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THE MONTHLY
RED MEAT OUTLOOK: HOGS & PORK
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Prices in the US hog and pork sector remained on a downward trajectory through December, but the speed of decent was slowed considerably by smaller production surrounding the end-of-year holidays. That holiday period provided a natural reason for packers to reduce slaughter levels and had the effect of improving margins. Pork packers struggled with much-smaller-than-normal margins throughout Q4 due to the hog supply falling well short of the industry's capacity to process them. However, over the past three weeks, weather and holidays have combined to limit weekly swine slaughter to about 2.1 million head per week. Cutout values initially surged on the cut in production but are now returning to their pre-holiday levels. Cash hog prices continued to slide lower as demand for extra hogs by packers during the holidays was limited (**Figure 1**). According to our calculations, packer margins were slightly over $17/head in the final week of 2022, which was their largest margin since February 2022. However, now that kill levels are returning to normal after the holidays, demand and prices for negotiated hogs should increase and put some pressure on packer margins during January and February. USDA's *Hogs and Pigs* report released just prior to Christmas indicated that the hog herd continues to contract and thus market participants should continue to expect smaller YOY production through the first half of 2023 and perhaps beyond. That said, both supply and demand throughout the complex have offered very few surprises recently and that has kept the supply chain humming along smoothly and makes it feel like all segments are in fairly good balance right now.

SUPPLY PICTURE

Slaughter in the week leading up to Christmas was hampered by a polar vortex that descended on the Midwest, bringing extremely cold temperatures and thus limiting producers' ability to move hogs to packing plants. In addition, most plants were dark on Christmas Eve, which wiped out the Saturday kill for that week. As a result, total swine slaughter was only 1.78 million head — the smallest weekly kill for 2022. The following two weeks saw better weather, but plants took Mondays off for both Christmas and New Year's, so slaughter was very light in those weeks as well. Over that three-week period, slaughter averaged 2.1 million head, down substantially from the 2.6 million per week that the industry was processing in early December. Now that the holidays are behind us, weekly kills should bounce back to around 2.5 million head in January and then slip to around 2.4 million head per week in February. We think that the holiday- and weather-related loss of production in the last three weeks of the year probably delayed marketings on some producer hogs, but it wasn't enough to cause a serious backup in the production pipeline. So far, slaughter in the Dec/Feb quarter has been aligning fairly closely with USDA's estimate of the summer pig crop, so that inspires some confidence that USDA didn't grossly over- or under-estimate hog supplies.

> Look for **weekly hog slaughter** to run close to **2.5 million head** in January

Hog carcass weights have tracked the normal seasonal pattern fairly closely and may increase another 2-3 pounds before they make a top sometime in February. The de-trended and de-seasonalized carcass weights are still running a bit on the low side, which indicates that producers are staying relatively current with their marketings. If anything, prior to the holiday disruptions, packers were pulling a little harder than normal on the hog supply as they attempted to keep their capacity utilization rate high. In the process, they bid up the price of cash hogs and thus margins during the fall and early winter were well below normal. It seems likely that a similar situation will play out now that kills are rebounding after the holidays. The mismatch between packing capacity and the number of hogs available for slaughter will become more acute in spring, and particularly in the summer, when hog supplies shrink seasonally.

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The hog herd as of Dec 1 **was down 1.8%** from last year

In late December, USDA released the results of their latest *Hogs and Pigs* survey, and it showed the total hog herd was down 1.8% YOY, but the number of breeding animals was actually up 0.5% YOY (**Figure 2**). That gain in the breeding herd was perhaps the biggest surprise in the report. Almost all of the other numbers came in very close to the pre-report estimates generated by the analyst community. USDA reported the Sep/Nov pig crop down 1.3% and those are the hogs that will fuel kills during the March/May quarter of 2023. As a result, it is reasonable to expect that slaughter from March to May will be down a similar amount. Currently, there isn't much that favors a return to growth in the US hog herd, particularly with corn prices remaining well above historical norms. As a result, we see the hog herd continuing to shrink over the next few quarters and that means packers will have to compete a little harder for the hogs they need in order to utilize capacity efficiently. Packer margins should remain well below normal for much of 2023 and the potential exists for long stretches of negative margins in the summer when hog supplies are the smallest.

DEMAND SITUATION

Domestic pork demand was rather soft through the end of 2022, particularly for pork bellies, but also in some retail items. The combined margin tracked lower in December to levels not seen since the start of the pandemic, signaling continued softening in demand. Hams, which provided a large portion of the cutout's support last fall, began to come under increasing pressure in the second half of December and probably are poised to fall further before they turn higher into the spring. Futures traders tried several times to anticipate a price rebound, only to the thwarted by the reality that demand remains soft. At some point soon, it seems likely that pork demand will enter a new upcycle, but so far the evidence for that has been scant. Beef prices moved sharply higher over the past few weeks, so that may shift some retail demand in favor of pork as January progresses. However, wholesale chicken prices are a great value right now and that will provide increased competition for space in the retail meat case during January. Consumer spending was quite strong during December, but consumers are more frequently having to finance their purchases with credit cards, so that suggests that spending could slow at some point in the next few months. The Federal Reserve has not finished its inflation battle yet and so further increases in interest rates are another headwind that consumers will need to deal with in the new year. Equity markets remain shaky and that never makes consumers feel good about the future. Domestic pork demand will still continue to cycle up and down every couple of months, but we think that the overall level of demand will be well below what was experienced in the past couple of years.

