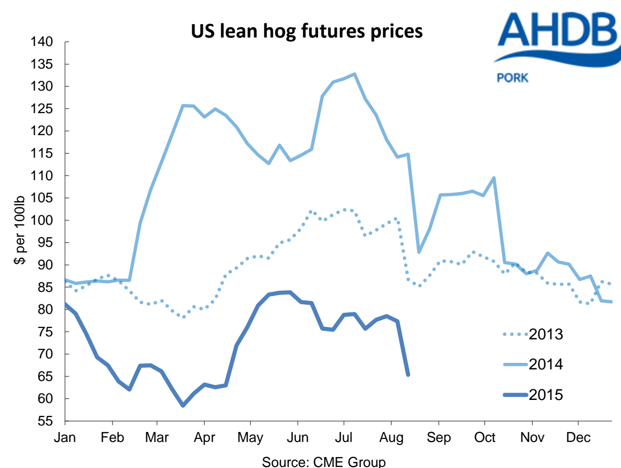
What a difference a year makes

Just over a year ago, US hog prices were at record levels; earlier this year they dropped to a 5½ year low. Although they have recovered somewhat since then, this is the normal seasonal trend and prices remain well below levels recorded in most recent years, never mind last year's highs. Putting some numbers to that, the national barrows and gilts price peaked at almost $100 per 100lb liveweight (about 160p/kg deadweight). By April 2015, this had fallen by more than half to $45 per 100lb (about 85p/kg). As usual, Chicago lean hog futures followed very similar trends.



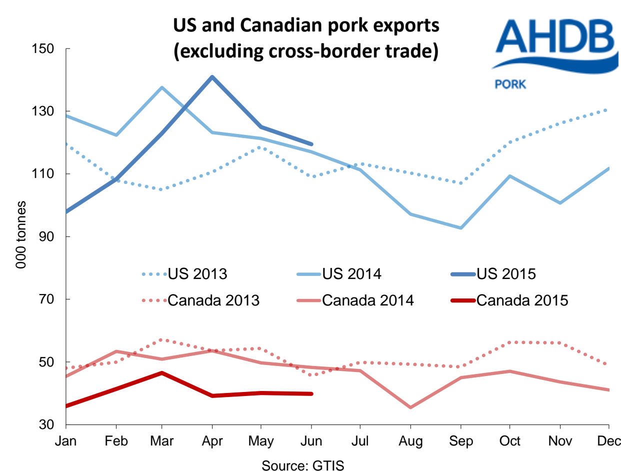
Of course, last year's price spike was due to the impact of the PEDv outbreak during the previous winter. The mortality this caused led to a 5% reduction in clean pig slaughterings last year, with even bigger shortfalls in the spring and summer. However, with feed prices low, producers responded by finishing pigs at heavier weights, so pig meat production was only down 1% for 2014 as a whole. As a result, prices fell back and ended last year close to year earlier levels.

One of the consequences of last year's high hog prices (and low feed prices) was that producers not affected by PEDv experienced positive margins. Many took the opportunity to expand their herds. By December, US breeding sow numbers were up 4% on a year earlier. Coupled with lower PEDv losses this year, this meant that the pig crop between December and May was 9% larger than a year before.

This has had an inevitable effect on production. Clean pig slaughterings in the first half of 2015 were 7% up on the same period last year and 4% above 2013 levels, at a fraction under 55 million head. With feed prices still low, weights have remained around the same, high, level as last year, so pig meat production was also up 7%. Output is expected to remain high for the rest of the year, meaning that the US is set to produce more pork than beef for the first time ever.

Lower hog prices have reduced producer confidence, although reports suggest that margins are still reasonable, given feed prices remain low. This means that producers are scaling back farrowing intentions, which could limit supplies into next year. However, with productivity improving, output may still be level or even slightly higher than this year. As a result, USDA forecasts that prices will remain low through most of next year.

Despite the extra production and lower domestic prices, the strength of the US dollar has made exports challenging since the middle of last year. In the first six months of this year, shipments were down 5% year on year. This was mainly due to a 15% decline in the first quarter, when trade was also disrupted by labour disputes at west coast ports. The recovery in the second quarter is expected to continue and USDA forecasts that, for the year as a whole, shipments will be up 4% on last year.



The slowdown in exports has also affected Canada, even though the Canadian dollar has weakened against the US currency. This was largely due to the loss of the Russian market, Canada's largest other than the US in the first half of last year. It has struggled to find alternative markets for the displaced pork, given the competitive price of EU pork on global markets. Increased shipments across the US border have helped but volumes sent to the rest of the world were down by almost a fifth in the first half of this year.

Canadian hog prices typically follow the US trend but the exchange rate has ensured that price falls since last summer have been less severe. Nevertheless, the Canadian industry is more cautious and there was only a very small expansion last year. Therefore, slaughterings have only been 2% higher so far this year, driven mainly be improved productivity.

The increased production and lower prices in North America inevitably creates more competition for EU exporters on global markets. To date, the strong US dollar has mitigated this but with export prices having fallen so they are now at similar level to those from the EU, competition is likely to intensify. Whether this affects EU prices will depend on how demand develops, particularly in China.