

QMS Monthly Market Update

July/August 2023

Purpose:

To provide an update on the key industry and economic factors driving cattle, sheep and pig markets in Scotland.

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Date: 22/8/2023

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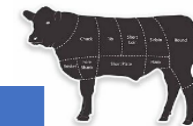
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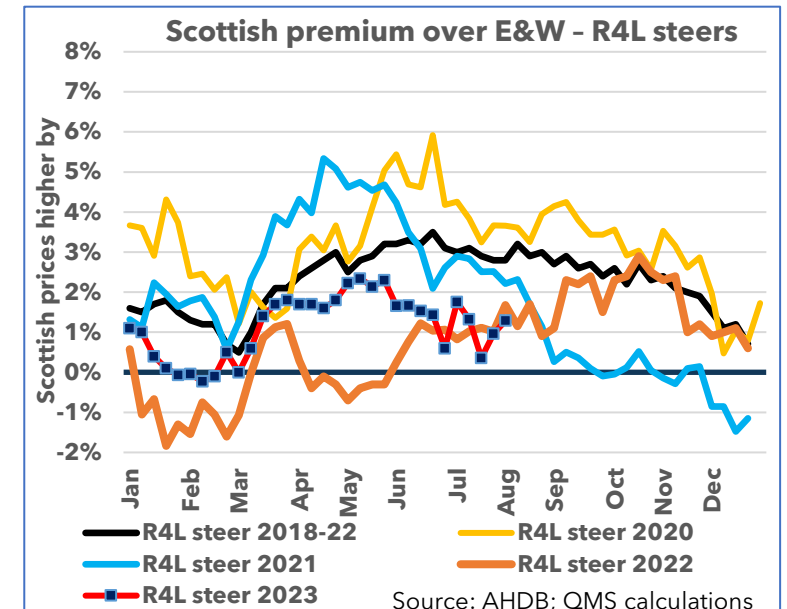
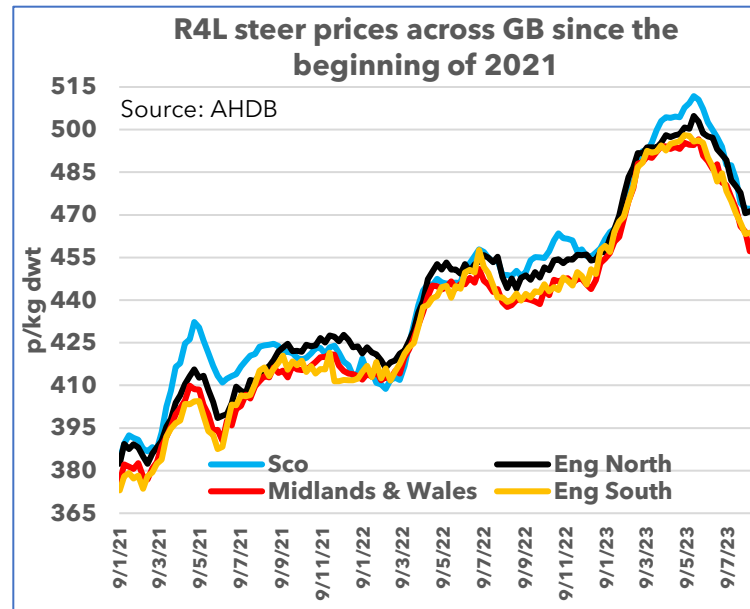
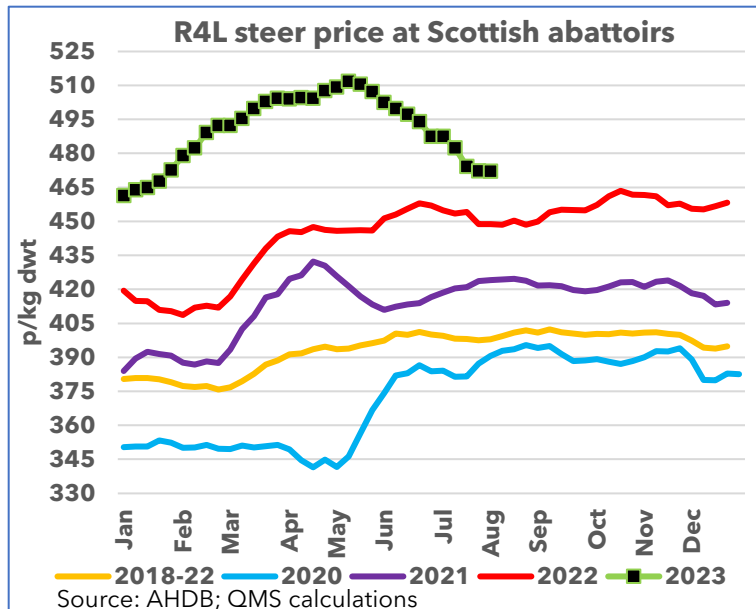
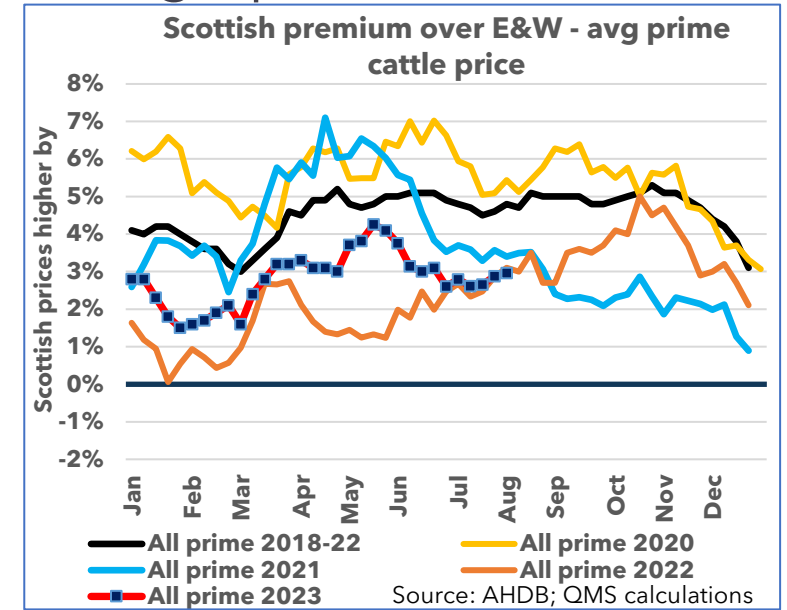
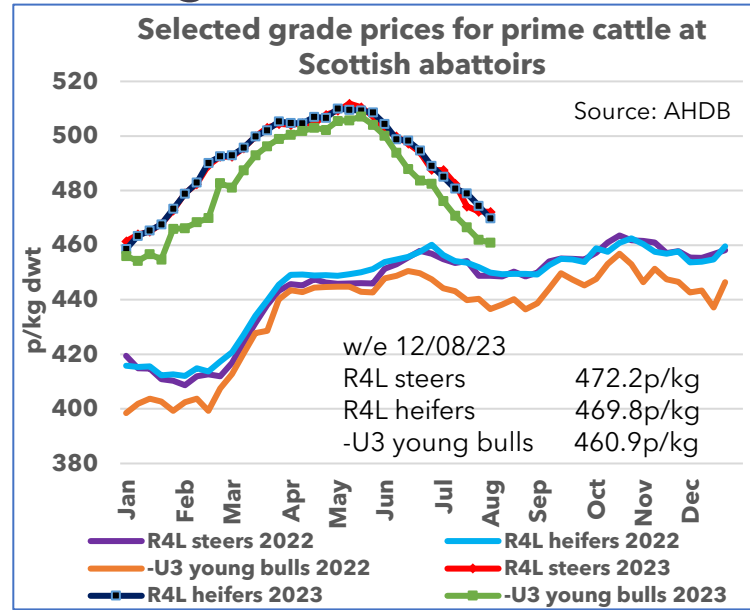
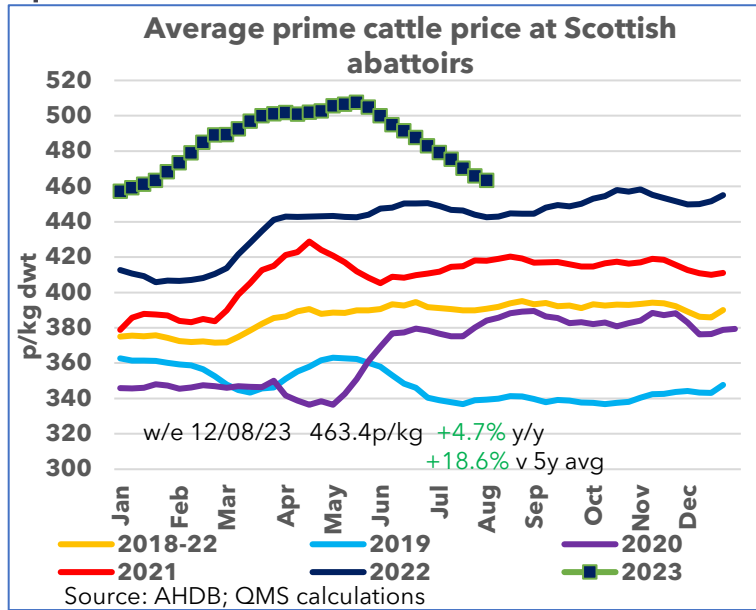
Summary of market developments – beef market



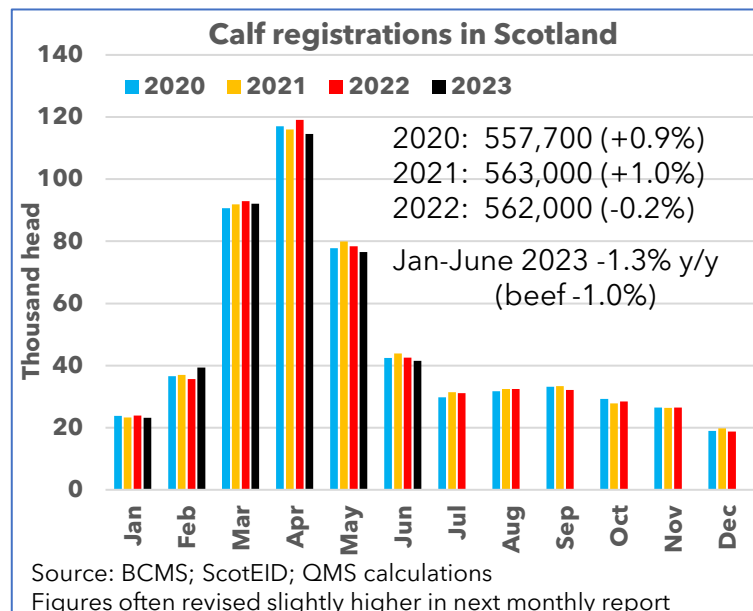
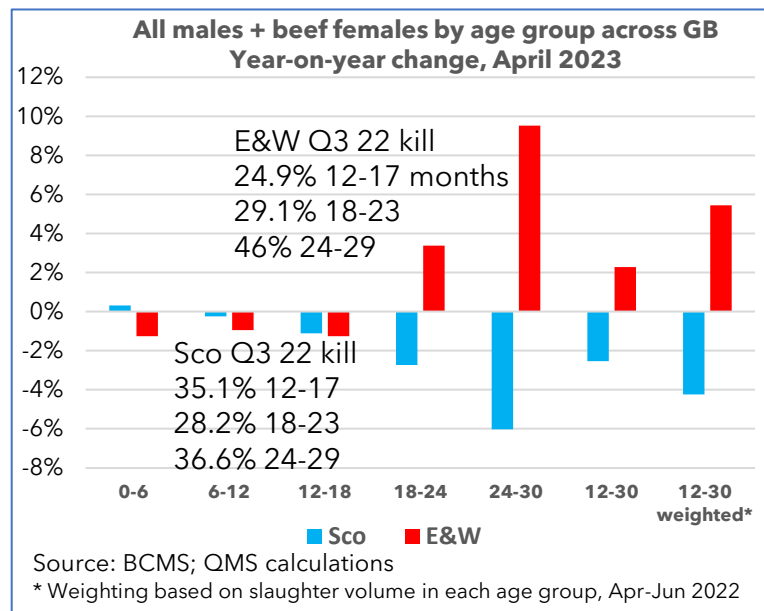
| Report Category | Basis | Average price or volume | Change on week | Change over four weeks | Change on year | Change on 5-year avg |
|--|--|-------------------------|----------------|------------------------|-------------------------|----------------------|
| R4L steer price at Scottish abattoirs | p/kg dwt, w/e 12 August | 472.2 | -0.1p | -3.1% | +5.2% | +18.7% |
| Prime cattle slaughter at reporting Scottish abattoirs (88% of kill in 2022) | Average in four weeks to August 12, head procured deadweight | 5,530 | | +1.1% | -9.0% | -12.6% |
| Cull cow slaughter at Scottish abattoirs | Total in four weeks to August 5 | 4,439 | | -3.5% | -20.2% (-1,122 head) | -14.4% |
| UK beef market supply | Tonnes in May-Jul 2023 (estimate) | 259,200 | | | +2.0% | +1.6% |

- The significant prime cattle price declines of June and July continued into August, although the pace slowed in the second week of the month, potentially signalling a change in market conditions. Increases over last year and the five-year average have slowed but remain firm at around 5% and 19%, respectively. Meanwhile, continued steep cow price declines at a time of seasonal strength in availability have seen values return to a more normal level relative to prime cattle.
- Prime cattle availability on Scottish farms is now likely to be tightening seasonally as supplies of spring-2021-born cattle dwindle and the young bull peak passes. Meanwhile, prime cattle numbers on farm are expected to have remained lower than in 2022, with April population data signalling a year-on-year decline of 2.5% at 12-29 months.
- After holding firm in June and July, weekly slaughter at E&W abattoirs may also be tightening seasonally into August. However, BCMS data from April did highlight increased prime cattle availability on E&W farms relative to 2022 (+2.3%), particularly in the 24-30-month age group, which is the main contributor to slaughter in July and August.
- With UK domestic production relatively flat year-on-year in 2023, a fall in export volumes has given a slight boost to overall market supply, while imports rose slightly in May and June after a slow start. Falling cattle prices in the Irish Republic are likely to have placed some competitive pressure on UK beef market prices.
- While BCMS data for April showed a slightly increased year-on-year fall of 3.6% in beef-sired females aged over 30 months on Scottish farms, a slowdown in cow slaughter suggests that the herd may now have begun to stabilise.

Farmgate prices – consistent declines have seen prime cattle fall 8-9% below May peak, but the second week of August saw the smallest average price fall of the run



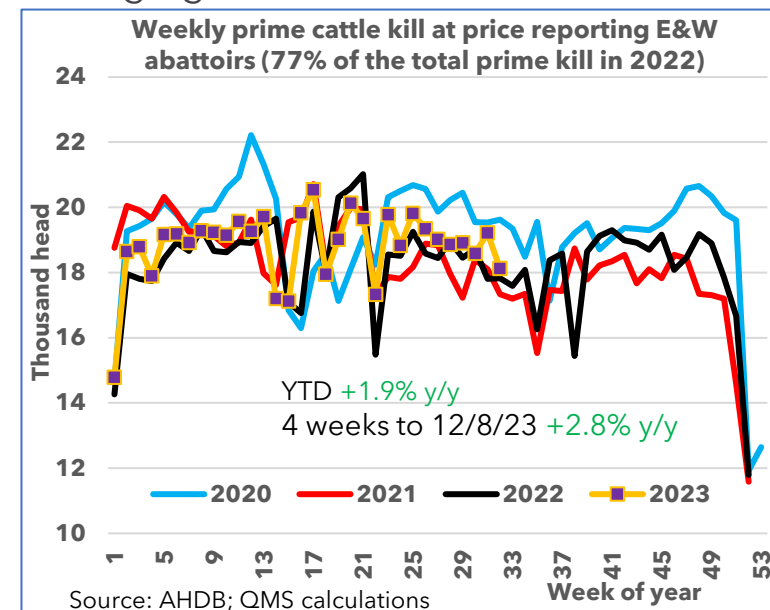
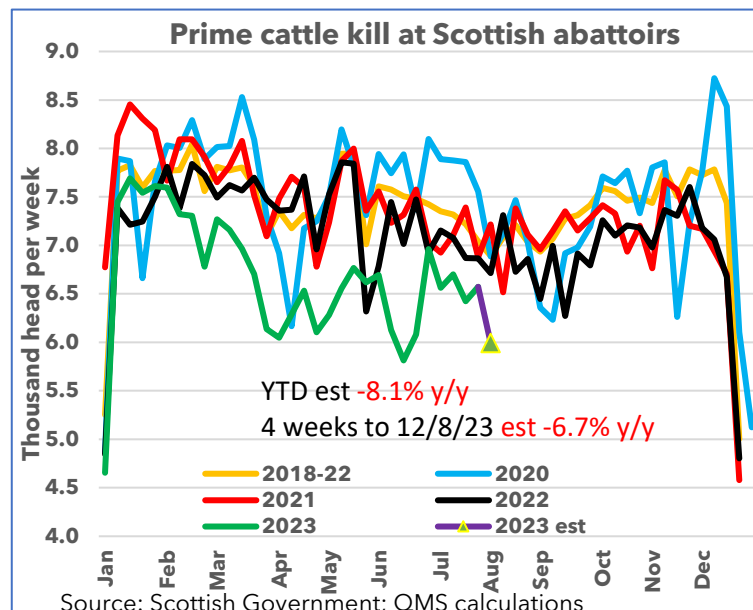
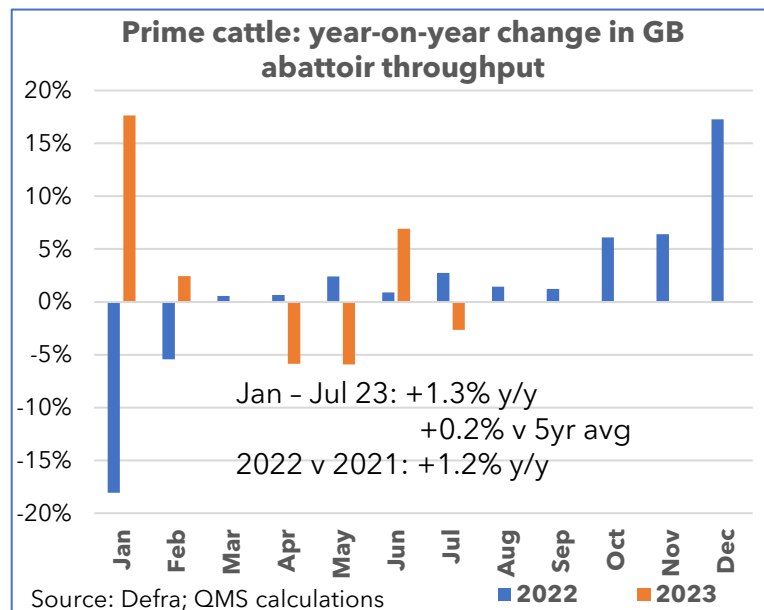
Availability and slaughter – summer slowdown underway



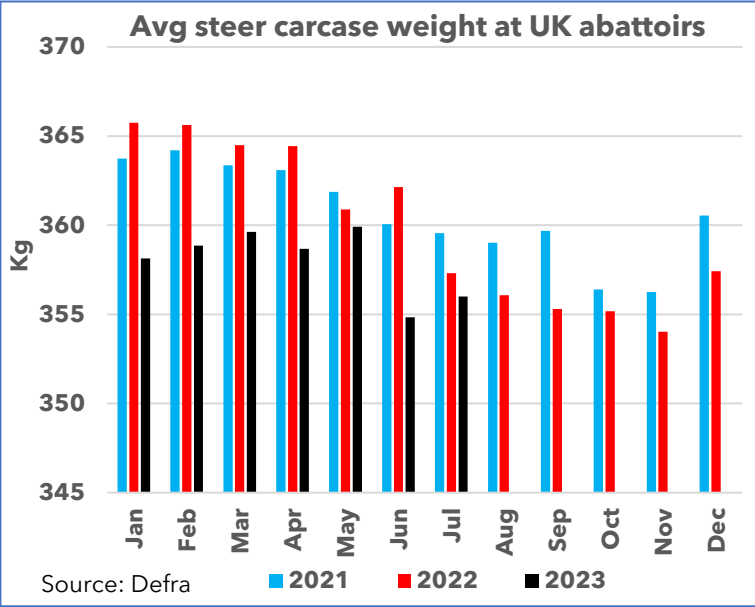
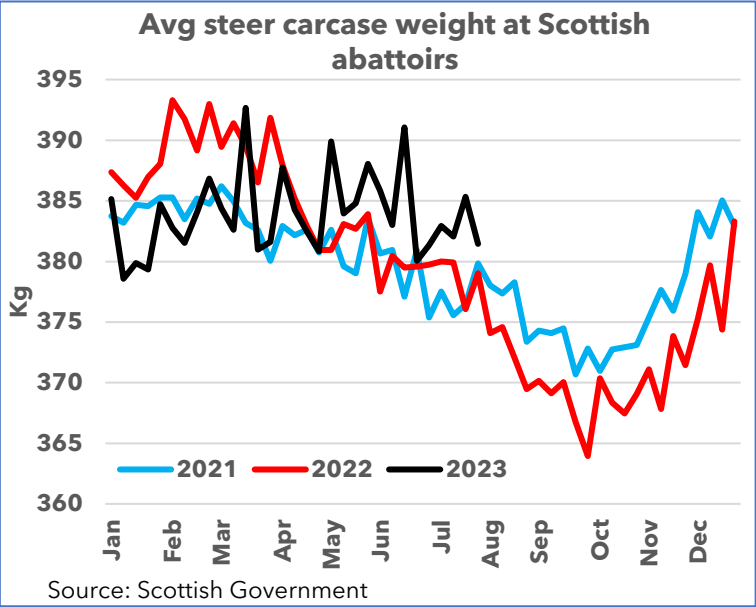
BCMS cattle population data for April highlighted a continuing year-on-year shortfall of prime cattle supply in Scotland, with the number of males and beef-sired females aged 12-30-months down 2.5% year-on-year. The divergence with England & Wales continued, where numbers were 2.3% higher than in April. However, large changes at 24-30 months have more of an impact on availability in Q2 and Q3, where they account for a higher share of slaughter numbers.

Smaller changes in younger age groups signal that, as the year progresses, the decline in availability should soften in Scotland while the increase should slow in England & Wales.

Weekly slaughter has been trending downwards in July and August at price reporting abattoirs, on both sides of the border, in line with the seasonal trend, though numbers have still been showing significant increase on 2022 in E&W.

