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

Weekly Outlook: Low Hog Prices to Start the Year

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Hog prices have been struggling so far this year. USDA reports that live prices in January and February have averaged below $40 for the first time in over a decade. In February, USDA estimated live prices were $39.04 per hundredweight, the lowest February price in 16 years dating back to 2003.

A bearish price story usually points quickly to large supplies, and that is the case for pork. So far this year, pork supplies have been up about four percent with most of that as a result of higher slaughter numbers. The inventory count in the December *Hogs and Pigs* report indicated slaughter numbers in January and February would be up about three percent. So, head counts are running somewhat above anticipation. Producers have been selling hogs just slightly lighter than the same period last year. Given the large losses that pork producers are experiencing, I had thought they would be selling at lighter weights.

Demand for pork seems to be weak as well, but it is a little harder to find this evidence in the marketplace. The first point on demand is that there is competition for pork this year with total meat and poultry supplies expected to be at record levels. The strong U.S. economy seems to be benefitting the beef sector with strengthening demand, but not the pork sector. Again, this is not a surprise. We know that when consumers have more money they will tend to increase beef purchases more than pork.

Pork demand is also strongly influenced by our foreign consumers. About 22 percent of the pork produced in the U.S. is exported to our foreign customers. This is about double the 11 percent of beef that we export. So, hog and pork prices can be more sensitive than cattle to changes in international trade events.

At the first glance, pork exports look positive for 2018. The total volume of pork exports rose by four percent last year which seems to indicate favorable foreign demand. The problem is that U.S. pork exports were very strong in the early months of 2018, but faded after retaliatory tariffs were placed by China and Mexico.

This pattern of weak exports after tariffs were placed on U.S. pork were repeated in Mexico and China. Mexico, our largest pork buyer, bought five percent more U.S. pork in the first-half of 2018, but ten percent less in the second-half. Mexico placed a 10 percent tariff on U.S. pork in June 2018. Pork exports to Mexico were down two percent for 2018.

The impacts were even larger for China (data includes Hong Kong) who bought the same amount of pork in the first four months of 2018 compared to 2017, but began backing away from U.S. pork after putting a 25 percent tariff on U.S. pork in April 2018. In the months from May-December 2018, China reduced U.S. pork purchases by 38 percent. This left annual U.S. exports to China down 24 percent in 2018.

Maybe a trade deal with China will soon be announced. That remains the hope of many in U.S. agriculture. It is believed that pork will be favored both by reducing current Chinese tariffs on U.S. pork, and by an agreement for China to buy substantially more U.S. agricultural products including pork. Time will tell!

The current Mexican tariffs on U.S. pork are related to the initial tariffs the Trump administration placed on steel and aluminum on Mexico and a host of other countries. Mexico will likely want those metal tariffs taken off before they take off their tariffs on U.S. pork. The agreement between the U.S.-Mexico-Canada (the USMCA) still must be ratified in each of the countries and it is not assured of passage in the Democratic controlled House. The bottom line is that notable progress may be coming soon on trade conflicts, but that progress is not assured yet.

Hog prices should begin to improve seasonally over coming weeks. The normal seasonal tendency is for sharp increases in hog prices in April, May and June. From the current live hog prices around $40 per hundredweight, prices are expected to rise to the mid-$50s in June. Hog prices are expected to finish the first quarter of 2019 with an average near $40, then improve sharply to a second quarter average around $50.

If some reduction in trade barriers to U.S. pork exports can be achieved in coming weeks, then third quarter average prices are expected to be in the lower to mid-$50s. Last quarter prices are expected to drop back to the mid-$40s.

The industry has recently experienced some of the lowest hog prices of the past decade. With live hog prices near $40 per hundredweight and my estimated total costs a bit over $50, my estimated losses for average costs farrow-to-finish producers are $28 per head for the first quarter of 2018. Current losses are large and they add to a string of six quarters of losses dating back to the final quarter of 2017. These long-term losses have likely weakened the financial positions of producers.

The March *Hogs and Pigs* report is scheduled to be released on March 28. Tight margins and losses in 2018 and 2019 are incentives for the industry to slow breeding herd expansion. We will look to that USDA report for signs of slower breeding herd growth. Unfortunately that may not occur as there remains a lot of inertia toward expansion that has been the norm since 2014. New packer capacity added in the past few years is still trying to fill their lines and thus is a stimulus to expansion. The final reason producers may not reduce the rate of breeding herd expansion is their hope that our pork trade problems may take a more positive direction in coming weeks. Time will tell!