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J.S. FERRARO

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RED MEAT OUTLOOK: HOGS & PORK

After a strong rebound this summer, prices in the US hog and pork complex appear to be heading for a “soft landing” this fall. The cutout was actually higher at the end of September than it was at the end of August, and the Lean Hog Index declined about $3/cwt. over that same period. As a result, packer margins improved and now sit very near $20/head. The cutout is projected to ease further in October and November as some of the largest kills of the year are realized, but we aren’t looking for a collapse in pork prices. Proposition 12 seems to have faded from the memory of market participants and the focus now is on seasonally larger kills and potential demand weakness originating from headwinds in the macroeconomy. Last week’s *Hogs and Pigs* report threw a bit of monkey wrench in our supply projections for 2024, with USDA reporting far better productivity (and thus more hogs) than what was envisioned prior to the report. Still, the near-term focus will be on how well the market can handle the large production that is coming in the next couple of months. The fact that the government came very close to another shutdown has made market participants more nervous than usual, particularly those involved in futures trading. Shutdowns are costly and have the potential to send the economy into a recession. Pork demand would likely suffer somewhat in such a scenario, and that seems to be what has traders on edge.

The cutout seems **on track for a soft landing** this fall as prices slowly ease

SUPPLY PICTURE

Last week’s hog slaughter clocked in at 2.6 million head, with packers putting together a very large Saturday kill for this time of year. Our slaughter projections for this fall, which are based on the March/May pig crop, suggested a maximum weekly slaughter total of about 2.65 million head, so last week’s total came very close. A weekly kill of that magnitude would be expected in November, but it was a little surprising to see it show up in late September and it makes us wonder of perhaps USDA underestimated the March/May pig crop. So far, Sep/Nov slaughter has been about 175,000 head above what the pig crop implied and that isn’t a huge miss, but if kills keep on coming in at the current pace, then it becomes likely that USDA will need to revise its March/May pig crop projection higher.

Fortunately for producers, hog carcass weights, while increasing seasonally, are running well below what we saw in the previous two years. High corn prices probably play a role in that. We see hog slaughter in Q4 about 1.2% larger than last year, but that could be mostly offset by lighter carcass weights and thus total pork production in Q4 might be only slightly larger than last year. When we factor in the impact of exports, imports and population growth, that leads to a projection of per capita availability in Q4 that is up about half a percent.

Last week’s *Hogs and Pigs* survey surprised by revealing a 0.3% increase in the swine herd when the average analyst projection called for a 0.8% decline. The difference maker was a huge increase in the number of pigs saved per litter, up 4.3% YOY (**Figure 1**). Producers did liquidate breeding stock during the summer quarter as the breeding herd was reported down 1.2% YOY, but the improvement in productivity easily offset that reduction and thus caused the total swine inventory to grow.

Productivity is surging, increasing the need for deeper cuts in the breeding herd

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Producers seem to realize that they need to rein in production if they are going to improve their margin plight, but the gains in productivity will necessitate deeper culling than might have been envisioned six months ago. It is entirely possible that the industry may need to go through another winter and spring of crushing financial losses for producers in order to bring about that change.

DEMAND SITUATION

The demand side of the domestic pork market seems to be holding up relatively well. It was impressive that the cutout only slipped a little during September while slaughter was increasing. October is "pork month", where the National Pork Board traditionally has provided financial incentives to retailers in return for more aggressive featuring of pork cuts. The idea is to boost consumer demand at a time of year when pork production is large and thus hopefully limit price declines. It is not unusual to see the pork cutout actually rise a little from the end of September to mid-October. However, this year there seems to be more macroeconomic headwinds than normal and that has generated a lot of pessimism among market participants. Student loan repayments are scheduled to restart in October after being suspended for three years due to the pandemic. The gridlock in Congress almost produced another government shutdown and the reprieve is only good for another 45 days, so the issue will resurface soon. Economists seem to concur that the US consumer is very close to exhausting all of the savings that were built through the pandemic. Any of these alone would likely be detrimental to pork demand, but the fact that they are all happening at the same time is particularly worrisome. That said, the impact of those things is probably far worse for beef demand than for pork demand and there is even the possibility that pork demand will benefit from trading down by cash-strapped consumers. Time will tell, but we are expecting pork demand to hold relatively steady through Q4. Given that the call on pork availability in Q4 is for it to remain close to last year, that leads us to price forecasts that are similar to what was seen last year in Q4.

We now have official export data through July, and it indicates a 9% YOY increase in exports so far in 2023. Exports during Q4 might be a little lower than that pace, but it certainly seems plausible that total exports for 2023 will be up in the area of 5-6%. Movement to Mexico has been strong in recent months and that has helped to offset export reductions to China. The US still has some of the cheapest pork on the planet, so it seems reasonable to expect export demand to hold up fairly well, particularly since prices should ease further as we move toward the end of the year.

