

Outlook for UK Pig Meat Supplies – October 2016

The UK pork market has entered a period of tighter supply, following the low price recorded in 2015 and early 2016. According to latest forecasts from AHDB Pork, this situation is likely to continue into the first half of 2017 but production will start to grow again later in the year. Although much uncertainty remains, not least because of the UK's decision to leave the EU, this should mean that the market remains firm for some months to come.

The rising pig prices seen since the spring have been driven by a number of factors. A slowdown in pig meat production has contributed. This slowdown is thought to have been driven by a reduction in the UK breeding herd in late 2015 and early 2016, when pig prices were at their lowest. However, this is contradicted by figures from Defra's December and June Surveys, which both show a rise in sow numbers. If those figures are correct, though, they would imply a sharp and unprecedented drop in herd productivity. There is no other evidence to support such a drop.

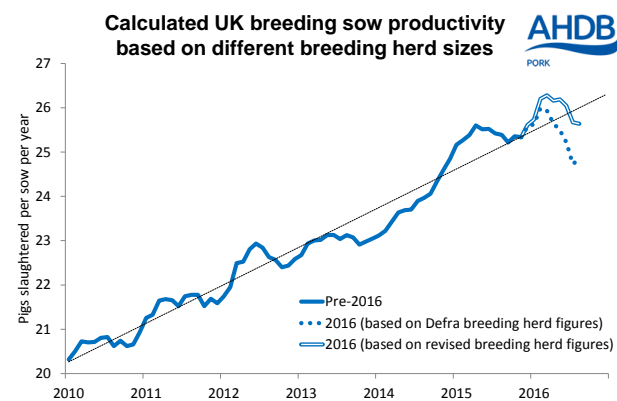
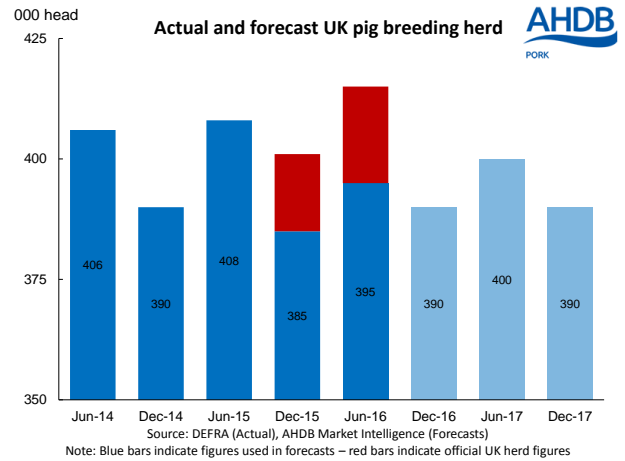


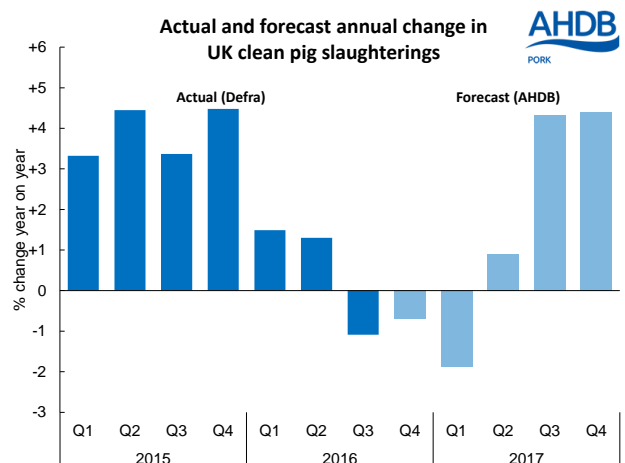
Chart: Number of pigs slaughtered per sow per year in the UK (deseasonalised and smoothed)
Source: AHDB Market Intelligence estimates based on DEFRA data

Other data support expectations of a lower breeding herd. Sow slaughterings were higher than normal in late 2015 and early 2016, despite very low cull sow prices. Cullings have returned to more normal levels since then, as finished pig prices have improved. Also production of compound breeding pig feed has consistently been lower than a year before since the start of 2016.

Therefore, these forecasts instead assume a 3% fall in the breeding herd in the year to June, to 395,000 head, 20,000 lower than the June Survey figures published by Defra. A lower figure (385,000 head, 16,000 lower than Defra's published number) is used for December 2015 too. These assumptions brings derived productivity growth back in line with historic trends. Looking ahead, the breeding herd is forecast to stabilise and perhaps even recover slightly, due to the improved financial position of producers.



Sow productivity, as measured by the number of pigs slaughtered per sow per year has increased steadily and consistently over the last few years. There seems little reason to think that this trend will not continue. Based on these assumptions for the breeding herd and productivity, clean pig slaughterings are forecast to remain below year earlier levels through to the spring, before starting to recover into the second half of next year.



As described above, sow slaughterings have declined from the high levels recorded earlier in the year, despite cull sow prices rising. In the absence of any major shift in market conditions, they are expected to remain close to normal levels for the rest of this year and throughout next year.

