

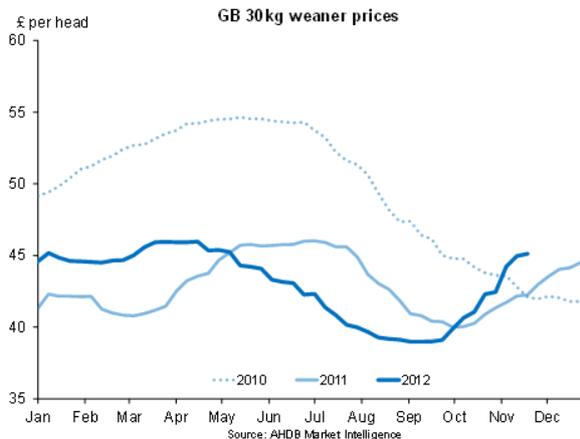
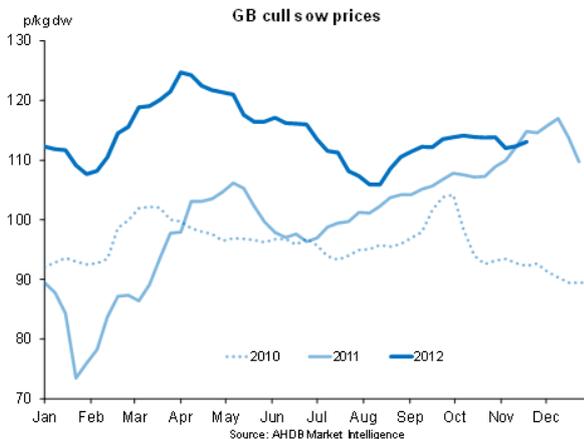
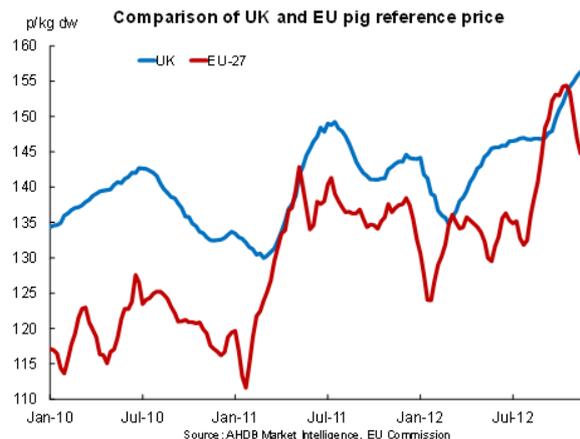
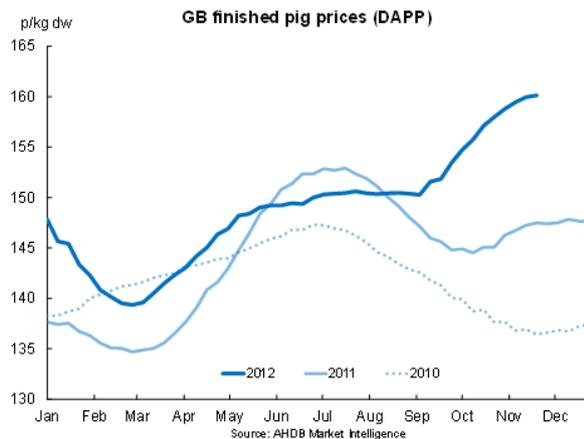


United Kingdom Pig Meat Market Update

December 2012

UK PRICES

The steady increase in GB finished pig prices which began in September continued through October and early November. The monthly average EU-spec DAPP for October was 157.74p per kg, the highest monthly average on record and nearly five pence higher than the previous month. With prices normally falling during the autumn, this year's average was more than 12 pence higher than in October 2011. Tight supplies and high prices on the continent were the key driver of prices, leading to robust export demand as well as increasing demand for pigs to supply the domestic market. With the Christmas marketing period building up by mid November, prices continued to rise, despite some easing back of EU quotes, with the EU-spec DAPP passing 160p per kg for the first time ever in week ended 17 November.



