



## Hog and Pork Prices Return to Reality

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When historians look back on hog prices in 2014, they are going to ask, "What was going on?" Hog and pork prices were launched to almost unexplainable heights by concerns over reduced pork supplies from PED in the spring and summer. More recently, prices have been in descent and now have returned to more realistic levels.

The high price period began to emerge in mid-February of 2014 as media attention began to focus on the death losses from the PED virus. There were media descriptions of nearly 100 percent death losses in some herds with a disease that was spreading rapidly to other herds. There were "rumors" of the possibility of 20 percent reductions in pork supplies. Hog prices shot higher!

By late-March, live hog prices reached near their yearly highs of \$98 per live hundredweight. The extraordinary fact is that this was nearly \$40 higher than the same time a year earlier, or about 70 percent above year-ago prices. Prices continued to be sharply above year-earlier levels for the spring, summer and into the fall. From March through mid-October, live hog prices this year averaged \$86 compared to \$68 for the same period in 2013.

The "fact" or reality is that pork supplies have not been down sharply in 2014. So far this year pork supplies are only down two percent as five percent fewer hogs have been largely offset by three percent higher weights. It seems that market participants vastly overbid hog prices to "fantasy" levels. On the other hand, at the time the uncertainty of supplies was very real and markets bid a huge "risk premium" into prices.

Looking back on the year, it seems clear that the old adage of "buy the rumor, and sell the fact" may be the best way to characterize this year's price pattern. The "rumor" that PED might greatly reduce pork supplies was an important factor in the elevated prices. But the "fact" that PED was not a major disruptor of supplies has now allowed prices to return to more realistic levels.

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The media has also given considerable attention to record high retail pork prices this year, although consumer beef prices have received even more attention. With hog prices returning to reality this fall, retail pork prices are expected to also experience some declines. Wholesale pork prices reached their highs in July and have now had three months of moderation. Retail prices tend to lag wholesale prices by three to six months, but the official October estimate of retail prices shows some consumer relief as prices fell seven cents per pound, the first sign of lower prices in nearly a year. Retail pork prices should continue to moderate somewhat through 2015 as pork supplies increase.

Consumers have not complained much about retail pork prices which averaged \$4.14 a pound in October according to USDA's estimate of the average grocery store price of pork. The reason is because beef prices were at \$6.24 a pound, making pork look like a bargain at \$2.10 a pound lower than beef.

What do "more realistic" hog prices mean for the remainder of this year and 2015? PED is still having an impact and is still killing some baby pigs. However, markets are treating PED as something that can be managed unlike last spring and summer when the "rumor" mill was creating grave uncertainty for pork supplies. Pork supplies are expected to be down one percent in December-January-February, and then increase by three percent in the spring and five percent in the summer.

Live hog prices are expected to average about \$67 to \$68 in the final quarter of this year and through the winter. The highest prices for next year are expected in the second quarter, averaging near \$70, but then falling to the mid-\$60 in the summer and down to the mid-\$50s by the fall as pork supplies continue to increase.

The most profitable year on record will be 2014, with estimated profits near \$55 per head. Those will remain strong for the first three quarters in 2015, averaging around \$44 per head, before tailing off to around \$10 per head in the final quarter. Profits for the entire year of 2015 are still expected to be \$36 per head which would be the third highest profit year of the last 26 years dating back to 1990.

High hog prices and lower costs are the keys to current profitability. Estimated annual costs of production have dropped from a high of \$67 per live hundredweight in the drought year of 2012 to \$56.50 for this calendar year and to \$52 anticipated for 2015. Notably, corn prices declined sharply in the fall of 2013, but meal prices did not decline overall until the fall of 2014 (with some nearby supply shortages still to work through). So, 2015 will be the first calendar year when both corn prices and meal prices have moderated, dropping feed costs to five year lows.

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