



A Positive Pig Report

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The USDA's December *Hogs and Pigs* report places the December 1 inventory of all hogs and pigs at 74.2 million head, down about 1% from last quarter and 4% lower than the same time last year, compared to an average pre-report estimate of just 2.8% lower. That's the smallest December inventory since 2017. While pre-report expectations pegged the breeding herd just right at only 0.1% higher than a year ago, the market hog inventory is similarly down about 4.5% compare to expectations of only 2.9% lower.

All weight classes of market hog inventories are down compared to the same time last year, and all but the 50-to-119-pound class are down more than expected pre-report. The heaviest two weight classes of 120-to-179-pounds and over-180-pounds are about 6% lower than a year ago, and respectively, 2.5% and 3% lower than pre-report expectations, which were somewhat more accurate for lighter weight hogs. The 50-to-119-pound class is 2.5% lower, compared to expectations of 2.7% lower, while the under-50-pound inventory is 3.7% lower than a year ago, just 0.8% lower than expected. Overall, there are nearly 4% fewer hogs weighing under 180 pounds than a year ago, and these will be the market hogs arriving at processing plants from January to May 2022. These numbers and farrowing estimates add some bullish sentiment.

The decline in lighter weight hogs partly reflects that the September-November pig crop is 3.6% smaller than last year, despite a record number of pigs saved per litter, as 4.8% fewer sows were farrowed for the period, compared to expectations of only 3.1% fewer. The record 11.19 pigs saved per litter continues the upward trend observed over the last decade. Still, a smaller fall pig crop, resulting from fewer sows farrowed, should imply a similarly smaller slaughter this spring.

Meanwhile, winter farrowing intentions are up almost 0.5% from actual farrowings last year compared to expectations of 0.8% higher, and spring farrowing intentions are down about 0.8% from last year compared to expectations of nearly 0.2% higher. Lower than expected farrowing intentions, unless offset by pigs per litter pushing still higher, should translate into lower inventories later on.

Frozen stocks of meat remain low. According to the USDA cold storage report, cold stocks of pork on November 30 are down 8% from the prior month and 3% from a year ago, which previously was the lowest level for pork since the start of the COVID-19 pandemic. Meanwhile, poultry stocks are down 17% from the prior month and 18% from a year ago, while beef is up 4% from the prior month and down 4% from last year.

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The USDA estimates U.S. per capita pork consumption at 50.9 pounds per person for 2021, and forecasts the number dropping to 49.9 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. With this outlook for domestic consumption, the market will again look to exports to help bolster prices.

The U.S. exported 541 million pounds of pork in October, or nearly 8.5% less than in October of 2020, largely due to 62.7% lower shipments to China and Hong Kong, which was only partly offset by stronger exports to Mexico and other parts of Latin America. The lower-than-expected October pork exports prompted a 30 million pound reduction to the 4th quarter export estimates, now at 1.8 billion pounds, dropping the total for 2021 to 7.2 billion pounds, or almost 2% below the 2020 level. For 2022, the 1st and the 2nd quarters, respectively, are forecast to be about 9.2% and 2.2% below year ago levels, while the 3rd quarter is forecast to be 11.7% higher. Hence, while weaker export demand is anticipated for the first half of 2022, it is expected to bounce back later in the year.

All in all, recent reports offer some optimism for hog prices. 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. From October through December, this net price averaged \$79.56/cwt compared to \$63.84/cwt for the corresponding net prices for negotiated or spot transactions.

In general, hog prices tend to be higher in the 2nd and 3rd quarter, with lower prices in the 1st and 4th quarters. Consistent with that pattern, this forecast places 1st quarter prices at about \$80.83/cwt, rising to \$91.37/cwt and \$92.93/cwt by the 2nd and 3rd quarters, respectively, before dropping to \$83.27/cwt for the 4th quarter. These projections assume that domestic demand maintains current levels and export demand grows in the later half of the year. A big wildcard, on that front, could be how African Swine Fever might affect competitors in export markets. Of course, if demand is lower or if hog supply turns out to be greater than anticipated, then lower prices may be realized.

YouTube Video: Discussion and graphs associated with this article at <https://youtu.be/IQcTbFiJXa4>