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Lower Pig Crop and Farrowing Intentions Support Higher Prices

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The USDA's June *Hogs and Pigs* report places the June 1 inventory of all hogs and pigs at 75.7 million head, up about 1% from last quarter and down 2% from a year ago, consistent with pre-report expectations. Likewise, market hog and breeding inventories are about 2% less than a year ago, as anticipated.

Each class of market hog inventories is down compared to the same time last year. The heaviest two weight classes of 120-to-179-pounds and over-180-pounds are both 1.5% lower than last June, while the 50-to-119-pound class and under-50-pound class are 3% lower. Overall, the number of hogs weighing less than 180 pounds is nearly 2.5% smaller than a year ago, which will be the market hogs arriving at processing plants from July through November 2021.

The decline in lighter weight hogs partly reflects that the March through May pig crop is 3% smaller than last year, which is below the range expected pre-report, with about 3% fewer sows farrowed and only 10.95 pigs saved per litter, which was expected to exceed the 11.00 pigs per litter observed over the same period last year. Monthly data reflect that the lower number of pigs saved per litter for the period really stems from a dip in March with a return to expected levels more recently. Looking forward, summer and fall farrowing intentions are down 4% and 2% from actual farrowings last year. These numbers should similarly imply somewhat smaller slaughter numbers in subsequent periods.

According to the USDA cold storage report, cold stocks of pork at the end of May are up 1% from the previous month but down 1% from a year ago. Poultry stocks are up 3% from the prior month but down 12% from a year ago, while beef is down 8% from the prior month and 1% from last year. While the numbers are somewhat bearish for pork, in that they may reflect a slowdown in U.S. pork exports, there still appears to be plenty of room in cold storage.

The USDA forecasts U.S. per capita pork consumption at 50.8 pounds per person in 2021, rising to 51.2 pounds per person in 2022. Prior to COVID-19, U.S. per capita pork consumption reached 52.4 pounds in 2019 or the highest it has been since it was 54.2 pounds in 1981. Hence, strong domestic demand is expected to persist, as the U.S. reopens and recovers from the COVID-19 pandemic.

The U.S. exported 655 million pounds of pork in April, or about 2.1% more than in April of 2020. Much of a decrease in shipments to China and Hong Kong, were offset by large exports to Mexico. The USDA estimates U.S. pork exports in the 2nd quarter of 2021 to be 1.9 billion pounds, or 7% higher than last year, and similarly forecasts the last two quarters of 2021 to be 6% and 7% higher, respectively, raising the total for 2021 by 4% over last year. The 1st quarter of 2022 is forecast to be 1.9 billion pounds, which is nearly 1.5% lower than the 1st quarter of 2021.Hence, export demand is anticipated to remain strong for the remainder of the year.

Taking all of this into account, profitable hog prices should persist into next year. The forecast presented here is for the national weighted average net price on a carcass basis 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, on average, and normally runs at a premium of more than $2/cwt over the base price on average. Although contract prices often exceed cash prices, from March-May, this net price averaged $98.83/cwt compared to $103.04/cwt for the corresponding net prices for negotiated or spot transactions.

In general, hog prices tend to be higher in the 2nd and 3rd quarters, with lower prices in the 1st and 4th quarters. Consistent with that pattern, quarterly prices are forecast to average about $100.48/cwt for the 3rd quarter of 2021, falling to $86.58/cwt by the 4th quarter and then to $80.69/cwt for the 1st quarter of 2022, before rising to $90.56/cwt for the 2nd quarter of 2022. These projections are consistent with the strong demand and lower supplies currently anticipated, the effects of which may weaken somewhat later in the forecast period if producers ramp up production or if export demand softens, in which case, lower prices may be realized.

YouTube Video: Discussion and graphs associated with this article at https://youtu.be/GOTrJyxLre0