Daily Livestock Report

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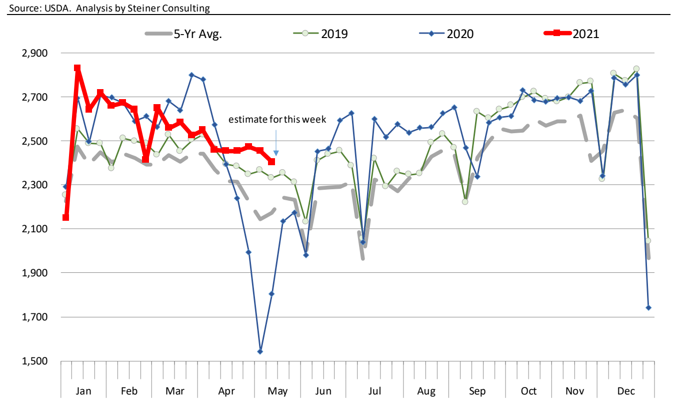
<u>Hog supplies in the cash market remain extremely tight and this is reflected in the prices paid in the open market</u>. The average national negotiated carcass price (LM_HG200) yesterday was $115.6/cwt, slightly lower than the previous day but still as much as 4% higher than the previous week and **<u>18% higher than a month ago</u>**. It should not be a surprise that hog supplies are tight going into the summer. It has happened just about every year going back decades. Last year was an aberration, with hog supplies (and slaughter) increasing in June and July. COVID related plant closures resulted in hogs getting backed up and then processed when plants came back online. Indeed, one could argue that **<u>hog supplies coming to market in the last few weeks are a bit higher than one would have expected based on the USDA survey</u>**. We think slaughter this week may be around 2.4 million head. Using that number, hog slaughter in the last four weeks has averaged 3.8% higher than the comparable four week period in 2019 (we leave 2020 comparisons out due to COVID skewing the data). Looking at the inventory survey from March, the supply of hogs in the 120-179 pound category was 2% lower than in 2019. Is the survey really that far off? Maybe and maybe not. Probably a better way to look at things is to compare the inventory of the two market hog categories: +180lb. and 120-179. The March survey had the number of hogs in these two groups at 28.151 million, +1.4% vs. 2019. Weekly hog slaughter since the first week of March has been a total of 24.910 million, 2.5% higher than last year. So while the supply is a bit higher, it is not that far off. One could argue that strong pork demand is causing packers to pull some supply forward in order to fill orders from retail and food service customers. While this may have caused some margin erosion, in the short term the packer is looking to keep customers happy. After all, it was not that long ago when packers would recognize that negative margins in Q2 were par for the course, offset by better margins in Q3 and Q4. One indication that we may be seeing some hogs being pulled forward is the decline in hog carcass weights. According to our calculations, carcass weight of producer owned hogs are down 2 pounds or 0.9% in the last month and they are also 1.5 pounds lower than the same period in 2019.

<u>Another issue that needs to be addressed has to do with regional hog prices</u>. It is clear that hog supplies are tight in the Midwest, evidenced by the widening spread between the national hog carcass price and the average price of IA/MN hogs. The chart to the right shows the spread since 2015. To remove some of the noise we have calculated a five day moving average. For May 5, the average price of IA/MN hogs on a negotiated carcass basis was $121.5/cwt, up $1.63/cwt from the previous day and almost $6/cwt higher than the national average. USDA did not report hog prices for the Eastern Cornbelt due to confidentiality issues but it is clear that prices there are far lower. While this may not be of significant concern to market participants that focus on pork prices (e.g. meat buyers) it is especially important to hog producers, especially those that use the national price as base in their formula calculations. We think recognizing the spread of local prices to the national price is always important, but especially now.

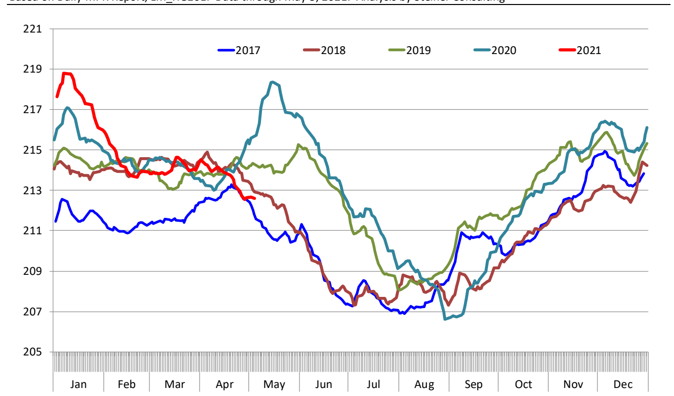
WEEKLY HOG SLAUGHTER. '000 HEAD

Source: USDA. Analysis by Steiner Consulting



Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through May 5, 2021. Analysis by Steiner Consulting



Price Spread of IA/MN Lean Hog Carcass vs. National Lean Hog Carcass. 5-Day MA.

Negotiated Carcass Price, Wt. Avg. Data Source: USDA-AMS. Analysis by Steiner Consulting