Demand for US pork by international buyers seems fairly soft as well. USDA reported total pork exports during November down slightly from last year, but it is our sense that exports during December won't come in much larger than November, although they should be up from last December's soft number. China's demand for US pork is limited mostly to offals now and with covid running wild in that country, there is little hope that they will return to the US to purchase muscle cuts any time soon. That has left Mexico as the most important international destination for US pork and fortunately demand from Mexican buyers has been relatively good. There has been talk of Mexico stepping up ham purchases from the US in Q1 and if that materializes it could certainly be a supporting factor for the cutout. Right now however, it looks as if international demand will remain on the defensive through early 2023.

Both the **pork and hog markets have been easing lower** since late summer, but the bottom may be just around the corner

SUMMARY

Reduced hog kills at the end of last month helped to slow the rate of pork price depreciation, but didn't completely eliminate it. Demand remains rather soft and as kills ramp back up to normal following the holidays, there is a real risk of further price pressure. Pork demand could get some help from high beef prices, but exceedingly low chicken prices are not very helpful. At some point soon, we look for domestic pork demand to begin a new upcycle and that should turn prices for both the cutout and cash hogs higher. Packer margins expanded over the holidays as kill reductions temporarily lifted the cutout and depressed cash hog prices. However, as full kills resume in January, packer margins are expected to shrink once again as plants compete for a smaller supply of uncommitted hogs to fill out their slaughter schedules. Government surveys continue to confirm that the US hog herd is in contraction mode and we think that will persist for at least a few more quarters. High feedgrain prices and other uncertainties, such as Proposition 12, will likely limit producer interest in expansion in the first half of 2023. That means pork buyers will find available supplies a little tighter this spring and summer compared to last, but softer demand could be the offsetting force that keeps prices at or below last year. **Table 1** provides our near-term price forecasts.

Figure 1: Western Corn Belt Cash Price

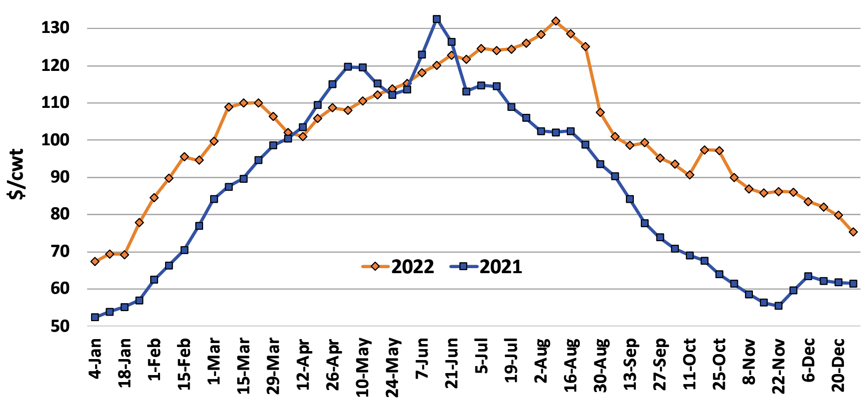

Figure 2: YOY Change in US Hog Breeding Herd

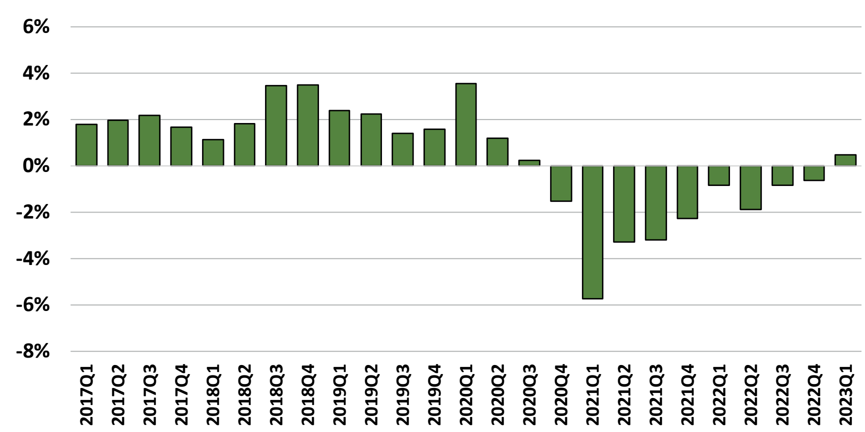

Table 1: JSF Hog and Pork Price Forecasts

	18-Jan	25-Jan	1-Feb	8-Feb	15-Feb	22-Feb
Pork Cutout	82.9	85.5	87.2	90.0	90.1	90.3
Loin Primal	84.1	87.6	85.2	84.3	86.5	88.7
Butt Primal	105.5	105.0	104.0	105.8	106.4	106.7
Picnic Primal	71.2	68.1	67.3	68.8	70.3	69.8
Rib Primal	125.0	128.4	131.5	133.6	135.0	138.7
Ham Primal	77.4	79.2	82.1	84.8	84.3	82.4
Belly Primal	92.1	101.0	110.6	122.0	117.8	118.0
Lean Hog Index	76.8	78.4	80.8	82.8	83.4	84.3

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