Pig Market Trends

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AHDB PORK

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Carcase balance

Over the last decade, the UK's self-sufficiency in pig meat has increased from around 47% to 55%. However, the UK's share of the domestic pig meat market has stayed stubbornly low, at around 40%. Instead, much of the increased production has found its way onto export markets, with shipments having nearly doubled and now accounting for over a quarter of production. So what is preventing the UK from growing its market share? The answer is carcase balance. To read about this issue and its impact on the UK pig meat market in more detail, turn to **page 4.**

UK exports

For the year ending September 2015, UK pig meat exports have been more stable than in previous years, when steady growth has been recorded. However, this overall stability hides some important changes. On **page 5** we look at the growing importance of China and other export developments over the last year.

Japan and Korea

Asia is a dominant region in the global pig industry, with major markets China, Japan and Korea showing growth in recent years. Whilst China is often covered in detail, it is also worth a look at the other two countries. Read more about how they have developed during 2015 and what the future holds on **page 7**.

EU farm structures

There are still considerable differences between the structures of pig farms in the Member States of the European Union. Some countries still have many 'backyard farms' but their numbers are declining and most pigs are now in large commercial farms. To read more about the structure of EU pig farms and what it means for the market, turn to **page 8.**

EU economy

Despite a less supportive external environment, with a slowdown in growth in the emerging economies, the economic recovery in the euro area is continuing. Private consumption has been rising since the start of 2013, becoming the main driver of the recovery. Details of how low oil prices and rising labour incomes are contributing to this can be found on **page 10**.

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Key data

	Oct-15	Change since Sep-15	Change since Oct-14
Average GB carcase weight - kg	82.15	+0.94	+0.02
30kg weaner price - £/head	43.40	-0.97	-5.59
7kg weaner price - £/head	32.25	-0.44	-4.91
GB APP (Euro-spec) - p/kg dw	131.83	-3.05	-24.31
GB SPP (Euro-spec) - p/kg dw	127.81	-2.94	-24.80
EU Reference price - €/100kg dw	141.97	-4.68	-1.45
UK Reference price - €/100kg dw	172.29	-3.89	-16.64
UK weekly clean pig kill - 000 head	217.1	+10.1	+11.0
UK weekly pig meat production - 000 tonnes	18.5	+1.0	+0.9
UK pork imports - 000 tonnes*	28.7	-1.7	-2.1
UK bacon imports - 000 tonnes*	21.6	+1.7	-2.3
UK pork exports - 000 tonnes*	17.9	+2.4	+0.1
Retail pig meat sales - 000 tonnes†	51.4	-1.4	-2.7
LIFFE feed wheat futures - £/tonne	115.05	+2.34	-1.06
CBOT Soyameal futures - $/tonne	306.82	-4.30	-36.84

** Figures relate to September 2015*

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 11 October 2015

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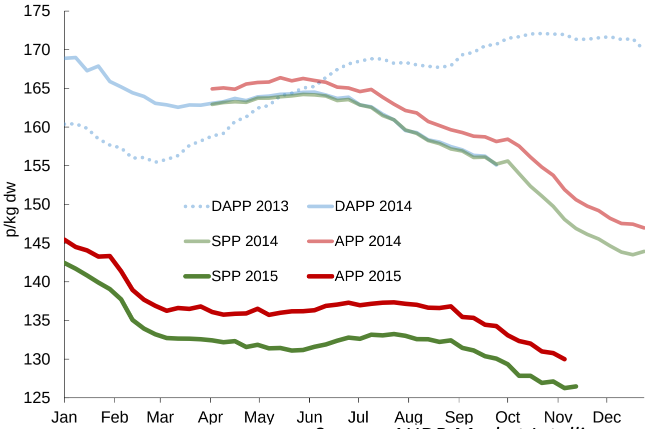
UK Market Snapshot

The downward trend in GB finished pig prices, which began at the end of August, continued into October. Over the month, the EU-spec APP averaged 131.83p/kg, around 3p lower than in September and 24p down on a year before. The decline in prices this year was similar to that recorded in the autumn last year and indicates that plentiful supplies of pigs continue to run somewhat ahead of demand. At the same time, the ongoing weakness of the EU pig market, combined with some further strengthening of the pound against the euro, has kept pressure on domestic prices. These factors remained in place in early November, with the APP falling below 130p/kg for the first time at the start of the month.

As usual, the EU-spec SPP recorded a similar fall in October, with the monthly average of 127.81p/kg down just under 3p compared with September. The gap between the two series narrowed slightly in October, a trend which continued into early November, with the difference dropping below 4p. Despite a small rise in the latest week, ended 14 November, the SPP stood at 126.47p/kg, around 20p down on a year before.

GB finished pig prices

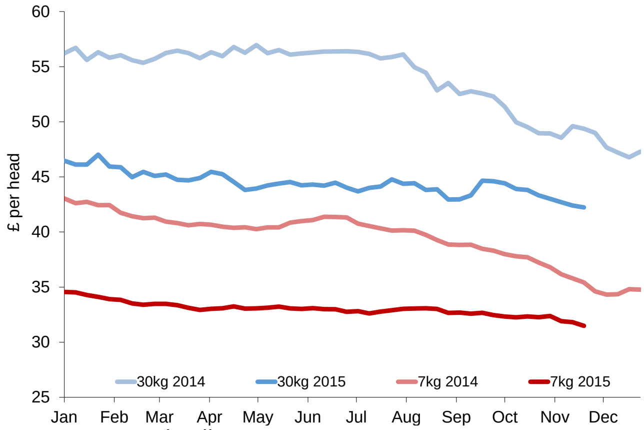


Source: AHDB Market Intelligence

As is normal at this time of year, carcase weights were rising during October. The average weight of pigs in the APP sample during the month was 82.15kg, just under a kilo heavier than in September but virtually the same as in October 2014. There were fewer reports than last year of pigs being rolled due to a lack of demand but the availability of cheap feed is evidently still allowing producers to feed pigs to heavier weights economically. The heavier carcases were accompanied by a slight increase in probe measurements, to an average of 11.4mm, but this was below the 11.5mm recorded in October 2014.

The downward trend in finished pig prices was reflected in some softening in the weaner market. This was most obvious for 30kg store pigs, where the average price dropped by nearly a pound on the month to £43.40 per head. This is the lowest monthly price for three years, although cheap feed is helping to prevent larger falls. The October average was just under £6 lower than a year before. There was a smaller fall in the price of 7kg piglets, which dropped by 44p to £32.25 per head, around £5 lower than a year before.

