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The Profit Potential of Tasty Pork Products

by The Mogambo Guru

"I think there's a Big, Big, BIG Freaking Opportunity (BBBFO) for America and Canada to export pork to China! As one hog-industry observer put it, 'The potential for further Chinese importation of pork is almost incomprehensible.'"

The carnage in the Dow Jones Industrial Average continues, as the group's earnings have fallen to -\$109.43! A huge loss! This is primarily due to the enormous losses for GM, but it is emblematic of how losses are swamping profits everywhere!

I beam with that sweet smile of insouciance from not owning anything connected with the auto industry, but I cannot so blithely ignore the inflation that is running rampant everywhere. The Financial Times reports that in Vietnam, "Inflation accelerated to 27% in July, overtaking Sri Lanka as the fastest rate in Asia."

Bloomberg.com reports that India's inflation is rising ominously as "Wholesale prices rose 12.01%" in the last year. In South Korea, producer prices "jumped 12.5% from a year earlier," and in Taiwan consumer prices rose 5.92% from year-ago levels in July, the Philippines rose 12.2%, and in Chile prices were 7.5% higher in July than this time last year.

In Romania, consumer price inflation was above 9.1% in July, and in Russia, the inflation rate in July was 14.7%. It's everywhere! It's freaking everywhere! We're freaking doomed!

This kind of global inflation may explain why sales are down, and as a guy who can, like me, apparently see the dark cloud behind every silver lining, Tony Cherniawski of The Practical Investor newsletter reports that "Wal-Mart, the world's largest retailer, said its July sales at U.S. stores open at least a year, or same-store sales, rose 3 percent", which seems to be such good news, but that "The Consumer Price Index was up 5.6% year-over-year in the latest report."

The result when the two collide? He says that despite Wal-Mart declaring a 3% increase in sales, the inflation data makes it "fair to say that sales actually slumped 2.6% this month at Wal-Mart, in real purchasing power. But wait...there is more! Also noteworthy is the fact that the three main items that consumers go to Wal-Mart for are groceries, flat-screen television sets and gasoline. Considering that prices in energy rose 34.7% and food rose by 6.6%, this report is borderline disastrous."

And whatever inflation is still in the pipeline is on its way to you, as online.wsj.com had the headline "Food Giants Race to Pass Rising Costs to Shoppers" on an article by Scott Kilman, who writes, "Companies throughout the food chain are changing the way they do business in response to soaring grain costs, and consumers are likely to bear the brunt in the form of rising food prices."

This was entirely prophetic, as I was eating a burger at the time, and I was still smarting from the sting of the bill when I was heard remarking to myself, "Hey! I'm bearing the brunt of rising food prices!" while, unfortunately, I was eating the aforesaid burger,

which made a disgusting, spewing mess, and people complained to the manager and there was a scene.

But it could be worse, as Mr. Kilman reports that "farmers are making the broadest cuts to their livestock herds in decades, meaning meat at the supermarket will likely cost more in coming years."

And it goes beyond a simple reduction in supply, as Tom Dyson of DailyWealth.com writes, "Why the Chinese appetite for pork means profits".

I conclude that a trend is visible, in that "Since 1980, per-capita meat consumption in China has nearly tripled. The price of pork has jumped more than 50% in one year, yet the butcher shops remain packed."

It turns out that "the Chinese eat more pork than the rest of the world combined. The country consumes seven times as much as the number two consumer, the United States. And consumption is increasing. According to the USDA, Chinese pork consumption rose 22% between 2002 and 2006."

Then, in 2007, a shortage of pork hit China when earthquakes, huge snowfalls, and an outbreak of swine disease "resulted in a 9% decline in Chinese pork production. Chinese pork prices rose 68% between April 2007 and April 2008."

Understandably, then, Chinese pork imports are already up 311% from last year.

Meanwhile, amazingly, there's a glut of pork in North America! The situation is so bad in Canada that the Canadian government is giving money to Canadian hog farmers to kill their pigs! The Canadian Pork Council is giving hog farmers C\$225 for every breeding pig they "cull"!

I look at all of this and I involuntarily start thinking about bacon and yummy pork products, and before long I can't think of anything else except how hungry I am for something with lots of tasty bacon in it or on it, but way down there in the back of my mind, behind the huge part of my brain where I am thinking about sausage links and patties, I think there's a Big, Big, BIG Freaking Opportunity (BBBFO) for America and Canada to export pork to China! As one hog-industry observer put it, "The potential for further Chinese importation of pork is almost incomprehensible."

My Greedy Mogambo Instincts (GMI) were instantly galvanized to action, as there is nothing that a profit-scavenging, greedy little bastard like me likes more than knowing that something has "incomprehensible" amounts of potential demand!

Naturally, I don't say anything out loud, lest they, too, discover that meat will go up in the coming years and try to get in on the early, base-laying action where I plan to be... If I ever get any money to invest, which I won't because I don't make enough money to show a surplus in "discretionary income" after my family gets finished ravaging my wages with their incessant demands for food, clothing and medical care, which is another subject altogether, but which ends up with the admonition to "never have children!"

I guess I was successful in my subterfuge, as the article went on, "Middlemen are trying

to shorten the duration of supply contracts to 90 days from one year so they can pass on higher costs more quickly. And food brands are shrinking the contents of their packages, from ice-cream cartons to beverage containers." Yikes!

This "passing on higher costs more quickly" is the fabled "velocity" in the famous Fisher equation " $MV=PQ$ ", which says that the Money Supply (M) times the Velocity (V) (putting total money spent on the left side of the equation) must equal the Price paid for each item sold (P) times the Quantity of items sold (Q) (total sales on the right hand side of the equation).

The important point is that the Velocity has increased, and so the other three variables must, to one degree or another, adjust to keep the equation true, which, in this case, means that the Money supply must fall, and/or the Prices must increase, and/or the Quantity of items sold must increase. Or something. That's the theory, anyway.

In practice, it means that prices must increase or decrease, quantity sold must rise or fall, the money supply must rise or fall, the Fed lowers and raises the interest rate, prices rise and fall, quantity sold rises and falls, money supply rises and falls, and all things are going up and down and feeding back on one another in some bizarre "dance of death" until you, too, wake up in the middle of the night screaming "We're freaking doomed!"

This "dance of death" thing works like a charm in the field of economics as the Fed and the government create money and credit to bail out themselves and their nasty friends, but is thankfully such a failure when one's family does some doofus Dance of Death which they found in a book at the library because the book Living with an Uncaring, Hateful, Paranoid, Argumentative and Worthless Father was already checked out.

David A. Schawk is the chief executive of Schawk, and is apparently unfamiliar with the "dance of death", and is instead head honcho of "a firm that designs packaging for companies." Mr. Schawk figures that "up to 5% of grocery products are shrinking" which is a level he calls "unprecedented."

Naturally, I say that Mr. Schawk may be a hotshot package designer, but he neither recognizes nor makes a Big Freaking Deal (BFD) about how this is the terrifying inflation in prices that one gets after the damnable Federal Reserve is allowed to create so damned much money and credit, and that charging a higher price for a package containing a lesser amount of something tasty and delicious means "less product for more money", which is what makes inflation such a real screw-job; you gotta buy twice as much, costing three times as much, to merely eat as much as you used to!

Welcome to hell! The dance of death! Hahahaha!