

QMS Monthly Market Update

June/July 2023

Purpose:

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

Prepared By:

Iain Macdonald, Market Intelligence Manager

Abby Tong, Category Specialist

Contact: info@qmscotland.co.uk

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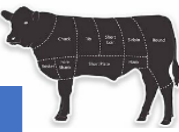
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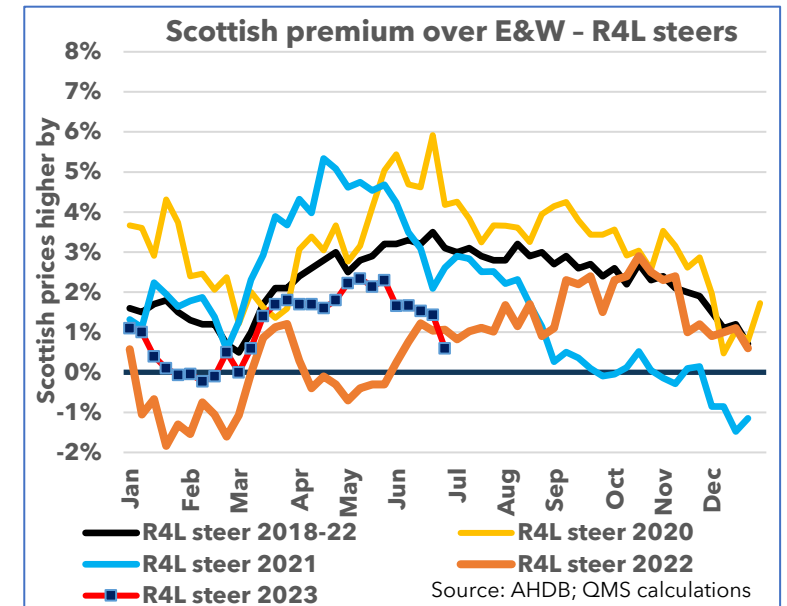
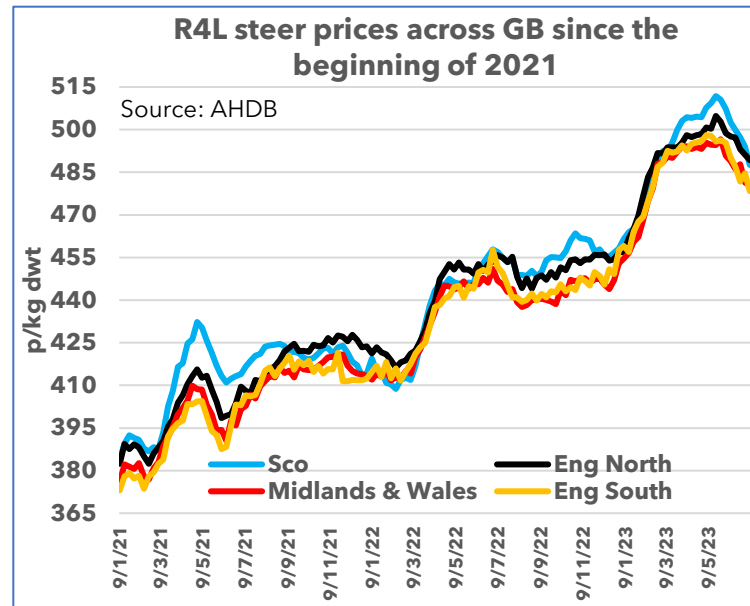
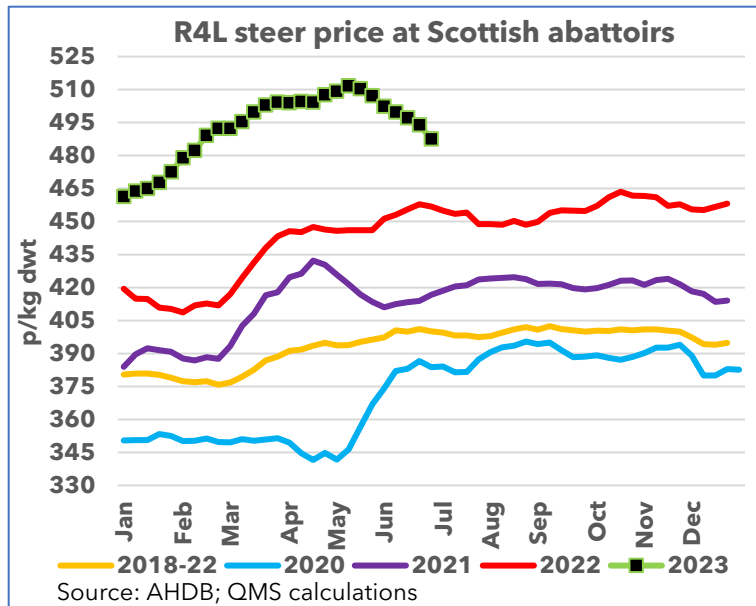
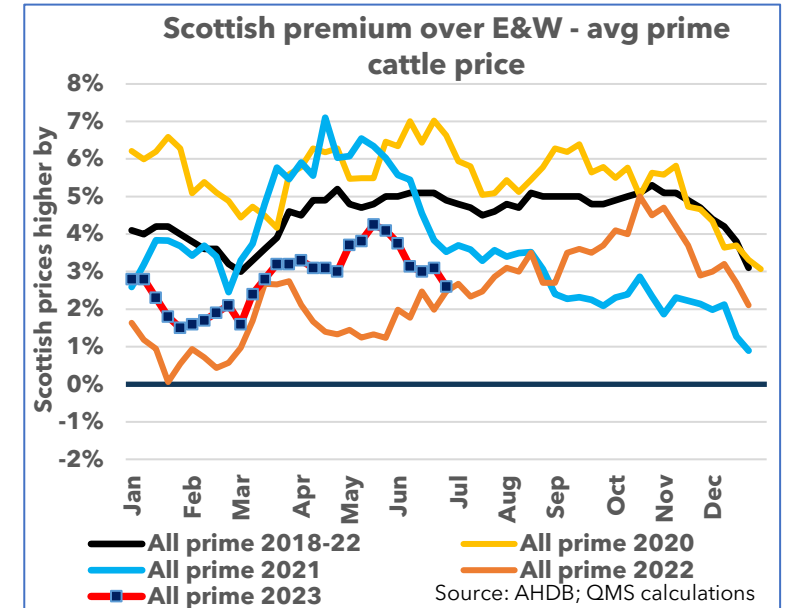
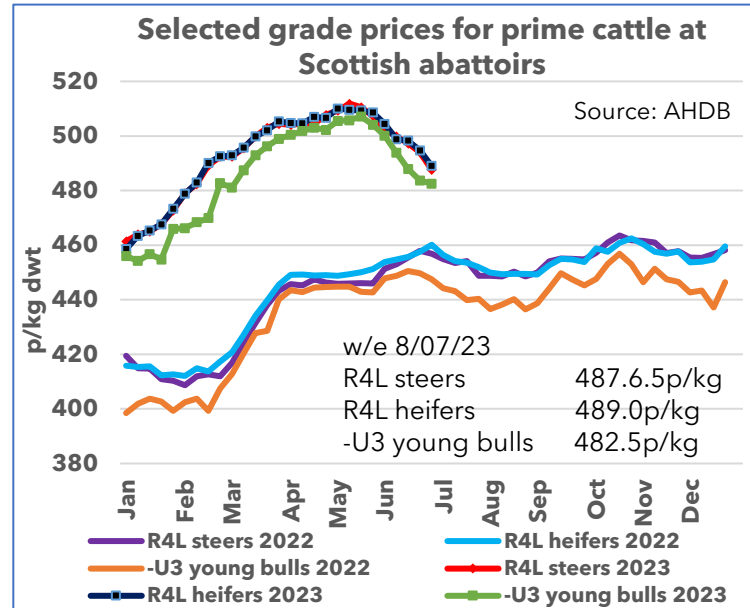
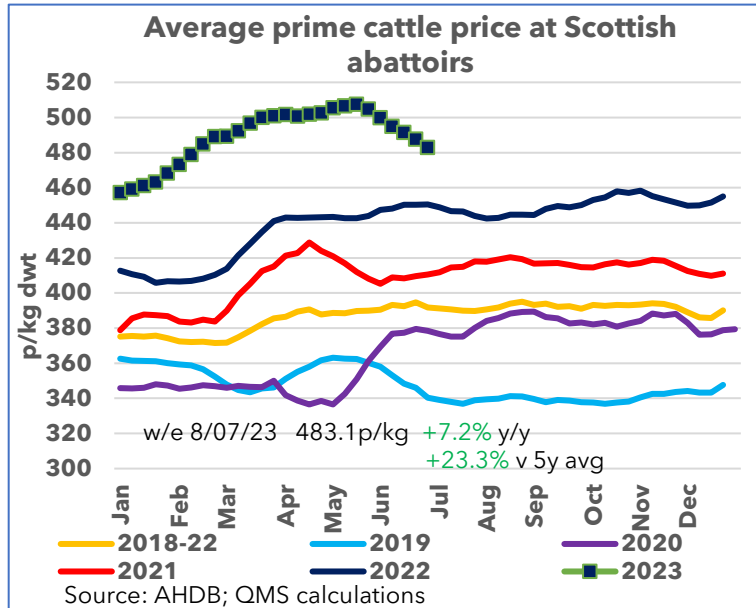
Summary of market developments – beef market