GB weaner prices

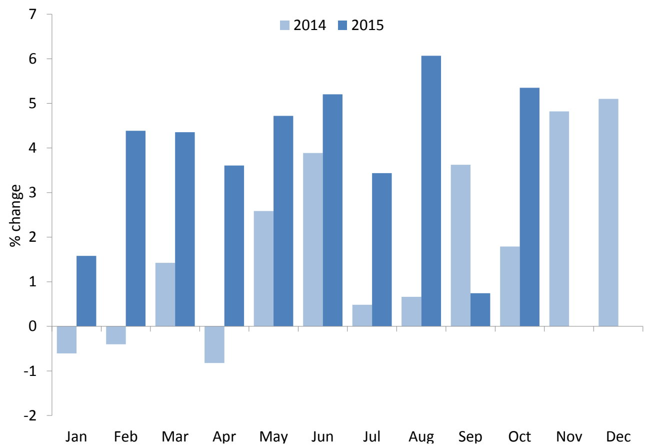


Prices are 3-week rolling averages

Source: AHDB Market Intelligence

After a much smaller increase in September, UK clean pig slaughterings were up over 5%, compared with a year before, in October. According to figures from Defra, 1.09 million clean pigs were killed during the month, the highest October figure since 2000. The latest figures indicate that the productivity of the UK herd continues to improve, given that sow numbers are thought to be broadly stable. Some growth was recorded in all parts of the UK, although at 1% in Scotland and 3% in Northern Ireland, the rate of increase was lower than the 6% rise in England.

Annual change in UK clean pig slaughterings



Source: DEFRA

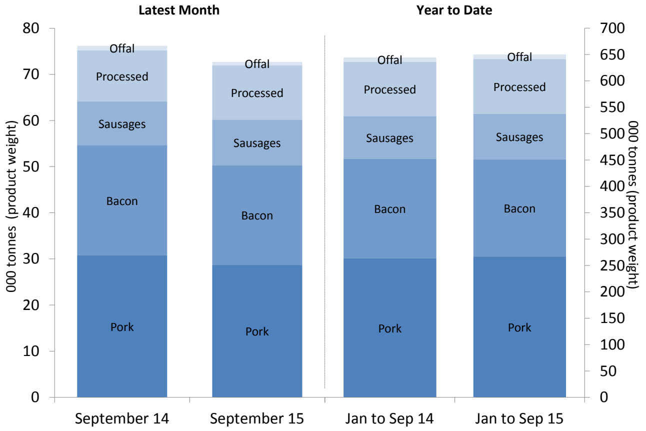
Average clean pig carcase weights during October were slightly lower than in October 2014, at 81.8kg. While this mitigated the higher slaughterings to some extent, there was also a rise in adult sow and boar cullings, which were 6% above the level a year earlier. Therefore, pig meat output was also up 5% at 92,500 tonnes. Despite being up on the year for a fifth month in a row, sow slaughterings remained within the normal range and there is little indication that low pig prices are having an impact on the breeding herd yet.

Following two months of strong growth, UK imports of pork decreased in September by 7%, compared with a year earlier, to 28,700 tonnes, according to the latest figures from HMRC. This is the lowest level of imports for

UK Market Snapshot

September in over a decade. Nevertheless, for the first nine months of the year, imports were the largest amount over the same period of time since 2011, although only 1% up on last year. While volumes declined in September, the value of pork imports was also down, by 21% on the year, at £47.4 million, as unit prices were sharply lower.

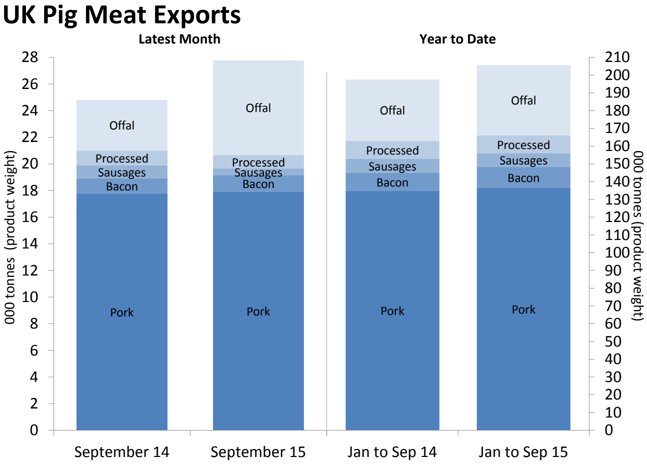
UK Pig Meat Imports



Source: Her Majesty's Revenue & Customs

Denmark, the largest exporter of pork to the UK, sent 6% less in September compared to a year before, while Germany exported 9% less. Imports from the Netherlands were also down, by 4% to 44,400 tonnes. The overall decline was mitigated by a sharp rise in imports of Spanish pork, which were up by more than half over the last three months, with a similar growth rate in September. Bacon imports also fell in September, by 10%, with lower Danish shipments contributing to the drop. Once again, the value of trade for September declined, by 18% year on year. Processed and sausage imports did increase in September, with higher shipments from Germany and Ireland contributing.

UK Pig Meat Exports



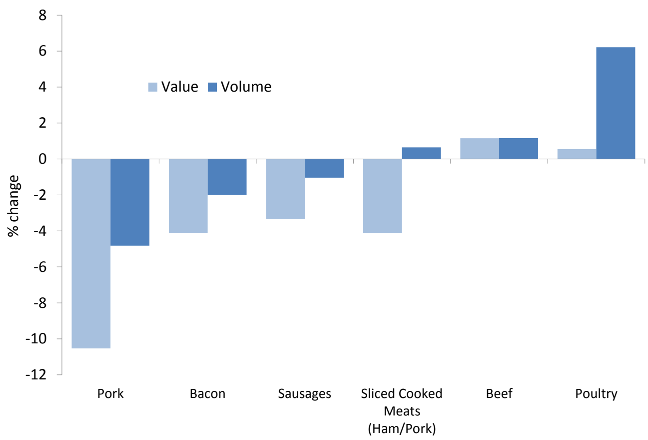
Source: Her Majesty's Revenue & Customs

In September, pork exports were slightly up compared to a year before, at 17,900 tonnes, with shipments to Denmark, likely for re-export, and smaller markets such as the US and Poland being contributing factors. Exports to China, the UK's largest market, decreased by 4% year on year, which may be an indication that its economy is easing. The total value of exports decreased again in September, by 11% to £18.8 million, compared to a year earlier. However, this is still the highest value since October 2014, as shipments rise seasonally at this time of year. Pig offal exports had a very strong month and were up by 88% in September, with shipments to China more than doubling to a record 3,500 tonnes. Exports to Hong Kong were also up, albeit marginally, while sales to the rest of the EU rose by more than half.

