



Pork: USDA Reports Help Brighten Outlook

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Pork producers might want to say thank you for the recent USDA reports that have sharply brightened their profit outlook. The first of those was the [June 27th Hogs and Pigs report](#) indicating that breeding herd expansion had not yet started and that baby pig death losses from the PED virus continued to be high last spring. The second beneficial numbers came in the [June 30th Grain Stocks](#) and [Acreage](#) reports which were contributors to rapidly falling corn and soybean meal prices.

In the week following the reports, higher anticipated hog prices and lower anticipated feed prices have increased profitability prospects about \$18 per head for the period that represents use of the 2014 crops. Lean hog futures rose on average about \$6 per hundredweight and corn prices fell by about 40 cents per bushel with soybean meal declining around \$30 per ton.

Prior to the hog inventory report, there was an expectation that the nation's breeding herd was already in expansion, with spring farrowing intentions up two percent. However, on June 1 the breeding herd was down fractionally and actual spring farrowings were also down modestly. The PED virus apparently continued to inflict higher death losses in the spring than had been anticipated. While USDA does not specifically ask producers to report death losses from PEDv, they do report the number of pigs per litter. By comparing the reported number of pigs per litter this year to the five year trend provides a proxy of how PEDv affected baby pig survival.

This analysis suggests that baby pig death losses began to show up in the national data last October, with two percent losses. That expanded to three percent in November, six percent in December, and then peaked near eight percent death losses in the coldest weather months of January, February, and March. Losses appeared to be moderating somewhat with warmer weather, but were still seven percent in April and five percent in May. The death losses from PEDv will likely continue to trend lower this summer, but current information suggests that the disease is far from controlled.

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The number of hogs coming to market this fall and winter will be smaller than had been expected due to smaller spring farrowings and higher than expected PEDv death losses. This is the basis for the sharply higher lean hog futures this fall and winter. Producers have been selling their surviving hogs at higher weights. The number of hogs marketed in the first-half of 2014 was down about 4 percent, but weights were up over 3 percent. As a result, pork supplies were surprisingly down less than 1% as weights substantially compensated for PEDv death losses. This means that high hog prices are being partially driven by smaller pork supplies, but more importantly by strong pork demand. The two most important components of strong pork demand are related to the tiny current supply of beef and to strong pork export demand.

Record high retail beef prices have some consumers looking around the meat case for alternatives. In May, USDA estimated the average grocery store price of beef cuts to be \$5.91 per pound. The average cut of pork on the other hand was \$4.10 per pound. Even though this was also a record pork price, it was \$1.81 per pound lower than beef. This large price difference seems to be causing a number of consumers to shift toward pork. Foreign consumers have been strong competitors for limited world supplies of pork as well. Losses from PEDv have been highly publicized since February and this has seemingly contributed to aggressive foreign buying of pork in an attempt to avoid the summer pork shortages resulting from peak baby pig death losses last winter.

As a result, hog prices in the first half of 2014 averaged a record of about \$80 per hundredweight on a live basis. This was nearly 25 percent higher than in the same period the previous year. The full impact of smaller pork supplies will be felt this summer with new record high hog and pork prices. Live hog prices are expected to average in the mid \$90 in the third quarter before moderating in September and moving down to the mid-to-higher \$70s for the final quarter of 2014.

Producer profits were record high in the second quarter this year, near \$70 per head. Continued record hog prices and now lower feed prices mean that record will fall this summer as third quarter profits are expected to be over \$100 per head. These extremely high profits are clear signals for producers to increase pork production. The USDA report did reveal that producers have received this signal and they intend to increase farrowings by four percent this fall. If they start the expansion, and if PEDv is better controlled, then pork supplies can begin to grow by the spring of 2015, and could total 4 to 6 percent higher in the last three quarters of 2015.

No relief for consumers is expected this summer as retail pork prices keep moving up to new records. Retail pork prices are expected to level off in the fall and then move somewhat lower into the winter. More relief from record high retail pork prices can be expected in the second-half of 2015 as pork supplies build.

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Also available at:

<http://farmdoc.illinois.edu/marketing/weekly/html/070714.html>