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RED MEAT OUTLOOK: HOGS & PORK

US hog and pork prices made a seasonal top in early August and have been working lower since then. The rate of decline in prices has been more rapid than expected, possibly because the industry entered a demand downcycle at the same time that hog supplies began to increase seasonally. That double-whammy has pushed the cutout into the low $90s now, down from a peak around $117 at the end of July. The rapid decline in cutout values was helped along by a huge drop in belly prices last week and a significant softening in ham demand. Labor Day typically marks a major transition where pricing in the hog in pork complex shifts from a bullish summer mode to a bearish fall and winter mode. Last week's kill touched the 2.5 million head mark and once the holiday week is behind us, weekly kills will likely expand further. It was encouraging watch the industry recover from a very dismal condition in the spring toward a much stronger, and more normal, pricing environment this summer. However, now market participants must re-adjust to operating in a declining price environment and there will likely be some who predict a return to super-soft pricing environment that existed in the spring. We are not in that camp however, thinking that the reductions in the breeding herd that producers embarked upon this summer will eventually provide pricing support and that high beef pricing will benefit pork demand this fall in ways that were absent last spring.

> **A jarring drop in belly prices** helped push the **cutout below $100** for the first time since June

SUPPLY PICTURE

After bottoming near 2.3 million head in July, weekly hog slaughter has rebounded to 2.5 million head at the end of August. Labor Day weekend will result in two weeks of sub-par kills as packers allow their workers time off to celebrate the close of summer. Beyond the holiday, expect kills to quickly return to 2.5 million head and then grow towards a peak of 2.6-2.65 million head per week in November. Look for the sow kill to make up a larger percentage of slaughter than normal as producers continue to scale back their breeding herds in an effort to avoid a repeat of the awful margins they endured last winter and spring. Eventually, a smaller hog herd will shift the balance of power toward producers and away from packers, thus 2024 should see better margin potential for producers and softer margins for packers.

Negotiated hog prices have declined in-step with the cutout since it began to soften in early August (**Figure 1**). Hog weights have been very light, and the de-trended and de-seasonalized carcass weights were very low all summer long, so it was a bit surprising that producers weren't able to resist lower hog pricing late in the summer. However, as hog supplies increase this fall, their ability to resist packer pressure on prices will decline even more. Producers will have to wait until next spring, when hog and pork availability starts to trend lower, before they can exercise much in the way of pricing power. By reducing the breeding herd, and thus market hog supplies in 2024, producers will force packers to compete more vigorously for open market hogs to fill their kill schedules and that will eventually be price supportive.

> Hog producers seem to have little ability to stop the **slide in cash hog pricing**

We have noted that during Q1 and Q2, actual slaughter came in much larger than what USDA's estimate of prior pig crops would have indicated. In Q3 however, it appears the survey did a much better job of estimating the pig crop and it even appears that during the Jun/Aug quarter, the industry may have under-killed the Dec/Feb pig crop estimate by about 150,000 head. That gives us hope that the March/May pig crop, which USDA estimated to be up 0.8% YOY, will closely match actual slaughter when it is realized. If that happens, then weekly average slaughter should peak around 2.65 million head later this year and overall pork production shouldn't be far different from last year. With exports expected to be a little stronger than last year, we could see overall pork availability during the next few months down 1-2% YOY (**Figure 2**).

DEMAND SITUATION

Domestic pork demand reached its nadir in Q2 of this year when our demand index registered an all-time record low of 0.883. Since then, demand has been slowly on the mend, and it looks like the demand index for Q3 will be close to 0.96. That is still about 6% worse than last year, but a huge improvement over the spring. We see that trend of slowly improving pork demand continuing over the next couple of months, but we also recognize that demand is in a short-term downcycle that might have another 3-4 weeks to run before it turns higher. A turn higher in the short-run demand cycle doesn't necessarily mean higher pricing however, since pork production will have expanded considerably over that time frame. There are some potential risks to demand this fall that must be considered. First, there is Prop 12, which so far hasn't had much of an impact on the market, but that could change as we move into larger pork supplies this fall and greater enforcement efforts related to Prop 12. Fears that Prop 12 will depress pork prices in the 49 states outside of California is probably what has prompted futures traders to keep most of the futures curve below the price level that is indicated by fundamental supply and demand estimates. It is hard to know just how Prop 12 will play out, but the downside risk to prices will likely remain until the spring of next year. Student loan repayments will restart in October and that could also crimp pork demand. Inflation has come down quite a bit, but interest rates remain elevated, and the Federal Reserve has indicated a willingness to push them higher, so that remains a potential stumbling block for demand. We don't anticipate a recession this fall, but some slowing in the US economy could unfold. On the positive side for pork demand, it looks like wholesale beef prices are going to remain relatively high and that could push some protein demand in pork's direction. We remain cautiously optimistic that domestic pork demand won't return to the depressed levels seen this spring, but also recognize that there are enough potential hurdles in the picture to keep it from running wildly stronger than last year.