Over the 12 week period ending 11 October 2015, retail pork purchases were down across all cuts except mince and other (mainly marinades), according to Kantar Worldpanel. This is despite a decrease in the average price across all pork cuts as household penetration fell by 5% year on year. This was a result of switching to categories like fresh chicken, chilled ready meals and main meal accompaniments. Sales were also lost to lamb and beef.

The biggest contributor to the fall in volume sales remained chops and steaks, as consumers drop out of purchasing this category. As a result, household penetration was down 8% and there has also been a reduction in the frequency of purchase. Roasting joints were down by 15% in sales value in the past 12 weeks, with volumes falling by 6%. Leg and loin joints are contributing the largest drops in volume. Shoulder joints have also registered a volume drop this period but had the smallest decline of all the roasting joints. This is due to an increase in frequency of purchase, despite a fall in household penetration.

Annual percentage change in retail meat purchases (12 weeks to 11 October 2015)



Source: Kantar Worldpanel

Expenditure on bacon fell as both average retail prices and the amount purchased was down. Volume sales have fallen as a result of fewer households purchasing and less being bought per shopping trip. Standard and low-fat sausages were the only types to register growth in the latest period. Low-fat registered the strongest growth on the back of increased household penetration. Both low-fat and standard saw a small increase in levels of promotional activity. Ham volumes have remained stable this period despite average prices falling by 6%, as all of the Big 4 Grocers have increased their levels of total price reduction promotional activity.

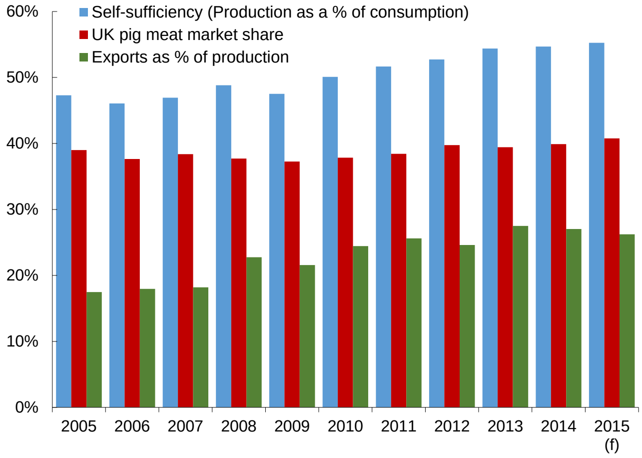
UK Market Analysis

Carcase balance limiting UK pig meat's market share

Over the last decade, the UK's self-sufficiency in pig meat has increased from around 47% to 55%. This has been the result of an increase of nearly a quarter in pig meat production, while consumption has risen much more slowly, around 6% over the same time period.

However, despite this seemingly positive situation, the UK's share of the domestic pig meat market has stayed stubbornly low, at around 40%. This figure is only a couple of percentage points higher than in the mid-2000s. Instead, much of the increased production has found its way onto export markets, with shipments having nearly doubled and now accounting for over a quarter of production.

UK pig meat supply indicators



Source: AHDB, HMRC, Defra

So what is preventing the UK from growing its market share? The answer is carcase balance. Many UK consumers purchase a relatively small range of pig meat products. The most popular ones come from only certain parts of the carcase, leaving surplus meat from other cuts without a domestic market. This surplus has to find an export market or, if that isn't possible, it will end up in pet food or a non-food use. Any of these options will require the meat to be priced competitively, reducing the total value of each carcase.

The two main primal cuts where demand exceeds supply in the UK are the loin and the leg. For the former, consumption has been estimated to be equivalent to around 23 million pigs worth of loins annually. This is more than twice the number of pigs slaughtered in the UK during a year.

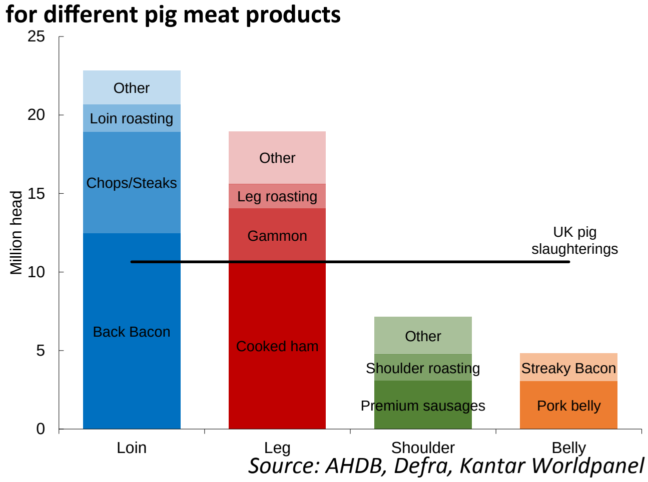
More than half of this total comes from sales of back bacon. In the 52 weeks ended 11 October 2015, UK consumers purchased 117,000 tonnes of back bacon rashers from retailers, according to Kantar Worldpanel. Allowing for some additional sales through foodservice, that is equivalent to over 12 million pigs worth of loins.

In other words, even if all of the loins from all UK pigs were sold as back bacon, there still wouldn't be enough to satisfy demand. Given that several popular fresh pork cuts, such as chops, steaks and roasting joints, also come from the loin, there is clearly a massive demand which can currently only be satisfied by importing loins.

The situation is similar for legs, with around 19 million pigs required to meet UK demand. Here, the main products involved are gammon and ham. Cooked ham sales in the 52 weeks to 11 October required the legs of between 10 and 11 million pigs, about the number slaughtered in the UK annually. However, gammon sales add a further 3.5 million to this total and leg roasting joints another 1.5 million. That's before you add in all the other uses for ham and pork, for example in ready meals.

However, the picture is different for other cuts. For example, demand for shoulders is estimated at only 7 million pigs worth, although that figure is being helped by the rising popularity of pulled pork. The most important demand for shoulder, however, still comes in the form of premium sausages, which generally use shoulder meat. Demand for belly meat is even lower, equating to about 5 million pigs, around a third of which comes from streaky bacon.