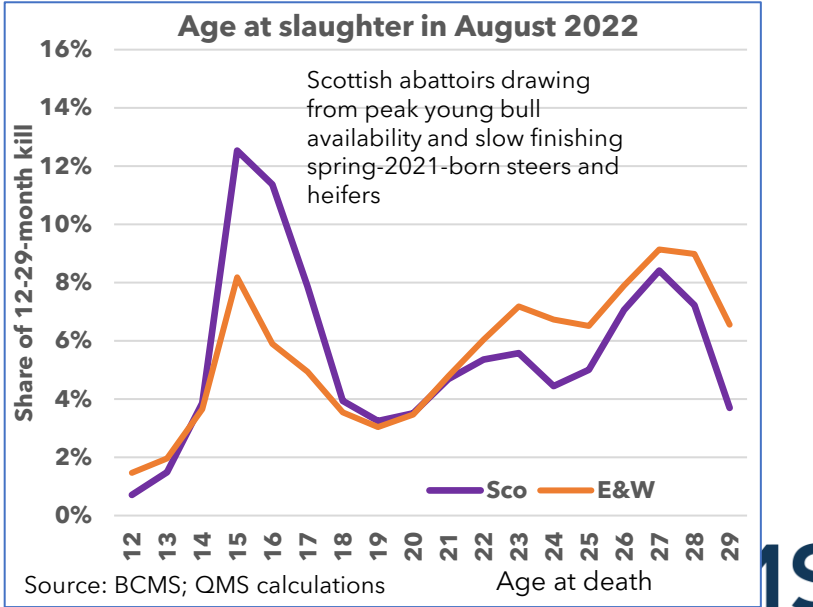
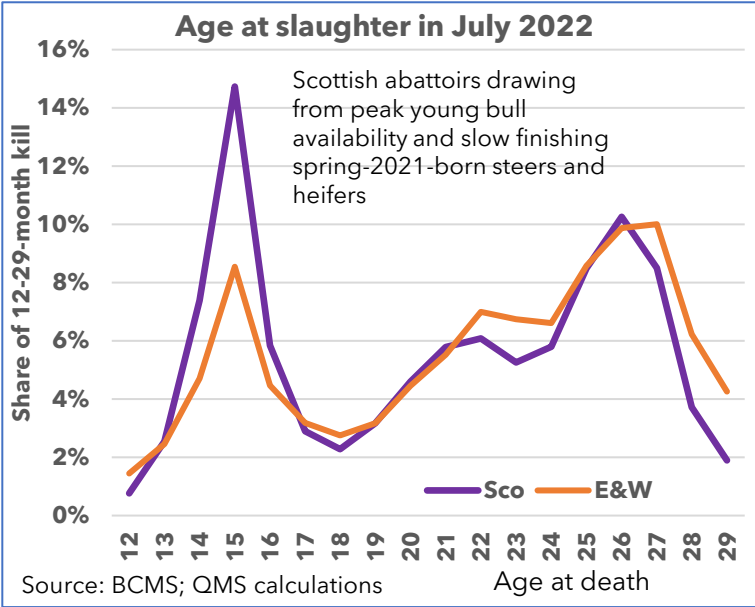
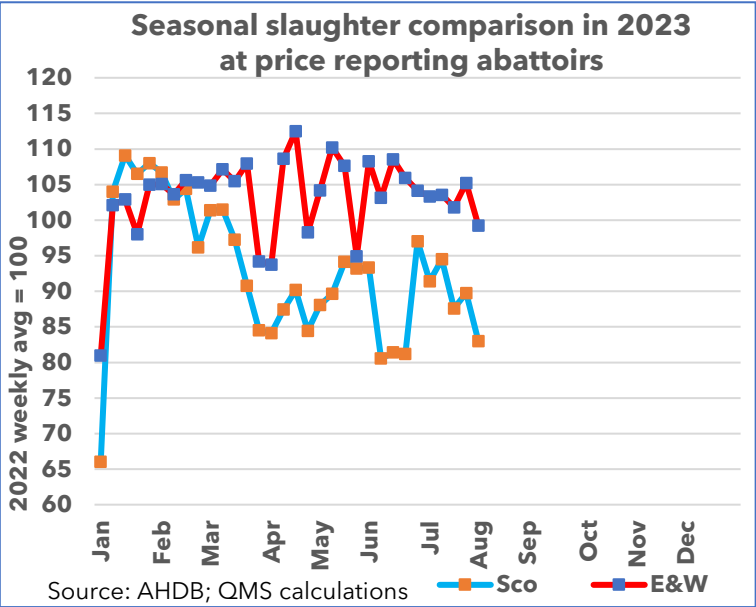


Seasonality of production - availability trending seasonally lower but weights have risen against the seasonal trend in Scotland

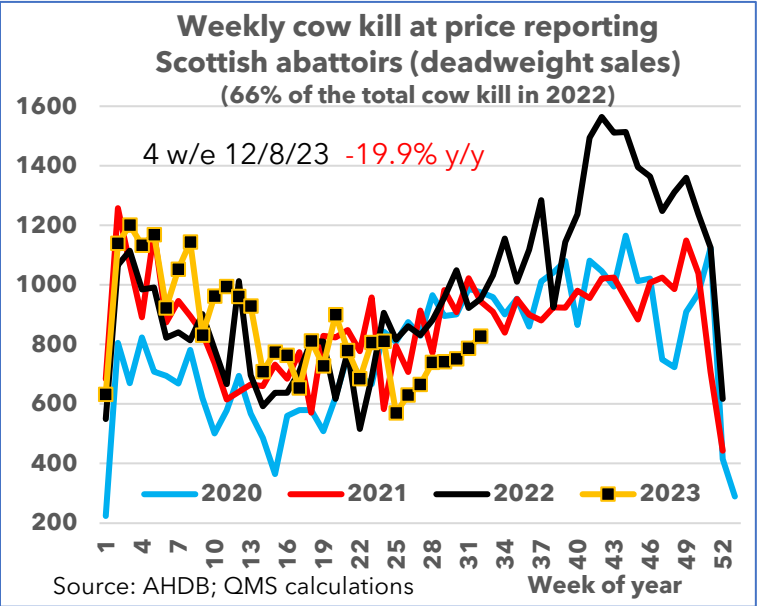
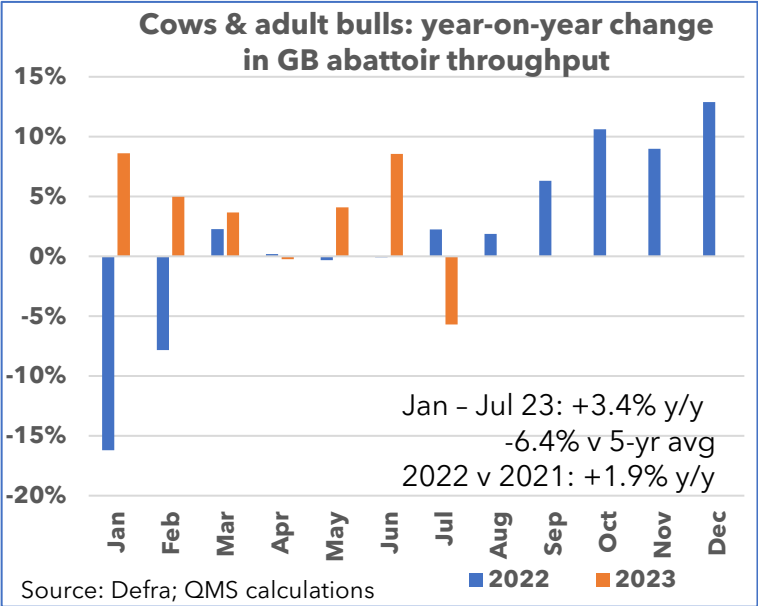


In theory, availability for slaughter should be tightening seasonally in Scotland, with the peak young bull selling period partially offsetting the summer slowdown. However, supply chain challenges may have had some impact on the timing of slaughter this year.

Carcase weights fell on a year earlier in the second half of 2022, likely reflecting dry weather and high feed and fertiliser costs, and this remained the case in the first quarter of 2023. However, this position has reversed in Scotland since April, supporting production volumes.



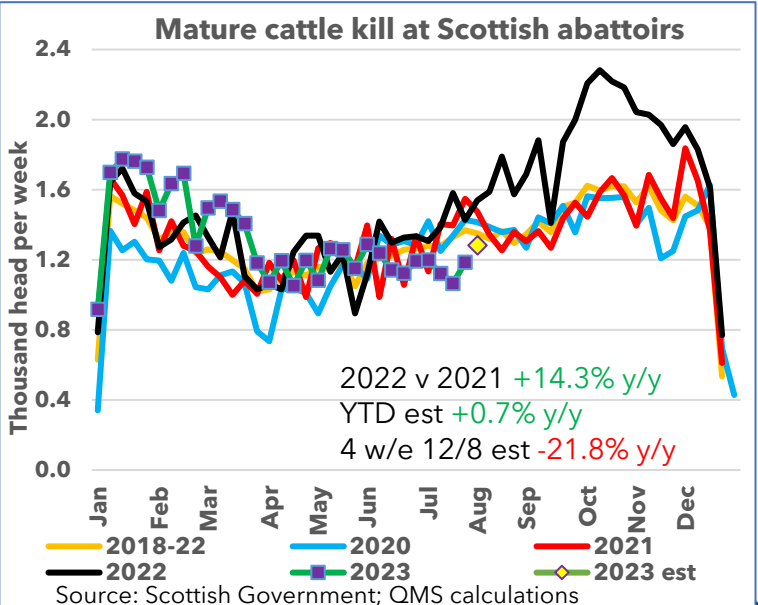
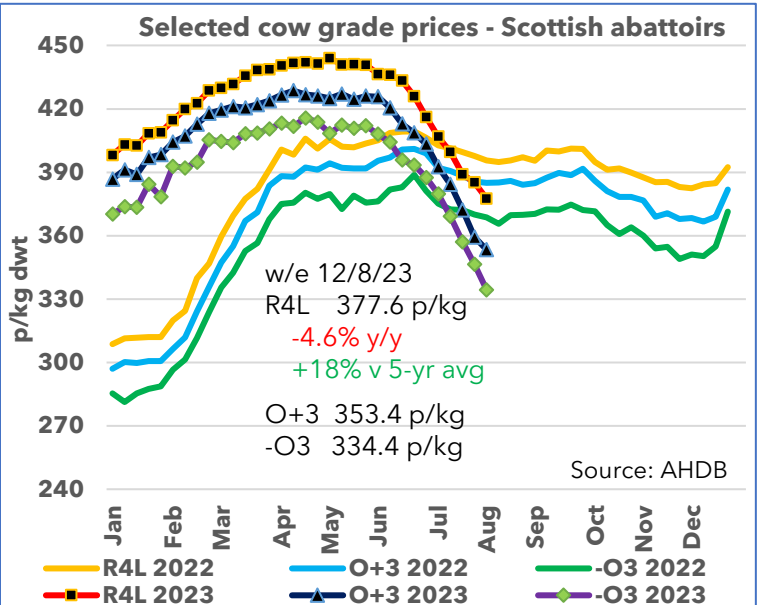
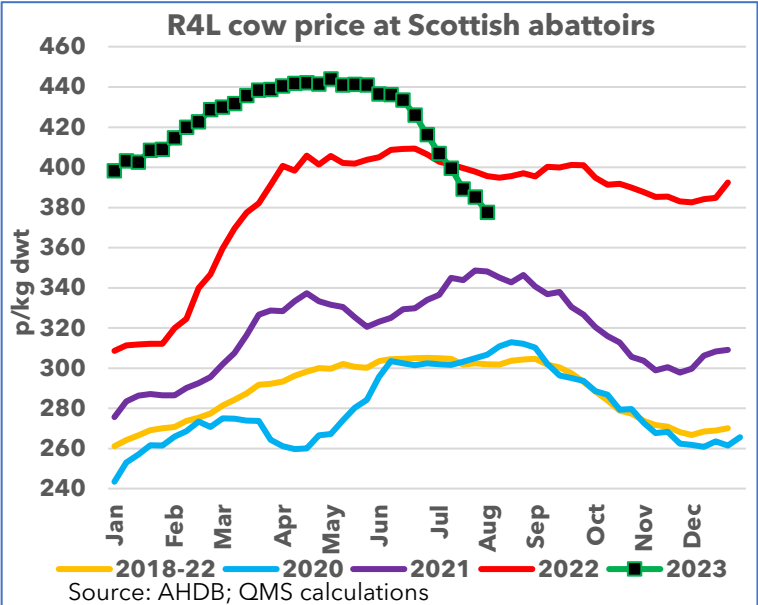
Mature cattle market – steep downwards movement, against the seasonal trend



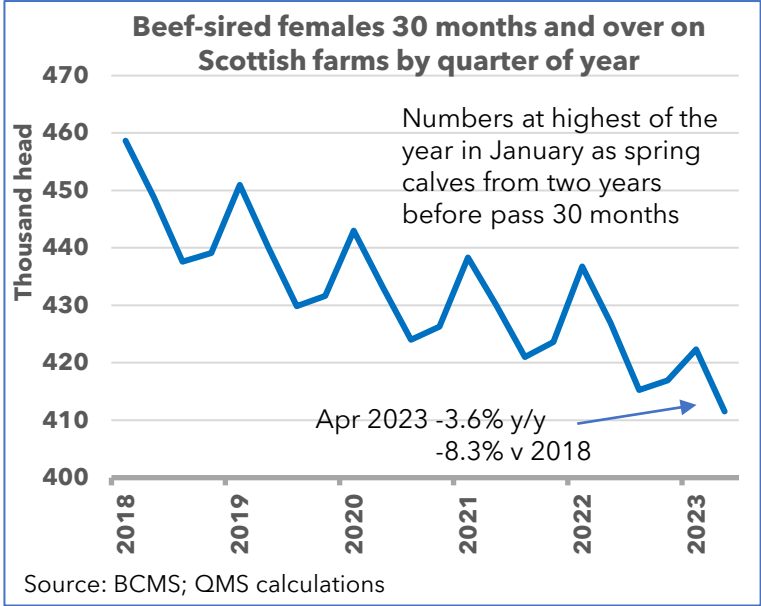
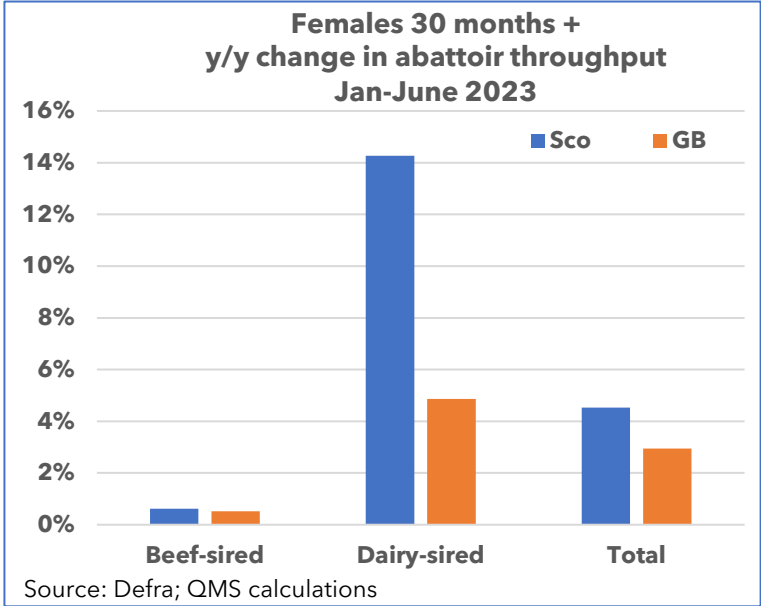
The cow price declines of June accelerated in July and values continued falling sharply in the first half of August, against the seasonal trend, suggesting weakness in the market for manufacturing grade beef. On the supply-side, numbers available for slaughter are likely to be trending seasonally higher, adding to the pressure on values.

As a result, cow prices have returned to more normal levels relative to prime cattle prices (see chart on page 7), with R4L steers 25% higher than R4L cows compared to just 13% in August 2022, 22% in 2021 and 26% in 2020.

After starting the year ahead of 2022 levels, mature cattle slaughter has fallen well short of year-earlier levels in the summer, suggesting that the beef herd may be beginning to stabilise.



Herd reduction slowing in the beef sector



| Females aged 30 months+ on Scottish farms (y/y change) | | | |
|--|-------|-------|-------|
| Month | Dairy | Beef | All |
| Jan 2022 | -1.3% | -0.4% | -0.6% |
| April 2022 | -1.1% | -0.7% | -0.8% |
| July 2022 | -1.0% | -1.4% | -1.3% |
| Oct 2022 | -0.5% | -1.6% | -1.3% |
| Jan 2023 | -1.0% | -3.3% | -2.7% |
| Apr 2023 | -1.2% | -3.6% | -2.9% |

| Females aged 30 months+ on farms in England & Wales and GB (y/y change in April 2023) | | | |
|---|-------|-------|-------|
| | Dairy | Beef | All |
| E&W | -1.4% | -3.7% | -2.3% |
| GB | -1.3% | -3.6% | -2.5% |

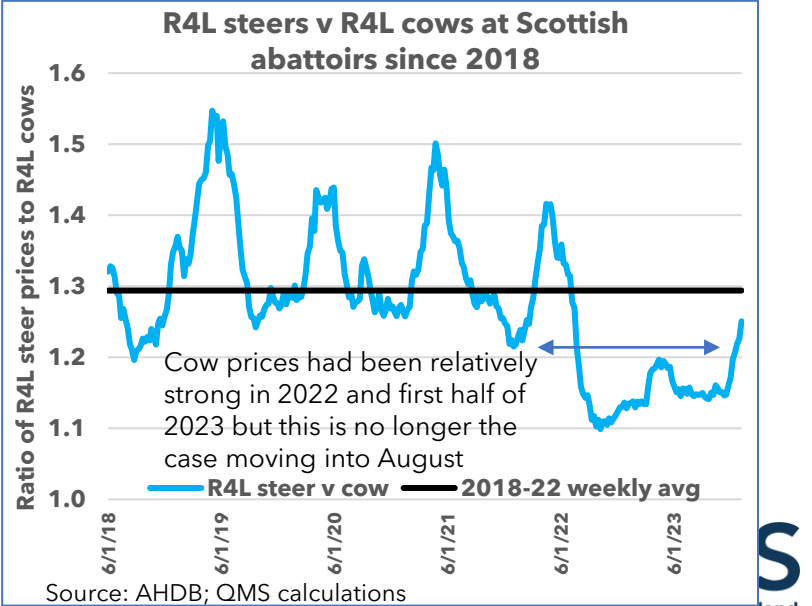
| December 2022 breeding herd - females over 2 years old that have calved (y/y change) | | | |
|--|-------|-------|-------|
| | Dairy | Beef | All |
| Scotland | -0.3% | -3.3% | -2.4% |
| England | -0.6% | -2.9% | -1.5% |

Source: Defra; Scottish Government; QMS calculations

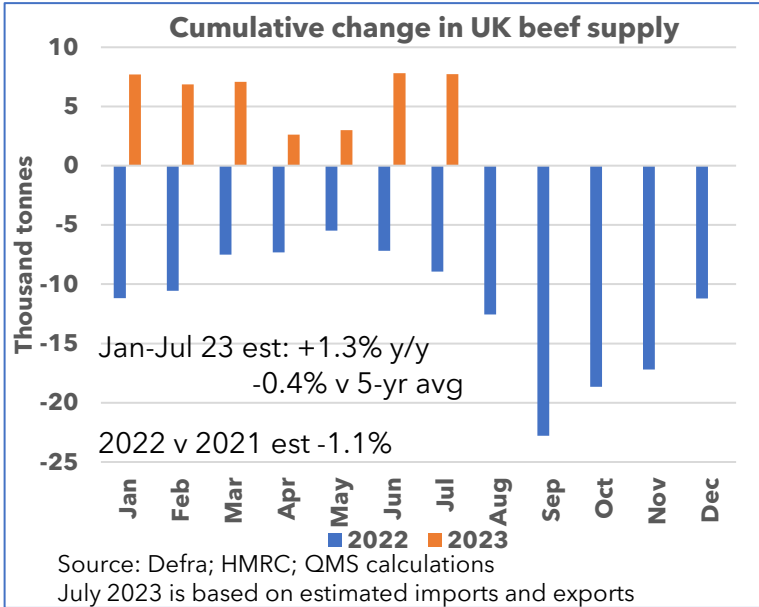
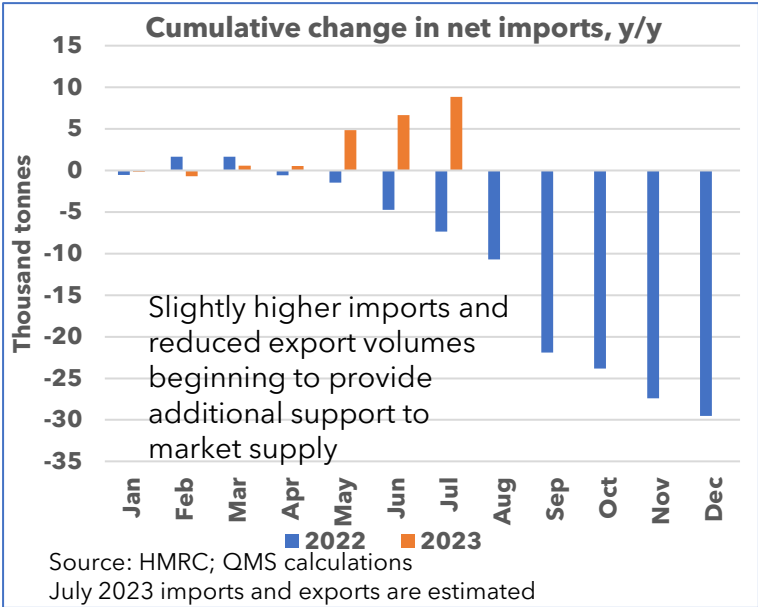
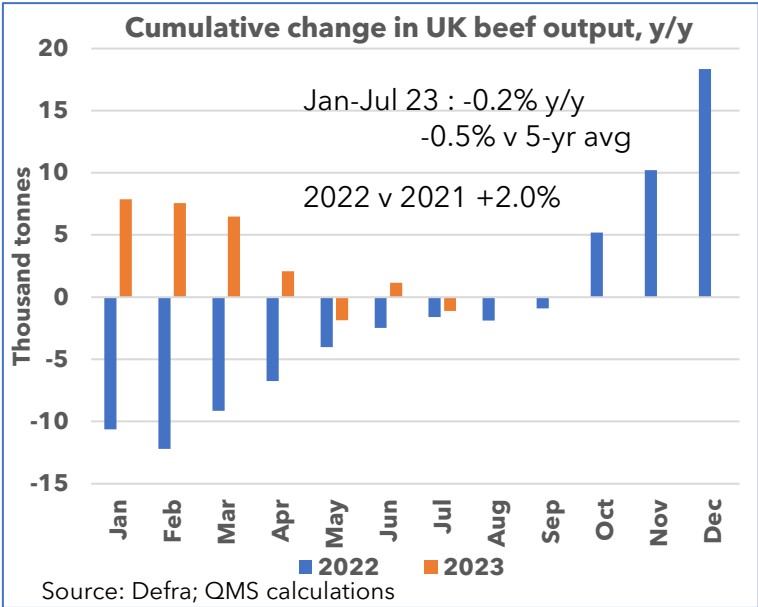
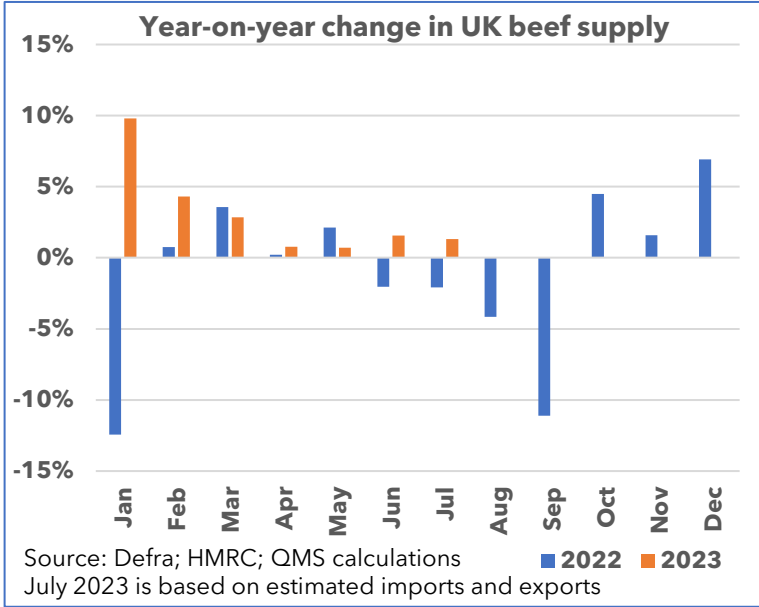
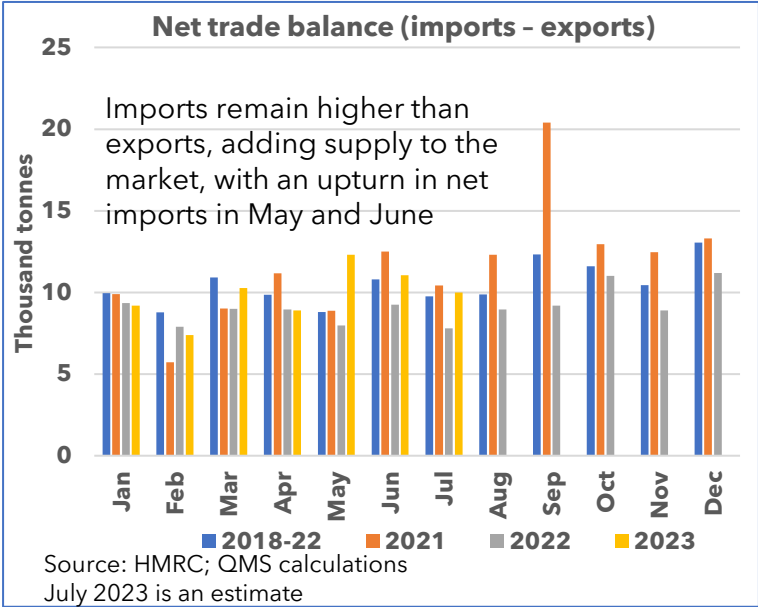
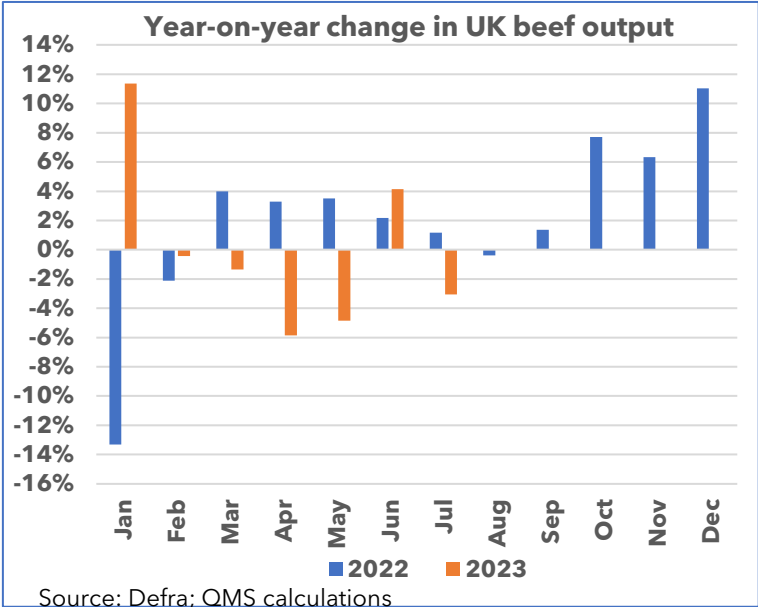
In April 2023, the number of beef-sired females aged 30 months and over in Scotland was down by 3.6% year-on-year, with a fall of 15,400 to 422,300 head.

