



# THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

FEBRUARY 2022

The US hog and pork complex managed to work higher during January, helped along by omicron-driven labor shortages at packing plants that limited throughput. Slaughter levels during January were down about 9%, in contrast to the Jun/Aug pig crop, which USDA estimated to be down 6%. The smaller than expected kills caused some product tightness right when consumers were beginning to hunker down at home due to soaring COVID-19 infections. The pork cutout added about \$10 during January and some of that bounty spilled over into the cash hog market, where negotiated hogs gained about \$15/cwt. In fact, the rapid

very conservative about expanding the herd in recent quarters, so smaller pork production in 2022 will likely help offset some of the losses producers experience as a result of softer demand.

## SUPPLY PICTURE

Back in September, USDA reported the summer (Jun/Aug) pig crop to be down 6% YOY. Those are the hogs that the industry is currently slaughtering and will continue to slaughter until the end of February. The omicron variant of COVID-19 finally reached the rural areas where packing plants are located and caused high absenteeism in packing plants. We saw daily kills drop to 450k or lower, with frequent downward revisions occurring. This caused concerns about the potential for hogs backing up in the pipeline, but a close analysis of the data suggests that really hasn't happened. Packers did a good job of making up missed daily kills on Saturdays and while total slaughter in January appears to be about 3% smaller than expected, packers should have plenty of capacity in February to clean up supplies. Our flow model suggests that packers need to slaughter 2.45 million head per week or slightly less from now until the end of February to keep the hog barns current. That seems easily do-able, especially now that infection rates seem to be declining and the daily kills have recovered.

Of course, any time that there is a bottleneck at the packing plant, concerns start to arise about hogs getting too heavy. That seems to have happened to a moderate degree, with carcass weights a little more elevated than expected in January, and the de-trended and de-seasonalized carcass weights spiking to their highest level in almost a year. Now that plants are better staffed, we look for weights to come down gradually and get back on the seasonal path that should have them working lower from now until mid-summer. Curiously, cash hog prices haven't really signaled a building backlog. Negotiated hog prices have surged recently and have been very volatile, sometimes moving as much as \$8/cwt in a single day (see **Figure 1**). This unusual price activity suggests that perhaps something is quietly reducing the hog supply. Perhaps

Pork demand is currently cycling higher, helping the cutout to gain almost \$10 in January

rise in negotiated hog prices during a period when kills were constrained raises concern that perhaps there is something unseen going on in the hog supply, perhaps disease issues. Now, as we move into February, omicron infections are declining rapidly across the US and there is a strong belief that the end of the acute phase of the pandemic is near. That should facilitate a move back toward normalcy where consumers will travel more and eat out more often. It also probably spells the end of the phenomenal domestic pork demand environment that we have been in for over a year. Consumers now have other challenges, the most important of which is soaring price inflation as a result of supply chain disruptions throughout the economy. Pork is not immune to those inflationary pressures and retail pork prices are near record highs. Price inflation has largely wiped out any benefit that consumers were seeing from increased wages over the past year. That leaves consumers feeling poorer and when that happens, it usually signals that a decline in pork demand is just around the corner. Fortunately, the pork industry has been

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producers are having more disease issues this winter than normal. Buyers need to be vigilant about this. We are not ready to declare another 2014-type disease problem that sent the cutout to \$130, but if that type of problem were to repeat in the current strong demand environment, pork prices would almost surely exceed 2014 levels.

Hog producers are having to deal with exceptionally high feed costs. Cash corn prices in Iowa are approaching \$6/bushel, up from about \$5/bushel at the beginning of Q4. Similarly, cash soybean meal is now over \$400/ton, up a little more than \$100/ton in four months. As a result, the breakeven price for hogs sold today is close to \$90/cwt. That is not too far off from the \$94 breakevens that we saw last summer when grain prices were spiking under drought fears (see **Figure 2**). The summer futures are above breakeven levels and producers would be wise to lock those profits in now, because high grain prices look like they will persist and the summer months may be the only time in 2022 when producers are able to realize a profit.

High grain prices have pushed producer breakeven prices to \$90/cwt

## DEMAND SITUATION

Pork demand is in the midst of a modest upcycle at the moment, largely driven by consumers staying home during the period of high omicron infection rates. Store shelves saw a lot of bare spots during January, the result of truckers and other supply chain workers being out with omicron. Just the sight of empty store shelves often leads to certain amount of hoarding behavior and we think that has likely happened in the pork space over the past month. As omicron infections recede in February, consumer fears are likely to ease and that may temper domestic demand through the retail channel. February is not known as a particularly strong demand month anyway. Loin items have become a retail feature favorite recently, with retailers looking to offer consumers a lower-priced alternative to very expensive beef middle meats. But overall pork prices at retail remain very high and with each passing week the stockpile of money that consumers saved during the pandemic shrinks. Inflationary pressures are affecting all goods that consumers buy, not just food products. Gasoline and other energy products have seen sharp price increases and that will help drain the consumer's bankroll. As a result, we see some modest weakening in pork prices and the cutout from mid-February to early March. Beyond that, spring demand starts to take hold and

buyers should prepare for prices to escalate in normal seasonal fashion. With the supply picture tighter than in previous years, it is possible that the cutout moves above \$100/cwt before the end of March and remains above that level through July.

The outlook for international pork demand remains fairly grim compared to years past. The rapid recovery of China's hog herd following the ASF outbreak two years ago has lessened their need to procure pork from North America and thus we've seen steady YOY declines in pork exports since July. For Q4, we estimate that pork exports were about 11% under last year. Mexico has stepped up as a bigger buyer of US product recently and we estimate that YOY movement to Mexico was up a little over 20% in 2021. Still, that is not enough to fill the big gap left by China's falling interest. There may come a time when China becomes a big buyer of US pork again, but we don't see that happening in the next six to 12 months.

