Our Pork Is Dramatically Undervalued! Price Boom Coming!

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Pork is cheap in the U.S., but it is "dirt cheap" for many of our foreign buyers since the strength of their currencies effectively lowers the price even more. Pork is at bargain basement prices when you realize that U.S. producers are producing and selling hogs at huge losses. In essence, U.S. producers are providing huge subsidies to U.S. and foreign consumers. Why wouldn't the world's pork buyers be banging at our door for these bargains? Why would foreign pork producers want to try to compete with U.S. producers? All this indicates that U.S. pork prices will explode to the upside like other commodities have done. The question is when?

First, let's start with cheap domestic pork. Retail prices of pork have averaged $2.85 per pound so far this year compared with $2.87 for 2007. My estimates are that pork producers have contributed to the lower pork prices with about $1.4 billion of losses in the first-half of 2008 alone. The cheap U.S. dollar relative to currencies of other countries with which we trade pork should stimulate exports and reduce pork imports. That is exactly what is happening. For the first four months of 2008, pork exports have expanded by 52 percent and imports have dropped by 12 percent.

Trade is accounting for a substantial portion of the record pork production in the U.S. In the first four months of 2008 commercial production was up 11 percent, yet when trade was considered, the amount of pork available to U.S. consumers was only up 6 percent. That is to say that additional trade has accounted for about 5 percent of all the added pork production in early 2008. More importantly, the export parade is just getting rolling as pork exports reached a record 22 percent of U.S. production in April. This was up from a mere 14 percent for all of last year.

Where is all that pork going? The answer is almost everywhere as the world has discovered one of the last food bargains on the globe. About one-half of the higher exports this year compared to the same period last year are headed to China and Hong Kong (most likely transshipped to China). Exports to most other major buyers are up as well, with Japan up 14 percent, Russia up 58 percent and Canada up 27 percent. It is becoming clear that the world will continue to buy up the huge U.S. production until pork prices move sharply higher. Maybe the U.S. consumers can't eat all of the U.S. produced pork at profitable prices to producers, but the world can.

So how much pork is there going to be? First, consider the June flooding and the subsequent movement of corn prices from the $6.00 level to $7.00. The bleakness of the outlook surely has convinced more sow slaughter. The latest Hogs and Pigs report from USDA shows the breeding herd down about 1 percent with farrowing intentions to drop by 2 percent this summer and then be off 4 percent this fall. Both of those declines will likely be larger since the USDA survey was taken before the June flooding. Another 2 percent drop would put the summer farrowings down 4 percent and fall down 6 percent-some serious declines. Slaughter supplies will be up by about 10 percent in July, and then the percentages will begin to drop, with 6 percent higher supplies in August and 4 percent more in the fall. Winter slaughter supplies could finally be down by 3 percent and spring 2009 supplies could be down as much as 5 percent.

So when does the boom in pork and hog prices come? Based on projections of U.S. slaughter supplies, prices will improve very late this fall and winter and go wildly higher by next spring and summer. When one adds the trade boom, this advances the price escalation. Trade data lags about two months so we are always slow to see those impacts. Trade will likely continue to accelerate and this will encourage even stronger prices than the supply reductions expected for late this year and 2009.

The movement upward has begun for cattle, where prices have been up nearly $10 per hundredweight in the last three weeks. Given the coming declines in pork supply and the more than vigorous export growth, hog prices should not be far behind. If U.S. consumers don't want to buy up the last of the cheap pork, the world is anxious for the opportunity.

The issue for individual pork producers is whether they can hang on long enough for hog prices to catch up with costs. Expectations now are for live hog prices to trade in the lower-to-mid $50s for this summer and fall then move into the low $60s by winter and on to the higher $60 to mid $70 by next spring and summer. Given prices of corn and soybean meal on July 7, costs of production for farrow-to-finish producers is estimated to be in the low $60s.

The extraordinary losses of 2008 may be offset by extraordinary profits in the last-half of 2009 and 2010. This will especially be true if CRP land is released in 2009, if ethanol receives less support, if 2009 weather is favorable, and if crude oil prices don't keep moving higher. There are still plenty of uncertainties and most won't feel relieved about "better times" until they arrive. Δ

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