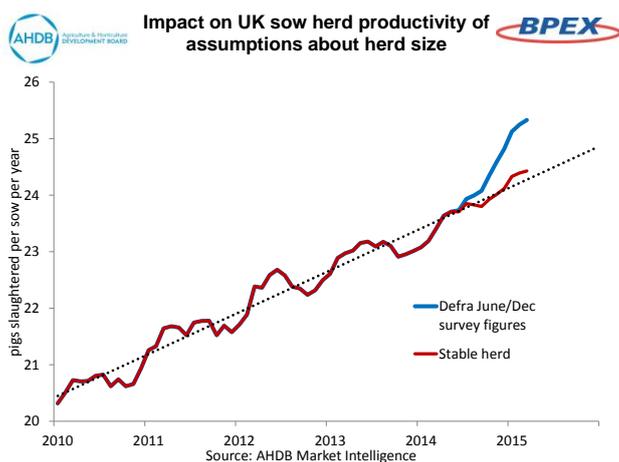


Supply growth to continue – more demand needed

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. However, higher slaughterings mean that, if the Defra figures are right, there has been a dramatic rise in productivity over the last year. Since there is little other evidence to support this, it seems more likely that the breeding herd is actually more stable than the Defra figures show. The new forecasts, therefore, assume that the breeding herd has been little changed through 2014. This stability is expected to continue in the near future as, despite pig prices having fallen, feed prices are also low, meaning producers are 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. There is little reason to expect this 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. 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 perhaps stabilise into 2016.

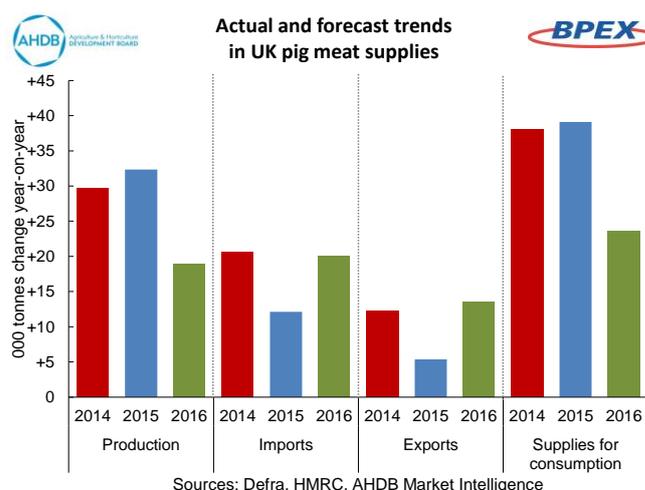
Over the last year, sow slaughterings have been relatively low. This is partly because of the poor prices available, which may mean that some sows are being retained for longer. This can only continue for a while without affecting litter sizes, so

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.

Since mid-2013, the gap between UK and EU prices has remained well above 20p/kg and at times reached almost 40p. Despite this unprecedented situation, UK imports in 2014 were only slightly higher than the previous year and by the second half of the year there was no growth at all. 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 could lead to imports being higher than currently forecast, increasing supply levels further. Although there may be some tightening of EU supplies later in the year, as a result of the current difficult financial position of producers, prices on the continent are forecast to remain subdued. Therefore, UK prices may need to fall further if the price gap is to return to a more normal level of around 10p/kg.

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 in 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, it is clear that pig meat supplies are set to be plentiful for the rest of this year and beyond. This will mean an increase in demand is needed if prices are not going to remain under pressure. So far, there has been little sign of it, with retail sales below year earlier levels in early 2015. This suggests that the UK pig market may remain challenging for the rest of the year.