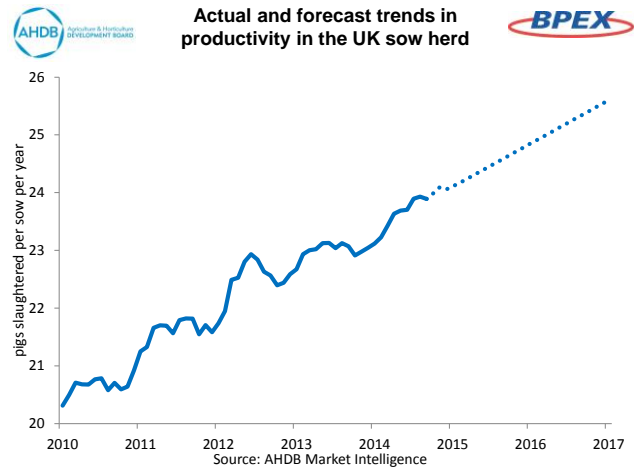


Outlook for UK Pig Meat Supplies – October 2014

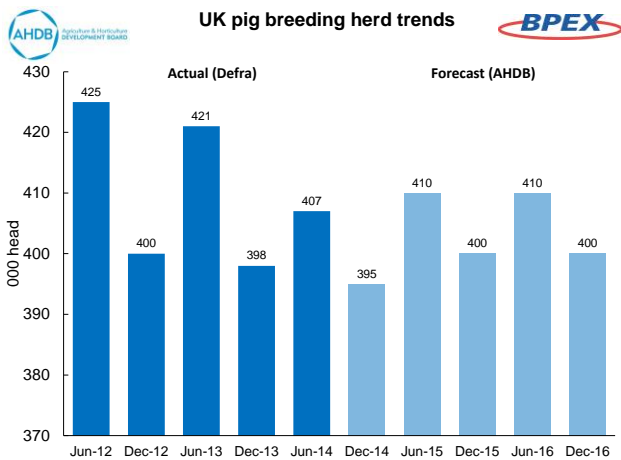
Provisional UK figures from the June survey indicate a 3% year-on-year decline in the sow herd, excluding maiden gilts, to 407,000 head. This suggests that, despite better profitability over the last year, producers have been reluctant to invest in expansion at this stage. With pig prices falling steadily since June, it is unlikely that this situation will have changed, so the size of the breeding herd may be stable, at best, in the immediate future. The fall was largely confined to England, with both the Scottish and Northern Irish breeding herds increasing in the year to June 2014.

The limited prospects for expansion are confirmed by the sharp reduction in gilt numbers in the year to June; there were 13% fewer gilts in-pig and 7% fewer maiden gilts. To some extent, this is because of a reduction in the sow replacement rate, driven by a younger herd and lower cull sow prices. However, the decline is too sharp to be explained by this alone. If the figures accurately reflect the true situation, it is possible that the herd could even decline further. However, any significant contraction would lead to a rise in sow cullings, which hasn't been apparent so far this year. Therefore, broad stability seems the most likely scenario for the breeding herd going forward.

genetics and nutrition and improved health. With further gains expected across many of these areas, the rate of productivity improvement should be sustainable in the absence of major disruptions, such as disease outbreaks.

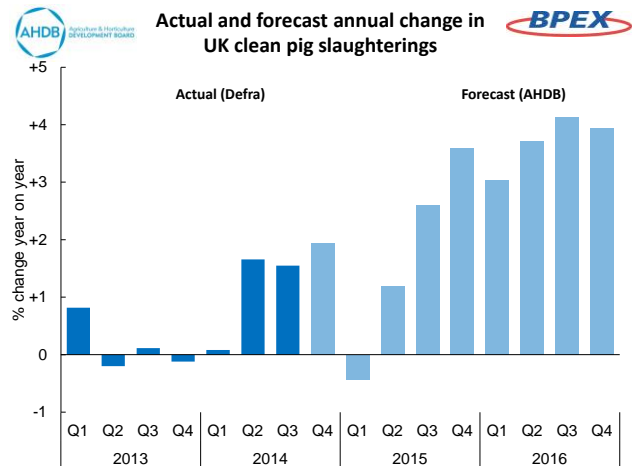


Pig slaughterings have been up by around 2% compared with a year earlier since the spring. This has been driven by productivity gains, given a relatively stable herd in the second half of last year. Growth may stall for a while early next year, assuming the decline in the breeding herd recorded in the June survey is accurate. However, further productivity gains should mean that pig slaughterings then return to growth. If the breeding herd stabilises or even recovers slightly, then growth could accelerate towards the end of next year and into 2016.



Reports suggest that, although they haven't been expanding, producers have made some investments over the past year. These have been focused on updating buildings and equipment, something which was much needed in many cases; a recent BPEX study found that over half of pig buildings were more than 20 years old. This investment should mean an improvement in housing conditions, contributing to further productivity gains.

Over the last five years, productivity has improved steadily, with the equivalent of about 24 pigs slaughtered per sow per year in recent months. A range of factors have influenced these gains, including better trained stockmen, enhanced



So far in 2014, sow slaughterings have been below the levels recorded over the previous two years, given a younger herd and subdued cull sow prices. With prices heavily influenced by the EU market, given that most sow meat is exported, they seem likely to remain depressed through much of next year. Therefore, cullings may remain at a low level. If this trend is sustained and leads to an older herd profile, it has the potential to adversely affect productivity. However, any



Outlook for UK Pig Meat Supplies – October 2014

impact of this on clean pig slaughterings would be unlikely to be felt over the coming year.

