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Hog Prices Take Big Drop: What's Next?

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Speculation that the PED virus had greatly reduced pig numbers took lean hog futures prices to astounding heights. Now, markets have a better understanding that while the PED virus certainly did its damage, death loss may have been over anticipated in February and March and that producers have been able to compensate for a substantial portion of lost animals by much higher weights.

There are still critical question surrounding the disease that have to be answered. The first is, what were baby pig death losses from January through March that will determine July through September slaughter supplies? And second, will the impacts of PED-V or a related virus return next winter?

As it turns out, the March *Hogs and Pigs* inventory count from USDA provided reasonable estimates of the impact of death loss from PED-V. USDA's estimate of the inventory of pigs weighing 50 pounds or more that formed the bulk of March, April, and May supplies was down 3.6 percent and the actual slaughter for those three months was down about 5.5 percent. Producers are compensating for the smaller head count with sharp increases in market weights. In January and February, weights were up about two percent above the average in the previous year. Once hog prices soared to record highs in February and March, producers have continuously increased weights. In the month of May, live weights reached 4.7 percent above the weights in May a year earlier. Clearly, weights are substantially compensating for lower animal numbers.

For this year-to-date, the total number of hogs coming to market has been down four percent, but weights have been up three percent so that the total supply of pork has only been down a modest one percent compared to the first five months a year-ago. The biggest declines in hog numbers so far this year were in the months of March-down seven percent, and in April-down five percent. Slaughter numbers were only down four percent in May.

While there is always some questioning of USDA counts, the reasonable accuracy of the March report provides some added confidence in their numbers headed into the summer. That report suggested the number of pigs available for market in June, July, and August would be down about four percent. Assuming that weights continue to be three to four percent higher, this implies pork supplies for the summer will be unchanged to down one percent relative to the summer of 2013. Such prospects are hardly a ringing endorsement for super high prices of hogs.

Fall hog supplies will be drawn from the spring farrowings, where USDA reported producers' intentions were up two percent. Assuming a one percent drop in the number of pigs per litter with some continued PED-V impact and two percent higher weights, this implies that the fall pork supply will be up two to three percent.

Low sow slaughter numbers suggest the industry began to move toward expansion starting in September 2013 when corn prices dropped sharply. Since that time, sow slaughter has been down about six percent and that level of reduction has continued in 2014. In the March *Hogs and Pigs* report, breeding herd numbers were up fractionally, but those numbers should be expected to rise to a couple of percent higher in the estimate of the June 1 inventory to be released on June 27.

Demand has remained strong in 2014 as beef supplies have been down six percent. With retail beef prices at record highs, some shoppers have substituted pork for beef. Pork trade has also contributed to strong demand with exports so far this year up ten percent.

Hog prices reached their highs near $100 on a liveweight basis in the last week of March and have been in the process of coming "back to earth" since. In recent days, prices have fallen to the low $80 level. A current futures based forecast suggests hog prices will be in the mid-$80s this summer before falling sharply this fall with a fourth quarter average near $70. Further moderation in prices is expected into 2015 with winter prices falling again to the mid-$60s and spring and summer 2015 prices in the mid-to-higher $60's.

The pork industry is in the midst of record profits in the second and third quarter of this year with profits for those not strongly impacted by PED-V over $70 per head on average for the six month period. Those profits are expected to decrease in the final quarter of 2014 to about $40 per head. Prospects for the first three quarters of 2015 also appear positive with estimated profits at about $20 on average. Sharp declines in soybean meal prices this fall are expected to be an important contributor to lower costs. However, with a continued buildup of the breeding herd, and reduced impacts from PED-V next winter, hog prices could drop back to levels that are closer to breakeven by late 2015 and into 2016.

The horror of heavy death losses from PED-V was emotionally difficult for any producer to experience. The industry is now experiencing some positive economic benefits of that disease. The biggest concern for the industry now is a potential overexpansion of 2015 pork supplies. That excess expansion could be based on too large of a breeding herd expansion followed by a winter with limited damage from PED-V and a big surge in 2015 poultry supplies as well.

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