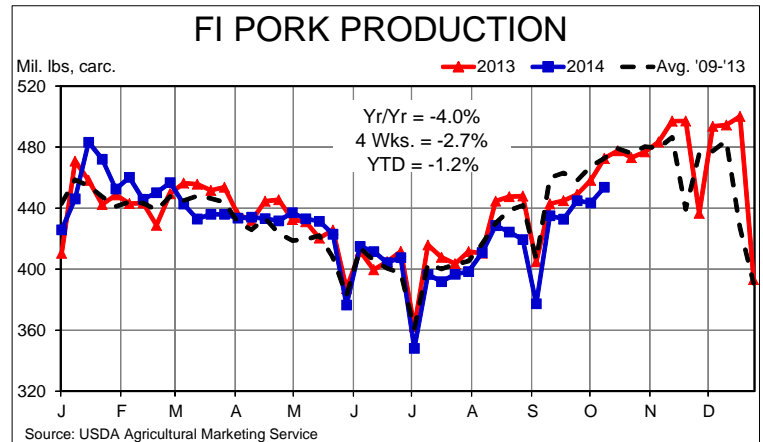
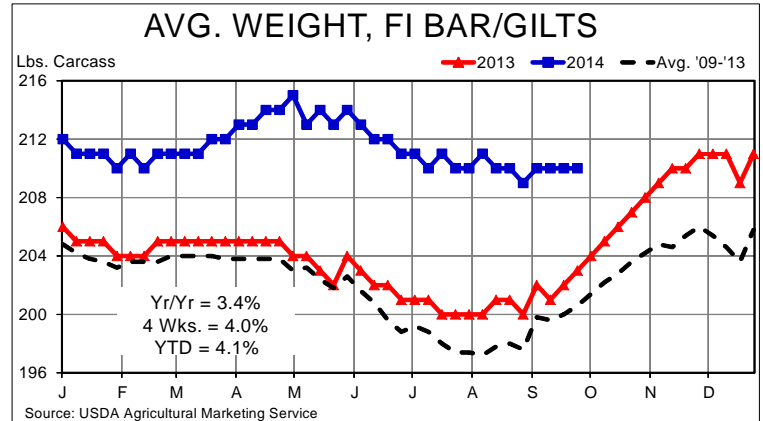


There are several reasons that pork prices have staged a major counter-seasonal rally over the past few weeks but perhaps the most important one is the lack of a normal seasonal increase in slaughter weights. It's not that slaughter weights have fallen in order to restrict supplies to any significant degree but they have certainly not increased in a normal seasonal manner thus restricting supplies relative to what they would normally be. Further, the lack of a seasonal increase in weights this year has removed a key variable that has kept pork output even resembling normal in the face of large pig losses to porcine epidemic diarrhea virus or PEDv.

First a bit about the levels and seasonal patterns of market weights. U.S. hog weights have been trending upward for the past 60 years. Our data indicate that the average carcass weight in 1954 was just 129 pounds. In 2013 it was 206 pounds and will likely be near 212 in '14. The only times during that 60 years in which carcass weights have not grown steadily were the few periods of sharply higher grain prices — the mid-1970s, 1995-96, 2007-08 and 2012. In addition, there are very few production variable that have as predictable a seasonal pattern as do weights. The summer decline and fall increase are driven primarily by the impact of heat on feed intake levels and thus growth rates in summer months and then the lack of heat and more palatable fresh corn in fall months. Last fall saw an unusually large increase in slaughter weights since feed became MUCH cheaper as well, adding profit margin to the factors enhancing weight gains and thus end weights.

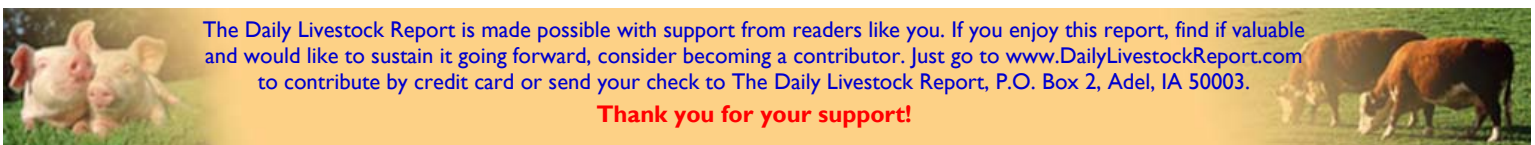
As can be seen at right, FI pork production did a remarkable job of keeping up with the levels of 2013 through June. In fact, as of the week ending July 4, FI pork production was even with one year earlier while FI hog slaughter was down by 3.6%. The difference, of course, was hog weights which increased sharply in March and April. We need to remember that the number of pigs in finishing barns is a stock that is fed by an inflow of weaned pigs and depleted by an outflow of market hogs. The inflow of weaned pigs began to slow sharply during the fall of 2013 as PEDv spread to more and more sow units. By spring, outflow number began to be restricted and price started upward providing a strong incentive to feed pigs longer and add pounds to fill the void. The roughly four pound increase in average hog weights during March and April was driven by monthly slaughter totals that were 6.9% and 5.4%, respectively, lower than one year earlier. Weights remained roughly 10 pounds (nearly 5%) larger than in 2013 through mid-August but ceased filling the year-on-year slaughter reductions in early July. Pork production has been below year-ago levels every week since August 8. Last week's output was down 4% on 6.4% lower slaughter and only 2.4% higher weights than one year ago.

This is now a balancing act between the number of pigs being pulled from finisher barns for slaughter and the weight of those pigs. On the one hand, packers need pounds of pork and would like the pigs to bring as many pounds as possible. But on the other hand, they need numbers of hogs to keep plants operating at reasonably-efficient throughput



levels. Given the stock of pigs, increasing numbers means pulling down weights while pushing up weights means pulling down numbers. And higher hog bids over the past few weeks suggest that the "number of hogs" variable is winning, at least for the moment.

There are a few other factors impacting the weight picture. One is a late harvest and thus less availability of that fresh corn that plays a role in higher fall weights. That situation likely got worse with this week's rains in much of Iowa. Second, we are now into pigs born past the worst of last winter's PEDv cases but it appears that the stock of market hogs may be tighter than the most recent USDA report suggested. Slaughter the past two weeks has been 2.7% below our forecasts. Finally, retailers continue to rail against the larger cuts from these record-large animals. Their concern is package cost when they put a set number of pork chops or pork steaks in a tray-pack. Or the total ring value of a whole ham or today's much larger whole Boston butt. Production and packing economics will almost surely trump those concerns until they are manifested in lower consumer demand for pork. Is that risky path almost unavoidable?



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