Actual and forecast UK pig slaughterings

| | Clean pigs | | | Sows and boars | | |
|-----------|------------|---------------|---------------|----------------|------------|------------|
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| 000 head | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| Quarter 1 | 2,500 | 2,502 | 2,491 | 66 | 64 | 59 |
| Quarter 2 | 2,422 | 2,463 | 2,492 | 64 | 62 | 59 |
| Quarter 3 | 2,528 | 2,567 | 2,634 | 62 | 59 | 58 |
| Quarter 4 | 2,600 | 2,650 | 2,745 | 60 | 57 | 58 |
| Year | 10,050 | 10,182 | 10,362 | 252 | 242 | 235 |

Source: Defra, AHDB. Figures in bold are forecasts

Clean pig carcase weights have been well up this year, for the second year running. Good growing conditions, lower feed prices and relatively tight pig numbers have contributed, while recently there have been more reports of pigs being rolled as supply has outstripped demand. Although some of these factors may ease, there could be a further modest rise in weights next year, in line with the long-term trend.

Higher weights this year mean that production for the year as a whole is projected to be 3% higher than in 2013, despite slaughterings being up just 1%. Next year, production is forecast to grow by just over 2%, rising only slightly ahead of clean pig slaughterings. This would represent the sixth straight year of rising production, although output will remain well below the levels recorded up to 2000.

With extra supplies of British pig meat on the market, prices will come under further pressure unless demand picks up. Extra pressure will come from EU prices, with latest forecasts suggesting they will remain low through much of next year. The gap between UK and EU prices has recently been higher than ever, partly due to the weaker euro this year. This will increase likelihood of imports rising, especially if the euro weakens further. However, despite the price differential this year, import growth has been modest, about 5%, as retailers' commitment to sourcing British pork remains strong.

Assuming this continues to be the case, there may be limited scope for exports to grow next year. Most buyers who would

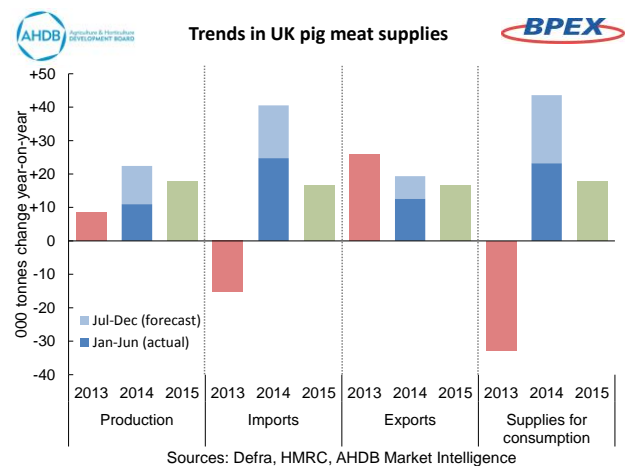
Actual and forecast supplies of pig meat in the UK

| 000 tonnes (cwe) | 2013 | | | | | 2014 | | | | | 2015 |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|--------------|--------------|
| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Year | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Year | Year |
| Production | 209 | 199 | 208 | 217 | 833 | 212 | 207 | 215 | 224 | 857 | 875 |
| Imports | 215 | 223 | 236 | 254 | 928 | 227 | 236 | 242 | 263 | 968 | 985 |
| (Fresh/frozen) | (89) | (98) | (97) | (108) | (392) | (95) | (100) | (100) | (112) | (407) | (420) |
| (Bacon) | (70) | (66) | (73) | (82) | (292) | (72) | (73) | (75) | (85) | (305) | (300) |
| (Processed) | (56) | (59) | (65) | (63) | (244) | (60) | (64) | (67) | (66) | (257) | (265) |
| Exports | 55 | 53 | 59 | 62 | 229 | 60 | 60 | 63 | 65 | 248 | 265 |
| Available for consumption | 369 | 370 | 385 | 408 | 1,532 | 379 | 383 | 394 | 422 | 1,577 | 1,595 |

Source: Defra, AHDB. Figures in bold are forecasts

be prepared to switch from British to imported pork may have already done so, given the lower prices for EU product. However, if the price gap between UK and EU pork doesn't narrow, some other buyers may succumb to the lure of imported product, pushing supplies higher still.

Despite the strong pound and relatively high prices (at least compared with the rest of the EU), exports have increased again this year. Much of the growth has come from Asia, as more markets open and demand has outstripped supply in that region. The nature of this trade means the UK can still be price competitive despite having much higher carcase prices. With expectations of increased demand from China, in particular, UK export prospects remain good for the coming year. Although growth may be a little slower than in recent year, it will mitigate the effect of rising supplies on the domestic market to some extent.



Balancing all these factors out, supplies available for consumption on the domestic market have been higher this year than last. So far, this hasn't been matched by an increase in consumer demand, with retail pig meat sales similar to last year. This has created the pressure on the pig price, which has been apparent for most of the year. Based on the latest forecasts, supply growth will be slower in 2015 but, even so, consumer demand will need to rise before prices start to recover.

