

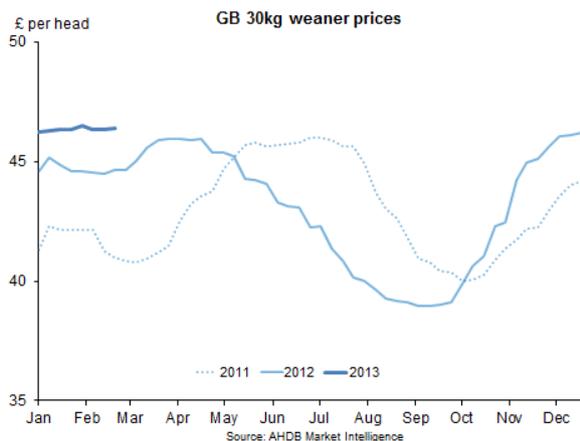
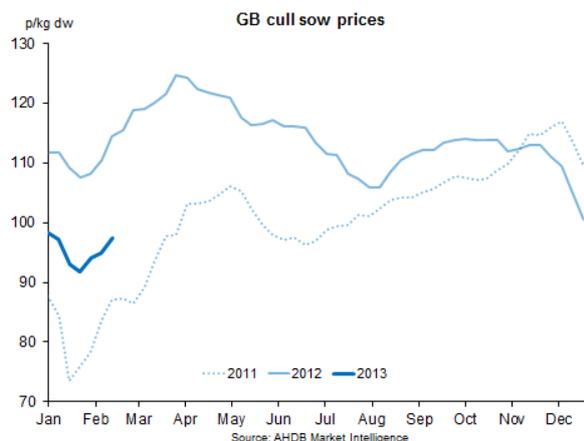
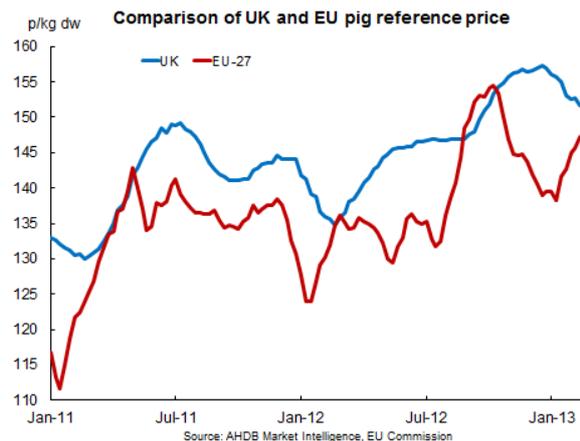
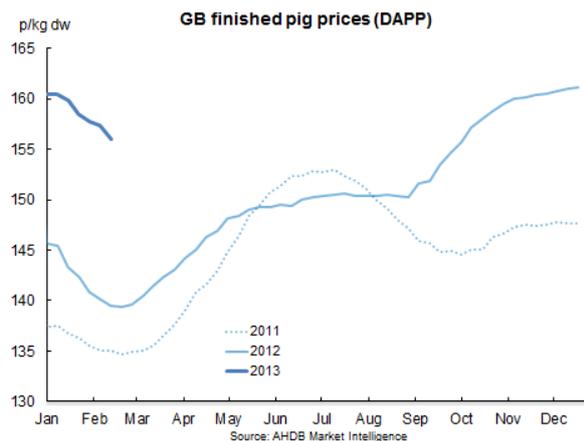


United Kingdom Pig Meat Market Update

March 2013

UK PRICES

At 159.32p per kg, the average EU-spec DAPP fell by nearly two pence in January. This seasonal dip is largely a function of lower consumer demand following the Christmas season and is normal for this time of year. For the same month in 2011, pig prices fell by a slightly higher amount of four pence. This may be partly because this year processors and retailers were reportedly more cautious with Christmas supplies which meant that they had less post-Christmas stock. Steady EU prices and a weakening pound also influenced the UK market. As a result, producers received 16p more compared with January 2012. While the positive difference in the annual comparison continued into February, the DAPP fell further, reaching 155.99p per kg for the week ended 16 February.



