

# Outlook for UK Pig Meat Supplies – February 2016

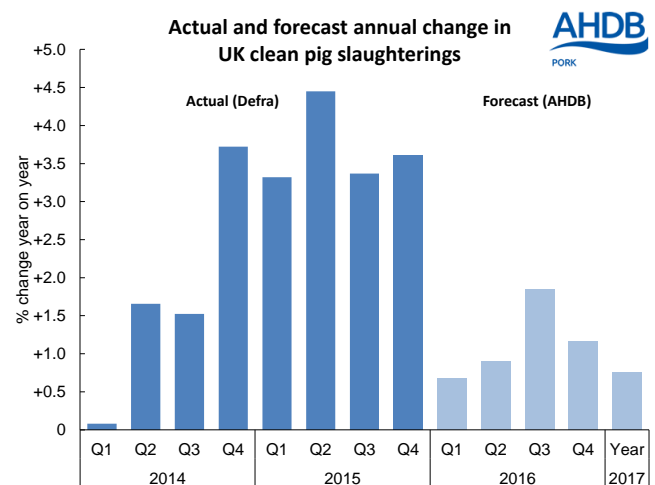
Supplies of pig meat on the UK market are likely to increase further in 2016, according to latest forecasts from AHDB Pork. Domestic production is forecast to rise for the seventh consecutive year, albeit at a slower rate than in the previous two years. Imports of pork are also expected to increase further, partly offset by higher exports, particularly if the recent weakening of the pound is sustained. Overall, this will mean another rise in supplies, which will keep the pig market under pressure unless demand increases accordingly.

Although the June Agricultural Survey showed an unlikely fall in the UK pig herd, the breeding herd was recorded to be stable. Subsequent slaughterings confirm that the number of feeding pigs was higher than the figures indicated. While this may cast some doubt on the reliability of the breeding herd figure, other evidence supports a broadly stable position.

For example, sow slaughterings during 2015 were little changed from 2014 levels. They were lower than normal in late 2014 and early 2015, thought to have been a response to low cull sow prices. They have since increased again but remain within the normal range and are not indicative of a shrinking herd. Certainly, they have been well below the inflated levels seen in 2012, when high feed prices hit producer profitability and the breeding herd did decline.

With a stable breeding herd, sow productivity remains the main driver of clean pig slaughterings in the short-term. Higher than expected slaughterings in early 2015 meant it appeared that productivity growth had accelerated but more recent figures suggest it has returned to the long-term growth trend. Assuming that growth continues at a similar rate, slaughterings are forecast to rise again in 2016.

Trend growth would mean a slowdown in year-on-year slaughtering growth in early 2016, given the higher than expected throughputs in early 2015. Thereafter, the reduction in the breeding herd would mean slower growth continues into the second half of the year. Overall, slaughterings are now only forecast to rise by 1% for the year as a whole, to 10.7 million head.

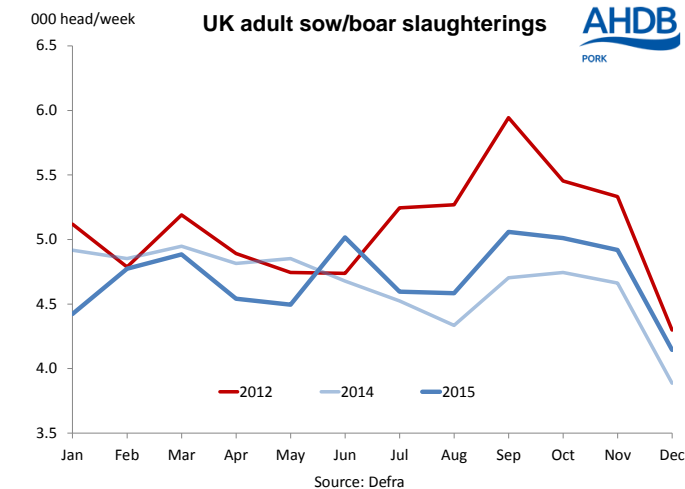


As highlighted above, sow slaughterings have so far shown little sign of rising. However, with a drop in the breeding herd anticipated, it is likely that during 2016 they will be higher than last year. The scale of any increase is uncertain at this stage and the forecasts anticipate only a modest rise. However, if the current low prices are sustained or worsen further then the increase could be larger than anticipated.

## Actual and forecast UK pig slaughterings

000 head	Clean pigs			Sows and boars		
	2014	2015	2016	2014	2015	2016
Quarter 1	2,502	2,585	<b>2,602</b>	64	61	<b>65</b>
Quarter 2	2,463	2,572	<b>2,595</b>	62	61	<b>64</b>
Quarter 3	2,566	2,653	<b>2,702</b>	59	62	<b>63</b>
Quarter 4	2,696	2,794	<b>2,826</b>	58	61	<b>63</b>
Year	10,227	10,604	<b>10,725</b>	243	244	<b>256</b>

Source: Defra, AHDB. Figures in bold are forecasts



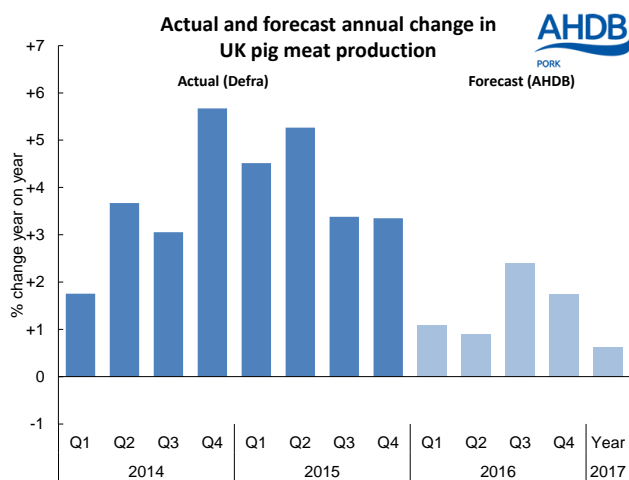
Although the breeding herd appears to have been stable so far, the financial position of producers has worsened in the New Year, as pig prices have fallen sharply. This has already led to some producers deciding to leave the industry and others may well follow. Therefore, we expect the breeding herd to reduce in the first half of 2016. These forecasts anticipate a year-on-year decline of 3% in the breeding herd by June 2016. If the market situation doesn't improve then further falls may occur in the second half of the year but that would not affect finished pig supplies until 2017.

