

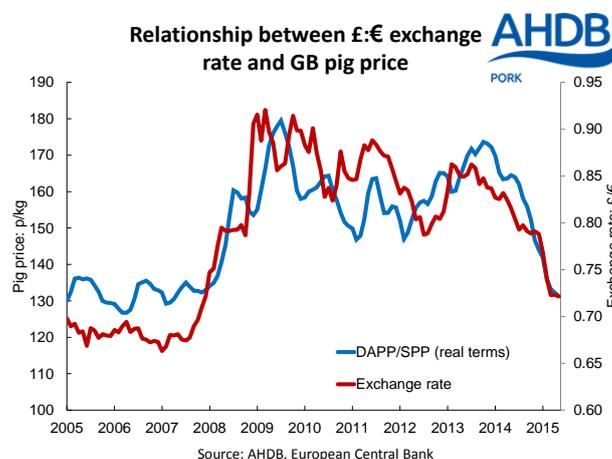
Pig prices – lessons from history

GB pig prices have recently dropped to their lowest level in over six years. However, before that time, prices had rarely reached this level. The average SPP for May was just over 131p/kg. This is the lowest recorded since this series began in April 2014 and the last time the DAPP (which had a similar price level to the SPP) was that low was in December 2008. However, prior to mid-2008, prices had been below this level for over a decade. So, are current price levels really that bad?

Of course, to some extent that depends on how they compare to input costs, which are also low now, relative to recent years. However, it is also worth considering the effect of general inflation. In real terms (i.e. adjusting for inflation), May's price was the lowest since April 2007 but prices were regularly lower in the preceding years and particularly in the late 1990s. Interestingly, in real terms prices reached a modern peak in 1996 at over 220p/kg, well above the levels reached in the more recent peaks in 2009 and 2013.

One of the factors influencing pig price levels is the exchange rate between the pound and the euro. A strong pound makes imported pig meat cheaper, which inevitably puts pressure on domestic prices. In addition, it makes UK exports less competitive on the EU market. Although international markets are generally priced in US dollars, UK product is competing against meat from the rest of the EU here too. That means that either export volumes or prices will be lower in sterling terms, again hitting farmgate prices.

Comparing GB pig prices with the exchange rate confirms a relatively close relationship, at least in the medium-term. The relationship is even stronger when prices are adjusted for inflation. Therefore, it appears that it is no coincidence that the last time the pig price was as low was also the last time that the pound was so strong against the euro.



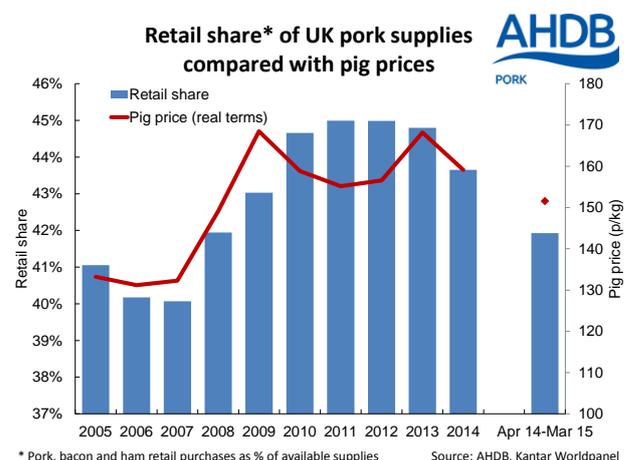
While the exchange rate clearly has a strong influence on the pig price, it is not the only factor. Ultimately, price levels will always be determined by supply and demand factors. The exchange rate is influential because it impacts on supply

levels via imports and demand via exports. Information about long-term trends in supply and demand can be found in the recently-updated [MeatStats tables](#) published by AHDB.

These show, for example, that UK pig meat production has been rising over the last decade. The supply level was initially added to by increasing imports, although they have levelled off in recent years. The rise in supplies available has been balanced to a large extent by rising exports, which are now approaching the record levels of the late-1990s, although 2015 may be a more difficult year due to the exchange rate.

All this means that supplies available for consumption on the UK market have been broadly stable in recent years but have been subject to some fluctuations from year to year. Most of this product will have found a market of some kind, since the industry can't afford for much to be wasted. However, the price will depend, in part, on demand from the highest-value market, retail, rather than foodservice or manufacturing, which are usually more price sensitive.

Therefore, it is worth comparing trends in supply availability with retail sales of the major unprocessed or lightly processed pig meat products (pork, bacon and ham). Since 2010, Kantar Worldpanel data for retail purchases of these products have been equivalent to around 45% of available supplies (adjusted to carcase weight equivalent and allowing for Northern Irish consumption). This is a higher share than in the preceding years, when pig prices were lower in real terms, when it was typically around 40%,



Last year, the retail share of supplies dropped slightly to 44% but was falling throughout the year. In the year to the end of March 2015, it was down to around 42% as supplies rose but retail sales fell. This share is similar to 2008 and may well fall further unless retail sales respond to lower pig prices.

History tells us that the current combination of a weak euro and retail demand running below supply goes a long way to explaining why pig prices are low. It is likely that one or both of these factors, neither of which is easy to affect, will need to change for prices to recover significantly.