Daily Livestock Report

Sponsored in part by CME Group

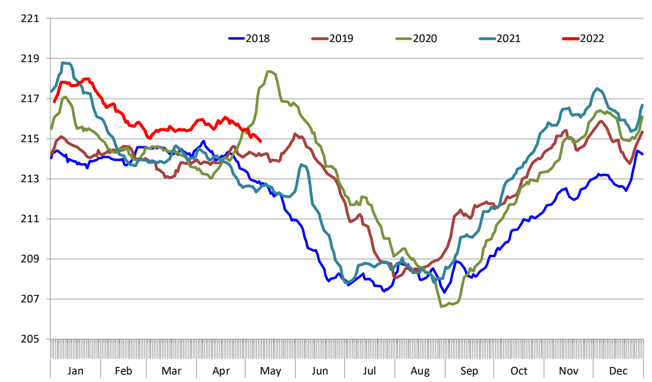
Vol. 20, No. 89, May 12, 2022

There has been a fair amount of discussion in the market recently about demand. While workers have seen an increase in their pay, **the spike in inflation has eaten away all of those gains and then some**, a real time lesson in economics for those that think you can increase pay without an increase in productivity. **Real per capita disposable incomes in March (latest data) were 0.4% lower than the previous month and they have been lower on a m/m basis since August of last year**. Last year the helicopter money drop caused a spike in per capita incomes and compared to that disposable incomes this year are down 20%. Looking only at the supply picture has the potential to create blind spots, but the challenge with any analysis of demand is that it is difficult to do in real time. Per capita income has always been a key driver of meat demand and recent declines are an important indicator that we cannot count on the same level of demand this year as what we saw in 2021.

But **in the case of pork even the supply picture has not been as tight as previously thought**. In part this may be due to the imbalances created by early spring expectations. In early April June lean hog futures traded between $114-$118/cwt while the index was at around $102-$103/cwt. The wide spread likely caused some producers to delay marketings. Talk of tight supplies appears to have incentivized packers to put more weight on their hogs in an effort to bolster supply going into the spring and early summer. We would argue that packers are better suited in doing that because they don't have to discount their own hogs for being over weight. The results of those efforts are clear in the second chart to the right. **The average dressed weight of packer owned barrows and gilts in the five days ending May 10 was 225.4 pounds, 2.9% higher than the same period a year ago**. It is quite telling that average weight of packer owned barrows and gilts is now just shy all time record levels set in the fall of 2020 when hogs were backed up due to COVID disruptions. The average weight of producer owned hogs was heavy in the second half of April, possibly due to the imbalance created by taking advantage of that June premium. At the time weights of producer owned barrows and gilts were running about 1.3% higher than a year ago. Weights have declined recently as the pace of slaughter has picked up but in the five days ending May 10 average weight was about 214.9 pounds per dressed carcass, 1% higher than a year ago. While the weight of producer owned hogs tends to be more of a focus because those are the hogs trading in the market, from a supply perspective the weight of packer owned hogs matters quite a bit. So far this year USDA reports that over 44% of all the hogs in the market were either hogs directly owned and slaughtered by packers or owned by packers but then sold to other packers for processing. That supply is about 15 points higher today than it was 15 years ago, with much of the increase taking place in the last few years as a result of packer/producer partnerships. Average weight of all barrows and gilts is now about 1.8% higher than a year ago. And hog slaughter last week was pegged at 2.414 million head, 0.8% higher than a year ago. **Demand is clearly a factor in this market but don't forget the increase in supply we have seen in the last couple of weeks, with weights offsetting a some of the lower hog numbers**.

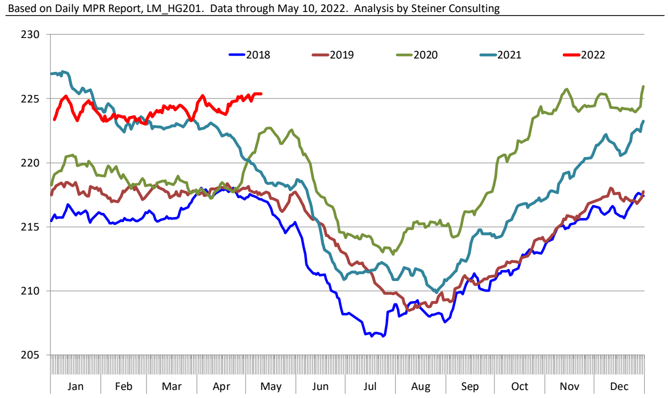
Barrow/Gilt Dressed Carcass Weights, 5-day Moving Avg. - Producer Hogs

Based on Daily MPR Report, LM_HG201. Data through May 10, 2022. Analysis by Steiner Consulting



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

Based on Daily MPR Report, LM_HG201. Data through May 10, 2022. Analysis by Steiner Consulting



Producer Hogs Sold on a Negotiated Basis vs. Packer Hogs (Sold/Owned)

Data Source: USDA-AMS. Analysis by Steiner Consulting