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Weekly Outlook: More Pork in 2017 With Higher Hog Prices?

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The latest Hogs and Pigs report released on December 23 indicated that pork supplies in 2017 will be larger than pre-report expectations.

Slaughter numbers have run high all fall and USDA revised upward the size of the spring 2016 pig crop by 2.5 percent to account for the heavier runs. In a similar fashion, the December survey found more market hogs in the current inventory. The number of pigs that weighed less than 180 pounds was four percent larger than the inventory of a year ago and was two percent larger than expected by the trade. These will be the market hogs arriving at processing plants from January to May 2017.

A similar story unfolded for the breeding herd, which was up by 1.5 percent and was one percent more than expected. Farrowing intentions were also above expectations. Winter farrowing intentions are up 1.4 percent and spring farrowing intentions are up one percent. The expansion of the breeding herd tended to follow the record corn yields, with the Illinois, Missouri, and North Dakota breeding herds up 10 percent and the South Dakota herd up nine percent.

The number of pigs per litter continued to march higher in 2016 with new records in each quarter. The last quarter of 2016 attained the highest level ever at 10.63 pigs per litter. For 2016, the new annual record was 10.5 pigs. Over the past ten years the average rate of annual increase has been 1.5 percent.

Given these numbers, the industry will increase pork output by about three percent in 2017 to 25.7 billion pounds. This represents a 12 percent increase since 2014 when PED reduced production and contributed to record high hog prices. Pork production will rise by two percent in the first-half of 2017 and by about four percent in the last-half.

Hog prices were extremely depressed in the final quarter of 2016 when live prices averaged about $37 per hundredweight. That was the lowest quarterly price since 2003. The lowest prices were in mid-November, touching the extremely low $30s. Recovery came quickly with prices rising to the lower $40s by the end of the year. For all of 2016 live hog prices averaged about $46.

What will hog prices be in 2017? With three percent higher production one might expect annual prices to be lower, but there are additional items to consider. First, retail prices did drop in 2016, but there is opportunity for those prices to come down more. Lower retail prices will stimulate the quantity of pork that consumers purchase. Secondly, USDA expects exports to expand by five percent which will move more of the increased production to foreign customers. Finally, with the addition of new processing capacity, the farm-to-wholesale margins are expected to drop. Lower margins at the processing stage may contribute to stronger bids to hog producers.

Live hog prices are expected to be about $48 in 2017, $2 higher than in 2016. By quarter prices are expected to average $45 in the first quarter, the very-low $50s in the second and the third quarters, and then $43 in the final quarter of 2017. A range of $2 higher or lower would be reasonable for price projections.

Costs of production are expected to be around $50 on a live weight basis in both 2016 and 2017 based on current feed price expectations. This means the industry operated at an estimated loss of about $12 per head in 2016 and is expected to have losses that average about $6 per head in 2017. Losses in the first quarter of 2017 are expected to be about $13 dollars per head. Modest profits may return in the second and third quarters, with a return to the largest losses of the year in the final quarter.

The 2017 outlook is for weak returns so it is important to keep further expansion to a minimum. This will be difficult with new processing capacity coming in 2017 as those plants will want to stimulate some added production to fill their lines.

Pork exports to China will bear watching in 2017. Last year, exports to China nearly doubled growing to near 16 percent of total exports. Also of deep interest to the pork industry in 2017 will be the position of the new administration on trade issues and how that might impact agriculture. Mexico became the number one destination for U.S. pork in 2015 and 2016 so that trade relations with Mexico will need to be watched carefully for potential impacts on the hog market.

Remember that a breeding herd that stays the same size will still enable a one to two percent expansion of pork production due to more pigs per litter and higher market weights. A two percent production growth rate is probably close to what is sustainable with modest U.S. population growth and some growth in exports.

References

USDA, National Agricultural Statistics Service. *Hogs and Pigs* (December 2016). Released December 23, 2016. http://usda.mannlib.cornell.edu/usda/nass/HogsPigs//2010s/2016/HogsPigs-12-23-2016.pdf