VOLUME 5, ISSUE 4
EN | FR | ES

J.S. FERRARO

THE MONTHLY

RED MEAT OUTLOOK: HOGS & PORK

APRIL 2022

March saw spot hog prices continue on the upward trajectory that began late in 2021. There continues to be talk of disease issues in the US herd and pricing seems to confirm that, but we really haven't seen a shortfall in slaughter that one might expect if disease was influencing piglet survival and/or farrowings. Spot negotiated prices in the Western Corn Belt are now near $105. The run-up in hog pricing has crimped packer margins since cutout values did not increase at nearly the same rate as cash hog prices. Our calculations suggest that packer margins this week will be less than $5/head. That is a pretty big change for an industry that has grown accustomed to margins in the $20-35/head range. The cutout actually sagged a bit during March but recently has been in more of a sideways pattern. Domestic pork demand is beginning to improve in normal seasonal fashion as warmer weather encourages more outdoor grilling. At the same time, hog supplies are slowly contracting — also a normal seasonal occurrence. That combination of shrinking supply and improving demand points to stronger pork pricing for the next 2-3 months. The futures market is already anticipating this and traders have moved the May, June and July contracts to levels similar to last summer. We think that might be a bit ambitious, but can't fault traders for wanting the err on the side of higher pricing, especially if they sense that disease issues will curtail production this summer.

Packer margins are now less than $5/head as the cutout hasn't kept pace with cash hog prices

SUPPLY PICTURE

Barrow and gilt slaughter during the Dec/Feb quarter was down 5.2% and we measure that against the 2021 Jun/Aug pig crop, which USDA estimated was down 6%. So, slaughter lined up fairly close to what USDA's survey projected. Now, during the March/May quarter, the industry is working through the 2021 Sep/Nov pig crop, which was reported to be down 3.6%. It is still early, but so far slaughter levels are coming in close to that estimate also. Thus we can have some confidence in the near-term slaughter forecasts, which have total slaughter running close to 2.4 million head per week currently, but it should drop down to average close to 2.35 million head per week in April. Looking even farther out into the summer. The lowest non-holiday kills should be around 2.25 million head in late June or early July. That would be pretty similar to the low seen last year. It implies tight hog and pork supplies this summer, but not exceptionally tight. We will be watching kills closely in April and May for any signs that they fail to live up to the pig crop estimate. That would be strong evidence to support the disease theory.

Look for weekly slaughter to average **2.35 million head per week** in April

Carcass weights have been rather flat lately, but that is fairly common at this time of year. April should bring modest declines in carcass weights, which would then accelerate in May and June as they approach a bottom in early July. Barrow and gilt weights were last reported one pound over last year and pretty much in-line with our forecast. The weight data seem to support the idea that everything is running smoothly at the producer level and hogs are neither backed up nor stretched out at this point. Producers are grappling with very high input costs on everything from feed to petroleum products and we think that average breakevens are running about $97/cwt right now. Given that the

Lean Hog Index is running close to $103/cwt, that means that producer margins are positive and close to $12/head. That in itself is pretty impressive given that producer margins are often negative in late March/early April. However, the high cost of inputs make producer margins very vulnerable if pork demand should fail to live up to expectations in the weeks ahead.

Last week, USDA released its latest survey results in the *Hogs and Pigs* report. It showed some further contraction in the US hog herd, which was reported down 2.3% from last year. The breeding herd was also reported about 2% lower. Clearly, producers are being cautious about expanding in this high-cost environment. The report did hint at some disease issues given that that increase in pigs saved per litter was well below trend. That resulted in USDA pegging the Dec/Feb pig crop down 1% from the previous year. Those are the hogs that the industry will slaughter during the Jun/Aug quarter this year. From this data, we can conclude that hog and pork supplies are likely to remain relatively snug through most of 2022.

DEMAND SITUATION

Domestic pork demand has been stronger than last year during Q1, but it is important to remember that the big surge in pork demand last year didn't take hold until Q2. **Figure 1** provides a look at our average demand indexes by quarter of the year. The first thing to notice is how much stronger demand has been in 2021 and 2022 compared to the 2015-2019 average (2020 is omitted due to covid plant disruptions). The shaded green bars represent our forecast for the demand indexes for the next three quarters. We see Q2 demand almost as strong as Q1, but below last year's stimulus-turbocharged Q2 demand. In the second half of 2022, we have demand averaging about five points below last year and about 10 points below the first half of 2022. This reflects our belief that as time passes and life returns to normal post-pandemic, that demand will slowly start to work back toward the longer-run average. The pork cutout futures are currently projecting an average Q2 cutout of $119. That implies a Q2 demand index of 1.25, which is well above the 1.22 reading from last year and the 1.19 forecast from JSF. Clearly, futures traders are very bullish on demand for the AMJ quarter. We attribute the improvement in demand from 2021Q4 to 2022Q1 to consumers moving back down the protein ladder away from pricey beef toward pork. This is likely to be temporary situation because eventually consumers will trade down from pork to other less expensive proteins. That is why we see pork demand weaker in the second half of 2022 compared to the first half.

