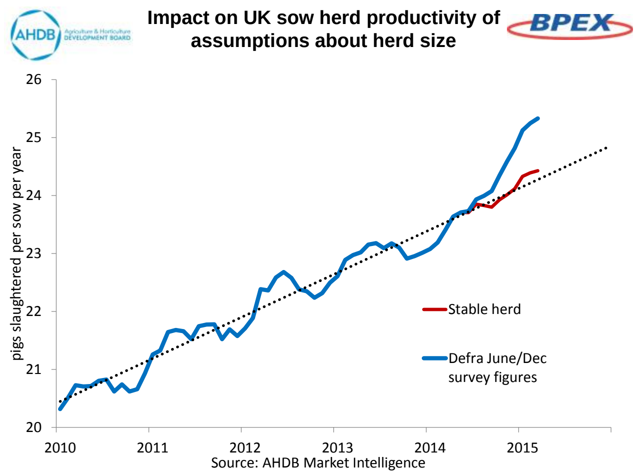
Outlook for UK Pig Meat Supplies – April 2015

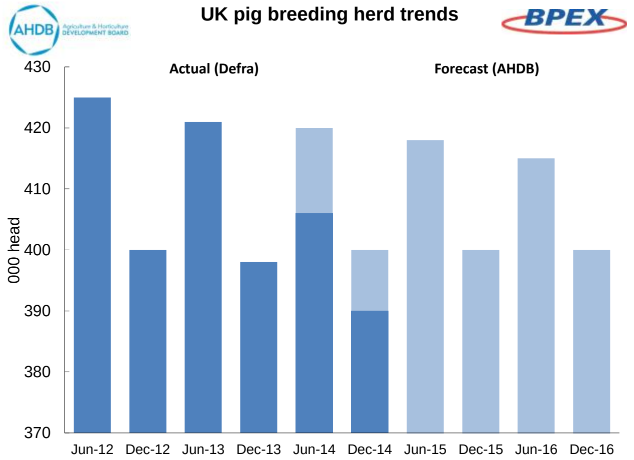
Latest AHDB forecasts for UK pig meat supplies show that the supply situation which has prevailed over the last year or so is set to continue. Domestic production is expected to increase further and little change is projected for the balance of trade. This is likely to mean that pig prices remain under pressure unless demand picks up to match the higher supply.

Having been broadly stable in 2013, Defra's June and December surveys suggest that the UK breeding herd declined in 2014. The June survey showed a 4% decline in the sow herd, including in-pig gilts, to 406,000 head. The December survey showed a smaller 2% fall to 390,000 head. The latter recorded a particularly sharp fall in in-pig sows and gilts. If correct, these figures would suggest some tightening of finished pig supply, starting from the end of last year and continuing through much of 2015. In reality, slaughterings have continued to rise in recent months.

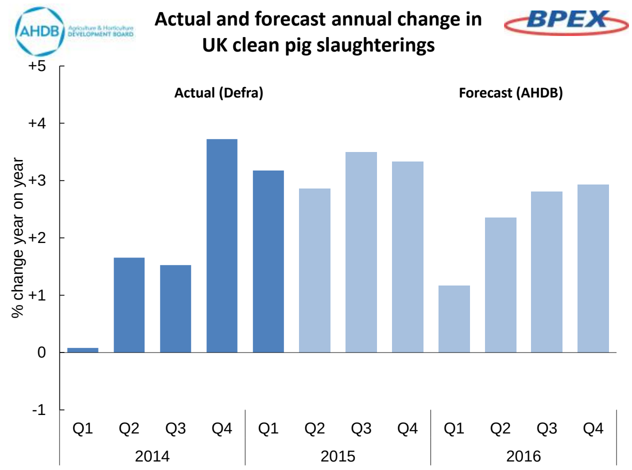
These higher slaughterings mean that, if the Defra figures are right, there has been a dramatic and unprecedented rise in productivity over the last year. However, if the true situation is that the breeding herd has been more stable, then productivity has continued to rise in line with the trend seen over the last five years. Since there is little other evidence to support a sharp rise in productivity, it seems more likely that the breeding herd is actually more stable than the Defra figures show.



These forecasts, therefore, assume that the breeding herd has been little changed through 2014. Although pig prices fell steadily throughout the year, low feed costs meant that most producers made positive margins during 2014. This suggests that there is little reason why the breeding herd would have contracted, a conclusion backed up by the low level of sow slaughterings during the year. This broad stability is expected to continue in the near future as producers are still not under severe financial pressure.



With a stable breeding herd, productivity growth is the main driver of production levels. Output per sow has been on a steady upward trend in recent years, due to improvements in areas such as health, genetics, nutrition and husbandry. Based on a stable breeding herd, the average number of pigs slaughtered per sow in 2014 reached about 23.7, up from 23.0 in 2013 and 20.6 in 2010. There is little reason to expect this trend to change, meaning clean pig slaughterings are forecast to carry on rising around 3% year on year, a similar rate to recent months.



The other factor influencing production levels is carcase weights. These have increased significantly over the last year, helped by low feed prices, among other factors. Provided feed prices remain low, carcase weights will probably stay high but whether there is further growth will depend on market conditions. The most likely situation is that carcase weight rises will slow down during 2015 and that weights may then stabilise into 2016.

