



## Weekly Outlook: Too Much Pork, Tariffs Mean Too Few Buyers

**Chris Hurt**

Department of Agricultural Economics  
Purdue University

*farmdoc daily* (8): 127

---

Recommended citation format: Hurt, C. “[Too Much Pork, Tariffs Mean Too Few Buyers](https://farmdocdaily.illinois.edu/2018/07/too-much-pork-tariffs-mean-too-few-buyers.html).” *farmdoc daily* (8): 127 , Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 9, 2018.

Permalink: <https://farmdocdaily.illinois.edu/2018/07/too-much-pork-tariffs-mean-too-few-buyers.html>

---

The pork industry appears to be headed for a period of large losses in which excess pork supplies force prices below costs of production. In addition, demand will likely be weakened by reduced exports with tariffs in place on U.S. pork exports to China and Mexico. On a positive note, Chinese tariffs on U.S. grains and soybeans are helping to erode feed prices along with favorable growing season weather.

The industry has expanded the breeding herd by three percent according to a recent producer survey by USDA. This is the highest rate of breeding herd expansion since this expansion phase began in 2015. A breeding herd of this magnitude is likely to be a primary contributor to excess supplies in 2018 and 2019.

The market herd was up three percent and farrowing intentions for this summer and fall were up two percent. With the breeding herd up three percent, there is concern that actual farrowings this summer and fall could be higher than the two percent increase recorded by survey respondents.

Pork supplies will be large. First-half supplies this year have been up four percent and are expected to rise to five percent higher in the third quarter this summer and four percent higher in the final quarter of 2018. Current expected supplies for the first-half of 2019 are up four percent and three percent in the last-half of 2019.

The second driver of the large losses facing the pork industry revolve around the current trade war the U.S. has entered. The U.S. pork industry has done an amazing job of producing low costs and high value pork products and adapting them to our foreign customers. As a result we have targeted exports as a strategic objective to grow the U.S. pork industry. Our success in growing exports to 22 percent of production means that pork became a target of both China and Mexico.

Pork exports started the year with a lot of promise being up nine percent at the end of April compared to the January to April period last year. Chinese tariffs on U.S. pork began on April 2 and were raised again on July 6 making additional tariffs of at least 50 percent. Mexico placed tariffs on U.S. pork of ten percent on June 5, and raised those to 20 percent on July 5.

Weekly export data from USDA suggests a sharp drop in pork export sales during the month of June representing about a 25 percent decrease from last year. Weakness in exports will be expected as long as the tariffs stay in place. China has also placed tariffs on U.S. beef and poultry which may reduce U.S. exports of these competitive meats.

---

We request all readers, electronic media and others follow our citation guidelines when re-posting articles from farmdoc daily. Guidelines are available [here](#). The farmdoc daily website falls under University of Illinois copyright and intellectual property rights. For a detailed statement, please see the University of Illinois Copyright Information and Policies [here](#).

Just how large are the loss prospects right now considering the large pork supplies, reduced exports due to tariffs, and reduced feed prices due to tariffs and favorable growing conditions?

Liveweight prices for 51-52 percent lean carcasses are expected to average about \$49 in the third quarter of 2018 before dropping sharply in the last quarter to near \$40. Current estimates of cost of production are near \$50.

In 2019, prices are expected to be below costs for much of the year. Liveweight prices are expected to be in the low \$40's in the first quarter and then move to near \$50 for averages in the second and third quarter before dropping back to the low \$40's for the final quarter.

Estimated losses are expected to be large this fall and winter with losses averaging about \$25 per head for this six month period. Hog prices may be close to breakeven in the second and third quarters before returning to losses greater than \$20 per head in the last quarter of 2019. Losses for the calendar year of 2018 are estimated at a loss of \$10 per head and \$12 per head of loss in 2019.

Feed costs are expected to be somewhat lower in the second-half of 2018 versus the first-half. This is especially true for soybean meal where Decatur, Illinois prices for high protein meal were near \$365 per ton in the first-half. That same price in the second-half is expected to be closer to \$340 per ton. Unfortunately, corn costs may be similar in both halves of the year and thus the modestly lower feed costs are not enough to offset low hog prices.

My prices for hogs and feed are primarily based on futures prices on July 9. Clearly, agricultural product markets are in a period of high uncertainty and volatility. Weather will continue to be a driver of crop prices over the next six to eight weeks. What happens to tariffs on U.S. exports of crops and animal products will also add dynamic price potential.

Given the heightened level of uncertainty, most pork producers will not want to make long-term decisions at this point. That means carrying on as best they can with short-term plans. The current trade war that agriculture has been unwillingly forced to participate in has an unknown and difficult to predict outcome. Only time will help bring the "end game" into better focus.