

# UK Pig Meat Outlook Review – July 2018

## Summary

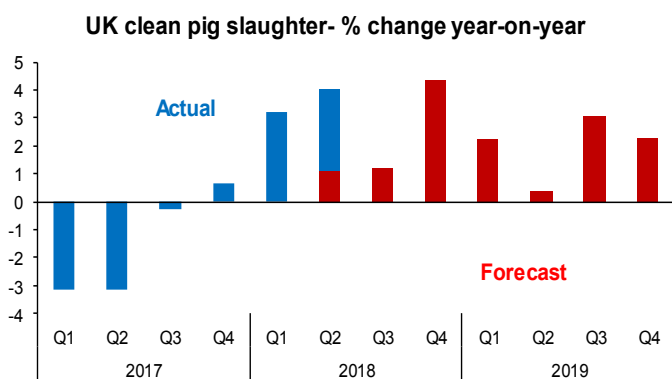
- Production still trending above year earlier levels, with Q2 slaughterings slightly higher than anticipated. Supplies may pick up further later in the year
- Exports slowing, largely reflecting weaker Chinese import demand
- Import volumes were falling in Q1, but more difficult to anticipate Q2 levels. EU pig prices have been increasingly competitive
- Risk of downward pressure on pig prices towards the end of 2018, with margins at risk as feed prices are also rising

## Slaughterings

### Clean pigs

Clean pig throughputs were 4% higher than year earlier levels during Q2 2018, totalling 2.60 million head. As such, for the first half of the year, slaughterings reached 5.2 million head, also around 4% above year earlier levels and in line with throughputs in H1 2016.

The increase in throughputs during Q2 was larger than anticipated in the April forecast, with an extra 73,000 head killed during the period.



Source: Defra, AHDB

Some of the increase in throughput will be linked to the earlier Easter this year, which unusually straddled Q1 and Q2. This will have disrupted the usual seasonality pattern used in the forecast.

If both of the Easter weeks are moved into Q2, estimated production falls to 2.56 million head. This is just 2% higher year-on-year and only 31,000 head more than the original April forecast.

There was also a greater degree of uncertainty surrounding

the forecast for clean pig slaughterings in Q2 and Q3 this year, due to high disease rates this winter boosting post-weaning mortality. PRRS diagnoses have now been confirmed to be the highest on record during Q1, and swine flu was also more prevalent, according to the APHA.

The April forecast factored in an additional 2.5% mortality for pigs to be slaughtered in May-July, with a staggered impact in the surrounding months. In light of the higher Q2 slaughter rate, the estimated peak mortality may have been a little high, or slightly too early. When the July slaughtering figures are released later this month, the extent and timing of the impact will become clearer.

With this in mind, there remains uncertainty around the level of clean pig throughputs over the next couple of months. Nonetheless, supplies are expected to pick up towards the end of the year, as the impact of the winter challenges phases out.

Defra retrospectively revised down slaughter figures from Q4 2017 and Q1 2018 after the April forecast was published. As such, if the April forecast for Q4 2018 and Q1 2019 is to be met, stronger year-on-year growth than was previously anticipated will be required.

While industry growth was smaller than previously thought at the end of 2017, numbers were still recovering strongly between January and April, before the impact of a difficult winter began to bite. It therefore seems there is capacity for strong slaughterings growth in the system at present, especially considering at least some modest breeding herd growth is anticipated. As such, slaughterings might not be far off the original forecast, at least in Q4. This would mean 2018 clean pig throughputs reach 10.7 million head. With the current hot weather though, there is a risk numbers early next year will be impacted by a dip in breeding herd performance.

### Sows

Sow slaughterings totalled 65,000 head during Q2, a 13% increase on the same period in 2017. It was anticipated that cullings would return to more normal levels, having been low in the first half of 2017, and this level of throughput largely agrees with that sentiment.

Nonetheless, sow slaughter was 3,000 head higher than the April forecast anticipated. Defra has revised sow slaughterings upwards from the second half of 2017 since the April forecast was released, indicating that cullings were

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picking up at a faster rate than was thought at the time. Nonetheless, sow throughputs are not expected to deviate significantly from the April forecast for the rest of this year, if the breeding herd is to record modest growth as is anticipated.

