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Slightly Bearish Report; Still A Contractionary Outlook

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The USDA's June *Hogs and Pigs* report holds some slightly bearish surprises that are mostly fairly small deviations from pre-report expectations. The June 1 inventory of all hogs and pigs is pegged at 72.4 million head, a little more than half of a percent drop from last quarter (-0.64%) and up just slightly from a year ago, despite pre-report expectations ranging from 0.1% to 1.3% lower than last year. Likewise, market hog inventories are down 0.73% from last quarter and up about 0.16% from a year ago, while the breeding herd is up 0.31% from last quarter and down 0.36% from last year. Like total inventories, market hogs are also slightly higher year-over-year compared to expectations for slight declines. The breeding herd, however, is close to pre-report expectations for a less than 1.0% percent decline.

Trade pre-report underestimation of market hog inventories reflects mostly lower weight hogs. Only those over 180 pounds are down compared to the same time last year, although not as much as expected (-0.20% reported vs. -0.80% expected), while each of the lighter classes is higher compared to expectations for smaller inventories relative to last year (0.17%, 0.30%, and 0.26% reported vs. -.80%, -0.79%, and -.30% expected for under 50 pound, 50-119 pound, and 120-179 pound classes). Overall, the number of hogs weighing less than 180 pounds is about 0.24% larger than a year ago, which will be the market hogs arriving at processing plants from July through November 2023.

The increase in lighter weight hogs partly reflects that the March through May pig crop is 0.78% larger than last year, despite expectations it would be 0.70% smaller. Expectations would have been a little closer to correct had a 2.4% decline in sows farrowed not been partly offset by 3.3% more pigs saved per litter, which suggests the industry is overcoming health issues like PRRS (porcine reproductive and respiratory syndrome) that had been constraining growth in pigs saved per litter. That is, increases in the pig crop and the inventory of lighter weight hogs both partly reflect improvements in pigs saved per litter and not changes in producer sentiments, which still support contraction, as indicated by fewer sows farrowed. Consistent with that sentiment, summer and fall farrowing intentions are down 3.92% and 4.49% from actual farrowings last year. Those lower farrowing intentions should similarly imply somewhat smaller slaughter numbers in subsequent periods, but to what degree will also depend on the pigs saved per litter.

Frozen stocks of pork are rebounding but have not yet reached pre-Covid 19 levels. According to the USDA cold storage report, cold stocks of pork at the end of May are down 7% from the previous month and 4% from a year ago. Poultry stocks are up 2% from the prior month and 9% from a year ago, while beef is down 6% from the prior month and down 20% from last year. While frozen pork stocks tend to decline seasonally from April through May, this is the first time this year that stocks have fallen below year ago levels, which may be somewhat of a bullish sign for pork prices.

The USDA forecasts U.S. per capita pork consumption at 50.0 pounds per person in 2023, falling to 49.9 pounds per person in 2024, reflecting concerns for consumer purchasing power in the face of inflation, the availability of pork, and strengthening export demand.

The U.S. exported 581 million pounds of pork in April, or about 10% more than in April of 2022. While shipments to traditional customers continue, the U.S. share of pork exports should grow through 2023, with a pullback in European production due to high feed and energy costs exacerbated by the war in Ukraine. April numbers indicate U.S. pork exports grew year-over-year by 4% to Mexico, 26% to China, and 42% to South Korea—all major markets for which European exports declined the previous three months by 38.2%, 4.8%, and 32.2%, respectively. The USDA estimates U.S. pork exports in the 2nd quarter of 2023 to be 1.73 billion pounds, or 7.5% higher than last year, and forecasts the last two quarters of 2023 to be 6.7% and 6.9% higher, respectively, placing the annual total at 7.3% above last year. The 1st quarter of 2024 is forecast to be 1.745 billion pounds or about 4.6% higher than in the 1st quarter of 2023.

Overall, with the outlook for hog prices, current costs of production exceeding $100/cwt on a carcass basis, and prospects for higher feed costs, producers will need to be vigilant with risk management of input and output prices to find their way out of red ink and into the black. 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. From March through May, this net price averaged $79.88/cwt compared to $75.39/cwt for the corresponding net prices for negotiated or spot transactions.

In general, hog prices tend to be higher in the 2nd and 3rd quarters, with lower prices in the 1st and 4th quarters. Consistent with that pattern, this price series is forecast to average about $89.26/cwt for the 3rd quarter of 2023, falling to $81.03/cwt by the 4th quarter and $79.93/cwt for the 1st quarter of 2024, before rising to $88.18/cwt for the 2nd quarter of 2024. These projections are consistent with the supply and demand scenario currently anticipated. However, if greater production is realized or if export demand softens, prices may be lower.

YouTube Video: Discussion and graphs associated with this article at https://youtu.be/ictel_88V38

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