

Weather Clouds Pork Outlook

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Pork producers are watching the weather forecast almost as intently as crop producers. Higher feed prices driven by weather forecast are now a new threat to their returns. Current feed prices are already high enough to turn the 2018 outlook into expectations for losses.

In the June Hogs and Pigs report, pork producers reported to USDA that they were continuing to increase the breeding herd by one percent. With continued higher pigs per litter, pork production has been growing at about two percent to three percent per year.

The market herd was reported to be up 3.6 percent with pigs coming to market in the third quarter up four percent and those coming to market in the fourth quarter up three percent.

What about farrowing intentions this summer and fall? Producers told USDA they were going to keep farrowings at the same level. If so, this means the supply of pigs to be marketed in the winter and spring of 2018 will be around one percent higher.

What are the states to watch? Over the past two years the most rapid breeding herd growth has been in Missouri with 45,000 new animals and Illinois with 40,000 additional animals. Iowa has added 30,000 head. It is interesting to see the recent growth is back in the heart of the traditional hog-corn belt. This is most likely being driven by new packing capacity which is located in the traditional pork production areas.

Pork production has been up two percent in the first-half of 2017 and hog prices have been five percent higher. Higher production and higher prices is an unusual combination that I have been talking about this year. The reasons are strong demand in the pork export market and lower retail prices in the domestic market that is helping to spur consumption.

Pork exports are having a good year! For current data through May, pork exports are up 14 percent lead by increases in Mexico and South Korea. So far this year we are exporting 23 percent of domestic production. Mexico became our number one destination for exported pork in 2015 and reminds the industry that opening NAFTA negotiations is especially important to U.S. agriculture and to the pork industry in particular.

Because of strong pork exports the two percent higher pork production has moved into the export market. This means that the amount of pork available for U.S. consumers is about the same as

last year. Given that there are more people in the county this year, that means per capita supplies are actually down this year.

Packer and retail margins have been very high for pork. Retail margins have already started down and packer margins are expected to come down in the last-half of the year with more processing capacity. Retail pork prices in 2017 have been down two percent. Thus, lower grocery store prices for pork are also stimulating consumption and helping hog prices be higher even with more production.

Looking forward, pork supplies are expected to be four percent higher in the third quarter, then drop to three percent higher in the last quarter of 2017. Pork production is expected to be up one to two percent in the first-half of 2018 if producers follow through with unchanged farrowing levels this summer and fall.

Hog prices are expected to stay above year-previous levels in the last-half of the year. Estimated third quarter live weight prices are expected to average in the high \$50's and then drop to the high \$40s for the final quarter of 2017. Live prices are currently expected to average in the very low \$50s for the first-half of 2018.

Feed prices have suddenly become an important concern. Drought conditions in the upper Great Plains have been the lead story with the anticipation of that drought spreading. At this writing weather forecast out to July 23 are for above normal temperatures and below normal precipitation for the Central and Northern Great Plains and all of the Corn Belt. This suggests that the majority of the nation's corn crop will be pollinating under stressful weather conditions.

At this writing, December 2017 corn futures are \$4.12 and December 2017 soybean meal futures are \$345 per ton. At these levels, costs of producing pork are distinctly higher. Over the past year, my estimated total costs of production have been near \$50s per live hundredweight. With the current price levels those costs rise to about \$53 over the coming 12 months. Most of the increase comes from corn. In the past 12 months the U.S. average corn price received by farmers was \$3.38 per bushel, and current futures markets are suggesting that could rise to \$3.99, a \$.61 increase. Soybean meal prices at Decatur Illinois averaged about \$329 over the past year, and current futures markets suggests around \$343 for the coming 12 months.

Higher feed costs cut pork producer margins. Quarterly returns are strong this quarter with an estimated \$18 a head of profit above all costs. But margin prospects turn negative in the final quarter this year at \$11 per head. Prospects remain negative for 2018 with an estimated average loss of \$10 per head. Losses in 2018 would be a result of lower hog prices in combination with higher feed prices.

These are the good times for the pork industry with strongly positive margins this summer. However, lower hog prices into the fall and winter along with continued higher production into 2018 will lower hog prices.

Feed prices are a new concern driven by anticipated harmful weather in coming weeks. The weather that does unfold will determine how high feed prices go. There is a bit of comfort for ingredient buyers based on large world inventories of feed ingredients that will temper the upside rise. Weather markets tend to peak around the period of harmful weather and then moderate as weather improves or as we move through the marketing year. This likely suggests more of a hand-to-mouth buying strategy for now and suggest caution in buying large amounts of feeding needs for the 12 months right now.

If feed prices should continue to rise, some breeding herd liquidation could begin this fall and winter and that would help increase hog prices for the last-half of 2018. But it is too early to predict this outcome right now.

Watch the weather!