

EU pig meat demand still struggling

Consumer demand for pig meat in key EU markets continues to struggle in 2017 and it is more export demand that is supporting the EU market. Fresh pork has been under the greatest pressure as processed products have held up better. What is happening to domestic demand in supporting the EU pig meat market in the coming months could be crucial as EU export markets are becoming more competitive especially China. Another issue for the sector is that increased finished pig prices are causing some retail pig meat price inflation. This is occurring at a time when consumers are having to tighten their belts as inflation is getting closer to real earnings growth in the EU.

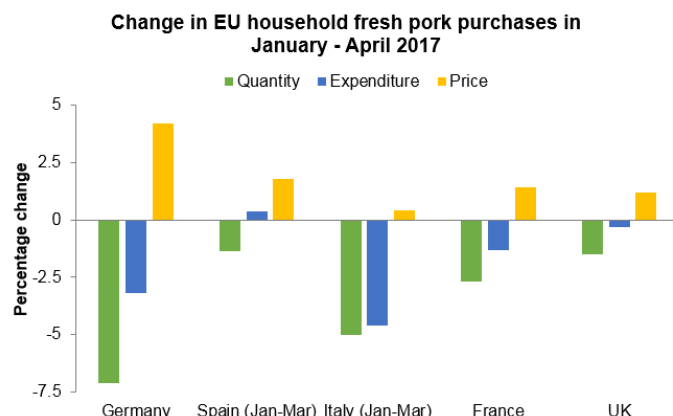
It is the key German pig meat market that is the most worrying and consumer panel data for the first four months of 2017 indicates that household purchases have declined yet again, by as much as 7% on a year earlier, for fresh pork. This is even greater than the 4% decline of 2016. The pork price rise, of 4%, was considerably higher than for other meats so eroding its competitive position. At least though the German "wurst" (sausage) market held up somewhat better although the rise on a year earlier was still less than 1% in January-April.

In France, household purchases of fresh pork also remain in decline and have been down nearly 3% this year, to 16 April, while prices have been up by over 1%. This has been on top of a similar decline in volume purchases in 2016. At least though charcuterie has held up better down only 1% so far in 2017 in spite of a fall of over 2% for hams. Charcuterie spending though was up nearly 2% contrasting with a reduction of over 1% for fresh pork.

The market has remained under pressure in Italy with fresh pork household purchases down over 5% in the first quarter of 2017 with spending only down by slightly less than this. This continues the similar disappointing performance of both 2015 and 2016. Expenditure on processed products was also down. For hams, uncooked fell by 4% and cooked by 1% while salami was down 3%.

In Spain pork is performing better than in other main consuming countries. This has been helped by the strong recovery in the economy. Household purchases in the first quarter of 2017 were only down a little over 1% which represents a considerably improved performance compared to 2016. Pork retail price inflation in the first quarter of 2017 was almost 2% so spending on pork was also up whereas in 2016 it was down by almost 9%. Total

household purchases of processed products, mainly pig meat based, were up by nearly 3% in volume and by 4% in spend. This compares favourably with the with the volume fall of over 1% in 2016 as a whole.



Source: AHDB Market Intelligence based on national data

UK household purchases of fresh pork in 2017 to 23 April fell by 1.5% but as some retail price inflation is now creeping in spending was down only marginally. This represents an improvement of the situation in the calendar year 2016. Kantar Worldpanel data indicated that volume purchases were down by almost 3% and with considerable retail price deflation spending was down by as much as 9%. Bacon household purchases have been up by over 1% so far in 2017 but some further retail price deflation meant that spend has been down almost 1%.

The summer short term outlook for agricultural products published by the European Commission is now due and should give an indication of how the EU pig meat supplies situation will likely pan out. The winter outlook suggested that there would be a downturn in EU exports in 2017 and a 1% increase in consumption but so far this has not been borne out. Even if there is upward revision to the exports, 90% of EU output is still consigned to the internal market.

As pig supply in the EU starts to build up again in response to expanding sow numbers a good level of internal demand becomes more critical if pig production is to remain profitable and the pig meat market not to fall back. Some reaction to the current high prices may be an inevitable consequence if there is a change in the supply/demand balance on the horizon. The increasing pig prices with consequent increased retail pig meat prices will inevitably meet consumer resistance at some stage although processors margins have also had to fall. Such price developments would inevitably have consequences not only for the EU as a whole but also the United Kingdom.