Make Informed Decisions
KevinGrier
Market Analysis and Consulting Inc.

79 Pheasant Run Drive
Guelph, Ontario
N1C 1E4

T 519 823 9868
C 519 240 8779
E Kevin@KevinGrier.com
KevinGrier.com

Ongoing Turmoil in the Eastern Canadian Hog and Pork Industry

The Olymel Princeville plant is expected to stop slaughtering hogs on March 24. That plant has a capacity of 2,700 per day and has been regularly harvesting about 2,500-2,600 this year. Total annual slaughter there would be about 650-670,000. Olymel previously announced plans to cut Quebec slaughter by 1,250,000 head. Princeville is only about half the total. As noted in the November 29 edition of Canadian Pork Market Report, Olymel's slaughter reduction decision is based on a lack of labor. The company is trying to balance its hog slaughter capacity with its ability to add value to the cutout.

The 1,250,000 reduction was likely the rough equilibrium of production, labor and revenue needed to make operations more sustainable. Last year was a comparably poor year for Canadian packers. I expect that Olymel's 2021 in Quebec was very poor. That inability to add value made a bad situation much worse. A reduction of that magnitude is a huge strategic move and is counter to every operational instinct for packers. It shows the gravity of the situation. Within that context, Princeville will still be operating, but the skilled staff and labor will be utilized to add value to production from other operations. It will be used to finalize what some of the other plants cannot complete.

Major Blow to Ontario

Olymel had originally planned to get to that 1,250,000 total by a 750,000 reduction from Quebec and 500,000 from Ontario. That was until the Quebec marketing regulatory body, the Regie des marchés agricoles et agroalimentaires du Québec, told them that it had to be 530,000 less from Quebec and 720,000 less from Ontario. The Regie decision means that instead of a reduction of 10,000 per week from Ontario to Quebec, it will now be 14-15,000 less.

In any event, the reduction of 1.25 million head is a major negative for hog farmers, regardless of where it is from. It is a particularly bad blow for Ontario producers, whether 10,000 or 15,000.

Unsustainable Marketing Model

In normal times, (i.e., prior to 2020 & 2021) Ontario hog farmers shipped about 25-30,000 market hogs a week to Quebec packers. The overwhelming majority go to Olymel. During non-holiday weeks in 2021, not counting the period of the Vallee Jonction strike, Ontario producers moved 14-17,000 on average.

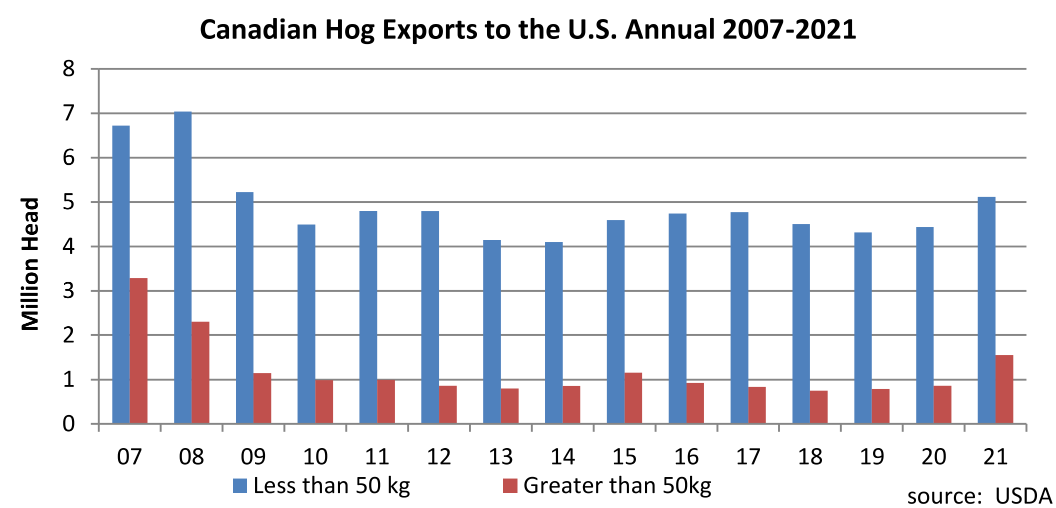
In recent years prior to 2020, Quebec hog slaughter is usually about 8.5 million a year. I estimate Olymel would be around 6.5 million of that total, give or take. Of that Quebec total, about 1.3 million would come from Ontario. If Olymel is going to reduce harvest by 1.25 million, its annual harvest would ratchet back to just over 5 million.

