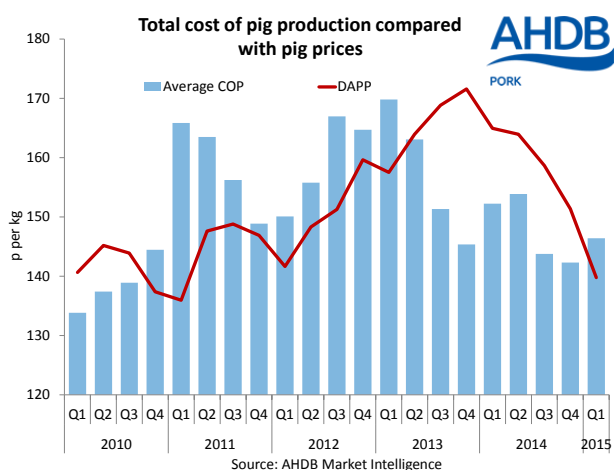


Producers back in the red

Latest AHDB estimates of the cost of pig production confirm that GB farrow-to-finish producers, on average, lost money during the first quarter of 2015. At 146.4p/kg, the cost of production was almost 7p higher than the average pig price during the quarter, equating to a loss of £5 per head. This is the first time costs have risen above incomes since the first quarter of 2013 but before that producers were often in a loss-making position. By the end of the quarter, pig prices had fallen still further, pushing losses towards £8 per head.

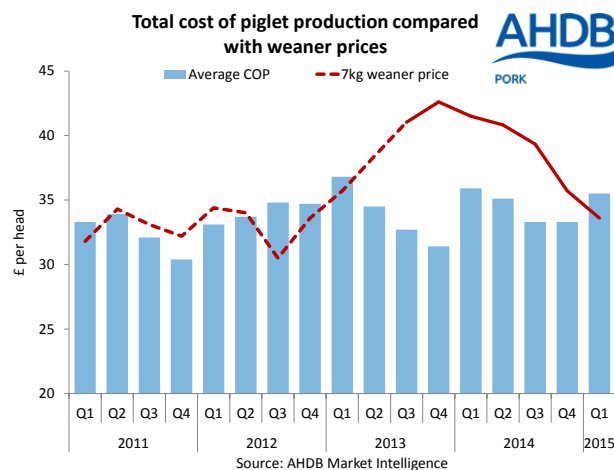


During the period of profitability which ended in late 2014, the industry is estimated to have made around £160 million after taking account of depreciation and financing costs. However, this was insufficient to fully offset the losses made during the previous three year period when margins were negative. These amounted to an estimated £180 million. This may help to explain why the high prices on offer did not lead to expansion of the UK breeding herd over the last two years.

Estimated costs in the first quarter of 2015 were slightly higher than in the second half of last year. This was largely attributable to a modest rise in feed prices and the low cull sow price, which increased the effective cost of replacement gilts. However, costs remained towards the bottom end of the range experienced in recent years, limiting the impact of falling pig prices on producer margins, for now at least.

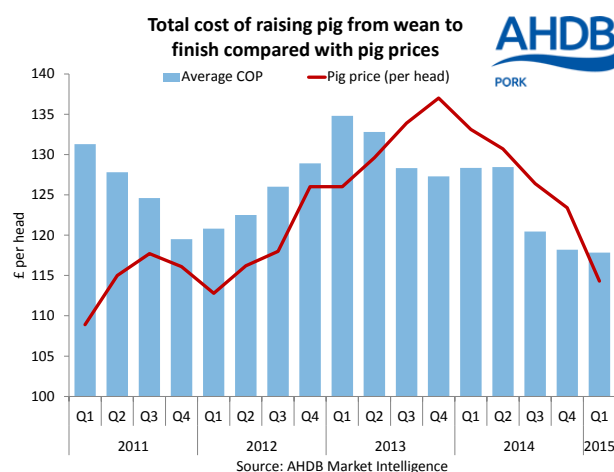
The overall cost of production estimate covers the whole pig production cycle, from service to slaughter. So how do margins compare for different production stages?

The model used to estimate overall production costs also allows us to look at different production stages. For example, we can isolate the costs associated with breeding to estimate the cost of producing a weaned piglet. Over recent years, this cost has generally been between £30 and £35 per head. The cost of piglet production varies less than for finished pigs because feed, which provides most of the volatility, makes up a much smaller proportion of the total cost.



The estimated cost of piglet production rose slightly in early 2015. This was largely due to the low cull sow price, which increased the cost of replacing older sows with new gilts. Over the last year, the decline in the sow price has largely offset the fall in feed costs. As a result, with 7kg weaner prices have fallen back over the last year, producers who are selling piglets have also, on average, been back in the red since the turn of the year.

In the first quarter of 2015, the model estimates that the cost of raising a pig from 7kg to finished weight was around £84 per head. With the piglet price averaging £34 per head, that means the total cost to finishers during the quarter was around £118. With the average finished pig price equating to £114 per head, finishers too were back in the red.



Based on the latest estimates, the financial position of producers has obviously worsened in recent months. However, with full costs taking account of depreciation, many will still be making operating profits. Nevertheless, the charts above show the vulnerability of producers to a rise in costs, most likely due to higher feed prices. If costs were to increase to anything like the levels of 2011 or 2012-13, producers would face substantial losses. This leaves the industry in a vulnerable position and emphasises the importance of finding ways to manage the risks associated with rising feed costs.