This decline reflected the strong increase in cow slaughter in the second half of 2022 at Scottish abattoirs, plus a reduced cohort of beef-sired heifer replacements.

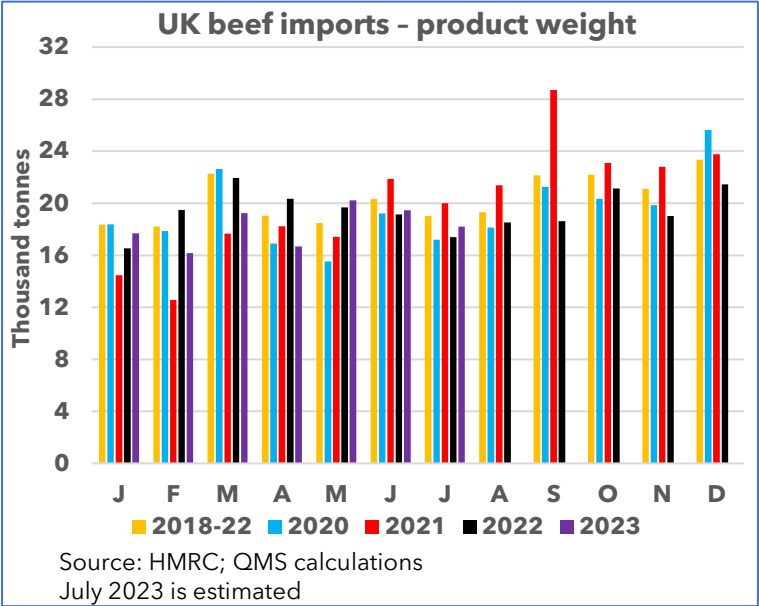
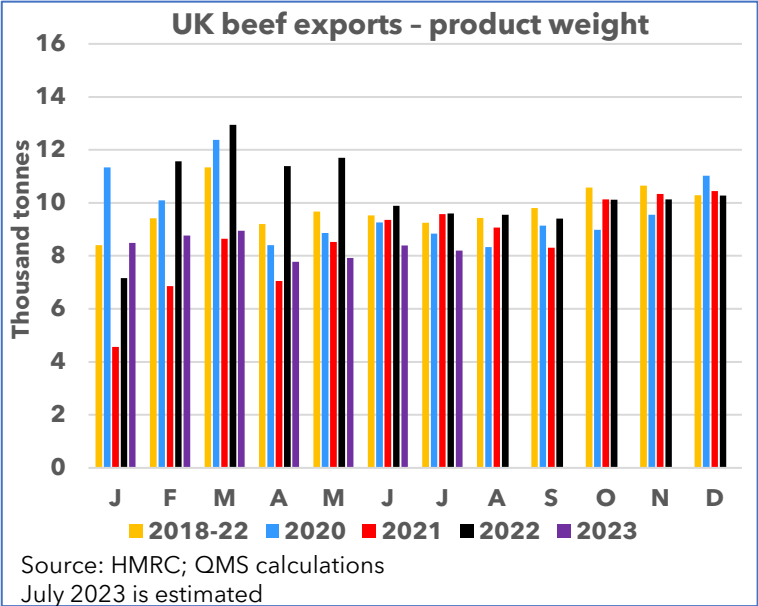
However, a lower cow kill in summer 2023 signals that the beef herd may be beginning to stabilise. BCMS data highlights that the kill of over 30-month females fell behind 2022 in April, May and June in Scotland; that dairy cows appear to have underpinned slaughter in 2023; and that fewer Scottish-born OTM cattle have been processed in E&W.



UK beef market supply: domestic production + (imports - exports) = supply



A focus on UK international trade in beef – soft Q2 for exports



In May and June, UK beef export volumes slumped to their lowest levels for the time of year since the 2015-17 period. However, average export prices remained well above the levels of previous years.

As had been the case for much of 2022, UK shipments to the EU continued to out-perform non-EU markets, falling by 12% year-on-year in June compared to 34% reduction of non-EU. Volumes shipped to the EU also remained well above the lows of 2021.

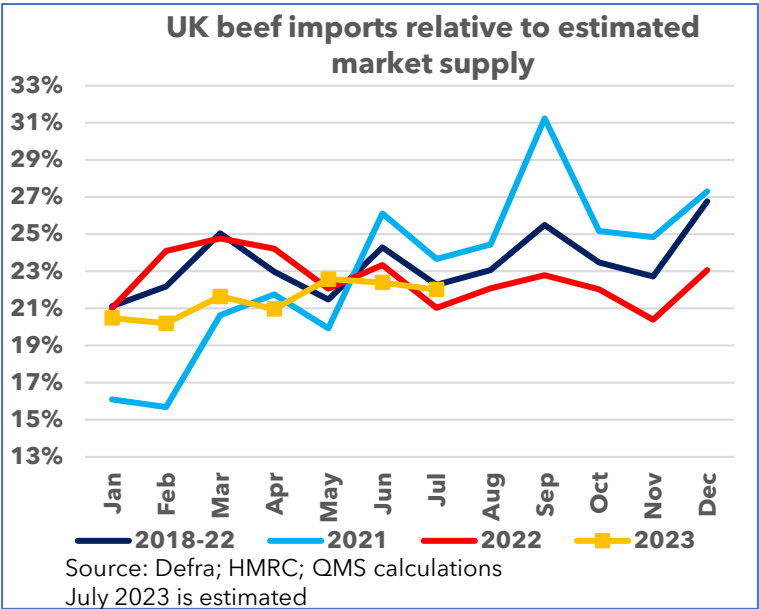
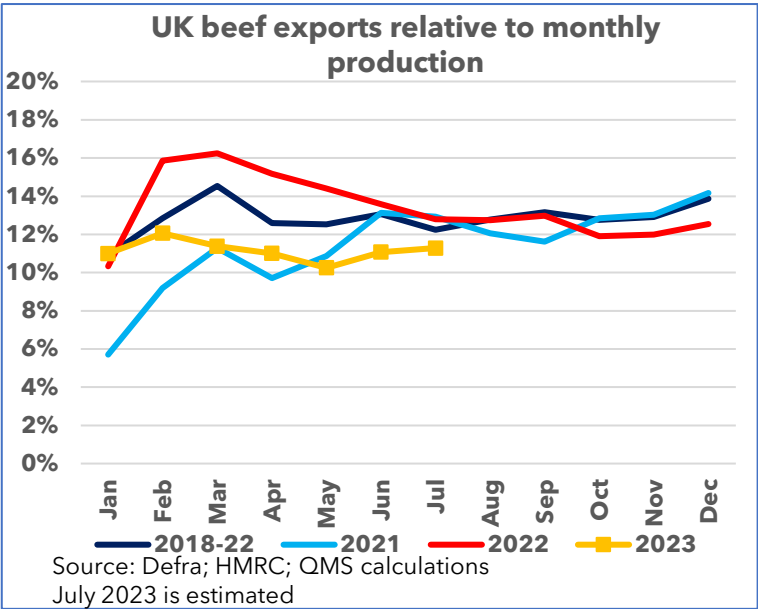
After a weak opening third of the year, beef imports pushed slightly above 2022 levels in May and June, though June volumes did slip behind the five-year average. Imports from the EU returned to growth for the first time since January, while shipments from non-EU sources slipped back behind strong June 2022 levels after a firm May.

The EU accounted for 95.2% of UK import volumes and 90% of exports in the first half of 2023.

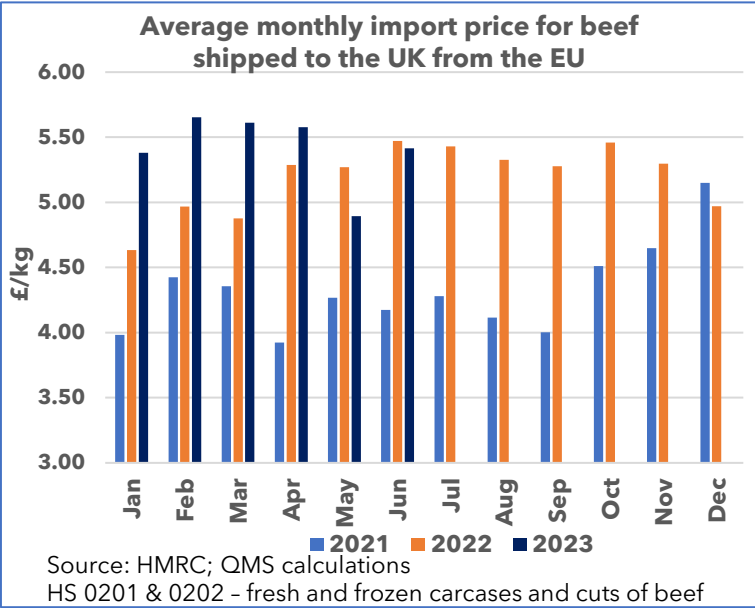
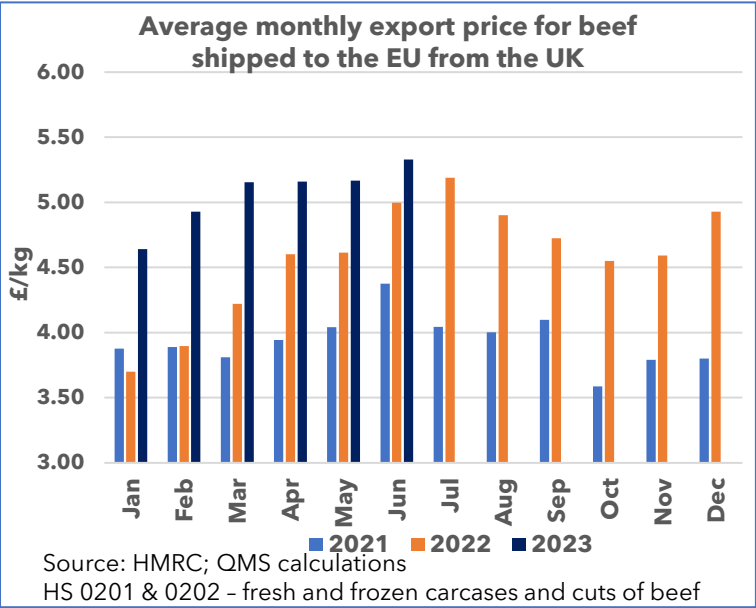
Note:

HMRC trade data covers HS codes 0201 & 0202 (fresh or chilled & frozen beef)

Estimates for July are based on seasonal trends in trade volumes and domestic production

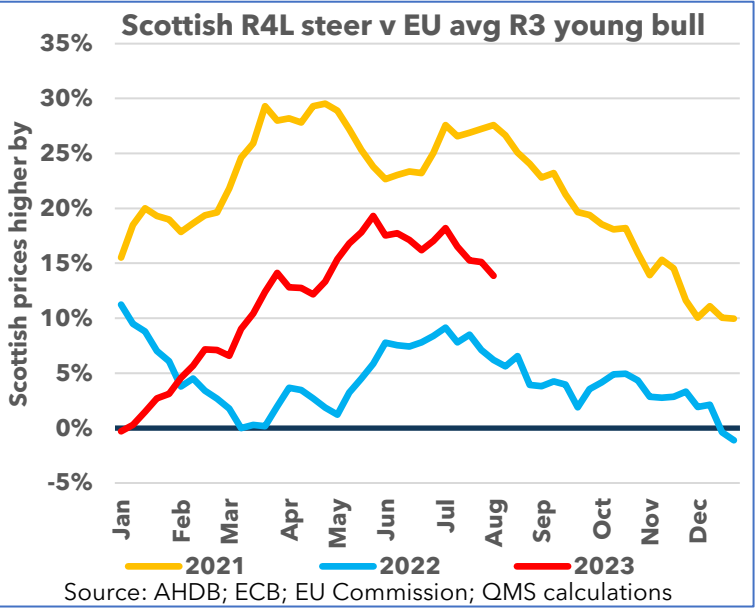
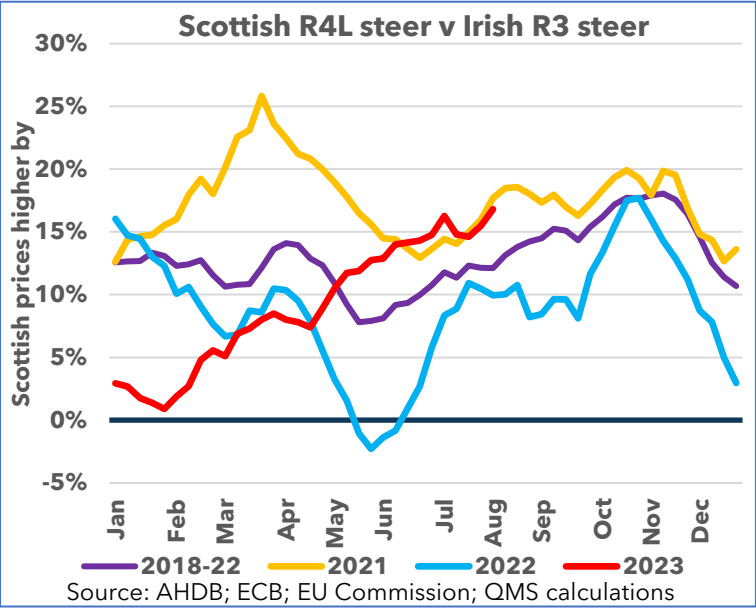


Variables influencing international trade in beef - competitive pressures from lower prices in Ireland but UK export prices now appear to have held firm in May and June



Irish prices have continued to fall at a faster pace than in Scotland, resulting in an increased price lead for Scotland (16.8%), which is above the five-year average.

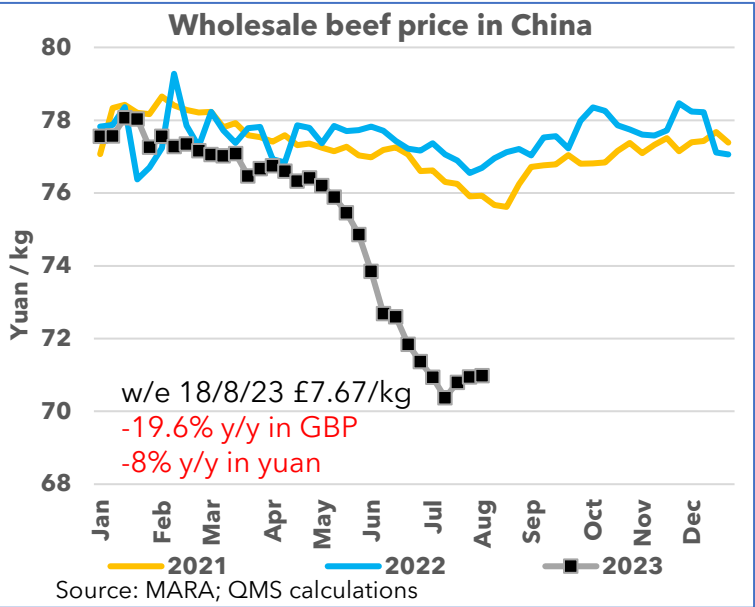
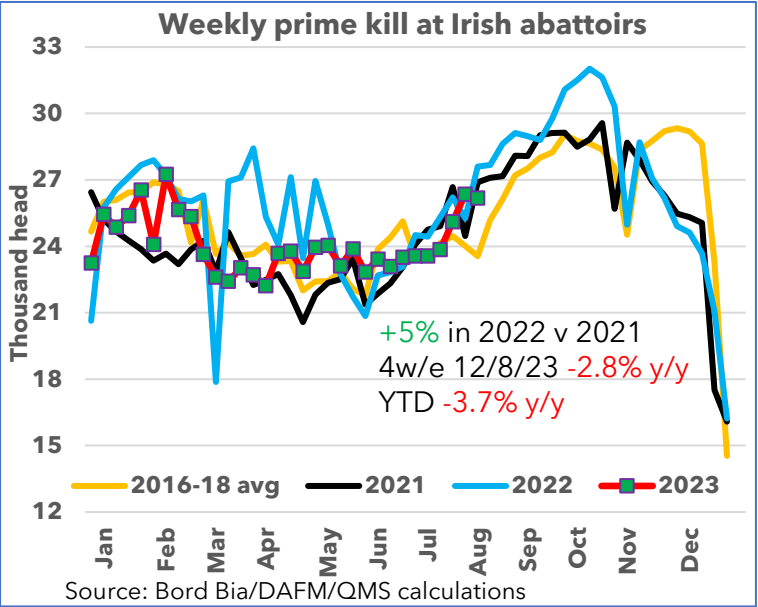
EU beef prices continue to look historically firm, supported by declining production, but market prices are back below the highs reached in 2022 in many countries. The lead for Scottish R4L steers over the EU average for R3 young bulls has narrowed since mid-July, with EU prices beginning to stabilise after a period of declines, plus currency movements.



| Selected EU cattle prices for R3 males, converted from euro to p/kg dwt | | | |
|---|--------------|--------------|--------------|
| | Week 32 2023 | Week 28 2023 | Week 32 2022 |
| Germany (young bull) | 401.6 | 386.6 | 429.6 |
| Netherlands (young bull) | 415.6 | 334.5 | 427.7 |
| Spain (young bull) | 431.0 | 445.3 | 406.2 |
| Poland (young bull) | 393.6 | 387.4 | 427.2 |
| Irish Republic (steer) | 404.3 | 419.3 | 408.2 |
| For comparison: Scotland R4L steer | 472.2 | 472.3 | 448.8 |

Source: AHDB; EU Commission; LMC; QMS calculations

Variables influencing international trade in beef

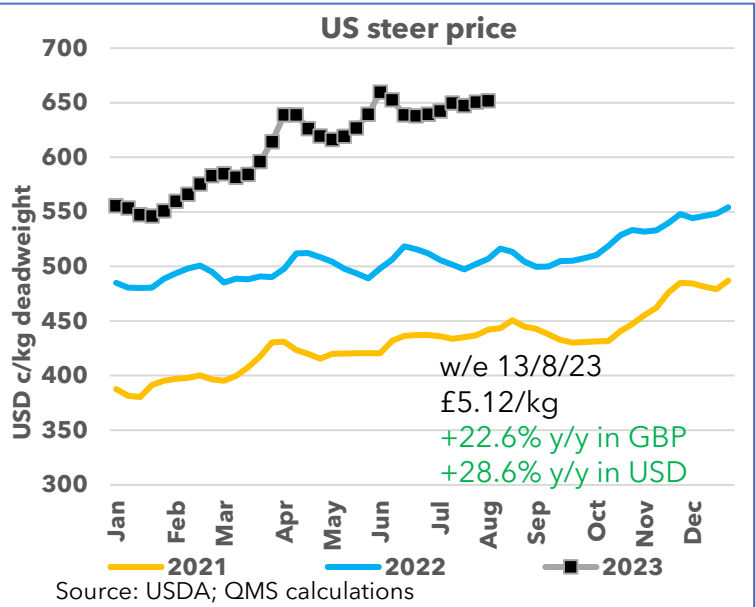


In the Irish Republic, downwards pricing pressure initially came at a time of seasonally low slaughter, but volumes are now lifting towards their autumn peak. Although slaughter volumes have spent much of 2023 below 2022 levels, December population data did point to increased numbers in the Irish slaughter pool for 2023, though with the potential for some tightening once the 2022 calf crop reaches the market.

