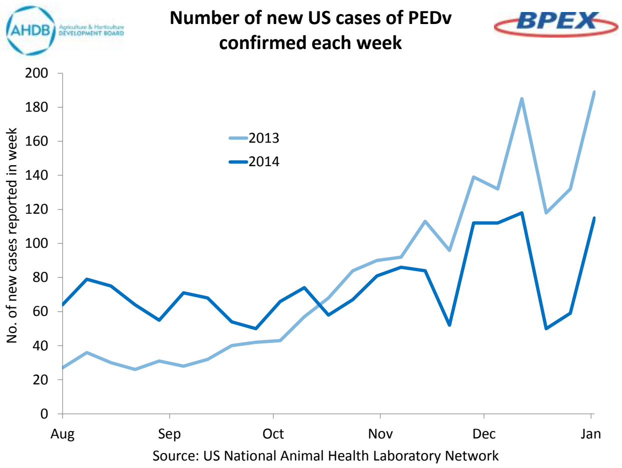
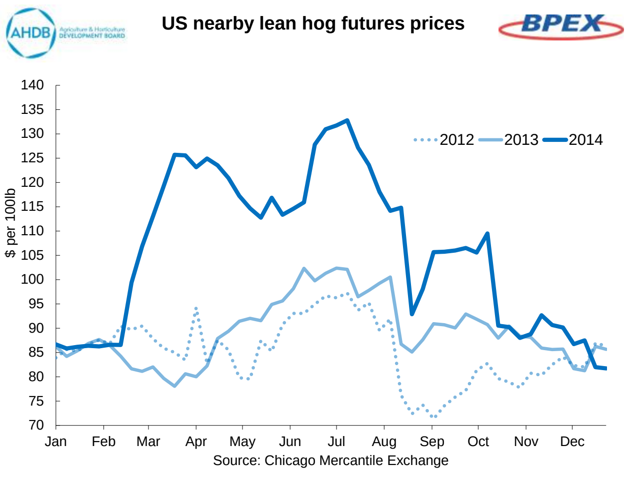
US production set to boom in 2015

Throughout 2014, the US pig industry was dominated by the impact of Porcine Epidemic Diarrhoea Virus (PEDv). This led to a dramatic rise in piglet mortality, reducing pork supplies and taking prices to new highs. Although PEDv is still around, the number of cases so far this winter has been much lower. Assuming this remains the case, the situation in the US industry is likely to be very different in 2015.

By the end of 2014, the number of PEDv cases confirmed in the US was approaching 10,000, including a number of secondary outbreaks. However, since the middle of October, the number of new cases has been running well below year earlier levels; during that period there have been 1000 cases, compared with over 1400 in the same period of 2013. Although last year's peak wasn't reached until February, this suggests the impact of PEDv in the coming year will be lower.



As a direct consequence of PEDv, US slaughterings were well below 2013 levels throughout most of 2014. Between March and December, nearly 5 million fewer pigs were slaughtered, equivalent to around 6% of the total. Prior to the outbreak, expectations were that slaughterings would rise by 1-2%, so the overall impact was the loss of around 7-8% of the pig crop. The market impact would have been even more severe had it not been for a significant rise in carcase weights, which meant that pork production was only 2% lower.



Of course, this sort of supply reduction caused a price reaction. Hog prices soared to record levels in March and stayed there until the summer. Although they have since returned to levels similar to those at the end of last year, it is worth remembering that these were still high by historic standards. With feed prices falling at the same time, producer profitability reached unprecedented levels, at least for those who managed to avoid PEDv. Estimates suggest that producers were making profits of $50 or more per head for pigs sold over the summer.

Inevitably, this prompted many producers to expand. The latest USDA Hog Inventory reports a 4% rise in the breeding herd in the year to December4, the fastest increase since 1998. With PEDv set to have less impact than last year, this is likely to mean an even faster rise in the pig crop in the coming months, perhaps by 5-6%. In turn, this will lead to a similar rise in slaughterings through most of 2015. With feed prices remaining low, at least until prospects for the 2015 harvest become clearer, carcase weights are expected to stay high. Therefore, pork production is expected to rise sharply in 2015, more than offsetting the modest decline in 2014.

As well as the impact of PEDv, US pig prices were given extra support by the shortage of beef, one of its main competitors for domestic consumers. The US cattle herd has been hit hard in recent years by drought and poor profitability. As a result, beef production was down 6% in 2014 and is projected to decline by a further 2-3% this year. Indeed, USDA forecasts that pork production could overtake beef production for the first time in 2015. This means that beef prices have risen even faster than pork ones, meaning that pork consumption has held up remarkably well.

With beef prices set to stay high in 2015, consumer demand for pork is likely to remain strong. With export sales also holding up well – volumes are likely to be little changed in 2014 – price prospects look reasonable. Therefore, although they won't reach the highs of 2014, prices could stay close to levels in the preceding three years. If feed prices remain low, this will be enough to keep producers in profit. This might lead to some further herd expansion in the year ahead, with fewer PEDv cases ensuring further production growth ahead.

From a European perspective, expansion in the US presents a considerable threat. EU exporters have benefitted from the tight supply situation on the global market during 2014. Next year (and beyond), they will face greater competition from the US, where prices may again be similar to or below EU levels. Further down the line, the Transatlantic Trade & Investment Partnership (TTIP) could mean more direct competition from US pork on the EU market. Therefore, as always, the EU (and UK) industry will need to keep an eye on developments across the Atlantic.