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Weekly Outlook: Spring Pork Price Recovery Threatened

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Hog prices have dropped sharply in the past month, falling from about $67 per live hundredweight in early February to $58 recently. Futures prices have followed suit, with April lean hog futures dropping about $7.50 since the beginning of February. These declining prices raise concerns over the spring price recovery and whether that recovery will be strong enough to push hog prices up to breakeven levels as had been expected.

Supply is not the culprit. Over the last four weeks, pork production has been down nearly one percent compared to the same weeks a year-ago. With smaller supplies over this four week period, prices have been $3.80 per hundredweight lower than during the same period in 2012. This means that price weakness is coming from demand concerns. The first of those concerns is the weakened buying power of U.S. consumers. Unusually high gasoline prices for this time of year and increased payroll taxes since January 1 have reduced the buying power of consumers. Secondly, the recent discussions around potential furloughing of federal meat inspectors due to sequestration have probably had a numbing effect on hog prices. If plants were to shut down some days they would not buy hogs for those days, thus weakening hog prices.

However, the largest demand concerns are a result of recent trade issues. Pork exports have become a very important part of hog prices. In 2012, the volume of pork exports represented 23 percent of total U.S. production. The first threat came in early February when Russia banned imports of U.S. pork due to their stated concerns over U.S. ractopamine use. Russia was the 6th largest buyer of U.S. pork in 2012 and that volume represented 1.2 percent of U.S. production. The loss of Russian business would not be terribly bearish due to their small share, but later in February China also announced that they were going to more closely check imports of U.S. pork for ractopamine. Last year China's pork purchases from the U.S. represented 3.4 percent of total U.S. production volume.

Adding to worries about the ability to sell pork into the world market is the on-going decline of the buying power of the Japanese yen, which has dropped by 12 percent in 2013 and by 16 percent since last October. Japan is the largest U.S. pork buyer, purchasing six percent of U.S. production volume in 2012. A decline in the yen makes U.S. pork prices higher in Japan by a similar percentage.

These demand concerns have lowered hog price expectations such that the industry may not return to profitability this spring. The current outlook suggests the industry will have to wait until late-summer for breakeven conditions when feed prices can decline if more normal corn and soybean crops develop.

With the more cautious tone, hog prices are expected to only average about $66 in the second quarter with costs of production near $70 per live hundredweight. Third quarter hog prices are expected to remain near $66. Lower corn and soybean meal prices in the late-summer would bring third quarter costs to around $66 and enable the industry to breakeven by late-July or August. In the late-fall and winter, hog prices are expected to be near $60 and costs of production are expected to be near this level as well.

Hog futures have made a large negative move and there is some feeling that all the bearish news may have been absorbed for now. This “oversold” situation may provide an opportunity for a larger spring price recovery than has recently been anticipated. But for now, pork producers’ optimism for a return to profitability this spring is on hold until feed prices can moderate later in the summer.

Recent bearishness points out at least two important features of the current hog outlook. The first is that having exports at 23 percent of the pork market is wonderful when everything goes well. The downside is that such a high percentage makes prices vulnerable when trade issues can have large impacts on prices, and trade issues are often out of the industry’s control. The second on-going lesson is that much of the pork outlook is still to be determined by weather this spring and summer. Thus, pork producer’s “multi-year” plans should probably stay on-hold for another four or five months.