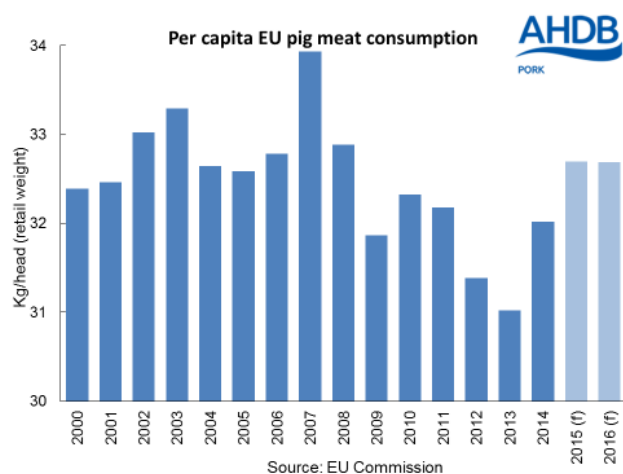


Subdued retail sales suppress EU pig prices

As with all commodities, prices for pigs are largely determined by the balance between supply and demand. In the case of pigs, however, it is relatively easy to track supply levels but more difficult to measure demand. Using a mix of sources, though, we can get an understanding of how the two relate to one another and the implications for prices.

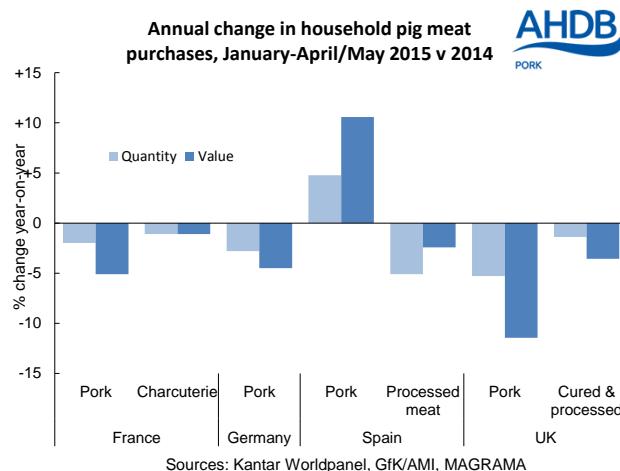
In the absence of better sources, total pig meat consumption is usually derived by balancing production, imports and exports. Based on this calculation, EU consumption was generally rising slowly in the years before 2008 when the financial slowdown began. Between then and 2013, the trend reversed and overall consumption fell, by around 3kg per person between 2007 and 2013. However, since then consumption has begun to rise again, at least based on the balance calculation. The recent EU Commission short-term outlook forecasts that this will continue for the rest of this year before stabilising next year. By then, consumption will be back to levels similar to those before the recession.



Despite the increased consumption estimates, retail demand for pig meat in the main markets of the EU has remained under some pressure in 2014 and so far in 2015. The ongoing tight economic situation has meant that household spending on all meat, including pig meat, continues to decline. Also in some Member States concerns have increased about health aspects of pig meat, which have been a contributory factor to the weak pig market in 2015.

In Germany, the largest pig meat market in the EU, household purchases of fresh pork in January-May 2015 were almost 3% below those of a year earlier, despite a 2% decline in the average price. This fall in sales is in line with the declines of over 2% per annum in 2012 to 2014. Sales of minced meat, including pig meat, in January-May 2015 have also been 3% lower than a year earlier. In France, household purchases of fresh pork in 2015 up to 17 May show similar developments, with volumes down by 2% in spite of a 3% decline in the average price. However, unlike in Germany,

purchases of fresh pork had held up better between 2012 and 2014 and even increased in 2014. The charcuterie market in France is larger than fresh pork and has performed somewhat better so far in 2015, as purchases were only 1% lower while the overall average price was unchanged.



There are indications that Spanish consumer demand for pig meat is improving. In 2014, household purchases were down by over 3% but in January-April 2015 they were down by less than 1%, even though the average price was up by 3%. Strong performance for fresh pork largely offset a further decline in more expensive processed products. Italy is the second largest pig meat market in the EU and reports indicate that demand has remained weak so far in 2015. In 2014 there was a decline of 4% in household purchases of fresh pork, although this was partly offset by a rise of 2% in salami. There were price declines for both categories.

This combination of apparently higher consumption and subdued retail sales, which was also apparent in the UK, suggests that an increasing proportion of pork is being eaten in foodservice or as processed products. These markets are generally much more price sensitive than the retail market. Therefore, in order for them to absorb the increased amount of pork available, the price inevitably has to fall.

This appears to have been the situation this year, with increased production, the Russian ban increasing supplies further and subdued retail sales. There may even have been some product which has been diverted into uses other than for human consumption, where prices would need to be even lower to stimulate demand.

This combination explains why EU pig prices fell so sharply during 2014 and why they have remained stubbornly low this year. For prices to pick up, either supplies need to tighten, unlikely before the end of the year, at least, or retail sales will need to increase. With the EU economy still struggling, this doesn't seem particularly likely either. Therefore, the outlook for EU pig prices still seems fairly pessimistic, with an inevitable knock-on effect on the UK market.