At a global level, beef prices are coming under pressure from rising production in Australia and Brazil, while weaker than expected consumer demand led to a build-up of product in China, reducing wholesale prices by 6% between late-May and mid-July. However, the US market remains firm due to a shortfall in domestic production.

| Cattle on Irish farms (thousand head) | | | |
|---------------------------------------|----------|----------|------------|
| Age group | Dec 2021 | Dec 2022 | y/y change |
| <12 months | 2,108 | 1,995 | -5.3% |
| 1-2 years | 1,767 | 1,801 | +1.9% |
| 2+ (males & non-breeding females) | 332 | 337 | +1.5% |
| Cows | 2,395 | 2,372 | -1.0% |

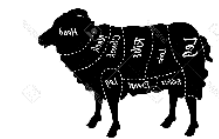
Source: CSO



| USDA Global Beef Market Forecasts, July 2023 (million tonnes carcass weight) | | | |
|---|-------|-------|-------|
| Key indicators | 2021 | 2022 | 2023 |
| World, production | 58.40 | 59.33 | 59.57 |
| USA, production | 12.73 | 12.89 | 12.38 |
| Brazil, production | 9.75 | 10.35 | 10.65 |
| EU, production | 6.88 | 6.71 | 6.60 |
| Australia, production | 1.90 | 1.88 | 2.06 |
| All countries, imports | 9.95 | 10.23 | 10.32 |
| China, imports | 3.02 | 3.50 | 3.50 |
| USA, imports | 1.52 | 1.54 | 1.60 |
| EU, imports (from non-EU sources) | 0.32 | 0.40 | 0.40 |

Source: USDA Foreign Agricultural Service

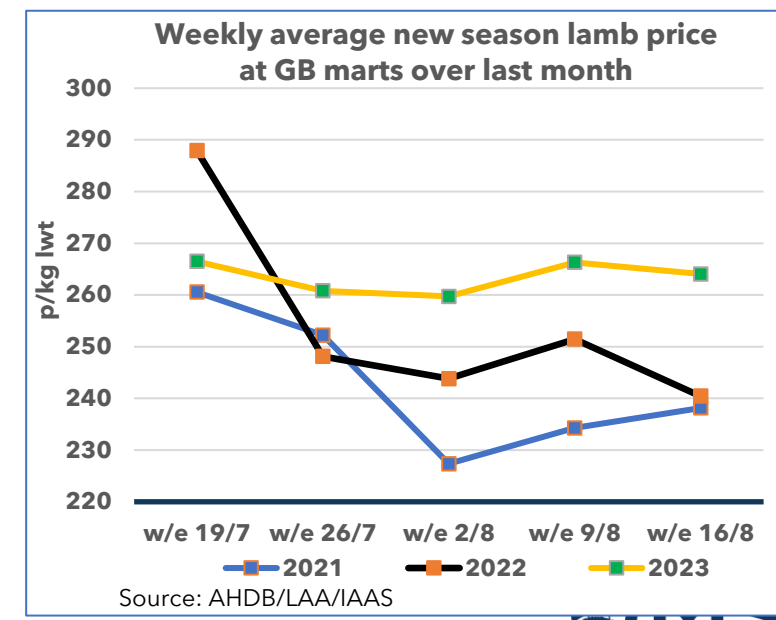
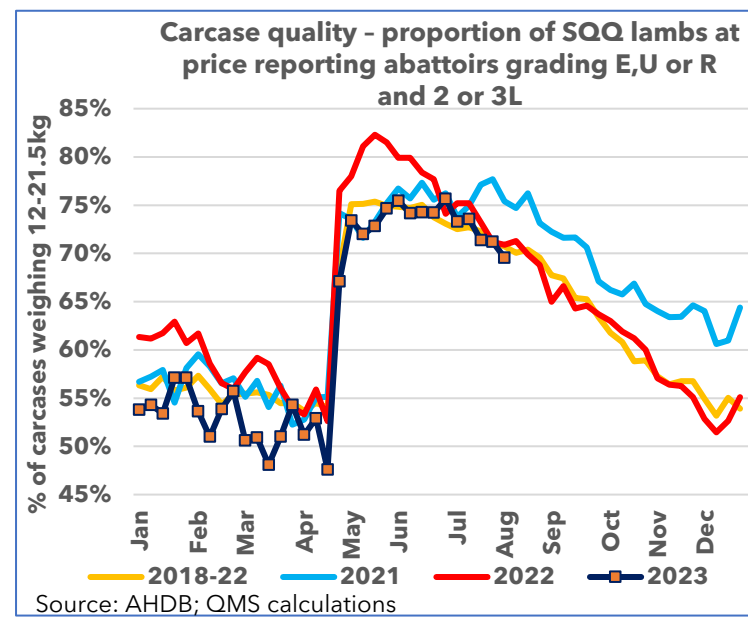
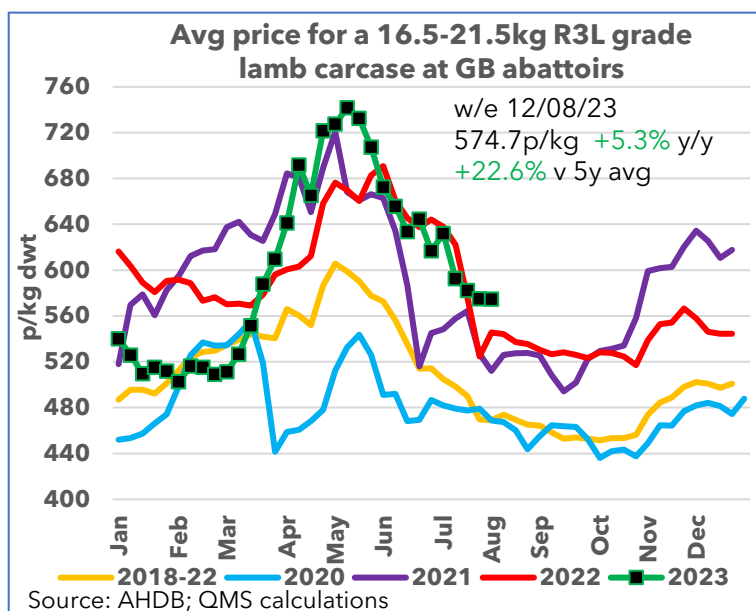
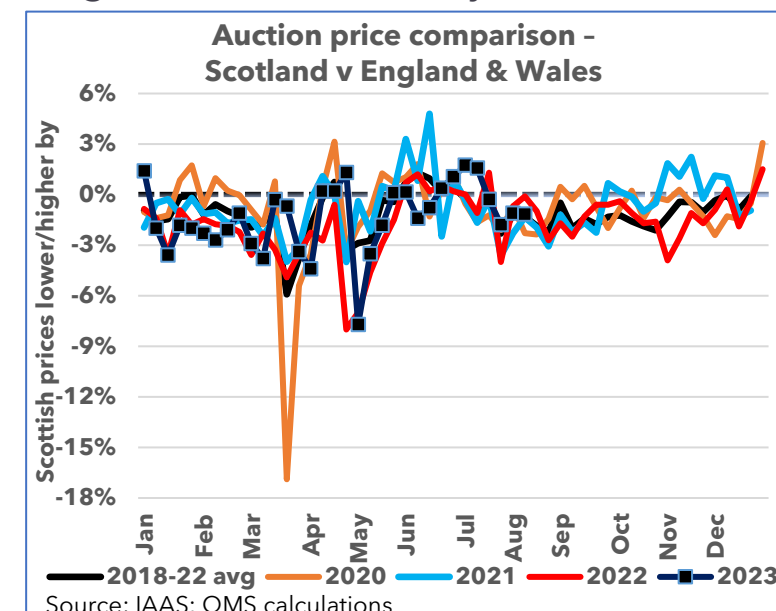
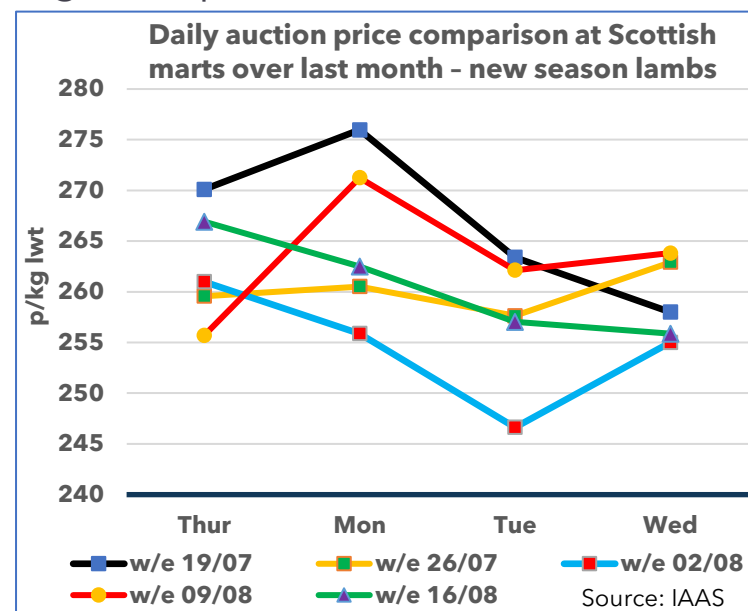
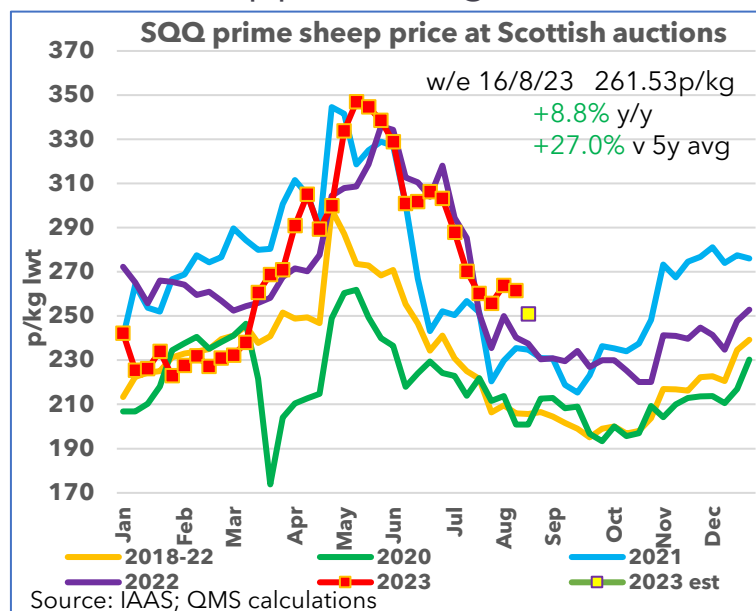
Summary of market developments – sheep market



| Report Category | Basis | Average price or volume | Change on week | Change over four weeks | Change on year | Change on 5-year avg |
|---|--|-------------------------|----------------|------------------------|----------------|----------------------|
| New season SQQ lamb price at Scottish auctions | p/kg lwt, w/e 16 August | 261.53p/kg | -2.32p | -3.2% | +8.8% | +27.0% |
| New season lamb marketings at Scottish auctions | Average in four weeks to 16 August, Head | 15,822 | | +60% | -6.5% | -5.5% |
| Total lamb marketings at GB auctions | Average in four weeks to 16 August, head | 92,708 | | -4.7% | -3.0% | -14.7% |
| UK sheepmeat market supply | Tonnes in May - July 2023 (estimate) | 63,500 | | | -9.9% | -4.8% |

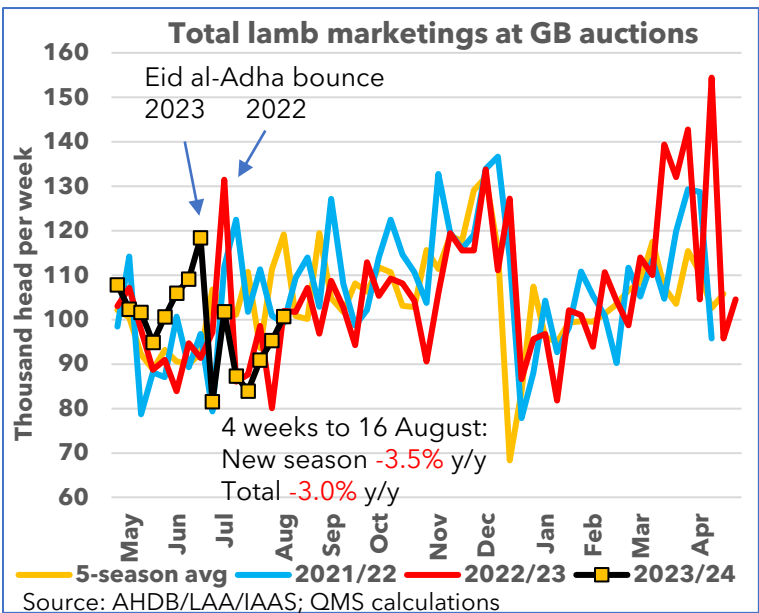
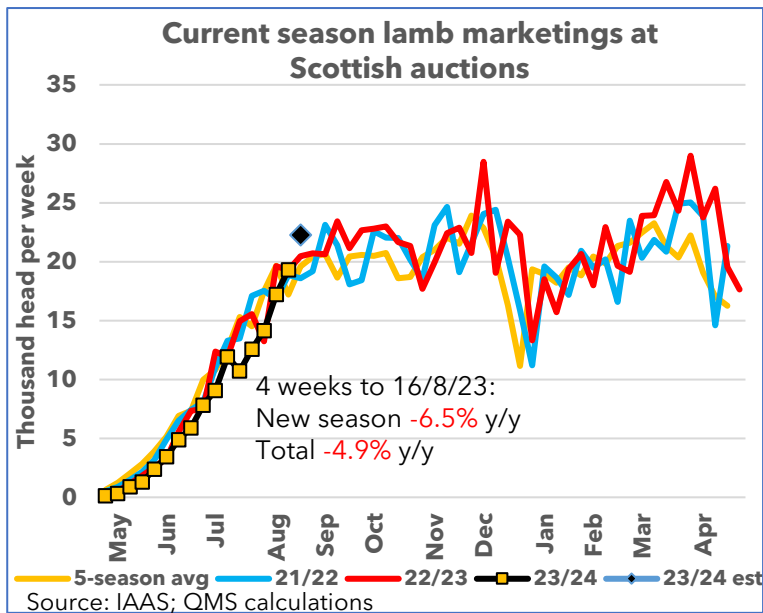
- Lamb auction prices settled around 260p/kg between mid-July and mid-August, with a slow build in new season lamb supplies limiting the seasonal decline in prices. However, there has been some renewed decline in the third week of August as auction throughput has risen towards a normal autumn level. Prices have still retained a margin of around 5% over 2022 levels, while holding more than 20% above the five-year average.
- Looking forward, December survey results suggest an increased breeding flock in England, so there could be some catch-up in lamb marketings now that a period of wet weather has helped grass growth to rebound. In Scotland, given the slightly reduced breeding flock in December, a catch-up in numbers is likely to depend on an increased lambing rate.
- Retail data indicates that lamb sales have struggled since Easter, although retail prices have now begun to stabilise.
- UK lamb imports have continued to run well behind 2022 levels despite highly competitive market prices in Australia and New Zealand; a softening in the Chinese lamb market; and increased UK market access for Australia since the end of May.
- In contrast to beef and pork, UK lamb exports have performed well in 2023. Along with reduced imports, this has ensured that market supply has remained tight, supporting lamb prices despite soft domestic demand and a weakening global market.

Farmgate prices - prime sheep - renewed seasonal decline developing in second half of August with lamb numbers approaching normal autumn range but prices remain elevated at record highs for the time of year



Charts based on old season lamb prices from January to April and new season lambs from May to December

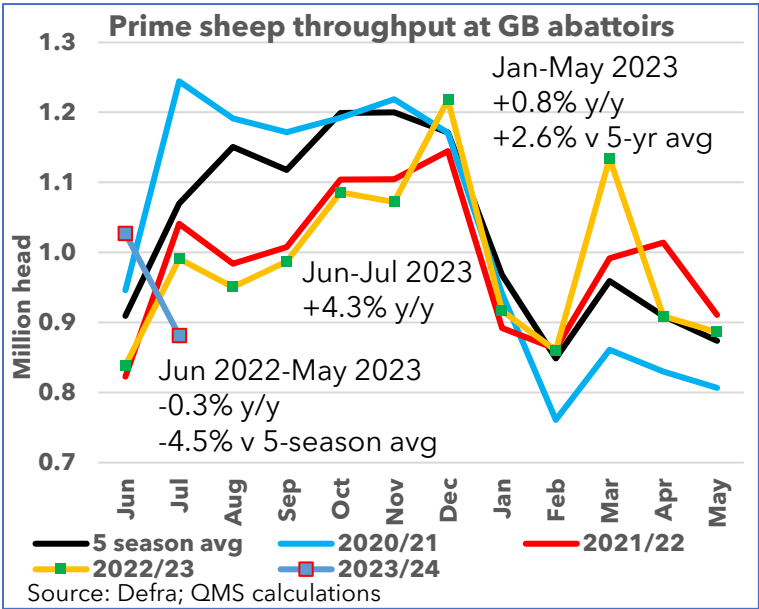
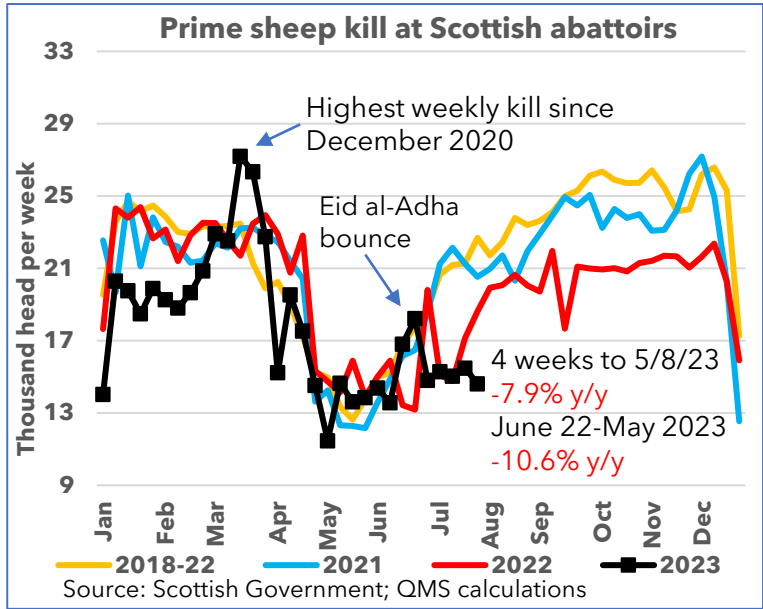
Availability and slaughter – new season lambs have reached the market more slowly than in 2022



New season lambs continued to arrive on the market more slowly than in 2022 across GB in the first half of August. However, numbers have built towards a normal autumn level in Scotland.

Initial figures from the third week of August point to a strong upturn in auction volumes in Scotland, although this would make only limited inroads to the decline in the season-to-date.

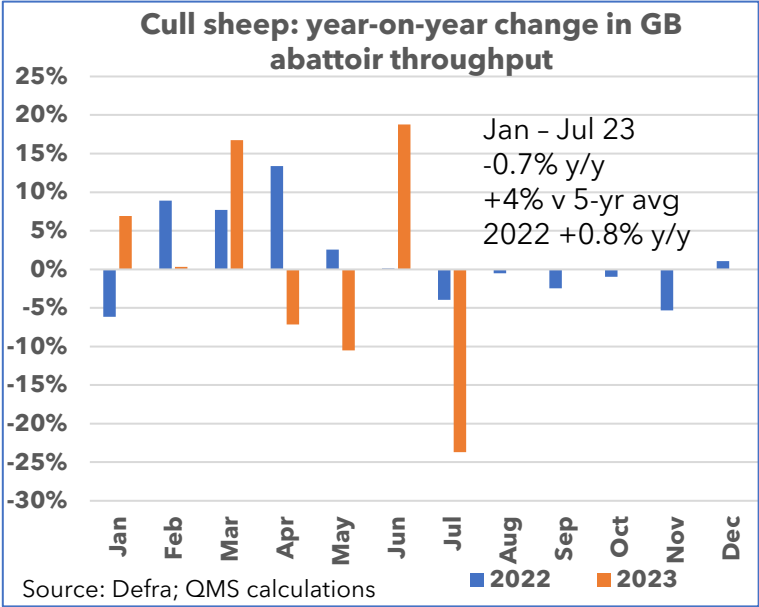
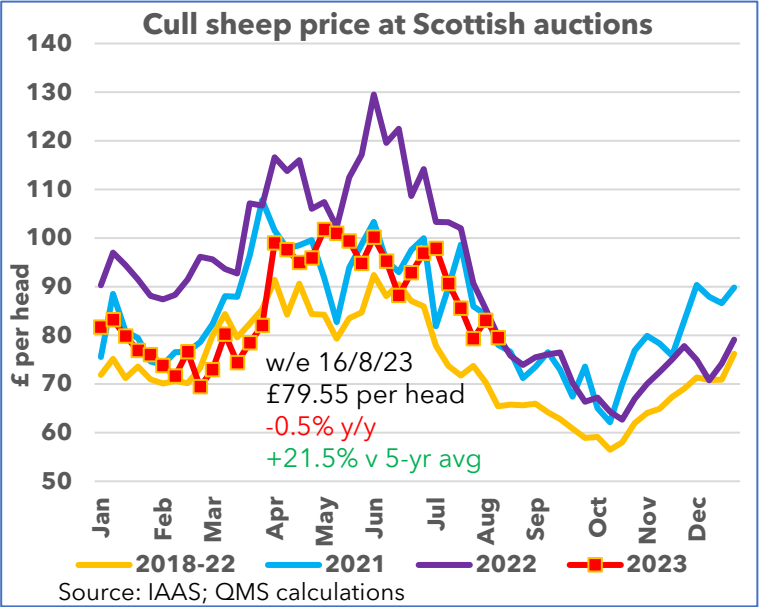
Looking forward, December survey results pointed to an increased breeding flock in England, so there could be some catch-up in lamb marketings. In Scotland, given the slightly reduced breeding flock indicated in the December survey, whether numbers eventually catch-up is likely to depend on an increased lambing rate.



| December Sheep & Goat Inventory and June 2022 Census Results | | |
|--|----------------------------------|---------------------------|
| December | Total breeding flock y/y change | Other sheep and lambs y/y |
| Scotland (2022) | -0.7% | +0.3% |
| England (2022) | +2.5% | +1.5% |
| June 2022 | Ewes for further/future breeding | New season lambs |
| England | +2.8% | +1.5% |
| Wales | -0.4% | -1.6% |
| E&W | +1.5% | +0.3% |

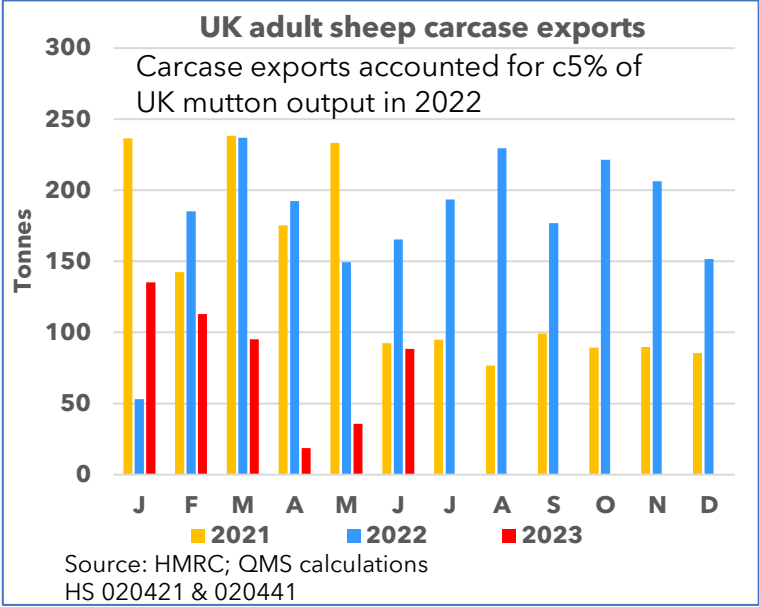
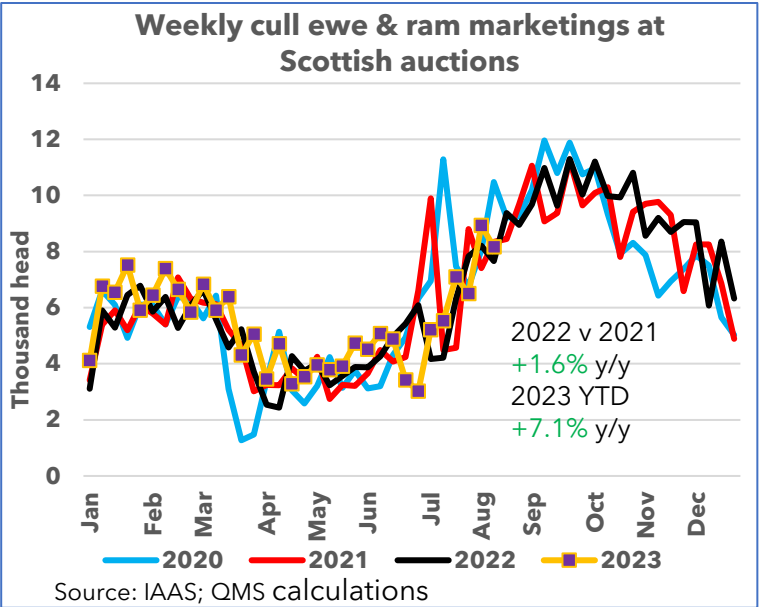
Source: Defra; Welsh Govt; Scottish Govt; QMS calculations

Cull sheep market - seasonal reduction in prices as marketings build towards their autumn peak