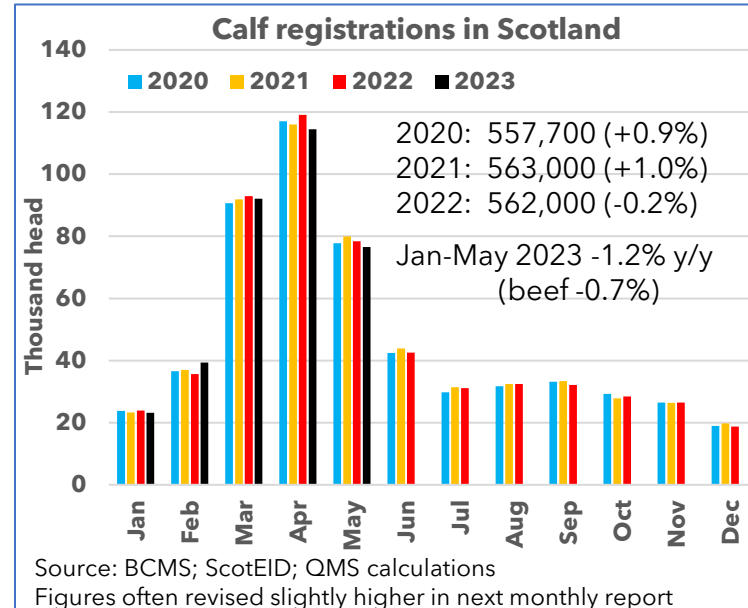
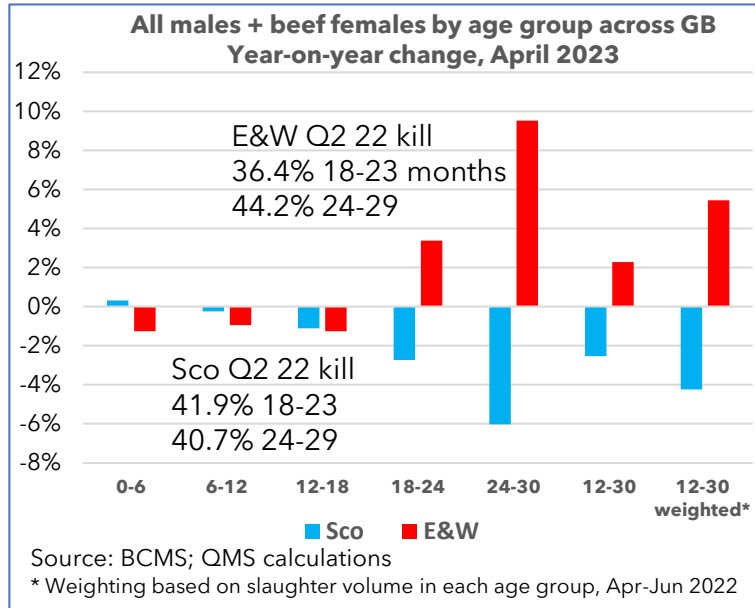
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
R4L steer price at Scottish abattoirs	p/kg dwt, w/e 8 July	487.6	-6.4p	-3.0%	+6.7%	+21.9%
Prime cattle slaughter at reporting Scottish abattoirs	Average in four weeks to July 8, head procured deadweight	5,301		-8.1%	-16.4%	-19.8%
Cull cow slaughter at Scottish abattoirs	Total in four weeks to July 1,	4,702		+1.1%	-6.9% (-346 head)	-2.4%
UK beef market supply	Tonnes in Apr-Jun 2023 (estimate)	254,700			-0.2%	-0.8%

