Daily Livestock Report

Sponsored in part by CME Group

Vol. 18, No. 41 / February 28, 2020

Despite all the panic of the impending pandemic, those involved in the meat market have to contend with the fact that the consumers still require three meals a day. And they need to secure those for them. With this in mind, it is good to continue to focus on the fundamentals, especially when it comes to the supply of product that's currently on the ground. Seasonal demand shifts and potential changes in how those meals are consumed will likely remain hot topics into the grilling season. Today the goal is to focus on one specific issue: **pork supply availability in the US domestic market in Q2**.

In our report a couple of days ago we highlighted **why cattle markets have turned so bearish recently**. The gist of the discussion was that beef is expensive. As a result, it does well when the economy is performing well and people feel confident and are willing/excited to eat out. Growing demand in other markets (again a function of economic growth) also tends to bolster US prices since we tend to export more and securing imports becomes more expensive. Finally, beef supply growth may be slowing down but production in the first half of the year still is expected to be up as much as 5% compared to a year ago (latest USDA WASDE). The trend for all of the above has turned negative, hence the selloff in cattle. How about pork? While pork use at foodservice has increased in recent years, **it still tends to be a retail item**. Studies supported by the US National Pork Board (and checkoff funds) have found that about **70% of fresh pork is sold through retail channels**. Not all pork is sold in fresh form. Some is processed (salami, hot dogs, cooked hams, etc) and those products are largely sold at foodservice. Exports have also become a major market for US pork in the last decade. **In December, pork exports accounted for 28% of domestic production, the highest share ever**. For all of last year pork exports accounted for a 23% share.

It does not take much of a leap to realize that retail and exports will be key for Q2 hog and pork prices. Using Nielsen data, the Pork Board recently noted that "fresh pork (including ribs, chops and shoulder) was missing from many May promotions last year – the kickoff to grilling season (click here for link)." We think we know the reason for this. Pork prices rose sharply in April of 2019 on speculation that a trade agreement with China and the spread of African Swine Fever would result in tighter supplies. As it happened, the panic was premature and pork prices were counter seasonally lower in June. It is important to pork buyers this year to recognize the supply picture. **There's no shortage of pork**. We constructed the chart to the right using historical data from USDA and then making some assumptions for production/use this year. In its latest report, USDA pegged hog slaughter for Q2 to be up 3.8% compared to a year ago. Assuming weights may be slightly under last year (no ractopamine in feed, recent trends) pork production calculates to be about 6.847 billion pounds or 3.5% higher. That's 232 million pounds higher than a year ago and a little over half a billion pounds higher than two years ago. Exports will be critical in this regard. In its latest WASDE report USDA pegged US pork exports for 2020 to be up 16.7% from a year ago. If we were to assume a 17% increase in exports for Q2, this would imply an additional 265 million pounds of pork going to export, more than offsetting the increase in production. **Even if exports were to jump 30% in Q2, this would still leave per capita availability above the long run trend and at levels similar to 2016 and 2017**. Exports should help clean up the additional pork supply but there will still be plenty left for the grilling season. This should be a year when US retailers take advantage of the ample pork supplies for their features. Such promotions could accelerate if consumers opt to limit travel and eat more meals in their backyards.

Q2 Pork Per Capita Availability in the Domestic Market. Pounds per Person, Retail Wt.

Data Source: USDA. Analysis by Steiner Consulting