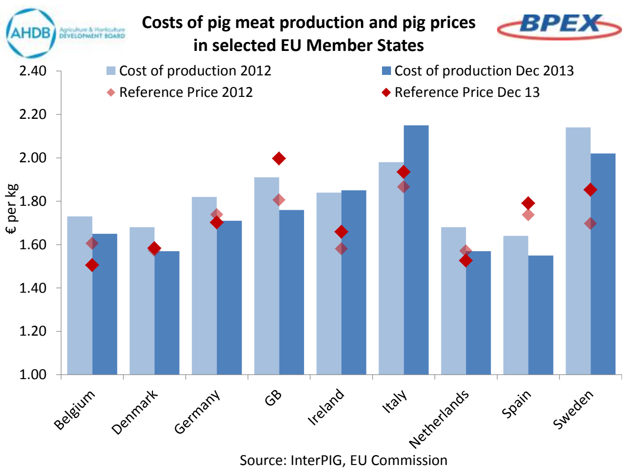
EU producers missing benefits of lower production costs

Recent falls in feed prices will have been welcome to pig farmers everywhere. This is particularly true of many producers across the EU, where subdued pig prices since the autumn have meant that margins have remained tight. This contrasts with the situation in the UK, where pig prices have remained higher, ensuring that producer margins have been positive throughout the last year.

Figures from the EU Commission show that during the first six months of this year, compound pig feed prices were, on average, 15% lower than in the same period last year. However, during the same period, pig prices averaged 3% lower than in 2013 across the EU. In contrast, the fall in UK feed prices, at 17%, was even bigger than the EU average, while pig prices here averaged 2% higher than in the equivalent period last year.

Every year, AHDB/BPEX publishes a [report comparing pig production costs across the EU](), using data from InterPIG, an international group of pig economists. The group includes members from most of the major producing countries in the EU. In 2012, average production costs in the EU ranged from €1.64 per kg in Spain to €2.14 per kg in Sweden, with the average standing at €1.81. Of the EU members of InterPIG, Spain was the only country with full production costs lower than its average pig reference price in 2012.

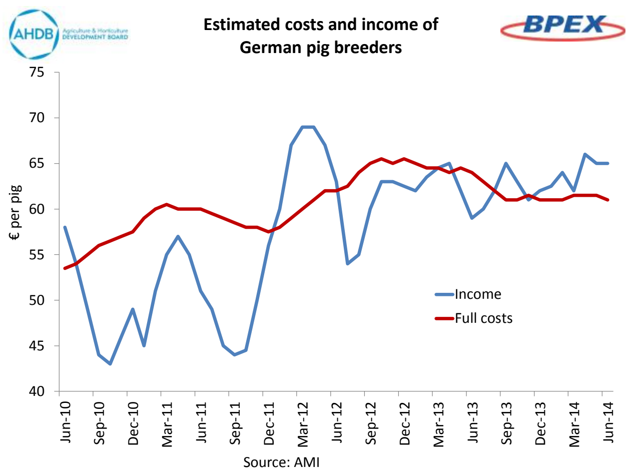
Although full 2013 production costs won't be available until later in the year, InterPIG members periodically provide updated feed prices. Using these, we can estimate what effect any price movements would have on production costs, assuming nothing else has changed. Nine countries provided feed prices for December 2013. Based on these quotes, seven of the nine showed reduced costs, compared with 2012 as a whole. Nevertheless, in most countries, producers were still breaking even or making a loss. Spain remained the only country other than Great Britain where producer margins were clearly positive.



The challenging financial position of producers in late 2013 and early 2014 is confirmed by German market intelligence organisation AMI, which publishes regular estimates of margins for both breeding and finishing. This should be broadly representative of the overall situation across the EU as German pig prices are normally close to the EU average, while its costs are also in the middle of the range.

AMI's calculation of finishing margins compares slaughter pig prices with the cost of buying weaners and feed. In the early part of 2014, this margin was very small, indicating producers would have been making losses when other input costs are taken into account. By June, the margin had improved to €17 per head, enough for finishing to be profitable but still short of the levels reached last summer.

The position of German pig breeders has been even more challenging in recent years. After four years when margins have been negative much more often than positive, they remained very tight at the start of this year. As with finishing, the situation has improved somewhat as this year has progressed, with an estimated profit of €4 per piglet in June. Nevertheless, with German weaner and cull sow prices both starting to fall in recent weeks, it may not be long before these profits are wiped out again.



With producers, and particularly breeders, struggling to make money, there seems to be little prospect of a significant expansion of the EU herd in the short term. This is backed up by provisional figures from the German May census, which show only a 1% increase in its breeding herd over the preceding year. Census results from other countries are expected in the next month or so. While these may show some recovery in Eastern European herds, the overall picture is set to be one of stability rather than growth.

Although improving productivity should mean a return to rising output in the year ahead, growth is set to be modest. Subject to reasonable demand, this should keep pig prices relatively firm, which could mean better profitability in the year ahead if feed markets remain bearish.