- After a prolonged period trending higher, prime cattle prices have fallen back significantly at Scottish abattoirs since late-May. Increases over last year and the five-year average have slowed but remain firm at around 7% and 23%, respectively. Cow prices have also fallen sharply, against the seasonal trend, pointing to challenges in the market for manufacturing grade beef.
- There is likely to have been a short-term increase in prime cattle availability on Scottish farms, but this should begin to reverse as supplies of spring-2021-born cattle fall back over the summer. 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.
- While below its peak, weekly slaughter at the large price reporting abattoirs in E&W has remained at a seasonally firm level in June and early-July. BCMS data from April points to 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 June and July.
- While EU and global beef supply is tight in 2023, the EU market has softened from the highs of 2022 and early-2023, reducing the previous level of support to UK import and export prices, while a lift in sterling has added to the downwards pressure. Falling wholesale beef prices in China also point to downwards pricing pressures in the global market.
- BCMS data for April showed that the decline in the number of beef-sired females aged 30 months and over on Scottish holdings accelerated slightly to -3.6% year-on-year. A smaller 1.2% year-on-year reduction in calf registrations in the first five months (-0.7% for beef-sired) of 2023 points to a smaller impact on future prime cattle supply.

Farmgate prices - prime cattle have softened significantly from their peak



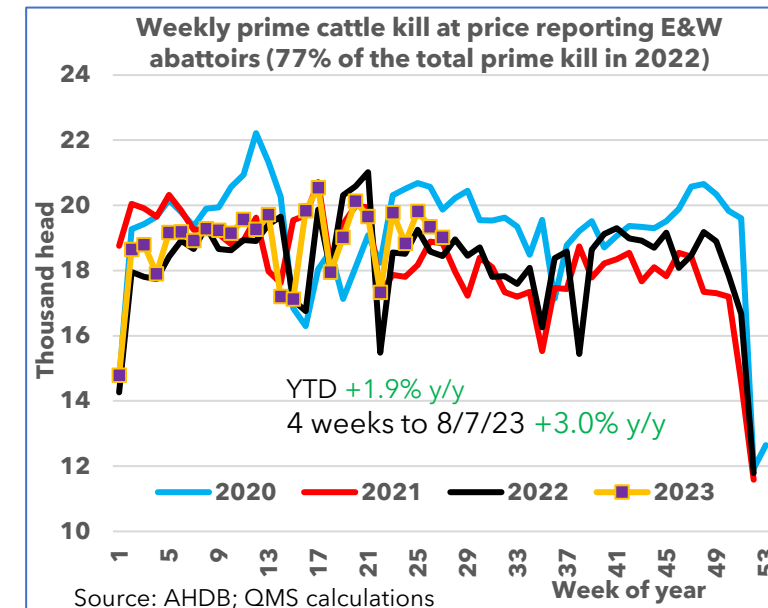
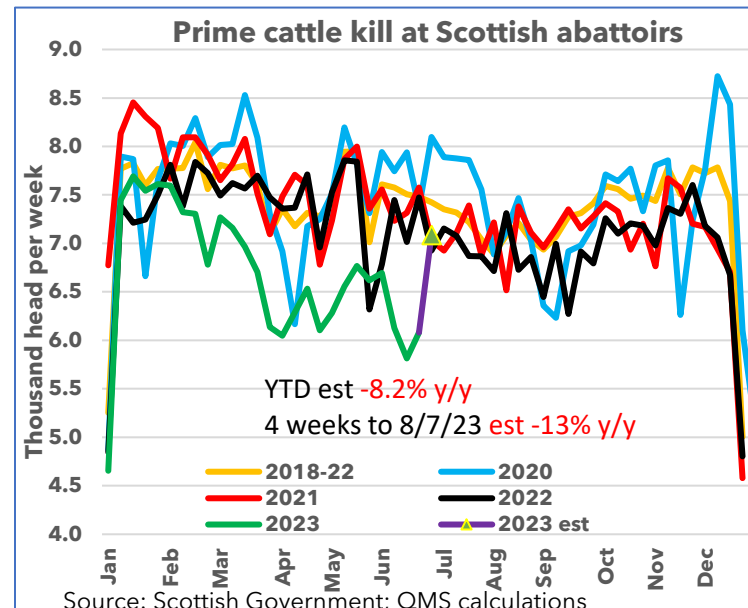
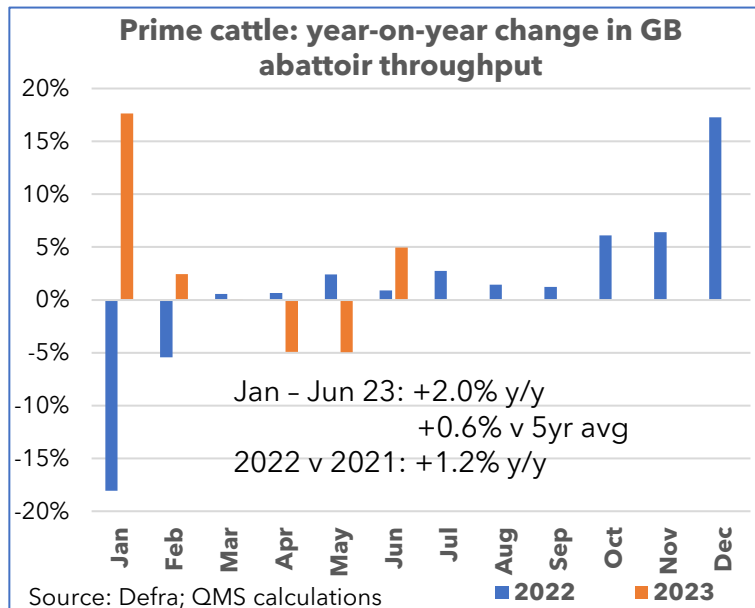
Availability and slaughter – yet to see a summer slowdown



