Make Informed Decisions

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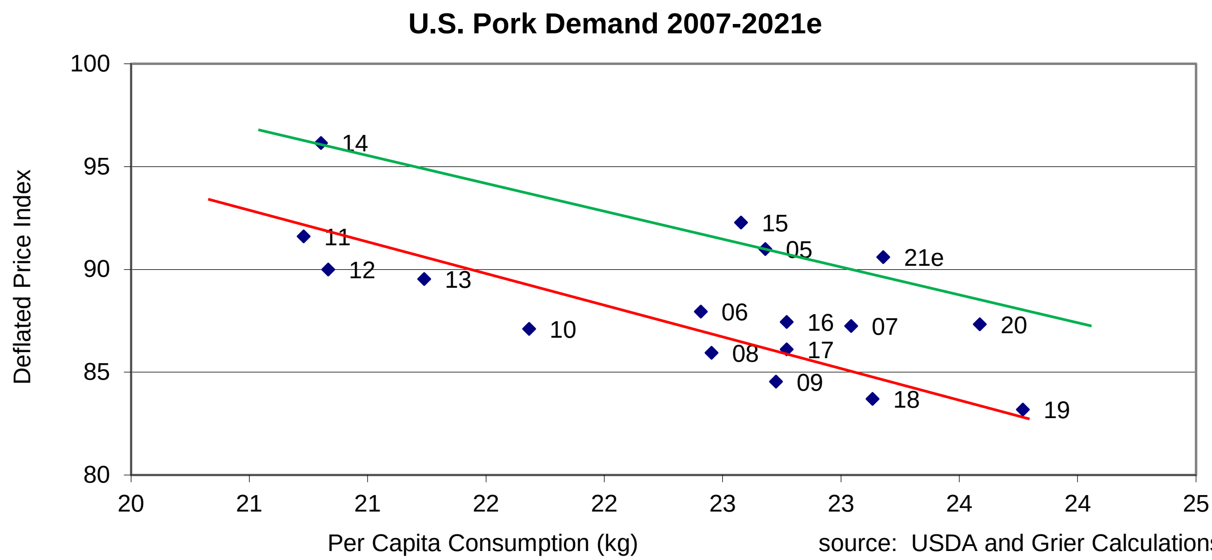
Pork Demand Differences between Canada and U.S.

During 2021, U.S. hog prices were about 30% higher than would normally have been the case given their level of production. That is at production of 27.6 billion pounds, based on price-production relationships of prior years, the U.S. price would have averaged about $70. Instead, the CME index averaged nearly $93. At the 2021 production level, prices were much higher than would have been predicted based on past production-price relationships. Looking at it another way, consider that in 2019, total production was nearly identical to 2021. That year the average price was about $67.50.

The only way that 2021 price could be that high, at that level of production, is due to very strong demand.

Robust Demand

U.S. domestic demand for pork was very good in 2021. While consumption declined by about 1.5%, pork prices increased nearly 9%. Americans are eating more pork in recent years, despite higher price levels (see graph below). The combination of the two factors leads to the conclusion that demand for pork in the United States increased by nearly 2% last year. The demand level in the U.S. was the strongest in nearly 20 years.



source: USDA and Grier Calculations

Meanwhile U.S. exports, which represented about 27% of U.S. production last year, were also very strong. Measuring export demand as the year over year change in total value, U.S. export demand increased by 5% last year. That export demand was the best year on record.

Excellent demand is what drove prices to such exceptional levels, even though production was at the third highest level on record. Production was down by about 2.5% from 2020, the record year, and slightly less than 2019 the second highest. In other words, while production was down last year, that was not the reason for the excellent pricing.

Meanwhile in Canada

Preliminary estimates of Canadian domestic pork consumption in 2021 show a greater decline than in the U.S. At the same time, pork prices for consumers increased, but not as much as in the United States. The net result is that Canadian pork demand declined in 2021 compared to 2020. Demand last year was just average compared to levels seen since 2007.

Meanwhile, Canadian pork export demand was also lower last year. Total value declined by about 2% based on preliminary data. Value to China declined by nearly 50% and Japan also declined by 14%. Thankfully U.S. demand was strong. That contributed an increase in Canadian export value of 35%.

The bottom line is that neither Canadian domestic or export demand were a important contributing factor to the excellent pricing that was enjoyed by North American hog producers.

Made in Canada Margins

For packers in both the U.S. and Canada the demand scenarios for 2021 had serious ramifications for profits. Based on rough estimates of gross margins, U.S. packers probably had a modestly above average year in 2021. For Canadian packers, 2021 was a poor year. Based on my crude estimates of net packer returns, I expect that Canadian packers finished 2021 modestly in the red. That is not surprising given that they were paying U.S.-based prices for the hogs and getting Canadian-based prices on the meat.

This again is another of the numerous warnings about the wisdom of a “made in Canada” hog price. If Canadian producers were going to be paid based on some sort of Canadian pork cutout, they would have missed one of the best margin years on record.

Kevin Grier
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