Having been well below seasonal norms over the summer, clean pig carcass weights had recovered by October, with increasing pig prices reducing the pressure for producers to market pigs early. The average carcass weight in the DAPP sample was 79.24kg, almost the same as a year earlier and

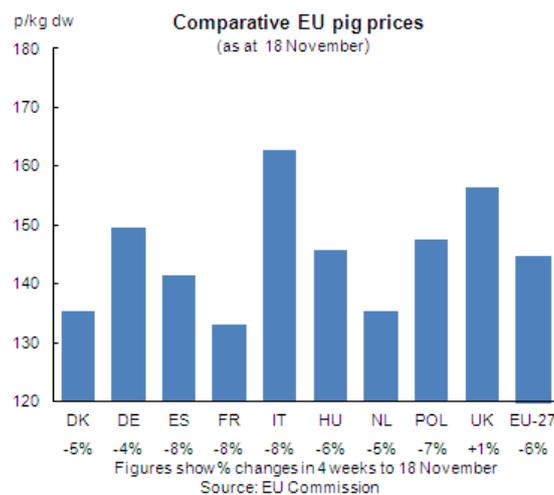
nearly a kilo heavier than in September. In early November, carcass weights remained close to year earlier levels and weights are likely to fall in the coming weeks as pigs are pulled forward in advance of the Christmas holidays.

Having reached a four-year low in September weaner prices began to respond to rising finished pig prices during October. The average price for a 30kg weaner during the month was £41.27, just over two pounds higher than in September and a little more than last October. Prices often rise at this time of year, as finishers anticipate rising slaughter pig prices in the spring. However, this year prices have risen more rapidly than normal and by mid November had reached close to £45 per head, close to their peak level earlier in the year.

Cull sow prices were relatively stable during October, despite throughputs remaining high as some producers continued to remove sows from their herds. GB prices fell behind those in the main export market, Germany, over the summer due to the high supplies. However, this has allowed GB quotes to remain stable more recently, despite falling prices for cull sows on the continent. The monthly average price of 113.56p per kg was less than a penny higher than in September, although it was still five pence up on a year earlier. Prices in early November were slightly lower than in October and were similar to those a year earlier, when prices were rising.

EU PRICES

Having reached near record levels early in the month due to tight supplies, EU pig prices began to fall back as the month progressed. The EU average reference price peaked at €192.50 per 100kg in week ended 10 October, the highest level recorded other than during the 2001 FMD outbreak. However, the average price fell by nearly ten euros in the following four weeks as pig supplies reportedly became more plentiful. As a result, the average price for the month was €189.09 per 100kg, about one euro lower than in September. Nevertheless, this was 17 per cent higher than the average price in October 2011. By week ended 17 November, the average price had fallen to €180.42, although this was still around 20 euros higher than a year earlier.



Prices in all the major producing Member States followed a similar trend to the EU average. Having experienced the most rapid increase, French prices also fell earlier and quicker than elsewhere, dropping by more than 20 euros during October. Danish prices held up better than elsewhere, remaining stable through October but falling somewhat during November.

