

**Hog slaughter has recovered much faster than many expected, in part thanks to the declaration of livestock slaughter plants as critical infrastructure under the Defense Production Act.**

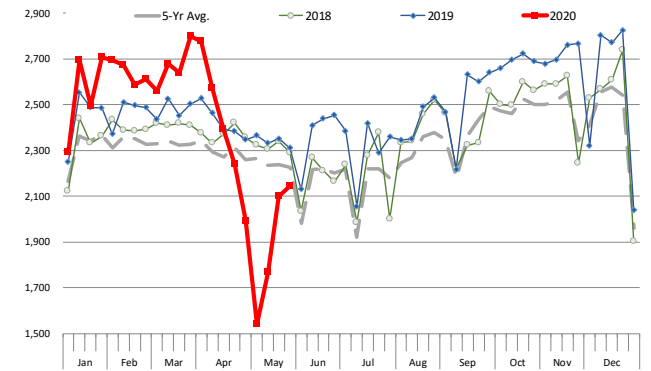
The executive order came into effect on April 28 as a number of key facilities were shut down due to the spread of COVID-19 in the facilities. Hog slaughter for the week ending May 2 was estimated at 1.540 million head, 826k head or 35% lower than the previous year. In the next three weeks all plants slowly reopened although they are still running below capacity due to labor shortages. Last week hog slaughter was estimated at 2.098 million head, 254k head or 10.8% lower than a year ago. At this point we think slaughter this week may be around 2.15 million head, 165k head or 7% lower than last year. Some of the shortfall in slaughter is expected to be offset by the increase in hog carcass weights. The average weight of producer owned barrows and gilts is currently about 2% higher than a year ago. Weights of packer owned hogs are also running about 2.4% higher than a year ago. By the end of this week we could see pork production is that is running about 4-5% lower than last year, still a shortfall but a far higher supply than what was in the pipeline just three weeks ago. While slaughter has recovered somewhat, it remains below what's needed to stay current. Moreover, it is difficult to see a path forward for hogs currently backed up on farms. In the seven weeks between April 5 and May 23 we calculate a total slaughter of 14.174 million head. The USDA 'Hogs and Pigs' inventory survey done in March suggested that hog slaughter for this period should have been about 4% higher than the previous year. It appears we pulled some hogs forward in March due to strong retail demand so we could surmise an expected increase of just 3% for the reference period (4/5-5/23). This means about 17 million hogs should have come to market rather than the 14.174 we have seen so far, implying a backlog of 2.8 million hogs. Even if slaughter were to return to full capacity, clearing out the backlog would require many weeks. For some producers that may not be possible. And recovering to full capacity is a big if due to the fact that the virus continues to impact the labor force working in the plants. Measures taken to protect workers could also result in a slowdown in slaughter and fabrication lines.

**The increase in supply during the last three weeks has pushed more supply in the market, helping ease some of the price inflation we saw in late April and early May.**

Pork production for the week ending May 2 was estimated at 329.7 million pounds (carcass wt.). We think this week production could be 469 million pounds. That would be a 42% increase in supply in just three weeks and the highest pork production volume since 4/18. Remember that the pork cutout in mid April was trading in the mid 50s, following the price surge in mid March. We have seen a significant bull whip effect in all protein markets the last few weeks. This is due to panic buying at grocery stores; foodservice operators and their distributors first depleting their pipeline and then rushing to refill it again; and the normal seasonal increase in meat demand for Mother's Day and especially Memorial Day weekend. Hog futures are currently pricing a significant discount for June, implying a further deflation in the value of the pork cutout. Last night the cutout was quoted at \$97.7/cwt, down almost \$10/cwt from just the day prior and down \$24/cwt from six days ago. While a number of items have lost ground in the last few days, about 90% of the drop in the value of the cutout is due to lower pork belly prices. The question is whether loins and butts will manage to hold current price points to prevent further cutout erosion in June.

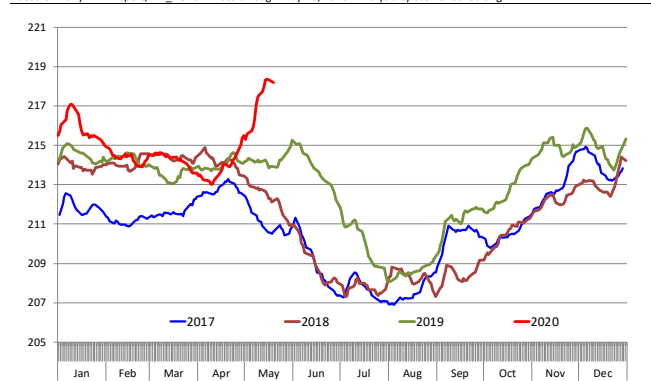
**WEEKLY HOG SLAUGHTER, '000 HEAD**

Source: USDA. Analysis by Steiner Consulting



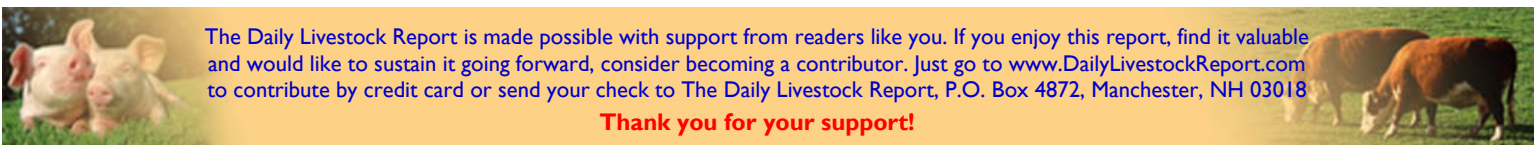
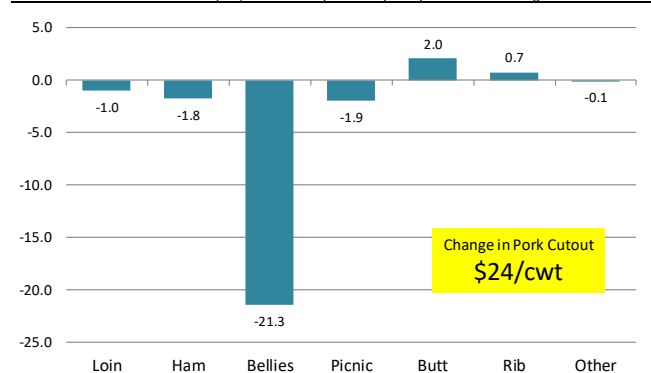
**Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs**

Based on Daily MPR Report, LM: HG201. Data through May 18, 2020. Analysis by Steiner Consulting



**What Drove the \$24 Decline in Cutout Since May 11?**

Based on USDA-MPR data for May 19, 2020 vs. May 11. Analysis by Steiner Consulting



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