Daily Livestock Report

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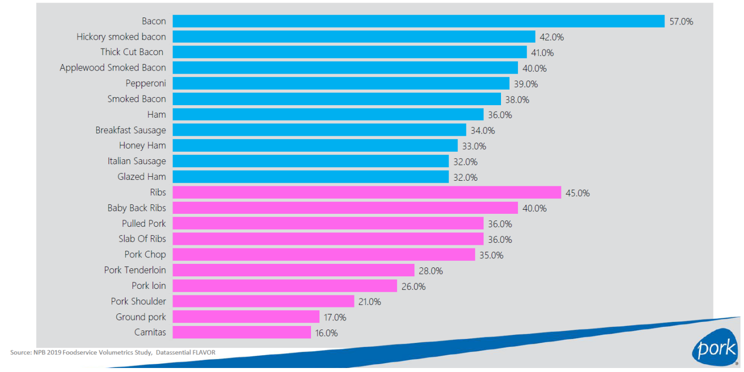
Following up on yesterdays discussion, we decided to spend a bit more time on **belly price performance, some of the factors driving prices in the near term and impact this is having on the overall pork/hog market**. Weekly pork production since October has averaged 562 million pounds (cwe) per week, 32.2 million pounds or 6.1% higher than the same 15 week period a year ago. And pork production last year was record large. To put current production in perspective, **weekly pork production in the last three months or so has averaged about 100 million pounds (+23%) per week over the production levels of just five years ago**. These numbers are on a carcass weight basis and with bellies representing about 16% of the carcass, this implies an additional 16 million pounds of bellies available on a weekly basis. Exports have been a big part of the story in the pork market for some time. Indeed, much of the growth of the last two decades in the industry has been directly tied to the growth in exports. But even as some markets have increased the amount of bellies they buy from the US, this remains primarily a product that goes into domestic channels. So much of the growth of recent years has relied on domestic demand. Price is a key factor to maintain the flow of volume. There is no question that consumer preferences for bacon have been on an upswing,. Market research studies (supported by the National Pork Board) have shown that foodservice demand continues to drive bacon consumption in the US. And for good reason. A survey of consumers (see chart) shows that the top three pork items at foodservice that consumers love the most are bacon products. **Bacon demand has steadily gained ground as consumers have become more educated about the role of fat in the diet and a new generation of consumers is now putting a premium on flavor**.

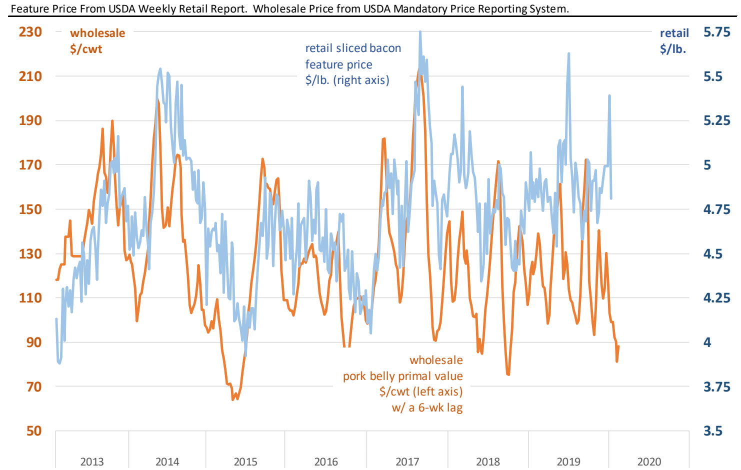
So the question at this time is why, with bacon demand being what it is, belly prices have underperformed vs. last year? A number of factors probably have played a role but here's our guess: fearing a potential shortage due to more carcasses going to export, foodservice operators worked to ramp up their inventories. Forward premiums on pork in general were high through the fall as packers were uncertain about the level of demand. So even though supplies increased sharply compared to a year ago, some end users likely paid far above market prices to make sure they had enough supply. The result of this was a situation where bacon prices that the restaurant, and ultimately the consumer, paid remained high relative to supply available. Bacon sold at retail is a smaller portion of overall bacon demand but retail features are quite important in helping clean up the market. In the past, we used to see a very strong correlation between the price of bellies at wholesale with the price of bacon features 6 weeks down the road. Low wholesale prices would give packers/processors an incentive to lower prices they quoted to retailers, eventually resulting in lower bacon prices at retail and clearance. The second chart to the right shows that the correlation has been non-existent in the last year or so. Processors and packers were simply reluctant to offer competitive prices to retailers, resulting in higher retail feature prices than one would expect. Thus, high prices at both foodservice and retail have kept the quantity demanded in check even as each week there were more bellies looking for a home. This has pushed more bellies in storage (+40% in November) and resulted in ongoing weakness in the spot market.

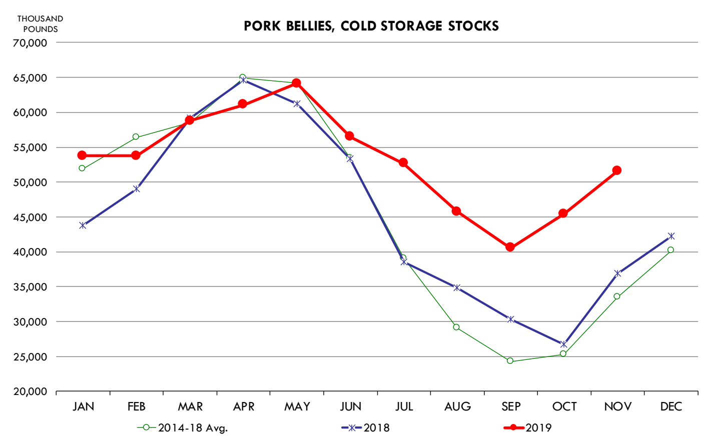
Consumer Love - Cuts with Highest Affinity (Love It)



RETAIL BACON AVERAGE FEATURE PRICE VS. WHOLESALE PORK BELLY PRIMAL (6-WK LAG)

Feature Price From USDA Weekly Retail Report. Wholesale Price from USDA Mandatory Price Reporting System.





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