In the abnormal years of 2020 and 2021, Ontario and Quebec producers were forced to move hogs west. Olymel likely moved the vast majority of the hogs west, taking on the transport and price burden. In 2020, 175,000 hogs moved from Ontario to Alberta, Saskatchewan, and Manitoba (100,000). Quebec shipped almost none west in 2020. In 2021, 115,000 Ontario hogs went west, and Quebec shipped nearly 180,000. While those hogs are needed in the west, particularly at Brandon, most would agree that given the distances, it is not a sustainable marketing model.

History of U.S. Marketing

In addition to the volumes going west, there were also big increases going south in 2020 and 2021. It is also likely that the majority of those were also moved by Olymel, at great financial burden. The question is whether marketing hogs from central Canada to the U.S. makes long term sense.

As noted here previously, the trade in market hogs was effectively eliminated by the U.S. Country-of-Origin Labeling (COOL) law, 2008/2009. Even though Canada and Mexico won the World Trade Organization case to disband COOL in 2015, the trade in market hogs never recovered. Trade patterns and relationships were severed over seven year or more of no trade.



Prior to COOL's implementation in 2008/2009, U.S. packers purchased over 2 million market hogs a year, according to USDA Animal and Plant Health Inspection Service data. After COOL's full implementation in 2009 market hog numbers going south were about 400-500,000/year. The volume hit a post COOL low in 2018 at just over 300,000. As noted here often, it is likely that most of those post-COOL hogs were specialty hogs or off-sorts or other niche hogs that found a market arrangement in the U.S. I also expect that number was over-estimated by inadvertently including cull sows in the market hog totals.

In 2021, given the strike at Vallee Jonction, labor shortages and the 2020 COVID backlogs in Quebec and Ontario, the number of market hogs shipped south increased to about 1.1 million head. Daily volumes of market hogs reported by USDA Market News peaked at about 8-9,000 head in the spring of 2021. Daily volumes eased back to between 1-2,000 in October but then began rising again.

As of the last few weeks, daily volumes were 3-4,000. The increase again is caused by COVID-related labor shortages in both Ontario and Quebec as well as the ongoing pressure of the Quebec backlog. The backlog, believe it or not, is at least partially due to the lingering effects of the Vallee Jonction strike which ended in September. There are rarely any Saturday harvests in Quebec, which would have helped reduce the backlog quicker.

As noted on page 10 the Quebec backlog is declining steadily despite the lack of Saturday kills. At this rate, the backlog should be gone by mid-April or sooner. While that is to be welcomed, there is still the issue of the displaced market hogs due to the Olymel reduction.

A Difficult 2022

Clearly the U.S. is going to have to be a destination for market hogs for the rest of 2022. Those hogs are going to plants across the Midwest. Even given the tight supplies and excellent demand in the U.S., marketing those hogs has been a challenge. That burden has been driven by transport logistics and soaring fuel costs primarily.

While there is a short-term opening for Canadian hogs, there is also the question of just how much U.S. packers want or need Canadian hogs over the longer term. The track record of marketing-procurement and supply-demand relationships between Ontario producers and U.S. packers has been mixed. It is a practical generalization that Ontario hogs will never be a top priority in the U.S. At the same time, U.S. packers will not be the first choice of Ontario farmers. Furthermore, from the perspective of the Ontario producer, that added cost of transport is going to be another $25/head at least.

The best U.S. hope for Ontario producers is that the Clemens Food Group Coldwater, Michigan plant goes to a second shift. Given that plant's location it is possible that good working relationships could develop on both sides. The plant will get to a second shift eventually, but it is not clear when that will happen. Their prior public statements point to a second shift, but they have said nothing publicly recently. They will reportedly have to add cooler space before they double shift and that would take at least a year. Nothing is in the offing there yet. Not surprisingly labor is also an issue.

The bottom line is that for at least the rest of this year the marketing situation is going to be very difficult logistically and financially for many Ontario producers.

Kevin Grier, March 2022