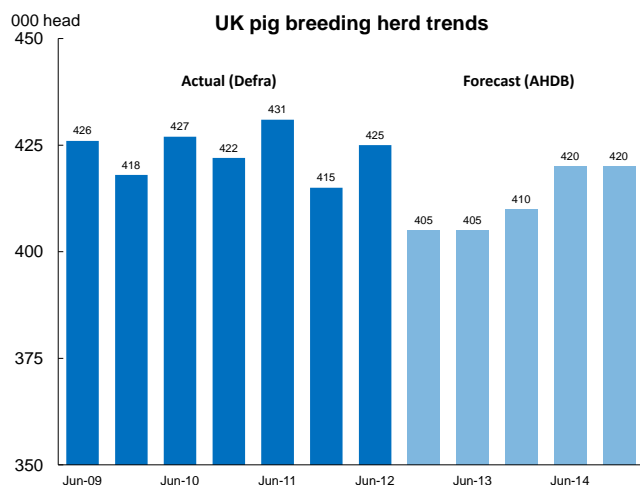


Outlook for UK Pig Meat Supplies – February 2013

The latest figures for the size of the UK pig herd come from the 2012 June Survey of Agriculture and Horticulture. At that time, the pig herd totalled 4.48 million head, one per cent higher than a year earlier. However, the active female breeding herd was slightly smaller than in June 2011 at 425,000 head, although an increase in the number of maiden gilts meant that the overall situation remained one of stability.

Since June, the fortunes of the UK pig industry have changed significantly. At the start of June, nearby UK feed wheat futures were trading at around £175 per tonne. By the end of August, this had risen to over £200 per tonne and in December it reached around £225 per tonne. This increase meant that, according to AHDB estimates, the cost of pig production rose from 158p per kg in June to 170p in August and remained around 169p at the end of 2012.

As a result, and despite pig prices rising to record levels, most producers were facing substantial losses. Many decided to quit the industry or to reduce their herd sizes. Until the results of the December census are published, likely to be in early March, it is impossible to quantify the impact of these decisions. However, AHDB estimates suggest that over 15,000 more sows were culled between June and November than in the same period of 2011.

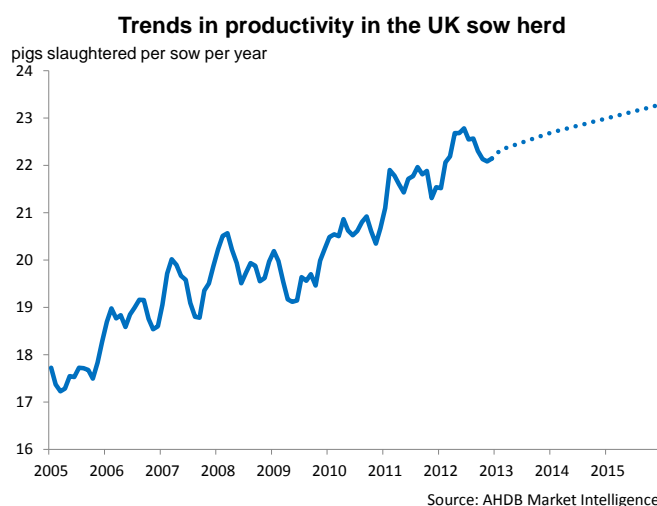


This suggests a decline of 20,000 head in the breeding herd between June and December might be realistic. This is backed up by figures for compound feed production, which show a five per cent year-on-year fall in sow feed during the final quarter of 2012. In contrast, production of other feed formulations was higher.

During the final quarter of 2012, GB pig prices reached record levels, passing 160p per kg for the first time. However, this remained well below the cost of production, meaning that producers were still losing money. In this environment, there is unlikely to be any herd expansion, although higher prices may

prevent a further decline. If feed prices ease post-harvest and pig prices remain strong then some modest expansion might begin in the second half of this year.

With a stable breeding herd, increases in clean pig slaughterings in recent years are down to improved sow productivity. This trend has continued, with the number of pigs slaughtered per sow in 2012 averaging 22.3, compared with 21.7 in 2011. Further productivity improvements are likely in future years, although the rate of improvement may slow somewhat.



The increased productivity meant that clean pig slaughterings passed 10 million head in 2012 for the first time in a decade. However, the decline in the breeding herd would mean that the upward trend in slaughterings recorded since 2009 will reverse. For 2013 as a whole, the number of clean pigs slaughtered in the UK is forecast to be around 9.83 million head, two per cent lower than in 2012 and about the same level as 2011.

