



MIKE MCCUE MAKES TIME TO READ  
THE WALL STREET JOURNAL.

FIND OUT WHY

THE WALL STREET JOURNAL.  
Read ambitiously

# THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://www.wsj.com/articles/SB10001424052702303754404579308903141230092>



ARTICLE FREE PASS

Enjoy your free sample of exclusive subscriber content.

\$12 FOR 12 WEEKS

SUBSCRIBE NOW

## U.S. NEWS

# Pig Virus Threatens to Bump Pork Cost

Disease Threatens to Create More Pain for Food Shoppers

By KELSEY GEE

Jan. 10, 2014 6:56 p.m. ET



JOURNAL

Day-old  
piglets  
fed at  
Borgic  
Farms.  
*CATALIN  
ABAGIU  
FOR THE  
WALL  
STREET*

CHICAGO—A virus that kills young pigs is roiling the U.S. pork industry, boosting prices in the \$9 billion hog-futures market and threatening to create more pain for food shoppers.

The disease, which has spread to farms in 22 states, is cutting into pork supplies and prompting some traders

and investors to wager that hog prices could set records this year. Lean-hog futures rose

to a seven-week high a week ago and are up 6% since mid-December.

Porcine epidemic diarrhea virus, or the PED virus, appeared in the U.S. for the first time in April and has killed thousands of piglets since then. The virus, which causes severe diarrhea and vomiting, is fatal only to young pigs and poses no threat to human health or food safety, according to swine veterinarians. The U.S. strain is nearly identical to a version that curbed hog production in China in 2012.

---

#### PIGLET VIRUS POSES PLANNING CHALLENGES

---



One day old piglets slept under a heating lamp. Porcine epidemic diarrhea virus, also known as PEDv, appeared in the U.S. for the first time last April and has since killed thousands of piglets. The virus, which causes severe diarrhea and vomiting, is fatal only to young pigs and poses no threat to human health or food safety. *CATALIN ABAGIU FOR THE WALL STREET JOURNAL*

The extent of the impact is unclear because farms don't have to report incidents or death totals to federal regulators. Smithfield Foods Inc., the world's largest pork producer, and other meatpackers estimate that about 10% of the nation's sows, or adult female hogs, have been infected by the virus, which can spread to their offspring.

Smithfield, a unit of China's Shuanghui International Holdings Ltd., said last month the virus could result in a loss to U.S. pig production this year of two million to three million head, or up to 3% of the industry's total. Hormel Foods Corp., the maker of Spam, warned recently its earnings for fiscal 2014 could be affected by "potentially volatile hog costs" due to the virus.

To ward off the disease, many U.S. hog farmers are redoubling safety practices, including disinfecting equipment and workers' footwear. But many say they find it difficult to prevent.

"This is the toughest disease we've ever gone through," said Mike Brandherm, a general manager with Hitch Pork Producers, a Guymon, Okla., livestock producer that lost 30,000 piglets in six weeks in a 2013 outbreak. "It was stunning how fast the disease spread. You feel helpless."

Though outbreaks at Hitch's farms since then have been smaller, it continues to lose 500 to 600 piglets a week, Mr. Brandherm said. "We're still not back at the production levels we had prior to the disease," he said.

## Pig Virus Roils Pork Industry

A virus that is deadly to young pigs is cutting into U.S. pork supplies, boosting futures prices for hogs and contributing to higher retail prices for U.S. consumers.



The hit to supplies is expected to contribute to higher bacon and pork-chop prices for U.S. consumers as well. Retail pork prices likely will set a fresh record this year, breaking the nominal all-time high of \$3.81 a pound reached in October, according to the U.S. Department of Agriculture. The USDA projects a 2% to 3%

increase in retail pork prices for 2014, after a gain of about 1% last year.

Mike Boero, the meat-department manager at a Piggly Wiggly grocery store in Zion, Ill., says shoppers already are talking about higher bacon prices. "It's definitely gone up more than I can afford," he said. "People are only buying it if it's on sale."

