



# THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

NOVEMBER 2023

The “soft landing” in the hog and pork complex that we discussed last month appears to be playing out. During October, the pork cutout worked lower, dropping about \$8/cwt. over the course of the month and now sits close to \$87. At the same time, cash hog prices were \$5-6/cwt. lower. Packer margins are holding in the \$15-20/head range and that has encouraged them to slaughter aggressively, thus the hog supply has remained current. At this point, most of the seasonal increase in hog and pork supplies is behind us and, while kills will remain large for another couple of months, they won’t likely expand much from here. That means further price softening will depend on some easing in demand and that is certainly a possibility as consumers may not be up to the task of drawing large quantities of pork through retail channels week after week. Our fundamental price forecast for both hogs and pork is largely steady during the month of November, with some risk of an upturn in prices following the Thanksgiving holiday. It is now pretty clear that USDA’s survey over-estimated the March/May pig crop and thus there are more hogs out there than expected this fall (**Figure 1**). The market has done a remarkable job of handling that extra supply without a serious price decline. Producer margins are close to \$24/head in the red, but that is normal for this time of year. They are actively working to reduce the breeding herd and thus improve their margin prospects for 2024.

It is now clear that **March/May pig crop was underestimated** by at least 500,000 head

## SUPPLY PICTURE

We knew hog slaughter would be large this fall, but it has exceeded expectations nearly every week. Last week, USDA

reported a slaughter total of 2.68 million head. That was well above the 2.61 million top that we were expecting this fall based on the government’s estimate of the March/May pig crop. Packers seem to have returned to alternating between large Saturday kills one week and a smaller kill the following week. However, it is hard to imagine a weekly kill exceeding last week’s number as we move forward. With little or no further growth in hog slaughter during November and December, it is reasonable to expect that price pressure from the supply side will decline and thus we see prices tracking mostly sideways over the near term.

Hog carcass weights are still rising seasonally and probably have another 4-5 pounds to gain before they reach their seasonal top sometime in December. Weights are running below last year however, down about 1% YOY. The de-trended and de-seasonalized weights are slowly rising, but remain at very low levels, so we don’t see much evidence of hogs backing up in the pipeline at this juncture. This is an important component of the soft-landing theme, which points to a gentle easing in prices rather than an abrupt decline.

So far in the Sep/Nov quarter, sow slaughter has come in about 50,000 head larger than what would normally be expected given the size of the breeding herd on September 1. That suggests that producers are in the process of liquidating breeding stock, and we are expecting USDA to report about a 70,000 head decline in the breeding herd when the next survey results are released in December. Keep in mind that the breeding herd was already reduced about 70,000 head during the Jun/Aug quarter, so when we look at the last two quarters of 2023, the reduction in production potential is quite large. Offsetting that, to some degree, is a surge in productivity where producers are suddenly reporting a strong increase in the number of pigs saved per litter. We see the reduction in the breeding herd as the dominant effect however and look for hog slaughter during the first half of 2024 to be down close to 2% YOY.

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## DEMAND SITUATION

Domestic pork demand is definitely soft by historical standards but doesn't seem to be tracking lower at present (**Figure 2**). The demand index for Q4 is currently projected to be about 2.8% below what we saw last year but is still well above the dismal showing that was put forth this past spring. That said, production is very near its annual peak and consumers are being asked to clear large quantities of pork through the market each week. There is a risk that "pork fatigue" will develop over the next few weeks and that could put another dent in demand. We aren't calling for that in our fundamental forecasts but recognize that it has happened before and so the possibility of a similar event this fall exists. Demand for the retail items (loins, butts and ribs) has held up quite well, but demand for the processing items (bellies, hams and trim) has been soft so far this fall. Belly prices are now low enough that it could spur rebuilding of freezer stocks and thus we may be very near the seasonal bottom in belly prices. Last fall, ham demand surged due to a shortage of turkeys caused by the avian influenza outbreak but this year that feature is absent from the market and ham prices have tracked much softer than what was seen in the fall of 2022. That may be changing also as ham prices have recently shown an inclination to move higher and we think that is likely due to stronger interest from Mexican buyers attracted by the price differential between their domestic product and hams sourced out of the US. If we are right that ham and belly demand is stabilizing and poised to improve, that takes away a lot of the downside risk in the pork cutout over the next few weeks, especially since pork production has little further expansion potential from here.

**Domestic pork demand is weak but appears to be stabilizing**

Export demand seems to be holding up quite well according to the weekly numbers that we track. That should be expected given the low price levels in the US compared to other exporting countries. China is a weak spot due to a cooling of its domestic economy, and thus we didn't see strong interest from Chinese buyers in preparation for the Chinese New Year that is normally a feature of the fall market. Offsetting that has been strong

buying from Japan and S. Korea as well as Mexico. Exports during the first three quarters of 2023 are up close to 6% YOY, but the industry will have difficulty matching last year's strong numbers in Q4. As a result, we currently have pork exports for 2023 as a whole up 2-3% from 2022.