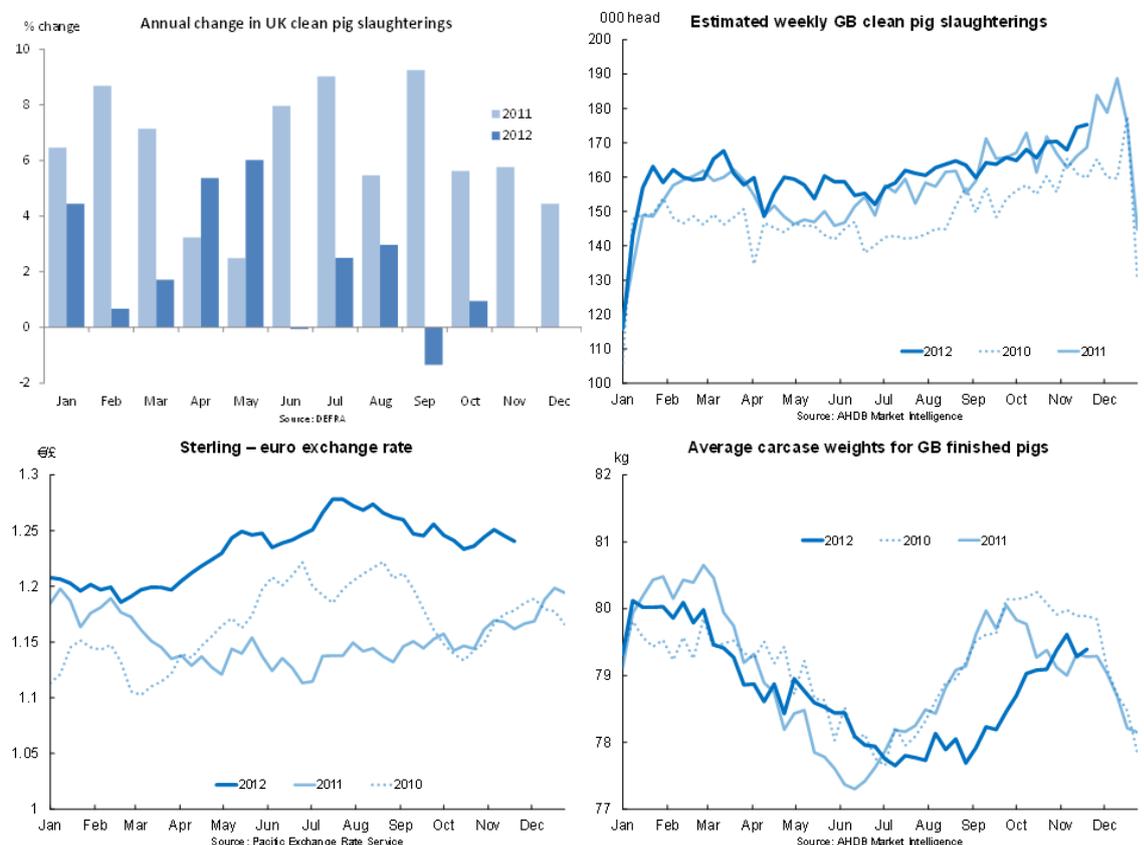
With UK prices continuing to rise while they were falling elsewhere, the UK reference price overtook the EU average in mid October, having been below it for seven consecutive weeks from late August. As a result, the UK average for October was slightly above the EU figure. By mid November, the gap between the two prices had opened to a more typical €15 per 100kg.

EU weaner prices typically begin rising during October, following a seasonal fall since the spring. This year, the strength of finished pig prices meant that weaner prices began rising much earlier, during August. By October, prices had stabilized at around €47 per head as finished pig prices stalled and then fell. This was around €12 higher than a year earlier as demand from finishers continues to be strong, while supplies are falling due to the declining breeding herd.

Sow prices in key EU Member States followed finished pig prices lower from around mid October. Average prices in October were little different from those in September but by mid November, prices had eased back by about six cents per kg.

UK SLAUGHTERINGS AND PIG MEAT SUPPLIES

UK clean pig slaughterings continued to increase, as October throughputs reached just over one million head. This was one per cent up compared with the same month in 2011. The number of pigs killed in England and Wales was up three per cent on the year, at 793,000 head. Northern Ireland figures stood at 161,700 head, two per cent above last year level. Meanwhile slaughterings in Scotland fell to 50,000 head, 27 per cent lower than October 2011. However, this was a consequence of the closure of the largest Scottish pig abattoir during the month. Clean pig slaughterings for the first ten months of this year totalled 8.4 million head, two per cent more than the corresponding period in 2011.



There have been an increasing number of adult pigs culled since the sharp rise in feed prices earlier in the year. However, in October the rate of increase slowed as the total number of sows and adult boars slaughtered in October reached 27,000 head. This was an 11 per cent increase on estimates for the same month last year. Between January and October the total number of sows and boars slaughtered reached 226,000 head, nearly nine per cent more than during the same period a year earlier.

The average UK clean pig carcase weight was slightly lower than the previous month, although this differs from the trend observed in the DAPP sample. At 76.6kg, the reported average weight was two per cent lower than October last year. Despite the small increase in pig supplies, the reduction on carcase weight resulted in one per cent lower pig meat production compared with the same month last year. This meant that total output for October stood at 81,000 tonnes. However, the year to date total remained two per cent higher than the first ten months in 2011, at 691,400 tonnes.

Based on the DAPP sample, estimated clean pig throughputs increased in the first two weeks of November as the Christmas marketing period began to pick up pace. Carcase weights remained higher than in October and were similar to those a year earlier. Therefore, pig meat production in November is likely to be higher than in November 2011.

