Weekly Outlook: Pork Industry Continues to Adjust from PED

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The pork industry continues to adjust from the supply shock created by the PED virus last year. Live prices peaked in the summer of 2014 as PED losses mounted and then fell into the late winter of 2015. Looking back it seems that prices overshot on the high side due to PED, and then undershot early this year as market supplies were restored. The third phase of this cycle now seems to be the recent recovery in prices from their undershooting.

Live hog price peaks were near $100 per hundredweight in July 2014, then prices fell to as low as about $45 by late March of 2015. Now, they have recovered to the low $60s. The low prices in March were clearly related to 14 percent higher production for that month compared to year previous levels and market concerns that pork supplies were going to remain higher by ten percent or more into the spring. The recent recovery in hog prices apparently is related to the fact that supplies have not been that high. April pork production was up eight percent and May was about six percent higher and in alignment with the last inventory count from USDA.

If those inventory counts continue to hold, then second quarter pork production will be up by six percent, the third quarter up by seven percent, and the final quarter of the year up only four percent. Contributing to lower-than-expected supplies are lighter marketing weights. Hog producers began marketing at sharply higher weights in the fall of 2013 as feed prices finally started downward. The PED related loses of baby pigs that fall and into the spring of 2014 served to increase hog prices sharply, but also gave affected producers more finishing space. They used that space to keep hogs on feed for longer periods with the reduced feed prices. In 2013, live weights averaged 276 pounds, but that level increased to 285 pounds in 2014, a three percent increase. In mid-April this year, weights dropped below year-previous levels and may average near one percent lower for the remainder of the year.

Live hog prices in the first quarter of the year were $48.47 according to USDA. Prices are expected to average near $58 in the second and third quarters, drop to about $51 in the last quarter of the year, and decline to the higher $40s for the first quarter of 2016.
Total costs of production estimates are near $51 per live hundredweight and live hog prices are expected to average $53.50 for the year. If so, this would mean an average profit of about $7 per head for the year with the strongest of those profits around $18 per head in the second and third quarters. The final quarter of the year is expected to be near breakeven, with $9 per head losses returning for the first quarter of 2016.

Continued reductions in feed costs are critical for hog prices to stay above costs for the rest of the year. Current feed costs are the lowest in five years dating back to the spring of 2010. Production prospects for the 2015 corn and soybean crops are favorable at this time, but everyone knows that weather during the next 90 days will largely determine final yields and be a major factor in feed price determination.

Pork prices have also moderated for consumers. Retail pork prices, as measured by USDA’s estimate of retail composite prices, peaked in 2014 at $4.01 per pound, a ten percent increase for the year. The highest monthly prices were reached in September of 2014 at $4.22 per pound. Since that time, they have fallen each month to $3.77 per pound in April of 2015, an 11 percent drop from the peak. In contrast, retail beef prices continue to rise. Beef prices rose 13 percent in 2014 and have risen an additional two percent since last September. Retail beef prices in April 2015 were $6.40 per pound which is in sharp contrast to pork at $3.77 a pound.

The next important report for the pork industry is the USDA’s June Hogs and Pigs report to be released on June 26. Producers reported in the March update that they intended to reduce this summer’s farrowings by two percent. This was a surprise given the generally profitable industry since mid-2013. If farrowings should actually expand, this would increase pork production early next year and keep a bearish cast over the industry to start 2016.