Actual and forecast UK pig slaughterings

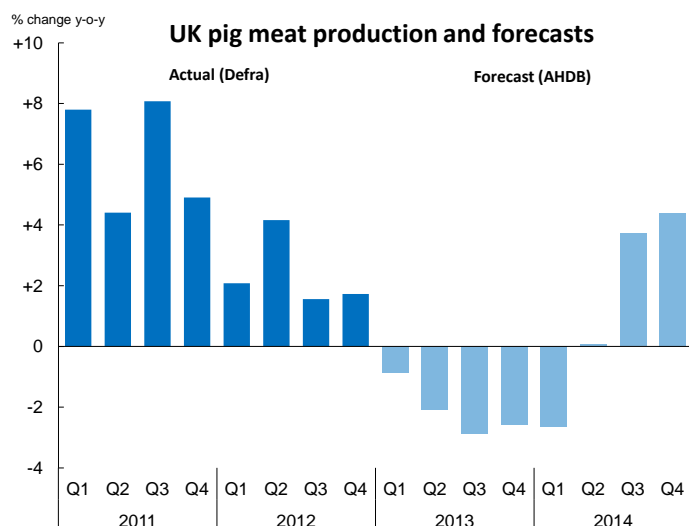
000 head	Clean pigs			Sows and boars		
	2011	2012	2013	2011	2012	2013
Quarter 1	2,420	2,478	2,452	65	65	65
Quarter 2	2,337	2,427	2,377	61	62	62
Quarter 3	2,490	2,525	2,461	60	71	61
Quarter 4	2,566	2,604	2,541	64	66	62
Year	9,813	10,034	9,831	250	265	249

Source: Defra, AHDB. Figures in bold are forecasts

As discussed above, high feed prices in the second half of 2012 led to increased levels of culling of adult breeding pigs. Since finished pig prices increased (and cull sow prices fell), throughputs have returned to more normal levels. Assuming that margins do not worsen significantly, it seems likely that cullings will remain close to seasonal norms during 2013.

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The increase in feed prices also led to lower carcass weights for clean pigs in the autumn as producers marketed pigs early to mitigate rising costs and improve cash flow. Again, the rise in pig prices led to carcass weights returning to normal levels and this is expected to remain the situation through the remainder of 2013. As such, the long-term upward trend in carcass weights is not expected to resume.



With only limited changes in sow slaughterings and carcass weights, the fall in clean pig slaughterings will be the main driver of changes in pig meat production, which is, therefore, also forecast to reduce by two per cent in 2013. Looking further ahead, the expected recovery of the breeding herd, combined with further productivity gains, are expected to lead to a return to production growth in the second half of 2014.

At the same time as UK supplies are tightening, pig slaughterings in the EU are also likely to be reducing. This is already starting to happen, with EU throughputs down around two per cent during the first 11 months of 2012. Most forecasters expect this decline to continue, with the EU Commission predicting a three per cent fall in 2013, with the largest drop in the second half of the year.

Actual and forecast supplies of pig meat in the UK

000 tonnes (cwe)	2011		2012				2013				
	Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year
Production	805	206	198	206	214	825	203	194	201	209	807
Imports	960	235	232	243	269	980	230	225	230	250	935
(Fresh/frozen)	(410)	(90)	(92)	(98)	(105)	(385)	(85)	(85)	(90)	(95)	(355)
(Bacon)	(328)	(76)	(67)	(75)	(82)	(300)	(75)	(65)	(70)	(75)	(285)
(Processed)	(223)	(69)	(73)	(71)	(82)	(295)	(70)	(75)	(70)	(80)	(295)
Exports	207	51	44	53	62	210	55	45	51	59	210
Available for consumption	1,558	390	386	396	421	1,595	378	374	380	400	1,533

Source: Defra, AHDB. Figures in bold are forecasts

However, the situation in the EU is complicated by the implementation of new welfare regulations, including the partial ban on sow stalls, from the start of the year. Latest figures suggest that most EU Member States had failed to comply with the regulations by the deadline. At the time of writing, there is considerable uncertainty about how quickly the remainder will progress towards compliance and what the impact on the market will be.

During the first 11 months of last year, UK pig meat imports were slightly higher than in the equivalent period of 2011. This has been driven by increased shipments of processed pig meat as consumers continued to trade down to cheaper products. This offset small declines in pork and bacon imports. However, with supplies across Europe set to be tighter in 2013, it seems unlikely that this upward trend can be maintained. Therefore, overall pig meat imports are likely to be lower than in 2012, with pork and bacon shipments expected to fall further.

UK pig meat exports in 2012 were marginally higher than the previous year and were strongest in the final quarter as rising shipments to China added to robust demand from the EU. There is considerable uncertainty about developments into 2013. Lower production would suggest that there will be less pig meat available for export. However, with tight supplies elsewhere, demand will be strong. The net result may be little change in volumes for the year as a whole, with a modest rise in the first half of the year offset by a similar fall in the second half.

The balance of production, imports and exports suggest that there will be a significant fall in supplies available for consumption in the UK during 2013. This suggests a decline in retail sales is likely, already reflected in figures for the first few weeks of the year. This, in turn, suggests further increases in retail prices might be expected, although this will depend on consumer confidence, which currently remains low.