The average carcass weight in the DAPP sample jumped to 80.08kg in January, up by almost 2kg compared with December but similar to last January. During the month, weights floated around the monthly average but there was a marginal fall in the week ended 26 January to 79.91kg. This decline continued in the first week of February but by 16 February, carcass weights picked up again reaching

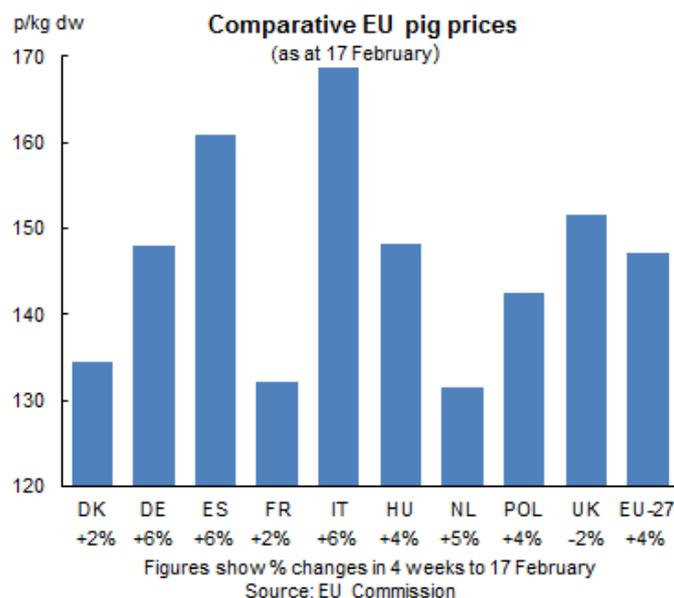
80.19kg. The average weight for January is typical for the beginning of the year, with a combination of a backlog of pigs after the holiday period and producers holding their pigs back for slightly longer waiting for demand to recover.

The January average price for a 30kg weaner was £46.34 per head, almost on a par with December 2012. At the latest rate, the weaner price was just under £2 more than the same month in 2012. The weaner market has gained some stability since November, with relatively strong producer confidence but some uncertainty about the future direction of finished pig prices. This trend continued into February. Weaner prices edged up to £46.38 for the week ended 23 February. The weaner market is yet to reflect the small decline in feed prices and is still awaiting clarity about future prospects for producer returns.

The cull sow market dipped by as much as 10p between December and January, as the monthly average was at 94.90p per kg. This was nearly 15p lower compared with the same month in 2012. Prices started falling in mid-November and by the end of January, cull sow prices had fallen by 21p. The downturn was largely a function of the weaker EU pig market, coupled with lower demand from manufacturers once orders for the Christmas period had been fulfilled. However, by the week ended 16 February, the cull sow price had picked up to 97.48p, nearly 6p higher in three weeks. Exchange rate movements contributed to the rise, adding to a firmer continental market since the start of February.

EU PRICES

The EU pig reference price recorded a small reduction in January with an average of €169.93 per 100kg. At this rate, the price was three euros lower than the December average. However, the annual difference remained nearly €19 above 2012 levels for the same month. Most of the price fall actually happened before Christmas, with prices during January broadly stable. This contrasts with the seasonal trend of recent years which have seen prices falling sharply in the New Year but then recovering from late January onwards. By mid-February, prices had begun to increase and for week ended 17 February the EU average reference price had reached €171.50 per 100kg. Although the gap had narrowed, this was still €13 higher than a year earlier.



Month on month reductions in prices were apparent in most of the major producing Member States, with particularly sharp falls in Denmark and Poland. However, several southern European countries bucked the trend, with rising prices in Italy and, particularly, Spain as supplies here were reportedly especially tight. By the end of the month, these two countries had the highest prices among major producers and their quotes continued to increase through the first half of February. By that time, the Spanish price was back to a level similar to that in late October.