Export demand remains good
and that will be important as production swells in Q4

SUMMARY

The US pork industry is heading towards its biggest pork production months of the year and there some concerns about the macroeconomic and its impact on demand. That has fostered considerable pessimism on the part of market participants and pushed the futures market lower. However, our take on the situation is that pork availability during Q4 should be similar to last year and, with similar demand strength expected, there is no reason to expect price levels to deviate much from Q4 last year when the pork cutout averaged close to $94/cwt (**Figure 2**). The direction of the macroeconomy is the wildcard that could upset the balance. The continual fighting in Congress over government funding is likely to be a negative to economic growth and that has the potential to crimp pork demand. There is also the risk that weakness in the US economy could eventually spillover into the global economy and that would likely have a negative influence on pork exports. For now however, all of those things are just in the "might happen" category and so we shouldn't lose focus on the fact that the current reality is the pork cutout is holding in the high $90s even though weekly pork production has been large. The recent surge in productivity reported by pork producers will create challenges for 2024 if it persists and may require that producers make deeper cuts in the breeding herd than they initially planned. Producers have already started down the breeding herd liquidation path, so hopefully they won't stop before enough production capacity has been removed to restore profitability to the sector. In the short run, it seems most likely that price levels in the hog and pork complex will continue to slowly ease lower and perhaps a soft landing can be achieved without wrecking the market. **Table 1** provides our near-term price forecasts.

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Figure 1: Pigs Per Litter, YOY Change

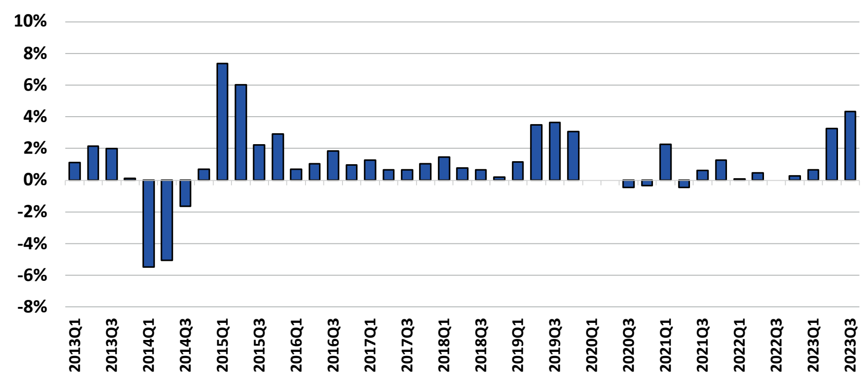

Figure 2: Pork Cutout

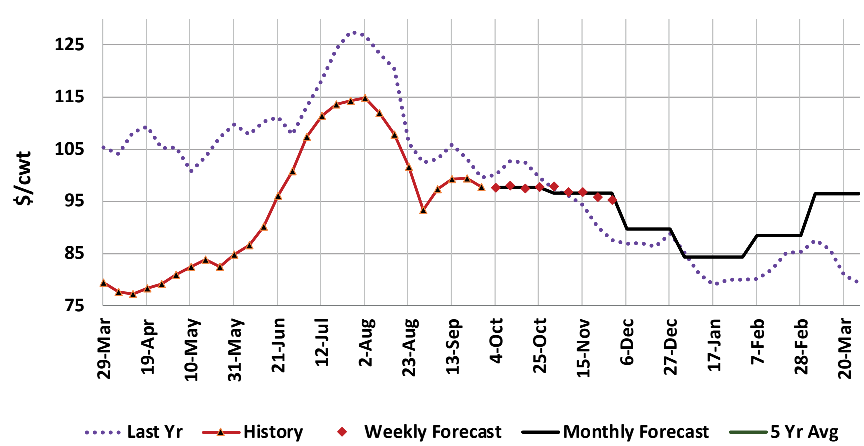

Table 1: JSF Hog and Pork Price Forecasts

	11-Oct	18-Oct	25-Oct	1-Nov	8-Nov	15-Nov
Pork Cutout	98.0	97.5	97.8	98.0	96.8	96.8
Loin Primal	93.3	93.4	93.7	95.4	94.2	94.8
Butt Primal	115.9	116.4	114.6	112.5	114.4	114.2
Picnic Primal	77.5	78.0	80.3	79.6	83.3	84.0
Rib Primal	105.4	108.6	109.2	108.5	107.3	110.5
Ham Primal	90.6	87.2	86.0	84.9	83.4	85.6
Belly Primal	143.8	144.5	146.6	148.3	142.1	136.2
Lean Hog Index	84.6	84.5	84.2	83.9	84.2	84.8

DR. ROB MURPHY BS, MS, PhD Agri Economics,
Executive Vice President, Research & Analysis,
J.S. Ferraro

E: Rob.Murphy@jsferraro.com

Dr. Rob Murphy is an agricultural economist and business leader with over 32 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.