Estimated number of pigs required to satisfy UK demand for different pig meat products



Source: AHDB, Defra, Kantar Worldpanel

Other parts of the carcase, such as the head, tail and trotters attract virtually no demand from domestic consumers. Together with the excess shoulders and bellies, these cuts have to find export markets. Increasingly, they are destined for emerging markets but the prices available will be much lower than for cuts which are in demand closer to home.

Unless consumer preferences change radically, which seems unlikely, the issue of carcase balance isn't going to go away. This will limit the ability of the UK pig industry to grow, as it would mean an even bigger surplus of cuts such as shoulders and bellies. This would push prices for these cuts down further, with a likely knock-on effect on carcase prices. In reality, that means that production can only grow as new markets for these cuts are developed. Therefore, while further expansion of the UK herd is possible, it is likely to remain steady rather than spectacular.

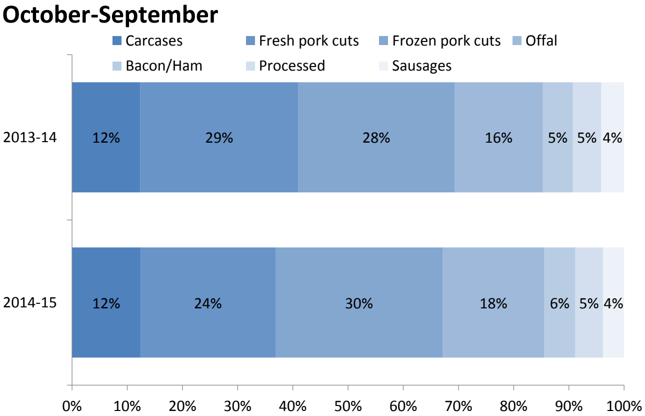
UK Market Analysis

Chinese demand presents opportunity for UK exports

For the year ending September 2015, UK pig meat exports appear to have been more stable in comparison to previous years, when steady growth has been recorded. Total pig meat shipments in the year to September 2015 totalled 273,000 tonnes, a 4% increase on the same time a year before, mainly due to higher exports of pig offals. However, this overall stability hides some important changes.

Last year we published analysis of UK export developments over time. Since then, the product mix of pig meat exports has changed relatively little. In the year ending September 2015, two thirds of exports were made up of fresh/frozen pork. The remaining third was made up of offal (18%), cured meats (6%), processed (5%) and sausages (4%).

Percentage of UK pig meat exports by product, October-September



Source: HMRC

Pork exports are made up of three segments, carcases (including half carcases), fresh cuts and frozen cuts. UK carcase exports continued to rise (+4%) in the year ending September 2015, with sow carcases shipped to Germany still dominating the trade. However, there has been a shift from fresh to frozen cuts. This has implications for the value of trade, as frozen cuts are generally traded at lower prices.

UK exports of fresh/chilled pork cuts have declined on the year, by 11% to 66,800 tonnes. The weak euro certainly contributed to this, making UK pork more expensive on Eurozone markets. Of this trade, 97% was with the EU, with nearly 25,000 tonnes imported by Ireland. Contrary to the situation in previous years, the decrease has been driven by a reduction in fresh boneless cuts. This brings their overall share of fresh pork exports to 56%, a 5 point reduction from a year earlier. The decrease in exports of boneless meat was driven by lower shipments to Denmark and the Netherlands, from where most is presumably re-exported.

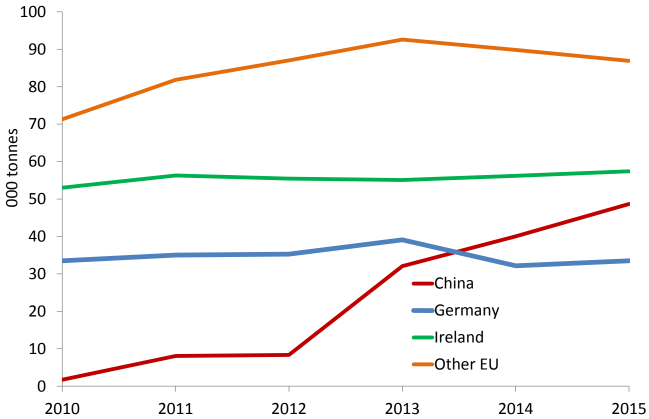
With a moderate rise in carcase exports and decrease in fresh shipments from the UK, growth in pork shipments in the year ending September 2015 has been driven by an increase in frozen trade. Overall frozen UK pig meat exports were up 11% year on year. Compared to the fresh pork trade, frozen cut exports to the EU account for a much lower percentage share, at 30,000 tonnes, 36% of the total.

The largest importer of frozen pig meat from the UK is China. Although in the year ending September 2015 China imported only 3% more frozen pork cuts than the previous year, since the start of 2015 year-on-year export growth has accelerated to 7%. China now has a 31% share of frozen exports. Go back five years and the share of UK frozen pork trade held by the EU was just under half whilst China had a minimal share. This shows how fast Chinese demand for UK pork is growing.

Not only does China have a high demand for frozen cuts, it is a key market for the less domestically desirable parts of the pig, including offal. In the year ending September 2015, China imported 22,800 tonnes of UK pig offal, a 54% increase on the year and a total share of all offal exports of 45%.

Since 2013, China has overtaken Germany as the second largest importer of UK pig meat (including edible offal). On current growth trends it may soon overtake Ireland as the leading destination. Of all the pig meat exported from the UK in the year ended September 2015, 18% was shipped direct to China while only 12% was shipped to Germany (and 21% to Ireland). As some of the pork exported to other EU countries, such as Denmark, may ultimately be destined for China, it may already be the largest market in reality.

