VOLUME 6, ISSUE 3
EN | FR | ES

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THE MONTHLY

MARCH 2023

RED MEAT OUTLOOK: HOGS & PORK

The hog and pork complex was mostly sleepwalking through late 2022 and early 2023, but there are now signs that demand is improving and prices are likely to keep working higher. One headwind that the industry has faced over the past few months has been bigger-than-anticipated hog supplies. By our calculations, USDA's survey under-estimated last summer's pig crop by about 700,000 head and that means that hog slaughter during the most recent Dec/Feb quarter was 700,000 head larger than expected. That worked out well for pork packers, who were able to keep their margins in the black by not having to compete as aggressively in the cash hog market. As we move into March, the industry will begin killing the Sep/Nov pig crop, which USDA estimated to be down 1.3% YOY. There is naturally some concern that perhaps the Sep/Nov pig crop was under-estimated as well. Producers are still struggling with very poor margins and that has kept them eager to move hogs out of the barns as rapidly as possible. Spring is just around the corner however, and that usually means improved demand as consumers begin to fire up their outdoor grills. After being stagnant around the $80/cwt mark for much of January and February, the pork cutout is now slowly working higher. That general trend should last until at least mid-summer as hog supplies shrink seasonally and warmer weather spurs demand. Back in the doldrums of deep winter, suppliers as well as end users took advantage of low pork prices to build cold storage inventories. They likely expect to utilize that product in the summer, not so much in the spring, so the large cold storage stocks might not hinder the spring price gains much, but it could limit how high pork prices get this summer.

> Recent slaughter levels suggest there were **700,000 more hogs born last summer** than the USDA survey indicated

SUPPLY PICTURE

Weekly hog slaughter during February averaged about 2.5 million head per week. That average however, was constrained by some winter weather events late in the month that disrupted transportation and kill schedules at some of the Northern packing plants. USDA's estimate of the Jun/Aug pig crop, which fueled slaughter from Dec to Feb, pointed to weekly kills during February closer to 2.4 million head, so it was readily apparent that there were more hogs on the ground than advertised. Whether or not that over-kill will continue into March remains to be seen, but we should begin to see kills slowly shrink, so that by the end of the month the weekly total is down to 2.4 million or slightly below.

We don't think that the brief winter weather disruptions caused much in the way of a backlog of market-ready hogs and carcass weights have been working lower as is typical at this time of year. Currently, barrow and gilt weights are one pound below last year. Weights are likely to shift into more of a sideways pattern throughout March and into April before beginning their summer decline towards a bottom in mid-July. Corn prices have come down recently, but still remain well above historical norms and that is prompting producers to keep up a strong marketing pace, thus avoiding any backlog. With hog slaughter running well above expectations, the last thing that producers want is for carcass weights to escalate.

The margin picture for hog producers remains dismal. Yes, corn prices have eased somewhat recently, but the hogs they are selling today consumed corn that was priced well above today's market. Our calculation suggests that hogs marketed today need to bring slightly over $100/cwt to breakeven (**Figure 1**). Unfortunately, the cash price of hogs, as measured by the Lean Hog Index, is hovering right around $79/cwt. That leaves producer margins underwater by almost $53/head. Furthermore, the futures market is telling producers that peak prices this summer may only be slightly over $100/cwt, so profitability this summer

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Producers need to realize $100/cwt. on hogs sold today just **to cover their production cost**

might not be very strong either. That is a big change from last summer when profits were strong and production margins averaged close to $19/head. In this environment, it is easy to see why hog producers might be more inclined to scale back their production, rather than expand it.

DEMAND SITUATION

In the last couple of weeks domestic pork demand seems to have turned the corner and is now slowly improving. The previous downcycle in demand was very deep and very long, so market participants are cheering the end of that rough patch. However, while demand is improving, the move higher has been very tepid. Hams appear to be getting a demand boost after a soft start to 2023. Mexican buyers seem to be more active and with good reason — hog and pork prices in Mexico are at least 25% higher than here in the US. Bellies and ribs are the laggards in the pork complex right now. Those are the only two primals that are trading below their five-year averages. The reason for this is likely because cold storage stocks for both are very large. Ribs in cold storage were up 21% YOY at the end of January and bellies in cold storage were up a whopping 57% YOY (**Figure 2**). Users who put that product in cold storage are likely planning to pull it out this summer and that should keep summer belly and rib pricing well below last year. It is also a big reason why we don't see the cutout getting as high this summer as it did last year. Pork does enjoy a very strong price advantage compared to beef and hopefully that will shift more retail features in pork's direction this spring. Pork's lower price point should also be attractive to those food stamp recipients who will see their benefits cut in March as the pandemic "emergency allocation" expires. In the beef complex, we are seeing very strong demand for high quality middle meats from well-heeled consumers, but unfortunately there is nothing in the pork product portfolio that will appeal to those buyers in the way the beef middles do. Overall, we think that domestic demand for pork will continue to improve through the month of March, but the gains are likely to be modest and slow to materialize.