The sharp fall in the value of the pound against the euro during January meant that the gap between the EU reference price and the UK equivalent dropped from around €21 per 100kg at the turn of the year to just over €5 by mid-February. If the gap narrows any further then it will put upward pressure on UK prices, since UK pig meat will be more price competitive.

Since December, the EU average weaner price improved by around one euro, with the January average reaching €48.53 per head. This was just over €3 more than in the same month in 2012. Prices have been increasing since the New Year but more slowly than is typical at this time of year and by week ended 17 February the average price was almost identical to a year earlier. As in the UK, high feed prices are combining with some uncertainty about future finished pig prices to limit price rises.

Sow prices in key EU Member States followed finished pig prices lower between December and January. The German quote fell by 12 cents per kg to €1.28 with Dutch and Danish prices down by a similar amount. However, from mid-January onwards, prices recovered strongly in Germany and the Netherlands despite relatively high supplies; German sow slaughterings were up seven per cent in the first seven weeks of the year. In contrast, the Danish price was stable during this period, with throughputs here up by an even larger percentage.

UK SLAUGHTERINGS AND PIG MEAT SUPPLIES

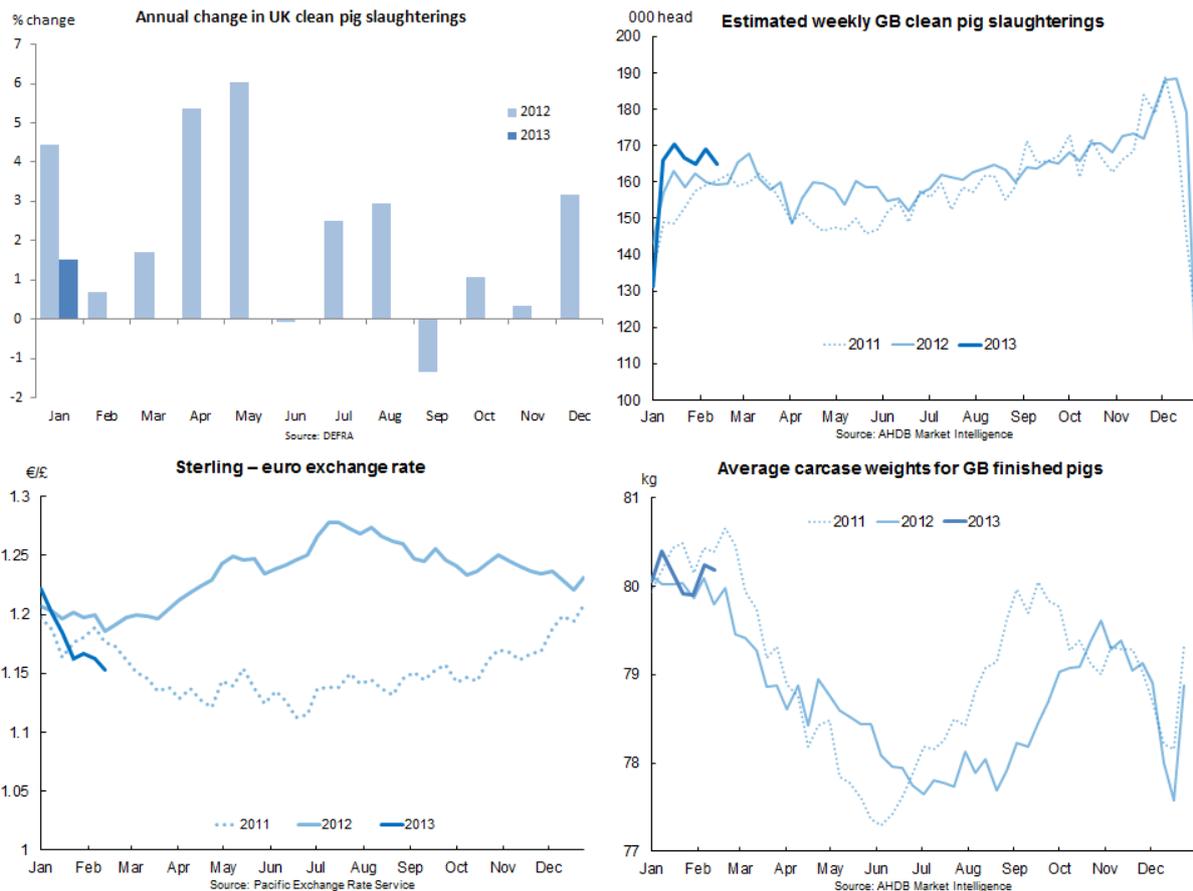
UK clean pig slaughterings in January 2013 totalled 954,000 head. This was nearly two per cent higher than in the same month last year. The mild weather before Christmas helped to ensure that pigs grew well, which meant that some were able to come to market earlier than usual. With colder conditions since the New Year, this could lead to lower numbers later in the year, particularly as the impact of any decline in sow numbers last year becomes more apparent. As in recent months, Scottish throughputs were down by more than half, with most of these pigs transferring to England, where slaughterings were seven per cent higher than last January. In contrast, numbers in Northern Ireland were virtually unchanged compared with a year earlier.

