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RED MEAT OUTLOOK: HOGS & PORK

The improving conditions in the hog and pork complex that we reported last month have already fizzled out. Hog and pork supplies continue to run larger than expected and pork demand seems to have suffered a setback during March. The pork cutout finished out March at $77.28/cwt., its lowest level since late December 2020. Prior to the pandemic, cutout values in the $70s and even $60s were commonplace, so we might view the recent softness in the cutout as just a return to more normal conditions after a very strong period during the pandemic. However, if we adjust for inflation, the cutout during Q1 this year matched the low posted in 2020Q1 and other than that, the only time the inflation-adjusted cutout was this low in Q1 was during the 2008-09 recession years. Clearly, the hog and pork complex is going through a period of exceptionally weak pricing at present. Hog supplies continue to run larger than expected and at the same time pork demand appears very weak. Cold storage stocks of many pork items are burdensome and that has likely contributed to the poor price showing in Q1. Going forward, hog and pork supplies should start to decline seasonally, and the advent of grilling season should bring improved demand. So, there is reason to have hope that price levels will soon start to improve, but we thought that was going to be the case a month ago and yet the market has once again under-performed.

SUPPLY PICTURE

Total swine slaughter during March averaged 2.49 million head per week, only a tiny bit lower than the level observed in February. The persistence of such large kills this late in Q1 was a sure sign that hog supplies were bigger than what USDA's estimate of the Sep/Nov pig crop suggested. USDA admitted that error last week when, in their *Hogs and Pigs* report, they revised the Sep/Nov pig crop upward by 540,000 head. They also revised last summer's Jun/Aug pig crop upward by 580,000 head. We have suspected for some time that the supply of hogs was exceeding what the pig crops indicated and we now have confirmation of that. Last week's *Hogs and Pigs* survey pegged the Dec/Feb pig crop up 0.3% YOY and those are the hogs that will be slaughtered this summer in the Jun/Aug quarter, so it looks like product availability will be larger this summer than last. If the pig crop estimates are correct, then we would expect to see hog slaughter average 2.4 million head per week in April and about 2.3 million head per week in May. The low point in slaughter should come in late June or early July at about 2.25 million head in the non-holiday weeks. However, given the survey's recent propensity to underestimate the pig crop, we think there is a reasonable chance that summer hog supplies will turn out to be even larger than the 0.3% increase that USDA reported.

USDA estimated the Dec/Feb pig crop slightly higher than last year, suggesting summer pork supplies will also be bigger than last year

Low pricing in the hog and pork complex has been devastating financially for hog producers. We estimate that producers were losing close to $56/head on every animal sold at the end of March.

Hog producers are currently **losing $56 per head**

The problem stems from the fact that input prices haven't subsided much at all while hog prices have tanked. Cash corn in Southwest Iowa averaged close to $6.80/bu. in March, down slightly from last summer's peak pricing, but still very stout in a historical context. Corn prices may retreat this fall once the new crop is harvested, but that is likely to be too late for many hog producers. Breakeven prices on hogs this summer are likely to be in the high $90/cwt.

area, yet summer futures are trading in the low $90s. That suggests a strong probability that hog production margins stay negative right through the summer — a period when hog producers typically enjoy strong margins. The market is currently sending a strong signal for some producers to exit the industry and others to scale back their operations. Only then can prices rise to a level that will cover production costs and allow profitability to return in the production sector. We anticipate that producers will begin to thin out their breeding herds aggressively this summer in response to dismal profitability.

Hog carcass weights have been tracking mostly sideways lately and that is typical for this time of year. The last reported barrow and gilt weight data was dead-on with the same period last year. Producers are eager to get hogs marketed as rapidly as possible in order to limit their financial loss. That has kept the supply of hogs flowing smoothly to market and prevented any back-ups in the production pipeline. Sow pricing has been tracking lower in the past few weeks and price levels for sows are now only about half of what they were last year at this time (**Figure 1**). Perhaps breeding herd liquidation is already getting underway.

DEMAND SITUATION

In our last report, we talked about how domestic pork demand appeared to be turning higher, but that only lasted for a few weeks before demand faded again. The combined packer+producer margin that we use as an indicator of overall demand reached an all-time low last week. The sad state of pork demand is further emphasized in the scatter diagram of the deflated pork cutout against per capita consumption during the month of March (**Figure 2**). The data point for 2023 falls well below the regression line that marks average demand and indicates that demand last month was close to rivaling the poor showing in the 2008-09 recession period. It is interesting to contrast this demand scatter with the one we included in the beef report this month. Beef is enjoying solidly above-average demand while pork demand is super soft. Perhaps this weak demand showing has something to do with the financial stress that lower income consumers are feeling due to high inflation and slowing wage growth in the macroeconomy. Pork, with its lower price point relative to beef, tends to be the preferred protein amongst lower income Americans, but maybe those consumers are now being forced to trade down to even lower priced protein sources. Bacon demand has been particularly soft so far this year and cold storage stocks of bellies are 42% larger than last year and 32% larger than the 10-year average. Pork ribs have also experienced very weak demand over the past couple of quarters. Bellies and ribs are two of the most expensive items that come out of a hog carcass, so this seems to support the case for consumers trading down to lower priced protein sources. Demand for pork trim and picnics, some of the lowest priced parts of the carcass, has held up much better than the more expensive items. In general, domestic pork demand is registering as very weak at the present moment but spring grilling season is just around the corner and that might be what helps lift the demand-side of the market back toward a more normal level.

