

NPPC Economic Update

Q3 2023



Pork Industry Snapshot

The United States is a worldwide leader in pork production. An estimated 66,000 pig farms raise 140 million market hogs and produce 27 billion pounds of pork annually. As the global voice for the U.S. pork industry, the National Pork Producers Council (NPPC) represents the interests of pig farmers and 42 state pork associations, standing as a pillar of the U.S. economy through the production of affordable, nutritious protein. This quarterly update provides a snapshot of top pork industry issues, current trends, and market conditions impacting pig farmers.

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Proposition 12: What does it mean for pork producers?

California Proposition 12 presents significant challenges for U.S. pig farmers and has far-reaching implications beyond the pork industry.

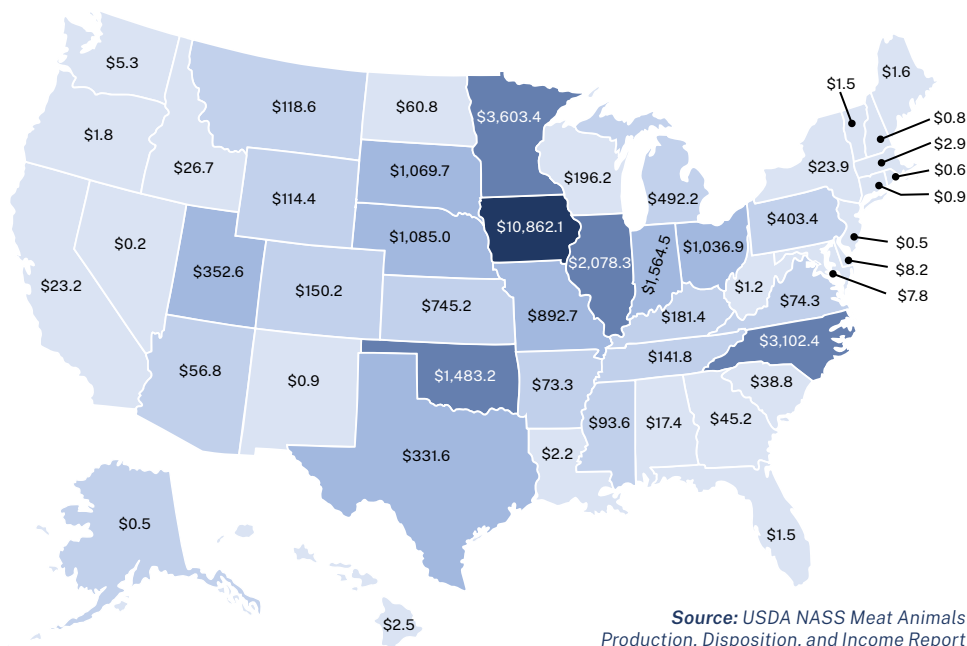
The Facts:

In May, the U.S. Supreme Court upheld California Proposition 12, a ballot initiative prohibiting the sale of whole, uncooked pork meat not produced according to the state's new standards – which require a minimum 24 square feet of space for breeding pigs and eliminate the use of individual pens that can protect sows when they are most vulnerable. This is significant for pork producers across the country because:

- California's population of nearly 40 million people is equal to 12% of the U.S. population.
- After accounting for different consumption patterns across ethnic groups, California accounts for about 13-15% of domestic pork consumption, which equates to roughly 10% of U.S. production.
- California pig farms make up less than 0.1% of U.S. pork production.

The cost of constructing Prop. 12-compliant barns is at least \$3,400 to \$4,000 per breeding pig (sow), based on average estimates from building contractors and producers. This is about 25% more expensive than conventional group housing and 40% more than individual stall housing with the same number of animals.

Annual Value of Hog Production (million dollars)



Source: USDA NASS Meat Animals Production, Disposition, and Income Report

Proposition 12: What does it mean for pork producers? (continued)

Why It Matters:

The Supreme Court's decision sets a precedent that could result in a patchwork of 50 different state regulations. The burden of complying with California's regulations will fall on pig farmers outside the state, and increased costs will likely lead to much higher pork prices for consumers. Many farms do not have the capital available to make costly

investments, especially in the midst of high production costs and other financial pressures. Prop. 12 threatens to drive small- and medium-sized producers out of the market while disrupting the entire pork supply chain. NPPC is actively seeking a federal solution to the issues posed by Prop. 12, and additional information can be found [here](#).

Hog prices experience seasonal increases; profit outlook remains a significant concern

Hog prices have gained momentum in recent months but remain lower than last year. High production costs continue to present a major challenge for producers.