Adult pig slaughterings in January 2013 were close to year earlier levels at 25,400 head. This will be partly influenced by the low prices for cull sows during the month, which may have reduced replacement rates to some extent. However, it also suggests that the reduction in the sow herd which is thought to have happened during the second half of 2012 has slowed down or stopped, for the time being at least.

Another effect of the good growing conditions pre-Christmas is that the average clean pig carcass weight was the highest ever recorded at 79.8kg. This increase was apparent in all parts of the UK but there was a particularly sharp increase in weights in Northern Ireland. Combined with the higher

slaughterings, this contributed to a rise in pig meat production of just over two per cent. The total quantity produced during the month was 79,800 tonnes.

Based on the DAPP sample, clean pig slaughterings continued to run ahead of year earlier levels during the first half of February. This may be an indication that demand for British pork remains robust, perhaps supported by consumers reacting to the revelations about horse meat in some processed beef products. It may also indicate some desire by processors to increase stocks ahead of an expected tightening of supplies as the year progresses.



Latest data confirm that the UK imported six per cent less fresh and frozen pork in 2012 than in 2011. The decline was largely the result of tighter supplies in the rest of the EU, with production down by around two per cent. The decline affected some of the UK’s leading suppliers, such as Denmark, the Netherlands, Ireland and Belgium. These falls were partly offset by increased shipments from Germany and Spain, with the former becoming the second largest supplier. In December, shipments were down by nine per cent year on year, mainly the result of a fall of over a third in Danish supplies. Most other major suppliers actually increased their volumes somewhat, although this was insufficient to fully offset the lack of Danish pork.

Bacon and ham imports were also lower in 2012, down by eight per cent overall, with shipments lower from all three major suppliers, Denmark, Germany and the Netherlands. The decline in the final month of the year was even sharper, with shipments down 13 per cent. The falls in pork and bacon imports have largely been offset by increased volumes of processed pig meat. For the year as a whole, sausage imports were up seven per cent and other processed shipments by 41 per cent.

However, growth in both these categories slowed as the year progressed and in December, sausage imports were five per cent down on a year earlier, while processed pig meat shipments were unchanged.

The strong recent export performance of fresh and frozen pork continued in December, with shipments up 18 per cent year on year. As in recent months, China was the key growth market, taking the second largest volume of UK exports for the second consecutive month. As a result of this, pork exports for the year as a whole were up seven per cent, with most of the growth in the second half of the year, after the Chinese market was opened; growth in the first half of the year was only two per cent. This meant that 2012 was the best year for UK pork exports since 2000.

