</tr>
<tr>
<td>E.U.-27</td>
<td>-2.4%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>USA</td>
<td>+7.2%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>+2.2%</td>
<td>+3.4%</td>
</tr>
<tr>
<td>Russia</td>
<td>+6.8%</td>
<td>+6.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>-2.6%</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>+1.0%</td>
<td>+0.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.4%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>WORLD</td>
<td>+2.1%</td>
<td>+1.2%</td>
</tr>
</tbody>
</table>

Source: USDA/FAS, Oct 2008
Top Pork Importing Countries-2007

Source: USDA/FAS
## Forecast Change in Pork Imports

<table>
<thead>
<tr>
<th>Country</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>+ 3.1%</td>
<td>- 0.5%</td>
</tr>
<tr>
<td>Russia</td>
<td>+ 5.1%</td>
<td>+ 2.1%</td>
</tr>
<tr>
<td>Mexico</td>
<td>+ 19.7%</td>
<td>- 1.9%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>+ 2.9%</td>
<td>- 4.3%</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>- 14.1%</td>
<td>- 1.3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>+ 21.5%</td>
<td>+ 6.3%</td>
</tr>
<tr>
<td>China</td>
<td>+142.4%</td>
<td>-25.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>+ 25.7%</td>
<td>+ 7.0%</td>
</tr>
<tr>
<td>Australia</td>
<td>+ 6.4%</td>
<td>+ 3.3%</td>
</tr>
<tr>
<td>WORLD</td>
<td>+ 14.4%</td>
<td>- 1.0%</td>
</tr>
</tbody>
</table>

Source: USDA/FAS, Oct 2008
Top Pork Exporting Countries-2007

Source: USDA/FAS
## Forecast Change in Pork Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>+69.3%</td>
<td>- 4.1%</td>
</tr>
<tr>
<td>E.U.-27</td>
<td>+18.7%</td>
<td>- 3.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>+ 4.1%</td>
<td>+ 0.5%</td>
</tr>
<tr>
<td>Brazil</td>
<td>- 7.5%</td>
<td>+ 4.4%</td>
</tr>
<tr>
<td>China</td>
<td>- 43.4%</td>
<td>-14.1%</td>
</tr>
<tr>
<td>Chile</td>
<td>- 22.3%</td>
<td>+ 4.3%</td>
</tr>
<tr>
<td>Mexico</td>
<td>+ 6.3%</td>
<td>+ 5.9%</td>
</tr>
<tr>
<td>Australia</td>
<td>- 11.1%</td>
<td>+ 8.3%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>- 42.1%</td>
<td>+ 0.0%</td>
</tr>
<tr>
<td>WORLD</td>
<td>+19.8%</td>
<td>- 2.1%</td>
</tr>
</tbody>
</table>

Source: USDA/FAS, Oct 2008
2007 was the 16th consecutive record year for U.S. pork exports.
Value of U.S. Pork Exports

$/hog slt

Pork
ByProduct

Source: U.S. Meat Export Federation
U.S. Pork Imports & Exports as % of U.S. Pork Production, 2006-2008

Monthly Carcass Weight Equivalent

% of Production

- Imports
- Exports
U.S. Dollar Exchange Rate Index

As of 01/12/09

@ Barchart.com
Trade Weighted Exchange Rate, 2005-2008
Major Currencies

Source: Federal Reserve Bank of St Louis
U.S. Net Pork Imports as % of U.S. Pork Production, 2006-2008

Monthly Carcass Weight Equivalent

% of Production

Jan 06 FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
Jan 07 FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
Jan 08 FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
# U.S. Pork Production, Exports & Imports 2007 & 2008

<table>
<thead>
<tr>
<th></th>
<th>Jan-Nov 2007</th>
<th>Jan-Nov 2008</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. pork production</td>
<td>19,969.8</td>
<td>21,295.8</td>
<td>+ 6.6%</td>
</tr>
<tr>
<td>U.S. pork exports</td>
<td>2,838.6</td>
<td>4,356.0</td>
<td>+ 53.5%</td>
</tr>
<tr>
<td>U.S. pork imports</td>
<td>894.0</td>
<td>754.1</td>
<td>- 15.6%</td>
</tr>
<tr>
<td>Production - exports +</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>imports</td>
<td>18,025.2</td>
<td>17,693.9</td>
<td>- 1.8%</td>
</tr>
</tbody>
</table>
## U.S. Pork Exports, Jan-Nov 08

<table>
<thead>
<tr>
<th>Country</th>
<th>Change from Year Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>000 lbs</td>
</tr>
<tr>
<td>Japan</td>
<td>237,507</td>
</tr>
<tr>
<td>Mexico</td>
<td>194,221</td>
</tr>
<tr>
<td>Canada</td>
<td>56,090</td>
</tr>
<tr>
<td>China &amp; HK</td>
<td>502,800</td>
</tr>
<tr>
<td>S. Korea</td>
<td>45,824</td>
</tr>
<tr>
<td>Russia</td>
<td>203,784</td>
</tr>
<tr>
<td>Australia</td>
<td>23,678</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,517,372</td>
</tr>
</tbody>
</table>
Pork in Cold Storage
End of Month

Million Pounds

Old record 596.9 million, April 1999
2007 hog imports were up 14.2% compared to 2006
U.S. Hog Imports from Canada

Head per mo.