Over the last year, sow slaughterings have been relatively low. This is partly because of the poor prices available, which may mean that some sows are being retained for longer. This can only continue for a while without affecting litter sizes, so

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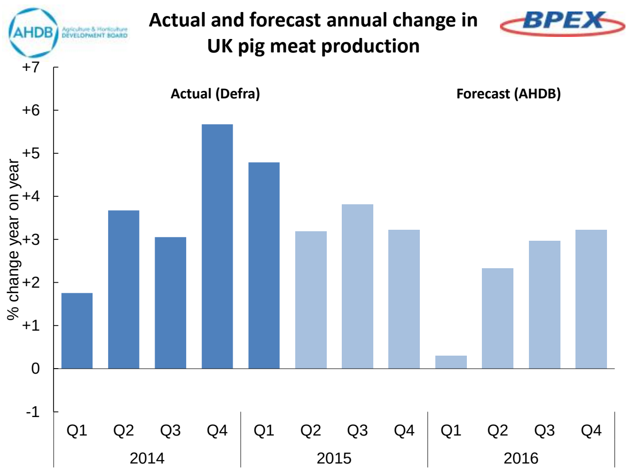
throughputs are expected to gradually return to more normal levels. If they don't, it could start to reduce the productivity of the breeding herd. This has the potential to slow overall production growth in due course, although it is unlikely that this will become apparent until well into 2016.

Actual and forecast UK pig slaughterings

	Clean pigs			Sows and boars		
000 head	2014	**2015**	**2016**	2014	**2015**	**2016**
Quarter 1	2,502	2,581	**2,612**	64	61	**63**
Quarter 2	2,463	**2,533**	**2,593**	62	**61**	**63**
Quarter 3	2,566	**2,656**	**2,731**	59	**60**	**61**
Quarter 4	2,696	**2,786**	**2,868**	58	**60**	**61**
Year	10,227	**10,557**	**10,802**	243	**242**	**248**

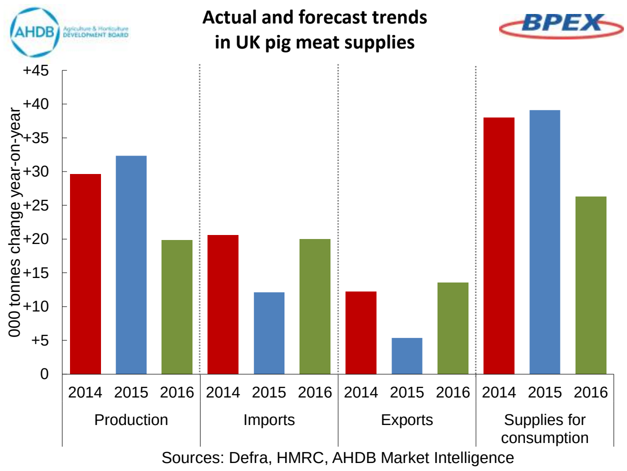
Source: Defra, AHDB. Figures in bold are forecasts

With a modest increase in carcase weights partly offset by low sow slaughterings, growth in pig meat production for the remainder of 2015 is likely to be driven by the rise in clean pig slaughterings. With weights having been unusually high in the first quarter of 2015, a return to a more normal seasonal pattern could mean that production growth slows in early 2016, before returning to a rising trend later in the year.



Since mid-2013, the gap between UK and EU pig prices has remained well above 20p/kg. Despite this unprecedented situation, UK imports in 2014 were only slightly higher than the previous year. This supports the view that pork buyers remain committed to sourcing UK pig meat. If that situation doesn't change, it seems unlikely that imports will rise significantly in 2015. However, there is likely to be increasing pressure on buyers if the UK price premium doesn't reduce as the year progresses. This creates some uncertainty and means that imports could be noticeably higher than currently forecast. There may be some tightening of EU supplies later in the year, as a result of the current difficult financial position of producers. This could help to limit any import growth which does occur in late 2015 and into 2016.

UK export growth has slowed in recent months, not helped by the weakness of the euro against the pound. This looks set to continue to be a factor for the remainder of 2015, with only modest export growth expected as a result. Any expansion is likely to be focused on non-EU markets, where the pound-euro exchange rate is less influential. However, competition on these markets will be tougher this year, as prices in other major exporters are much lower than in 2014.



Taking all these factors into account, pig meat supplies are set to be plentiful for the rest of this year and beyond, particularly if imports rise more than expected. Overall, supplies are forecast to be over 2% higher in 2015 than in 2014. So far, there has been little sign of this higher supply being met with increased demand, with retail sales below last year's levels in early 2015.

Actual and forecast supplies of pig meat in the UK

000 tonnes (cwe)	2014					2015					**2016**
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	**Year**
Production	212	207	215	229	863	222	**213**	**223**	**236**	**895**	**915**
Imports	228	237	235	249	948	**232**	**240**	**238**	**250**	**960**	**980**
(Fresh/frozen)	(95)	(100)	(97)	(104)	(396)	**(96)**	**(100)**	**(97)**	**(104)**	**(397)**	**(400)**
(Bacon)	(72)	(73)	(76)	(79)	(300)	**(73)**	**(74)**	**(77)**	**(80)**	**(304)**	**(310)**
(Processed)	(60)	(64)	(62)	(65)	(252)	**(63)**	**(66)**	**(64)**	**(66)**	**(259)**	**(270)**
Exports	60	59	61	60	241	**60**	**60**	**61**	**65**	**246**	**260**
Available for consumption	380	384	388	417	1,570	**394**	**393**	**400**	**421**	**1,609**	**1,635**

Source: Defra, AHDB. Figures in bold are forecasts