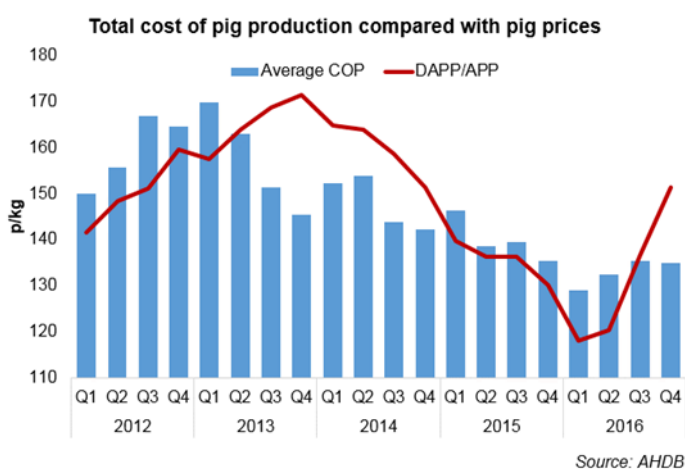


Could cost of production increase in 2017?

Each quarter the AHDB publish the estimated cost of pig production in GB. The latest findings show that on average, while total production costs remained stable in Q4 (135p/kg), a substantial rise in pig prices, led to the estimated net margin farmers receive rising to £13/head. This is considerably higher than the same quarter a year earlier when producers were estimated to be losing £4/head, driven solely by a fall in pig prices.

This is the second consecutive quarter that GB pig producers have been back in the black. However, Q4 2016 marks the largest estimated net margin received by producers since Q4 2013, which was the highest on records going back to 2010 at £21/head.

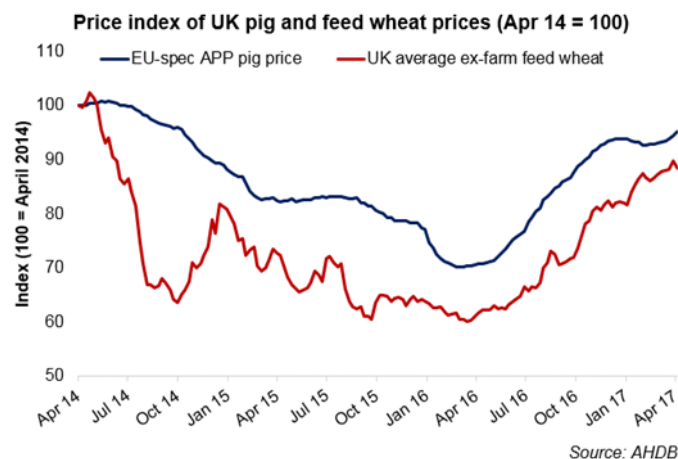


Feed prices are a major factor when looking at the cost of production. In 2016 feed accounted for around 60% of the total cost of production. When talking about feed ingredients used in compound feed production, feed wheat could be described as the most significant ingredient as an energy/starch source. Furthermore, as discovered in a previous piece of analysis ([click here to read more](#)), there is a strong correlation between movements in feed wheat prices and overall compound feed prices. With this in mind, feed wheat prices can be used to gauge the trend in compound feed price movements so far this year.

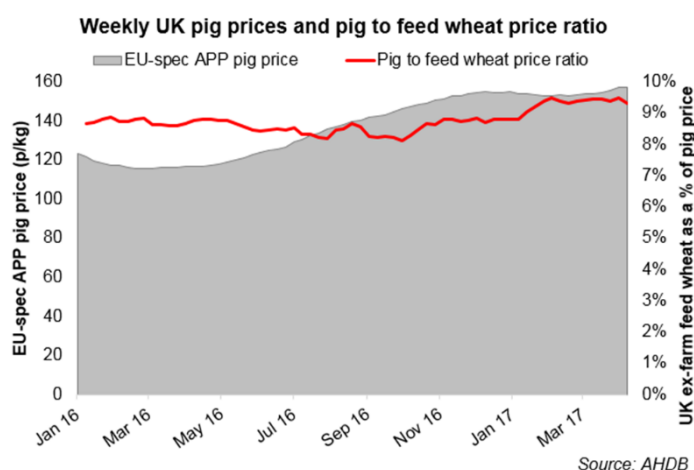
Since the start of the 2017 the spot UK average ex-farm feed wheat price has increased by 8%, to just over £146/t in week ending 13 April. Furthermore, since the start of 2016, this price series has increased by nearly a third. So why have UK feed wheat prices climbed? A fall in domestic wheat output in 2016, combined with strong demand for the feed grain, as well as a weaker sterling, all contributed to the rise in wheat prices in 2016.

The continued rise of wheat prices since the start of 2017 is likely to have had a direct impact on the cost of compound feed. Therefore, it can be assumed that the cost of pig

production during the first quarter the year is likely to have increased, with feed counting for over half of total costs, assuming all other costs have remained stable. However, since the end of Q4 2016, the UK pig price has, in general, continued to rise. In week ending 8 April the EU-spec APP stood at 157.15p/kg, the highest price since October 2014. Furthermore, the current quote is 35% higher than the corresponding week in 2016 and 24% up on the start of 2016.



While both feed wheat and pig prices have been rising recently, both remain lower relative to April 2014, when the APP price series started. Nevertheless, UK pig prices are closer to the level recorded in April 2014 than UK feed wheat prices. It is also worth pointing out that the pig to feed wheat price ratio has been hovering around 9% since mid-October, despite feed wheat prices rising. Therefore, while the cost of pig production is likely to have risen so far this year, the rise in pig prices over the same time frame is likely to have outweighed this to some extent.



While the cost of production in Q4 2016, remained relatively stable, the continued rise in feed wheat prices in Q1 and into Q2 2017, is likely to have led to a rise in costs, assuming all other overheads remained relatively unchanged. However, over the same time period, the UK pig price has also increased, albeit by a lesser extent, which is likely to have cushioned some of the rise.