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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Modest Pork Expansion, But Brexit Casts Shadow

Chris Hurt

Department of Agricultural Economics
Purdue University

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In the June *Hogs and Pigs* survey, pork producers told USDA they had increased the size of the breeding herd by one percent relative to year ago levels. The breeding herd began to increase in the fall of 2014 after producers had record profitability due to reduced production due to the PED virus. Basically, the industry has been in a slow expansion since that time. Declining feed prices were also a stimulus to expansion until this spring when feed prices began to rise once more.

The latest inventory report also found somewhat more young pigs than had been expected. The spring pig crop was 2.5 percent larger as a result of 1.5 percent more farrowings and one percent more pigs per litter. This means a bit higher pork supplies later this year than had been anticipated.

Several states had a large increase in their breeding herd numbers over the last year. These included Illinois with an increase of 40,000 animals, Oklahoma up 30,000, and South Dakota up 20,000. Percentage increases for those three states were Illinois up eight percent, Oklahoma up seven percent, and South Dakota up twelve percent.

While they are expanding the breeding herd, pork producers also indicated they intend to reduce farrowings by two percent this summer and by one percent in the fall. Pork supplies in the last half of 2016 are expected to be up about two percent. However, pork supplies in the first half of 2017 are expected to be near unchanged.

Prices of hogs averaged about $55.50 in the second quarter of 2016 on a live weight basis. Prices are expected to average $55 to $58 in the third quarter and then to fall sharply in the final quarter to an average of $45 to $48. First quarter 2017 prices are expected to be modestly higher compared to late 2016. Prices for the second quarter of 2017 are expected to average in a range from $52 to $56.

Feed costs have become more volatile with weather uncertainties and will likely be important to the overall profits or losses for the industry in the coming year. Using current futures prices to estimate cash feed prices suggest that the industry will operate with a profit of about $8 per head in the third quarter, but lower fourth quarter hog prices will mean losses of about $19 per head. Losses would prevail at about the same level in the first quarter of 2017 and then move close to breakeven in the second quarter. Estimated losses for farrow-to-finish operations last year was a modest $3 per head. Current estimates for 2016 are for losses of $4 per head.

Turning to pork demand, two events seem likely to have some impact. The first of those is the question of how much pork the Chinese will purchase this summer and how long their internal pork shortage will continue. The second event regards the impact of Brexit on the U.S. pork markets. The U.S. exports little pork to the EU28 trading block. In 2015, only 0.2 percent of U.S. pork exports were destined for EU28 countries. However, Brexit has strengthened the U.S. dollar making U.S. pork more expensive around the globe. This will tend to increase prices for U.S. origin pork and reduce U.S. exports from what they would have been.

Since the Brexit announcement, the dollar has increased by about 3.5 percent relative to the Euro. The 28 member countries in the European Union have been the largest exporters of pork in the world for the last two years. This has given the 19 countries in the EU28 that use the Euro an immediate price advantage over U.S. pork. Said another way, Brexit gives our biggest global pork competitor a sizable and immediate price advantage.

The longer-term economic implications of Brexit may be the most important and could reduce the rate of world economic growth. If Brexit does slow world income growth, that could be negative for global sales of pork and other U.S. agricultural products.

Reference

USDA, National Agricultural Statistics Service. Quarterly *Hogs and Pigs* (June 2016). Accessed June 27, 2016. http://usda.mannlib.cornell.edu/usda/nass/HogsPigs//2010s/2016/HogsPigs-06-24-2016.pdf