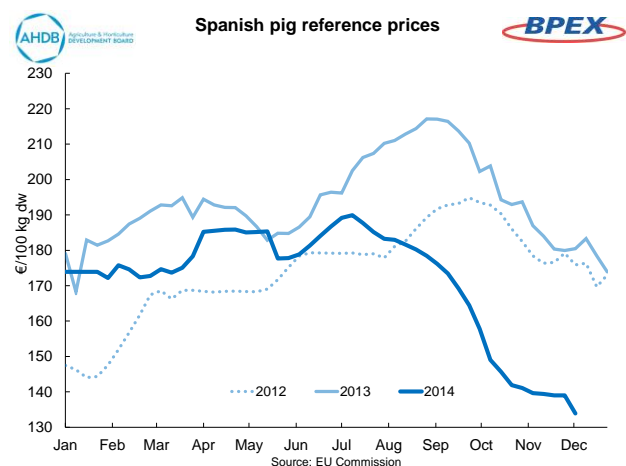


Spanish growth tempered by falling prices

The Spanish economy was one of the worst hit by the Eurozone crisis since 2008. The situation is now improving, with Spain outperforming some of the bigger European economies, including Germany and France. However, the recovery has not yet been reflected in consumer demand for pig meat. According to the latest figures published by Spain's Ministry of Agriculture, Food and Environment, fresh pork consumption in the year to September fell by 1% year on year, although pork outperformed other fresh meats. Spending on pork was 0.3% lower, indicating a small increase in prices. Spanish consumers have a higher preference for processed meat, which is mainly pig meat, than fresh pork (consuming 12.1kg per capita of the former and 10.6kg of the latter). The fall in processed meat consumption was more evident, with a decline of 4% on a year earlier.

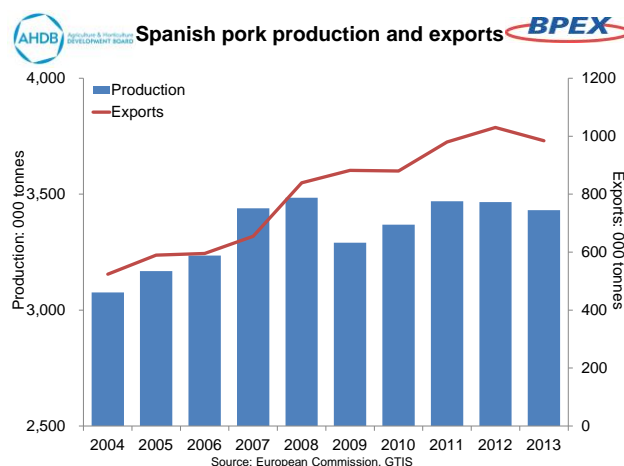
Despite lower domestic demand for pig meat, Spain slaughtered 3% more pigs in the first nine months of this year than in the same period of 2013. During this time, pig meat production also rose by 3%, to 2.61 million tonnes. Over the last few years, abattoir capacity to slaughter animals has increased rapidly. In addition, the June 2014 census showed a 7% rise in the number of piglets. Given little change in the live pig trade, the increase recorded in the census is likely to translate into higher throughputs for the rest of this year and the start of 2015.

The June census also showed a rise in gilts numbers, with maiden gilts up by around a quarter compared with a year earlier. This suggests some optimism in the industry at the time, partly a result good producer margins in the first half of the year. The recent InterPIG report shows that in 2013, Spain had the lowest cost of production among the EU countries represented, mainly due to its low fixed costs. Pig prices were also among the highest in the EU. Latest figures show a decline in feed prices since 2013, which will have reduced costs still further. Combined with firm prices in the first half of this year, this will have ensured producers remained profitable and were confident to expand.



Spanish pig prices peaked for the year at just under €190 per 100kg in mid-July. However, from having some of the highest finished pig prices in the EU over the summer, quotations have fallen to their lowest point in four years; at €134 per 100kg in early December the Spanish price was below the EU average. Pig prices in Spain fell sharply in the autumn. This is partly seasonal but the decline has been very marked this year. As well as the crash in the wider EU market, high stock levels and increased pig supplies in Spain have contributed to this development. There was also a sharp autumn fall in wholesale prices for some cuts, especially belly and shoulder.

As a direct consequence of higher supplies and lower domestic demand, Spanish pork exports for January to September showed a 5% year-on-year increase, to 759,400 tonnes. This continues the long-term trend which has seen Spanish pork exports virtually double over the last decade.



Around three quarters of exports are destined for the EU market, a share which has fallen over time; volumes sent to other EU countries edged down marginally compared with the first nine months of 2013. At the same time, exports to non-EU markets increased by 28%. Unlike most EU countries, Spanish access to the Russian market was already restricted before the start of this year. However, it has been particularly successful at finding other markets for its exports. Among them, volumes shipped to Japan so far this year have more than doubled. Shipments to China increased by 27%, while trade with South Korea and the Philippines also more than doubled in the nine month period.

The optimistic figures from the June Census suggest Spanish pork production will continue to grow in the short-term. With domestic demand subdued, this will mean more pork available for export. Spain's success at diversifying its markets may act as a potential threat to other pork exporters, including the UK; lower prices will only make it more competitive on export markets. Coupled with the low production costs, this could mean the Spanish industry is better placed to weather the current storm in the EU pig market than some of its competitors.