However, the increase in pork exports was more than offset by a sharp decline in shipments of bacon and ham. These were less than half their level in 2011, with all leading markets taking much less product. This pattern continued in December, with exports down by 62 per cent. However, there was a more positive picture for exports of processed pig meat products, which were up by a third, and, more significantly, offal. Offal shipments rose by more than a quarter for the year as a whole. The main driver was increased demand from other EU countries, which was up 82 per cent, likely for use in manufactured products or for re-export. Shipments in December were up only one per cent, perhaps because of lower manufacturing demand once Christmas orders had been fulfilled.

FEED PRICES

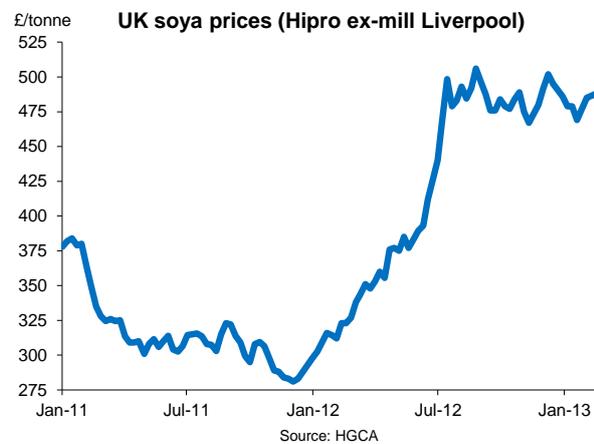
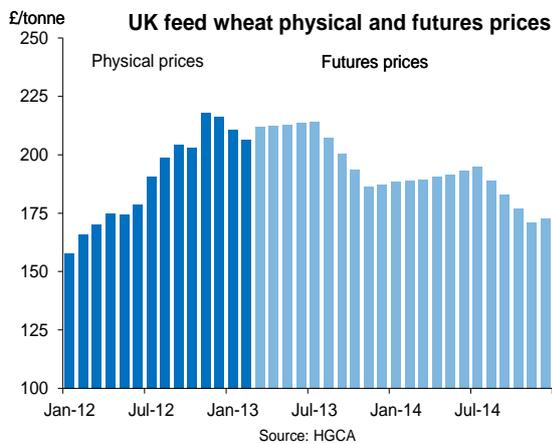
London feed wheat futures (May-13 contract) fell by £7.75 per tonne during the month, closing at £207.00 per tonne on Tuesday 19 February. US maize futures (March-13) were worth \$273 per tonne on the same day, down by \$9 on a month earlier. Despite the fall in the contract price, in sterling terms the price has dropped by just 50p per tonne as the weaker pound negated the fall.

Defra's UK supply and demand estimates were released at the end of January. The forecasts showed 2012/13 UK wheat availability up 95Kt to 16.9Mt compared to November's estimate, although remaining below last season's 17.7Mt. This was mainly as a result of an increase in UK wheat imports, as millers continue to deal with poor UK wheat quality. UK compounders are using more barley and imported maize in feed, as it continues to be more competitive than wheat. December usage data showed the highest monthly wheat imports on records going back to July 1992, at 306Kt.