The Facts:

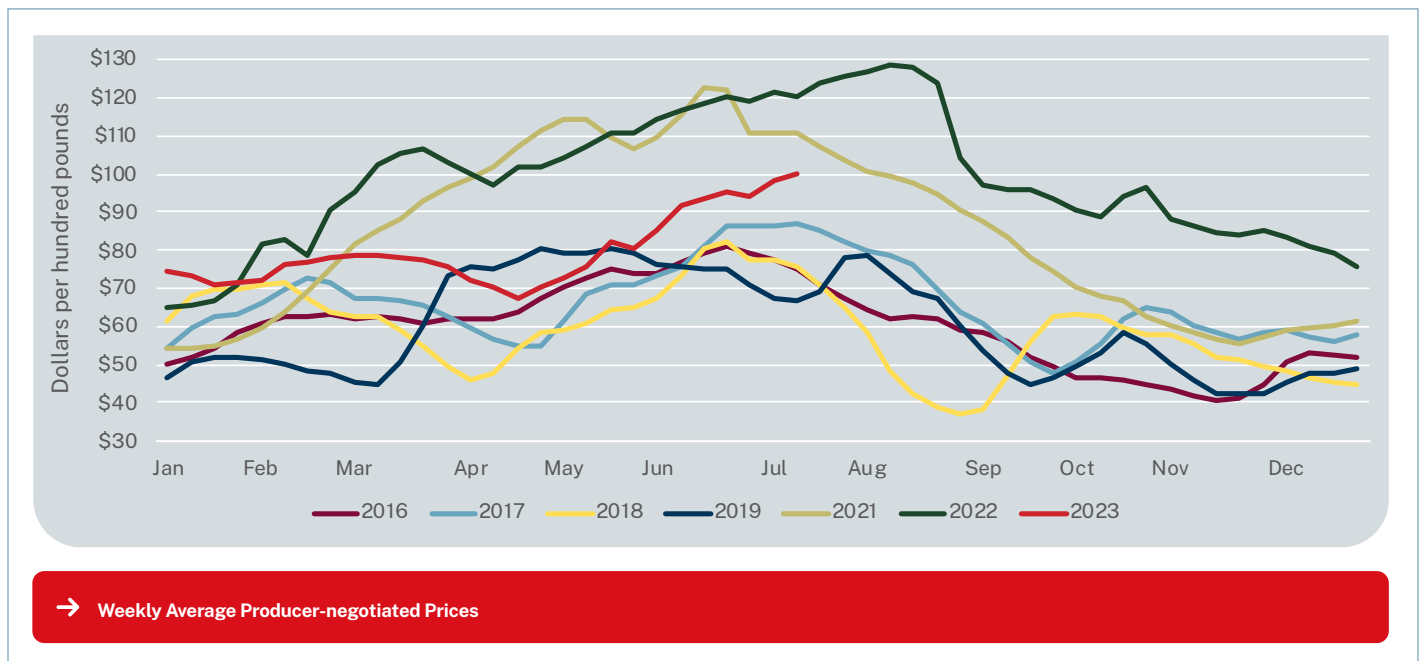
[Weekly negotiated hog prices](#) have increased by more than 30%, or about \$25 per hundred pounds, over the past two months. However, the weekly average price for mid-July was \$20 below the same week in 2022. In eight out of the last 10 years (excluding 2020), average negotiated hog prices have peaked between June and August before dropping an average of 30% over the subsequent three months.

Estimates from [Iowa State University](#) show average production costs and breakeven price levels for hog producers increasing 9% from 2022 and 60% over the last three years. Feed costs have increased 70% and fixed and nonfeed variable costs (e.g., labor, transportation, utilities) are up 50% while operating interest expenses are up 28% since 2020.

Why It Matters:

Hog prices typically follow seasonal patterns with annual highs experienced in the summer and lower prices in the fall and winter. While prices are higher now than three months ago, record-high production costs will continue to put significant pressure on producer margins.

[A recent World Agricultural Supply and Demand Estimates \(WASDE\) report](#) shows greater production and lower prices of corn and soybean meal expected for the 2023-2024 crop year, which could provide some relief to hog producers, though markets continue to be heavily dependent on U.S. crop progress and weather. The effects of Prop. 12-related market disruptions remain a major source of uncertainty for hog and pork markets in the months ahead.



→ Weekly Average Producer-negotiated Prices

Source: USDA Agricultural Marketing Service

Recent inventory report reflects productivity growth and future intentions

A recent [USDA Hogs and Pigs report](#) shows that productivity improvements will likely result in more market hogs this fall, while farrowing intentions indicate pessimism about future profit opportunities.