In September, UK imports of pork and bacon remained subdued, as they have been throughout 2012. However, as has been the case all year, this was offset by increasing imports of processed pig meat products. Monthly shipments of fresh and frozen pork totalled 28,900 tonnes, five per cent lower than in September 2011. With supplies tight across most of the EU, volumes from most of the UK's major suppliers of imported pork were down. The main exception was Germany, which shipped 45 per cent more pork than last September, continuing the trend seen in recent months. In total, pork imports during the first three quarters of the year were down nine per cent to 255,000 tonnes, with France and Spain increasing shipments as well as Germany.

UK bacon and ham imports in September were 17 per cent lower than a year earlier at 21,200 tonnes. Shipments from all three major suppliers were lower. In the first nine months of the year, bacon imports were down nine per cent at 188,000 tonnes. In contrast to most recent months, sausage shipments were lower but this was mainly due to an unusually high figure last September and quantities were in line with recent months at 9,000 tonnes. Imports of processed pig meat were 19 per cent higher than in September 2011 at 13,900 tonnes. This was actually the lowest annual growth in more than a year, as Danish shipments were down for the first time in 2012. Nevertheless, processed imports for the year to date were still up by nearly half at 126,000 tonnes.

UK fresh and frozen pork exports in September reached their highest level since August 2000 at 15,700 tonnes. This was 13 per cent higher than in September 2011. While exports of over 1,400 tonnes to China were part of the explanation, they were offset by a fall in shipments to Hong Kong. Instead, the increase was largely due to diversification into new markets, both within and outside the EU. This reflected tighter supplies elsewhere, increasing demand for UK pork, especially as unit prices were only five per cent higher than a year earlier in euro terms. However, shipments to Germany, the UK's leading export market, were four per cent lower than a year earlier. The increase in September exports took the total for the first nine months of the year to 112,000 tonnes, four per cent higher than in the same period last year.

September offtal exports were also at a high level. At 5,100 tonnes they were the highest since May 1999 and were 40 per cent up on a year earlier. The increase was entirely due to increased shipments to other EU Member States, notably the Netherlands and Germany. Shipments to Hong Kong/China were actually lower than last September. For the year to date, offtal exports were up 19 per cent at 29,100 tonnes.

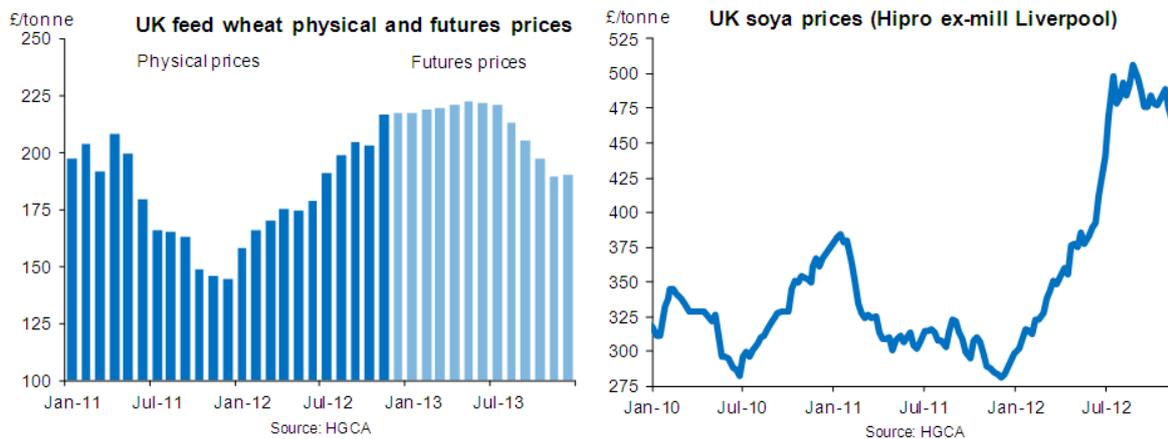
FEED PRICES

Nearby London feed wheat futures (November 2012 contract) rose by £8.50 per tonne during the four weeks to 22 November, closing at £218.00 per tonne. US maize futures (December 2012) rose slightly to £182.80 per tonne, up by under £2 over the period.

Autumn plantings are nearly complete across Northern Hemisphere countries, with the exception of parts of France, the UK and southern Spain which have experienced very wet weather. Strategie Grains estimate that EU countries will sow four per cent more winter wheat than last year, as a result of the strong forward prices, at the expense of barley and maize. This may yet prove to be optimistic as weather delays in the UK and northern France could prevent all the intended area being planted.

