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THE MONTHLY

RED MEAT OUTLOOK: HOGS & PORK

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The US hog and pork complex remained in a relatively steady state throughout October. The cutout averaged almost the same in the last week of October as it did in the last week of September. The Lean Hog Index, which measures the cost of hogs to packers, was down only about a dollar from the last week of September until the end of October. That makes two months in a row now that prices within the complex have been relatively calm. We attribute some of that to the fact that retailers aren't moving their pricing much at all and consumers seem to have adapted to the new, higher price structure in grocery stores. The price stability in the market from the end of summer to the beginning of November is even more amazing if we consider that domestic pork production has increased about 10% over that time frame. The industry will likely see weekly pork production reach its peak during November and then ease back a little in December as the supply of available hogs contracts somewhat. Pork is starting to feel some competitive pressure from rapidly falling chicken prices as chicken producers have really stepped on the gas lately, causing chicken output to surge. That is more likely to affect items such as loins and butts more than it will the processing items. Ham pricing has been unusually strong for several months now. Turkey production is way down due to avian influenza outbreaks and that is likely to shift some of the retail advertising focus for Thanksgiving away from turkey and toward hams. Mexico is also exhibiting strong demand for US hams, further adding to the support. Mid-to-late November normally sees some of the lowest pork prices of the year and it is common for buyers to target this time period for moving product into cold storage as a hedge against higher fresh pork prices next spring and summer.

Pork in cold storage is up 15% YOY, with a good chance stocks could build further

SUPPLY PICTURE

Hog slaughter levels have followed the script laid out by USDA's survey pretty closely this fall. The industry is currently working through the March/May pig crop, which was estimated to be down about 1.1% from the year prior. So far, kills have come in only about 150,000 head shy of what we expected based on the March/May pig crop. Last week's slaughter was right at 2.58 million head and that is very near the practical top of 2.61 million that we expect for Q4 of 2022. Sow slaughter was somewhat elevated during October and if that persists it may be confirming that the breeding herd is going to remain on a downward trajectory during the early part of 2023.

The weather in the Midwest has been very mild this fall and hogs seem to be thriving and gaining weight as expected. Carcass weights are trending higher in normal seasonal fashion and barrow and gilt carcasses are currently averaging about 212 pounds, identical to the same week last year. The de-trended and de-seasonalized weights are still at relatively low levels and that suggests that hog producers are not falling behind in their marketings. Hog weights may not peak until early December, so there are still some gains to come, but the market seems to be handling the extra production with little difficulty. Once weights peak, they are likely to move in a sideways pattern for most of the Dec-Feb quarter and then they should start working lower in early March.

The labor situation in packing plants is much better than it was last year at this time and that has caused packers to want to run their plants harder, but the current hog supply won't support that. As a result, they are having to compete more vigorously for those uncommitted hogs to fill out their slaughter schedule and that has kept cash hog prices relatively high and packer margins uncharacteristically low for this time of year. In the past few years, it hasn't been unusual for packer margins in early November to exceed \$20 or \$25/head, but this year those margins are closer to \$10/head. This is simply a result of the hog supply shrinking after packing capacity was expanded considerably in 2018-19. As long

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Smaller hog supplies and improved packing capacity this fall has held **packer margins well below historical norms**

as the hog herd remains in on a downward trajectory, it is logical to expect that packer margins will fall short of historical norms. Producers, on the other hand, have had a good year so far in 2022, with margins averaging close to $3/head during the first three quarters of the year. Producer margins are almost always negative in Q4, due to the seasonal surge in hog production, but it looks as though the losses this fall will be smaller than in years past.

DEMAND SITUATION

Domestic pork demand eased a little bit during October and is currently nearing the bottom of a downcycle. Buyers always seem to back off a little bit during late October and early November as pork production nears its annual peak and this year has been no exception. From a pork buyer's perspective, there is little need to be aggressive in the market when there is a good chance that if they just wait a little while the price will move lower as production increases. We look for pork demand to remain relatively soft for much of November, but once Thanksgiving arrives, buyers can no longer count on production increases and that should bring some demand back into the market that is currently on the sidelines. In the larger picture, pork demand is working its way back to pre-pandemic levels and that process should be completed by the middle of 2023, if not sooner. It is worth noting that retailers have continued to slowly increase the retail pork price that consumers see (**Figure 1**) even after wholesale prices cooled down in September, so it isn't too surprising that demand is registering a little bit weak. Rapidly declining wholesale chicken prices could soon result in lower retail prices for chicken and more chicken features, so that will also be a headwind for pork demand. US consumer confidence likely improved a bit during October as equity markets experienced their biggest monthly gain in over 45 years. Of course, the economy still appears on track for a recession and that could eventually cause equities to retrace all of October's gains. Inflation continues to run over 8% per year remains another longer-term threat to pork demand as consumers increasingly look for ways to stretch their purchasing power.

