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Weekly Outlook: Hogs: 2012 the Best Year in High-Priced Feed Era

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The pork industry is expected to have a profitable year in 2012! In fact, the level of profitability could be the most favorable during the high priced feed era. Profits in 2012 are currently forecast to be near $17 per head, which would be the highest since 2006. That was the last year of the low feed price era when corn prices received by farmers averaged about $2.30 per bushel for the calendar year and estimated hog profits were $27 per head.

While a return to profitability is welcome news, there are deeper and more important implications. The first is that the pork industry, like most other animal industries, has made the adjustments necessary to live in a world of high priced feed. The second is that the pork industry probably has “turned the corner” on high feed prices as one looks to 2012 with abundant and cheap feed wheat, prospects for moderation in the rate of growth in corn use for ethanol, the potential for a larger South American soybean crop, and hope for a return to higher U.S. corn and soybean yields.

The pork industry had a difficult road making the transition to the high feed price era, as did all animal industries. High feed prices and recession in 2008 and 2009 and “H1N1”, unfortunately termed “swine flu”, led to large losses in 2008 and 2009, estimated at $17 and $24 per head, respectively. These large financial losses resulted in some downsizing of the industry through discouragement and bankruptcy. As a result of downsizing and robust pork buying from foreign countries, the amount of pork available to U.S. consumers will drop from about 51 pounds per capita in 2007 to around 46 pounds in 2012. This nine percent reduction of per capita supply has enabled retail pork prices to rise from $2.87 a pound in 2007 to $3.43 a pound in 2011, a 20 percent increase.

The large loss years of 2008 and 2009 ($17 and $24 per head) will finally be offset by the profitable years of 2010, 2011, and 2012 ($14, $10, and $17 per head). Hog producers would say this in a different way, “It has taken three years just to get back the money lost in in the two bad years when feed prices surged.” Another way to look at this is to say that the pork industry has adjusted to $7 a bushel corn such that they can break even if cash corn prices stay at that level and make money if prices are below $7. Current prospects for cash corn prices to be in the lower $6.00 area is a primary reason for the profit opportunity in 2012.

Are feed prices now moving into their post-peak period? No one can know the answer with much confidence, but the declining prices of corn and soybean meal since August will have many debating that issue. There clearly are fundamental reasons to believe that could be the case, as itemized above. The post-peak price feed period would be expected to be one of both lower feed prices and less volatile prices. These are conditions that would favor expansion of animal production, including the pork industry.

Of course pork producers do not quickly forget $7 and $8 corn prices and should be cautious in quickly expanding herds. Perhaps the best and most logical advice is for them to use the expected profitability in coming months to enhance their financial positions and to wait and see how the 2012 U.S. crops evolve before moving toward expansion in late 2012. An ominous threat remains the Southern Plains drought that has recently crept into the Western Corn Belt, although NOAA sees an improving moisture condition for the Western Corn Belt this winter.

Hog prices are expected to trade in the mid-$60 this winter and improve to the very-low $70 in the second quarter, on a live weight basis. Prices are expected to moderate a few dollars in the third quarter and then fall to the mid-to-higher $50s for the final quarter of 2012. By the end of 2012, signs of pork expansion may begin to lower prices and those lower prices would be expected to extend into 2013.

While the financial outlook for pork producers has continued to improve this fall, the general economy remains a “shadow of doubt” for the pork market that cannot be overlooked. The European debt issues have been delayed, but not yet dealt with. Much like Europe, the U.S. government seems unable to agree on a plan for dealing with the current unemployment problem and the long-term debt concerns. If these worries should lead to slower, or negative, economic growth rates then weak consumer incomes could lead to lower pork prices and a less favorable pork outlook. Clearly, this is another reason for pork producers to be hesitant in expanding production at this time.