

UK Pig Meat Outlook Review – July 2017

Summary

- Production still trending behind 2016 levels, with Q2 slaughterings slightly lower than previously anticipated
- Exports constrained by supplies so far this year
- Import volumes, according to official HMRC data, have been surprisingly above year earlier levels, considering reports of tight supplies on the market
- Market conditions for the rest of 2017 will depend on the extent to which production recovers, and international trade developments

Slaughterings and production

Pig meat production fell 3.6% year-on-year during Q2 2017, to 214.9 thousand tonnes. This was slightly lower than expected in the April forecast. The divergence was largely driven by lower clean pig slaughterings, which were 0.9% behind expectations at just over 2.5 million head. However, this larger decline in throughputs was partially countered by carcase weights, which increased on the year marginally ahead of expectations to average at 82.4kg.



Source: Defra (Actual), AHDB Market Intelligence (Forecasts) * Pro-rated to 52 week year

The deviation in throughputs from the forecast could still imply that slaughterings in the latter half of 2017 might also be lower than previously expected. The April forecast is particularly based on the size of the breeding herd as at December 2016. Official Defra figures published after December 2015 have been revised downward to reflect industry intelligence at the time. In light of actual slaughterings, these revisions may have been a little conservative.

In April, AHDB revised the breeding herd number from the December 2016 census down by 16,000 head, to 393,000.

However, analysis based on actual Q2 slaughterings suggests a figure closer to 388,000 head would have produced a more accurate forecast.

Changes to the expected sow productivity could also cause slaughterings to deviate from the forecast. The April forecast assumes a steadily increasing trend for pigs born per sow per year. However, [Agrosoft](#) data now suggests sow productivity was actually largely stable towards the end of 2016. As such, this could have also led Q2 slaughterings to fall below the expected level. Productivity appears to have returned to growth in the first quarter of this year, suggesting this potential source of discrepancy could now be minimised.

On balance, the rest of 2017 may be more stable in production volumes than previously anticipated, without any significant recovery on the horizon. Instead of a 1% recovery in H2, slaughterings may now be stable on the year at around 5.3 million head.

Sow slaughterings in Q2 were 13.5% lower than a year earlier, at 58,000 head. This was lower than the 9% year-on-year decline anticipated in the April forecast, adding weight to the argument that the sow herd may be smaller than previously expected. Lower cullings also suggest herd rebuilding could be underway, and some further recovery in numbers may be expected when the June census results are released in October.

The April forecast anticipated cullings would pick up in the latter half of the year. Numbers could be expected to increase from Q2, though may be below previous expectations. Sow prices were strong during Q2, but this did not encourage producers to increase culling rates. This suggests there were few suitable sows available, reflecting a smaller, younger breeding herd. As such, sow slaughterings may remain below 2016 levels for the rest of the year, especially given sow prices have come under some downwards pressure recently.

Lower expectations for both clean pig and sow slaughterings may result in a more delayed recovery in production than initially forecast. However, should average carcase weights continue to increase year-on-year, this could minimise the divergence. In Q2, clean pig carcase weights were 400g heavier than forecast in April. If this continued throughout the rest of 2017, even if slaughterings were no higher than last year, pig meat production would only be around 5,000

UK Pig Meat Outlook Review – July 2017

tonnes less than previously forecast. This would still be 3,000 tonnes more than in the latter half of 2016.

Actual and April forecasts UK pig slaughtering

000 head	Clean pigs				Sows and boars			
	2016**	2017	2017	2018	2016**	2017	2017	2018
	Actual		April f		Actual		April f	
Q1	2,623*	2,556	2,578	2,578	67*	59	63	63
Q2	2,605*	2,509	2,531	2,607	67*	58	61	64
Q3	2,620*		2,632	2,715	59*		62	60
Q4	2,686*		2,736	2,827	64*		64	64
Year	10,535*		10,456	10,727	257*		246	252

Source: Defra, AHDB. Forecast figures in bold

*Due to changes in Defra reporting methodology, 2016 figures have been converted back to statistical months

**2016 has been converted back to a 52-week statistical year for comparison purposes

Trade

According to the latest HMRC data, pig meat imports continued to trend substantially higher than year earlier levels during the first five months of 2017. At 259,000 tonnes (cwe) for Q1, total pork imports were 16% above 2016 levels. This was even after figures for fresh/frozen pork imports from Denmark were substituted for Danish export figures, which are thought to better reflect the reality of the situation (read more [here](#)). Based on available trade data for April and May, similar volumes seem to have been imported in Q2.