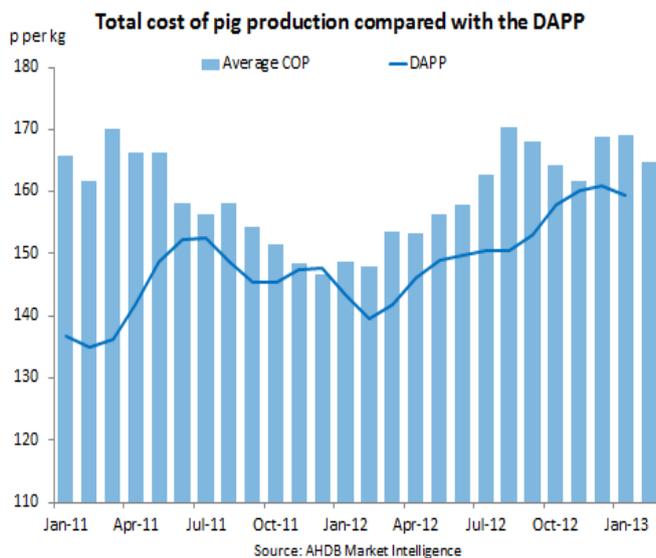
The South American maize harvest has started in the major producers of Brazil and Argentina. Harvested areas are relatively small and yields so far are indicative and may not represent the full crop. In the latest USDA report world maize ending stocks were increased 2.05Mt to 118.0Mt due to increases in the US, Brazil and Mexico. Production was increased as a result of better area and yield prospects in Brazil, Mexico and the FSU which offset a decline in Argentina. In addition, demand was reduced in the feed sector mainly due to lower usage in Brazil. However, the EU is expected to use more maize for feed.

Oilseed prices have risen slightly from last month and at close on 19 February nearby CBOT soyabean futures were worth \$540.17 per tonne, up \$12 on the month. Domestic rapeseed values have been supported by a weaker pound, exacerbating the rises in oilseed prices abroad. UK imported Hi-Pro soyameal was available for £358 per tonne from the east coast on Friday 15

February, an £8 gain compared with a month earlier. The USDA increased world ending stocks due to higher production and lower crushing demand.



South American weather has been driving the market as a lack of rain in Argentina cut crop prospects, although favourable weather in Brazil has pushed forecasts higher there. According to Celeres, 19 per cent of the Brazilian soyabean crop has been harvested, well ahead of the 10 per cent expected at this time. Nationally, 59 per cent of the anticipated harvest has been forward sold, although in the main producing region of Mato Grosso this is up to 72 per cent. Over a five year average it would be expected that 43 per cent of the crop would be sold by now. This reflects the tight supply within the market and the reliance on South American soyabeans almost as soon as they become available. In less than six months of the season, 93 per cent of forecast US exports have now been sold.



According to AHDB's provisional estimates, the average cost of pig production in February is just under 165p per kg, around four pence lower than in January. This is largely the result of a fall in prices for compound pig feed, with both cereal and oilseed prices easing somewhat since the New Year. Nevertheless, production costs remain high by historic standards, being only around 5p per kg lower than the record level recorded last summer. The February estimate is around 17p higher than a year earlier, equivalent to an extra £13.50 to raise a pig to slaughter weight.

With the pig price falling at a similar rate to the drop in production costs, producers remain in a loss-making position. Based on the current level of the DAPP, producers are losing around £7 per pig during February, similar to the average loss during 2012. Cumulative industry losses since the start of 2012 are now estimated at around £70 million. Forward feed quotes suggest that the cost of

production will remain well above the recent level of pig prices until after the harvest. Thereafter, the situation may improve but this will depend on global weather conditions and on pig price remaining high.

CONSUMPTION

In the 12 weeks to 20 January, spending on retail pork purchases increased slightly. This was driven by increases in average price, as the amount purchased declined seven per cent, due mainly to consumers purchasing less per trip. Chops/steaks and leg & shoulder roasting joints experienced volume and spending declines, while belly and loin purchases again recorded growth in expenditure and volume purchased. Loin roasting joints benefited from consumers switching away from other pork cuts, which helped to increase household penetration and boost purchases by 30 per cent.

Over the same period, spending on bacon was also higher than last year, again driven by price rises. Premium bacon sales grew due to new product launches from some major retailers. However, value bacon also recorded growth, with standard tiers losing out. The recent trend for sausages continued, with a three per cent increase in spending and a decline in volume purchases. Fewer Y for £X deals may have impacted on volumes. Sliced cooked meats continued to record volume growth, driven by ham in particular. However, due to lower average prices, expenditure on ham fell two per cent.