International demand for US pork has seen better days. The official export total for January was almost 16% below last year and the weekly data since January suggests continued weakness in exports (see **Figure 2**). In a historical context, exports are really not all that bad — they just look soft compared to 2020 and 2021 when China was a huge buyer of US product. It appears that the industry is getting comfortable with the idea that exports won't return to those 20/21 levels anytime soon. That likely factors into producers' decisions not to expand the hog herd this year. One bright spot in the export picture is Mexico, which increased its purchases of US product by over 31% last year and is showing even stronger YOY growth in Q1 of 2022. Still, that is not enough to overcome weakness in demand from China and Japan. Even shipments to smaller destinations in the "other" category appear to be struggling relative to last year.

SUMMARY

With the spring grilling season just around the corner, prices in the US hog and pork complex appear poised to move higher as seasonally strengthening demand coincides with smaller pork supplies. However, we think that the gains this spring will be well short of the super-strong pricing posted last spring. Previous pig crops make it clear that production will be about 3.5% smaller than last year in Q2, but much softer export demand, coupled with strong imports, will mean that availability could actually be higher this spring than last. Domestic demand is still very strong but should recede the deeper we move into 2022. As a result, we don't see summer price levels challenging last year and see the optimism in the summer futures as way overdone. Packers will likely be basing forward pricing off of those inflated summer futures, so buyers would be wise not to get aggressive in forward booking product for delivery in May/June. The recent *Hogs and Pigs* report showed inventory levels down 2.3% YOY, which suggests that producers are becoming cautious in the current environment where China seems to have little need for US pork and high input costs are threatening profit margins. The market that was thrown way out of balance by the COVID-19 pandemic and all of the features associated with it, seems to be slowly returning to normal. That should be welcomed by all participants within the supply chain. **Table 1** provides our near-term price forecasts.

Figure 1: JSF Cutout Demand Indexes
(shaded is forecast)

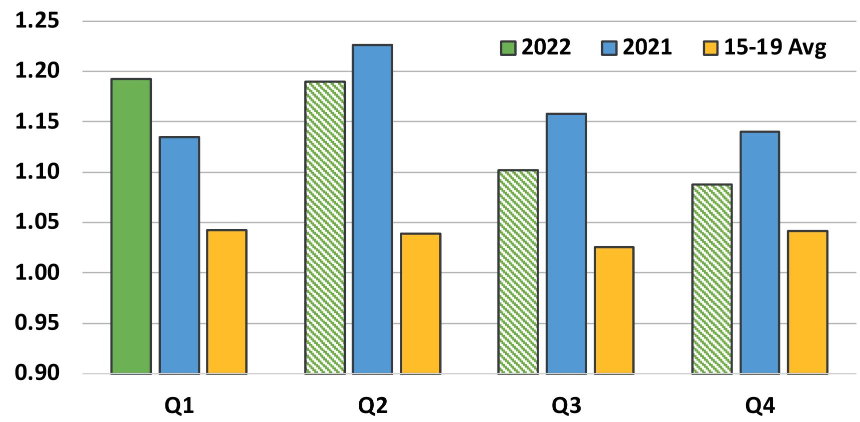

Figure 2: Total Weekly Pork Exports

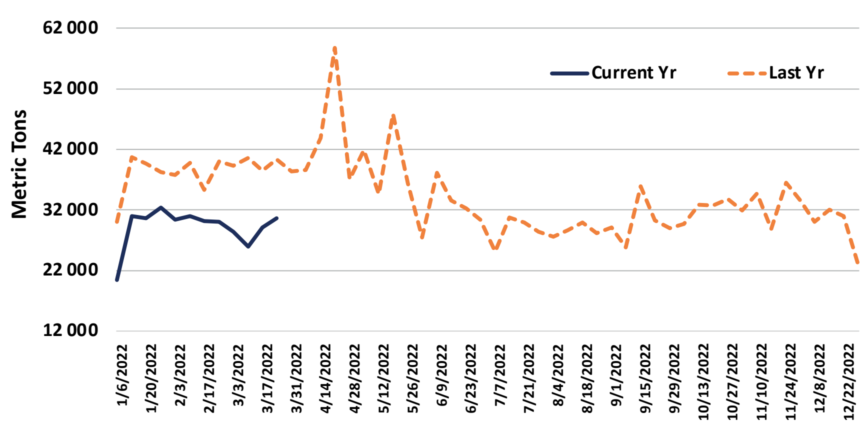

Table 1: JSF Hog and Pork Price Forecasts

	13-Apr	20-Apr	27-Apr	4-May	11-May	18-May
Pork Cutout	103.6	104.6	106.7	107.5	107.9	108.1
Loin Primal	100.8	102.2	103.6	102.0	100.0	102.8
Butt Primal	119.6	122.2	120.3	118.8	115.9	112.5
Picnic Primal	66.4	69.4	71.3	68.4	66.5	64.3
Rib Primal	179.3	181.4	182.9	183.4	179.5	174.3
Ham Primal	73.3	70.4	72.7	74.9	77.2	79.9
Belly Primal	179.6	183.3	190.0	197.7	204.9	202.9
Lean Hog Index	99.0	99.6	101.5	102.9	103.7	104.7

DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

Dr. Rob Murphy is an agricultural economist and business leader with over 31 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.