## SUMMARY

Pork prices were on the rise in January as a result of improved domestic demand generated by the omicron wave of COVID-19 and reduced production as plant workers increasingly called in sick. Both of those elements are moving into the past now, but production will still be rather light due to last summer's pig crop being down 6%. With cold storage stocks at multi-year lows, there is very little buffer against higher prices if demand should suddenly surge. While demand appears to be currently in an upcycle, we expect that within a couple of weeks it will crest and start to work lower as omicron infections fall rapidly and consumers begin to explore a more normal daily routine as the pandemic's acute phase fades. That said, we are nervously watching the negotiated hog market escalate rapidly and there is risk that something yet unseen, perhaps disease issues, is limiting the hog supply more than advertised. This is the time of year when PRRS and PEDv normally increase. Buyers need to be vigilant about this. International demand for US pork has been hampered by China's rapid rebuilding of its hog herd and thus a diminished need to import pork from North America. Pork imports have been running strong lately, helping to supplement relatively small pork production. We don't think that the omicron-related slowdown at packing plants has caused any significant backup in the production pipeline. Carcass weights are a little heavier than expected, but manageable, and it our sense that hog producers are relatively current with their marketings. At the current moment, pork pricing is fairly stout, but buyers should remain relatively close bought because we look for demand to begin to cycle lower in a few weeks and prices could become more attractive. **Table 1** provides our near-term price forecasts.

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Figure 1: Negotiated Cash Hog Prices in WCB During January, 2022

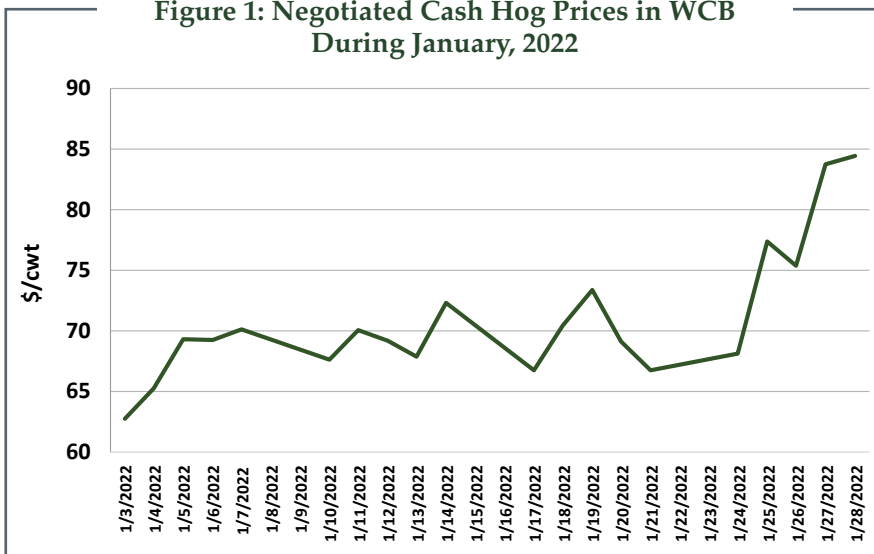


Figure 2: Producer Breakevens, 2021 & 2022 Projected

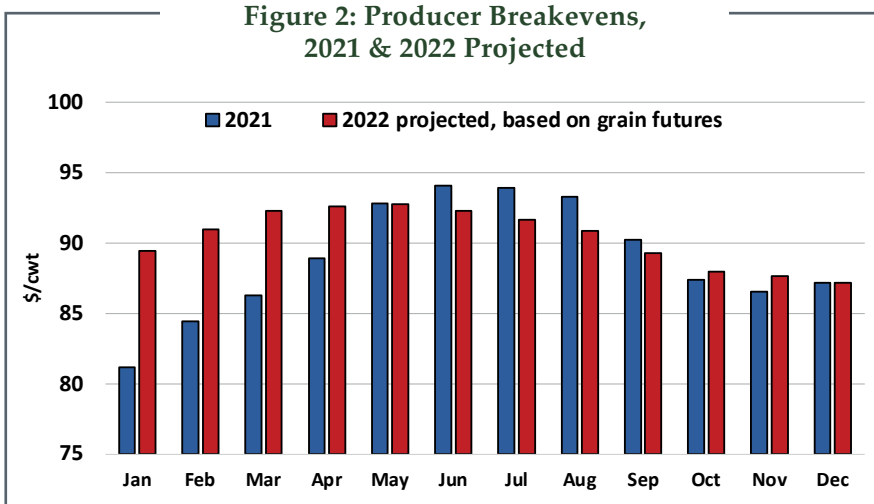


Table 1: JSF Hog and Pork Price Forecasts

	9-Feb	16-Feb	23-Feb	2-Mar	9-Mar	16-Mar
Pork Cutout	96.6	93.9	91.4	91.4	94.2	97.1
Loin Primal	103.5	100.4	97.6	96.5	97.7	98.9
Butt Primal	97.2	98.7	100.6	102.8	106.5	111.4
Picnic Primal	57.9	58.8	60.0	61.1	63.0	62.8
Rib Primal	154.3	158.3	160.3	163.3	165.7	168.2
Ham Primal	68.1	66.1	64.8	67.3	69.6	72.0
Belly Primal	167.2	155.2	143.5	137.7	145.6	154.3
Lean Hog Index	84.5	84.0	82.6	83.7	86.7	88.5



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