## Actual and April forecast for UK pig slaughterings

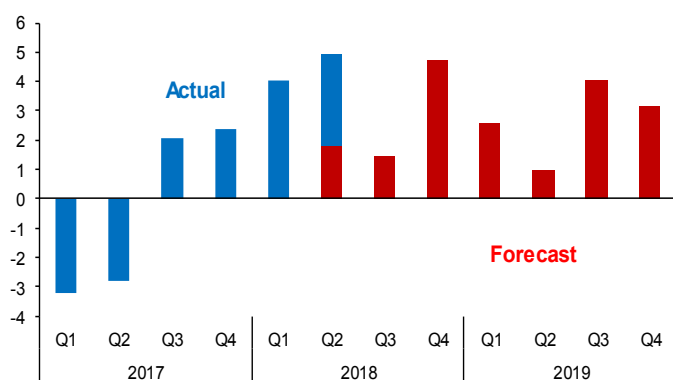
000 head	Clean pigs			Sows and boars		
	'17	'18	'19	'17	'18	'19
Q1	2555	2637	<b>2695</b>	59	65	<b>63</b>
Q2	2507	2608	<b>2618</b>	58	65	<b>62</b>
Q3	2615	<b>2646</b>	<b>2726</b>	60	<b>60</b>	<b>60</b>
Q4	2706	<b>2823</b>	<b>2888</b>	60	<b>61</b>	<b>61</b>
Year	10383	<b>10713</b>	<b>10927</b>	237	<b>251</b>	<b>246</b>

Source: Defra, AHDB. Figures have been converted back to statistical months.

## Production

With slaughterings higher than expected in Q2, pig meat production was also above the April forecast at 255,700 tonnes. This was a 5% growth on year earlier levels. For the first half of 2018, UK pig meat production therefore stands at 457,100 tonnes, 4% (+20,000 tonnes) higher than 2017 levels.

UK pig meat production, % change year-on-year



Carcase weights were around half a kilo heavier than year earlier levels during the Q2, averaging 82.9kg. This is on par with expectations from the April forecast, with carcass weights being on a long-term upward trend. The higher than expected production was therefore entirely driven by the higher throughput levels, as discussed above.

If slaughterings meet the forecasted level in the second half of 2018, given the higher production in Q2, the annual total

could reach 933,000 tonnes. This would be the highest annual UK pig meat production since 1999.

However, there are some downwards risks to this forecast. Carcass weights were expected to continue showing year-on-year growth in the latter half of 2018. In light of the current hot weather though, growth rates could be slower across Q3, reducing average carcass weights. This could mean production levels in Q3, and therefore for 2018 as a whole, turn out slightly lower than expected.

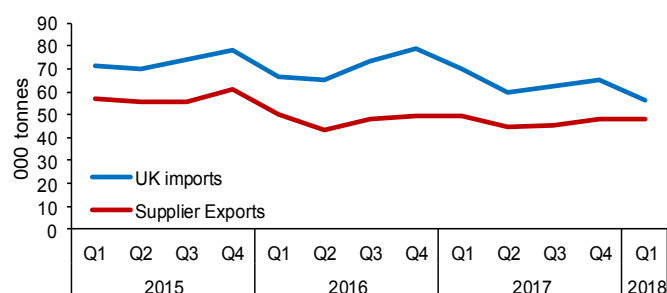
## Trade

### Imports

There seems to have been some improvement to the reliability of trends recorded in HMRC pork import figures in recent months. Substantial year-on-year declines were reported in both HMRC pork import figures (-17%) and exports from the UK's key suppliers (-12%) for Q1, with shipments estimated to have totalled around 112,000 tonnes (cwe). A decline in imports was anticipated, to compensate for higher domestic production levels.

However, caution continues to be needed around the bacon import figures. HMRC data indicates bacon import volumes have been declining very sharply since mid-2017. This contradicts both industry intelligence and export data from our key suppliers. Given that the volume of bacon the UK records importing has always been higher than the figure suppliers report sending, it is possible the decline represents a realignment in the data.

