Weekly Outlook: Significant Revisions, Bullish Inventories, and Bearish Farrowing Estimates

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The USDA's December *Hogs and Pigs* report places the December 1 inventory of all hogs and pigs at 77.5 million head, down about 1.2% from last quarter and right at the average pre-report estimate of 1% lower than last year. Similarly, and as expected, the market hog inventory is about 1% smaller than a year ago. The numbers seem consistent with previously anticipated herd contraction, which appears likely to continue, as the breeding herd, at 3% lower than a year ago, is just below the anticipated range of 1.5% to 2.8% lower. That's the smallest breeding herd since early 2018 and the largest decline in the breeding herd since December 2014. These numbers and downward revisions to past USDA estimates for market hog inventory, sows farrowed, and pig crops add some bullish sentiment.

All except for the heaviest weight class of market hog inventories are down compared to the same time last year, which is bullish news. The heaviest two weight classes of 120-to-179-pounds and over-180-pounds are about 0.5% and 0.7% lower than pre-report expectations, respectively, while expectations proved fairly accurate for the 50-to-119-pound class and underestimated the under-50-pound inventory by 1%. Hence, it appears that market-ready supply is somewhat smaller than anticipated. Overall, the number of hogs weighing less than 180 pounds is nearly 2.5% smaller than a year ago, and these will be the market hogs arriving at processing plants from January to May 2021.

The decline in lighter weight hogs partly reflects that the September-November pig crop is 1.4% smaller than last year with around 1% fewer sows farrowed—which could be viewed as bearish news compared to expectations of 3.5% and 3.7% lower, respectively. Those expectations were likely formed based on the prior USDA estimate of 3% fewer sows farrowed for the period, which was revised downward without corresponding revisions to past breeding herd estimates. With 11.05 pigs saved per litter, or about 0.4% lower than the 11.09 pigs per litter for the same period last year, and annual averages of 10.98 and 11.03 pigs per litter in 2019 and 2020, respectively, the statistic remains near the top end of the upward trend observed over the last decade. Still, a smaller fall pig crop, resulting from fewer sows farrowed and fewer pigs per litter, should imply a similarly smaller slaughter this spring, but again, not to the extent expected, given an even smaller pig crop was anticipated.

Meanwhile, winter farrowing intentions are up a little more than 1.5% from actual farrowings last year compared to expectations of 1.8% lower, and spring farrowing intentions are down almost 1% from last year compared to expectations of nearly 1.5% lower. While these numbers should similarly imply somewhat larger and smaller slaughter numbers in subsequent periods, the fact that both estimates are at or above the expected ranges seems bearish.

There is still plenty of room in cold storage, as it has not yet been replenished since being pulled down earlier during the COVID-19 pandemic. According to the USDA cold storage report, cold stocks of pork on November 30 are down 7% from the previous month and 28% from a year ago. Poultry stocks are down 16% from the prior month and 10% from a year ago, while beef is up 2% from the prior month and 7% from last year.

The USDA has revised its forecast of U.S. per capita pork consumption in 2020 back up to 51.9 pounds per person from its prior estimate of 51, with the number dropping back to 51.6 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. Even with strong grocery store demand, uncertainty remains about when restaurant re-openings will occur across the U.S. and how well domestic demand will persist, depending on how long the economy takes to recover from COVID-19. Hence, the market will again look to exports to help bolster prices.

The U.S. exported 589 million pounds of pork in October, or about 13% more than in October of 2019, again largely due to shipments to China and Hong Kong. These shipments and strong exports to Canada and Mexico partly reflect trade deals with these countries, which should continue to be important export markets for U.S. pork. Weekly USDA data available through early December appear to support continued strong pork exports. Although export growth is expected to slow to 7.35 billion pounds in 2021, that's still up about 0.4 percent from 7.32 billion pounds this year.

The USDA estimates U.S. pork exports to be 1.9 billion pounds in the 4th quarter of 2020, or about 4% greater than in 2019. For 2021, The 1st quarter is forecast to be about 3.6% below the record of 2.02 billion pounds set in the 1st quarter of 2020, and the 2nd and 3rd quarters, respectively, are forecast to be 4.2% below and 4.5% above that of 2020. Hence, export demand should remain strong.

Taking all of this into account, there is the possibility of profitable hog prices, especially throughout the summer 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. From September through November, this net price averaged $71.32/cwt compared to $60.07/cwt for the corresponding net prices for negotiated or spot transactions.

In general, hog prices tend to be higher in the 2nd and 3rd quarter, with lower prices in the 1st and 4th quarters. Consistent with that pattern, this forecast places 1st quarter prices at about $69.25/cwt, rising to $72.38/cwt and $78.72/cwt by the 2nd and 3rd quarters, respectively, before dropping to $67.75/cwt for the 4th quarter. These projections assume that the strong demand observed even in the face of the COVID-19 is maintained. However, if that is not the case or if hog supply turns out to be greater than anticipated, then lower prices may be realized.

YouTube Video: Discussion and graphs associated with this article at https://youtu.be/tL9eUrrcbBc