Foreign interest in US pork hasn't been very exciting either so far in 2023. The cutout has been below last year by a large margin since the beginning of the year, yet the weekly export data seems to indicate that exports are running close to last year. When international buyers are purchasing the same amount of product at much lower prices, that is a clear sign that their demand has softened. Canada has actually been a bright spot for US pork exports, taking 44% more tonnage since Jan 1 than they did last year. On the other hand, movement to China has been very weak recently. Chinese pork production has swelled since the ASF outbreak was contained and that has limited Chinese buyers' interest in US product. It appears that the best hope for boosting US pork exports in the first half of 2023 will rest on stronger trade with our North American partners, Mexico and Canada.

Large cold storage stocks will likely **limit upside potential** for the cutout this spring and summer

SUMMARY

The pork demand "air pocket" that we discussed in last month's report seems to have dissipated and now domestic demand is slowly on the mend. However large cold storage stocks, particularly for bellies and ribs will limit the upside potential in the cutout this spring and summer. The focus is now shifting from demand side problems to larger-than-expected hog supplies here in late winter. Kills during the recently-completed Dec/Feb quarter were close to 700,000 head larger than what the pig crop implied and now as we move into the March/May quarter there is concern that kills will continue to run larger than what the government survey suggested. That has made it difficult for cash hog prices to get much traction. The Lean Hog Index is currently up about $5/cwt from its low point in mid-February, but that $78/cwt price level is not nearly enough to cover producers' cost of production. We estimate that hog producers are losing over $50/head currently while packers are earning about +$10/head. Demand just isn't strong enough yet to afford profits for all of the supply chain participants. USDA will release its next quarterly *Hogs and Pigs* survey results on March 30 and given the poor profitability in the production sector, it wouldn't be too surprising to see producers making further cuts to the breeding herd. Last year at this time pork demand was super-strong and prices were roaring higher. This year is turning out to be way different and market participants who have been looking at last year's charts would be wise to scale down their price expectations for the first half of 2023. **Table 1** provides our near-term price forecasts.

Figure 1: YOY Increase in Cold Storage, End of January 2023

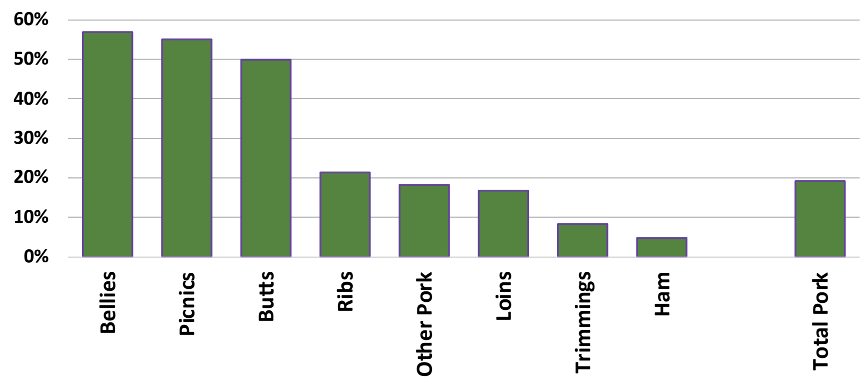

Figure 2: Producer Breakeven

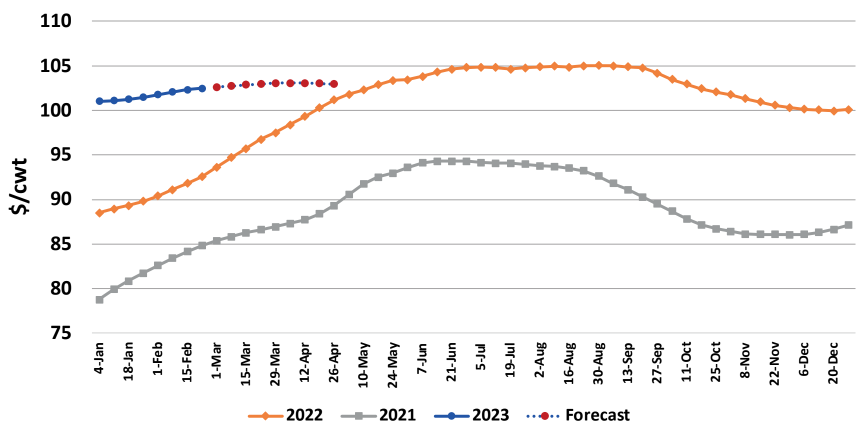

Table 1: JSF Hog and Pork Price Forecasts

	15-Mar	22-Mar	29-Mar	5-Apr	12-Apr	19-Apr
Pork Cutout	88.8	89.9	91.8	93.1	95.4	96.3
Loin Primal	86.3	88.5	90.4	91.5	93.8	95.2
Butt Primal	108.9	110.3	113.1	110.9	114.3	118.4
Picnic Primal	70.9	72.7	75.4	73.7	74.3	72.1
Rib Primal	118.3	120.7	123.9	125.9	127.6	130.0
Ham Primal	85.6	83.2	81.4	84.4	87.3	88.7
Belly Primal	111.2	115.4	121.7	125.1	128.3	127.7
Lean Hog Index	81.9	82.7	85.0	86.5	88.0	89.2

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