In the 4 weeks to 20 January 2013, the decline in volume purchases of pork accelerated to 13 per cent and so, despite average price rises, spending also fell. Bacon purchases remained static with rises in average price again boosting spending figures. The decline in purchases of sausages accelerated to nine per cent while sliced/cooked ham also declined compared with last year, influenced by a dip in purchase frequency and household penetration.

Trends in retail meat purchases (period ended 20 January 2013)

	4 weeks 2013/12			12 weeks 2013/12			52 weeks 2013/12		
	Q	E	P	Q	E	P	Q	E	P
	% change compared with a year earlier								
Fresh and Frozen Meat, Poultry and Bacon	+0	+7	+7	-0	+5	+5	+2	+5	+3
Pork	-13	-6	+9	-7	+1	+8	-4	+2	+6
<i>Belly</i>	-11	-7	+4	+2	+9	+7	+10	+16	+5
<i>Chops</i>	-35	-27	+11	-22	-14	+10	-12	-8	+5
<i>Steak</i>	-2	-2	-1	-5	-5	+0	-4	-6	-1
<i>Leg Roasting Joint</i>	-16	-17	-1	-13	-14	-1	-19	-11	+10
<i>Loin Roasting joint</i>	+25	+40	+12	+30	+45	+11	+21	+32	+9
<i>Shoulder Roasting joint</i>	-39	-17	+37	-26	-3	+30	-15	-5	+12
Pork Marinade	+24	+31	+5	+32	+33	+1	+23	+30	+6
Bacon	+0	+4	+4	-0	+3	+3	+2	+4	+2
Beef	+1	+5	+4	+2	+7	+5	-3	+5	+8
Lamb	+21	+10	-9	+13	+9	-4	+7	+5	-2
Poultry	+2	+14	+11	-1	+6	+6	+5	+6	+2
Processed products									
Pork Sausages	-8	+3	+13	-3	+3	+7	-2	+2	+4
Fresh Pre-packed Pork Pies	-9	+1	+11	-10	-3	+8	-3	+1	+4
Fresh Pre-packed Sausage Rolls	-1	+9	+10	-11	-3	+10	-9	-3	+6
Pork Chilled Ready Meals	-11	+17	+32	+8	+24	+15	-0	+14	+14
Pork Sliced Cooked Meats	-4	-4	-0	+1	-2	-3	+3	+2	-1

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

According to data from NPD Crest, the total foodservice market remained relatively sluggish during 2012. Total out of home sales increased less than one per cent to £50 billion, with growth coming from increased prices. Traffic levels remained fairly static, suggesting the recessionary decline in visits may have levelled off. There were bright spots in the industry. Sales at quick service restaurants (QSRs) were up by two per cent, boosted by an increase in traffic levels and in the average number of items bought. Sales and visits to pubs were fairly static but in the final quarter sales and visits both increased slightly.

One key trend is the growth at breakfast, with visits up by over eight per cent since last year. High street operators are expected to focus heavily on this meal in the coming year. Pizza/Italian restaurants also continued to grow, as did coffee shops, now expanding into lunch and dinner. The sandwich category also reported strong growth, which is expected to continue into 2013. Meanwhile, visits to full service restaurants were down two per cent, although this sector did see breakfast visits increase compared to last year, proving there are areas in which to grow.

At a topline level, proteins performed well. In particular, there were an extra 50.8 million servings of pig meat compared with last year, with most of these gains coming from the QSR sector. As a result, it made up 28 per cent of all protein servings, making it the most popular protein out of the home. It remained the cheapest protein meal, due to the breakfast focus, with an average meal costing £4.34, a slight decline on 2011.

The products driving the increase in servings were bacon, bacon sandwiches and sausages, which all did particularly well in QSRs. Bacon sandwiches posted the largest growth, with servings up by 23 million. These pork products are clearly benefiting from the growing breakfast trend. On the other hand, servings of fresh pork main dishes and ham sandwiches, traditionally consumed at other occasions, declined. Within pubs, pork roasts and bacon servings both increased, helping to boost total pub pork servings.

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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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