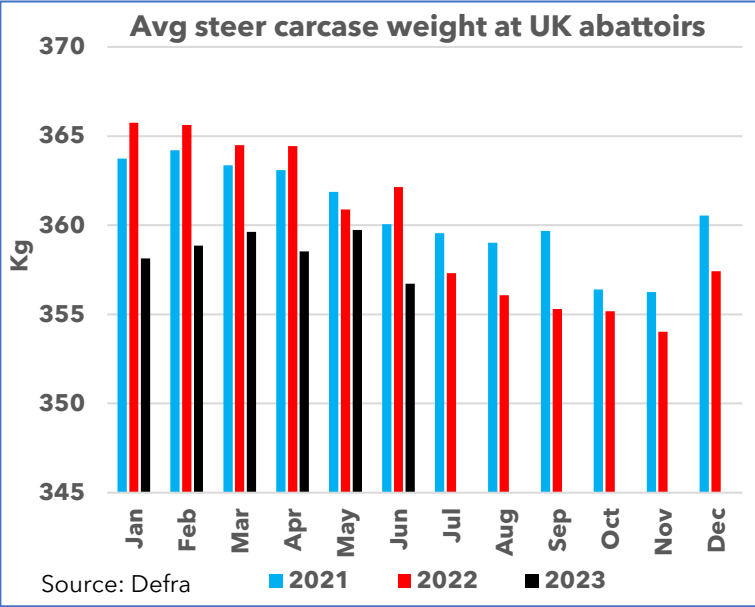
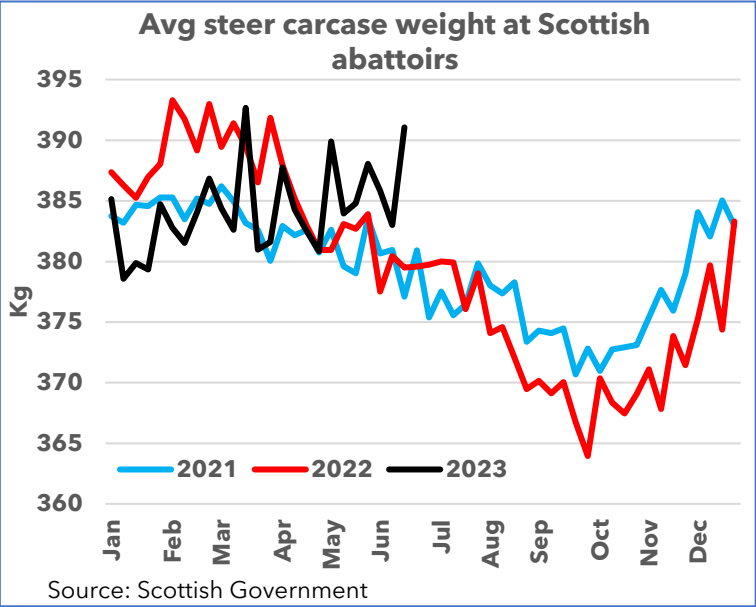
BCMS cattle population data for April highlighted a continuing year-on-year shortfall of prime cattle supply in Scotland, with the number of males and beef-sired females aged 12-30-months down 2.5% year-on-year. The divergence with England & Wales continued, where numbers were 2.3% higher than in April. 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.

Slaughter numbers in Scotland have been reduced by supply chain challenges as well as tight supply but unusually reached their highest since March at the beginning of July. South of the border, the weekly kill at the price reporting abattoirs held relatively firm through June and into July but has not risen as much as expected relative to 2022 given increased numbers on farm.

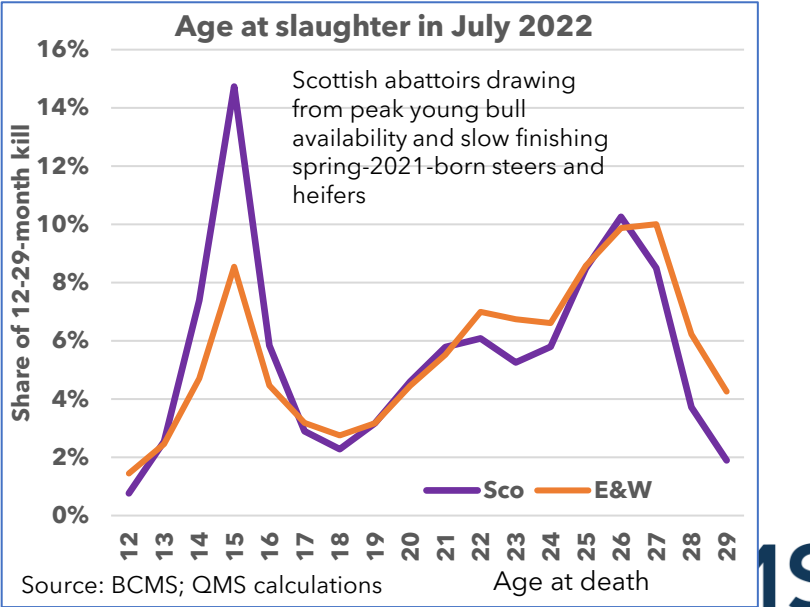
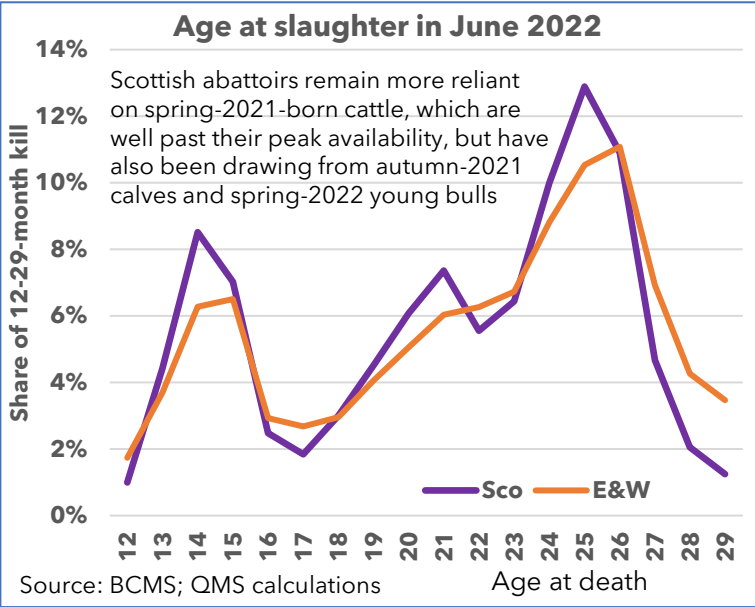
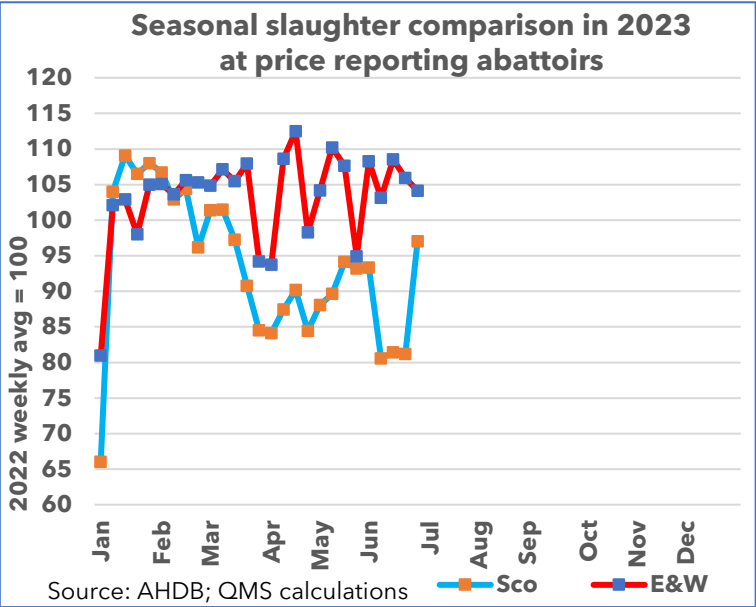


