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THE MONTHLY

RED MEAT OUTLOOK: HOGS & PORK

MAY 2023

The US hog and pork complex remains stuck in neutral as the summer grilling season begins. There have been some very small increases in the pork cutout over the past couple of weeks, but they have been well shy of what industry participants have come to expect at this time of year. There are both supply and demand issues to blame for the poor performance of the hog and pork sector so far this year. Hog supplies continue to run considerably larger than expected and a recent USDA survey points to hog supplies this summer that could be 1% larger than last year. Soft domestic demand has persisted for many months and that led to a build-up in cold storage stocks that is now hindering price advances. Bellies, in particular, have underperformed due to large frozen inventories. Seasonally smaller hog supplies have been very slow to materialize this year, but we should see kills shrink considerably during May. Hog producers are drowning in red ink, with margins approaching -$60/head (**Figure 1**).

SUPPLY PICTURE

Weekly swine slaughter during April averaged about 2.41 million head, and that includes some reduced kills around Easter weekend at the beginning of the month. Even though USDA made a big upward revision in their estimate of the Sep/Nov pig crop back in March, the industry still seems to be killing more hogs than that revised pig crop suggests. No one is quite sure where all of these hogs came from. Perhaps producers did a better job of controlling disease issues this winter and that led to better piglet survival. However, we are now entering the period of the year when hog supplies decline seasonally and that should promote more competition among packers, thus raising cash hog prices. Last week the Western Corn Belt cash market moved higher for the first time since February (**Figure 2**). Still, price levels are a long way from where they have been in the past couple of years.

Hog production margins are hovering near **-$60/head**

Cash hog prices recently **advanced** after months of weakness

This has indeed been a dismal stretch for the hog and pork industry, particularly after the strong showing in 2021-22. There is a very real risk that producers might not see another positive margin for the remainder of 2023. The market is sending a signal to producers that production needs to be curtailed so that the supply of pork aligns better with weaker demand in the post-pandemic era. So far, it seems that producers have been slow to get the message, but at some point we expect to see reductions in the breeding herd and perhaps even some plant closures. What once seemed like a temporary lull in the market has now lasted so long the need for some structural change is becoming apparent.

While the price of hogs has dropped, the cost of feeding those hogs has not declined nearly as much and that leaves hog producers in a serious margin pinch. We estimate that producers were losing about $65/head on the hogs they marketed last week. Facing those steep losses, producers have been eager to move hogs to slaughter as soon as possible and that helps explain why packers have found it relatively easy to purchase hogs in the spot market. Those timely marketings have also prevented hogs from backing up in the production pipeline, so carcass weights are near normal levels for this time of year. Weights should be on the verge of moving seasonally lower and so that could provide a bit of supply side support in the next few weeks.

Last week Tyson reported the closure of their slaughter facility in Madison, Nebraska due to fire. That plant had a daily capacity of about 8000 head, so it not one of their larger plants and the company should be able to divert hogs to other plants in the area while repairs are completed. Given all of the other difficulties that hog producers have faced so far in 2023, the last thing that they needed was to see a harvesting facility close. Normally, when a plant goes dark that is negative for cash hog prices, but in this case we actually saw prices in the Western Corn Belt region increase last week. Tyson has stated that repairs to the plant are expected to be completed by mid-May and it should restart at that time.

DEMAND SITUATION

Not much has changed on the demand side of the hog and pork complex over the past several months. Domestic demand is still registering very weak, and it is difficult to pinpoint why pork demand seems unable to gain traction. It is worth noting that the US is not the only part of the world where pork demand is soft. We have noticed some softening in pork demand throughout Asia, especially in China. Perhaps then, the US is just part of a larger global slowdown in pork demand. Last month we looked at the combined producer+packer margin as an indicator of state of demand and that metric only got worse during April. It has recently posted a tiny uptick as May approached, so perhaps that is telling us that demand is now slowly starting to mend and the worst is behind us. Time will tell on that, but it is our sense that if demand is recovering, it will probably be a slow recovery punctuated by periodic setbacks. The advent of grilling season should breathe some life into domestic demand, but our fear is that consumers will continue to show a strong preference for beef and thus the grilling season boost in pork demand might be underwhelming. Pork demand probably stands a better chance against beef later in the summer after retailers have had time to fully incorporate recent sharp increases in wholesale beef prices into the retail prices that consumers see. From now through the end of May, consumers are going to be experiencing retail beef prices that are “artificially” low simply because retailers haven’t had time to raise prices. It seems pretty clear that even as pork demand recovers this summer, it is unlikely to reach the lofty levels experienced in 2021-22.