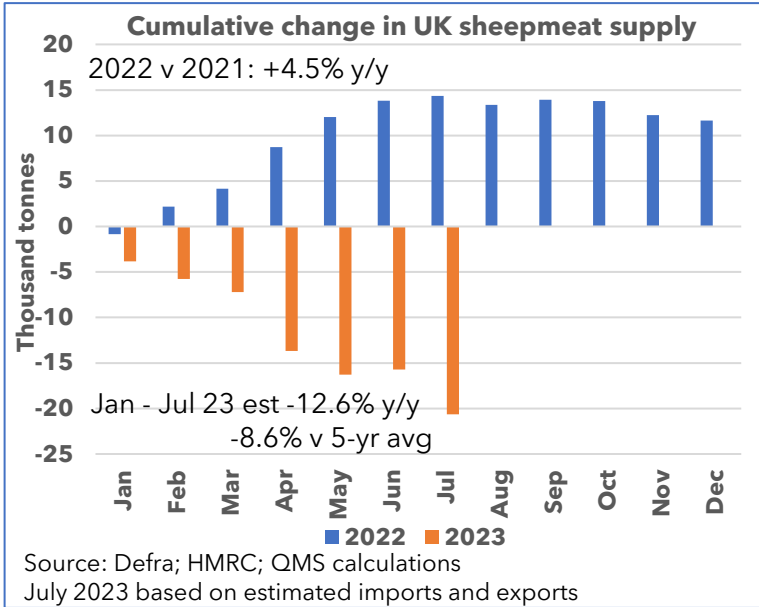
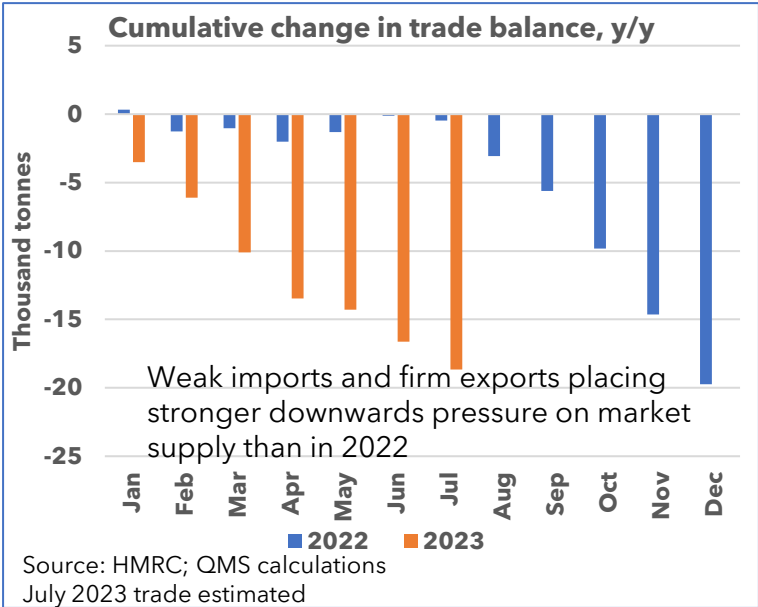
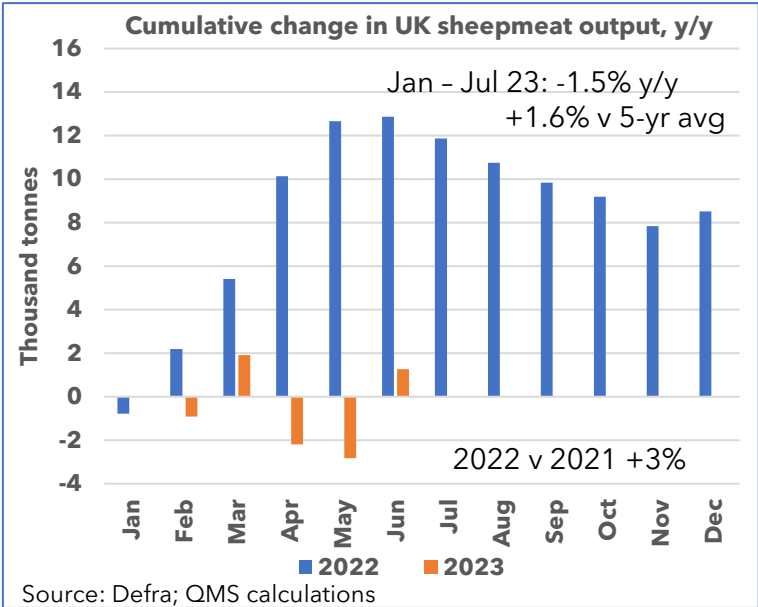
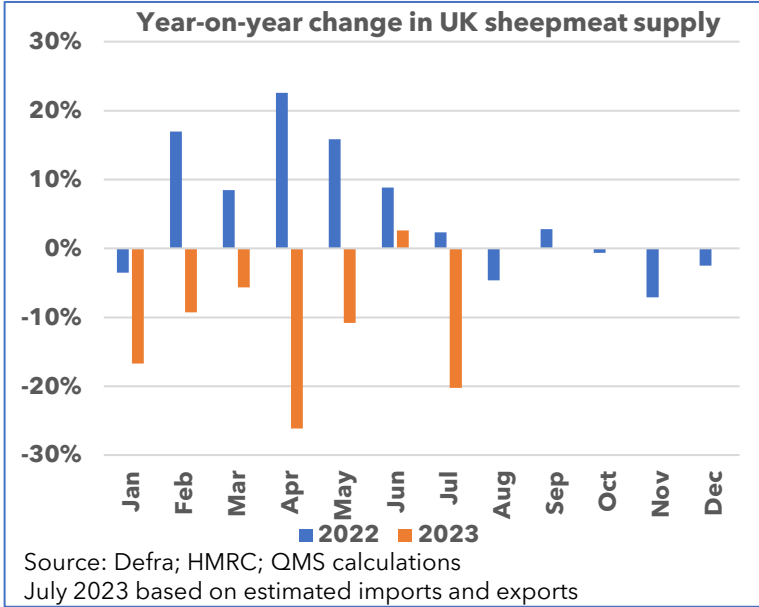
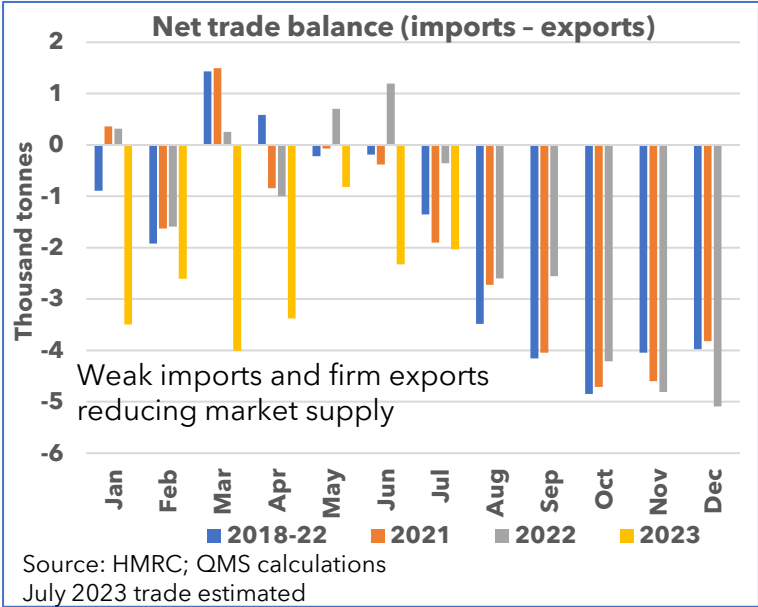
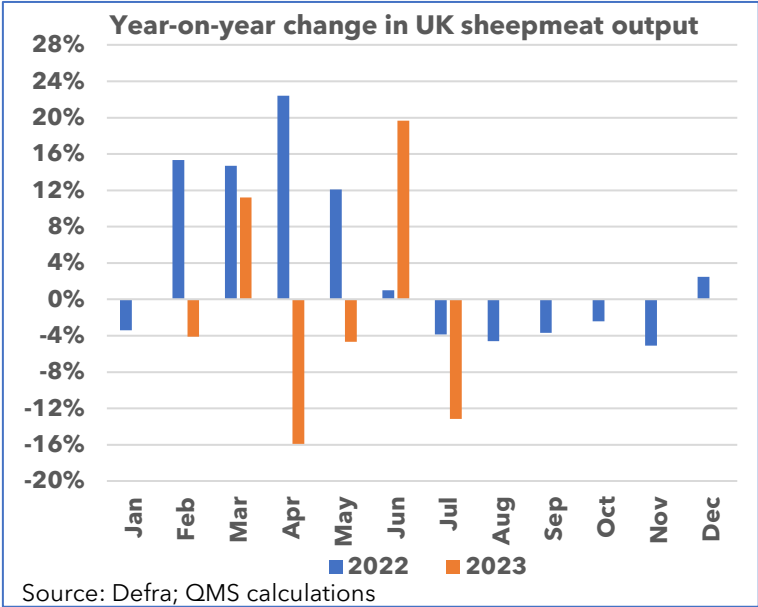
Cull ewe values have rebalanced downwards at Scottish auctions since mid-July as marketings have risen sharply above their seasonal low.

In the first half of August, weekly marketings of ewes & rams were at their highest of the year so far at Scottish auctions, and they continued to run above 2022 levels. This helps explain why ewe prices have not been as strong as prime lambs.

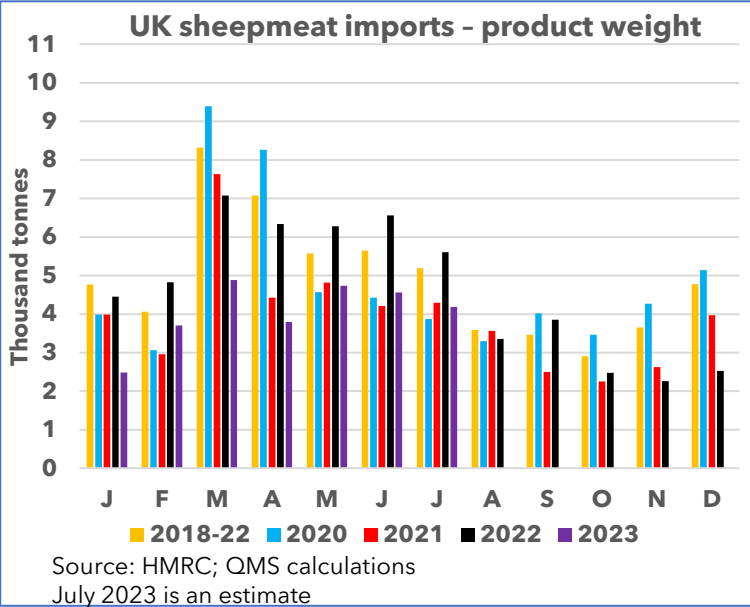
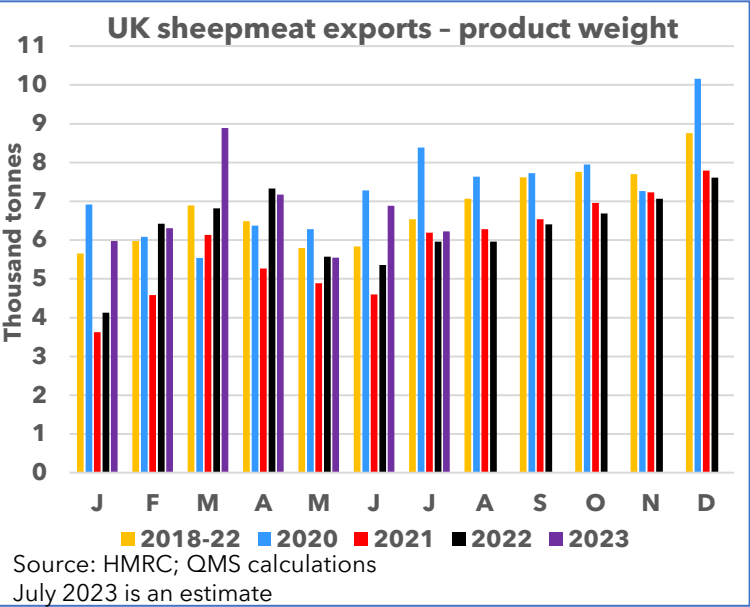


While domestic mutton production increased in the first half of 2023, the volume exported as carcasses fell back significantly relative to 2021 and 2022, signalling some rebalancing of demand to the home market.

UK sheep market supply: domestic production + (imports - exports) = supply



A focus on UK international trade in sheepmeat - firm exports but imports down sharply on 2022



UK sheepmeat exports rebounded to strong year-on-year growth in June, partly reflecting an earlier Eid al-Adha. Over the first half of 2023, they rose by 14% on 2022 and by 11% on the five-year average. After some reduction in July, there has been a bounce higher in the price of GB lamb at Rungis market in Paris, against the seasonal trend, pointing to robust demand (see page 18).

UK imports had an historically weak final quarter of 2022 and the trend has continued in 2023. Over the first half, imports were down 32% year-on-year.

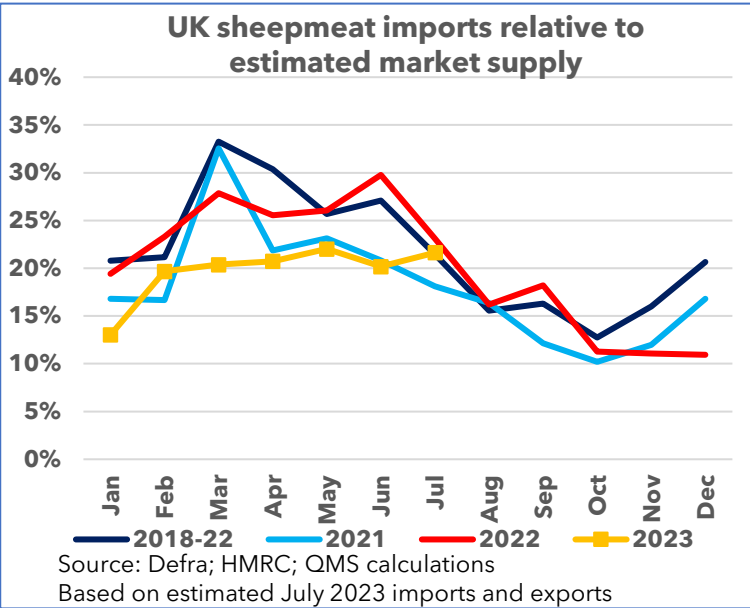
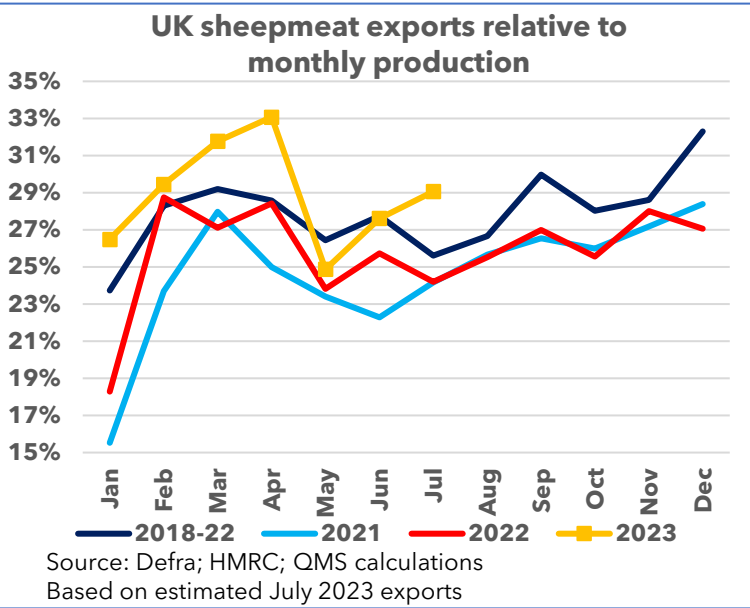
Beef + Lamb NZ highlighted continued year-on-year declines in shipments to the UK in June, signalling continued import weakness in July. NZ processors have refocused on China, while there has been a rebalancing of exports to Europe towards the EU from the UK this year.

Import weakness has come despite seemingly attractive price levels in the GB market plus increased market access for Australia since the end of May.

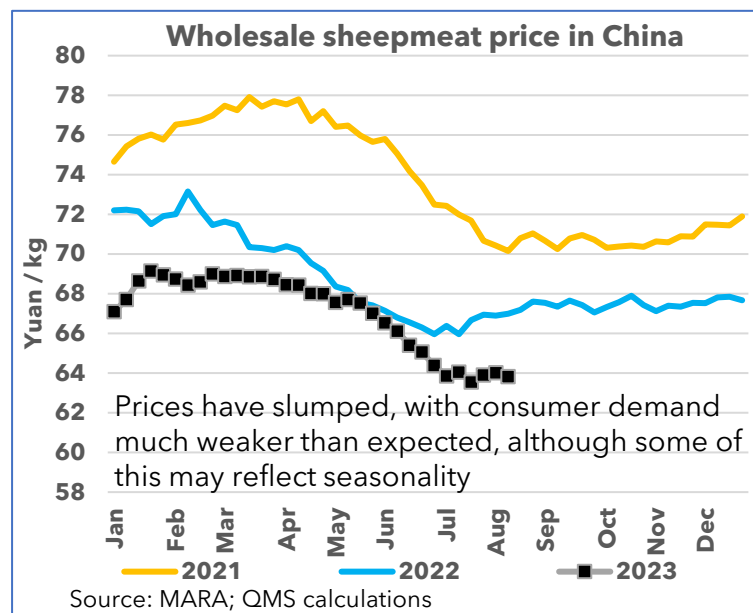
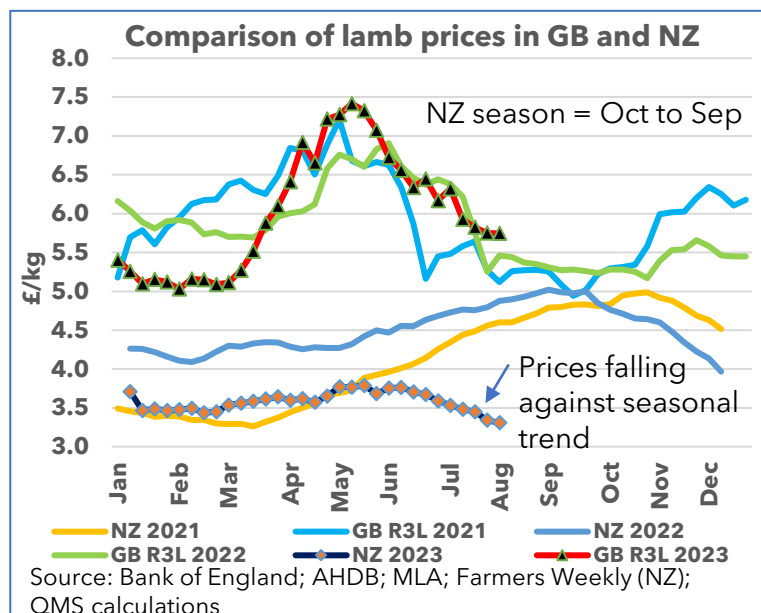
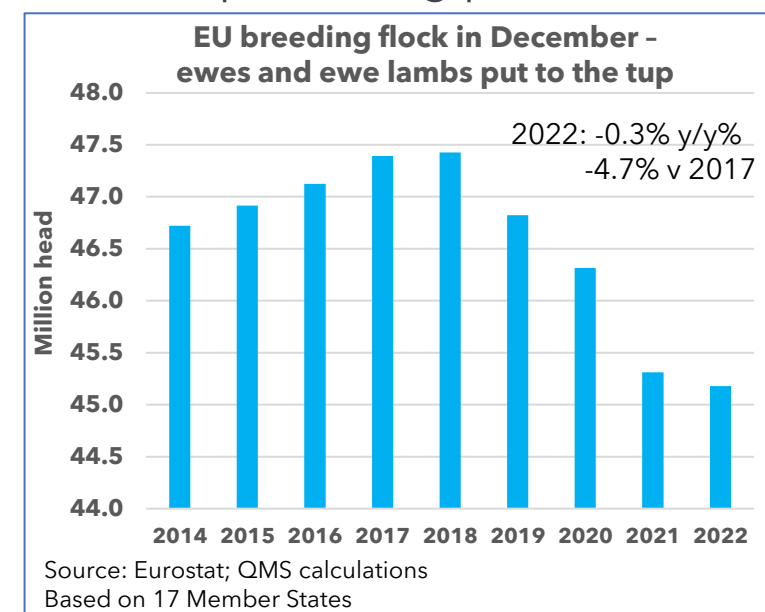
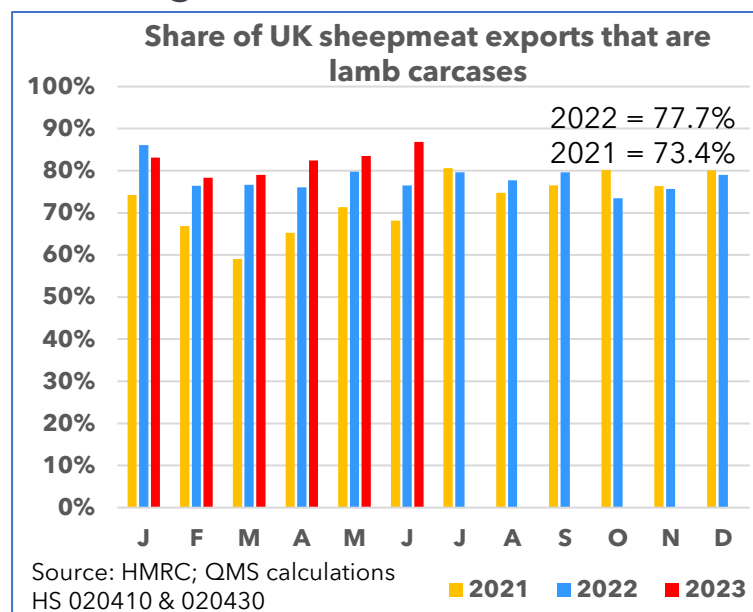
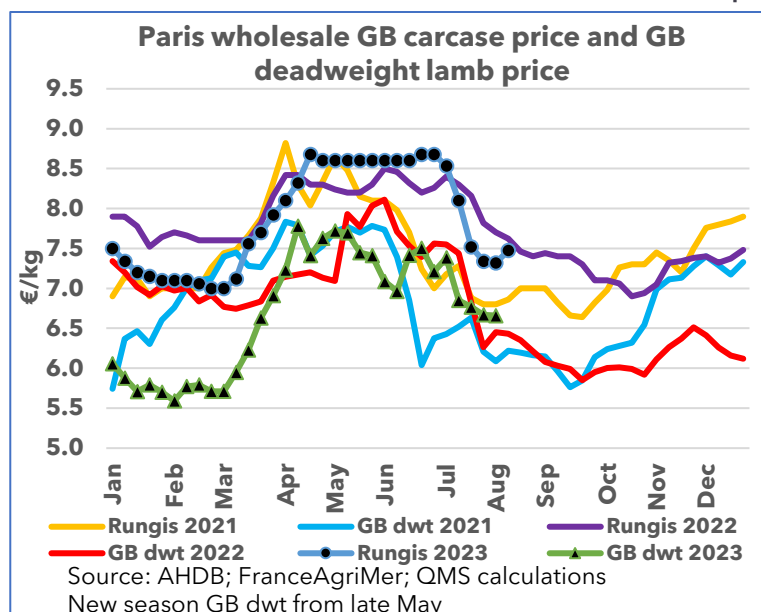
Note:

HMRC trade data covers HS codes 0204 (fresh or chilled & frozen sheep and goatmeat)

Estimates for July are based on seasonal trends in trade volumes and domestic production



Variables influencing UK sheepmeat trade – Prices in France continue to look attractive to GB lamb exporters with slight rebound in mid-August. Import volumes remain weak despite highly competitive prices in Australia and NZ, where Australian production growth and a weak Chinese market are pressuring prices.



| Oceania lamb production forecasts | | | |
|--|--------|--------|------------|
| | 2022 | 2023 | y/y change |
| Australia (thousand tonnes) | | | |
| Sheepmeat production | 708 | 737 | +4% |
| Sheepmeat exports (product weight) | 428 | 462 | +8% |
| New Zealand (head) (October 2022 - September 2023 season) | | | |
| Lamb crop | 22.61m | 22.02m | -2.6% |
| Export lambs processed | 17.8m | 17.5m | -1.6% |
| Source: MLA; Beef + Lamb NZ; QMS calculations | | | |