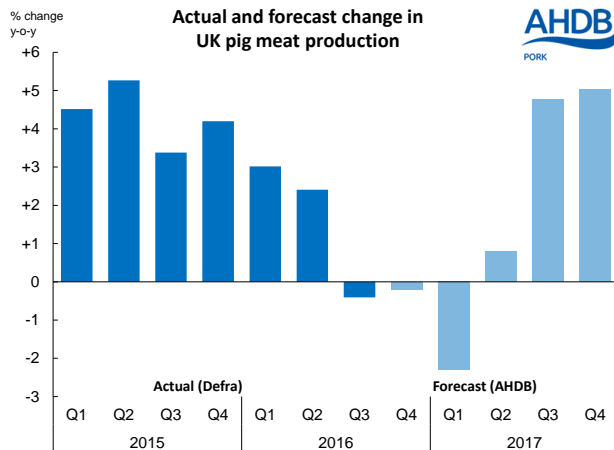
Actual and forecast UK pig slaughterings

	Clean pigs			Sows and boars		
000 head	2015	2016	2017	2015	2016	2017
Quarter 1	2,585	2,623	2,574	61	66	64
Quarter 2	2,572	2,606	2,629	61	67	64
Quarter 3	2,653	2,624	2,737	62	58	61
Quarter 4	2,817	2,797	2,920	62	60	62
Year	10,627	10,650	10,861	245	251	250

Source: Defra, AHDB. Figures in bold are forecasts

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Improvements in genetics and the relatively low cost of feed have seen carcase weights increase over time. At times in recent years, excess supply has pushed weights higher more quickly. However, with supplies beginning to tighten, any growth in carcase weights may be more limited in the year ahead, even if feed prices remain relatively low. Overall, therefore, production trends are forecast to follow those for clean pig slaughterings, with tight supplies in the early months of the year, before output returns to growth by the second half of the year.

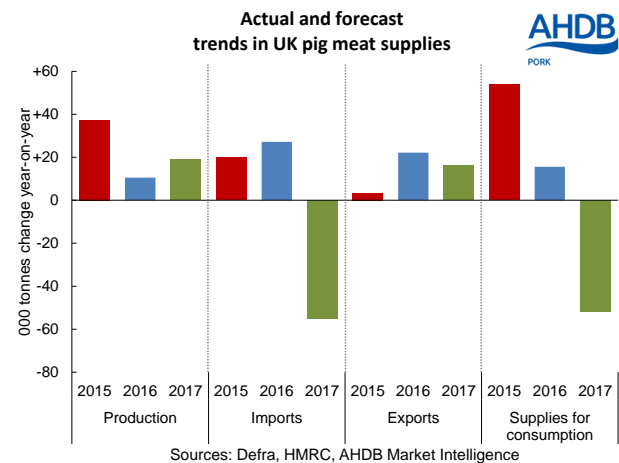


With EU prices moving above UK ones, aided by the weak pound, UK pork should be more competitive at home and abroad. This would be expected to lead to lower imports and higher exports. However, to date, that hasn't really been apparent. UK pork exports have been rising but, if anything, the rate of growth has slowed in recent months. This may be a result of reduced production, leaving limited supplies available for export.

At the same time, imports have reportedly started to increase, largely due to a sharp rise in Danish shipments since May. The reason for this is currently unclear, so it is unknown whether it will continue, or indeed whether it is a data issue or a genuine trend. Certainly, the increased supply which this trend implies does not fit with the improvement in GB pig prices over the same period.

Although trade hasn't realigned yet, it seems reasonable to assume that it will do so over time, if the pound remains weak. Therefore, UK imports are forecast to fall back in the remainder of 2016 and most of 2017. The extent of the fall forecast for 2017 may be exaggerated if recent import figures prove to be overstated. As well as the exchange rate, the anticipated trend is reinforced by expectations of a decline in EU production following the 4% drop in the breeding herd recorded in the year to June.

At the same time, UK exports are predicted to increase over the coming months. Growth will, however, be constrained by the reduced level of production in the first half of the year. This may limit the supplies available for export markets, so the UK is unable to take full advantage of the strength of demand for its more competitively-priced products.



Balancing all these factors out, supplies on the domestic market are forecast to tighten further into 2017, at least until the latter part of the year. This reduction in supplies should ensure the UK pig market remains firm. As always, though, the direction of prices will depend on factors such as consumer demand and the state of the economy. The uncertainty around Brexit may also have an influence, beyond just the exchange rate.

Actual and forecast supplies of pig meat in the UK

000 tonnes (cwe)	2015					2016					2017	
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Year	
Production	222	218	222	239	900	228	223	221	238	911	930	
Imports	233	228	246	261	968	224	250	271	250	995	940	
(Fresh/frozen)	(98)	(96)	(103)	(113)	(410)	(96)	(116)	(127)	(110)	(449)	(420)	
(Bacon)	(72)	(70)	(74)	(78)	(294)	(67)	(65)	(74)	(75)	(281)	(270)	
(Processed)	(64)	(62)	(69)	(70)	(264)	(61)	(69)	(70)	(65)	(266)	(250)	
Exports	58	55	61	62	237	65	66	59	69	259	275	
Available for consumption	397	390	407	438	1,631	387	407	434	419	1,647	1,595	

Source: Defra, HMRC, AHDB. Figures in bold are forecasts