



# New Processing Capacity Shakes Up the Hog Industry

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## Key Points:

- Strong balance sheets and rising global demand are incentivizing U.S. pork processors to expand capacity. When the five construction projects underway are complete, packing capacity will increase by 8-10 percent.
- The impending increase in packer demand for hog supplies will create more favorable terms for producers, and intensified competition among processors could lead to compression in packer margins.
- Prompted by the expansion in processing capacity, hog production will increase 2-4 percent in 2017 and another 2-4 percent in 2018.
- The success of such a substantial increase in processing capacity and production will hinge on export growth. We project exports to increase 5-8 percent in 2017 and 3-6 percent in 2018. However, greater export dependence increases the risk of a supply glut resulting from a trade hiccup.
- Historically, initial losses are inevitable in startup plants. And after the startup phase, packer margins are typically narrower than pre-expansion. Due to the rapid pace of this expansion, liquidity needs may be greater than in previous cycles.

## Introduction

Recent profitability and continual growth in global demand are incentivizing expansion in the U.S. hog industry. And processors are seizing on the opportunity by building out new slaughter capacity in the Midwest. When construction is completed in late 2018, and fully operational by mid-2019, the five greenfield and expansion projects currently underway will increase U.S. pork packing capacity by 8-10 percent versus 2016 levels.

Current pork production is concentrated in the Midwest and along the East Coast, but near-term expansions in production and processing will be centered in the Midwest. (*See Exhibit 1.*) While growth will be limited in Eastern States, the aging infrastructure there will provide financing opportunities to upgrade or rebuild hog production facilities over the next several years. To remain competitive, processors nationwide must continuously upgrade existing processing facilities to implement new technology and stricter food safety standards.