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We begin this newsletter by referring readers interested in hog sector slaughter capacity developments to a recent article in the National Hog Farmer by Dr. Steve Meyer (Kerns and Associates). The article is titled "U.S. Slaughter Capacity Settles Into Even Keel" and is available here.

Today's comments follow-up on last weeks Quarterly Hogs and Pigs report by USDA's National Agricultural Statistics Service (NASS). We provide a quick summary of the pork supply implications, as evaluated by the Livestock Marketing Information Center (LMIC). Finally, we will discuss prices.

Producers reported that they plan to farrow 1.5% more sows than a year ago during September-November and 2.0% more during December-February. That December-February number was more than the LMIC expected. Using the NASS numbers, on a quarterly basis, projected commercial pork production for this year's fourth quarter should increase 5% to 6% year-over-year (note that there is one more slaughter day than a year ago, which is 1.6%). For the first quarter of 2019, production is forecast to be 1% to 2% above the prior year's (note that there is one less slaughter day than in 2018's first quarter). In the second quarter of 2019, the output may increase by 3% to 4% year-over-year, and the third quarter could be up 4% to 5% (one more slaughter day year-over-year). For the final quarter of next year, LMIC put production unchanged to up 1% compared to 2018's.

Calendar year 2018 U.S. pork production is projected at 26.5 billion pounds (carcass weight), rising about 3.7% year-over-year. Expect more production in 2019, likely above 27 billion pounds (up 1% to 4% compared to 2018's).

With more supply apparently in the pipeline, the economic question turns to pork demand. The U.S. domestic economy is well positioned to continue growing in 2019. In our assessment, the wild card is foreign demand. Based on recent political and trade developments, the LMIC has raised their 2019 pork export forecasts. On an annual basis, tonnage sold to foreign buyers may increase by 2% to 5%. That would represent just over 22% of U.S. pork (meat only not variety meats, etc.) production and is a similar percentage to LMIC's 2018 projection. Of course, issues with production (e.g., impacts of African Swine Fever outbreak) in China could bolster U.S. exports even more. But, the watchwords regarding international trade remain "geopolitical uncertainty."

If the above production and foreign demand forecasts materialize, what does that suggest for hog prices? For the year, hog prices in 2019 may be very similar to 2018's. On a quarterly basis, prices are forecast to be well below 2018's for the first quarter (down 8% to 10%), and then could be slightly above 2018's levels. For the first quarter of 2019, the LMIC's fundamental (supply and demand) price forecast is similar to yesterdays price levels in the futures market. But, the April through October contracts are higher. So, it appears that the futures market has been looking for pork exports tonnage to increase well more than 5% year-over-year in 2019. Note that yesterday, beginning with December 2018 futures contract, all prices dropped.