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# Hogs in a cost-price squeeze

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## Abstract

Livestock Outlook: Pork profit prospects plummet with lower hog prices and rising feed costs.


## Disciplines

Agricultural and Resource Economics | International Economics

## Comments


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*WEAKER OUTLOOK: Early this year the 2018 hog outlook was for modest profits. Now, it has shifted to losses due to higher production costs and lost exports with China's 25% tariff on U.S. pork.*

# Hogs in a cost-price squeeze

*Livestock Outlook: Pork profit prospects plummet with lower hog prices and rising feed costs.*

Lee Schulz | Apr 18, 2018

A double whammy of rising feed prices and falling hog prices point to tighter hog margins than were expected earlier this year. Projected 2018 profits in Iowa State University's farrow-to-finish model dipped from $11 per head forecast in December to $8 per head projected in February to a slight annual loss of 20 cents per head projected mid-April.

So far this year, 2018 corn futures are up 27 cents per bushel, with 2018 soybean meal futures about $56 per ton higher. Further price inflation could occur with USDA's March Prospective Plantings Report, predicting 2018 corn acreage at 88 million, down 2.17 million acres from last year. Soybean acreage is estimated at 89 million, down 1.14 million acres. USDA's March Grain Stocks Report pegged corn stocks 3.1% higher than a year ago and soybean stocks up 21.2%.

Both old-crop and new-crop feed prices could fluctuate widely. Delayed planting could boost prices. Staying priced ahead on feed could prove advantageous and add some certainty to the evolving pork profitability equation this year.

**Hog price prospects dim**

Carcass weight prices in 2018 are now expected to average near $64.75 per cwt compared to about $66.50 last year. In December, we expected 2018 prices to average nearly $70 per cwt. Reasons for softness in prices are not entirely clear. Perhaps earlier expectations for spring and summer hog prices were too high. June lean hog futures, for example, traded in the $82 to $85 range in January. June futures averaged $81 in February, $77.50 in March and $74 through mid-April.

News of the Chinese government choosing to impose an additional 25% duty on imports of U.S. pork and pork variety meat adds additional volatility to the market. Much remains to be worked out in this trade conflict. Only time will tell how big the impact will be.

January and February farrow-to-finish profits averaged about $14.50 per head. The recent hog price skid hammered margins down to a loss of $9 per head in March. Still, only a slight loss is projected for 2018.

The expected breakeven proposition does not sound encouraging. But forecast prices still cover all production costs including feed, a full labor return, and full depreciation recovery on buildings and equipment. This suggests farrow-to-finish operations can continue, with breakeven returns calculated in this manner.

**Feeder pig-finishing profits tumble**

Wean-to-finish production with change in ownership of pigs is another story. November through February cash and formula prices for 10- to 12-pound pigs averaged $52.46 per head, bolstered by strong profit prospects. These pigs will reach market weight roughly from May through August, with breakeven prices averaging $79 per cwt. This is $7 per cwt higher than current expectations for lean hog prices.

**No production adjustments yet**

The national breeding herd is 1.7% larger than a year ago based on early March producer surveys for USDA's Hogs and Pigs Report. Breeding herd additions totaled 21,000 head from December to March. For the March through May quarter, U.S. producers intend to farrow 3.078 million sows. This is 2.1% more sows than for the same period in 2017. Intended farrowings for June through August are estimated at 3.165 million sows, up 1.4% from 2017.

A big question: Will producers back off on farrowings given the change in the profitability outlook? A mid-March uptick in sow slaughter suggests they might.

Iowa remains the primary destination for weaned and feeder pigs, both from other U.S. states and Canada. Iowa has 32.3% of the kept-for-market inventory versus 16.5% of the breeding herd. In the latest USDA Market News Service National Direct Delivered Feeder Pig Report, Iowa was the destination for over 65% of the reported volume.

Impressively, Iowa producers weaned an estimated 6.61 million pigs in December through February, up 12.3% from the previous year. This came from 9.8% more sows farrowing and a 2.3% rise in pigs saved per litter. Both being very large year-over-year increases.

Iowa's farrowing intention estimates don't quite jibe with the current size of the breeding herd. For comparison, the national breeding herd is up 1.7% year over year, and March through May and June through August farrowing intentions are up 2.1% and 1.4%, respectively. In Iowa, the breeding herd is up 2.0% and farrowing intentions are pegged at 7.8% and 5.7% higher.

If large increases in litter rates continue, Iowa pig crops will be even larger. Are more breeding herd additions on the way, and could Iowa become less dependent on imports of feeder pigs to fill its finishing space? These are important questions and topics worth monitoring.

**Export prospects murky**

Growing pork export demand had enabled the U.S. industry to continue expanding in recent years. In 2016 and 2017, rising exports required an average annual increase in U.S. production of only 2.2% per year. In 2018, USDA expects pork exports for the year to be up 4.8%. USDA's March Hogs and Pigs Report pretty much solidified a 3% to 4% uptick in 2018 hog slaughter. Pork production could be even larger if higher slaughter weights are realized.

News of the Chinese import tariff hike put a negative tilt on export growth in 2018. Chinese market uncertainty makes expanding and diversifying export destinations for pork crucial. New and emerging markets in countries such as Colombia, Dominican Republic and Chile, and mainstay markets such as Mexico, Japan and South Korea were strong in 2017 and will be counted on again this year. With over 40% of U.S. pork exports going to Mexico and Canada, one could argue that a positive outcome to NAFTA is the biggest piece of the puzzle still in need of certainty.

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