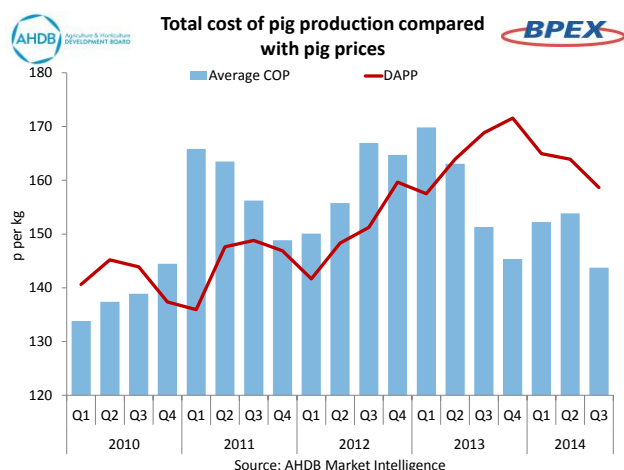


Producer margins still positive in Quarter 3

Based on AHDB/BPEX estimates, the average cost of pig production in Great Britain during the third quarter of 2014 was just under 144p/kg (carcase weight). This was around 10p lower than the estimate for the previous quarter, driven by the fall in global cereals prices as this summer's harvest became reality. This is the lowest estimate of production costs since the final quarter of 2010. As a result, despite pig prices falling steadily between July and September, average producer margins remained positive. With the DAPP averaging nearly 159p/kg during the three month period, producers would have made a positive margin of around £12 per head during the quarter.

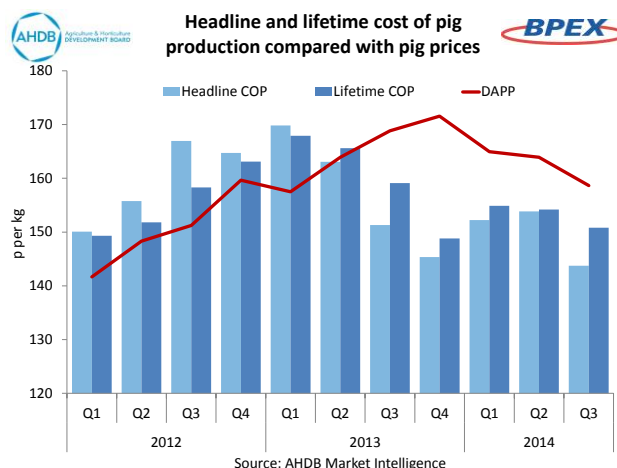


Although this paints a relatively positive picture for producers, since September pig prices have continued to fall while grain prices have started to rise again. With the APP falling below 150p/kg in mid-November and the SPP around 3-4p below that, many producers are likely to be close to their break-even point. Some, particularly those selling pigs through the spot market, are probably already losing money again. Unless the market direction changes, more producers will find themselves in this position by early 2015.

The better financial position of producers over the last 18 months has been insufficient to fully offset losses from the previous 2½ years. Between the start of 2011 and mid-2013, GB producers lost an estimated total of £170 million. Between then and the end of September, cumulative producer profits have amounted to around £140 million. Nevertheless, that still leaves an estimated net loss to the industry of around £30 million over the four year period.

The importance of the fall in feed prices is emphasised by looking at the breakdown of costs in more detail. This shows that the drop in production costs between the second and third quarters was entirely due to a 10p fall in feed costs. Feed made up just 58% of the total in quarter 3, down from a peak of 66% in January-March 2013. With little change in the amount of feed used, the fall is mainly due to lower prices.

The headline figures for cost of production and net margins quoted above compare costs incurred during the third quarter with the price of pigs sold during the same period. Of course, those pigs were born at a time when feed prices were higher and the sows were served when they were higher still. This means the 'lifetime' cost of producing the pigs sold in the third quarter was higher than the headline measure. The cost is estimated at 151p/kg, still below the pig price during the period but not to the same extent.



Feed prices are not the only factor which influences the cost of production, of course. Another important one is carcase weights. Adding extra weight to a pig adds to the cost of feeding it. However, the extra cost will be relatively modest and so the cost per carcase kilo will be lower. The precise impact will vary but, at current price levels, adding 1kg to the average carcase weight reduces estimated costs by around 0.6p/kg. Pigs have been heavier in 2014 than 2013. Weights rose particularly sharply during the autumn, which will have had some impact on estimated costs in the third quarter and will have an even bigger effect in the fourth quarter. This might have helped to keep average costs below prices.

The other big influence on average production costs is the physical performance of the herd. Latest figures show a mixed picture. Sow productivity continues to improve, with the number of pigs weaned per sow in the year to September 2014 averaging 24.1. This compares with 22.8 in the preceding 12 months but was only slightly higher than in the previous quarter. A small increase in post-weaning mortality meant that the number of pigs finished per sow was similar to three months before.

Feed efficiency in the rearing herd also improved, although daily weight gain was little changed on recent periods. However, feed conversion in the finishing herd worsened, partly due to the heavier finished weights. Nevertheless, with daily weight gain slightly higher, the overall amount of feed used to produce each pig was little changed. With margins tightening, the focus on improving physical performance will need to be even sharper going forward.