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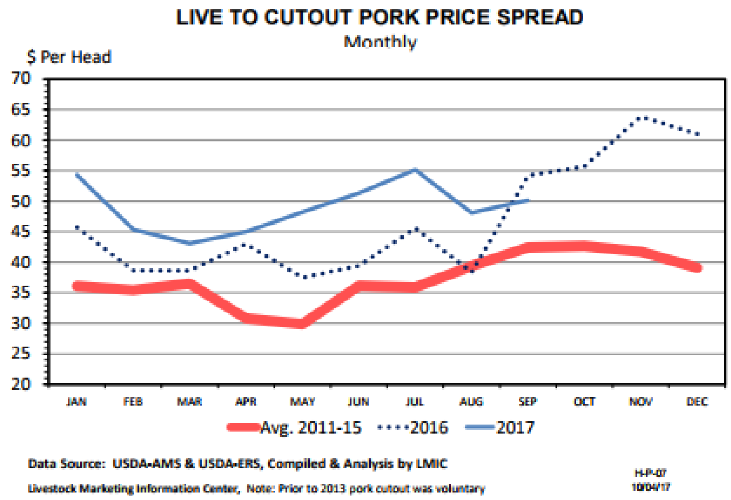
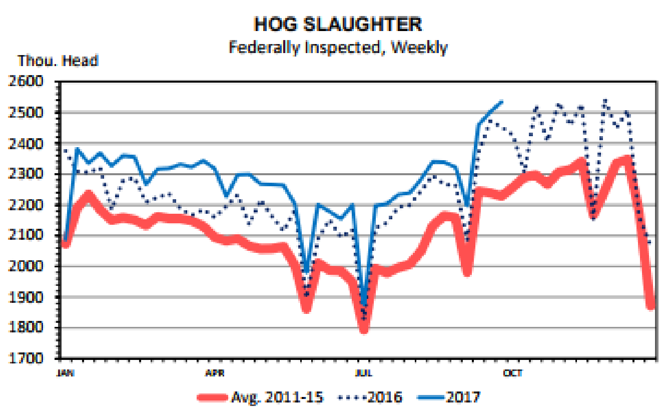
*** Correction***. An earlier version of this report indicated that the pork plant in Michigan had pushed back its operational start to early 2018. That information is not correct. Based on information provided to us by the plant in question, it was actually processing hogs two weeks ahead of the announced go-live date of September 4 and it has been processing hogs for 7 weeks. While the facility had yet to fully ramp up, it appears to be on track with its planned ramp up schedule. We apologize for the confusion and our primary goal every day is to provide you first and foremost with accurate information. The text below has now been corrected to reflect this.

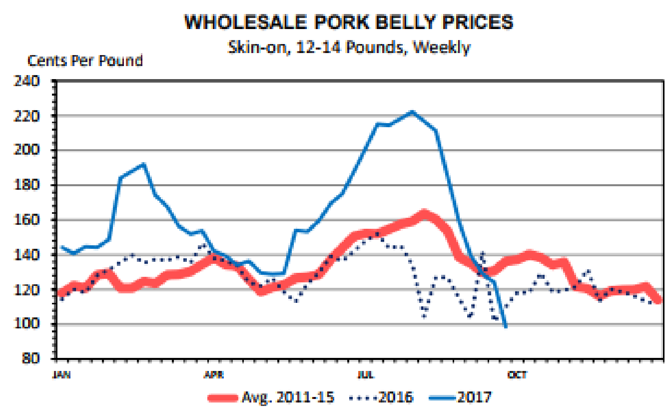
A measure of profitability (that is, gross margin or the live to cutout price spread) for the hog processing sector has held up above the values of the first half of the decade for most of 2016 and 2017. September economic returns to the industry typically improve from August, and that was the case again this year, although the degree of improvement was less than normal. As such, the comparison of profitability relative to the same month in 2016 fell below a year go for the first time this year.

The profitability calculation is based on hog prices and wholesale pork prices reported by USDA-AMS (Agriculture Marketing Service) on a daily basis, along with values for byproducts such as lard, chitterlings, and organ parts. The cost of labor, depreciation, marketing etc. is not included in the calculation. Two new hog processing plants started operations in September and over time this should lead to increased competition for hogs and a lower spread. However, these are complex operations, with brand new equipment and workers, and it will take some time before they fully ramp up to capacity. Processor margins were expected to tighten based on these new operations but market participants have learned to temper some of those expectations.



The preliminary estimate of Federal Inspected daily hog slaughter set a record on October 4 of 463,000 head, topping the prior record set in late October 2016 (similar harvest levels to the previous high also occurred in other recent days). This slaughter is 5% higher than a year ago, slightly more than would be expected based the number of pigs born last spring. The seasonal increase in hog slaughter during the final quarter of the year is the foundation supporting the expansion of pork processing margins in September and October. High pork belly prices have been instrumental in supporting packer margins so far this year, but belly prices dropped below 2016 values in the last week. They may not rebound in the near future, given slaughter levels. Packer bids for hogs may be affected by the decline in pork belly values, so packer margins may not change radically in the short term.





Data Source: USDA-AMS & USDA-NASS

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