

Outlook for UK Pig Meat Supplies– October 2017

Summary

- Production starting to move up again, emphasised by carcase weights accelerating upwards
- Increasing supply boosts export prospects, though global market conditions are becoming more challenging
- Import volumes according to official HMRC data still appear surprisingly elevated above 2016 levels. Increasing EU supplies and falling prices could provide further pressure from imports
- With increasing supplies, market conditions will likely be less favourable next year. The extent of this will depend on international factors and how domestic demand develops.

Current market conditions

During the past two months, pig prices have started to edge down from the record high levels achieved during the summer. While throughputs largely remained below year earlier levels in Q3, difficulties with plant reliability have limited demand for pigs. These challenges have also led carcase weights to increase strongly, ahead of the usual seasonal trend. Altogether, this pushed production in Q3 ahead of equivalent 2016 levels. With retail demand not increasing to match supply, prices have come under increasing pressure. How might conditions develop moving forwards?

Slaughterings outlook

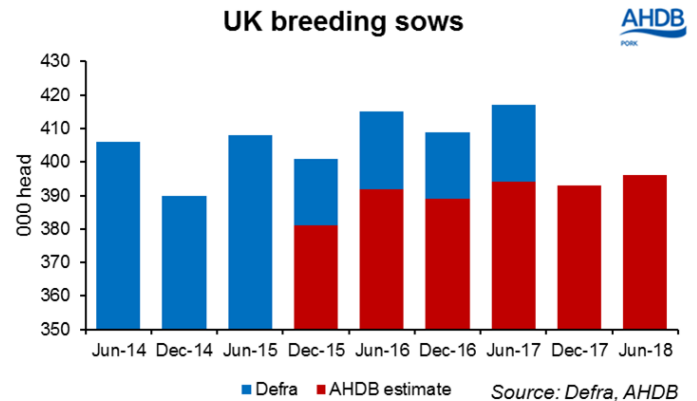
Clean pig throughputs look set to pick up in the coming months, on the back of some modest expansion in the breeding herd and expected improvements to sow productivity.



Herd size

In the short term, the Defra June Agricultural Survey results for England indicated a 5% year-on-year growth in numbers of pigs under 20kg. This, coupled to an 8% year-on-year increase in starter/grower GB compound feed production in August, suggests an uptick in supply can be expected in the latter part of the year. Although, if plant reliability continues to be a problem, this may not be fully reflected in throughputs.

UK breeding sows



Into 2018, some increase in the sow herd is expected to push slaughterings 2% above 2017 levels, to 10.6 million head. The 2017 Defra UK June Agricultural Survey reported a 1% increase in the UK female breeding herd, largely driven by Northern Ireland with the English herd remaining broadly steady. At 417,000 head, the absolute figure continues to appear overstated. A figure closer to 394,000 appears more accurate, based on previous AHDB forecasts and industry intelligence.

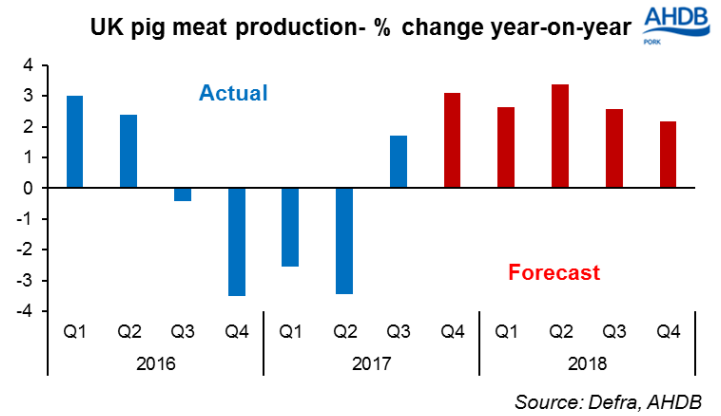
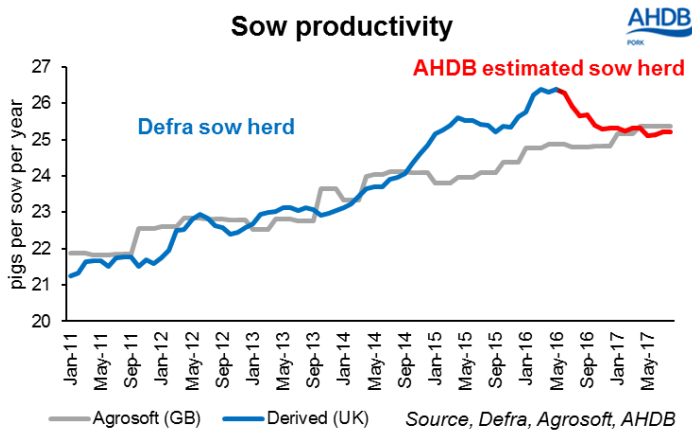
Despite improved producer profitability this year, only modest breeding herd growth backs-up industry reports of investment into infrastructure rather than significant expansion. Modest expansion is expected to continue into 2018, given the positive financial situation of producers this year.