In the US, concern is increasing over dryness in the High Plains area, where winter wheat crops are in their worst ever condition for November. Nationally 34 per cent of crops were in a good/excellent condition, down from 50 per cent last year. Australia and Argentina are currently harvesting wheat and barley. Yields in Australia have been in line with expectations, although protein levels in milling wheat crops have been lower than average. In Argentina, early wheat yields were 1.25 tonnes per hectare, compared with a season average last year of 1.18.

The USDA's latest estimate increased the US maize yield slightly but increased demand to compensate, meaning only a very moderate increase in ending stocks. It is possible that a smaller than forecast area of maize will be planted in South America, as rain has delayed planting in Argentina. Soyabeans have a later planting window, so land which cannot be planted with maize could be switched to soyabeans if weather permits.

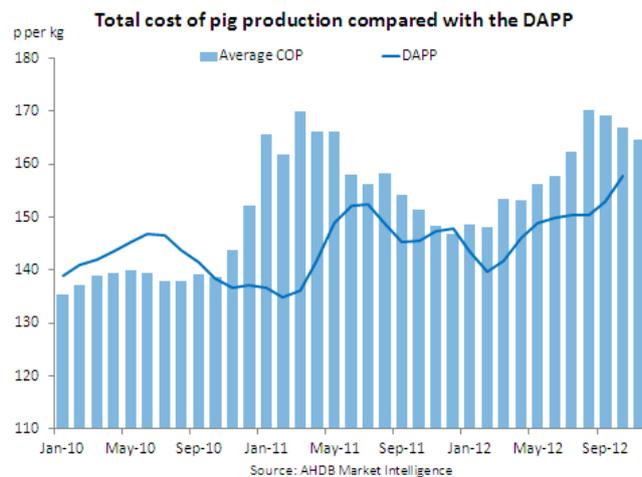


The USDA revised US soyabean production up to 80.9 million tonnes due to better than expected yields, although this is still below last year's 84 million tonnes. However, a forecast increase in Chinese demand resulted in very little change to estimated ending stocks. Prices fell to their lowest

level in five months in week ended 16 November and at close on 22 November nearby CBOT soyabean futures were worth £324 per tonne.

South American soyabean planting is continuing, with Brazil experiencing dryness in the north and wet weather in the south, while Argentina has had widespread rainfall. As of the 15 November Argentine soyabean plantings were behind last year's progress but overall area is anticipated to be larger. In Brazil, nearly 90 per cent of soyabeans in Brazil's main growing area, Mato Grosso, had been planted and, as in Argentina, the planted area is forecast to be larger than 2011.

UK imported Hi-Pro soyameal was available for £367 per tonne from the east coast on Friday 16 November, down from £392 three weeks earlier.



According to AHDB's provisional estimates, the cost of pig production continued to ease back in November with the latest estimate putting the full production cost at 164.6p per kg. This is around 2p lower than the estimate for October and more than 5p down on the peak recorded in August. The reduced costs are the result of lower quotes for compound pig feed in November. However, with feed wheat prices increasing as the month has progressed, the possibility of production costs rising again has not gone

away. In any case, costs are still more than 16p per kg higher than they were a year ago.

With costs falling and pig prices rising, the gap between the two has narrowed. Despite this, producers remain in a loss-making position, as they have done for virtually all of the last two years. Based on the latest estimates, producers are still losing around £4 per pig, even with pig prices at a record level. Forward feed quotes suggest that production costs are likely to remain at or above their current level until next summer, at least. This means that pig prices will need to rise further for the industry to return to profitability.

CONSUMPTION

Based on data from Kantar Worldpanel, the average price paid by consumers for fresh and frozen pork in the four weeks to 28 October was eight per cent higher than in the previous four weeks, reversing falls in the earlier period. Prices were also well up on a year earlier. Bacon prices were three per cent up on both the previous period and a year earlier. Price movements for sausages and sliced cooked meats in the latest period were the opposite of their trend over the last year.

In the 12 weeks to 28 October 2012, there were contrasting trends for retail purchases across different pig meat categories. Sliced cooked meats (mainly ham) recorded year-on-year growth of over eight per cent, while bacon sales were up two per cent. However, purchases of fresh and frozen pork were down five per cent and sausage sales fell two per cent. Fresh pork was affected by lower levels of promotional activity, particularly on leg and shoulder roasting joints. They consequently lost out to other meats, notably lamb legs which were heavily promoted.

