

Commodity Market Outlook

Jim Hilker
Professor and MSU Extension Economist
Department of Agricultural, Food, and Resource Economics
Michigan State University

Market Outlook Reports For January 4, 2018

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After 26 plus years of basically the same format for the Market Outlook, over this next year we are going to change it up a bit, more on this in later issues. In this issue we will concentrate on hogs. First we will discuss the recent Hogs and Pigs Report and then will give a Quarterly Production and Price Outlook for 2018. This is along the lines of the 2018-19 Corn, Wheat, and Soybean Outlook presented in the December issue. And historically was in the February Outlook issue.

On December 22, 2017 the December 1 USDA/NASS Quarterly Hogs and Pigs Report. It is the most comprehensive of the quarterly Report issues through the year, in the sense it report some state information on all the states, versus the 16 states, of which Michigan is one, reported in the other three quarters. The report showed that the inventory of all hogs and pigs was 73.2 million head. This was up 2.4% from December 1, 2016, and a bit higher than the average trade expectation of up 2%.

Breeding inventory was 6.18 million head, up 1.1% from the previous year, December 1, 2016. The average trade expectation was up 0.8%, just under 1%. Sows farrowed in September-November 2017 was 3.11 million head, up 2% from the previous year. Pigs per litter in the same period was 10.74, up 1%. Pigs saved per litter by size of operation ranged from 7.90 for operations with 1-99 hogs and pigs to 10.80 for operations with more than 5,000 hogs and pigs. This made the Sept-Nov 2017 pig crop 33.399 million head, up 3%. These are the hogs and pigs we will mostly see coming to the market Spring 2018.

The market hog inventory on December 1, the total number of hogs headed to market when ready, was 67.051 million head, up 2% from 2016. Market hogs less than 50 pounds were listed at

21.447 million head, up 3%, which matches up with the pig crop above. There were 18.55 million market hogs between 50-119 pounds, up 2% from last year. There were 14.105 million market hogs between 120-179 pounds, up 2%. And there were 12.949 million market hogs over 180 pounds as of Dec 1, 2017, up 2% from 2016. Many of these in the heaviest weight class have already gone to market, but the report indicates slaughter will be up about 25 until spring when we should approach slaughter being up 3%.

Hog producers intend to have 3.07 million sows farrow during the December-February 2018 quarter, up 3% from the actual farrowings during the same period in 2017, and up 5% from 2016. These are the hogs we expect to come to the market next summer, so when you account for an increase in pigs per litter, production would be expected to be up 3.5-4%. Intended farrowings for March-May 2018, at 3.08 million sows, are up 2 percent from 2017, and up 4 percent from 2016. Again, you need to adjust for an increase in pigs per litter to approximate the slaughter anticipated for fall 2018.

Michigan's breeding inventory on December 1, 2017 was 120,000 head, up 10,000 from the same date in 2016, up 9%. Hogs kept for market were up 4%, at 1.06 million head. Michigan's total inventory was up 4% at 1.18 million head. Market hogs under 50 pounds were at 330,000 head, up 10%. Market hogs between 50 and 119 pounds were at 240,000 head, down 9%. Market hogs between 120 and 179 pounds were at 245,000 head, up 11.6%. And market hogs over 180 pounds were at 245,000 head, up 2.1%. We need to fill the new plant in Coldwater. So the increased numbers are a good sign.

Farrow-to-finish hog operations had more up than down months of profitability in 2017, profitable 7 of the 12 months, and negative to near breakeven the other 5 months. Returns were decent the first 9 months, 7 profitable, two negative. But as we went through the last 3 months, profits were just under breakeven. Returns are likely to be mixed in 2018. Starting out around breakeven, then profitable through the middle 5-6 months, before falling off in the fall, given corn prices stay in the projected range.

The following estimates for the hog sector are made in conjunction with the Livestock Marketing Information Center, which I belong to. It is a group supported by Universities to provide efficiencies, ie, less duplication of work by folks such as myself.

Pork production is expected to be up 3.7% in 2018 versus 2017 as slaughter is expected to be up 3.3% with average carcass weights being up 0.4%. Carcass prices for the U.S. are expected to average in the \$66-68 per cwt. for all of 2017, down 3.6% relative to 2017. Our price estimates are in carcass price, National Weighted Average Base (multiply by .76 to have approximate live price projections). These carcass prices are comparable to lean hog futures, generally with a \$0.50-\$3.50 negative basis depending on the contract month.

In the first quarter of 2018, pork production is expected to be up 2.5%, with slaughter being up 2.2% and average carcass weights being up 0.2%. Carcass prices are expected to be \$64-67 per cwt, down 3.9%. In the second quarter of 2018, pork production is expected to be up 3.8%, with slaughter being up 3.2% and average carcass weights being up 0.5%. Carcass prices are expected to be \$69-73 per cwt, down 0.2%. In the third quarter of 2018, pork production is expected to be up 3.5%, with slaughter being up 3.1% and average carcass weights being up 0.4%. Carcass prices are expected to be \$70-75 per cwt, down 4.3%. In the fourth quarter of 2018, pork production is expected to be up 5.0%, with slaughter being up 4.6% and average carcass weights being up 0.4%. Carcass prices are expected to be \$55-61 per cwt, down 8.7%.

Despite the Hog and Pigs Report showing a few more hogs, but not particularly more hogs on the way than expected, hog futures initially gained after the report. If you look at lean hog futures as I write in early January, they generally point to a bit higher prices than our fundamental analysis above shows.