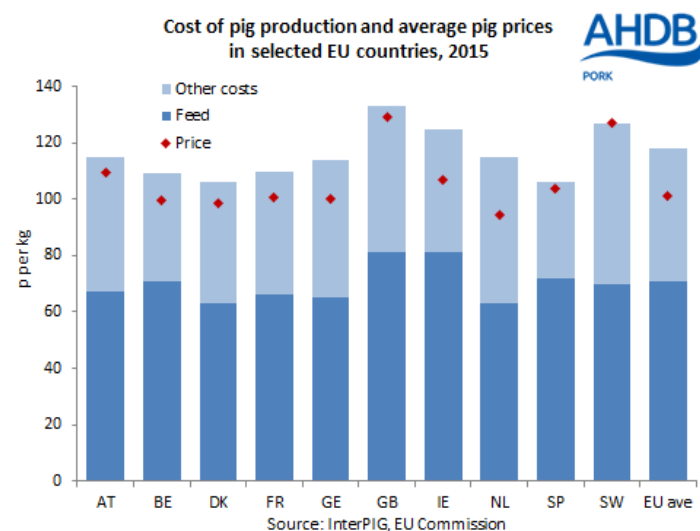


Will weak pound make GB pig production competitive?

Despite a 6% decline on the year-earlier figure, GB production costs were the second highest of all member countries in 2015, at 133p/kg dw, according to the latest pig [production costs report](#) from InterPIG. The InterPIG group consists of a selection of pig economists from key producing countries, with AHDB representing GB. With British costs less than 1p/kg below the most expensive producer, Italy, a net loss of around 3p/kg was made by GB producers last year, despite the maintenance of a pig price premium.

With EU pig prices low during 2015, losses were actually made by all the key European producing states. This occurred despite the EU cost of production declining ahead of the GB figure, down 12% on the year to average 118p/kg. As the EU pig price was well below the GB level, losses were generally more significant on the continent, averaging 17p/kg.

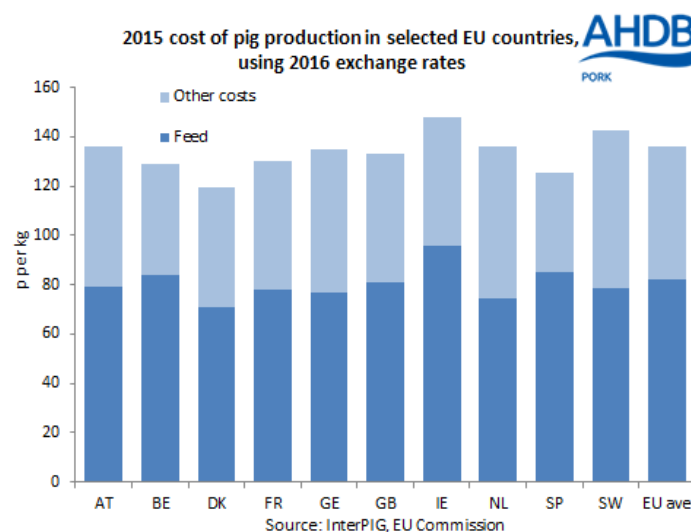


Feed costs limited the ability of GB to reduce overall production costs in line with the rest of Europe. The average EU feed cost fell by 14% relative to 2014, whereas GB only saw a reduction of 5% as feed prices were slower to respond to declining global cereal and oilseed prices. Sow productivity also remained a problem for Britain, with pigs weaned per sow continuing to be below the EU average, even when outdoor breeding sows are excluded. If GB had been able to achieve even half the tightening in production costs attained by the EU as a whole, a net loss could have been avoided.

However, the economic situation has changed significantly since last year. Not only have pig prices been rising but sterling has declined significantly against the euro from its strong 2015 position. If the pound had been weaker last year, how might this have impacted the GB position within the InterPIG group and what might this imply for British producers this year?

The weakening of sterling seen in the second half of 2016 has the potential to significantly alter the relationship between

GB production costs and the rest of the EU. If the value of the pound is reduced from the actual 2015 level to the level since the Brexit referendum, last year's production costs in sterling terms would be higher for all other EU countries.



Interestingly, this transformation brings the GB production cost in slightly below the EU average. This is not intended to predict how the situation might look in 2016. However, it does demonstrate the capability of a weaker pound to significantly increase the competitiveness of GB production costs and, hence, potential profitability, in relation to other European countries.

The impact of exchange rates is particularly significant to Ireland, where a weak pound leads could lead already relatively high production costs to soar above GB levels. At the other end of the spectrum, Danish and Spanish production costs would remain the lowest in the EU but would be closer to those in GB.

Of course, this does not take into account the impact of the weak pound on GB prices for imported inputs, such as feed and energy. The full impact of sterling's depreciation would not be felt in these areas initially, though. Calculations suggest that if 50% of the currency effect was passed on, this would not be sufficient for GB costs to rise above the Irish. Nonetheless, these cost increases will limit the extent to which the fall in sterling can aid GB pig production cost competitiveness.

Looking forward, it will be interesting to see how these factors translate into the actual 2016 production costs, which will be covered in next year's report. With rising pig prices, it might be anticipated that GB producers could return to net profit, despite the GB price premium over the EU being eroded. Ultimately however, the final balance will be determined by movements in the feed market and the extent to which producers have been able to progress sow productivity, while limiting outgoing costs on farm.