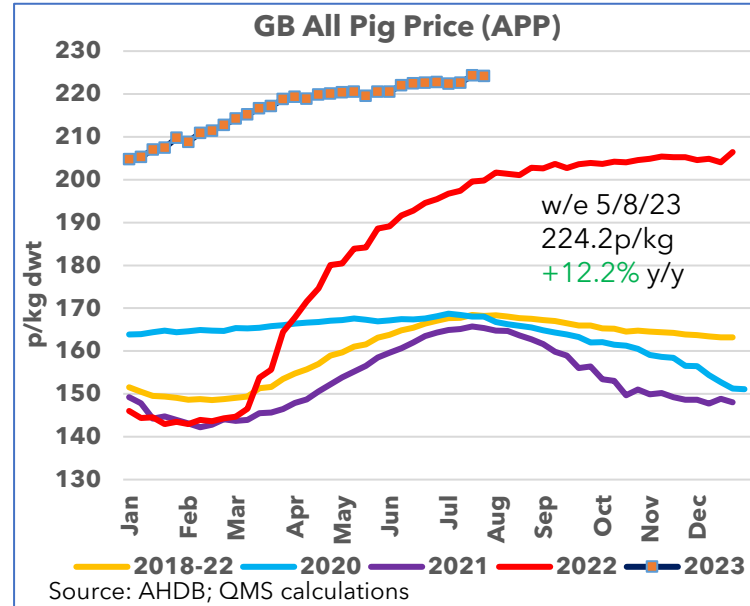
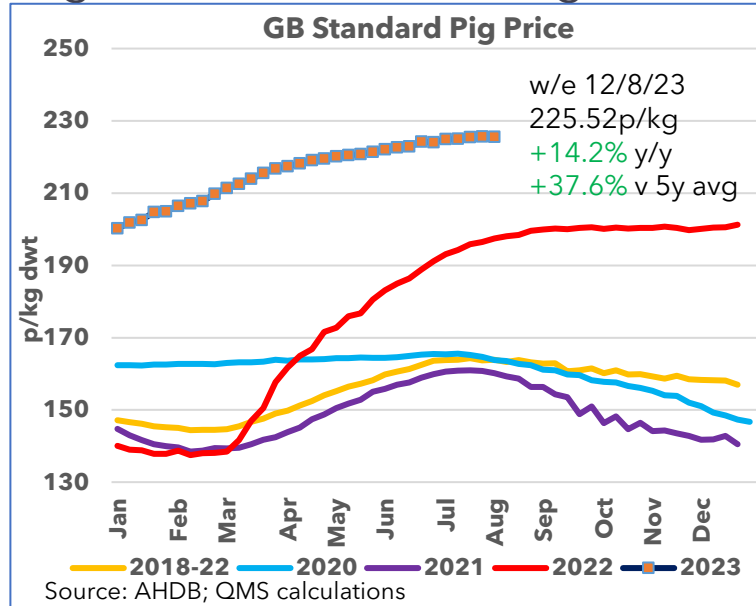
Summary of market developments – pig market



| Report Category | Basis | Average price or volume | Change on week | Change over four weeks | Change on year | Change on 5-year avg |
|---|--|-------------------------|----------------|---|----------------|----------------------|
| GB Standard Pig Price (SPP) | p/kg dwt, w/e 12 August | 225.52p/kg | -0.12p | +0.3% | +14.2% | +37.6% |
| Average carcase weight of standard pigs | Average in four weeks to 12 August EU spec | 89.2 | | +0.8% | +1.8% | +4.7% |
| Prime pig slaughter at GB abattoirs | Total during July 2023, thousand head | 643.1 | | +1.6% (change in daily avg kill Jul v Jun) | -16.4% | -16.6% |
| UK pig market supply | Tonnes in May-Jul 2023 | 327,100 | | | -0.8% | +3.9% |

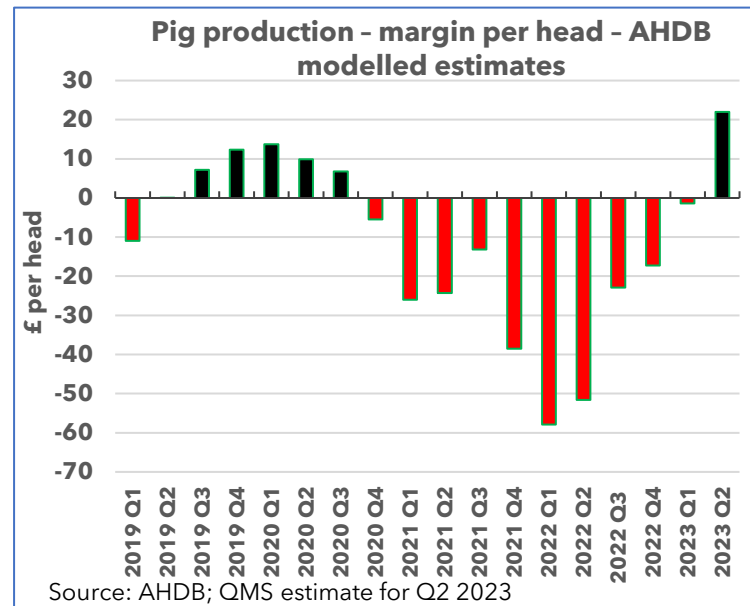
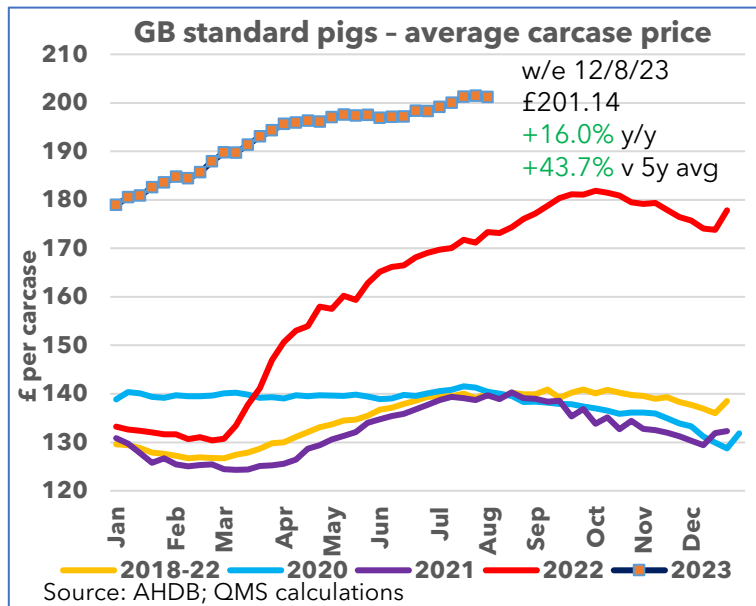
- A slowdown in the rate of farmgate price increases through July and into August suggests that a seasonal change in market balance could be taking effect as weekly availability for slaughter lifts above its summer low point. Nevertheless, prices remain around 15% above year-earlier levels and 40% above the five-year average.
- GB abattoir slaughter continued to fall sharply below 2022 levels in July, reflecting the knock-on effect of a reduced breeding herd. ScotEID slaughter data is also signalling reduced availability on Scottish farms in 2023, although the pace of year-on-year decline has slowed. Prime pig slaughter fell back behind 2022 levels at Scottish abattoirs in July.
- Lighter carcase weights compared to 2022 will have added further to the fall in pigmeat output at GB level in the first half of 2023, and stocks of pigmeat built up in 2022 are likely to have declined sharply.
- While EU pig prices have fallen back since mid-July, the gap between GB and EU prices remains unusually narrow and UK import prices are likely to have remained elevated. UK import volumes have started to rise since the spring and, combined with a sharp reduction in exports, this has begun to limit the tightening of supply in the domestic market.
- Although the Chinese pork market has tightened since July, wholesale pork prices are only slightly above GB farmgate levels, making it a less attractive export destination than in recent years.

Farmgate prices – prime pigs – showing continued upwards seasonal pressure in July but there are some signs of a seasonal change in market balance, with month-on-month rate of increase slowing



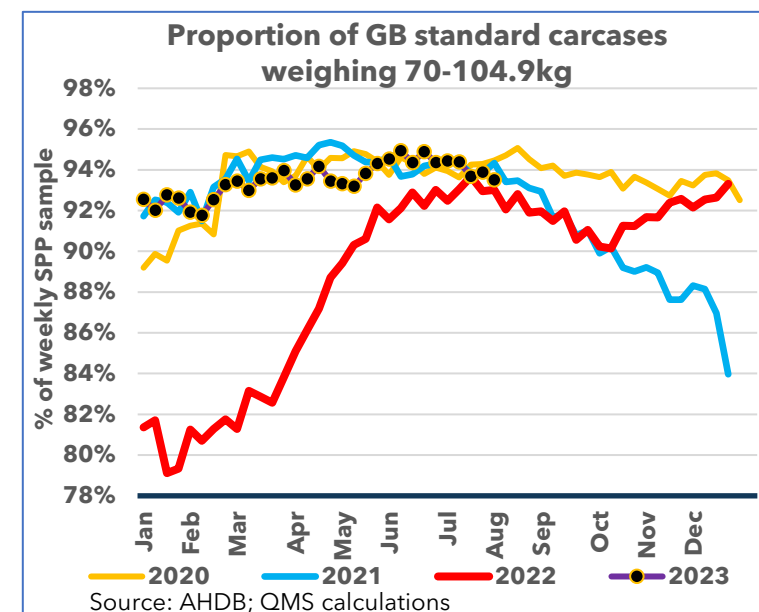
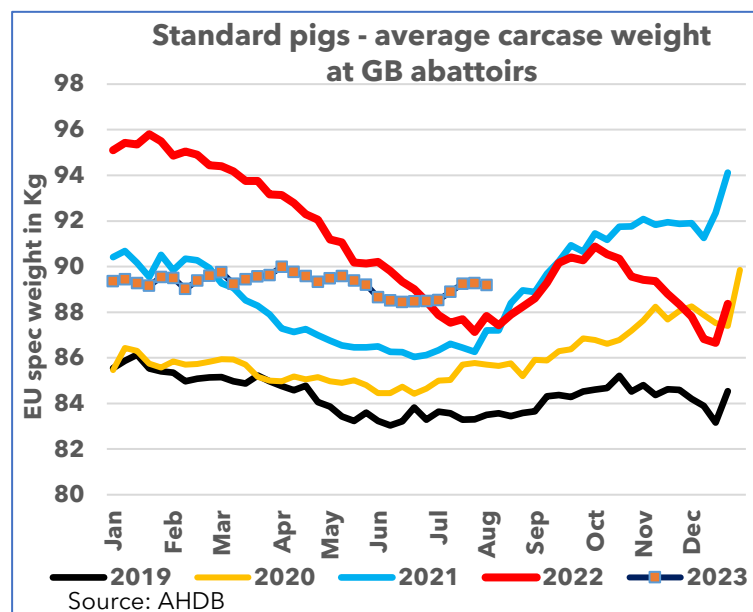
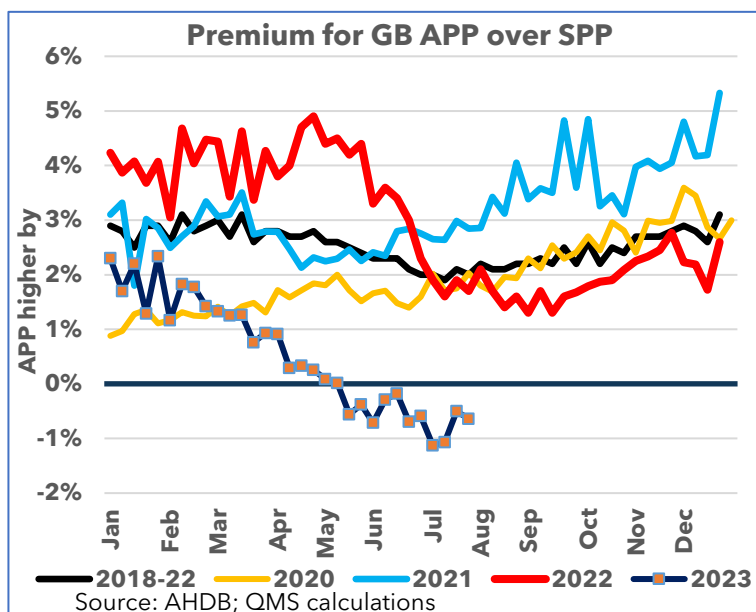
Pig prices continued to trend slightly higher through July and into August but the pace of increase has softened, suggesting that a seasonal change in market balance could be taking effect.

With the seasonal downturn in carcase weights of June reversing in July, the average carcase price has risen again and its margin over 2022 has moved beyond the lead shown by per kilo prices.



The current combination of farmgate prices and the cost of straight feeds are likely to be supporting some recovery in producer finances from a sustained period of losses. However, energy, labour and interest costs will have risen considerably for many businesses this year and herd size has reduced.

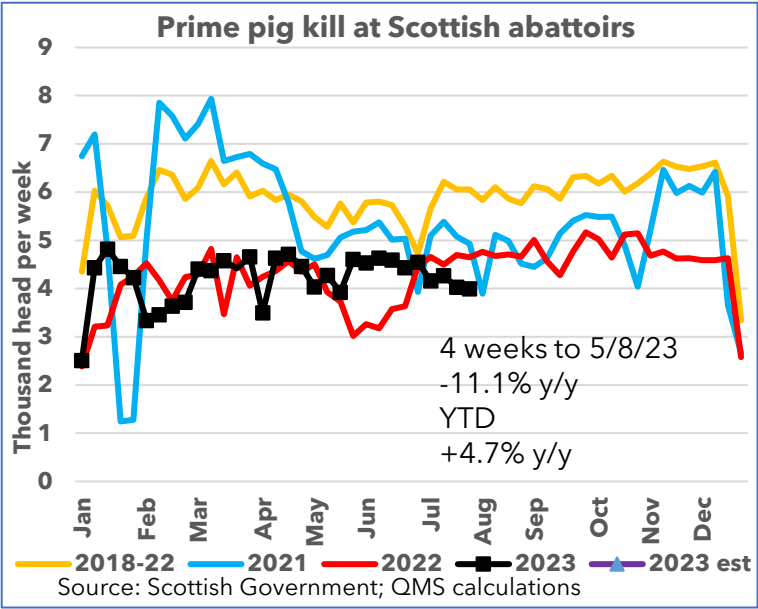
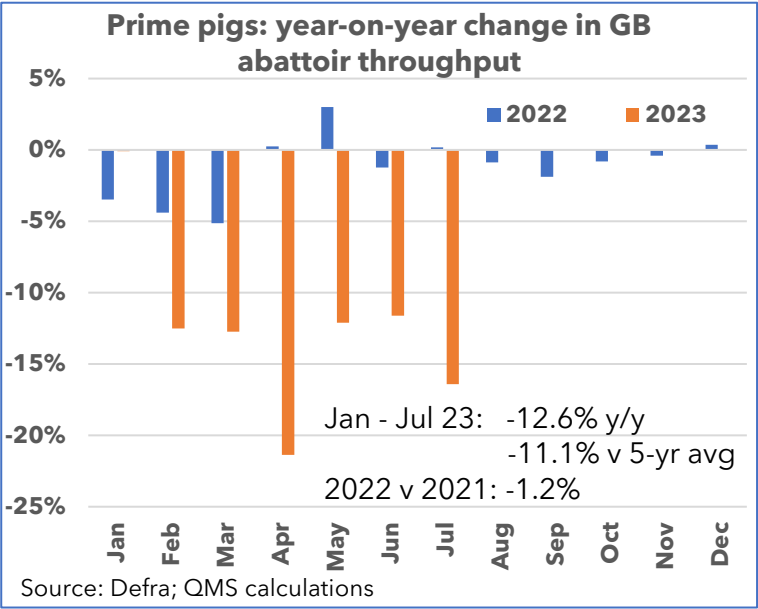
Indicators of market disruption - lack of premium for pigs with specific production characteristics points to very tight market. Carcase weights have risen again after a brief seasonal decline and remain historically elevated.



The premium for the overall average pig price (APP) over standard pigs (SPP) has disappeared, indicating that pigs with specific production characteristics are no longer receiving premia in the marketplace, signalling an extremely tight market. It should be noted that the two price reporting samples are not identical.

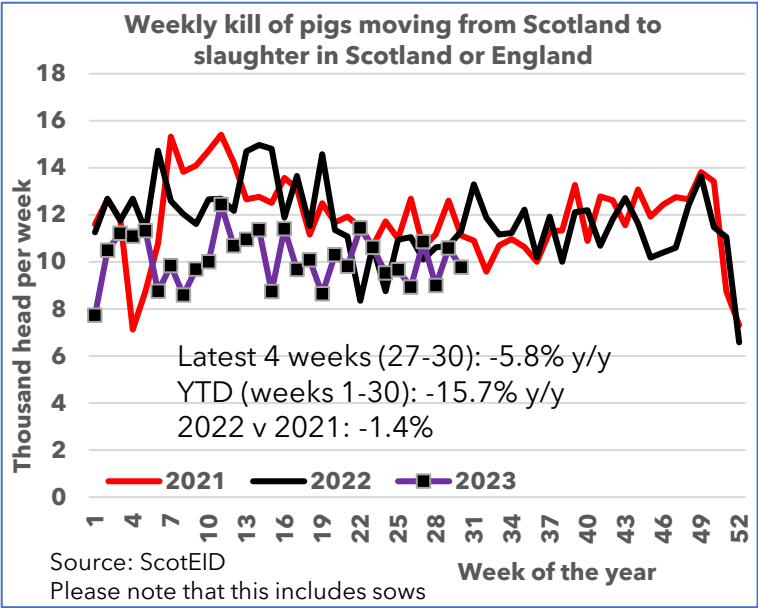
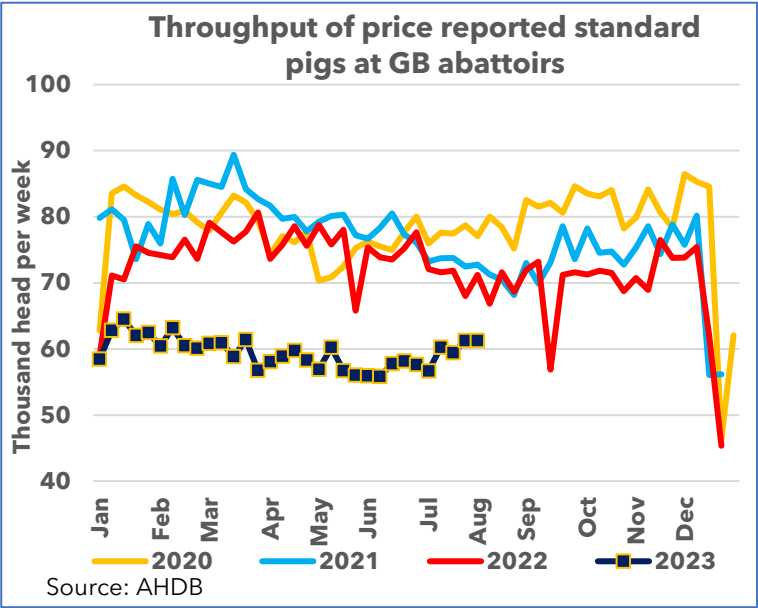
Carcase weights have risen again after a brief seasonal downturn in June, with the share of heavy carcasses in the standard pig price sample back above pre-backlog levels. Since mid-July, weights have been showing year-on-year increase.

Availability and slaughter – supply remains tight across GB following herd contraction but availability for slaughter likely to be edging seasonally higher. Abattoir throughput has fallen back again in Scotland since mid-July.



The contraction of the GB breeding herd driven by financial pressures on producers in 2021 and 2022 has resulted in a sharp reduction in the slaughter pig crop in 2023. However, the standard pig price sample does point to a seasonal rebound in weekly slaughter since mid-June and the pace of year-on-year decline may be slowing.

While the number of pigs sent to slaughter from Scottish farms continued to run behind year-earlier levels in July, the pace of decline has softened considerably since May.

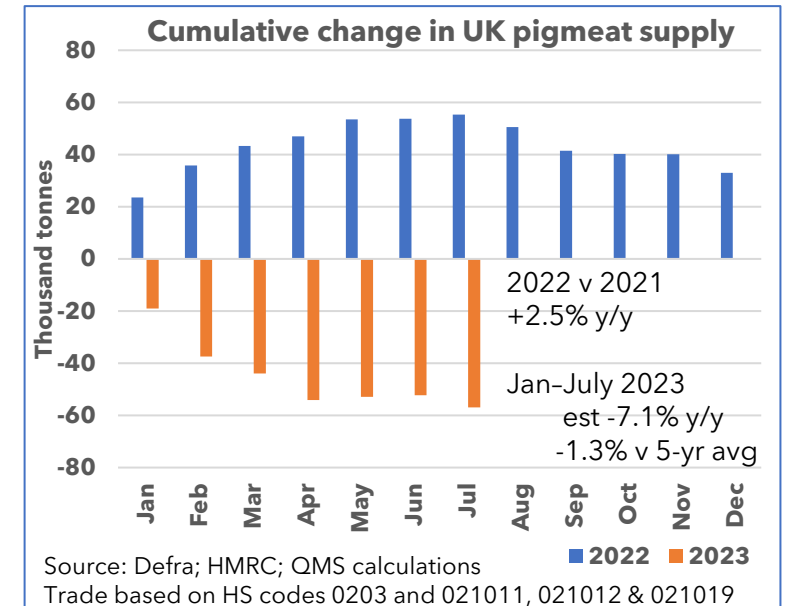
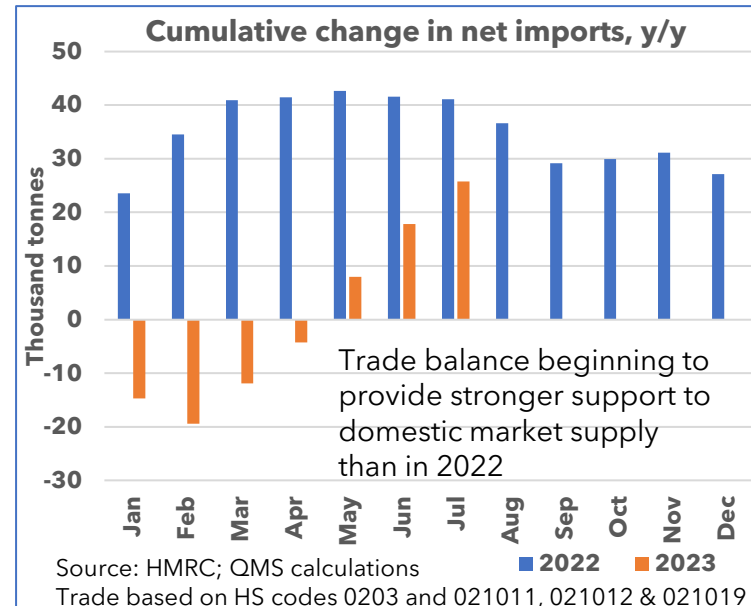
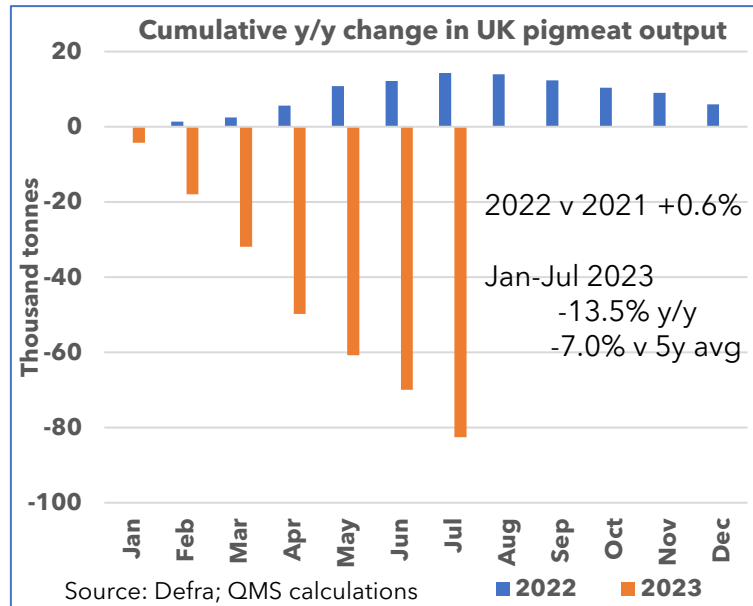
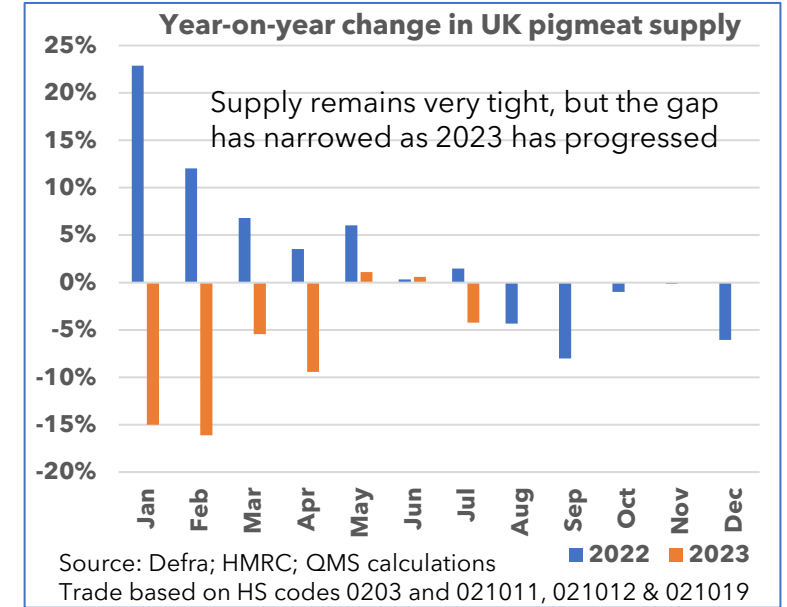
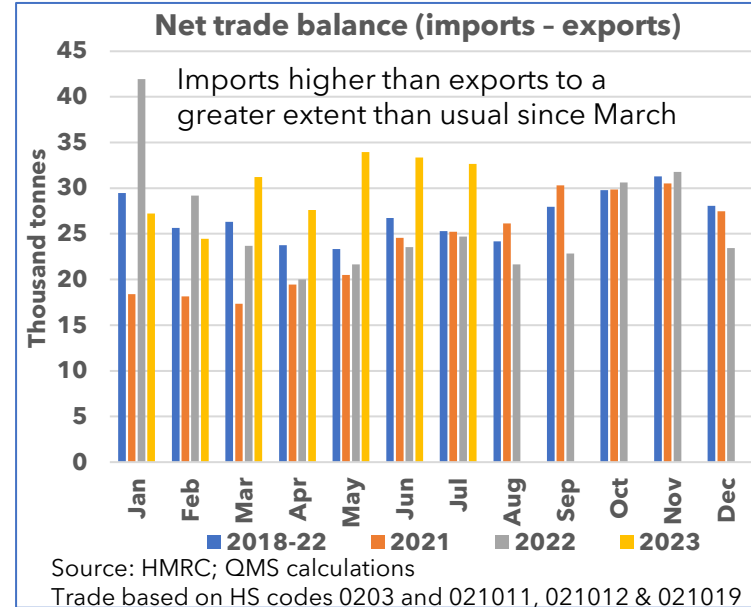
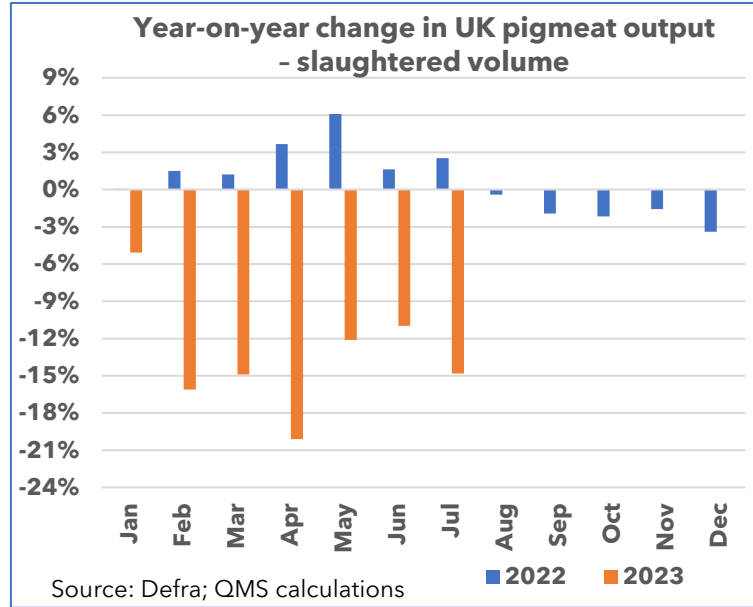


