

The “world shortage of pork and bacon” story that we referred to briefly in yesterday’s DLR exploded today into almost unbelievable proportions. DLR author Dr. Steve Meyer spent virtually the entire day talking to reporters from many media outlets and will even appear on the Today Show during the 7:00-7:30 time segment on Wednesday morning. Why this story has become so big is a bit beyond us since we — and many of you — have lived this higher-cost, lower-output scenario for all animal proteins virtually every day over the past several years. Perhaps the best explanation was offered by Tim Maiers of the Illinois Pork Producers Association: “When you tell people there wouldn’t be enough BACON, you finally get their attention!”

So what is the article talking about and what are the facts about this “shortage of pork and bacon”?

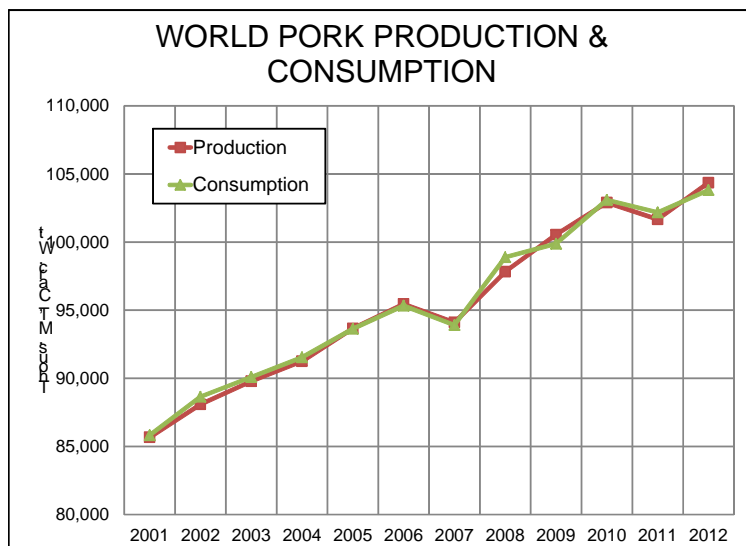
- Bacon in the UK and bacon in the U.S. are very different things. UK “bacon” is also called “back bacon” and includes a thin slice of the loin eye muscle as well as a thin slice of the pig’s side — the part that goes to bellies and cured bacon in the U.S. This same “bacon” is sold in many European countries. The picture at right actually comes from a Swedish meat processor’s site. So, when a UK publication warns of a shortage of “pork and bacon” they are sort of saying “pork and pork” in U.S. terms.
- In our opinion, there will not be a “shortage” of pork in the manner that consumers cannot find pork or have to stand in line for pork. Certainly not in the U.S. and probably not in the EU either. However, we believe there is little doubt that pork supplies will decline in virtually every country as producers adjust to higher feed costs. How large those reductions are remains to be seen. We listed some of the June 2012 versus June 2011 reductions in EU countries yesterday. The Canadian and U.S. herds were still growing as of June but will be very near or slightly below last year’s level when their September 1 and October 1 estimates are published.
- We do not expect the world supply of pork to fall off some cliff. USDA’s Foreign Agricultural Service (FAS) will not release their estimates for 2013 worldwide sow and pig inventories and pork output until October 11 but it is obvious from the chart at right that world pork output and usage have grown more or less steadily over the past decade. The only two hiccups occurred in 2007 when China suffered high death losses due to disease and natural disaster and in 2011 when China again saw large death losses and South Korea’s herd was decimated by foot and mouth disease. Remember that China has over half of the world’s pigs and produces and eats over half of the world’s pork supply. While conditions in other countries are not unimportant, any changes elsewhere can be quickly swamped by changes in China.
- While there will not be stand-in-waiting-line shortages, pork supplies are very likely to decline, year-on-year, in the second half of 2013. And with August retail prices already within 3 cents per



pound of the record \$3.56 set last September, new records in 2013 are practically certain. This is even more of a safe bet when one considers that chicken prices are already record high again and beef prices will almost certainly set new records as the smaller calf crops of the past two years move to slaughter.

- Per capita world pork availability peaked in 2010 at 33.48 pounds per person. It fell to 32.8 pounds in 2011 and is forecast by FAS to be 32.94 pounds per person this year. As noted earlier, we will not have 2013 forecast until October but a 2% reduction would put 2013 per cap availability at 31.95 pounds, the lowest level since 31.6 pounds back in 2007 but certainly not a disastrous decline.
- U.S. per capita pork consumption/availability is already sharply lower than just a few years ago. The most recent high was set in 2003 at 51.9 pounds. As recently as 2007, per cap pork consumption/availability was 50.8 pounds per person. That figure is forecast to be 46.0 this year and 44.6 next year, declines of 10% and 12%, respectively, from the level of just 5 years ago.
- This is a very normal and expected reaction to higher costs. The average cost of producing hogs in lowa farrow-to-finish operations from 1999 through 2006 was \$52.76 per hundred pounds (cwt.) of carcass weight pork. That figure for last year was \$86.70/cwt. carcass weight and, based futures prices on Tuesday will be \$90.16/cwt. carcass this year. Those same futures prices imply that breakeven costs will be \$95.96/cwt. next year. While this year’s drought has certainly pushed costs higher, it is not the reason for the vast majority of the cost increase. That reason would be the emergence and rapid growth of corn-based ethanol in the mid ‘00s. This major new user of corn grew at a rate that could not be matched by corn production growth thus driving corn prices higher.

So are we going to run out of pork? NO. Will there be less available and will prices be higher? A VIRTUAL CERTAINTY.



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