

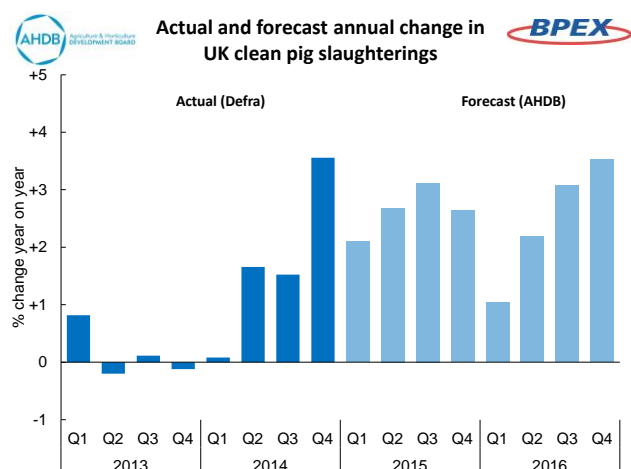
More of the same in 2015?

The past year has undoubtedly been a challenging one for the UK, and wider EU, pig industry. Prices have been down across the board, with a 17% decline in GB pig prices in the last 12 months and cull sow values down by nearly half. However, there have been two saving graces which have reduced the impact on producers.

First, UK prices haven't fall as far as those in the rest of the EU. The latest EU average price was 19% lower than a year ago but, unlike GB prices, by then it had already fallen 18% from the summer of 2013. In sterling terms, the fall was even bigger, with the EU price down by a quarter in the last year and over 40% below August 2013. This means that the gap between UK and EU prices has reached record levels.

Secondly, the trend of falling prices also applied to the feed market, which helped to ensure that, until recently, most UK producers remained in the black. This contrasts with the situation in the rest of Europe, where producers have been in the red since the early autumn. There are already signs of increases in sow slaughterings, which could lead to lower production in the second half of this year.

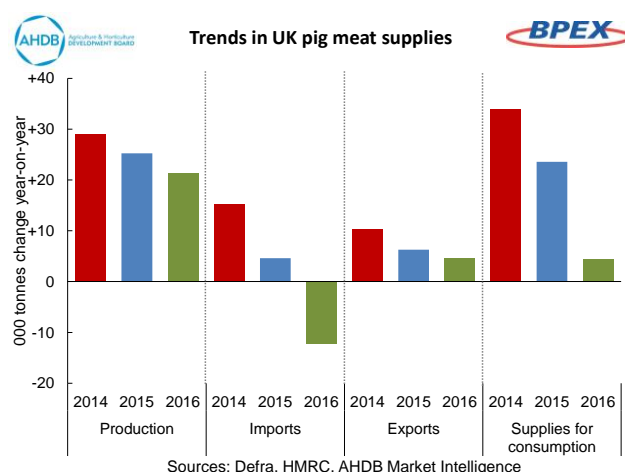
The decline in prices can mainly be attributed to an increase in domestic supplies, with clean pig slaughterings up 2% and heavier carcasses. This meant there was over 3% more UK pig meat on the market. Again, the situation could have been worse. Despite the record price gap, UK pig meat imports were only slightly higher. This is evidently because the major retailers remain committed to sourcing as much of their product from UK pigs as possible. Nevertheless, with consumer demand remaining subdued, the increased supply was sufficient to put prices under sustained pressure.



Latest AHDB/BPEX forecasts suggest that the supply situation will be similar in the coming year. With a broadly stable breeding herd and improving productivity, pig meat production is expected to rise by around 3% in 2015 and by a further 2% in 2016. This is similar in scale to the increase in

supplies during 2014 and means that demand will need to respond to avoid further price falls.

It seems unlikely that the required demand will be generated from international markets. The weak euro will make UK pig meat less competitive on the continent and will give EU exporters an advantage in non-EU markets. There will also be more and cheaper US and Canadian supplies this year, as the US market recovers from PEDv and Canada redirects product previously sent to Russia. Therefore, export growth may be limited. On the flip side, assuming retailers' commitment to domestic sourcing continues, there seems little prospect of a big rise in imports even if the price gap is sustained.



Domestic demand, however, also remains subdued and there is little sign of this changing. One hope is that wages are rising in real terms for the first time since the financial crash in 2008. Once consumers start realising this, they may be tempted to increase their purchases of pig meat (and other meats). However, all the evidence suggests that this won't be a quick process. Therefore, a short-term demand response may rely on falling prices for pork making it a more attractive option than other meats, encouraging consumers to switch.

As always, there are various unknowns which could change the market outlook. Some of these will be unexpected but there are others which can be anticipated, even if their impact may be uncertain. There is the ever-present risk that feed prices could rise (or fall), given the volatility of recent years. In addition, the exchange rate between the pound and other major currencies is going through a period of realignment, which could have knock-on effects.

However, perhaps the biggest potential hazard is that posed by disease. PEDv and ASF have dominated the EU and global market this year. If they spread further, and particularly if they reach the UK, the supply and demand situation could look very different.

To read more detail about the latest AHDB/BPEX forecasts for pig meat supplies, [click here](#).