



Weekly Outlook: More Uncertainty and Volatility Going Forward for the Hog Market

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March 30, 2020

farmdoc daily (10): 58

Recommended citation format: Franken, J. "More Uncertainty and Volatility Going Forward for the Hog Market." *farmdoc daily* (10): 58, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 30, 2020.

Permalink: <https://farmdocdaily.illinois.edu/2020/03/more-uncertainty-and-volatility-going-forward-for-the-hog-market.html>

The USDA's March *Hogs and Pigs* report pegs the March 1 inventory of all hogs and pigs at 77.6 million head, a record for this quarter and up 4% from a year ago compared to pre-report expectations of 3.5% higher. Although the number is down 1% from last December, it is in general a continuation of the industry expansion that has been ongoing since mid-2014. The higher than expected inventory is driven by market hog inventory, which is 4.3% more than a year ago compared to expectations of 3.7% higher, whereas the breeding herd is up just 0.4%, which is 1% lower than pre-report expectations and may be an early sign of expansion slowing.

The number of pigs weighing less than 180 pounds was nearly 6.5% larger than the inventory a year ago, and these will be the market hogs arriving at processing plants from April to August 2020. The change reflects that the December-February pig crop was a new record for the period, up nearly 5% from 2019, with almost 2% more sows farrowed during the period. The larger pig crop should imply a similarly larger slaughter this summer. The larger pig crop also reflects a new record of 11.00 pigs saved per litter, on average, for the December-February period compared to 10.70 pigs per litter last year. The 2019 annual average was 10.98 pigs per litter compared to 10.68 in 2018, continuing the upward trend with an average rate of annual increase of 1.35% over the last decade.

Along with the smaller than expected breeding herd, farrowing intentions for the spring and summer are down 0.5% and 4.3% from last year, which suggests producers are responding to currently lower prices and the possibility that COVID-19 may continue to constrain domestic and global demand. Still, these farrowing intentions combined with a continuation of the upward trend in pigs per litter, likely indicate continued growth in supply of hogs and pork for much of 2020 with perhaps some pullback toward the end of the year and into 2021.

The small surprises in the hogs and pigs report, on their own, are not as impactful as the COVID-19 situation has been and may be for a while. As the U.S. and world economies slow, cold storage is starting to build. According to last week's USDA cold storage report, there's plenty of meat to go around. Although stocks of poultry are 4% lower than a year ago, stocks of red meat are up 5% with several pork cuts, including loins and bone-in picnics, up more than 25%—and bellies in particular at 38% above year ago

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levels. Accordingly, prices for bellies last week were nearly \$0.50/lb, the lowest they've been since 2008, while on a brighter note loins exceeded \$1.00/lb for the first time since 2015. Cold storage may continue to build until a peak infection level is reached and surpassed in the U.S. If Easter celebrations are curbed by COVID-19 concerns, so too may be purchases of ham, a common main course for an Easter meal. While the Restaurant Performance Index report coming out later this week will likely be negative, grocery demand has surged as people stock up to remain healthy at home. Yet, it's questionable whether that level of grocery demand will hold in the near term. A record 3.28 million Americans filed for unemployment last week, suggesting that this Friday's jobs report will also almost certainly be negative.

The USDA has revised downward its forecast of U.S. annual pork consumption by one pound to 51.6 pounds per person in 2020 after reaching 52.3 pounds in 2019 or the highest it has been since it was 54.2 pounds in 1981.

U.S. pork exports are still expected to exceed year ago levels. The U.S. exported almost 663 million pounds in January, about 39% ahead of that point last year, almost entirely due to large exports of 203 million pounds to China, or seven times more than last January, and 156 million pounds to Mexico, the most since May 2018 when Mexico accelerated imports of U.S. pork in anticipation of retaliatory tariffs later that year. China's cancellation of 45,222 metric tons of pork shipments in early March brought concerns, as China had reportedly just peaked in COVID-19 infections in February. Since then, China has purchased much of that pork back. The USDA's weekly export report lists exports to China at just over 23,000 metric tons for the seven days from March 12-19, the highest for 2020 and 47% above the weekly average for the preceding weeks of the year.

Based on early statistics, the USDA estimates first quarter U.S. pork exports to be 1.9 billion pounds, or 31% higher than last year, and forecasts U.S. pork exports in the last three quarters of 2020 to be, respectively, 16%, 19%, and 25% greater than last year.

With all of the uncertainty surrounding the duration and impact of the COVID-19 epidemic, there's still the possibility of profitable hog prices in 2020, even though first quarter prices, on a carcass basis, are averaging around costs of production in the low to mid \$60s (about mid to upper \$40s live equivalent). The forecast presented here is for the national weighted average net price on a carcass basis for all transactions for producer-sold barrows and gilts, including negotiated and contract prices. This net price should be more reflective of what producers receive and runs at a premium of more than \$2/cwt over the base price on average, so take that into account if comparing to other forecasts.

Seasonally, hog prices have jump 10%-12% from the first to second quarter on average over the last five years. In anticipation that COVID-19 concerns persist for another month or so, this forecast errors toward the lower end of that range with a projected second quarter price around \$69.19/cwt. Once the worst of the COVID-19 is in the rear view and economies recover, hog prices should enjoy increased demand. Prices for the third and fourth quarters of 2020 are forecast to be around \$74.62/cwt and \$63.69/cwt and dip to \$62.31/cwt for the first quarter of 2021. Of course, if negative impacts of COVID-19 on the economy and pork purchases persist longer, and if continued export demand from China doesn't materialize, then U.S. hog prices would likely fall short of these projections.

YouTube Video: Discussion and graphs associated with this article at: <https://youtu.be/e0tl7qBGldg>