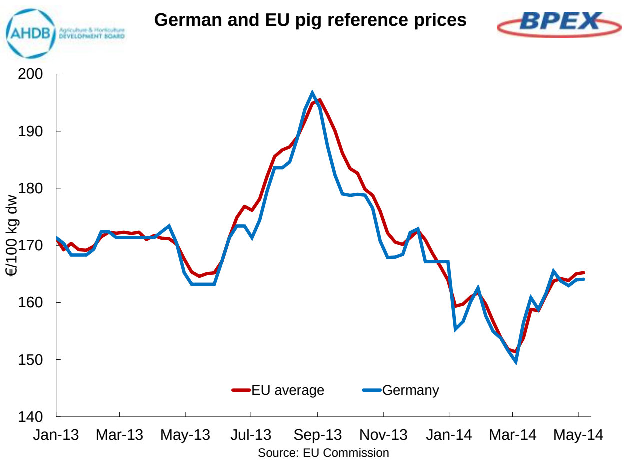
German market stabilising after tough times

Germany sits at the centre of the EU pig market; it is the largest producer, exporter and consumer of pig meat. In some years, it has been the largest importer too. It also imports and exports significant numbers of live pigs. As it has trading relationships with most other EU countries, developments in its market have a major influence well beyond its borders. This makes it the market to watch for everyone in the industry across the EU.

The importance of Germany is emphasised by looking at the relationship between its pig prices and the EU average. The difference between the two quotes is rarely more than €3 per 100kg and, in recent years at least, they have never stayed that far apart for very long. While this is partly due to the high weighting the German price has in the average, it also shows the extent to which it influences prices in its trading partners.



So, how has the German market been developing recently? Three key trends have been apparent in recent years. First, German consumers love of pig meat has eased a little. Consumption remains among the highest in Europe at over 50kg per head (twice as much in the UK). However, it has fallen by around 3kg per person since 2011 as a result of lower consumer confidence, higher prices and competition from poultry meat.

The weather plays a part in German pig meat demand too. Much of the consumption is driven by barbecue products, including sausages, and this relies on good weather during the spring and summer. The cold and wet springs of the last few years haven't helped demand. This year the weather has been dull again, apart from a spell in March, keeping a lid on demand.

However, reduced consumption hasn't led to lower pig prices. In fact, they have been stronger, although more volatile, in the last few years. This is the result of the other two key trends – reduced production and increased exports.

German pig meat production rose for 11 consecutive years up to 2011 (and by 40% during that time), partly due to the efficiency of German finishers, who imported increasing numbers of weaners from elsewhere. However, output fell in 2012 and was only marginally higher in 2013, pushing prices higher. Much of the increase in 2013 was due to a rise in imports of slaughter pigs, mainly from the Netherlands.

In each of the last two summers, prices have approached €2 per kg but have yet to break through that barrier. As they approach this level, there is considerable pressure from processors to drop prices, so even a small increase in supply leads to sharp price falls. Last autumn was no exception; while supplies were similar to the previous year, they were higher than many forecasts predicted. This meant prices fell by around €30 per 100kg between late August and the end of the year.

Since the start of this year, however, supplies have tightened again. Up to mid-May, German slaughterings tracked below last year's levels and overall throughputs have been around 2% lower on the year, based on provisional figures. Forecasts suggest that tight supplies will continue for the rest of the year, which should provide support to prices. However, much will depend on demand, which brings us to the third key trend.

Since 2005, German pig meat exports have more than doubled and they continued to rise in the last two years, despite lower output. Processors realised some years ago that, with a stable domestic market, they needed to develop export markets. This also enabled the industry to optimise carcase values, as the domestic market is dominated by lower-valued cuts and so premium cuts (such as hams to Italy) can be exported. Imports, which have been virtually unchanged since 2005, also consist more of lower valued pork (such as sow meat) for use in processed products. The average value of German imports last year was €1.88 per kg, while exports averaged €2.31.

While this has helped support the German market, it does leave it vulnerable to trade disruptions such as the recent Russian import ban. This contributed to an 8% year-on-year fall in pork exports in the first quarter of 2014. Sharply increased volumes to several Asian markets helped to mitigate this fall and allowed pig prices to recover from their low point in early March.

With PEDv limiting US supplies and creating extra demand from Asia, export prospects look positive for the coming months. If better weather stimulates more demand on the domestic market, prices may resume their seasonal upward trend. However, while the Russian ban remains in place, any repeat of the highs of the last two years seems unlikely, although this may mean that any price falls in the autumn are more modest.

Over the last year, the impact of the German market on the UK clean pig market has been limited. However, as the dominant buyer of UK sow meat, Germany continues to drive prices here. The German sow price usually follows trends in finished pig prices and GB sow values track German ones pretty closely. German quotes have been broadly stable of late, although they have slipped back in the latest weeks. However, the recent strengthening of the pound means GB prices have fallen. Nevertheless, with positive signs for firm German pig prices, the sow market has potential to strengthen in the coming months.