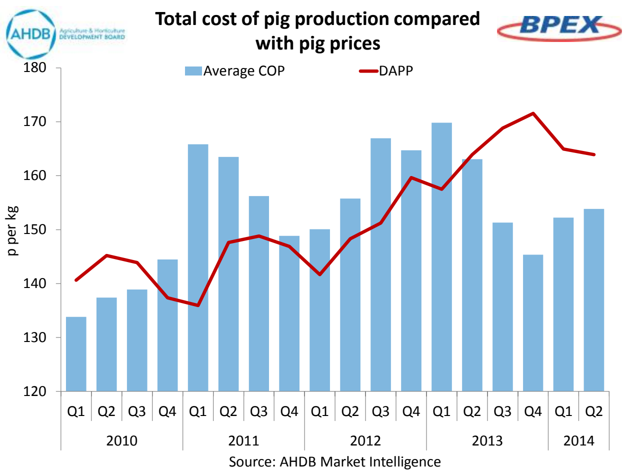
Margins remain positive for most pig producers

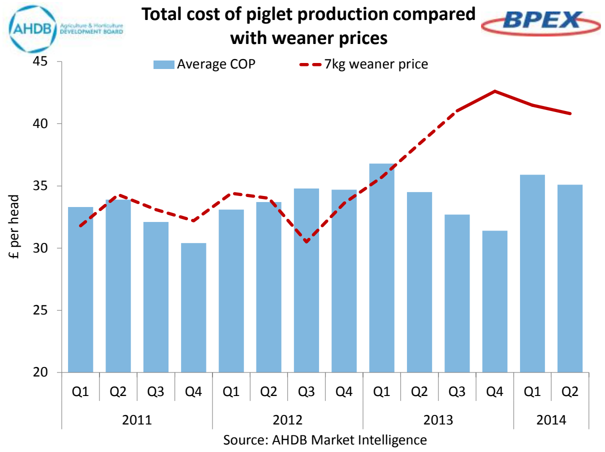
Latest AHDB/BPEX estimates show that the cost of pig production in the second quarter of 2014 averaged 154p/kg. At this level, costs averaged around 10p per kg below the DAPP during the quarter, equivalent to a profit of £8 per pig. Feed made up around 60% of total costs, lower than the share when feed prices were at their peak.

Producers have now been making positive margins for over 12 months. With feed prices having fallen further since June, costs in the third quarter are likely to be lower still so, despite the recent fall in pig prices, most producers should still be making positive margins. The production cost model assumes a sustainable level of investment, with buildings and equipment updated regularly. As such, the current estimates suggest that there is scope for producers to make a profit, even after such investments are taken into account.



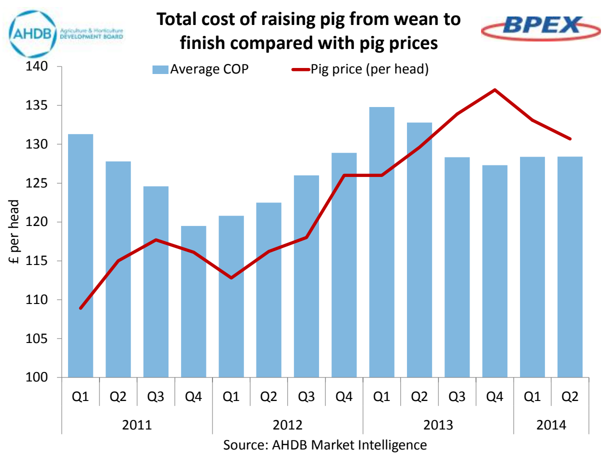
Although some changes in the model mean that the latest estimates are not directly comparable with earlier years, it is clear that costs are lower than for most of the last three years. However, they haven't yet returned to the levels recorded up to 2010. As such, it would only take a relatively modest rise in feed prices or fall in pig prices for margins to be squeezed significantly.

The overall cost of production estimate covers the whole pig production cycle, from service to slaughter. However, the model also allows us to look at different production stages. For example, we can isolate the costs associated with breeding, allowing us to estimate the cost of producing a weaned piglet. In the second quarter of 2014, this was around £35 per head. This figure has varied less over time than the overall cost of production. This is partly because feed, the main source of volatility in the estimates, makes up a lower proportion of costs at this stage, around 37% in the most recent quarter. Although the latest figures appear to be higher than previously, this is largely down to a change of methodology. The revised figures reflect the cost of breeding operations better but can't be applied to earlier quarters.



This estimated cost of piglet production is currently below the average price for a 7kg weaner, which is around £40 per head. This suggests pig breeder margins are also positive. Since 7kg weaner prices have only been collected since last year, we can't be certain about margins before that. However, based on trends in 30kg weaner prices, it is likely that breeders were losing money when feed prices were at their highest in 2012-13. Nevertheless, even then, margins may not have been as bad as for farrow to finish producers.

The model estimates that the cost of raising a piglet from weaning to finish averaged £88 per head in the second quarter of 2014. This means that the total cost to a finisher buying in weaners at 7kg would have been about £128 per head. This compares with an average sale price of £131 per head, based on the DAPP and average carcase weight for the quarter. This suggests that, for the moment at least, finishers are also able to make a modest profit, although it wouldn't take much to tip the balance against them.



The cost estimates show that, although pig producer margins remain positive, they are still vulnerable to price movements. Even relatively small movements in pig or feed markets could wipe out any finisher profits. Movements within the range seen in recent years could return farrow to finish or breeding producers to deficit. With market volatility likely to be here to stay, producers should consider whether and how they can use the current favourable position to limit the impact future volatility could have on their businesses.