Worries about the virus have pushed hog prices higher in the past few months. But many traders said the impact on production likely won't show up in a significant way until spring and summer because the disease began to accelerate in October and piglets take around six months to reach slaughter weight.

That sentiment has led to a wider-than-normal disparity in the price of hogs in the front-month contract—February—and for contracts with later dates, according to analysts. On Friday, February hog futures rose 0.57 cent, or 0.7%, to 85.82 cents a pound at the Chicago Mercantile Exchange. Prices hit the highest levels for a front-month contract in seven weeks on Jan. 3.

The June contract, meanwhile, closed at \$1.009 a pound, about a 15-cent premium over the February contract. Usually, the gap between the February and June hog contracts is about 12 cents, according to analysts. Prices typically are higher in the summer because hogs tend to eat less when temperatures are high, which keeps them from gaining as much weight and reduces supplies.

"The 900-pound gorilla sitting on those [later futures] contracts is the uncertainty due to PED virus," said Mike Zuzolo, president of brokerage Global Commodity Analytics & Consulting in Atchison, Kan.

Some traders and investors are cautious about placing too much emphasis on the virus.

One factor that could offset the disease's impact on output is U.S. hog farmers are expected to expand their herds this year to take advantage of lower feed prices. The cost of corn, typically the main ingredient in livestock feed, has slid about 40% in the past year due to a large U.S. crop. This has sharply improved hog farmers' profit margins.

Farmers also are packing more pounds on their animals because feed is cheap and they can capture higher prices from meatpackers for greater weights.

"I think PED is a real threat, but we're going to need to see an actual shortage of pigs hit the market for futures to rally any higher," said Craig VanDyke, an analyst with Top Third Ag Marketing, an advisory firm in Chicago. "These heavier weights can easily make up for even a 2-3% drop in hog numbers."

Even with the industry bracing for a smaller number of available hogs, the USDA forecasts U.S. pork production will rise 2% in 2014, to 23.6 billion pounds, from a year earlier, citing heavier hog weights.

Analysts note that some traders have made wrong bets in the past about how much the virus would affect supplies. For instance, traders who were expecting a big impact were surprised in the early winter to see U.S. hog supplies remain on par with a year earlier. That sent hog futures to an eight-month low on Dec. 11.

A question looming over the pork industry is whether farmers seeking to expand their herds will have their plans snuffed out by the appearance of the virus in their barns.

As of the first week of January, 2,084 separate positive cases of the virus have been reported to the National Animal Health Laboratory Network, which tracks the disease. Each case may represent anywhere from one infected animal on a farm to thousands across a producer's operations. The U.S. has about 68,300 hog farms, according to the USDA. Furthermore, these cases have no clear correlation with the number of deaths caused by the disease.

The industry is trying to develop vaccines to thwart the PED virus, but so far none is in widespread use. Researchers are unsure how the virus, first identified in the U.K. in 1971, entered the U.S.

Phil Borgic, a hog farmer in Nokomis, Ill., said he has invested at least \$5 million in new facilities, enhanced "biosecurity" safeguards and new breeding animals in the past few months as he seeks to ramp up output while keeping the virus out of his herd.

Mr. Borgic spent \$150,000 to build a station where trailers that transport his pigs to packing plants must be washed and dried. Visitors to his barns must shower and put on new clothes and boots.

"We're doing whatever we can to keep it out," the 57-year-old said in an interview earlier this month.

On Friday, Mr. Borgic said that he'd discovered infected piglets on his farm.

Rich Nelson, chief strategist with brokerage Allendale Inc. in McHenry, Ill., said he thinks prices for hogs this summer could break the record closing high of \$1.0745 a pound set in August 2011. "It appears that PED virus issues are going to beat out any herd expansion in 2014," Mr. Nelson said.

**Write to** Kelsey Gee at [kelsey.gee@wsj.com](mailto:kelsey.gee@wsj.com)

Copyright 2014 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).