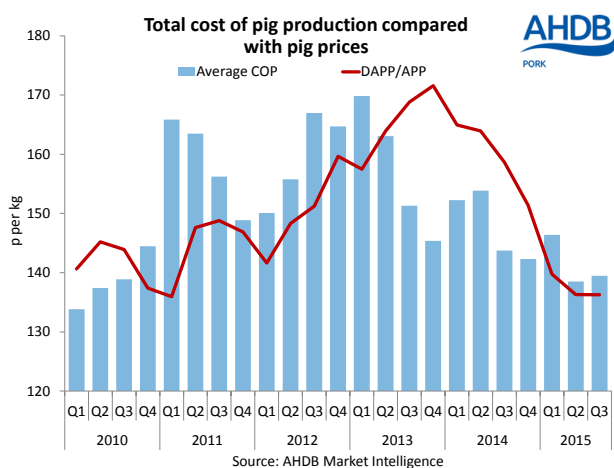


Production costs and prices steady in third quarter

The cost of pig production in the third quarter of 2015 was little changed from the previous three months, according to latest estimates from AHDB Pork. The average cost in GB between July and September was estimated to be 139.5p/kg, around a penny higher than in the quarter before. Despite the small quarter-on-quarter rise, costs during the period were still close to their lowest point in five years and over 4p/kg down on the same time last year. Costs were around 30p/kg (or £25/head) lower than at their peak in 2013.



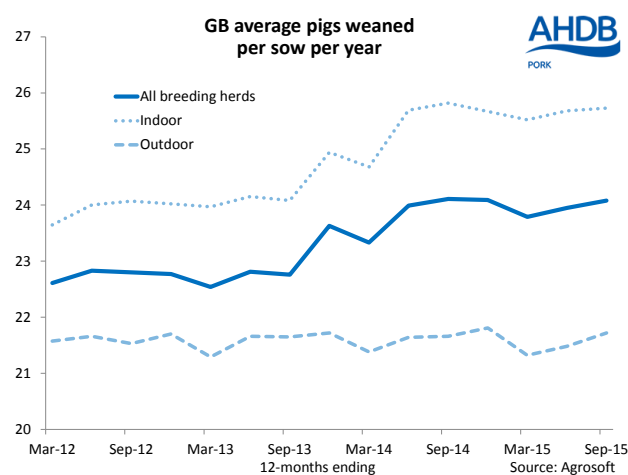
Pig prices were also little changed in the third quarter, with the EU-spec APP averaging 136.3p/kg. This meant that producers were estimated to be losing, on average, around £3 per pig sold during the quarter. This is the third straight quarter when producers have been losing money, following 18 months of profitability. However, losses are still much smaller than for most of the period between late 2010 and early 2013. Nevertheless, pig prices have fallen in recent weeks, to be around 130p/kg in the first half of November, while feed prices have been fairly stable. Therefore, producer margins are likely to have worsened further.

In interpreting the estimated cost of production and the net margin derived from it, it's worth remembering that it is a full economic cost. That means that the estimate takes into account some non-cash costs such as depreciation and family labour. These costs need to be included for assessing the sustainability of margins within the industry. However, as they don't affect the cash flow of businesses, producers can survive for some time with negative margins, provided prices remain above cash costs.

Estimates suggest that, on average, non-cash costs could account for 15-20p/kg of the total cost of production. Allowing for this would mean that cash costs have remained below GB pig prices in 2015. This goes a long way to explaining why we haven't yet seen any significant reduction in herd sizes. Of course, as with other categories of cost, there will be considerable variation between producers.

Turning to other types of cost, feed is the most significant, both in terms of its share of the total (about 55% at present) and its volatility. Since the peak in 2013, estimated feed costs have fallen 35p/head, while other types of cost have actually increased slightly. This decline is mainly due to lower feed prices, as the amount of feed used has been relatively stable; any reduction in feed usage due to improved feed efficiency has been offset by the extra to take pigs to heavier weights.

Although prices for feed and other inputs play a big part in determining production costs, physical performance also contributes. Latest figures from Agrosoft suggest progress in this area may have stalled over the last year. The number of pigs weaned per sow in 2014 was 24.09. The latest figure, covering the 12 months to September 2015, was 24.08. A small improvement for indoor herds was offset by a similar decline for outdoor sows. Prior to this year, productivity had improved for four consecutive years, with two more pigs weaned per sow in 2014 than in 2010.



Looking at the breeding figures in more detail, litter sizes were slightly higher for both indoor and outdoor sows. However, this was offset by a reduction in the number of litters per sow per year. Pre-weaning mortality was slightly lower, driven by an improvement for outdoor piglets.

If anything, performance in the feeding herd has worsened, according to the latest figures. The rearing Feed Conversion Ratio (FCR) was 1.71 in 2014 but 1.79 in the year to September 2015. Finishing FCR was 2.72 in the latest period, compared with 2.67 in 2014. While increasing weights may partly explain this, it appears that this is another area where steady improvement may have stalled.

Despite production costs being low, falling pig prices mean that margins are likely to be worsening. Given the risk that feed prices could start to rise again, it is as important as ever for producers to control their costs. Physical performance is an important component of that and the latest figures suggest that a renewed focus may be needed if improving trends are to resume.