Seasonality of production - short-term uplift in availability while weights have risen against the seasonal trend

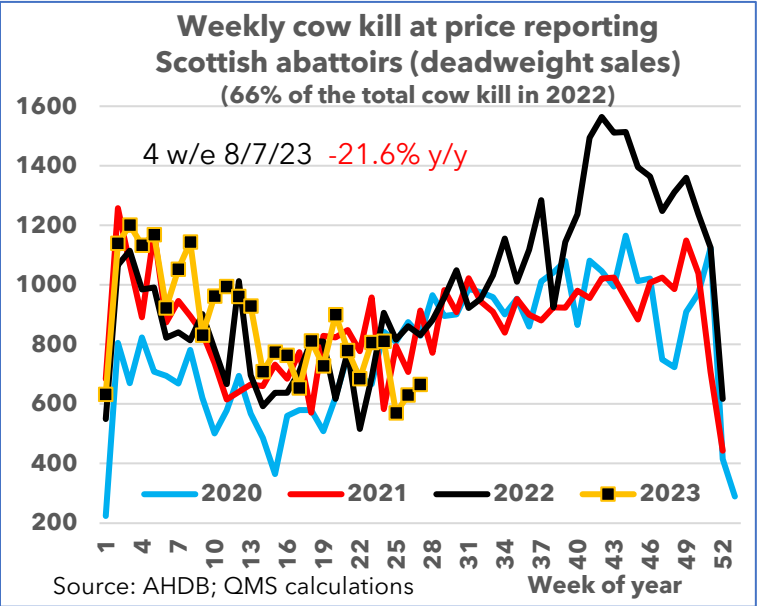
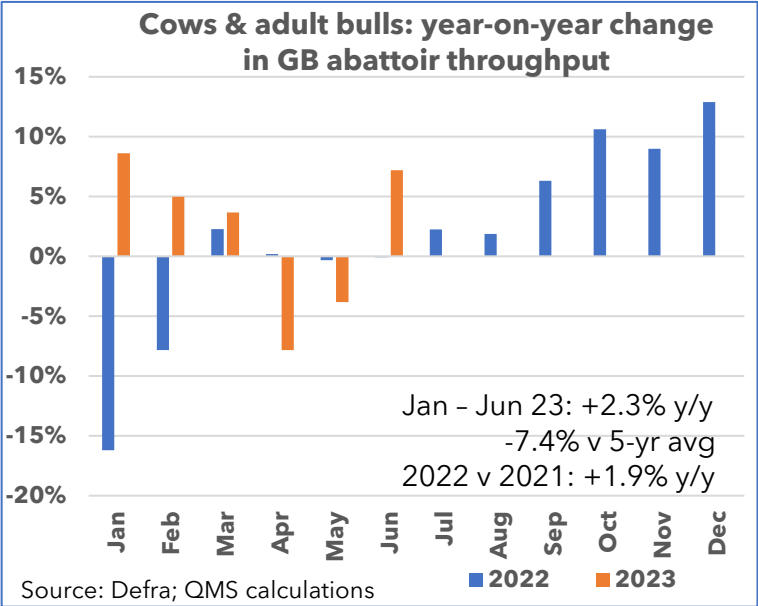


In theory, availability for slaughter should be tightening seasonally in Scotland, with the peak young bull selling period partially offsetting the summer slowdown. However, supply chain challenges may have had some impact on the timing of slaughter this year.

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.