- Slaughter Hogs
- Feeder Pigs


Imports:
- Slaughter Hogs
- Feeder Pigs

Legend:
- Red: Slaughter Hogs
- Green: Feeder Pigs
Weekly Hog Imports, 2007-09

Source: USDA/APHIS
Weekly Hog Imports, 2008-09

Source: USDA/APHIS
Change in Hog Slaughter: US & Canada
Weekly F.I. Hog Slaughter, 2006-09

% change from yr. ago

USA
Canada

Hog Value as a Percent of Retail Pork Value, monthly

Percent

Demand
Annual U.S. Pork Production, 1930-2008

Billion Pounds

- red: actual
- blue: 1.5% trend
U.S. Per Capita Pork Consumption, 1930-2007

Boneless weight

Pounds


Values range from approximately 30 to 50 pounds.
Change in Export Pork Demand
Base Elasticity = -0.5

% Change Year Ago

-30 -10 10 30 50 70 90 110

2001-- May Sep
2002-- May Sep
2003-- May Sep
2004-- May Sep
2005-- May Sep
2006-- May Sep
2007-- May Sep
2008-- May Sep

% Change Year Ago
Change in Export Pork Demand
Base Elasticity = -0.5

1/30/09 Exchange rate: 89.83 Yen per US $
Change in Domestic Pork Demand

Base Elasticity = -0.75

% change from year ago

<table>
<thead>
<tr>
<th>Year</th>
<th>May</th>
<th>Sep</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
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<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Change in Hog Demand

Base Elasticity = -0.2
Inventory Reports
Iowa Farrow to Finish Profits, 1997-2008

Iowa State University Calculations

$ Per Head


Source: John Lawrence, Iowa State University
## Hog Inventory Reports

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S. Dec</th>
<th>Canada Oct</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Hogs &amp; Pigs</td>
<td>97.8</td>
<td>89.1</td>
</tr>
<tr>
<td>Kept for Breeding</td>
<td>97.6</td>
<td>91.7</td>
</tr>
<tr>
<td>Kept for Marketing</td>
<td>97.9</td>
<td>88.8</td>
</tr>
<tr>
<td>Under 60 lbs</td>
<td>94.5</td>
<td>81.1</td>
</tr>
<tr>
<td>60-119 lbs.</td>
<td>99.5</td>
<td>92.5</td>
</tr>
<tr>
<td>120-179 lbs.</td>
<td>100.5</td>
<td>93.8</td>
</tr>
<tr>
<td>180 lbs. and over</td>
<td>99.6</td>
<td></td>
</tr>
<tr>
<td>Mar-May Farrowings</td>
<td>100.8</td>
<td>98.0</td>
</tr>
<tr>
<td>Jun-Aug Farrowings</td>
<td>98.1</td>
<td>97.0</td>
</tr>
<tr>
<td>Sep-Nov Farrowings</td>
<td>94.0</td>
<td>92.0</td>
</tr>
<tr>
<td>Dec-Feb Farrowing Intentions</td>
<td>96.7</td>
<td></td>
</tr>
<tr>
<td>Mar-May Farrowing Intentions</td>
<td>98.4</td>
<td></td>
</tr>
</tbody>
</table>
U.S. Sows Farrowed by Quarter

% change from yr. ago
Canada Sows Farrowed by Quarter

% change from yr. ago

JFM99  JFM00  JFM01  JFM02  JFM03  JFM04  JFM05  JFM06  JFM07  JFM08
Sows Farrowed-U.S. & Canada Combined

% change from yr. ago

-8 -6 -4 -2 0 2 4 6 8

JFM99 JFM00 JFM01 JFM02 JFM03 JFM04 JFM05 JFM06 JFM07 JFM08
2008 sow slaughter was up 5.8%
Last 13 weeks were down 6.1%
Estimated Gilt Retention & Sow Loss, 2007-2008
GG Cattle & Hog Fax

Thousand Head Per Week

- Gilts Retained
- Sow Loss
Pig/Month Accumulated Profits, 1990-2008

Source: John Lawrence, Iowa State University
Prior to 2007, packers had never killed 2.3 million hogs in a week.
Actual & Predicted Change in Hog Slaughter
U.S. Weekly F.I. Hog Slaughter, 2007-08

% change from yr. ago 19

- Actual
- USDA Dec Forecast
Barrow & Gilt Live Weights
Iowa-Minnesota Weekly Average

- 257
- 259
- 261
- 263
- 265
- 267
- 269
- 271
- 273

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Pounds
2007
2008
2009
Barrow & Gilt Dressed Weights
Federally Inspected Weekly Average

<table>
<thead>
<tr>
<th>Year</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
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<tr>
<td>2007</td>
<td></td>
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<tr>
<td>2008</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2009</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Pounds

Barrow & Gilt Dressed Weights
Federally Inspected Weekly Average

2007
2008
2009
Prices
BARROW AND GILT BASE PRICES
Iowa - Minnesota, Carcass Basis, Weekly

Source: USDA Prior Day Purchased reports
2008 Hog Prices
National Live Basis, Weekly

$ per cwt.