**US pork production is near its seasonal peak with further growth unlikely**

## SUMMARY

The US hog and pork complex successfully navigated increasing kills during September and October without a major price collapse. Prices have eased lower and appear to be on target for a soft landing here in November. Hog supplies are larger than what USDA reported in the March/May pig crop, but so far the market has found a way to manage that extra production without serious price concession. Producers have had an awful year financially and they are in the process of scaling back their breeding herd. That should result in less pork production in 2024 and an improvement in margins for producers. Margin gained by producers will likely be ceded by packers as next year they will need to compete harder for a smaller supply of hogs to feed their existing processing capacity. Domestic demand is weak by historical standards, but not nearly as bad as it was this spring when low prices created poor profitability for both producers and packers alike. The market will still need to handle large production in November and December, but at least it should not be growing. There is some risk that consumer demand could be tempered later this month simply because they have been asked to consume large production for three months now and their freezers are filling up. We are more optimistic on pricing than most, looking for a mostly sideways pork cutout to persist during November, with the potential for some modest price increases in early December. Buyers looking for fresh product should find plenty of availability and thus can safely remain close bought. Those that are looking to rebuild freezer stocks might do well to get that process underway because prices may not soften much from here. **Table 1** provides our near-term price forecasts.

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Figure 1: 2023Q4 Sep/Nov Cumulative Hog Sltr Over the Mar/May Pig Crop Projection

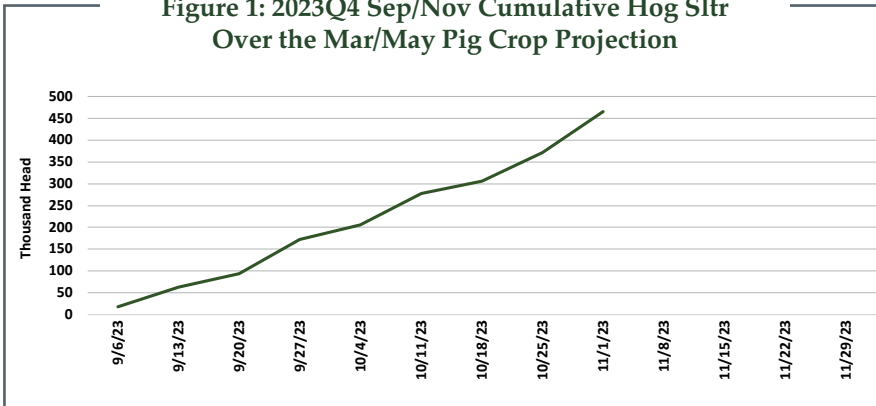


Figure 2: Deflated Pork Cutout vs. Per Capita Domestic Disappearance, Nov

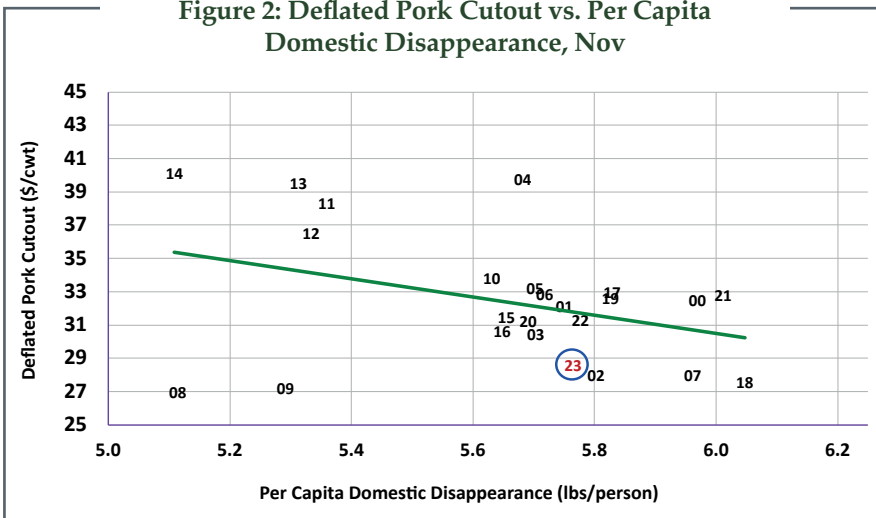


Table 1: JSF Hog and Pork Price Forecasts

	15-Nov	22-Nov	29-Nov	6-Dec	13-Dec	20-Dec
Pork Cutout	87.7	88.6	87.7	87.9	88.0	86.3
Loin Primal	85.2	84.1	84.5	85.3	86.6	87.1
Butt Primal	103.3	105.6	103.9	101.3	100.1	98.2
Picnic Primal	73.2	74.6	75.1	75.9	76.2	73.0
Rib Primal	111.8	113.1	114.7	114.8	116.1	116.6
Ham Primal	88.9	90.5	86.9	88.3	85.9	78.8
Belly Primal	105.2	107.3	106.4	105.2	107.8	111.4
Lean Hog Index	77.5	78.1	76.3	76.5	77.3	76.6



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