farmdocDAILY

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

Pork's Boom and Bust Price Pattern

Chris Hurt

Department of Agricultural Economics
Purdue University

March 2, 2015

***farmdoc daily* (5):38**

Recommended citation format: Hurt, C. "Pork's Boom and Bust Price Pattern." *farmdoc daily* (5):38, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 2, 2015.

Permalink URL http://farmdocdaily.illinois.edu/2015/03/porks-boom-and-bust-price-pattern.html

Markets can take your breath away and the hog market over the past year has left many breathless. A year-ago in March, the new PED virus was the talk in the livestock media. Baby pig death losses of nearly 100 percent were the reality for some herds. The disease was not well understood and was spreading rapidly. There was trade talk that death losses were so high that 20 percent of pork production could be lost in 2014. Unfortunately, in the early stages the pork industry had no way of measuring the national baby pig death losses. Fear set in among some pork buyers-"What if bacon was not available to put on fast food hamburgers, What if tasty BLT sandwiches have to become only LT sandwiches?" Hog and pork prices exploded to record highs with the national live price reaching $100 per hundredweight.

In recent weeks, live hog prices reached five year lows near $45 per live hundredweight, a price bust from record highs a year earlier. The market adage "Buy the rumor, and sell the fact" has played out once again. The inability to refute the rumors of massive death losses a year-ago contributed to prices overshooting to the upside. The reality that pork production was only down two percent in 2014 and is now moving up rapidly in 2015 helped create what may be the greatest collapse of hog prices ever. A classic boom and bust price pattern. Now the market is evaluating whether prices have overshot to the downside and will recover, or whether large pork supplies will justify current prices?

February pork supplies were expected to be up about three percent, while actual supplies have been up seven percent due to four percent more hogs reaching the market than anticipated. The USDA's inventory count in December appears to have undercounted the number of young pigs. Higher slaughter numbers so far this year also raise questions whether pork producers have also expanded sow numbers and farrowing intentions more that USDA picked-up in their December survey. Based on that report, pork supplies in the last half of 2015 were expected to be up six to seven percent. If expansion has been more robust could this mean eight to ten percent more pork in the last-half?

Anticipated pork supplies have been growing so far this year, and that has also been the case for competitive meat production. Since December, projections of beef and poultry production for 2015 have risen an additional two percent from early-winter projections. Other factors contributing to weakened hog prices in the new year have included a weak world economy and the west coast port slowdowns which account for nearly one-half of all pork exports. These two forces have led to lower anticipated 2015 U.S. meat exports.

Pork supplies could average about six percent higher in the second quarter and then seven to eight percent higher in the last-half of the year. This could mean about six to seven percent more pork for the entire year.

Using year-to-date actual prices and futures forecast for the remainder of the year suggest a yearly average price near $55 per live hundredweight, down from the extraordinary record of $76 in 2014 (previous record was $66 in 2011). Prices would average near $51 in the first quarter, then move higher to about $59 for the second and third quarters, and close the year in the very-low $50s.

Fortunately for pork producers, costs of production are expected to be at five year lows in 2015. Total costs are estimated at $52.25 per live hundredweight, compared with $57 in 2014. The biggest decrease in feed costs in 2015 is expected to come from soybean meal which may be $120 a ton lower ($360 per ton this year versus $478 in 2014 based on Decatur high-protein prices). Corn costs are expected to be $3.83 per bushel this calendar year compared to $4.09 in 2014. Corn costs are based on U.S. farm prices.

Record high profits in 2014 are expected to come back to earth in 2015. Last year's estimated profits were $53 per head, beating the previous annual record of $39 in 2005. Given current anticipated hog prices and costs, modest losses are expected in the first and fourth quarters this year with about $19 per head of profits in the second and third quarters. For the year, a modest profit of $8 per head is anticipated.

Pork producers need to be cautious about further expansion until more information can be gathered. The first question is how important will PED losses be to hog numbers this year, and secondly has the industry already expanded more than USDA picked-up in the December Hogs and Pigs report? Weekly slaughter numbers will provide information on past PED losses and the March *Hogs and Pigs* report on March 27 will give clues to the degree of expansion. Damage to pork exports due to west coast pork slowdowns should begin to resolve itself in coming weeks as port activity returns to more normal patterns.

If the industry has already expanded sufficiently to drive prices down near costs of production, further expansion could push the industry into losses. Feed prices are expected to be the lowest since 2010, but yield variability has been high in recent years. U.S. yield variability is particularly high on corn, and with fewer acres planted in 2015, lower yields could still cause much higher feed prices than are now being anticipated by corn futures markets.

Also available at:
http://farmdoc.illinois.edu/marketing/weekly/html/030215.html