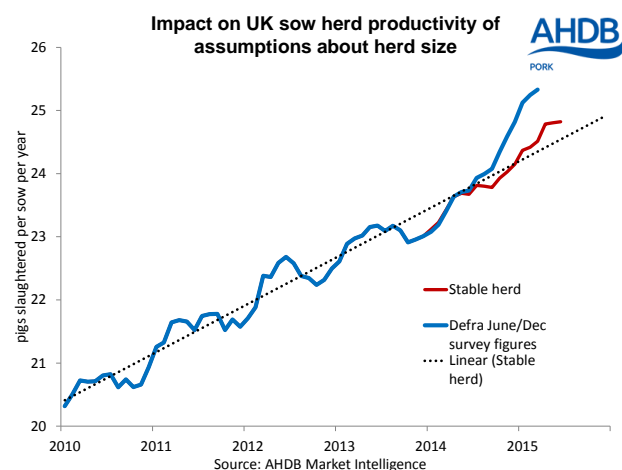


Further supply growth likely to keep prices under pressure

Latest [AHDB forecasts for UK pig meat supplies](#) show that the increase in domestic supplies which has been apparent over the last year is likely to continue. The overall supply situation will depend on whether the recent slowdown in imports continues. If it does, the growth in available supplies this year should be slower than last year, with a further slowing of growth forecast in 2016.

Both the June and December surveys from Defra showed a decline in the UK sow herd, including in-pig gilts. The declines were large enough that they should have led to a levelling off or even a fall in clean pig slaughterings from the start of this year, if not before. In reality, slaughterings have continued to rise, with the rate of growth increasing, if anything. Even if the breeding herd was broadly stable last year, productivity has moved slightly ahead of the long-term trend. If the Defra figures are right, there has been an unprecedented rise in productivity. Since there is no other evidence to support this, it seems the sow herd has been more stable than indicated by the Defra surveys.

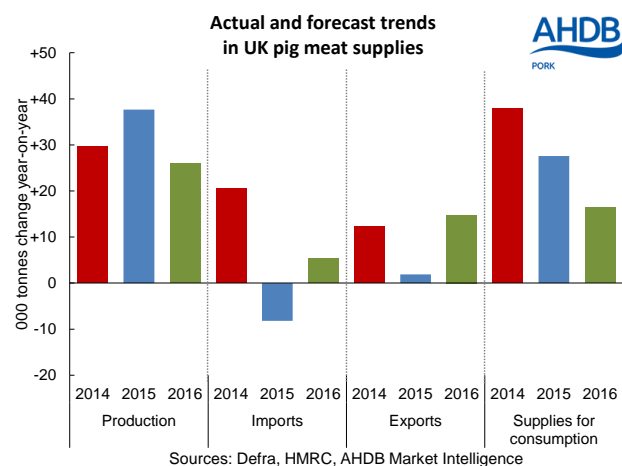


The broad stability of the breeding herd is also supported by the low level of sow culling over the last year, with very low prices contributing to this development. A recent upturn in slaughterings suggests a return to more normal levels of culling as the sow herd gets slightly older, which may be enough to ease concerns that lower replacement rates could affect productivity in due course. However, it could be an indication that low pig prices are starting to lead to some producers reducing their herds. Until this is clearer and in the absence of any dramatic feed or pig price movements, the assumption of a stable breeding herd remains the most likely scenario into next year.

With a broadly stable breeding herd, productivity continuing to improve and a further modest rise in carcase weights expected, both slaughterings and production are forecast to continue rising at around the rate seen recently for the rest of this year before possibly slowing down slightly next year.

Although the gap between UK and EU pig prices remains high by historic standards, there is still no sign it is leading to an increase in pig meat imports. Indeed, in the first five months of 2015, imports were actually down on last year. With retail buyers still apparently committed to UK sourcing wherever possible and with plentiful domestic supplies available, there is little reason to think that imports will rise during the rest of this year. Little change is anticipated next year either, especially as it is possible that the gap between UK and EU prices could narrow if supplies tighten on the continent.

While the weak euro doesn't seem to have had affected imports, it is making it harder for exports to compete with product from the rest of the EU. As a result, UK pig meat exports in the first five months of 2015 have been little changed from a year earlier, despite the increased output. Unless the pound weakens, this may remain the situation for the rest of the year. If the exchange rate does stabilise, some growth may be possible next year, particularly if the Chinese market opens for trotters later this year.



Balancing all these factors, total supplies on the UK market are forecast to grow again this year, albeit at a slightly slower rate than in 2014. There are signs that increased domestic supplies are displacing imports to a limited extent. Even if this continues, it is unlikely to be sufficient to offset the higher production. Therefore, demand will need to rise if the sustained pressure on pig prices is going to be relieved. A rise in export demand seems unlikely while the pound is so strong against the euro, so the domestic market is likely to be key. So far this year, retail demand for pig meat has been weak, meaning a higher share of production has had to be diverted to lower value markets, keeping prices down.

Growth is currently forecast to slow further in 2016 but there will still be more pig meat on the market than this year. In the absence of a demand response, this could mean that the pig market will remain challenging for producers for some time to come. However, there are many factors which could affect the outlook for 2016, so prospects could still change, for better or worse.