One thing that low US pork prices have accomplished is to spur export interest. The most recent weekly export data showed pork exports up about 20% YOY. A good proportion of that increase is coming from the countries that fall into the “other” category, so that suggests that low US pricing has caught the attention of a wide array of international buyers. Mexico, which is has been the number one importer of US pork for a long time, has recently experienced a sharp drop in their domestic hog and pork prices, so that may pose a risk to US exports in the near-term. So far, the data suggest that Mexico is taking volumes very similar to last year and way larger than any other destination, so any softness that crops up there will certainly raise concerns.

Pork demand is still registering lethargic, but smaller supplies should lift the cutout in May

SUMMARY

We wish that we had better news to report on the hog and pork complex, but lethargic conditions have remained in place for several months now. Hog supplies are more than adequate for the level of demand and as a result spot prices for hogs are well below breakeven levels. So far there hasn’t been much evidence of contraction in the hog herd, but if these producer losses continue through summer, then it is likely that producers will start shedding breeding animals without plans to replace them. Producers are caught in a margin vice between low hog prices on one side and high feed costs on the other. There are only two ways out of this trap. One is to sit tight and pray that pork demand improves and/or feed costs decline dramatically. The other is to scale back production to a level that can restore profitability in light of the new, lower level of demand and new, higher level of feed costs. So far, producers seem to be employing the first strategy but are not getting the desired results. Soon they may be forced to shift to the second strategy. Pork buyers should expect some moderate price increases during May and June as the pork supply declines seasonally, but prices should still be well below what has been experienced in the past couple of summers. With pork production this summer expected to be above last year and demand very likely softer, there is little need to be aggressive with forward pricing programs. **Table 1** provides our near-term price forecasts.

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Figure 1: Estimated Hog Production Margins, 2019-Present

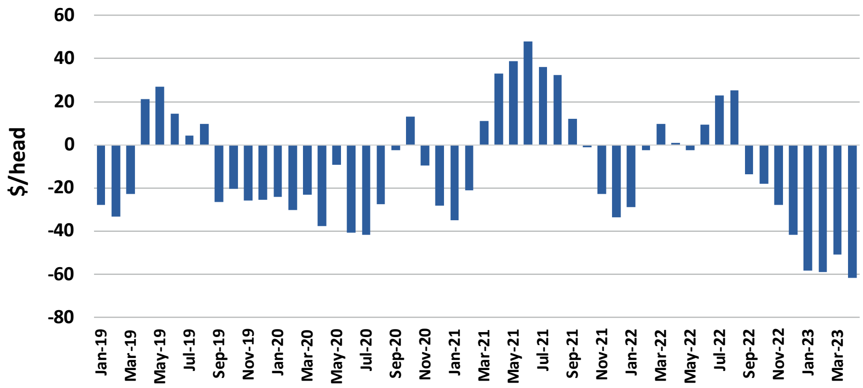

Figure 2: WCB Hog Cash Price

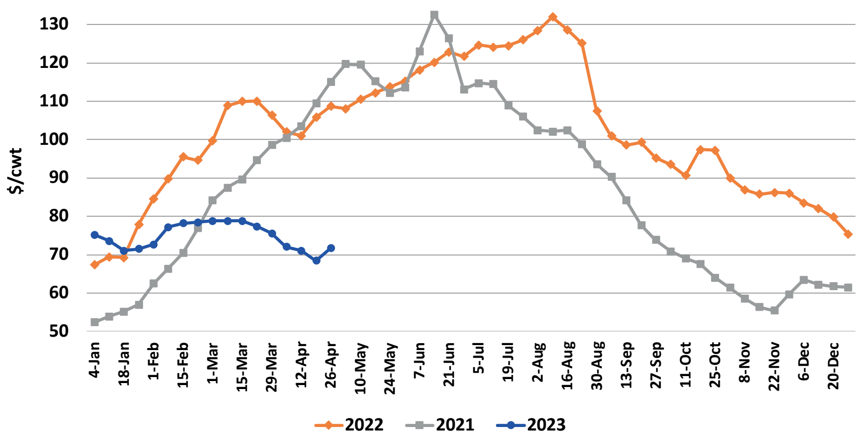

Table 1: JSF Hog and Pork Price Forecasts

	10-May	17-May	24-May	31-May	7-Jun	14-Jun
Pork Cutout	80.9	83.8	85.8	87.9	89.4	92.0
Loin Primal	84.2	86.9	89.5	91.3	91.9	93.2
Butt Primal	115.2	117.1	116.5	115.4	116.7	118.6
Picnic Primal	66.6	68.5	70.0	70.2	71.7	70.8
Rib Primal	116.0	118.0	119.4	120.9	122.1	126.2
Ham Primal	73.9	76.7	79.8	83.0	85.2	88.6
Belly Primal	86.6	92.1	94.2	98.8	101.5	107.6
Lean Hog Index	75.6	78.8	80.7	83.4	85.5	87.9

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