Total UK pig meat exports to selected destinations, year ending September



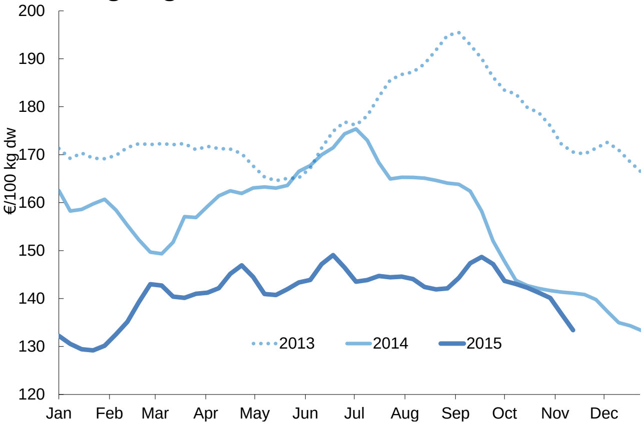
Source: HMRC

UK pig meat exports are of great value to the industry as they increase overall demand for UK pig meat, providing support to prices throughout the supply chain. Although all export opportunities for UK pig meat should be seen positively, being able to sustain supply to China and open up other developing markets has strong strategic benefits for the UK. As demand grows faster than production, many such countries, including China, are expected to face a meat shortfall by 2020. This may provide further opportunities for the UK, as its higher welfare standards may appeal to some consumers. The expected conclusion of a deal to export trotters to China will also add to the opportunities.

EU Market Snapshot

EU pig prices have started falling again since late September and by week ended 15 November had fallen for eight consecutive weeks, losing over €15 per 100kg during that period. At €133.41, the latest price was the lowest since February, although less than €8 lower than a year earlier. The pressure on prices comes as reports suggest that the number of pigs remains high and weights heavier. At the same time, consumer demand continues to be subdued, with the IARC report linking red meat with cancer reported to be contributing. Export demand has held up, however, due to strong sales to China. With the pound strengthening against the euro, UK prices have increased in euro terms in recent weeks. As a result, the gap between UK and EU prices has widened to €42 per 100kg (30p/kg) in the latest week.

EU Average Pig Reference Price

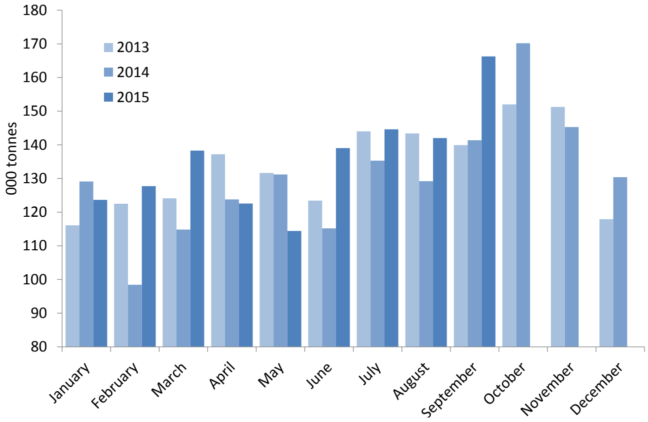


Source: EU Commission

Until the last three weeks, prices in northern Europe had seen a few weeks of relative stability. However, since then, the German price has fallen by nearly €10 per 100kg, with an even larger drop in Poland and slightly smaller ones in other northern Member States. Even Denmark, which had escaped some earlier price falls, saw its quote drop by €4 in the week ended 8 November. Further south, prices were falling more consistently. The biggest drop in recent weeks was in Spain, down by €23 per 100kg in eight weeks. The French price declined by €20 over the same period, as disruptions to the Marche du Porc Breton auction continue.

EU pork exports reached the second highest level on record in September, thanks to the continuing surge in shipments to China. Overall volumes were 18% higher than in September 2014, at 166,300 tonnes, a figure bettered only by last October. China alone took over 60,000 tonnes of EU pork, a fourth consecutive record and nearly 13,000 tonnes up on August's figure. This represented 37% of exports, nearly double China's share a year before. Unlike most recent months, exports to Japan also increased, by 4% year on year, but other leading Asian markets took less EU pork. With unit prices remaining lower than a year ago, the value of exports was only up 12% on the year, at €368.8 million.

EU monthly pork exports

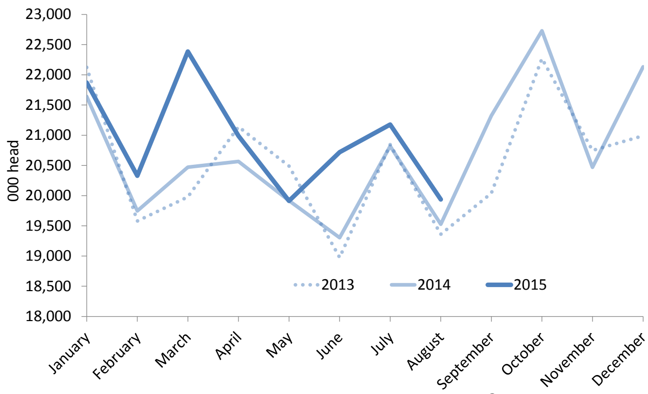


Source: Eurostat, GTIS

China was also the main driver of a 9% annual increase in EU pig offal exports in September. Sales to China were up 28% to a record 56,100 tonnes, partly offset by lower shipments to Hong Kong and the Philippines. With unit prices again slightly lower, the value of this trade was 6% up on September 2014 at €133.6 million.

EU pig meat production increased by 2% in August, a similar growth rate to that recorded in July but slower than in the first half of the year. Although carcase weights were slightly heavier than a year before, the increased output was largely due to higher slaughterings. 19.9 million pigs were killed during the month, around 400,000 more than in August 2014. EU production for the first eight months of the year was 4% up on the same period last year, at just over 15 million tonnes. Output has been higher than a year earlier in every month of the year to date.

EU pig slaughtering trends



Source: Eurostat

As has been the case for most of the year, the rise in pig slaughterings was led by Spain, where throughputs were 9% up year on year. Germany, the leading producer, increased its kill by 1%, while Belgium, France and Poland were among the other Member States recording growth. However, there were declines in some major producing countries during the month. For example, the Netherlands recorded a 5% annual decline in August. In addition, figures from Denmark, which have been volatile this year, showed an 8% drop compared with the same month last year.

