



Weekly Outlook: 2020 Hogs - More Supply, Profitable Prices?

Jason Franken

School of Agriculture
Western Illinois University

January 6, 2020

farmdoc daily (10): 1

Recommended citation format: Franken, J. "Weekly Outlook: 2020 Hogs - More Supply, Profitable Prices?" *farmdoc daily* (10): 1, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 6, 2020.

Permalink: <https://farmdocdaily.illinois.edu/2020/01/2020-hogs-more-supply-profitable-prices.html>

The USDA's December *Hogs and Pigs* report indicates that producers continue to expand, with the December 1 inventory of all hogs and pigs coming in at 77.338 million head, a record for this quarter and up 3 percent from a year ago. The U.S. hog industry has been expanding since mid-2014, with the annual breeding herd growth rate peaking around 3.5 percent in early 2018. Unprofitable margins and uncertainties from trade tariffs have slowed breeding herd expansion, as the USDA's December report has the breeding and market herds, respectively, up 2 and 3 percent from this time last year. These numbers are fairly in-line with pre-report expectations.

The number of pigs weighing less than 180 pounds was 2.25 percent larger than the inventory at this time a year ago, and these will be the market hogs arriving at processing plants from January to May 2020. The change reflects that the September-November pig crop was up 2 percent from 2018, despite 1% fewer sows farrowed during the period. The 2 percent larger fall pig crop also implies roughly 2 percent more slaughter next spring. The larger pig crop is due to a record high of 11.09 pigs saved per litter, on average, or a little better than one pig per litter more than last year's 10.76 for the September-November period. The 2019 average was 10.97 pigs per litter compared to 10.68 in 2018, continuing the upward trend with an average rate of annual increase of 1.3 percent over the last decade.

A continuation of the upward trend in pigs per litter, combined with reported farrowing intentions suggests more hogs going to market in 2020. Winter farrowing intentions are up 1 percent from actual farrowings last year and 5% from two years ago, and spring farrowing intentions are also up slightly from last year and up 3 percent from 2 years back.

All of these numbers point to a somewhat higher supply of hogs and pork in 2020. With higher production, one might expect lower prices, but there are additional items to consider on the demand side.

Domestically, U.S. per capita pork consumption was under 50 pounds per year from 2010 through 2015, just surpassing 50 pounds in 2016 through 2018, and estimated at 52.7 pounds in 2019 or the highest it has been since 54.2 pounds in 1981. While pork production is expected to be 3.5% higher in 2020, consumption is expected to decline by just 0.1 pound per American, but we still have exports to consider.

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](#).

On the world market, all eyes are on Asia, and China in particular, due to their production losses from African Swine Fever. Although held back by China's retaliatory duties, U.S. pork exports to China increased throughout 2019. In September and October, China surpassed Japan to become our second largest foreign customer after Mexico. Late last May, Mexico ceased a 20% retaliatory duty on U.S. pork that restrained exports through April. The House of Representatives passed the U.S.-Mexico-Canada Agreement in December, and the Senate is expected to ratify it this year, which will help to ensure long-term duty-free access to this key market. The USDA is forecasting U.S. pork exports in the first three quarters of 2020 to be, respectively, 21%, 7.5%, and 8.8% greater than the same time last year. These forecasts are premised on the assumption that China and other Asian countries will continue to face significant domestic pork supply deficits, and that the preliminary trade agreement with China will eventually be finalized.

Taking all of this into account, hog prices should be profitable throughout much of 2020, even though they have been below the cost of production in recent weeks, as they often are seasonally this time of year.

Whereas other forecasts you might see consider a base price reported on either a live or carcass basis, the forecast presented here is for the national weighted average net price for all transactions for producer-sold barrows and gilts, including negotiated and contract prices. This net price should be more reflective of what producers receive and runs at a premium of more than \$2/cwt over the base price on average, so take that into account if comparing to other forecasts.

By quarter, the national net price is expected to average around \$66 in the first quarter, \$77.00 in the second and the third quarters, and then \$67.00 in the final quarter of 2020. A range of \$2 higher or lower would be reasonable for price projections. Hence, given costs of production in the low to mid \$60s, hog prices should be profitable, on average, throughout 2020.

These projections are based on a scenario where growth in domestic and export pork demand more than offsets growth in U.S. hog production, as previously described. Since domestic production and consumption tend to be relatively easier to get a handle on, export demand from China in particular appears to be the wildcard. If the expected growth in U.S. pork exports to China doesn't materialize, then U.S. hog prices would likely fall short of these projections.

YouTube Video: Discussion and graphs associated with this article at <https://www.youtube.com/watch?v=PXVeHnWReFc>