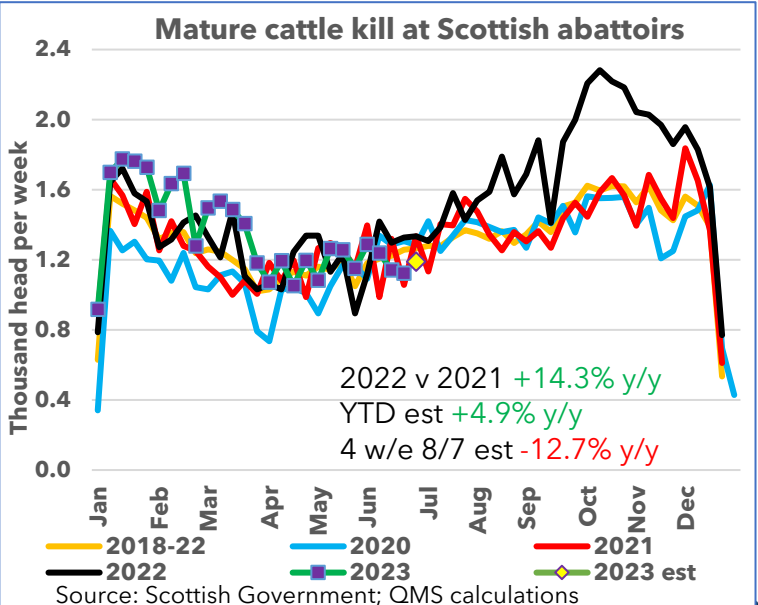
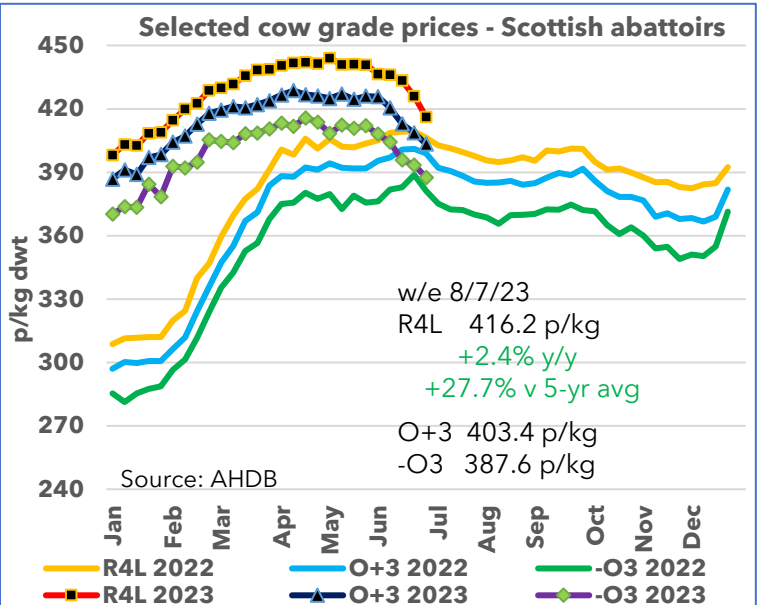
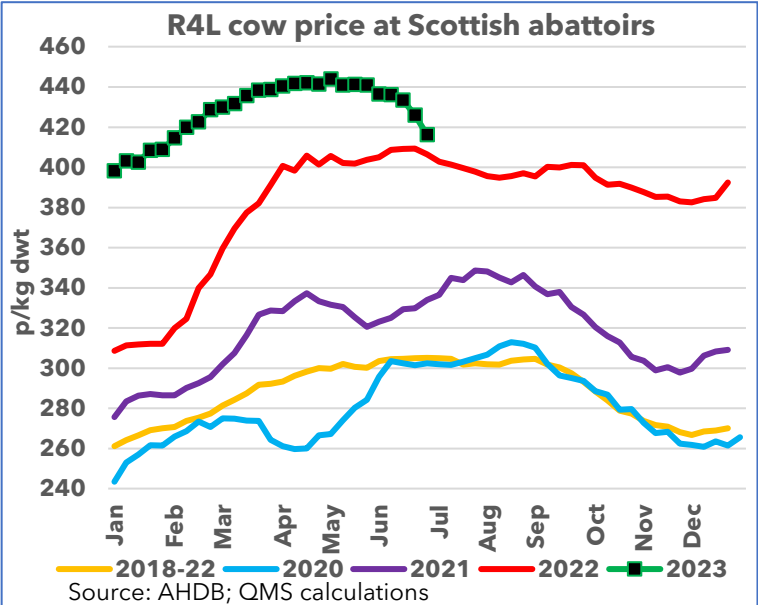
Mature cattle market – significant downwards movement, against the seasonal trend



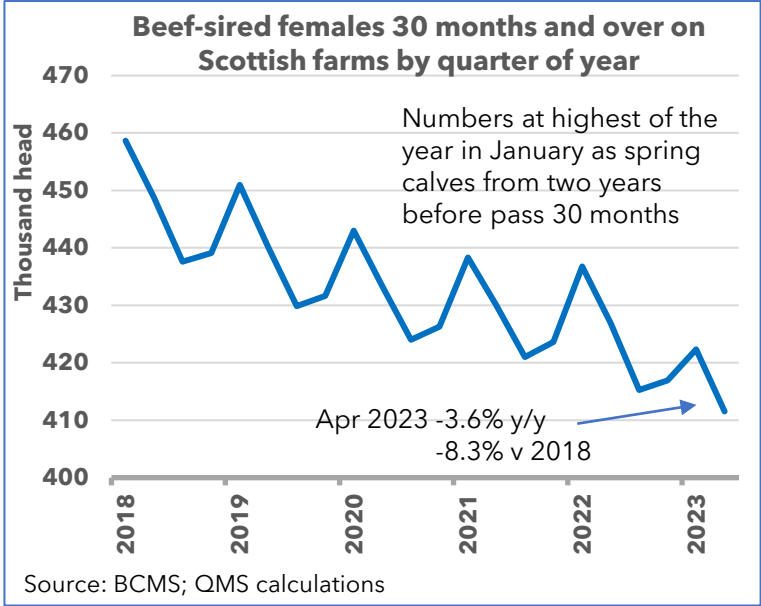
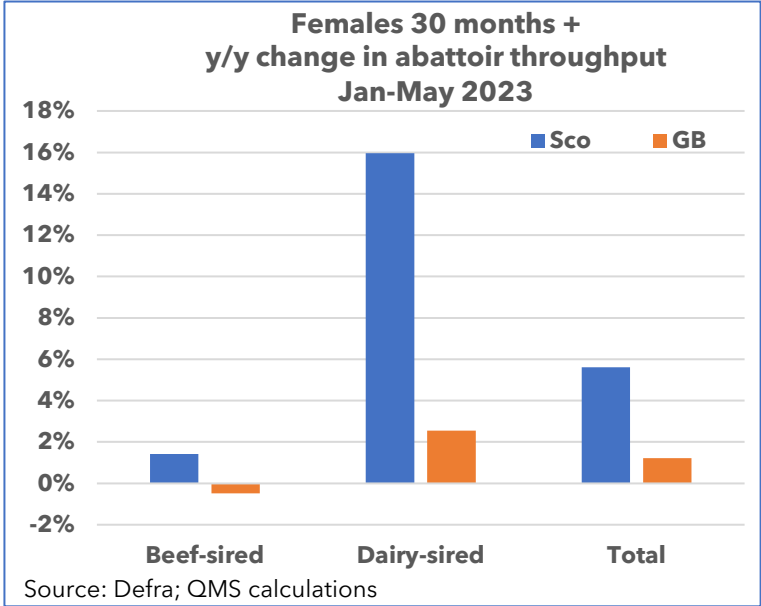
After showing seasonal stability in April and May at Scottish abattoirs with slaughter numbers at a seasonal low point, cull cow grade prices fell sharply back towards 2022 levels in the second half of June and start of July, signalling headwinds in the market for manufacturing grade beef.