During the first half of 2015, carcass weights were well ahead of year earlier levels. Low feed prices encouraged producers to add weight to their pigs but heavier weights might also have been an indication that supply was running

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ahead of demand. In the second half of 2015, weights fell below year earlier levels, although they were inflated in the corresponding period of 2014 amid reports of pigs being rolled due to lack of demand. Early 2016 has seen weights reach record highs due to a larger than normal surplus of pigs after the Christmas holidays, coupled with limited demand. Weights are likely to remain high in the short-term but may return towards 2015's levels as the year progresses.

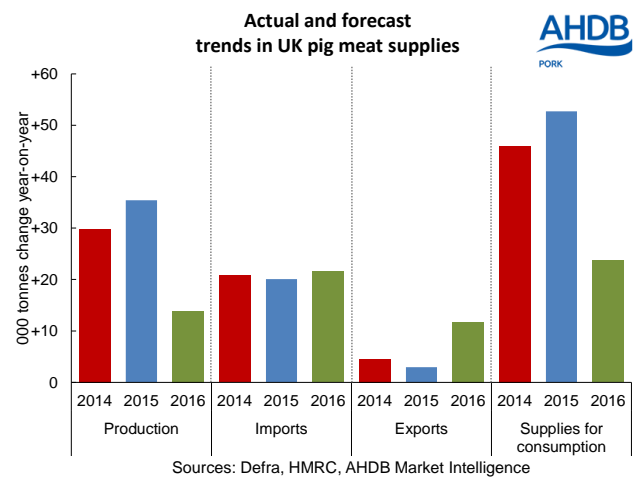
The combination of a modest increase in slaughterings and slightly heavier weights mean that UK pig meat production is forecast to rise by a little under 2% for the year as a whole, to 918,000 tonnes. This would be the seventh consecutive year with increasing output, although growth would be slower than the 4% recorded in the previous two years.



Supply levels are also influenced by the level of imports and exports of pig meat. UK pig prices remained well above EU ones throughout 2015, meaning imported pork was cheaper than domestic product. Despite this, imports only increased relatively modestly during the year. However, the pace did increase somewhat in the second half and so imports are forecast to rise again in 2016. With some signs that EU prices could recover as the year progresses, potentially narrowing the gap to UK prices, and lower supplies available on the

continent, the rate of growth may slow later in the year. Overall, imports may grow at a similar rate to last year.

The strength of the pound against the euro limited UK exports last year, so only minimal growth was achieved. Since the turn of the year, the pound has weakened, which may help to stimulate exports, if sustained. With uncertainty around the referendum on the UK's membership of the EU and an imminent rise in interest rates looking less likely, there is every possibility that the exchange rate may be more favourable for exporters. Nevertheless, the UK price premium means only modest growth is forecast for now.



Balancing all these factors out, supplies available for consumption on the UK market are forecast to be higher again in 2016, albeit with slower growth than has been seen in 2015. This will keep prices under pressure, with the direction they take depending, as always, on how demand responds. Retail pork sales have been falling all year, despite lower prices, and this trend has also been apparent for bacon and sausages in recent months. This suggests that the increased supplies are being absorbed by lower-value markets, such as foodservice, manufacturing or even non-human food uses. Unless that changes, any substantial recovery in prices seems a distant prospect.

## Actual and forecast supplies of pig meat in the UK

000 tonnes (cwe)	2014		2015				2016				2017	
	Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Year
Production	863	222	218	222	237	898	<b>224</b>	<b>220</b>	<b>227</b>	<b>241</b>	<b>912</b>	<b>918</b>
Imports	948	233	227	245	<b>263</b>	<b>968</b>	<b>245</b>	<b>235</b>	<b>245</b>	<b>265</b>	<b>990</b>	<b>980</b>
(Fresh/frozen)	(396)	(98)	(96)	(103)	<b>(117)</b>	<b>(414)</b>	<b>(105)</b>	<b>(100)</b>	<b>(105)</b>	<b>(115)</b>	<b>(425)</b>	<b>(410)</b>
(Bacon)	(300)	(72)	(70)	(74)	<b>(77)</b>	<b>(293)</b>	<b>(70)</b>	<b>(70)</b>	<b>(70)</b>	<b>(75)</b>	<b>(285)</b>	<b>(280)</b>
(Processed)	(252)	(64)	(61)	(68)	<b>(69)</b>	<b>(262)</b>	<b>(70)</b>	<b>(65)</b>	<b>(70)</b>	<b>(75)</b>	<b>(280)</b>	<b>(290)</b>
Exports	233	58	55	61	<b>62</b>	<b>236</b>	<b>62</b>	<b>58</b>	<b>63</b>	<b>65</b>	<b>248</b>	<b>255</b>
Available for consumption	1,578	397	390	406	<b>438</b>	<b>1,630</b>	<b>407</b>	<b>396</b>	<b>409</b>	<b>441</b>	<b>1,654</b>	<b>1,643</b>

Source: Defra, AHDB. Figures in bold are forecasts