Source: USDA Prior Day Purchased reports
U.S. Weekly Base Hog Prices, 2007-08

$/cwt

Source: Iowa-Minn Prior Day
My Forecast
## Commercial Hog Slaughter Forecast

**Million Head**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qtr 1</td>
<td>26.684*</td>
<td>29.597*</td>
<td>28.700</td>
<td>+10.9% - 3.0%</td>
</tr>
<tr>
<td>Qtr 2</td>
<td>25.526*</td>
<td>27.942*</td>
<td>26.300</td>
<td>+9.5% - 5.9%</td>
</tr>
<tr>
<td>Qtr 3</td>
<td>26.566*</td>
<td>28.702*</td>
<td>28.000</td>
<td>+8.0% - 2.4%</td>
</tr>
<tr>
<td>Qtr 4</td>
<td>30.396*</td>
<td>30.217*</td>
<td>30.000</td>
<td>+0.6% - 0.7%</td>
</tr>
<tr>
<td>Year</td>
<td>109.172*</td>
<td>116.458*</td>
<td>113.000</td>
<td>+6.7% - 3.0%</td>
</tr>
</tbody>
</table>

*actual

Note: Q3 07 & Q1 09 have only 63 slaughter days
# Iowa-Minn Hog Price Forecast

Negotiated Base Price Per **Carcass** Hundredweight

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qtr 1</td>
<td>$56.38*</td>
<td>$59.90*</td>
<td>$52.49*</td>
<td>53-58</td>
</tr>
<tr>
<td>Qtr 2</td>
<td>$65.27*</td>
<td>$69.45*</td>
<td>$70.43*</td>
<td>65-70</td>
</tr>
<tr>
<td>Qtr 3</td>
<td>$68.04*</td>
<td>$66.14*</td>
<td>$75.67*</td>
<td>67-72</td>
</tr>
<tr>
<td>Qtr 4</td>
<td>$60.53*</td>
<td>$52.08*</td>
<td>$55.55</td>
<td>56-61</td>
</tr>
<tr>
<td>Year</td>
<td>$62.54*</td>
<td>$61.91*</td>
<td>$63.53</td>
<td>$60-65</td>
</tr>
</tbody>
</table>

*actual price – prior day purchased
### Iowa-Minn Live Hog Price Forecast

Negotiated **Live** Base Price Equivalent

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Qtr 1</strong></td>
<td>$42.85*</td>
<td>$45.52*</td>
<td>$39.89*</td>
<td>40-44</td>
</tr>
<tr>
<td><strong>Qtr 2</strong></td>
<td>$49.61*</td>
<td>$52.78*</td>
<td>$53.53*</td>
<td>50-54</td>
</tr>
<tr>
<td><strong>Qtr 3</strong></td>
<td>$51.71*</td>
<td>$50.27*</td>
<td>$57.51*</td>
<td>51-55</td>
</tr>
<tr>
<td><strong>Qtr 4</strong></td>
<td>$46.00*</td>
<td>$39.58*</td>
<td>$42.22</td>
<td>42-46</td>
</tr>
<tr>
<td><strong>Year</strong></td>
<td>$47.53*</td>
<td>$47.05*</td>
<td>$48.28</td>
<td>$45-49</td>
</tr>
</tbody>
</table>

*actual carcass price x 76%*
U.S. Weekly Base Hog Prices, 2007-09

Source: USDA’s Prior Day Slaughtered
Hog Carcass Price Forecasts
2008-2010

$/cwt

Actual
CME

National PDP Base and 2/5/09 CME futures minus $2
## Forecast Change in Meat Production

<table>
<thead>
<tr>
<th>Type</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pork</td>
<td>+6.45%</td>
<td>-1.39%</td>
</tr>
<tr>
<td>Beef</td>
<td>+0.52%</td>
<td>-0.07%</td>
</tr>
<tr>
<td>Chicken</td>
<td>+2.13%</td>
<td>-1.55%</td>
</tr>
<tr>
<td>Turkey</td>
<td>+4.93%</td>
<td>-2.92%</td>
</tr>
<tr>
<td>All Meats</td>
<td>+2.93%</td>
<td>-1.20%</td>
</tr>
</tbody>
</table>

Source: USDA/OCE WASDE, Jan 2009
Forecast Summary

• Farrowings trending down
• Continued productivity growth
• Fewer imports of Canadian hogs/pigs
• Decrease in pork exports
• Weak domestic demand
• Semi-high feed cost
• Close to breakeven for producers
The New Ag Market?

- Crude oil drives ethanol prices
- Ethanol drives corn prices
- Corn drives livestock production
- Livestock production drives meat prices