International demand for US pork has been relatively good so far in 2023, with shipments up about 10% year-to-date. The YOY comparisons will get a little tougher for the balance of the year as we start to lap the period when exports strengthened last year. Last month we talked about concerns with movement to Mexico, but more recent data has been strong and erased most of that concern. Recently some softness in shipments to Japan has emerged, so we need to keep an eye on that since Japan is an important market for higher-valued pork cuts. In total, however, it looks like export demand is holding up fairly well and, as kills increase this fall and price levels decline, more product should end up being diverted into export channels.

Pork demand isn't great by historical standards, but it is much **better than it was in the first half of the year**

SUMMARY

US hog and pork markets are on the cusp of transitioning from a strong summer pricing environment to a weaker one in the fall and winter. Hog supplies are now increasing seasonally and that will continue until late November or early December. Based on what we know about prior pig crops, production during the last four months of the year could be a little larger than last year, but stronger exports could actually reduce domestic availability slightly compared to last year. So, the supply side of the market looks like it should be fairly well behaved this fall. The demand side is less certain, particularly in light of concerns that Prop 12 enforcement in California may greatly reduce demand in that state and thus leave more pork to be disposed of in the other 49 states. So far that hasn't been the case, but it is too soon to write Prop 12 off completely as a non-event. There are signs that the US consumer's financial condition is weakening and that could also influence pork demand this fall. Normally, we think of a softening economy as being negative for protein demand, but it is possible that pork demand will benefit as cash-strapped consumers trade down from expensive beef to less expensive protein sources. 2024 looks like it will be a stronger pricing environment than 2023, mostly because producers have been on a campaign to reduce their breeding herds this summer and that should start to pay dividends in the form of reduced hog supplies early next year. **Table 1** provides our near-term price forecasts.

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Figure 1: Negotiated Hog Price and Pork Cutout

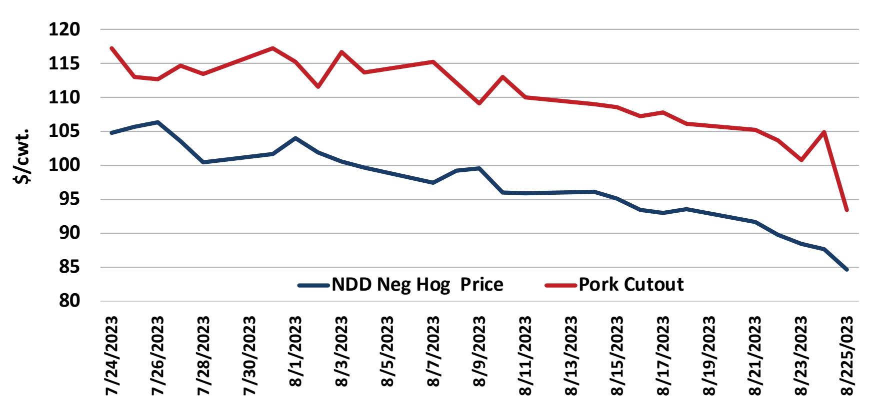

Figure 2: Per-Capita Pork Domestic Availability

(shaded is forecast)

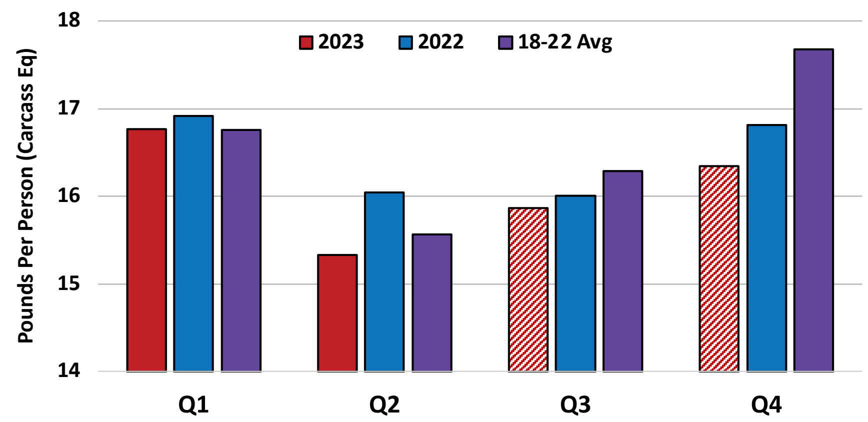

Table 1: JSF Hog and Pork Price Forecasts

	6-Sep	13-Sep	20-Sep	27-Sep	4-Oct	11-Oct
Pork Cutout	89.1	86.4	88.4	90.1	90.9	88.7
Loin Primal	92.3	90.0	90.4	89.5	89.2	87.7
Butt Primal	109.4	109.3	107.1	108.2	105.5	103.7
Picnic Primal	74.3	72.7	72.5	74.7	74.3	72.4
Rib Primal	107.3	106.5	105.4	105.5	106.3	107.0
Ham Primal	81.9	78.4	79.3	80.4	77.4	75.3
Belly Primal	111.0	105.0	117.0	124.3	136.1	130.2
Lean Hog Index	81.5	79.1	80.3	81.7	81.6	78.6

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