UK bacon imports



Source: IHS Maritime & Trade- Global Trade Atlas- HMRC, local customs data

Based on trends recorded by the UK's bacon suppliers, AHDB anticipates bacon imports actually only declined 3% year-on-year in Q1 2018 (compared with a 20% decline in HMRC import data).

It is more difficult to estimate Q2 import volumes at present. It seems imports rose in April, but may have moderated in

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May, according to HMRC figures. EU prices became increasingly competitive in Q2, but with UK exports slowing on top of higher slaughterings, there would have been an increased availability of domestically produced pork. The interaction between UK supplies, and the competitiveness of EU pork, will continue to be key for UK import volumes in 2018. So far, it seems the prevalence of UK product has been dominating import trends.

## Exports

UK pig meat exports made a strong start to the year, reaching 68,000 tonnes (cwe) during Q1 (+7% year-on-year). This followed from increasing intra-EU trade and was likely supported by growth in UK domestic production at the time.

However, in contrast to expectations in the April forecast, initial estimates for Q2 suggest exports will have dropped 11% year-on-year during the quarter. This is disappointing, and reflects the fact that unlike last year, the UK has been affected by the drop in Chinese import demand. While the Chinese market was expected to be more difficult, the record low domestic prices mean the market situation has been even more challenging than was anticipated.

In light of this, it may not be possible for the UK to achieve the level of export growth forecast in April for the rest of 2018 too. While there is some debate, China is anticipated to remain extremely challenging until at least early 2019.

## Actual and April forecast for UK pig meat supplies

000 tonnes (cwe)	2017					2018					2019	2020
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year
Production	222	215	226	236	899	231	226	<b>229</b>	<b>247</b>	<b>933</b>	<b>958</b>	<b>983</b>
Imports	265	275	261	273	1075	239	<b>271</b>	<b>262</b>	<b>272</b>	<b>1044</b>	<b>1051</b>	<b>1053</b>
(Fresh/frozen)	126	134	126	138	524	112	<b>136</b>	<b>121</b>	<b>137</b>	<b>506</b>	<b>495</b>	<b>491</b>
(Bacon)	70	60	63	65	257	56	<b>60</b>	<b>58</b>	<b>61</b>	<b>235</b>	<b>235</b>	<b>230</b>
(Processed)	68	82	73	70	293	71	<b>76</b>	<b>82</b>	<b>74</b>	<b>303</b>	<b>321</b>	<b>333</b>
Exports	64	68	65	67	264	68	<b>61</b>	<b>69</b>	<b>71</b>	<b>268</b>	<b>291</b>	<b>304</b>
Available for consumption	423	423	422	442	1710	402	<b>437</b>	<b>422</b>	<b>448</b>	<b>1709</b>	<b>1718</b>	<b>1733</b>

\*Fresh/frozen imports estimated, based on export figures for 7 largest UK pork suppliers

Source: Defra, IHS Maritime & Trade– Global Trade Atlas®, HMRC, local customs data. Figures in bold are the October forecasts

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International growth in pig meat production also means other export markets are highly competitive at the moment. However, one positive might be the ongoing US trade war which has increasingly disadvantaged US pig meat on both the Chinese and Mexican markets.

## Overall market supply

With growth in production expected to continue, and downside risks to exports, it seems that supplies available for consumption could now be larger than previously anticipated for the rest of 2018.

However, there are no signs of growth in UK demand to meet this additional product. Recently, Kantar Worldpanel data suggests overall pig meat demand has been broadly stable, with bacon and sausages counteracting declining fresh pork sales.

So, if supplies do turn out higher, downward pressure on prices seems likely. This is especially a risk towards the end of 2018, as the limitations on production following from the winter challenges fade out.

It is of course possible the market will balance with lower import levels than forecast, as recorded during Q1. However, EU pig prices have become more competitive since UK prices started rising during May. Deterring imports may therefore also add to the pressure on UK prices. With feed prices moving up as well at the moment, this means there are risks producer margins could be squeezed towards the end of the year.