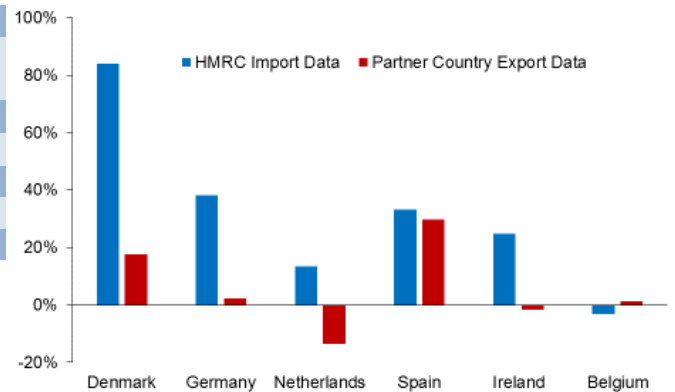
This level of imports is significantly higher than expectations, and somewhat surprising given market conditions early this year. The extra 35,000 tonnes of pig meat imported in Q1 more than surpasses the 5,000 tonne decline in pig meat production during the period. As exports were no higher during the quarter, the data suggests supplies for consumption were 8% above 2016 levels in Q1 this year.

An increase in supplies for consumption is contrary to market intelligence, with tight supplies being a feature of the market that has supported the pig price this year. Consumer demand has not improved; in fact, the latest Kantar Worldpanel data indicates volume sales of pig meat were actually 2% lower on the year in the 52 weeks ended 18 June.

A 26% increase in fresh/frozen pork in Q1 imports has particularly driven the overall surge in apparent pig meat availability. However, in many cases the scale of increase is not matched by partner countries' export data. As such, the import figures seem somewhat overstated. This is backed up by anecdotal industry reports. AHDB are currently involved

in ongoing discussions with the relevant parties in order to understand and minimise these discrepancies.

Year-on-year change in UK fresh/frozen pork imports- Q1 2017



Source: IHS Maritime & Trade Atlas®, HMRC, Eurostat, Statistics Germany, Agentia Tributaria, CSO Ireland

In reality it is likely pig meat imports have grown only modestly in the first half of 2017. Analysis based on export data from the countries in the chart above would suggest a 10% year-on-year increase in UK fresh/frozen pork imports may be more appropriate. While lower domestic production will have increased import requirements, tight supplies in Europe and the weak pound will have likely countered this somewhat. Moving forwards, if the pound remains weak and production moves up, import demand could then moderate slightly compared to 2016.

On the export side, at 64,000 tonnes (cwe) pig meat shipments were slightly down on the year in the first quarter. This was broadly in line with expectations given the assumed reduction in exportable supplies this year.

For the rest 2017, the April forecast anticipated exports would recover and ultimately return to year-on-year growth. This looks to be the case for Q2 so far, with monthly shipments in May exceeding 2016 levels for the first time this year.

However, although increasing supplies are still expected in the latter half of the year, the growth could be smaller than previously anticipated. Also, while UK shipments to China have remained strong, Chinese import demand on the whole has weakened recently. The latest outlook from FAO-OECD anticipates Chinese pork import demand may fall 25% this year compared to 2016. Nonetheless, some industry reports have suggested import demand could still pick up somewhat in the latter half of this year (read more about China [here](#)). As such, the extent to which UK shipments might be affected is uncertain.

UK Pig Meat Outlook Review – July 2017

Outlook

Overall, the extent to which production picks up over the next few months, and the scale of export demand, will be key to determining the market balance in the third quarter.

Supplies look set to move closer in line with demand, which will likely limit any further upward momentum to the pig price. AHDB will reflect on Q3 developments when the next full outlook is produced in October.

*Source: Defra, HMRC, AHDB. Figures in bold are forecasts
Figures in italics have been modified to use Danish exports to the UK
Modified forecast based on available trade data for April and May

Actual and April forecast for supplies of pig meat in the UK

000 tonnes (cwe)	2016					2017						2018
	<i>Actual</i>					*						
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Qtr 1	Qtr 2	Qtr 2	Qtr 3	Qtr 4	Year	Year
Production	228	223	221	230	903	223	215	216	223	236	898	923
Imports	224	<i>244</i>	<i>259</i>	<i>281</i>	<i>1,008</i>	259	259	243	251	261	992	983
(Fresh/frozen)	(96)	<i>(110)</i>	<i>(117)</i>	<i>(128)</i>	<i>(450)</i>	(121)	(122)	(110)	(115)	(115)	(446)	(442)
(Bacon)	(67)	(65)	(73)	(79)	(284)	(70)	63	(65)	(68)	(73)	(273)	(271)
(Processed)	(61)	(69)	(69)	(75)	(274)	(68)	74	(68)	(68)	(73)	(273)	(270)
Exports	65	66	60	60	251	64	66	66	65	70	264	270
Available for consumption	387	402	421	451	1,660	418	408	393	409	427	1,626	1,636