



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - Public Distribution

Date: 12/03/98

GAIN Report #: SP8050

Spain

Dairy, Livestock, and Poultry

Pork Supply and Demand Situation

1998

Prepared by: **Robert Wicks**
U.S. Embassy, Madrid

Drafted by: **Diego Pazos**

Report Highlights:

Forecasts for Spain's 1998 and 1999 pork production have been increased, reflecting updated estimates of hog inventories. The oversupply situation has resulted in historically low prices. The "crisis" that has characterized Spain's hog sector in recent weeks is not expected to subside for several more months.

Includes PSD changes: Yes
Includes Trade Matrix: No
Voluntary Report

Live swine and pork PS&D's have been updated to reflect official estimates recently released by Spain's Ministry of Agricultural. Spain's sow and total pig numbers show that already burgeoning supplies continue to grow, with no downturn in output expected through 1999. The oversupply situation is reflected in prices, which are at their lowest point in almost three decades. As such, production forecasts (pork and live hogs) for 1998 and 1999 have been increased. Ending sow inventories for 1998 are forecast to be nearly 10 percent above the previous year and pork production is expected to grow 8 percent in 1998. Benefitting from the relatively low prices in Spain, export forecasts have been increased to reflect increased shipments to other EU member States, primarily Portugal and Italy.

The current crisis in Spain's pork sector has its roots in the dramatic growth and favorable returns the sector experienced over the past decade. Spain's pork production rose from 1.5 million tons in 1987 to an estimated 2.5 million tons in 1997. During this period, prices were consistently profitable, generating a mentality among producers that down cycles were a thing of the past, and that the market could sustain further expansion.

The Hog Cholera (HC) outbreak in 1997 caused a supply shock, which made pork production even more profitable. The ban on shipments from Holland due to the HC outbreak there, slashed Spain's feeder pig imports, resulting in a boom in prices in Spain, and prices for feeder pigs rose dramatically. HC outbreaks in Spain created further uncertainty in the market, generating more upward price momentum. Prices for market-weight hogs rose by nearly 50 percent to about 130 pesetas (\$1) per kilogram above the break-even point. In response to extremely profitable prices, producers responded by increasing sow numbers and pork production.

The impact of this expansion began to take its toll in 1998, when pork prices began to decline dramatically. Exacerbated by over-production in the rest of the EU as well, and combined with faltering demand from Russia and Japan, in November 1998, live slaughter-weight hog prices declined to 85 pesetas (\$.60) per kilogram, the lowest since 1970. This price is about 45 pesetas (\$.32) per kilogram below the cost of production. In addition, feeder pig prices have also collapsed, with 22 kilogram animals being priced at less than 2,000 pesetas (\$14), less than one-fifth of their price in April 1997.

In response to the low prices, on November 17, Spain's pork producers marched in the streets of Madrid to the front of the Ministry of Agriculture asking for government assistance. The requests included direct payments to compensate for losses, tax reductions, intervention purchases, higher export subsidies, a pork promotion campaign, assistance to form an Industry group to restructure the sector, loans at zero interest rates as well as forgiveness on current loans, and advance retirement payments. Ministry's response has been only to suggest providing an easing of tax burdens. The Ministry claims that further measures would contravene single market regulations.

Despite the current low prices, the current hog inventory implies that supply will not plateau in the near future. Furthermore, Spain's already high consumption of pork will prevent much possibility for a demand-driven easing of the supply situation. However, producers have already begun to curtail replacement of sows, and ending inventories are expected to decline in 1999.

PS&D Table, Live Hogs (1,000 Head)

		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin	01/97	01/97	01/98	01/98	01/99	01/99
TOTAL Beginning Stocks	18651	18651	18970	18970	19300	19200
Sow Beginning Stocks	1886	1742	1850	1850	2057	2050
Production (Pig Crop)	29799	29799	30500	31767	32720	32650
Intra EC Imports	640	640	700	1000	500	750
Other Imports	0	0	0	0	0	0
TOTAL Imports	640	640	700	1000	500	750
TOTAL SUPPLY	49090	49090	50170	51737	52520	52750
Intra EC Exports	380	380	600	600	850	850
Other Exports	10	10	10	10	0	0
TOTAL Exports	390	390	610	610	850	850
Sow Slaughter	750	750	750	750	790	800
OTHER SLAUGHTER	28230	28230	29410	30777	31190	31800
Total Slaughter	28980	28980	30160	31527	31980	32600
Loss	920	750	500	400	290	300
Ending Inventories	18800	18970	18900	19200	19400	18850
TOTAL DISTRIBUTION	49090	49090	50170	51737	52520	52750
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PS&D Table, Pork (1,000 Tons)

PSD Table						
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Slaughter (Reference)	28980	28980	30160	31527	31980	32600
Beginning Stocks	0	0	0	0	0	30
Production	2401	2401	2520	2600	2500	2650
Intra EC Imports	84	84	20	20	25	20
Other Imports	16	16	15	15	15	15
TOTAL Imports	100	100	35	35	40	35
TOTAL SUPPLY	2501	2501	2555	2635	2540	2715
Intra EC Exports	189	189	210	250	210	300
Other Exports	53	53	60	60	60	60
TOTAL Exports	242	242	270	310	270	360
Human Dom. Consumption	2255	2255	2280	2290	2265	2290
Other Use, Losses	4	4	5	5	5	5
TOTAL Dom. Consumption	2259	2259	2285	2295	2270	2295
Ending Stocks	0	0	0	30	0	60
TOTAL DISTRIBUTION	2501	2501	2555	2635	2540	2715
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0