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Weekly Outlook: Hog Prices Continue to Be Higher this Year

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For agricultural commodities, larger supplies generally result in lower prices. This year's hog market is going against that adage with both larger supplies and higher prices.

Before we conclude that something is wrong, remember that prices are determined by both supply and demand factors. A closer look at both factors explains why the hog market is being rational with larger supplies and higher prices.

More pork and higher prices has been a theme for 2017. The number of hogs coming to market in 2017 has been 2.7 percent higher and weights have been down 0.4 percent. This means that total pork production has been 2.3 percent higher in 2017 compared to the same period in 2016. Yet prices through May this year have averaged near $49 per live hundredweight, which is $1.65 per hundredweight higher (3.5 percent) than last year's average price.

The most important reason for higher prices involves favorable international trade for U.S. pork. Pork exports have been up 17 percent and pork imports have been down 10 percent. For trade data available so far this year, pork exports have accounted for 22 percent of production, which is the strongest export showing since 2012, the year of record exports. Who do we have to thank for these near record exports? Shipments to Japan, our largest customer, have been up eight percent; Mexico, our second largest customer, has purchased 33 percent more than last year; and South Korea, our fourth biggest customer, has purchased 32 percent more.

With about two percent more production in the U.S. so far this year, the amount of pork available to U.S. consumers is actually down about one percent because of favorable trade. When population growth is considered, the available pork per person in the U.S. has been down about 1.7 percent for the year. This fits the theme of larger production and higher prices, with the strong export demand being the primary driver so far this year.

The theme of larger production and higher prices is expected to continue into the summer and fall. Last-half 2017 domestic pork production is expected to grow by about two percent, yet prices are expected to be well above those in the last-half of 2016.

Third quarter live hog prices are expected to average in the mid-$50s compared to the very high $40s in 2016. Live prices in the final quarter of the year are expected to be in the middle $40 compared to $37 in the last quarter of 2016. If prices are as expected, last-half prices this year may be around $6 to $7 per live hundredweight higher than for the same period of 2016 for two reasons. The first is the expectation for the continuation of favorable trade and the second is due to a perceived shortage of packing capacity in the last-half of 2016 which likely depressed hog prices. New capacity this year is expected to result in more competitive bidding for hogs and contribute to stronger prices this year.

For the 2016 calendar year, USDA reports live prices (based on 51%-52% lean carcasses) averaged $46.16. My projection for this year is around $50 per hundredweight. Estimated total costs of production for calendar 2017 is in the very high $40's. If annual prices are a touch over $50s this would provide an estimated $3 of profit per head. Profits are returns above all costs of production. Projections are for $9 per head of profit in the second quarter, $15 per head of profit in the third quarter, and then an $11 per head loss in the final quarter. Profits are generally the highest in the second and third quarters because of the tendency to have the highest hog prices of the year at that time. The June USDA *Hogs and Pigs* report is scheduled to be released on June 29 and will provide an update on industry expansion and help the industry project pork supplies over the coming year.

U.S. weather over the next 60 to 90 days will be the primary determinate of the size of U.S. feed crops. Current USDA price projections are for corn to be the same price as last year's price, with a 2017-18 marketing year average of $3.40 per bushel. My evaluation is that price will average about $.30 higher. USDA expectations are for high protein meal at Decatur to average $315 per ton (the center of their projected range) for the 2017-18 marketing year compared to $320 for the previous year. This will be the lowest price for meal since 2010. Over the past year, meal prices have been high in relationship to corn (based on long-run averages). In the coming year, lower meal prices and higher corn prices may favor an increase in protein levels in rations.

A large acreage increase for soybeans and decrease for corn this year also means that harmful growing season weather may have a relatively larger upward impact on corn prices as compared to soybean prices. The timing of any adverse weather can have a large influence on which crop is affected more.