While the gap between prime cattle and cow prices has widened in 2023, it remains much smaller than pre-2022 (see chart on page 7), and prices for the R4L grade have come close to Irish steer prices in June and July.

The cow kill is estimated to have been around 2,000 head higher than 2022 in the first five months of 2023 at Scottish abattoirs. Though, with less than half of the increase in the January to May period from the beef herd, further beef herd decline has been limited.



Herd reduction continuing 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%

Source: BCMS; QMS calculations

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%

Source: BCMS; QMS calculations

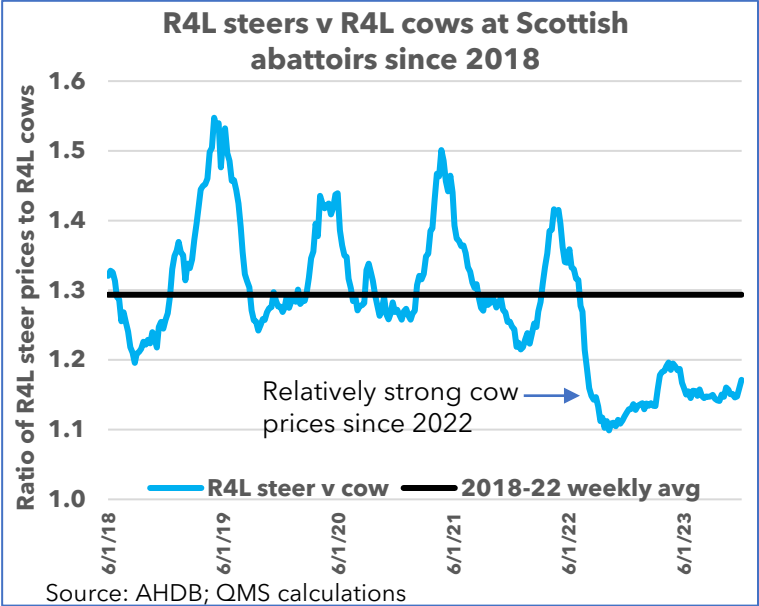
December 2022 breeding herd - females over 2 years old that have calved (y/y change)			
	Dairy	Beef	All
Scotland	-0.3%	-3.3%	-2.4%
England	-0.6%	-2.9%	-1.5%