Global Market Analysis

Contrasting trends in Japanese and Korean pig industries

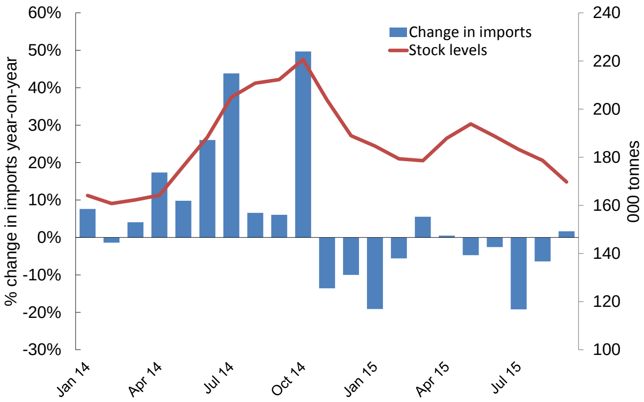
Asia is a dominant region in the global pig industry, with major markets China, Japan and Korea showing growth in recent years. Outbreaks of disease have had a significant impact on the dynamics of these markets, with imports becoming more important, as domestic demand needed to be met. All three have, therefore, become key markets for EU exporters, along with their counterparts in the US and Canada, particularly since the closure of the Russian market last year. Whilst China is often covered in detail, it is also worth a look at the other two countries to see how they have developed during 2015 and what the future holds.

During the last year, contrasting trends have been apparent in Japan and Korea, with pork imports and consumption moving in different directions. The somewhat subdued economy in Japan has hindered growth within its pork industry, unlike Korea, where demand continues to grow.

Throughout 2015, signs of recovery have been present in Japan's domestic pig industry, as the country moves forward from the outbreaks of PEDv which first occurred towards the end of 2013. With the disease peaking slightly later than in the US, with the impact on production at its maximum in late 2014, regrowth in Japan's pork industry took a little longer.

Therefore, high volumes of pork needed to be imported through most of last year, peaking in October. However, as the recovery continued, the demand for pork remained subdued and stock levels built up. As a result, for the first nine months of 2015, imports were running 6% lower year on year, allowing stocks to return to more normal levels.

Japanese pork import trends and stock levels



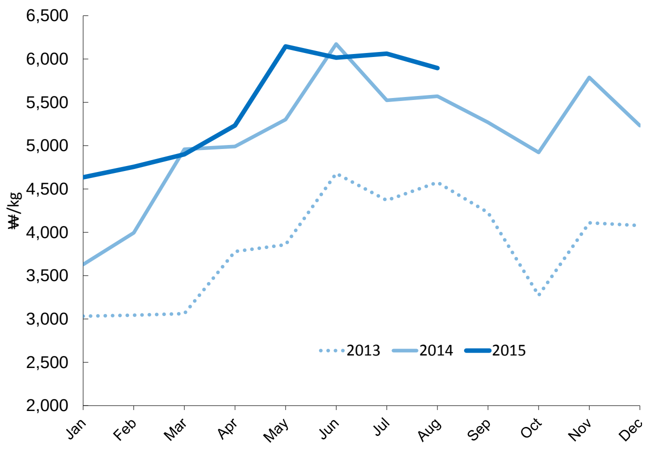
Source: ALIC

High pig prices have been observed in Japan throughout the last two years but are expected to drop off slightly as production picks up once again. In October, the wholesale carcase price in Tokyo, measured by the excellent grade, stood at ¥461/kg, the lowest monthly price since January 2014. This is ¥72 behind the corresponding price last year, hinting that prices could come under pressure in the months to come. However, the price for the first ten months of 2015 is still averaging higher on the year.

In contrast to the story in Japan, the pork industry in Korea shows more positivity. With the backdrop of a strong economy and high levels of consumer demand, the industry has shown signs of growth recently. Sow numbers have increased since the end of 2013 as high prices incentivised farmers to grow their herd. As at June 2015, the breeding herd totalled 948,000 sows, the highest since June 2013. Total slaughter levels also recorded an increase year on year.

In 2013, profit margins for Korean pig farmers suffered, when carcase prices dropped below the breakeven point of ₩4,000/kg. Since then, prices have been rising year on year, standing at ₩5,895/kg for August 2015, ahead by ₩324 compared to the same month in 2014. As stated earlier, these high prices are likely to encourage farmers to increase their herd sizes further, which could have the potential to reduce prices in the future, as supply and demand is pivotal.

South Korean pig carcase price



Source: USDA

Despite rising domestic production, imports of pork into Korea have grown during the first half of 2015, with volumes ahead by 35% compared to 2014. This emphasises the strength of consumer demand for pork, aided by outbreaks of Avian Influenza, which have encouraged consumers to switch from poultry meat to pork. Alongside this, a range of promotional campaigns within Korea have helped increase consumption.

Looking ahead into 2016, USDA forecasts that imports will continue to decrease for Japan, as domestic production picks up slightly and consumer demand is expected to stay subdued. For Korea, high inventory levels are projected to lead to a further increase in total pork production in 2016. With consumption also forecast to rise, Korean imports are expected to edge up in 2016 but growth will be much slower than in 2015. In combination, it seems that these two key importers will not need any more pork next year. This means exporters may need to look elsewhere to find homes for any increase in pig meat supplies.

Global Market Analysis

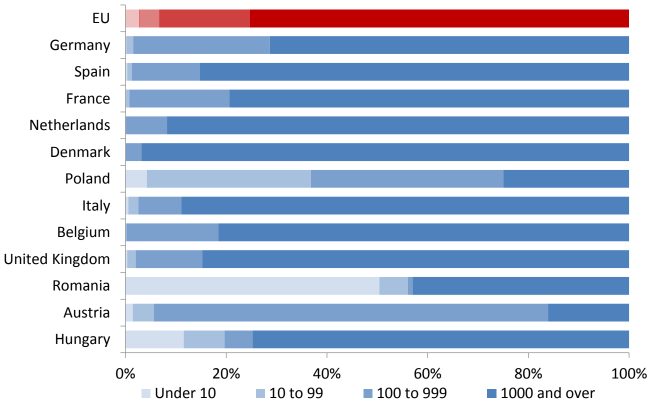
Pig farm structures still vary widely across EU

There are still considerable differences between the structures of pig farms in the Member States of the European Union, according to recently published figures from the 2013 Farm Structure Survey. This is the fourth of these surveys, which are carried out every three years.

The survey shows that there were just under 2.2 million EU farm holdings keeping pigs in 2013. Over half of these farms were in Romania, with 99% of them having fewer than 10 pigs (86% had just one or two). These 'backyard farms' accounted for over half of the Romanian pig herd, the EU's 10th largest and only slightly smaller than the UK herd.

A number of other eastern Member States had at least 10% of their pigs in these 'backyard farms'; they accounted for over 20% in Slovenia and Lithuania. In the latter, this has hindered the control of African Swine Fever. This could also be an issue were ASF or other diseases to reach other countries with significant backyard pig populations.