Sow productivity

Developments in sow productivity are also expected to support throughputs moving forwards. UK sow productivity figures derived from estimated sow numbers and slaughterings have been challenging in recent months due to concerns about the accuracy of the breeding herd. These figures suggest productivity has been on a declining trend since last year, which contradicts industry sentiment and GB [Agrosoft](#) data.

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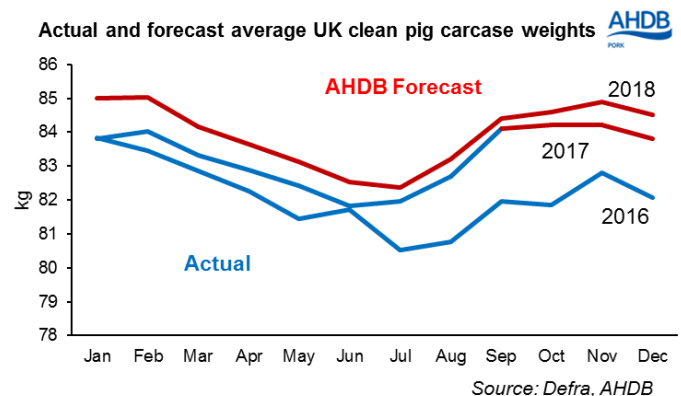
However, comparing the derived and Agrosoft figures suggests the former may have overestimated sow productivity since 2015. Now, following appropriate adjustments to the estimated size of the breeding herd, derived sow productivity appears to be moving back in line with the Agrosoft trend.



Average carcase weights are expected to remain around the 84kg mark for the rest of this year. Increasing supplies, coupled with the legacy of plant unreliability, is thought to be limiting the ability to pull pigs forward for Christmas this year. Into 2018, weights could continue to trend higher than year earlier levels, with reports suggesting there could be an increased drive towards heavier finishing weights next year. It has been suggested that improved genetics are enabling boars to reach heavier weights more quickly, reducing the risk of taint.

Looking forwards, sow productivity is expected to continue moving up. However, with producers increasingly looking to reduce antibiotic usage rates, the rate of improvement may be slightly behind the average for the decade so far.

For sows, slaughterings are expected to return to normal levels, having been unusually high during 2016 and subsequently low in the first half of 2017.



000 head	Clean pigs			Sows and boars		
	2016	2017	2018	2016	2017	2018
Q1	2,623	2,556	2,590	67	59	62
Q2	2,605	2,509	2,567	67	58	62
Q3	2,620	2,606	2,665	59	62	61
Q4	2,686	2,717	2,758	64	61	62
Year	10,535*	10,388	10,579	257*	240	247

Source: Defra, AHDB. Figures have been converted back to statistical months. Figures in bold are forecasts
*2016 has been converted to a 52-week statistical year for comparison purposes

Production Outlook

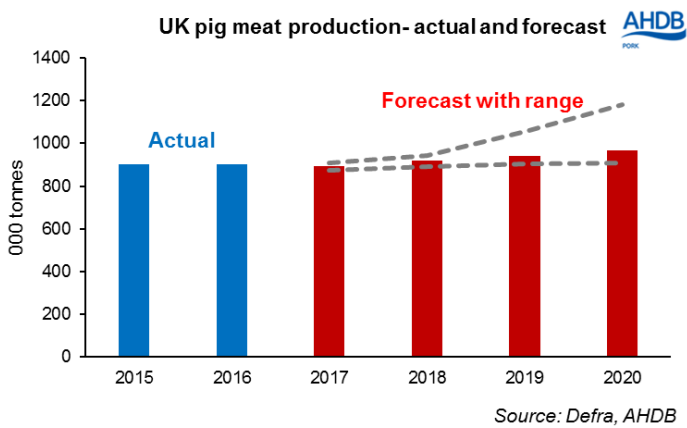
Anticipated above average increases in carcass weights could accelerate the rate of production growth to 3% in 2018. This would bring production next year to almost 925 thousand tonnes, the highest since 1999.