After two months of significant year-on-year increase at Scottish abattoirs, prime pig slaughter fell back behind 2022 levels in July. In the four weeks to August 5th, numbers were at their lowest for a four-week period since mid-March.

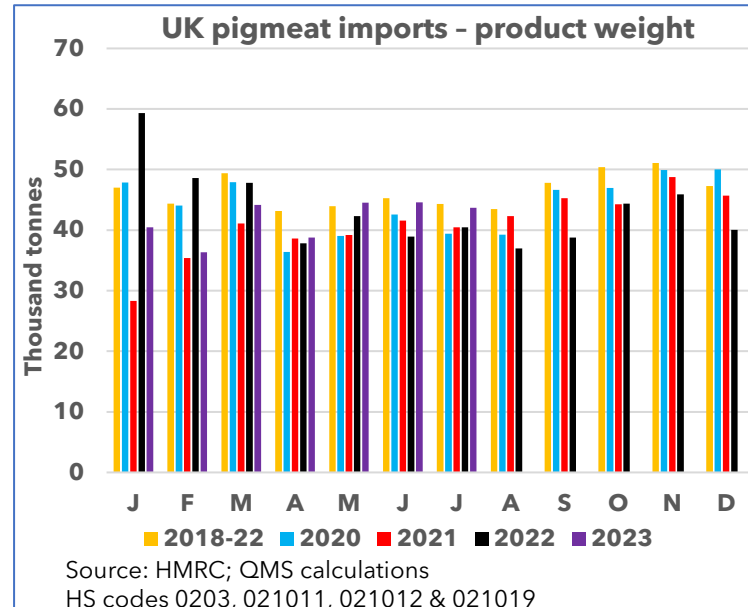
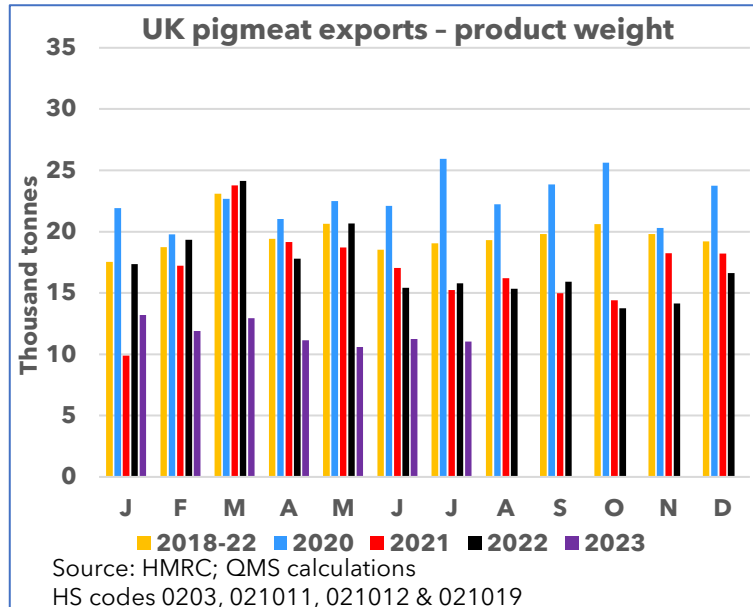
| December 2022 Census - England (Note: Scottish results not available) | |
|--|-----------|
| Female breeding herd | -20% y/y |
| Fattening pigs | -7.9% y/y |
| Source: Defra | |

UK pigmeat market supply: domestic production + (imports - exports) = supply

Trade balance and pigmeat supply calculations based on estimated imports and exports for July 2023



A focus on UK international trade in pigmeat - imports picking up while exports fall sharply, reflecting tight domestic supply



While tight domestic supply continued to constrain exports in Q2, imports moved beyond 2022 levels, offsetting some of the decline in UK pigmeat market supply.

Imports of pork (HS0203) showed a third consecutive month of strong year-on-year increase in June, with the pace accelerating to 22%. Meanwhile, bacon & ham imports (HS0210) returned to year-on-year growth for the first time since November 2022 (+2%) and were in line with the five-year average.

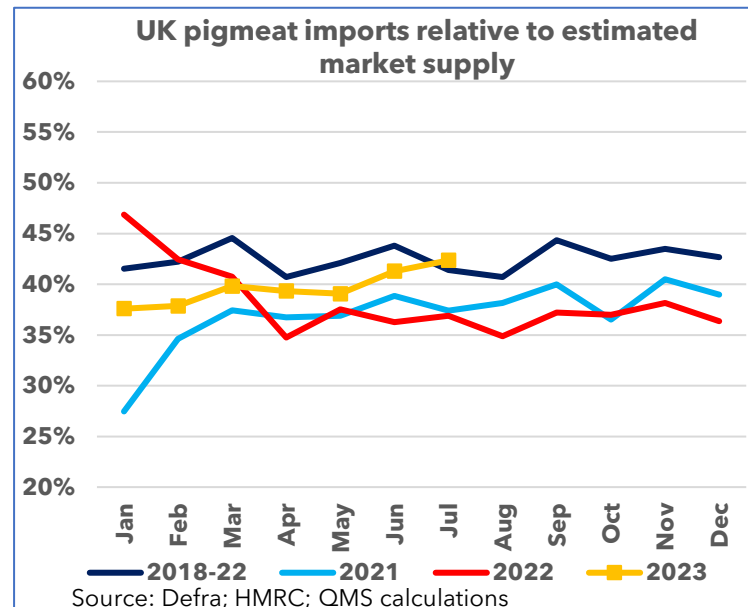
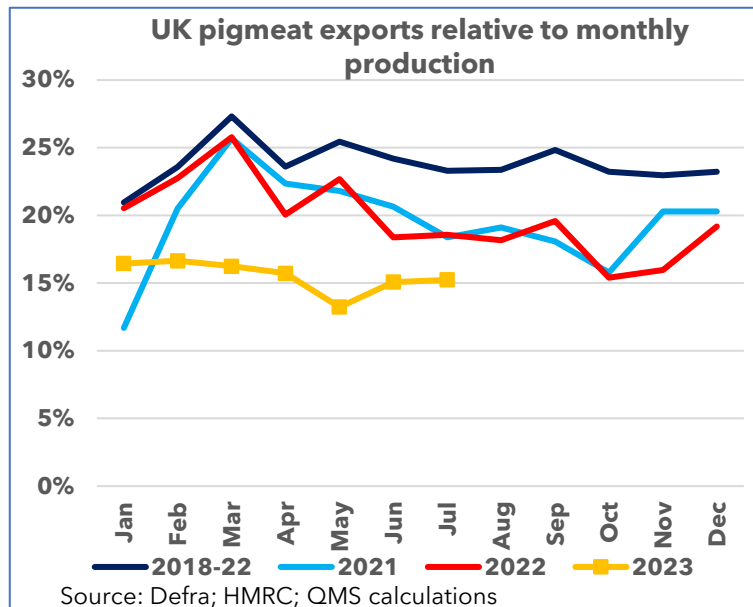
Exports of pork (HS 0203) to the EU slipped back from a year-to-date high and continued to show considerable year-on-year contraction in June, down 44%.

Exports (HS 0203) to non-EU countries rebounded on the month but still lagged 9% behind year-earlier levels in June. However, within this total, deliveries to China and Hong Kong were up slightly on the year following a very weak May, accounting for 75% of non-EU trade.

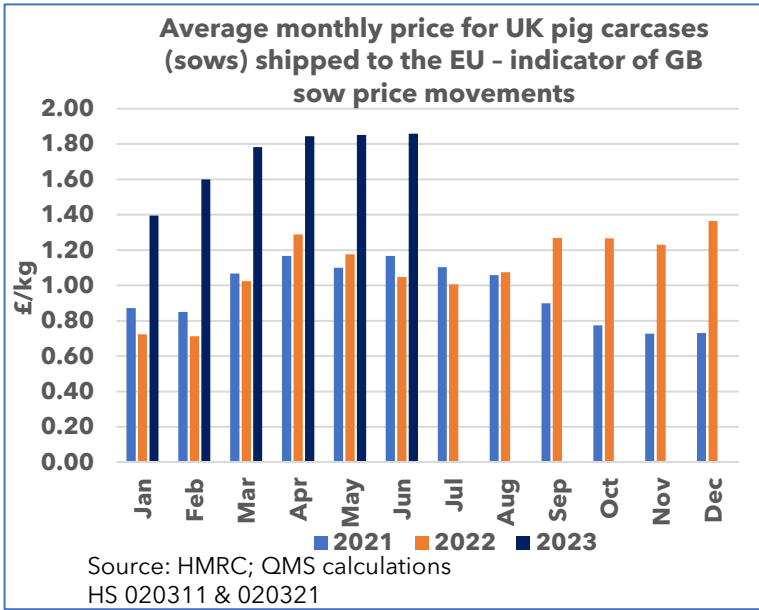
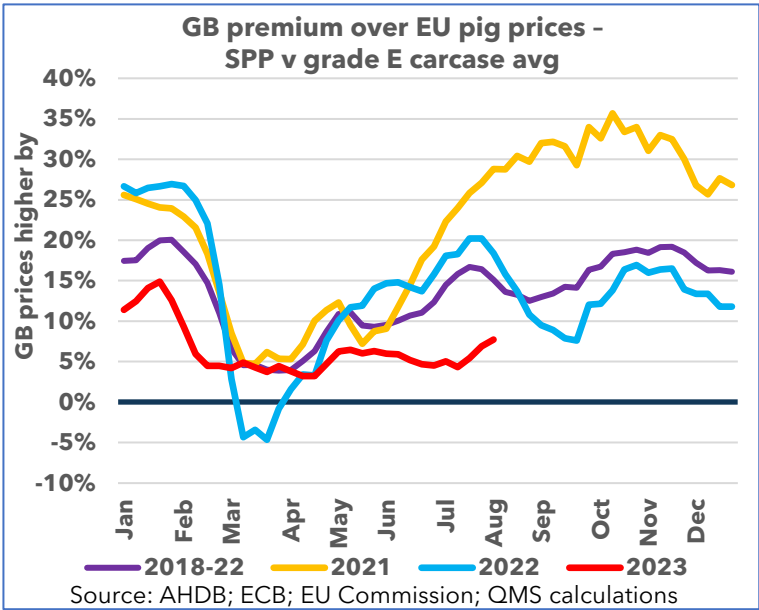
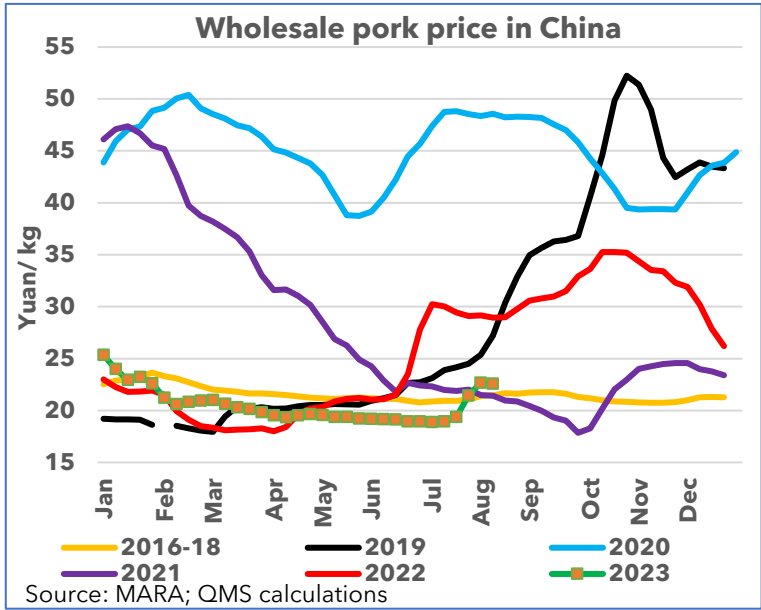
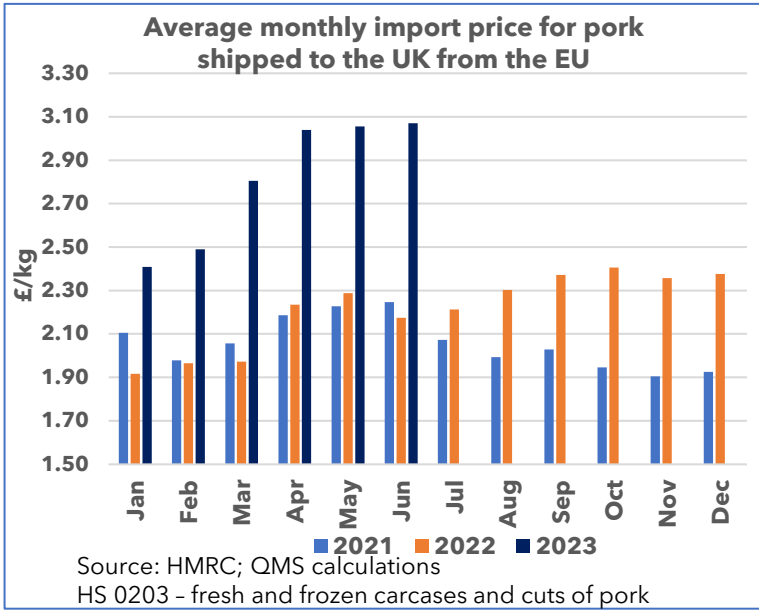
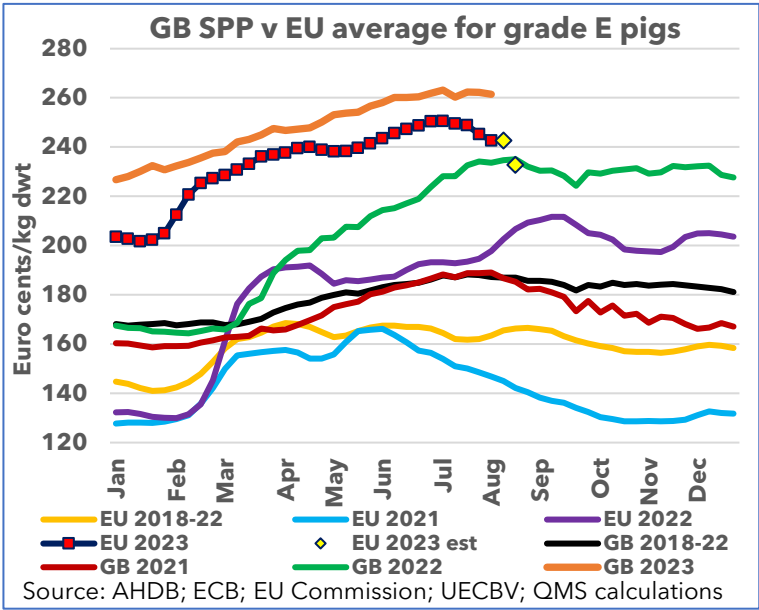
Note:

HMRC trade data used here covers HS codes 0203 (fresh or chilled & frozen swine meat) & 021011, 021012 & 021019 (bacon & ham - 'salted, in brine, dried or smoked').

Trade data for July is estimated



Factors driving UK international trade in pigmeat – Although the EU pork market has begun to cool, an historically narrow price gap continues to support GB price competitiveness at home and on the continent. After a prolonged period of stability, the Chinese pork market has tightened since late-July, but prices are no longer as attractive to exporters, running only slightly ahead of GB farmgate levels.



| USDA Global Pork Market Forecasts, July 2023 (million tonnes carcass weight) | | | | | | |
|---|-------|-------|------|-------|-------|-------|
| Key indicators | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| World, production | 111.9 | 101.0 | 95.8 | 107.9 | 114.4 | 114.8 |
| China, production | 54.0 | 42.6 | 36.3 | 47.5 | 55.4 | 56.0 |
| All countries, imports | 8.6 | 9.3 | 11.7 | 11.6 | 9.89 | 9.81 |
| China, imports | 1.46 | 2.45 | 5.28 | 4.33 | 2.13 | 2.30 |
| EU, production | 23.2 | 23.0 | 23.2 | 23.6 | 22.3 | 21.7 |

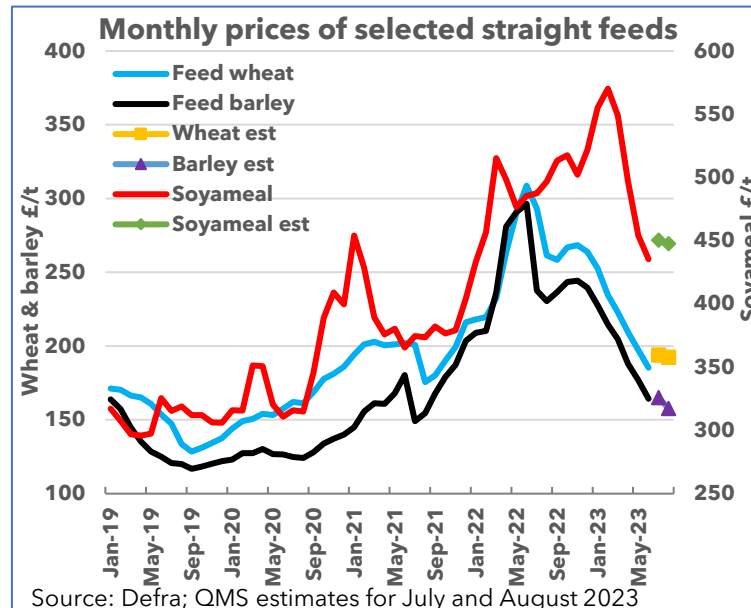
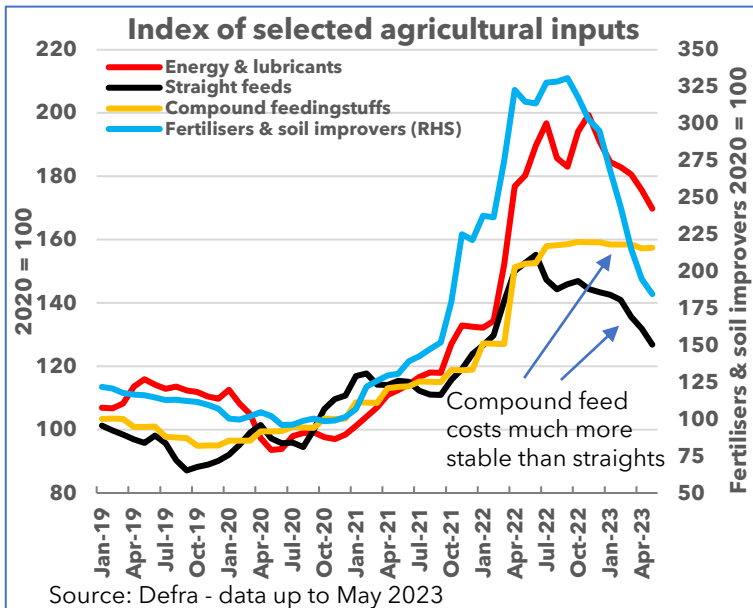
Source: USDA Foreign Agricultural Service

Summary of economic developments



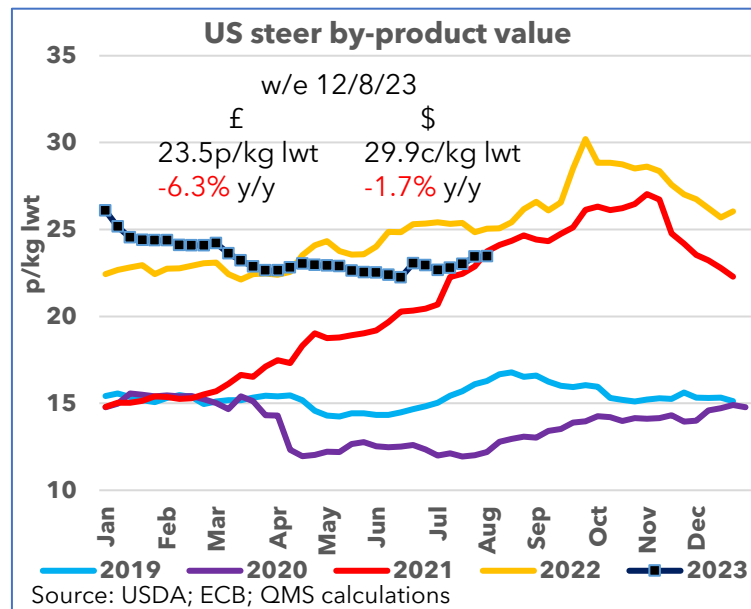
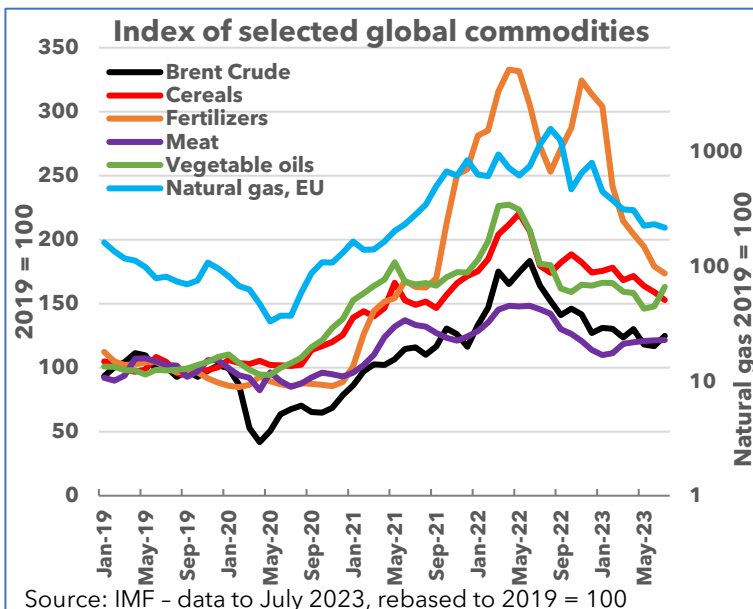
- Commodity prices have remained well below their 2022 peak in 2023, pressured in part by a weaker US dollar, but farmers and processors will continue to face unusually high levels of input costs where end prices reflect past rises in raw material prices. Wage and borrowing costs are also still rising significantly.
- Strong average earnings growth has continued to support increased retail sales in cash terms and, although inflation rates have begun to slow in many sectors, prices have generally continued to show significant year-on-year increases, limiting purchased volumes.
- The meat retail market continues to be characterised by consumers trading down towards cheaper products, forcing up prices for beef mince, while sharp pork price rises are starting to weigh heavily on sales volumes. Lamb sales have shown renewed weakness after a strong Easter, although retail prices may now be steadying.
- Consumer confidence showed some renewed weakness in July, reflecting concern over the potential for sharply increased mortgage payments. The Bank of England has highlighted that the majority of mortgage payment rises are expected later in 2023 as new fixed rate deals are agreed.
- PMI surveys signalled a softening of trading conditions for UK service sector businesses in July while manufacturers continued to face declining demand. While previously inactive people have started to look for work and employment dipped in Q2, it failed to dampen wage pressures, which are likely to have been supported by cost-of-living increments.

