PORK PRICES: SKY IS THE LIMIT FOR 2011?

Hog and pork prices are expected to launch to record highs in 2011. The stimulus will come from smaller per capita U.S. supplies and from much stronger demand driven by recovering U.S. and world economies and by the inflationary policy of the U.S. Federal Reserve. Live hog prices in 2011 are expected to exceed $60 per live hundredweight, or over $80 on a lean basis. However, these record prices will be overshadowed by record costs of production.

Pork production will drop modestly in 2011 as the industry has been adjusting to high feed prices since 2007. The USDA December Hogs and Pigs report indicated that producers continued to reduce the size of the breeding herd last year by 72,000 head, or about one percent. The 2010 reduction was focused in North Carolina which had a reduction of 90,000 head. Farrowing intentions were down one percent for this winter and down two percent for this coming spring. This means some additional herd liquidation will be likely this winter.

The industry has been downsizing since 2007 due to high feed prices. In December of 2007, the U.S. breeding herd stood at 6.233 million head. Today the herd is at 5.778 million head or a seven percent reduction. Pork consumers will finally be feeling the pain of high feed prices in the record retail prices they will face in 2011.

More important than the small reduction in production will be a strong demand base this year. That will start with foreign buyers who are expected to elevate pork exports by ten percent. Pork exports are expected to represent a record 21 percent of domestic production. The combination of modestly lower production and higher exports means that the available supply per person in the U.S. will drop by nearly three percent in 2011. This will be the foundation for record retail pork prices as there will be less pork available at a time when U.S. consumer’s economic conditions are improving.

How high can hog prices go in 2011? Historically $90 lean prices, or about $67 live, were the top of futures markets. Some current futures prices now exceed $90 for the spring and summer delivery contracts and raise the possibility of them reaching $100, or $75 live.

The Federal Reserve policy of quantitative easing (QE2) should also be considered as a stimulator of commodity prices. Since the FED announced their policy in late-August 2010, commodity prices have moved up, but meats have lagged in those increases. For example, the April 2011 CRB commodity index futures have risen about 26 percent while the April 2011 live
cattle futures have only increased ten percent and the May 2011 lean hogs have risen 14 percent. In contrast May 2011 corn futures are up 37 percent and May 2011 soybean meal has been up 27 percent. While each commodity has its own supply and demand situation, this may be an indicator that the full bullish impact of QE2 is yet to come to the meat complex.

Some may argue that there is no historic precedence for prices that high. To that argument one must add that there is no historic base for costs of production this high as well. So, a new era of high costs probably means there will eventually be a new era of record high hog and pork prices.

Current forecasts are for hog prices to average somewhat over $60 live for 2011. The previous record annual high was about $55.50 in 1982. By quarter, those prices are expected to average in the higher $50s in the first quarter, move toward the mid-$60s for the second and third quarters, and average in the mid-$50s in the final quarter.

Record high hog prices would seem to suggest great profit prospects for pork producers in 2011. Of course that is not the case as feed costs mean the outlook is for a breakeven year with costs estimated to be slightly over $60 as well.

The U.S. average price of corn in 2011 may be $5.75 per bushel, compared to $4.78 for calendar year 2008. High-protein soybean meal is estimated at $363 fob plant compared to $331 in 2008. Total estimated costs for 2011 are $60.50 per live hundredweight compared with $54 in 2008.

Farrow-to-finish operations had profits of about $12 per head in 2010 for. However, this came after estimated losses of $17 and $24 per head in 2008 and 2009. In addition, the industry is currently operating at losses estimated at $22 per head in the final quarter of 2010 and an estimated $11 of loss in the first quarter of 2011.

Hog prices are expected to rise sharply in 2011 from the current low-$50s and move into the higher-$50s by late February and March. At this point, the industry will be back to near breakeven prices. Prices are expected to march toward the higher-$60s in late-May and June. The spring and summer quarters are expected to provide profitable production before sliding back to break evens in the mid-$50s for the last quarter of the year.

Better corn yields in 2011 would help moderate feed costs, but those better yields are still far off with a lot of weather to worry about in both the Southern and Northern Hemispheres over the next nine months. The most optimistic prospects for hog producers are that they continue to trim the breeding herd in the first-half of 2011 and have high corn yields next summer. This would provide robust profits for 2012. If yields are not high in 2011, then losses could return for 2012.

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