International buyers still seem to have a moderate interest in US pork. The weekly export data has shown export volumes holding at or above last year's level in recent weeks. Most of the strength in exports can be attributed to strong movement into S. Korea and the countries in the "other" category. There has been talk of a resurgence in ASF cases in China, but so far that hasn't led to any measurable increase in US exports to China. Hog and pork prices inside China are still very low and until we see significant increases in those price levels, it doesn't make sense for China to import aggressively from the US, especially considering the high tariff that has been assessed against US pork since the Trump era.

Pork demand has fallen
back into an air pocket, pushing the cutout
below $80 last week

SUMMARY

The hog and pork complex slipped back into a demand air pocket during late March and slaughter levels continue to run above expectations. That has been the recipe for lower pricing, and we have recently seen the cutout trade consistently below the $80 mark. Last week's *Hogs and Pigs* survey suggested that supplies this summer will be larger than last year, and it is very likely that demand will be way softer than last year also. Summer hog futures have retreated into the low $90s and that is below what we estimate that hog producers will need in order to breakeven. As a result, producers are looking at a painful margin situation this summer and could conceivably go all summer without seeing positive margins. That dire situation is likely to cause some producers to exit the industry and others to scale back their breeding herds. Eventually, maybe in 9 to 12 months, the hog herd will be better sized to meet lower, post-pandemic demand and prices will rise above breakeven for hog producers. Until then, there is going to be a financial squeeze on those that remain in business. This anticipated shrinking of the hog herd has profound implications for the packing sector as well because there will likely be too much packing capacity chasing fewer hogs, leading to poor packing margins and the potential need to mothball one or more large harvest facilities. For now though, pork buyers can rest easy knowing pricing this spring and summer will probably be well below last year and availability shouldn't be a problem. **Table 1** provides our near-term price forecasts.

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Figure 1: National Avg Sow Price, 500-549 lbs.

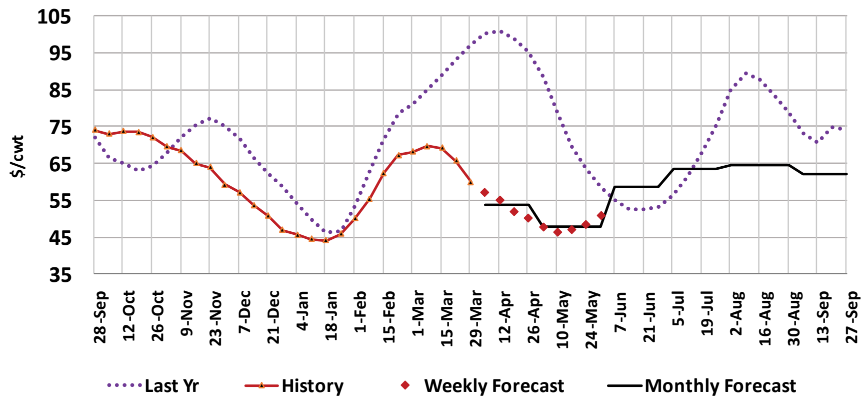

Figure 2: Deflated Pork Cutout vs. Per Capita Disappearance, March

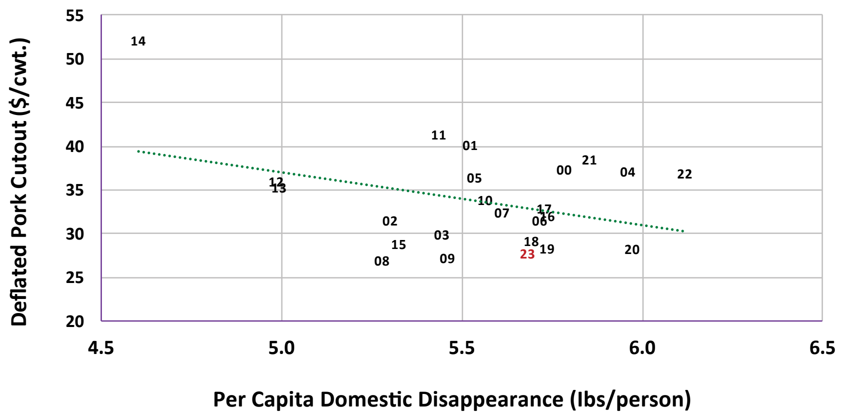

Table 1: JSF Hog and Pork Price Forecasts

	12-Apr	19-Apr	26-Apr	3-May	10-May	17-May
Pork Cutout	77.6	80.1	82.7	85.6	88.6	89.7
Loin Primal	78.4	79.6	83.1	85.4	88.8	91.1
Butt Primal	99.5	102.9	106.6	108.1	111.3	114.0
Picnic Primal	63.5	65.8	68.2	70.1	72.9	74.9
Rib Primal	114.7	118.5	121.4	124.9	127.8	128.6
Ham Primal	69.5	72.4	74.8	81.1	83.2	80.3
Belly Primal	93.9	97.8	99.4	100.1	104.8	108.7
Lean Hog Index	73.2	75.0	77.4	80.7	84.2	86.3

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