In the most recent four-week period, roughly coinciding with the month of October, purchases of pork were down by as much as 14 per cent, with promotions on lamb legs continuing to hit sales of pork roasting joints. Only bellies showed year-on-year growth, with purchases up 19 per cent. Sales of sausages and bacon were down but the strong performance of sliced cooked meats continued, on the back of lower prices.

Trends in retail meat purchases (period ended 28 October 2012)

	4 weeks 2012/11			12 weeks 2012/11			52 weeks 2012/11		
	Q	E	P	Q	E	P	Q	E	P
% change compared with a year earlier									
Fresh and Frozen Meat, Poultry and Bacon	-0	+3	+3	+0	+2	+2	+1	+5	+3
Pork	-14	-6	+9	-5	-2	+4	-3	+3	+7
<i>Belly</i>	+19	+22	+2	+18	+19	+1	+15	+21	+5
<i>Chops</i>	-18	-13	+6	-14	-13	+2	-6	-5	+2
<i>Steak</i>	-10	-11	-2	-8	-10	-3	-5	-5	-1
<i>Leg Roasting Joint</i>	-45	-28	+32	-17	-14	+4	-24	-7	+24
<i>Loin Roasting joint</i>	-.4	+17	+21	+5	+22	+16	+12	+20	+7
<i>Shoulder Roasting joint</i>	-25	-20	+6	-18	-19	-1	-11	-4	+7
Pork Marinade	+23	+28	+4	+26	+41	+12	+24	+32	+6
Bacon	-1	+2	+3	+2	+1	-0	+2	+3	+2
Beef	+1	+7	+6	-5	+1	+6	-3	+4	+7
Lamb	+1	-1	-2	+2	-1	-3	+1	+3	+2
Poultry	+4	+4	-0	+4	+5	+0	+4	+7	+2
Processed products									
Pork Sausages	-6	-4	+2	-2	+1	+3	-1	+1	+3
Fresh Pre-packed Pork Pies	-7	-4	+3	+2	+3	+1	+0	+3	+2
Fresh Pre-packed Sausage Rolls	-7	-4	+3	-11	-8	+4	-8	-2	+6
Pork Chilled Ready Meals	+2	+18	+15	-0	+11	+11	-3	+9	+13
Pork Sliced Cooked Meats	+5	+1	-4	+8	+3	-5	+4	+4	+0

Q = quantity purchased, E = expenditure, P = price
Source: Kantar Worldpanel

As consumers monitor their household expenditure, they are constantly looking for ways to save money or get a good deal. Over the past few years this has translated into eating out less, reducing waste or even switching supermarkets. But it doesn't end there – consumers are constantly looking for the best value from their red meat purchases.

The average price for red meat has continued to rise with the current price 21 per cent higher than four years ago. Consumers have faced a 38 per cent average price increase for lamb, beef is up 25 per cent and pork just under 10 per cent. The promotional mix has adapted, with reduced levels of volume based promotions such as X for £Y deals, replaced with a larger share of temporary price reduction promotions to convey value credentials to consumers.

The vast majority of fresh red meat sales lie within the 'standard tier' but it is this middle ground which has been squeezed, with volume sales down four per cent compared with last year. Instead, the smaller economy and premium segments both recorded growth.

There are clear indications that shoppers are trading between proteins. In the 12 weeks to 30 September there was notable consumer switching into lamb from both beef and pork, with beef also losing out to pork. This highlights that it is not as simple as consumers trading down through the price levels, as the average price of lamb remains higher than both beef and pork. However, recent

deep discounts on lamb joints have helped narrow the price gap. This indicates that consumers are looking for value for money rather than just the cheapest products. It also highlights the continued importance of promotions in driving product choice.

As well as switching between species, consumers are also looking at the meat cuts they pick. Within pork a trade down in cuts is not as obvious as for beef and lamb; loin roasting joints have made gains from both leg and shoulder roasting joints, while shoppers have also continued to trade out of chops. However, belly, which remains relatively cheap, has shown consistent growth.

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The United Kingdom pig meat situation and outlook is analysed in more detail in "Pig Market Trends", published monthly. For further information, [click here](#).

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