Percentage of pigs by holding size in main producing EU Member States



Source: Eurostat

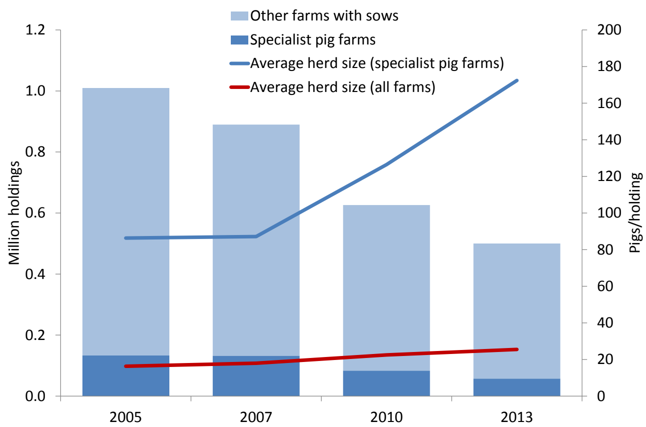
Overall, only around 3% of the EU pig herd is in 'backyard farms' and the share is lower in most major producing countries, where large farms are the norm. For example, 97% of Denmark's pigs are on holdings with 1,000 or more animals. In total, over three-quarters of the EU's pigs are found on these 'commercial holdings'. Of Europe's nine top producers, only Poland has less than 70% of its pigs in them.

Even among 'commercial holdings', there are variations between Member States. The average herd size on these farms across the EU was just under 3,000 head. However, in some Eastern Member States, the typical size of 'commercial holdings' was much larger, averaging over 10,000 animals in Lithuania, Romania and Slovenia. This highlights how polarised the industry is in these countries, as they are the same three with the highest proportion of pigs in 'backyard farms'. Among the nine leading producers, Denmark had the largest 'commercial holdings', with an average of 4,700 head and Germany the smallest, averaging 1,900 head. The average UK commercial herd had 2,600 head.

The picture for breeding herds is similar, with two-thirds of holdings having just one or two sows but over 70% of sows being in herds of 200 head or more. Nearly three-quarters of the smallest breeding farms are in Romania and Poland, while large farms dominate in countries such as Denmark, where 98% of sows are in the largest category.

The number of farms with pigs has declined over time. In 2005, there were over 3.8 million farms with pigs in the EU (excluding Croatia), of which 1 million had breeding sows. By 2013, those numbers had fallen by around half. With the number of pigs falling much less, the average herd size has grown. The number of specialist pig farms - those which get most of their income from pigs - has also fallen over time but their share of pigs has increased, from about two-thirds in 2005 to three-quarters in 2013. The average size of specialist pig farms doubled to almost 700 head, with their breeding herds showing similar growth to an average of 170 sows.

Number and size of breeding pig farms in EU (excluding Croatia)



Source: Eurostat

The evolving structure of pig farms has implications for the pig market. The loss of many smaller farms and the increasing specialisation of those which remain has been a key factor in improving the productivity and efficiency of the EU herd. That means that, despite the long-term decline in the breeding herd, EU pig meat production has been relatively stable. With further concentration of production expected, productivity gains are likely to continue.

Another consequence of the larger, more specialised farms, is that their responses to market signals may be less agile. Large farms are likely to have more capital tied up, reducing their ability or willingness to scale back or stop production. This is particularly true of specialist pig farms, which, by definition, do not have other agricultural activities they can switch to when the profitability of pig production is poor. Therefore, production may respond more slowly as prices fall, as seems to have been the case over the last year, with potential implications for the speed of market recovery.

Feed Market

UK feed wheat futures have trended lower over the past month, with most of the decline in the past two weeks. The May-16 contract closed at £118/t on 18 November, down from £121.75/t on 21 October, a fall of 3%. Over the same period, Chicago wheat futures for May-16 also fell 3% to $179.75/t, while the equivalent contract in Paris wheat futures gained just under 1% to €186.25/t.

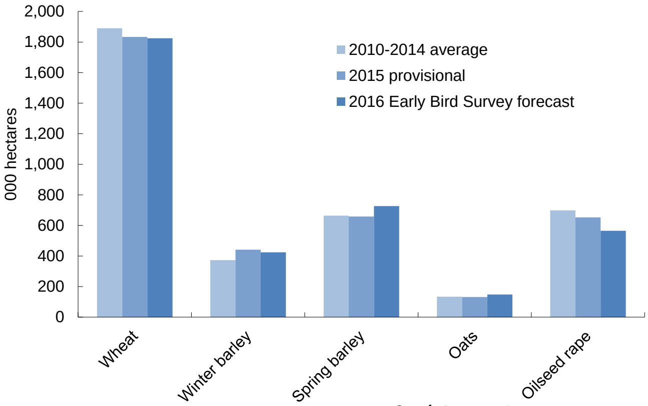
The big picture for wheat supply and demand remains heavy, which was reiterated by the November USDA supply and demand estimates. However, there has also been a strong influence from currency movements – particularly the weakness of the euro against both the US dollar and sterling.

Global maize futures also declined, pressured as the US harvest approaches its conclusion and by confirmation that European harvests were less badly affected by hot weather than previously thought. Chicago maize futures (May-16) fell 6% in the four weeks to 18 November to $147.05/t.

The November USDA supply and demand estimates also revealed that the fundamentals for US and global maize are even heavier than markets had thought – reiterating the comfortable crop supply position that has characterised this season to date. The US maize yield estimate increased, taking production to 346.8Mt from 344.3Mt. The forecast for global maize closing stocks was increased by just over 24Mt, to 211.9Mt, largely due to an upward revision in the 2015/16 opening stocks figure, driven by increases for China.

EU wheat, barley and maize yield estimates for 2015 were all increased in the latest MARS Bulletin, following weather improvements towards the end of the harvesting period. The Commission also increased its forecast of EU maize production to 58.4Mt at the end of October, compared with 57.4Mt a month earlier, but still down 19.5Mt year-on-year.