Long-term Production Outlook

Looking further forwards, production is expected to continue to edge up, by around 2% per year, in both 2019 and 2020. This follows from assumed continuing improvements to sow productivity and increases in carcass weights, both of which are long-term trends. The breeding herd in 2019 and 2020 is held steady in the forecast, as improvements in physical performance enable production to increase without increasing sow numbers.

With Brexit landing in spring 2019, there is the potential for market conditions to alter considerably in two years time. As such, there is also uncertainty surrounding the production forecast. The chart below shows a range around the base forecast, which assumes “business-as-usual” continues to 2020.

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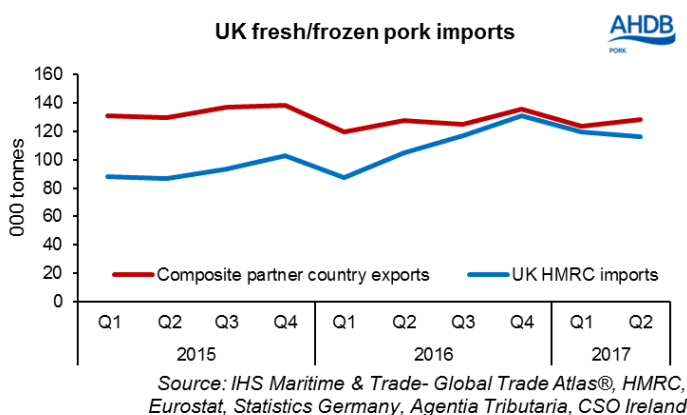


The range for 2017 and 2018 is based on the historical accuracy of AHDB forecasts. However, afterwards the range is based on the [Impacts of Alternative Post-Brexit Trade Agreements on UK Agriculture: Sector Analyses using the FAPRI-UK Model report](#), published by the Agri-Food and Biosciences Institute (2017). This highlights the potential for a sharper (+22%) increase in production if the UK adopts a protectionist stance and the cost of imported pork dramatically increases. Equally, a modest decline (-6%) in production is possible under a trade liberalisation scenario, where competition from cheap imports increases. With the timing of such impacts uncertain, this range is not intended as a forecast, but merely to provide a range of possible outcomes that the sector may face.

Trade

Imports

Official import figures show a notable year-on-year increase in UK pig meat imports during the first eight months of 2017. This trend is particularly driven by elevated fresh/frozen pork import figures. While there has been some moderation in the figures for July and August, volumes remain substantially above 2015 levels. As has been explained in previous outlooks, this trend is contrary to industry intelligence, market signals and partner country trade data.



Pork export volumes from our partner trading countries have traditionally appeared higher than the level of imports recorded by HMRC, but until recently both series followed the same trend. However, since mid-2016, these volumes have converged as can be seen above.

For this reason, partner country export data from the seven largest suppliers (~ 95% of the UK pork import market) has been used to derive a composite UK pork import figure for the forecast. This now suggests there was a modest decline in pork imports during 2016, likely influenced by the weakening of the pound reducing the attractiveness of imported product. This year, it appears imports were stronger in the first quarter, perhaps due to the tight supply situation, but subsequently stabilised in Q2. For the rest of this year, it is expected that increasing UK supplies will have moderated imports in Q3, but declining EU prices and challenging third country exports could see volumes recover in the latter quarter.

Next year, UK pig meat imports are expected to increase modestly, by less than 1%. This will largely be driven by a 4% rise in processed pig meat shipments, in line with a long term trend. For fresh/frozen pork, rising domestic production will increase supplies on the UK market, which should act as a deterrent to imports, especially if the pound remains weak. However, countering this, some growth in the breeding herd suggests EU production could also expand in 2018. As EU exports to China are expected to remain challenged next year, this could apply downwards pressure to the EU market and therefore increase the incentive to export to the UK. On balance, this should leave fresh/frozen imports largely stable next year.