The **pork cutout** is now just **below the $100 mark** and should work slowly lower in the coming weeks

Observers might see the pork cutout near $100 during November and interpret that as strong demand, but we must keep in mind that prices in the general economy have risen almost 14% in the last two years, so a $100 cutout today is really only equivalent to a $88 cutout in the fall of 2020.

International demand for US pork still seems rather soft, particularly compared to the strong demand that came from overseas in the past couple of years. Mexico has emerged once again as the largest buyer of US pork, which was an honor that China held for most of the 2020-21 period. The Mexican peso has held up better than many of the Asian currencies against the US dollar and that has helped keep orders from Mexico strong compared to the other big US pork importers. Since a large fraction of what Mexico buys from the US is hams, that also helps to explain the unusually strong ham pricing that has dominated the market over the past few months. Hog and pork prices in China have been rising lately, but they have yet to reach the level that would encourage stronger imports from the US. That said, Chinese buyers are likely to be active during November procuring supplies in anticipation of the Chinese New Year celebrations. In order for purchased product to make it from the US to China in time for that holiday, it likely needs to be on the water by the first week of December.

SUMMARY

US pork production will probably peak in late November or early December, but should still be about 1-2% below last year. While buyers may find the availability of fresh pork in Q4 a little tighter this year compared to last, the amount of pork in cold storage is likely to be about 20-25% larger than a year ago and that may help keep spot pricing on fresh product in check. In fact, we think that processors in particular are eager to build cold storage stocks further if spot prices get low enough this fall to encourage freezing. Buyers are well aware that the US hog herd is continuing to slowly contract and that creates price risk for next spring and summer that can be hedged by building inventory now. The industry added substantially to packing capacity back in 2018-19 under the idea that growing export demand for US pork would keep hog numbers on an upward trajectory. That was true for a couple of years, but now that China has solved its ASF problems, international demand for US pork has softened. As a result, there is more processing capacity than there are hogs at present and that has prompted packers to compete more vigorously for uncommitted spot hogs to round out the kill schedules. The end result is that packer margins are narrower than recent years (see **Figure 2**). That is likely to remain a key feature of the hog and pork complex for most of 2023 as well. Buyers will probably be seeing some of the lowest pork prices of the year between now and Thanksgiving and they should take advantage of that because there is a good chance that pricing on fresh product will firm up during December. **Table 1** provides our near-term price forecasts.

Figure 1: US Retail Pork Prices, 2018-Present

Figure 2: Average Packer Margins, 4th Quarter

(shaded is forecast)

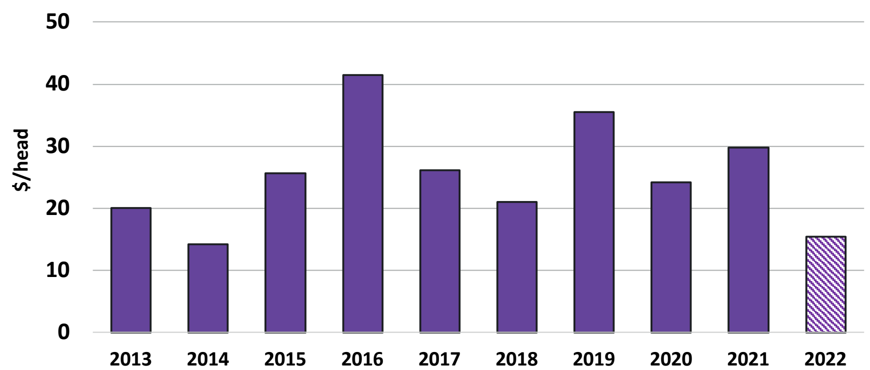

Table 1: JSF Hog and Pork Price Forecasts

	16-Nov	23-Nov	30-Nov	7-Dec	14-Dec	21-Dec
Pork Cutout	93.1	91.5	91.7	93.7	94.5	93.9
Loin Primal	86.1	86.4	86.7	88.6	90.1	91.0
Butt Primal	97.1	98.6	101.1	104.2	104.4	103.7
Picnic Primal	77.0	74.7	75.1	73.4	71.2	71.6
Rib Primal	121.7	122.2	123.3	125.7	129.4	131.8
Ham Primal	98.6	94.4	93.5	94.4	90.3	88.0
Belly Primal	118.2	115.6	115.4	121.7	131.1	128.9
Lean Hog Index	86.2	83.3	81.9	84.1	84.7	84.2

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