

Report: Pork Virus Could Slash Hog Herd by Millions

Rabobank

New York, NY — Rabobank has published a new report on the impact of the Porcine Epidemic Diarrhea Virus (PEDv) on the North American herd, forecasting significant impacts on production and slaughter through 2015, and identifying the opportunity for U.S. poultry to step into the market gap.

In the report, published by the bank's Food & Agribusiness Research and Advisory team, Rabobank says that PEDv thus far has impacted about 60% of the U.S. breeding herd, 28% of the Mexican herd, and is beginning to develop in Canada. If PEDv spreads in Canada and Mexico at the pace seen in the U.S., Rabobank says that North American hog slaughter could decline by nearly 18.5 million hogs over 2014 and 2015, or 12.5% relative to 2013 levels. Overall U.S. pork production is anticipated to decline 6% to 7% in 2014, the most in more than 30 years.

"In the U.S., we see the outbreak of PEDv causing a significant shortfall in the availability of market hogs in 2014 - to the tune of 12.5 million hogs or 11% of annual slaughter," explained Rabobank Analyst William Sawyer. "Given the ever rising number of PEDv cases reported, coupled with a six-month average lifecycle, the months of August through October are likely to be the tightest for processors, where slaughter could decline by 15% - 25% against 2013 levels. If the virus continues at its current rate, the shortfall to U.S. slaughter in 2014 could be as much as 15 million hogs."

The specific origin of PEDv in the U.S. has not been definitively identified but comparison of strains of PEDv in the U.S. have indicated a close relationship with strains in China. What is clear is that once the virus enters a region, it can spread quite easily and rapidly throughout an entire population. The most common avenue is on livestock and farm equipment that come into contact with hogs positive with PEDv or their faeces.

In regard to productivity, 2014 will be a story of "the haves and have-nots" where hog producers who experienced mild cases of PEDv, or none at all, could realize margins of more than \$ 60 per head, the highest calendar year average seen in Rabobank's 40-year record. Conversely, hog producers who have had difficulty eradicating the virus could suffer significant losses as the pain of the high fixed costs of modern hog production compounds prolonged periods of weak productivity.

Packers for the year to date have been in a "haves" position as the fear of possible stockouts have pushed pork cutout prices up much faster than hog prices. The gross margin for packers reached \$63 per head, up from \$37 this time last year.

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Published on Food Manufacturing (<http://www.foodmanufacturing.com>)

Profitability is likely to wane in the spring and summer, as prices continue to climb, testing pork demand, and hog shortages force packers to idle plants.

The real winner in the PEDv situation, however, will be the U.S. poultry industry. U.S. beef production is forecast to decline by nearly 6% in 2014 and, coupled with Rabobank's estimate of 6% to 7% less pork production, this implies an exceptional opportunity for the U.S. chicken industry as the protein of last resort. U.S. chicken production would have to rise by 8% to 9% to offset the shortfall from beef and pork, but a limited breeder flock and continued high demand for fertilized eggs from Mexico will keep supply growth restrained. As a result, Rabobank expect chicken prices and margins to climb this spring and summer, yielding a very favorable year for the U.S. chicken industry.

Rabobank's report forecasting the impact of PEDv on the North American hog sector is available to media upon request.

About Rabobank: Rabobank Group is a global financial services leader providing wholesale and retail banking, leasing, real estate services, and renewable energy project financing. Founded over a century ago, Rabobank is one of the largest banks in the world, with nearly \$1 trillion in assets and operations in more than 40 countries. In North America, Rabobank is a premier bank to the food, beverage and agribusiness industry. Rabobank's Food & Agribusiness Research and Advisory team is comprised of more than 80 analysts around the world who provide expert analysis, insight and counsel to Rabobank clients about trends, issues and developments in all sectors of agriculture. www.rabobank.com/f&a [1]

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