Early Bird Survey forecasts of UK crop areas for harvest 2016

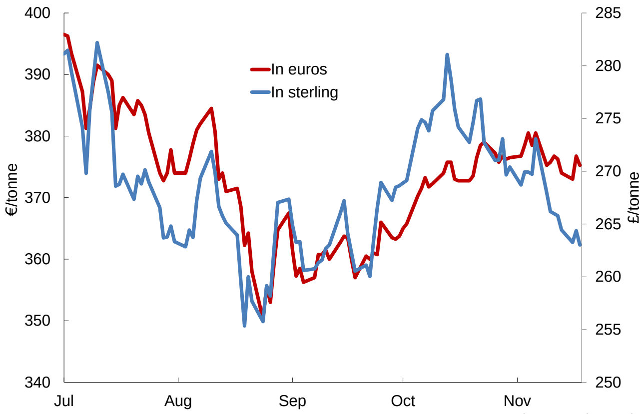


Source: Defra/The Andersons Centre

In the UK, the results of the Early Bird Survey of cropping intentions point to a static wheat area and a 4% decline for winter barley. The spring barley area, however, is anticipated to continue its growth and is expected to be 10% higher year on year. The main reason for the increase in spring barley is likely to be the gradual shift towards more spring cropping in an attempt to manage the grass weed burden. The UK rapeseed area for harvest 2016 is estimated to decline 14%, year on year. This would be the lowest rapeseed area since 2009 and 19% below the previous five-year average.

Chicago soyabean futures (May-16) closed at $318.35/t on 18 November, down $7.53 since the start of the month. Paris rapeseed futures (May-16) have also moved lower but to a lesser extent, closing at €375.25/t, down €1.50 from 2 November's close. Tighter global rapeseed supplies relative to soyabeans, mean that the premium of Paris rapeseed futures over Chicago soyabeans is the highest since 2012/13. This is helping to limit declines in EU rapeseed prices but currency movements have pushed UK prices lower. In the month to 18 November, Paris rapeseed futures declined by €2.50/t but in sterling terms, the decline is around £9.70/t.

Paris rapeseed futures (May-16)



Source: AHDB Cereals & Oilseeds

UK rapemeal prices (34%, ex-mill, Erith) were £150/t on Friday 13 November, £13 lower than at the end of October. Brazilian soyameal (48%, ex-store, Liverpool) prices were £266/t compared with £271/t on 30 October.

In its latest world supply and demand estimates, the USDA revised its forecast for 2015/16 US soyabean output to 108.4Mt, from 105.8Mt. While the market was expecting an upward revision, the actual increase was above expectations. Closing stock estimates for the US were also increased by more than expected. The forecast for 2015/16 global closing stocks was reduced from 85.1Mt in October to 82.9Mt, due to higher forecast demand and exports.

Early estimates from Strategie Grains, released on 5 November, suggest that the 2016/17 EU rapeseed area could reach 6.47Mha, up slightly from 2015/16. The rise comes as plantings are forecast to increase in Eastern Europe, which is predicted to offset the decline in area for larger producing countries, including the UK and Poland. The report also reveals that the EU soyabean area is forecast to reach 8.9Mha in 2016/17, up 0.5Mha year-on-year.

In Brief

Domestic demand driving EU recovery

Despite a less supportive external environment, with a slowdown in growth in the emerging economies, the economic recovery in the euro area is continuing. Output rose by 0.4%, quarter on quarter, in the second quarter of 2015, giving an annual growth rate of 1.5%. In the UK, output rose slightly faster than the EU average, at 0.7%, giving an annual growth rate of 2.3%. A similar rate of expansion is expected for next year, based on the EU Commission's latest economic forecasts.

Private consumption has been rising since the start of 2013, becoming the main driver of economic recovery in the euro area. Falling oil prices have supported private consumption growth since the second half of 2014. The purchasing power of households has increased by around 0.9 percentage points due to the fall in energy prices between the start of the recovery and the second quarter of 2015.

However, this only accounted for a third of the overall improvement in households' purchasing power during this period. The rest is mainly down to strong increases in labour income. Modest increases in wage inflation have been supported by the unemployment rate, which stopped rising in 2013 and started to fall in 2014. Nevertheless, the current level of employment remains 2% below its pre-crisis peak in 2008, while unemployment is still high at a rate of 11% last August.

Recent consumption growth has been higher in countries where labour markets have improved the most. For example, wages and employment growth have been relatively strong in Spain, Ireland and Portugal, leading to increases in disposable income and consumption. In the UK, real disposable income rose for the first time since 2007, largely due to food and fuel deflation.

Trade data for July and August point to slowing export growth in the third quarter of 2015, given weakening growth in emerging markets and the gradual slowdown in China. However, overall, the latest indicators are consistent with continued economic expansion in the latter half of this year and into 2016.

The continued recovery in the EU economy and, in particular, private consumption, is potentially good news for the meat industry. The rise in consumer confidence and increased private consumption may translate to a rise in demand for meat as well as a transfer of demand to higher value products and cuts.

Strong third quarter for Chinese imports

Pork imports into China during January to September 2015 were ahead by 22% on the year. A surge in imports of pork was seen in the latest quarter, with 198,000 tonnes entering the country, more than 70,000 tonnes higher than in Q3 2014. An uplift in shipments was recorded for all of the major exporters to China, with the EU remaining as the dominant supplier. Imports of pig offal were down on the year, with volumes for the third quarter nearly 14% lower, despite higher imports from the EU.

Pig farm incomes fell in 2014/15

The Farm Business Income (FBI) for specialist pig farms in 2014/15 recorded a 24% decrease year on year from £65,200 to £49,400 but this was still higher than in the previous three years. Pig prices were much lower, while the cost of production remained relatively static, so producers' profitability declined. A quarter of specialist pig farms had a negative FBI, compared to one in seven in 2013/14. Unlike other sectors, specialist pig farms got most of their income from agricultural practices. This reflects their low income from support payments and diversification.

Producer share of retail pork price at 11-year low

Farmgate pig prices fell for the third consecutive month in October, leading to the share of retail prices received by producers declining to 34%. This was the lowest share recorded since November 2004. While the average retail price remains just below the figure for 2014, farmgate prices have seen a reduction of 16% year on year. As a result, producers' share of the retail price was six points lower than in October 2014.

AHDB autumn and winter Activity Review

We will be out and about this autumn and winter listening to your views on the priorities for AHDB as an organisation. How and where levy money is invested to best benefit your business is something we are keen to ensure we are getting right, against a background of increasing challenges across our farming, horticulture and supply chain sectors. Levy payers can 'have their say' at a number of Open Meetings being held across the country. If you can't make one of the meetings, you can feed in your thoughts via our online questionnaire, which will be open until 13 January. For more details, please see the AHDB website.

Read more about these and other stories in Pig Market Weekly. To view past editions or to subscribe, click here.