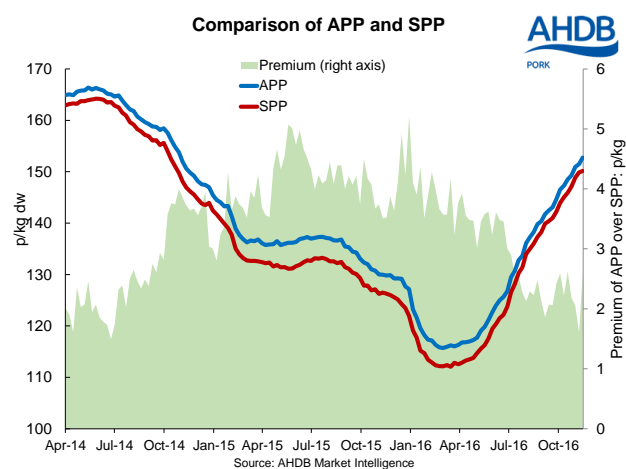


Comparing APP and SPP

Since April 2014, AHDB has been publishing two weekly prices for finished pigs. The APP is a simple average price for all pigs slaughtered during the week and is based on data collected from the sellers of pigs (producers and marketing groups). The SPP excludes any pigs for which a premium is paid due to the production system (e.g. outdoor-bred) or breed. SPP data is collected from the buyers of pigs (i.e. processors). Both series have similar sample sizes, typically between 80,000 and 90,000 pigs per week. This is a little under half the national kill but a much higher proportion of those eligible for price reporting, which excludes pigs owned by processors, for example.

As would be expected, the APP, which includes 'premium pigs' is higher than the SPP. However, the gap between the two has fluctuated. In the early months of the two series, when prices were relatively stable, the gap was only around 2p/kg. As prices began to fall from the summer of 2014, the gap between the two series increased, spending most of the next two years fluctuating around 4p/kg. However, as prices turned from the spring of 2016, the gap began to fall again and has recently been back to around 2p/kg.



So what is behind this trend? Essentially, two factors influence the size of the gap between the APP and SPP. The most obvious is the level of the additional payment received for 'premium pigs'. However, the proportion of pigs in the premium category also matters. If the size of the additional payment for premium pigs stays the same then the gap will fall if there are fewer of them and rise if there are more.

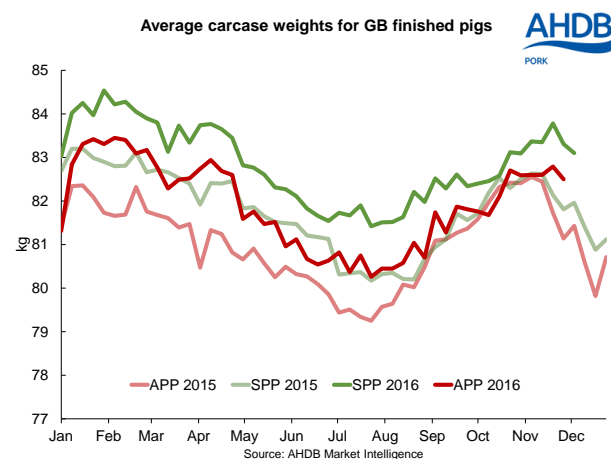
However, an examination of data shows that, despite some changes to which pigs are treated as 'premium pigs' over time, the proportion falling into this category hasn't changed much, at least since the autumn of 2014. They typically make up around a quarter of pigs slaughtered each week. This implies that the shifts in the gap between the APP and SPP must be down to changes in the size of the additional payment for premium pigs.

Analysis of the price reporting data confirms that this is, indeed, the case. The average price premium paid for 'premium pigs' rose through 2014 before stabilising at a relatively high level through most of 2015. It increased even further in early 2016 but has since dropped dramatically.

The explanation for this pattern is likely to be the impact of the spot market. Although only a relatively small proportion of pigs are now sold via this route, spot prices do have some influence on contract prices too. At times of a falling market, spot prices are normally reported to be well below contract prices. The reverse is true on a rising market.

As almost all premium pigs are sold on contract, these spot prices will mainly affect standard pigs. The net result is that standard pig prices are typically inflated relative to premium prices when values are rising and reduced when the market is falling. This is exactly the pattern which has been observed since the introduction of the APP and SPP in 2014.

One other development which has become apparent in recent months is some divergence in trends in carcass weights. For most of the year, the average weight for both SPP and APP samples have been around a kilo above last year's levels. However, while this remains the case for the SPP, the average weight in the APP sample is now only fractionally above the same point last year.



This suggests that the recent growth in carcass weights has largely been down to rises for standard pigs. This is confirmed by analysis of the data, which shows that, although premium pig weights vary seasonally in a similar way to those for standard pigs, there has been little upward movement overall. In contrast, standard pig weights have been rising steadily.

This analysis demonstrates that, while the markets for standard and 'premium' pigs follow similar trends, there are some different influences on them. With the end products from these pigs also being marketed differently, it may become increasingly important to understand the contrasts between them as well as the similarities.