Production costs and by-product revenues



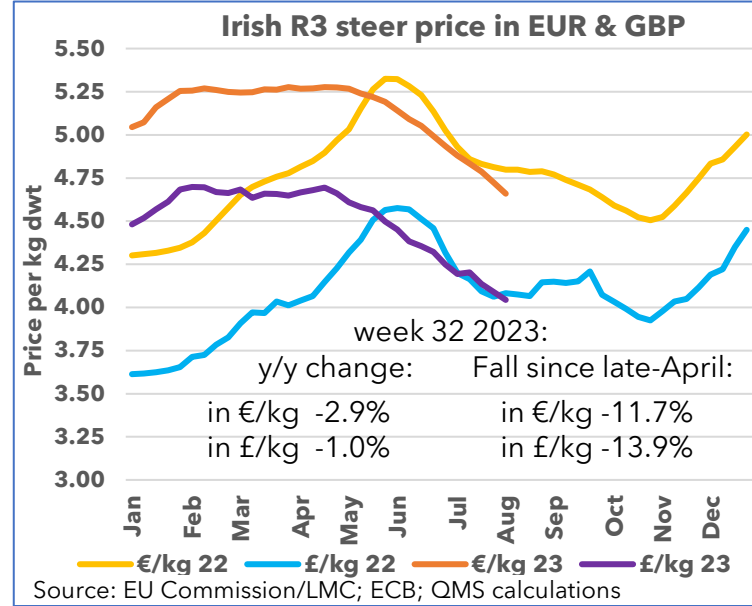
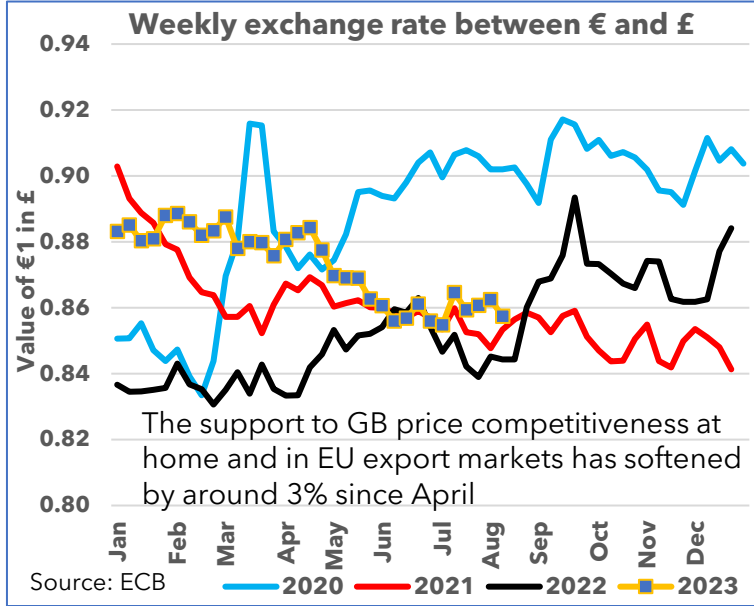
Commodity prices have fallen from their highs, added to by a weaker US dollar, but many are still well above pre-covid levels, meaning that businesses are still having to deal with higher cost bases than they have been used to. Crude oil prices have shown some rebound since July, and this has passed through to fuel costs. Contract pricing of inputs means that businesses may still be facing rising or unchanged costs even as commodity prices have dipped.

A short-term spike in global arable crop markets following the suspension of the Black Sea Grain Initiative in mid-July has largely unwound as global supplies remain adequate. A record Brazilian soyabean crop has ensured that soyameal prices have fallen below year-earlier levels and Argentina is expected to see a sharp rebound in production in the coming season.

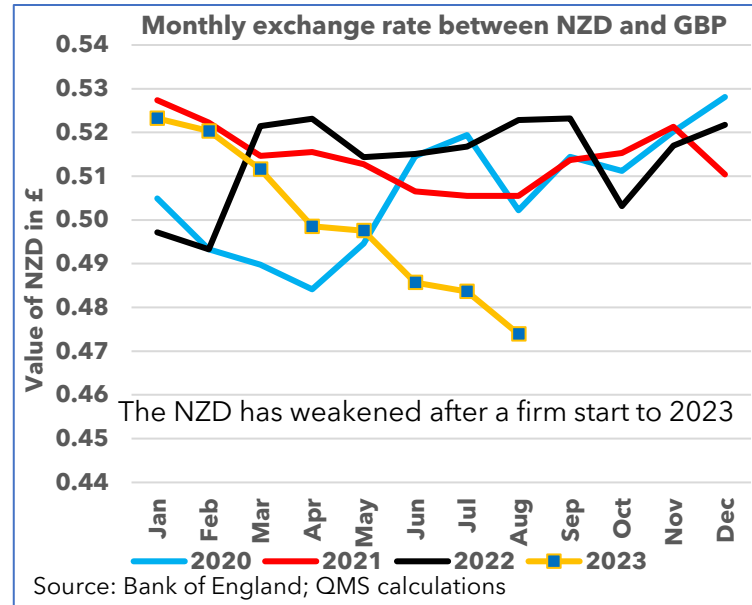
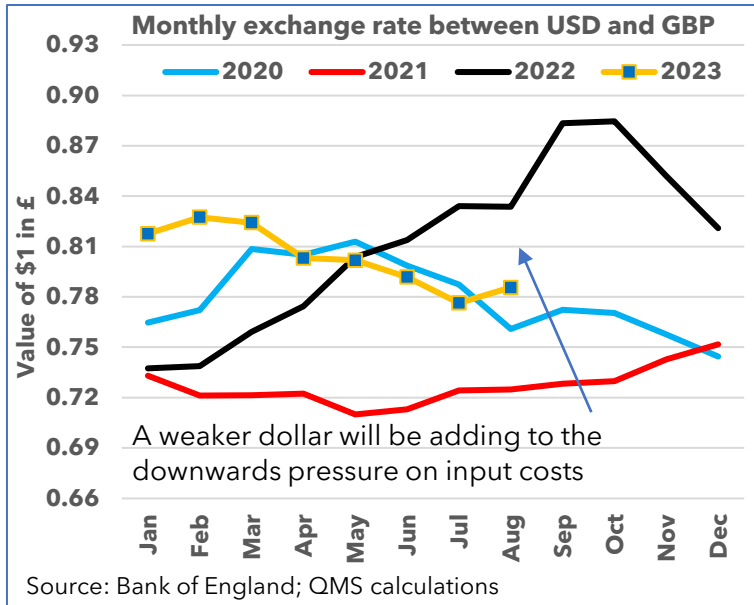


By-product value followed commodity markets lower in late-2022 but there has been a rebound since June, partially offset by a weaker US dollar. Hide value has been part of this rebound. However, in mid-August, a stronger pound than a year ago meant that hides were down 1% on 2022 in GBP while showing a 6% uplift in USD.

Exchange Rate Movements – UK interest rate rises supporting sterling, reducing the competitiveness of UK products

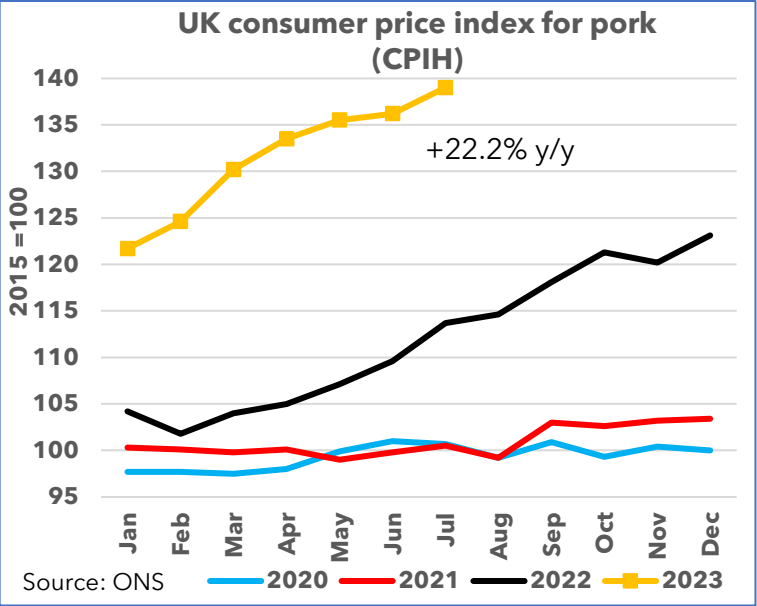
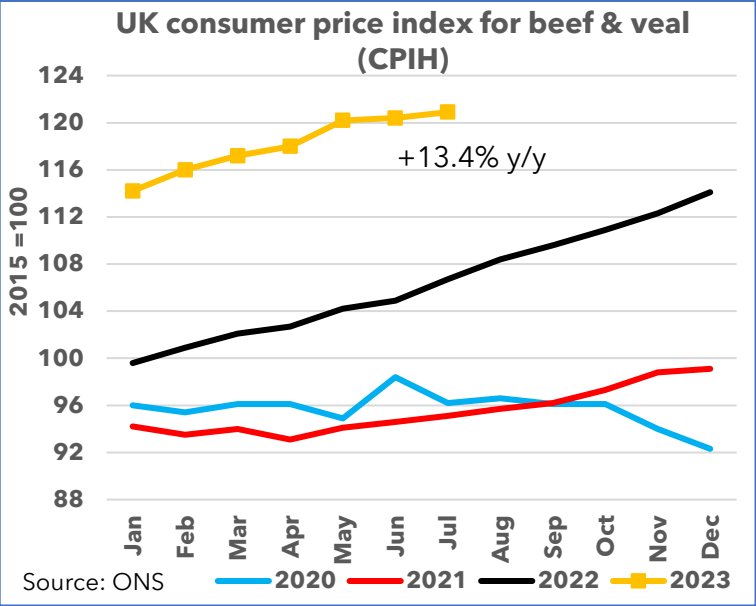


Sterling has been fluctuating within a relatively narrow range against the euro in recent weeks as financial markets react to economic data which either signals the potential for further UK interest rate rises (e.g. services price inflation or wage rises above expectations), or suggests rates may have peaked (e.g. weaker retail sales than expected). The Bank of England is of the view that price and wage-setting decisions have changed since the pandemic, biasing them to the upside, so they want to be overly cautious with interest rate policy to get inflation down towards the 2% target. This stance has ensured that sterling has remained firmer than it had been in spring 2023.



US economic data has remained relatively firm in 2023 but a slowdown in inflation has limited expectations for further interest rate rises, pressuring the dollar. A significantly weaker USD than a year ago has maintained downwards pressure on commodity prices and input costs, potentially also softening UK returns on dollar-denominated exports to non-EU countries. For example, an unchanged export price of \$5,000/t would have returned £4,170 in August 2022 but £3,930 in the first half of August 2023 (-6%).

Retail demand and prices - meat prices continue to show strong year-on-year increases, limiting sales volumes

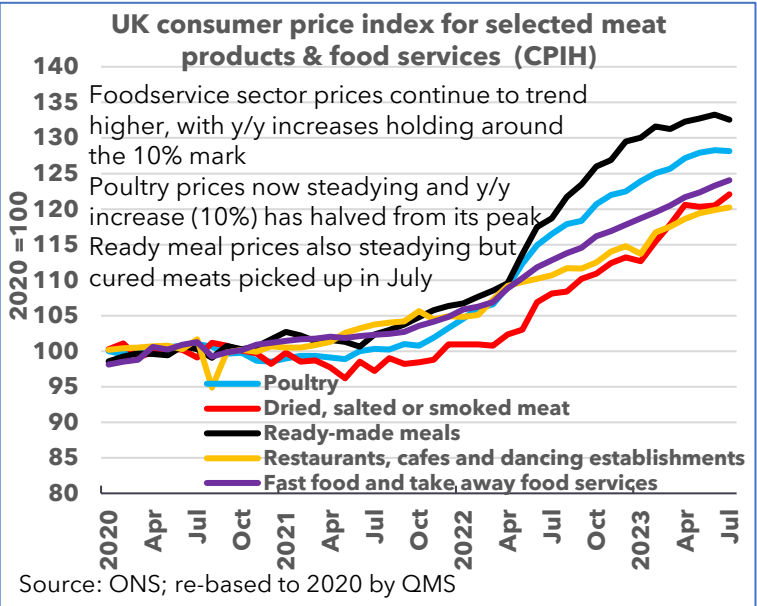
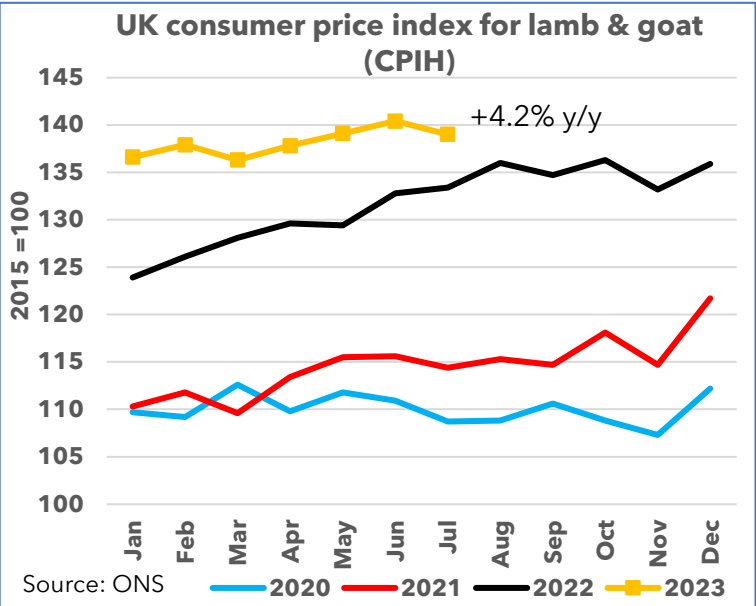


Retail demand remains firm overall with rising UK wages (+8.2% y/y in Q2) supporting the overall amount of money spent on groceries. However, sharply higher prices continue to limit sales volumes.

Early sales figures from the 12 weeks to early August point to some improvement compared to the period to early-July, though high inflation rates continued to limit beef and pork sales volumes.

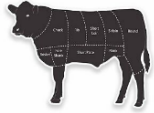
Lamb retail performance has been weak outside of festivals and remains an expensive protein despite its average price now slipping back.

Pork retail prices are rising fast as higher farmgate and import prices pass through the supply chain, squeezing sales volumes in line with tight supply.



| Y/Y change in GB retail sales reported by Kantar in 12 weeks to 6/8/23 | | | |
|--|--------|--------|--------------------|
| | Value | Volume | Avg price per kilo |
| Fresh beef | +13.3% | +0.9% | +12.3% |
| Fresh lamb | -2.8% | -1.7% | -1.1% |
| Fresh pork | +12.9% | -8.7% | +23.7% |
| Fresh poultry | +12.1% | +2.2% | +19.7% |
| Total grocery market | +10.4% | -2.3% | +12.9% |
| Source: Kantar | | | |

Retail demand and prices – meat prices continue to show strong year-on-year increases, limiting sales volumes and resulting in trading down



BEEF

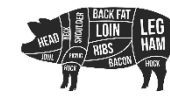
12 weeks to 9th July 2023



LAMB

12 weeks to 9th July 2023

Note: period of comparison for lamb includes the days immediately after Easter Sunday in 2022

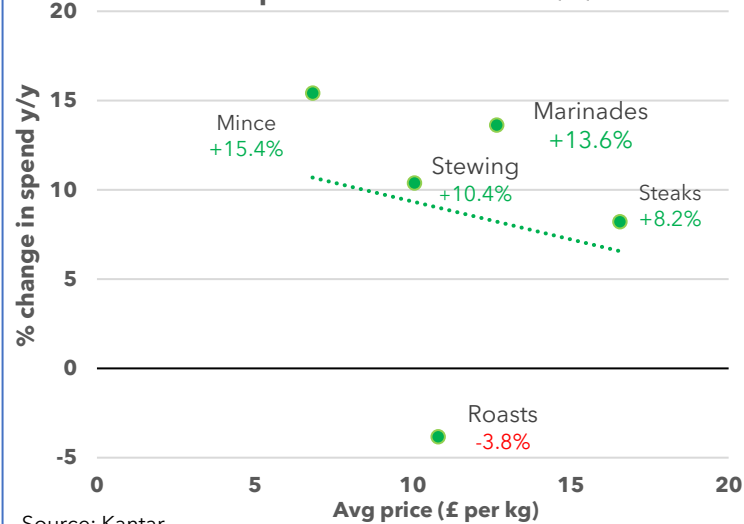


PORK

12 weeks to 9th July 2023

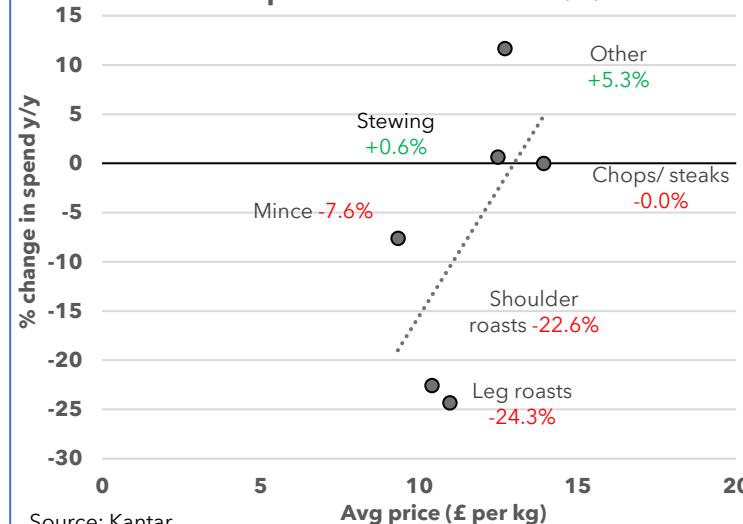
| | BEEF | | LAMB | | PORK | |
|-------------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | GB | Scotland | GB | Scotland | GB | Scotland |
| Value (£m) | 497.0 (+9.8% y/y) | 50.4 (+10.4% y/y) | 100.8 (-8.7% y/y) | 4.7 (-34.2% y/y) | 206.9 (+10.9% y/y) | 13.9 (+18.5% y/y) |
| Volume (t) | 51,069 (-2.8% y/y) | 5,020 (-2.9% y/y) | 8,476 (-7.8% y/y) | 391 (-33.9% y/y) | 31,952 (-9.5% y/y) | 2,127 (-2.0% y/y) |
| Avg price (£/kg) | 9.73 (+13.0% y/y) | 10.04 (+13.6% y/y) | 11.90 (-0.9% y/y) | 12.02 (-0.5% y/y) | 6.48 (+22.5% y/y) | 6.53 (+21.0% y/y) |
| Penetration* | 64.6% (-1.9% y/y) | 69.0% (+0.1% y/y) | 21.4% (-3.8% y/y) | 13.7% (-20.8% y/y) | 44.7% (-5.1% y/y) | 38.9% (-1.2% y/y) |
| Frequency** | 4.3 (-1.2% y/y) | 4.2 (-4.7% y/y) | 2.3 (-2.0% y/y) | 2.1 (-10.3% y/y) | 3.0 (-2.5% y/y) | 2.8 (+4.2% y/y) |

Relationship between GB household spending on beef and retail prices in 12 weeks to 9/7/23



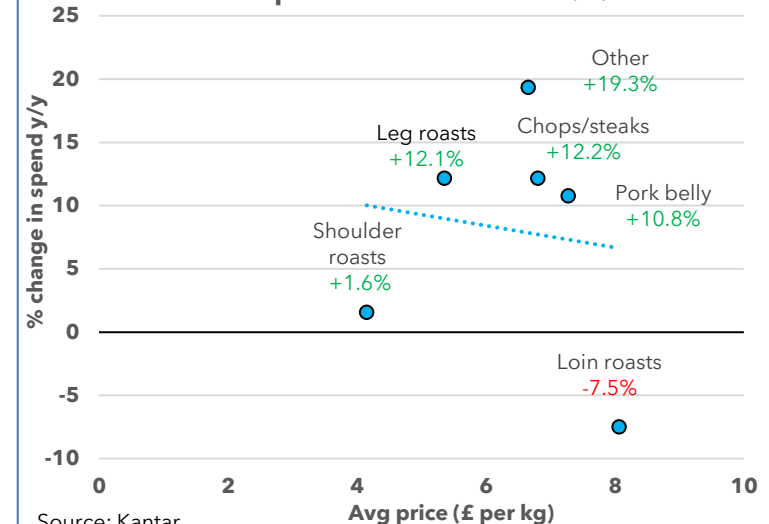
- Mince sales volumes coming under pressure from surging retail prices.

Relationship between GB household spending on lamb and retail prices in 12 weeks to 9/7/23



- Lamb leg sales surged around Easter but dropped sharply afterwards.

Relationship between GB household spending on pork and retail prices in 12 weeks to 9/7/23



- Pork belly and 'other' cuts performing best on volume due to slower price rises.

Data covers sales of fresh and frozen unprocessed red meat

*Penetration % - Number of households/individuals that bought at least once in the time period as a percentage of total households/individuals.

**Frequency - Average number of purchase trips per buyer in the time period.

Economic indicators – mixed picture with business surveys pointing to little activity growth and reported employment levels declining but wage growth is now out-pacing inflation and sentiment remains better than in autumn 2022.