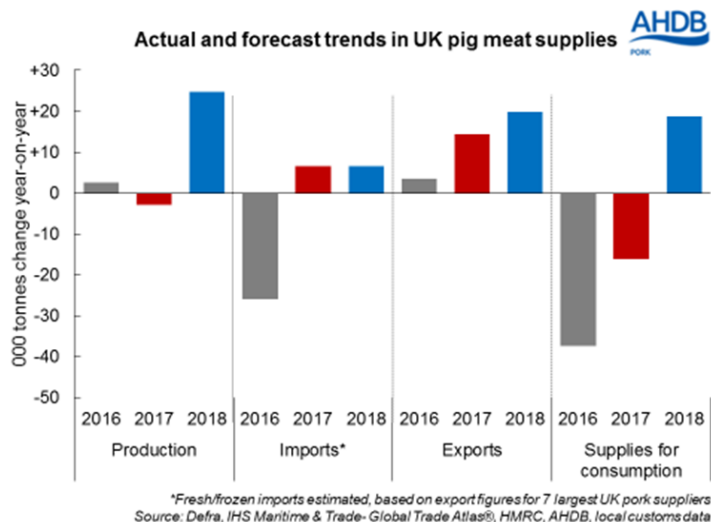
Exports

On the export side, increasing supplies mean there is scope for exports to increase over the coming months, with a further 4% growth anticipated in 2018. Volumes held up well in the first half of 2017, despite supply falling, which reports suggest constrained shipments somewhat. While the Chinese market has become more difficult this year, the UK has still managed to grow pork shipments by 7% in the year to August, suggesting demand for UK product has remained healthy so far. The UK has also reported growth to other non-EU markets in 2017, which could continue moving forwards.

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Overall market supply

On balance, with both production and imports increasing next year, supplies on the domestic market look set to increase somewhat, despite an expanding export market. This could mean prices come under some downwards pressure in 2018. This will, of course, depend on a number of variables such as developments in domestic consumer demand. The latest Kantar data for the 12 weeks ended 8 October actually shows some recovery in pork consumption volumes compared to year earlier levels. While tentative, perhaps this could be the beginning of an improvement in pork consumption domestically, which may help the market absorb some of the extra supplies available next year.



Actual and forecast supplies for pig meat in the UK

000 tonnes (cwe)	2016					2017					2018	2019	2020
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year	Year
Production	228	223	221	230	903**	223	215	225	238	900	925	945	966
Imports*	248	262	268	289	1066	262	270	260	282	1073	1079	1092	1097
(Fresh/frozen)*	120	128	125	136	508	124	128	123	137	511	513	517	521
(Bacon)	67	65	73	79	284	70	60	71	77	278	272	270	262
(Processed)	61	69	69	75	274	68	82	66	68	284	294	304	314
Exports	65	66	60	60	251	64	67	70	70	271	283	296	308
Available for consumption*	411	419	429	459	1718	421	418	414	449	1702	1721	1740	1755

*Fresh/frozen imports estimated, based on export figures for 7 largest UK pork suppliers

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

Source: Defra, IHS Maritime & Trade– Global Trade Atlas®, HMRC, local customs data. Figures in bold are forecasts

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Appendix: Actual and forecast supplies of pig meat in the UK using official fresh/frozen pork import figures

000 tonnes (cwe)	2016					2017					2018	2019	2020
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year	Year
Production	228	223	221	230	903**	223	215	225	238	900	925	945	966
Imports	224	250	274	301	1048	273	273	264	293	1103	1110	1122	1128
(Fresh/frozen)	96	116	131	147	490	135	132	127	148	541	544	548	552
(Bacon)	67	65	73	79	284	70	60	71	77	278	272	270	262
(Processed)	61	69	69	75	274	68	82	66	68	284	294	304	314
Exports	65	66	60	60	251	64	67	70	70	271	283	296	308
Available for consumption	387	407	435	471	1700	432	421	418	461	1732	1751	1771	1786

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

Source: Defra, IHS Maritime & Trade– Global Trade Atlas®, HMRC, local customs data. Figures in bold are forecasts