



## Q4 2024 OUTLOOK

# Pork Production Trends: What to Expect in Q4

By Dave Weaber

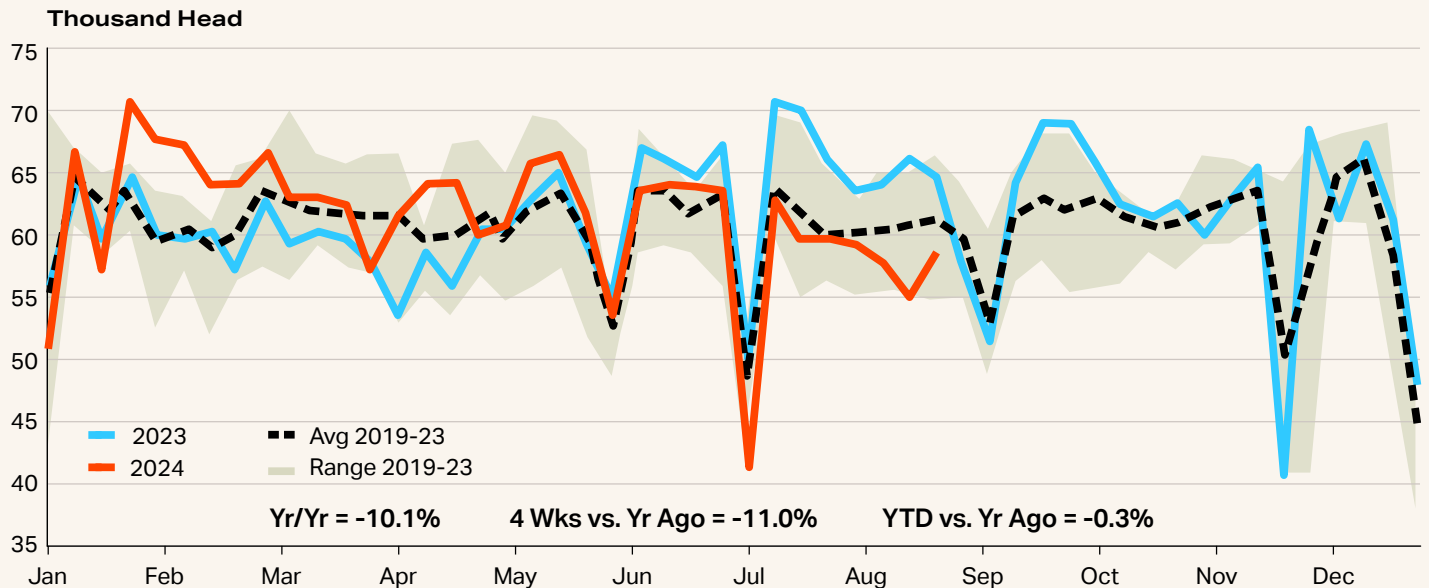
The industry has seemingly put the brakes on herd reduction and more market-ready pigs are finding their way to slaughter than I and other analysts expected. Given a number of risks, continued gains in sow productivity, and the current price outlook for Q4 2024, operations may have decided to take the foot off the pedal too quickly.

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Gilt retention (or lack thereof) and, to a lesser degree, sow productivity appear to be the two key production factors that will set the course for the industry for the foreseeable future. After operations made progress reducing sow numbers to right-size the breeding herd from January to June, the recent five-month-long string of modestly positive farrow-to-finish margins has resulted in a sharp decline in sow slaughter, down 11% year over year (YOY) in July (see Chart). Now sow slaughter has returned to the previous five-year average.

Since the June 1 Hogs and Pigs report, the industry has slaughtered about 2.9% more barrows and gilts on a weekly basis versus a year ago. This outpaced the growth in the USDA's reported December-February pig crop by nearly 1%. Average slaughter weight data came in heavier than a year earlier, so the idea of animals going to slaughter early doesn't factor into the equation.

## Chart: Federally Inspected Sow Slaughter



Sources: USDA AMS, Terrain

The September USDA Hogs and Pigs report will provide more clarity, but if gilt retention since June continued at a normal pace, then I could say sow herd reduction has all but stopped.

Any upward revision to the pigs per litter for the March-May pig crop could mean we are underestimating supplies and potentially overestimating prices and margins. Hopefully the extra 1% increase in barrow and gilt slaughter for the summer versus the December-February pig crop estimate was gilts going to slaughter with a positive margin, versus being retained for the breeding herd.

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I expect inventories of available slaughter hogs to grow seasonally into Q4 2024 and exceed year-

ago levels by 1.5% to 2%. Continued gains in sow productivity (pigs per litter) are likely to offset the declines in actual sow numbers.

Whether the packing industry will be interested in the number of hogs coming to market will be questionable. More shifts and large Saturday kills will be required to accomplish these production levels as capacity continues to shrink. The closure of the Tyson facility in Perry, Iowa, reduced industry capacity by about 1.6% this year, adding to reductions caused by the closure of two large plants last year. Strong domestic and international demand will be required to produce packer profits that could incentivize such large slaughter totals.

Slaughter hog prices could trade in the low-\$70s/cwt by the end of the year. This puts prices for producer-sold barrows and gilts for the quarter about \$5/cwt lower than our previous forecast, pushing weekly farrow-to-finish margins into negative territory for all but the first few weeks of October.

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## CAN DOMESTIC DEMAND AND TRADE RATIONALIZE BREEDING HERD TREND CHANGES?

Stronger-than-expected summer demand for loins in the U.S. and strong export demand for hams going to Mexico provided a light tailwind to U.S. cut prices. Prospects for a better and more seasonal fall run for shipments to South Korea are on the horizon. Despite a rumored 4 million-head or larger reduction in the Chinese sow herd and strong producer profitability, I don't expect China will increase purchase volumes of U.S. pork to any large degree over the next several months. The results of the U.S. presidential election and potential tariff actions could reduce the prospects for sales to China even further.

Iowa State University's reported estimated returns to farrow-to-finish operations continued to show profits from April through July. I expect that August and September data will also reveal profits of similar but likely lower levels, putting the six-month average profits between \$13.50 and \$14 per head marketed.

## PRICE FORECAST

I expect that Q4 2024 prices for producer-sold barrows and gilts will range from near \$85/cwt early on to \$65/

cwt to \$70/cwt at year's end. This puts the forecast quarterly average prices for barrows and gilts in a range of \$76/cwt to \$79/cwt and nearly even with the price achieved during Q4 2023.

Futures prices for the October, December and February contracts suggest average losses for the quarter could range from \$15/head to \$25/head, using the Iowa State University assumptions. This forecast for margins is \$15/head to \$20/head below my previous estimate despite lower projected break-even prices driven by lower grain costs.

I forecast Q1 2024 slaughter hog prices to average \$76/cwt to \$78/cwt and trade in a near-normal range of \$69/cwt to \$83/cwt. Current margin projections for the quarter are for losses in the \$8/head to \$18/head range.

I project the pork cutout to be seasonally rangebound with near-term highs in the \$93/cwt to \$95/cwt territory and support in January and February in the low to mid-\$80s/cwt. Three key drivers could cause product to trade outside these bounds, most likely near the bottom of the range: further strengthening of the U.S. dollar hurting trade, an economic downturn in the U.S., or further macroeconomic weakening among our trade partners.

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## ABOUT THE AUTHOR



**Dave Weaber** is Terrain's senior animal protein analyst. His career analyzing the animal and meat production business has spanned many sectors of the meat supply chain and has included the beef, pork and poultry industries. Dave earned his B.S. and M.S. in animal science and ruminant nutrition from Colorado State University.

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