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

Weekly Outlook: A Bearish Hogs & Pigs Report with Few Bright Spots on the Horizon

Jason Franken

School of Agriculture
Western Illinois University

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Another all-time record hog inventory amidst the COVID-19 pandemic extends further downward pressure on prices. The USDA's June *Hogs and Pigs* report places the June 1 inventory of all hogs and pigs at 79.6 million head, up 5.2% from a year ago, just above the upper range of pre-report expectations and well above the midpoint of 3.7% higher. The number is up 2.6% from last quarter, just surpassing the previous record set last December, and is in general a continuation of the industry expansion since mid-2014. The higher than expected inventory is driven by market hog inventory, which at 5.8% higher than a year ago, is also just above the anticipated range. Meanwhile, the breeding herd is down, but only 1.3%, compared to expectations of 1.8% lower. That is, producers' response to low prices is not quite as strong as anticipated.

The number of pigs in the heaviest weight class of over 180 pounds is up 12.8% from a year ago; notably less than pre-report expectations of about 17% higher, which offers some immediate relief as packers sort through the backlog of slaughter hogs. Any such relief will be short-lived, however, as much of the heaviest weight class should be ready for market by the end of June, and the 120-179 pound class is 11.8% higher than last year compared to expectations of only 5%. Both the 50-119 pound and under 50 pound classes are also larger than anticipated at about 103.4% and 99.8% of last year's numbers, respectively, compared to expectations of 102.3% and 97.3%. In total, compared to a year ago, there are now 4.1% more hogs weighing less than 180 pounds, which will be the market hogs arriving at processing plants from July through November 2020.

This growth partly reflects that, contrary to expectations that the March through May 2020 pig crop would be 1.3% smaller than in 2019, it came in 1.4% greater, with 1.2% more sows farrowed and a record 11.01 pigs saved per litter—just surpassing 11.00 pigs per litter for the same period last year. With annual averages of 10.68 and 10.98 pigs per litter in 2018 and 2019, respectively, this year is on pace to continue the upward trend observed over the last decade. The larger pig crop should imply a similarly larger slaughter this fall.

Farrowing intentions for the summer and fall are both down about 5% from last year, but these cuts may be a bit large with only a 1.3% reduction in the breeding herd, and hence, may underestimate actual realized farrowings. Still, the numbers suggest that producers are responding to recent low prices and the likelihood that COVID-19 will continue to constrain slaughter rates and demand.

If slaughter facilities that were shut down due to COVID-19 concerns and have reopened are able to continue processing at current rates, there is plenty of room in cold storage, as it was pulled down during their closures and lower rates of capacity utilization over the last quarter. According to last week's USDA cold storage report, cold stocks of pork on May 31 are down 24% from the previous month and 26% from a year ago. Similarly, poultry is down 5% from last month and 4% a year ago, while beef is down 13% from last month and 2% from last year. This could be particularly important if a softening of domestic demand becomes apparent from the impacts of COVID-19 on incomes.

The USDA, in fact, has again revised downward its forecast of U.S. annual pork consumption by over a pound to 50.4 pounds per person in 2020 and bouncing back to 50.8 pounds per person in 2021. Prior to COVID-19, U.S. per capita pork consumption reached 52.4 pounds in 2019 or the highest it has been since it was 54.2 pounds in 1981. These hits to domestic demand make export markets even more important.

U.S. pork exports are still expected to exceed year ago levels. The U.S. exported a record of nearly 702 million pounds in March, largely due to shipments of 196 million pounds to China and Hong Kong or roughly 3 times the volume of a year earlier, along with 140 million pounds to Mexico or 9.5% above last year and 114 million pounds to Japan or 18% above last year. These increases in March are on the coattails of recent trade deals with China and Mexico in particular, and do not reflect the temporary closures of several U.S. processing facilities, which appear to have slowed exports in April and likely into May. Still, these countries should continue to be important export markets for U.S. pork.

However, COVID-19 is also expected to negatively impact U.S. pork exports through constraints on processing and lower world economic growth and incomes for the rest of 2020 and into 2021. Even with correspondingly downward revisions, the USDA estimates 2nd quarter U.S. pork exports to be 1.7 billion pounds, or 10% higher than last year, and forecasts U.S. pork exports in the last two quarters of 2020, respectively, to be 6% and 3%, greater than last year. The 1st quarter of 2021 is forecast to be 1.9 billion pounds, which is 6% lower than the record 2.02 billion pounds for the 1st quarter of 2020.

With more market hogs and less adjustment to breeding inventory than anticipated, compounded by a softening of domestic and export demand, low prices are expected to persist for the remainder of 2020 and perhaps climb above costs of production by the 2nd quarter of 2021. 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, on average, and normally runs at a premium of more than $2/cwt over the base price on average. This net price averaged $63.76/cwt for March, April, and May compared to $44.50/cwt for the corresponding net prices for negotiated or spot transactions.

Over the last five years on average, price drops seasonally about 3% from the 2nd to 3rd quarters and 14% from the 3rd to 4th quarters and regain much of that ground over the next two quarters. With that in mind, as well as the larger than expected inventory of market hogs and projections for lower domestic and higher export demand in 2020 than in 2019, prices are forecast to be about $60.22/cwt and $50.95/cwt for the 3rd and 4th quarters of 2020. With projections that domestic demand starts to recover and exports continue to grow, prices are forecast to rebound to $54.28/cwt and $67.10/cwt in the 1st and 2nd quarters of 2021. Of course, if negative impacts of COVID-19 on U.S. consumption persist or if export demand doesn't remain as resilient as anticipated, 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/oYGfi4fW6ZQ