The Facts:

According to USDA National Agricultural Statistics Service, market hog and breeding herd inventories in June were similar to year-ago levels. The report showed that, as of June 1, 2023:

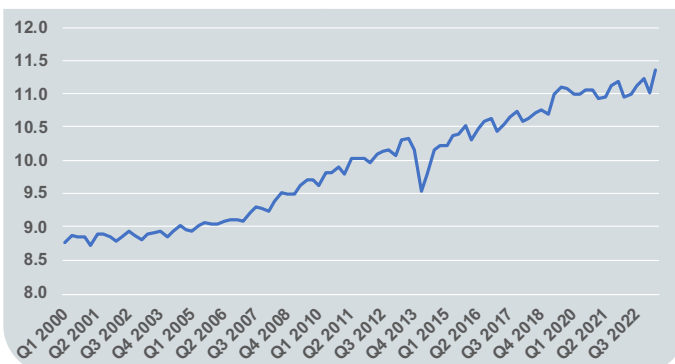
- The breeding herd totaled 6.15 million, down 0.4% from 2022.
- Market hog inventories were estimated at 66.26 million, up 0.2% from 2022.
- The number of piglets saved per litter was 11.36, a new record.

Despite reports of fewer sows farrowing, the 3.3% increase in pigs per litter resulted in a March-May pig crop that was 0.8% larger than last year. Looking ahead, producers intend to farrow 3.9% fewer sows from June to August and 4.5% fewer sows from September to November compared with the same periods in 2022.

Why It Matters:

A higher-than-expected pig crop implies that more hogs will be harvested in the fourth quarter, which typically sees

the greatest availability of market hogs already. While the estimated breeding herd increased from March to June 2023, producers indicate they plan to have fewer sows farrowing in the months ahead, which would reduce hog and pork supplies in the first half of 2024. These intentions may reflect decisions to cut back on production in response to a negative profit outlook.



→ U.S. Pigs Per Litter

Source: USDA NASS Hogs and Pigs Report

Pork production levels within 1% of last year

After two years of decline, pork production has increased in 2023, but modest year-to-date growth cannot fully explain the decline in hog and pork prices this year.

The Facts:

Weekly [reports from USDA Agricultural Marketing Service](#) show that year-to-date hog slaughter is up 1.2% compared with the same period in 2022, while pork production is up just 0.3%. Reports also show that:

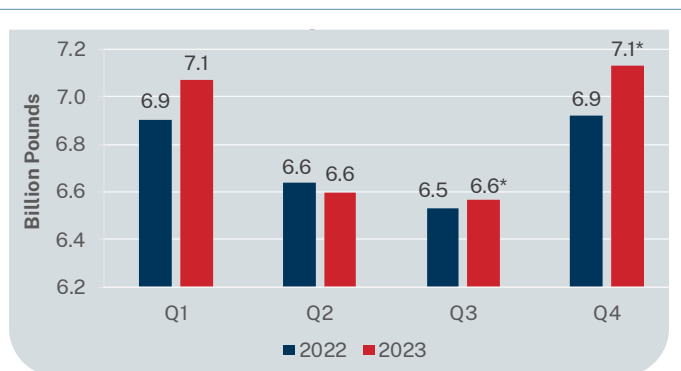
- Hog slaughter increased 0.5% for Q2 compared with 2022.
- From mid-May to early July, average dressed weights dropped by 6 pounds.
- Pork production was down 0.6% for Q2 compared with 2022.

[Current USDA projections](#) are for 0.6% pork production growth in Q3, 3.0% growth in Q4, and 1.4% growth overall for the year. After accounting for imports, exports, inventory change, and population, domestic pork availability is expected to drop 2.5% to 49.8 retail pounds per capita for 2023.

Why It Matters:

Excluding last year, USDA's pork production forecast of 27.4 billion pounds for 2023 would be the lowest production since 2018. On average, weekly negotiated hog and

wholesale pork values have been about 20% lower than last year. This drop cannot be solely explained by the modest year-to-date growth in pork production and implies that other factors, such as a pullback in consumer demand, have played a large role.



→ Quarterly U.S. Pork Production

*Indicates USDA Forecast

Source: USDA World Supply and Demand Estimates

Strong consumer demand critical to producers' bottom lines; many factors at play

Demand is a key driver of producer prices. Several factors, including consumer incomes, price, and availability of other meat proteins, along with consumer preferences, determine retail pork demand.

The Facts:

According to data from the [Bureau of Economic Analysis](#), real disposable incomes experienced year-over-year declines for 16 consecutive months between September 2021 and December 2022 in the absence of COVID-19-related stimulus and amid 40-year-high inflation rates.

