farmdoc DAILY

Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Pork Outlook Turns Sour

Chris Hurt

Department of Agricultural Economics
Purdue University

October 3, 2016

***farmdoc daily* (6):186**

Recommended citation format: Hurt, C. "Weekly Outlook: Pork Outlook Turns Sour." *farmdoc daily* (6):186, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 3, 2016.

Permalink: http://farmdocdaily.illinois.edu/2016/10/pork-outlook-turns-sour.html

Hog prices have collapsed to levels far below breakeven. There is worry that there are more hogs headed to market this fall than available packing capacity, and the latest USDA inventory indicates there are more hogs than had been anticipated. These factors are providing a sour taste for the industry's financial outlook through 2017.

Pork markets have been concerned about packing capacity this fall and the September *Hogs and Pigs* report from USDA provided reasons for additional concern. Producers indicated that the number of market hogs was up nearly three percent on September 1, and numbers in the heaviest weight categories were up four percent. This is consistent with September slaughter numbers that were up about five percent. However, the greatest concern was in the last half of September when the packer head counts were up almost eight percent. Over the past two weeks, slaughter numbers have averaged about 2.45 million head per week and packer capacity is thought to be around 2.5 million head per week. This means capacity is just two percent higher than the head counts for the past two weeks.

The slaughter numbers should ease a bit through the last quarter of the year. The USDA report suggest the numbers will be up four percent in October, but drop to three percent higher in October and then two percent higher in December. If those projections are correct, packer capacity will be sufficient.

The nation's breeding herd was reported as up just 0.5 percent, continuing a modest expansion that began in 2014 following record high hog prices and record producer profits. While the breeding herd expansion has remained small this year, the number of pigs per litter is setting new records. The summer weaning rate was up nearly two percent to a record 10.58 pigs per litter and the annual rate for 2016 is expected to reach a record 10.5 pigs per litter. Farrowing intentions for this fall are unchanged from a year-ago, and are down slightly for the winter. Still, with the number of pigs per litter rising about one percent per year, these modest farrowing reductions will still result in increases in pork production in 2017.

Market weights dropped a bit more than one percent in September and could be an indication that producers have recently been pulling some hogs forward to avoid even lower prices later in the fall. If this is the case, it may provide some relief to slaughter numbers into October and November. Pork supplies are expected to be up two to three percent in the final quarter this year. In the first quarter of 2017 pork production is expected to be up one percent and then be unchanged to up one percent for the second and the third quarters next year.

Hog prices have been dropping under pressure of higher than expected market hog numbers, concerns about inadequate fall packer capacity, and continued increases in supply of competitive meats. National lean prices on a liveweight basis have fallen to the higher $30s. These are prices not seen since 2008 and 2009 when the Great Recession weakened meat demand. Liveweight prices are expected to average in the mid-to-higher $30s this fall, in the higher $30's this winter, and then in the mid-to-upper $40s for the second and third quarters of 2017. Hog prices averaged about $50s in 2015, but will drop to an average near $46 this year and to around $43 next year.

Lower corn and soybean meal prices this fall will drop estimated costs of production to about $47 to $48 per live hundredweight. With hog prices in the higher $30s this fall and winter, estimated losses will be $25 to $30 per head. Losses are expected to moderate in the spring and summer of 2017 and intensify once more in the fall of 2017. For the year 2016, estimated losses are about $10 per head and for 2017, projected losses are at $16 per head.

The issue of inadequate packer capacity should be eliminated in 2017 with the opening of two new facilities in Iowa and Michigan that will expand capacity by around six percent. With the recent squeeze on capacity, packer margins have been strong. The new capacity should reduce packer margins and provide the opportunity for farm level prices to be higher. However, this is not likely to be helpful this fall and winter.

Losses are expected to be large this fall and winter, and at levels not seen since late 2012. Expected losses for 2017 should begin to move the industry toward thoughts of reducing the breeding herd. If price prospects do not improve it will likely be the second half of 2017 when a movement toward liquidation gets underway. This means that hog prices could begin to improve in the spring of 2018.

Feed costs from the 2016 crops are expected to be at their lowest level in years. Higher feed costs can be expected for the 2017 and 2018 crops assuming a normal world weather situation. If 2017 weather should be adverse in a major growing region of the globe, then higher feed prices would be a greater stimulus to initiate a liquidation period.

Reference

USDA, National Agricultural Statistics Service. *Quarterly Hogs and Pigs* (September 2016). Released September 30, 2016. http://usda.mannlib.cornell.edu/usda/nass/HogsPigs//2010s/2016/HogsPigs-09-30-2016.pdf