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Report Highlights:

The soaring cost of pork in China is largely due to the exodus of hog farmers in early 2010 combined with diseases that ravaged the hog population in late 2010 and early 2011. Pork prices are expected to stay at current high levels or even increase in November anticipating the Chinese Lunar New Year in early 2012. High pork prices have led to skyrocketing U.S. pork exports (a 900 percent increase in the first half of 2011 compared to the same period during 2010), which represents over 50 percent of the market share of imported pork.

General Information:

The soaring cost of pork in China is largely due to the exodus of hog farmers in early 2010 combined with diseases that ravaged the hog population in late 2010 and early 2011. Pork prices are expected to stay at current high levels or even increase in November anticipating the Chinese Lunar New Year in early 2012. High pork prices have led to skyrocketing U.S. pork exports (a 900 percent increase in the first half of 2011 compared to the same period during 2010), which represents over 50 percent of the market share of imported pork.

Pork: High Pork Prices Mainly Due To Shortages In Supply

Chinese newspaper headlines over the summer highlighted the rise of pork prices as a key driver of inflation. On August 9, the China National Bureau of Statistics (NBS) released Consumer Price Index (CPI) figures reaching 6.5 percent in July (a new record in the past 37 month); eclipsing June's 6.4 percent CPI. According to NBS figures, July pork prices soared 56.7 percent compared with June 2010. However, real prices in major cities saw increases exceeding 70-85 percent for select cuts.

While media and Chinese officialdom have blamed various players, including U.S. hog feed suppliers, the explanation for rising pork prices is a simple matter of supply and demand. In the second quarter of 2010, with speculation of a low yielding corn crop in northeast China and mounting soybean meal prices, the profitability of raising hogs appeared dismal. Contributing to the doldrums, electricity, and water prices appreciated at double digit rates of 10-15 and 20-25 percent rates respectively on average in south China's seven major production regions. Stronger enforcement of environmental regulations also resulted in higher costs to new market entrants and returning swine farmers. In addition, local governments were reluctant to approve new swine farm operations, especially in Guangdong province, due to "low taxation contribution" associated with the swine industry. These factors combined with rising wages in the manufacturing and service sectors enticed many famers away from agricultural sectors in early 2010, exiting the animal husbandry industry to work in other higher profit yielding industries. These farmers left the market at a faster rate than large scale swine farmers' ability to replenish stocks thus eclipsing supplies. Though south China has the highest concentration of large-scale vertically integrated swine breeding, farming, and slaughtering and pork processing companies, these however, only account for a small percentage (4-5 percent) of national pork production.

Many of south China's small scale hog farmers also culled sows due to low pork prices and rising feed costs in early 2010. Severe animal epidemic diseases devastated infant hogs in South China through the latter part of 2010 and through the first three quarters of 2011, leading to an unprecedentedly high piglet culling rate. As a result of these factors, pork supplies further tightened, leading to spiraling prices.

Policy Reaction

Since June 2011, the Chinese government has taken measures to curb further increases by providing subsidies in excess of \$390 million (RMB2.5 billion) handed down from the central government. Hog farmers can claim \$16 (RMB100) for each reproductive sow hog. Moreover, local governments were instructed to release frozen pork reserves to flood the markets. However, these measures had a limited impact on remedying prices. In July, pork prices slowed mainly because pork demand typically falls during the summer. Consumers have also switched to other more affordable meats (mainly poultry) in response to high pork prices. Pork prices are expected to stay at current high levels or even increase in

November anticipating the Chinese Lunar New Year in early 2012.

Edible Oil: Price Caps

Chinese officials have also adopted other tactics to keep inflation in check, including establishing price caps on staple goods. According to trade contacts, the National Development and Reform Committee applied significant pressure to oil crushers and food retailers to cap off bottled edible oil prices – which increased by 6-8 percent since early September -- to curtail prices for the sake of “national social stability”. These price caps were “voluntary” according to official reports but will likely remain in place until after the New Year festival in late January 2012.

U.S. Pork Exports Going Hog Wild

The shortage of domestic pork is creating opportunities for U.S. pork products. In 2011, from Jan-June, China imported over 63,000 tons of pork and 232,000 tons of pig offal worth \$72 million and \$314 million respectively (a 900-percent increase compared to 2010). The United States has a 50 to 60 percent market share; Denmark 15-20 percent; Canada 10-15 percent; with the remaining percentage divided up among France, Spain and Germany. According to many U.S. meat importers, U.S. pork meat exports in 2011 will reach the half a million ton mark, a historic high.

Oil and Animal Feed Price Increase to Create More Opportunities for U.S. Producers

As food and feed prices continue increasing throughout 2011, U.S. animal feed exports such as soybeans, corn and corn byproducts, and alfalfa hay will play an increasingly important role in helping ensure food security in China. U.S. high value food exports such as fruits, dry nuts and packaged processed foods will also become more competitive in terms of price, quality, and food safety.