The most recent [Consumer Price Index \(CPI\)](#) report shows that inflation cooled to 3.1% in June, though the prices of many consumer necessities continue to increase more rapidly than the pre-pandemic average.

- Food prices are up 5.7%.
- Housing prices are up 6.3%.
- The price level for all goods, excluding food and energy, rose 4.9%.

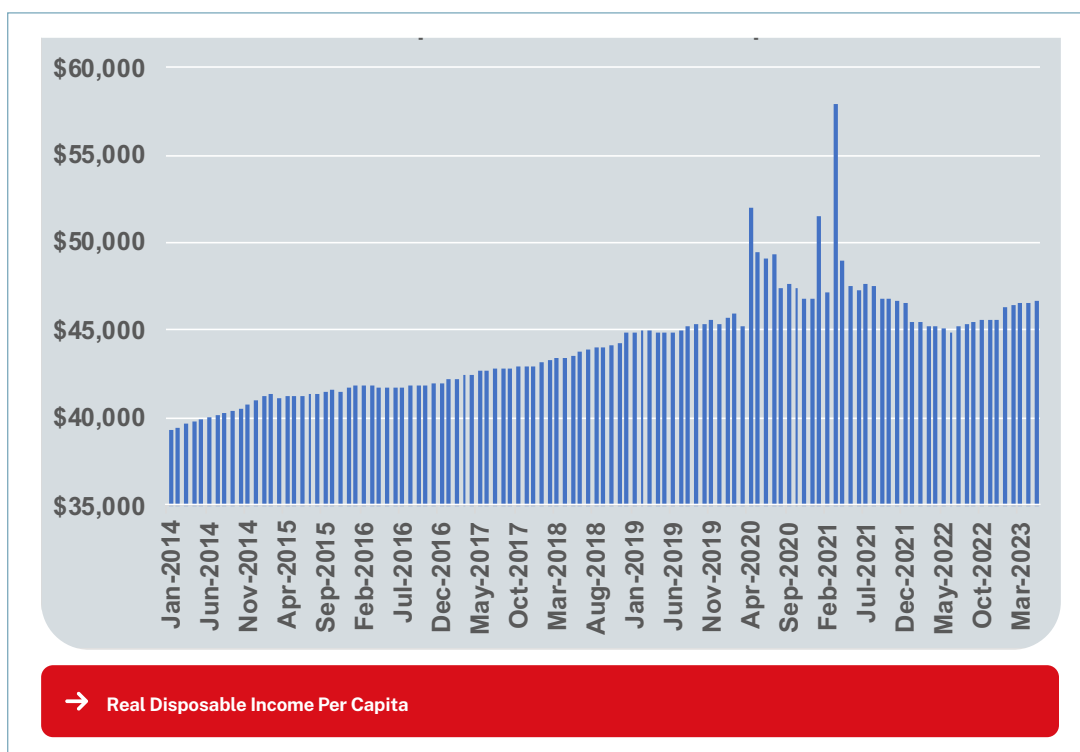
[Retail prices](#) for pork have declined by 5.0% over the past 12 months, while beef prices are up 6.2% and broiler prices are up 2.0% from June 2022. Excluding 2020, the relative

price ratio of beef to pork is at its highest level in more than 20 years, and the broiler-to-pork ratio is at its highest since 2015.

A recent [WASDE report](#) forecasts per-capita availability of beef to fall by 10.8% from 2023 to 2024, with total red meat and poultry availability declining by 2% next year.

Why It Matters:

Consumer pork demand has retreated from historically high levels, which has contributed to lower wholesale pork and hog values this year. Looking ahead, higher relative prices of other proteins compared with pork could help boost demand, though the impact of consumer tastes and preferences is an important factor that remains difficult to measure. Real disposable incomes have been recovering slowly since the beginning of 2023, but inflation, rising interest rates, and other economic pressures may continue to strain consumer purchasing power.



Source: U.S. Bureau of Economic Analysis, Compiled by Federal Reserve Bank of St. Louis

Sources

- USDA ERS Meat Price Spreads
- USDA WASDE
- USDA AMS Estimated Weekly Meat Under Federal Inspection
- Iowa State University Extension Estimated Livestock Returns
- Bureau of Economic Analysis Real Disposable Income Per Capita
- USDA NASS Hogs and Pigs Report
- U.S. Bureau of Labor Statistics
- BLS Consumer Price Index
- USDA AMS Market News (compiled by LMIC)

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Contact **Holly Cook**

NPPC Economist | cookh@nppc.org