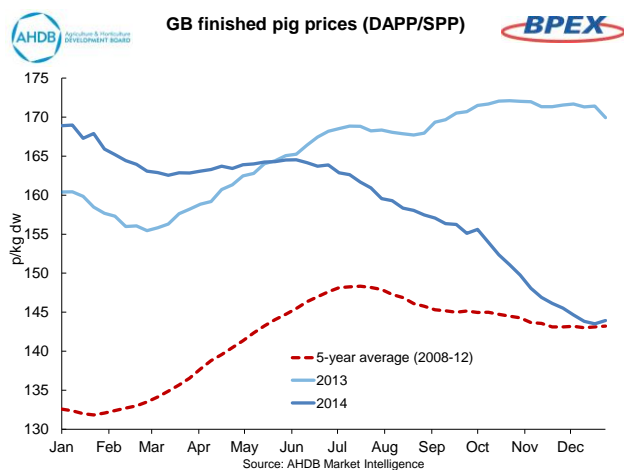


A year to forget in 2014 – what about 2015?

From a price point of view, 2014 will be a year to forget for pig producers. A combination of factors contributed to the price declines but things could have been worse. The EU market recorded even bigger price falls and lower feed prices supported producer margins. In addition, disease problems which affected other parts of the world didn't make it to our shores.

Having started the year at a near-record 169p/kg, the DAPP experienced its usual post-Christmas decline. Driven by a typical combination of plentiful supplies and subdued demand post-Christmas, prices dropped below 163p/kg in March. The normal spring recovery was barely apparent, however, with prices staying under 165p/kg and starting to fall again from June onwards. Since then, prices have been on a steady downward trend, losing over 20p/kg to end the year at their lowest point since early 2011, at around 143p/kg (based on the SPP). Nevertheless, the average price during 2014 was the second highest ever recorded, behind only 2013, at just under 159p/kg.



With 3% more pig meat produced in the UK during 2014, output was at its highest level since 2000. This was due to a combination of better productivity and heavier pigs. The former marked the continuation of the long-term improvement in herd performance, while the latter was partly driven by cheaper feed and benign weather conditions for most of the year.

The increased supply was added to by a modest rise in imports, although given the record gap between UK and EU pig prices, the growth could have been much larger. Another increase in exports only made a small difference, especially as most were still made up of products which are not in demand on the home market. The plentiful supplies were met by subdued consumer demand for pig meat (indeed for meat in general), with retail sales similar to 2013's low levels. This combination had an inevitable effect on prices and the equation will need to change for the trend to alter.

The EU market was even more depressed; the average reference price ended the year at about €1.33/kg (104p/kg), more than 40 cents lower than at its peak in June. On average, the EU price in 2014 was down by more than 10% on the year

before, with the weak euro meaning that the decline was even sharper in sterling terms, falling by 15%. Although the low EU prices undoubtedly added to the downward pressure on the UK market, the fact that prices here fell less sharply indicates that retailer commitment to sourcing UK product remained strong.

The Russian import ban imposed in February and low consumer confidence, given the ongoing economic woes in much of the EU, suppressed prices. This meant that EU producers didn't benefit from the record prices recorded in the rest of the world, where supplies were tight due to disease issues. At least, they meant that EU pork was more competitive on other export markets, mitigating the price falls to some extent.

The drop in EU prices was sufficient to put most producers back in the red in the second half of the year, especially as the weak euro limited the fall in feed prices. Pig breeders were most affected, with prices for weaners falling even faster than for finished pigs. The situation was better in the UK, however, where AHDB/BPEX estimates suggest that most producers remained in the black, at least until late in the year.

So what do the trends in 2014 tell us about what we can expect for 2015? Certainly, some of the factors influencing prices are unlikely to change, meaning that the coming year could again be a tough one for producers. For example, barring a major disease issue, UK pig meat production is likely to increase again; latest AHDB/BPEX forecasts suggest a 2% rise in 2015.

There is also little prospect that the Russian ban will end, at least in the first half of the year. This means that the EU market seems set to remain depressed for much of 2015, especially as economic forecasts don't look very positive. Indeed, the recovery of global output following PEDv may mean a more challenging export environment, making things even tougher for the EU industry this year. It appears that there has already been an increase in sow culling on the continent, which could mean some tightening of supplies towards the end of the year, eventually starting to push prices higher.

Other things could change too, either for better or worse. Eventually, the gap between UK and EU prices, which has been above 30p/kg since September, may prove too much for retail buyers to resist. If this means a sharper than expected rise in imports, it would pull UK prices down towards those elsewhere in the EU. Certainly, it seems unlikely that imports will fall very far while the gap is so high, even with more UK pork available.

On the flip side, any recovery in consumer demand would support prices. With the UK economy improving and wages now rising faster than inflation, purse strings may start to loosen. How quickly this translates into retail meat sales remains to be seen and the relative price of pork and other meats will influence which benefit most. Most indications are that consumer demand will remain relatively subdued this year, however. Therefore, 2015 could easily be another year that producers will want to forget.