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Hog price optimism crumbles

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Abstract
Livestock Outlook: Pandemic potentially torpedoes domestic and export demand for pork.

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BIG QUESTION: As COVID-19 causes employment and consumer spending to decrease, demand rather than supply will be the driving force in the hog market.

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Livestock Outlook: Pandemic potentially torpedoes domestic and export demand for pork.

Lee Schulz | Apr 10, 2020

The 2019 Iowa-Minnesota barrow and gilt weighted average carcass base price for all purchase types was up 5% from 2018. Feeder pig prices ran 9% to 11% higher. Early 2020 domestic pork demand was strong. Passage of the U.S.-Mexico-Canada Agreement and other trade deals, plus replacing pork production lost to African swine fever in China and Southeast Asia, fueled optimism for even higher prices in 2020.

Then the coronavirus pandemic exploded. The shock wave surged through China, Asia, Europe and into the United States. Lean hog futures plummeted. The pork industry, plus U.S. and global economies, plunged into uncharted waters. Long-term impacts of the disease and loss of income in places hit hardest by COVID-19 on domestic and international pork demand are huge unknowns.

Short-run actions to manage the epidemiology of COVID-19 could significantly impact pork supply chains. Care for animals is essential. Work by farmers and veterinarians needs to continue. Meatpackers, feed delivery and other service providers play critical roles. How business is conducted has changed. Costs are higher. Ample unknowns persist about the timing, severity and aftermath of COVID-19 and the short-, medium- and long-term impacts on the pork industry.

More hogs to come

Biology sets the pork production timeline. Dramatic fluctuations in hog prices make it extremely difficult for producers to gauge where prices may be when their hogs are market-ready. But for the near term, a lot of hogs and pigs are on the ground. That supply cannot simply be turned off. Hogs are not a storable commodity like grains.

On March 26, USDA's National Agricultural Statistics Service released its Quarterly Hogs and Pigs report based on producer surveys. The report continues the storyline of record production. Every March report since 2015 has set new quarterly records for the all hogs and pigs inventory and market hog inventory. Pork production in 2020 is projected to total 28.985 billion pounds, up 4.9% year over year, according to the March USDA World Agricultural Supply and Demand Estimates.

Through the first two months of 2020, federally inspected hog slaughter totaled 22.43 million head, up 6.6% from January and February 2019, according to USDA's monthly Livestock Slaughter report. March hog slaughter was estimated up 11.1% compared to a year ago based on the daily data.

The robustly higher slaughter may indicate that producers are pulling some hogs forward out of fear of even lower cash prices. If so, slaughter weights should be lower. Average carcass weight of producer-sold barrows and gilts for the week ending April 3 did drop to its lowest value of the year at 213 pounds — a bit short of a pound below the same week in 2019. That dip does not indicate hogs are being pulled forward.

Contraction not yet evident

The U.S. inventory of all hogs and pigs on March 1 was 77.629 million head. This was up 4% from March 1, 2019, but down 1.3% from Dec. 1, 2019. On Dec. 1, the breeding herd was 6.471 million head. Three months later (March 1) it was 6.375 million head, or 1.5% lower. That's a decline of 96,000 breeding animals in 13 weeks or a 7,385-head drop a week. While down from December, the March 1 breeding herd was still up slightly (0.4%) from March 1, 2019.

Through the first 12 weeks of the year, sow slaughter was up 7.6%, averaging more than 4,300 head a week higher than in 2019. Also, many herds may not be retaining as many gilts as normal. Still, it's too early to speculate if producers are putting projects on hold or abandoning plans to build any new sow units.

The March 1 market hog inventory, at 71.254 million head, was up 4.3% from last year. This was 2.941 million head more than a year ago. Dividing that by 22 to 25 weeks (157 to 176 days) for nursery, growing and finishing production equates to about 117,000 to 131,000 more hogs slaughtered per week. The 180-pound-and-over category was up 6.5%. Those hogs have already come to market. So, the biggest slaughter surge is over. The remaining market hog categories averaged 3.8% above a year ago. They'll come to market from now through August.

The December-February pig crop, at 34.734 million head, was 4.7% above a year ago. The pig crop is ultimately a function of the quarter's sows farrowed and the quarter's number of pigs per litter. Sows farrowed were 1.9% larger than a year ago, but the litter rate came in 2.8% higher than a year ago.

Farrowing intentions uncertain

In December, USDA surveyed hog producers and reported expected March-May 2020 sows farrowing to be up 0.4% from spring 2019. In March, USDA asked producers for updated March-May farrowing intentions. The results were not much different than three months earlier — 14,000 (0.4%) fewer sows expected to farrow than in spring 2019. Data collected for the survey reflected market conditions in the weeks leading up to and the first half of March 2020. Likely much of the pessimism flowing from the COVID-19 situation had yet to take hold.

Hog producers reported June-August farrowing plans down 141,000 litters, or 4.3%, lower than the same quarter in 2019. At first glance, this may look like a sharp decline, or a significant sign of contraction. But remember, USDA's latest report revised June-August 2019 sows farrowed up by 95,000 litters. Sows farrowed in June-August 2020 of 3.134 million, with commensurate pigs per litter, would still provide the second-largest, only to last year, June-August pig crop.

To say this year so far has been tumultuous for the pork industry would be putting it mildly. At a time like this, it is important to reflect on and recognize the unwavering resilience of producers and all throughout the supply chain for ensuring a continuous, safe and wholesome supply of pork for consumers. The heroes in the entire U.S. food supply chain should be commended. Slaughter level drives inventory revisions

Year-to-date actual slaughter numbers do not align with projections made from inventory estimates in USDA's December 2019 Hogs and Pigs report. USDA routinely revises previous inventory estimates when hard data, in this case slaughter numbers, become available.

In March, USDA raised the estimate of the Dec. 1, 2019, all hogs and pigs inventory by 1.32 million head, or 1.7%. The breeding herd was raised 10,000 head, or 0.2%, while the market hog inventory was raised 1.31 million head, or 1.8%. USDA revised the number of sows farrowed during June-August 2019 up by 95,000 litters (3%) and boosted the June-August pig crop by 1.055 million pigs (3%). They upped the number of sows farrowed during September-November 2019 by 81,000 litters (2.6%) and hiked the September-November pig crop by 906,000 pigs (2.6%).

For these pig crop revisions, USDA did not revise their original estimates of pigs per litter or breeding herd inventory, as is its standard operating procedure. The agency has statistical modeling reasons for this. If the size of the pig crop is revised and pigs per litter do not change, then the revised sows farrowed becomes the revised pig crop divided by the initial pigs per litter.

Thus, USDA adjusts the pig crop to align with hog slaughter roughly six months later, and then sets sows farrowed equal to the revised pig crop divided by the original estimate of pigs per litter. This makes forecasting changes easier for sows farrowed. But it doesn't make forecasting hog slaughter easier or more accurate. Being able to correctly anticipate slaughter numbers is very important to price forecasting.

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