Source: Defra; Scottish Government; QMS calculations

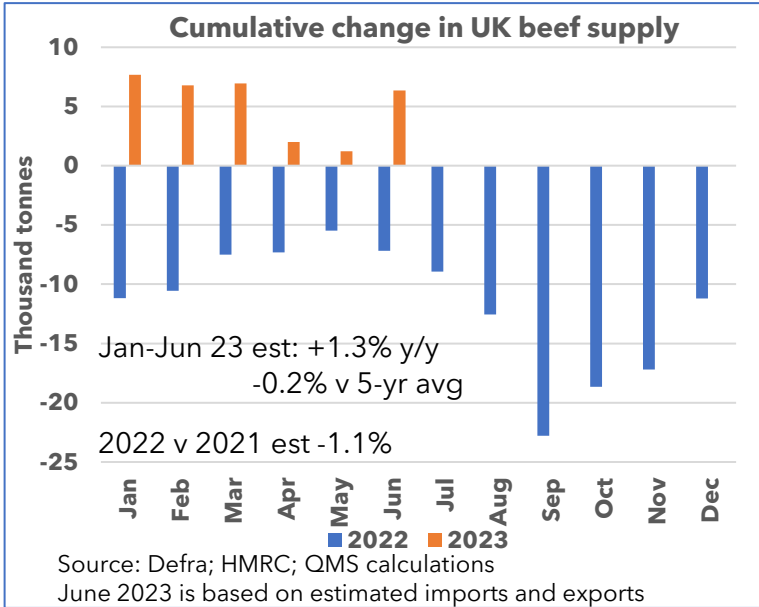
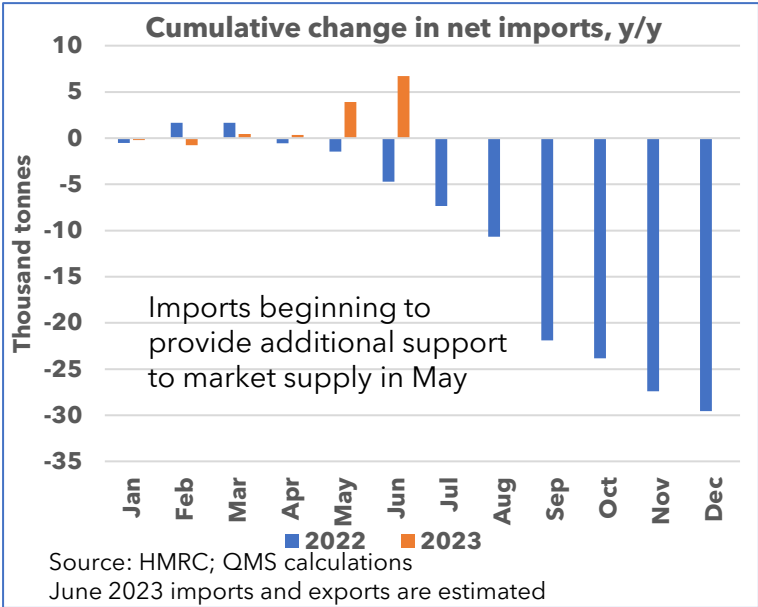
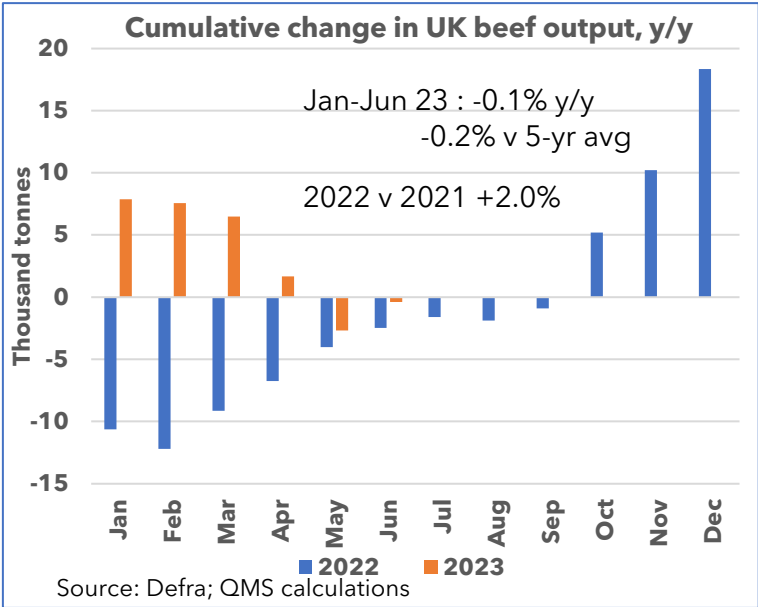
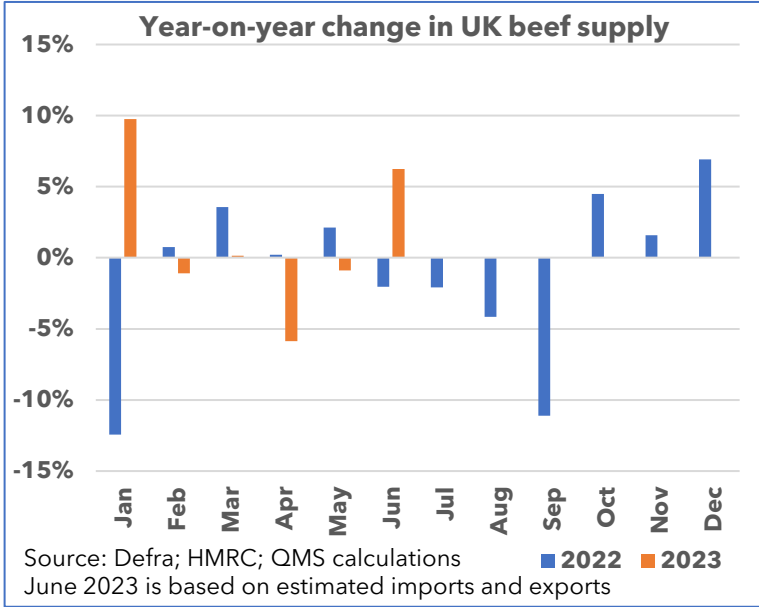
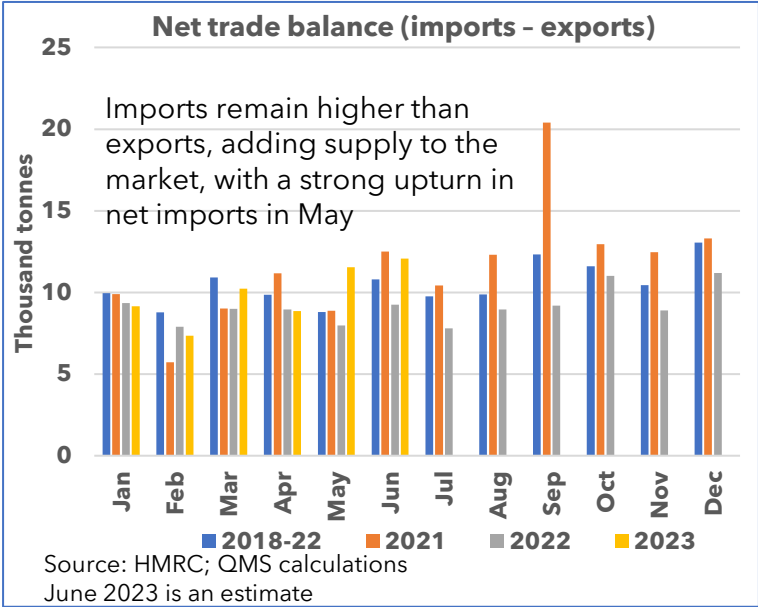
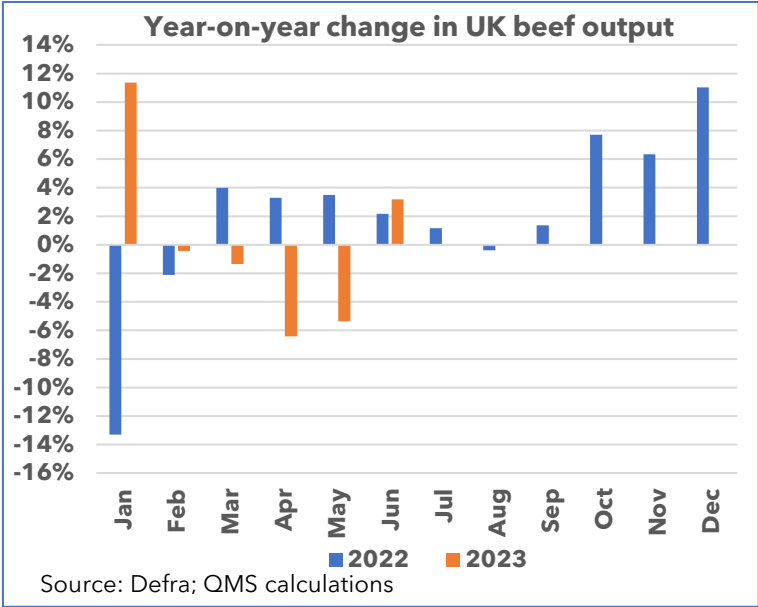
In April 2023, the number of beef-sired females aged 30 months and over in Scotland was down by 3.6% year-on-year, with a fall of 15,400 to 422,300 head.

This decline reflects a strong increase in cow slaughter in the second half of 2022 at Scottish abattoirs, plus a reduced cohort of beef-sired heifers available to be added to the breeding herd.

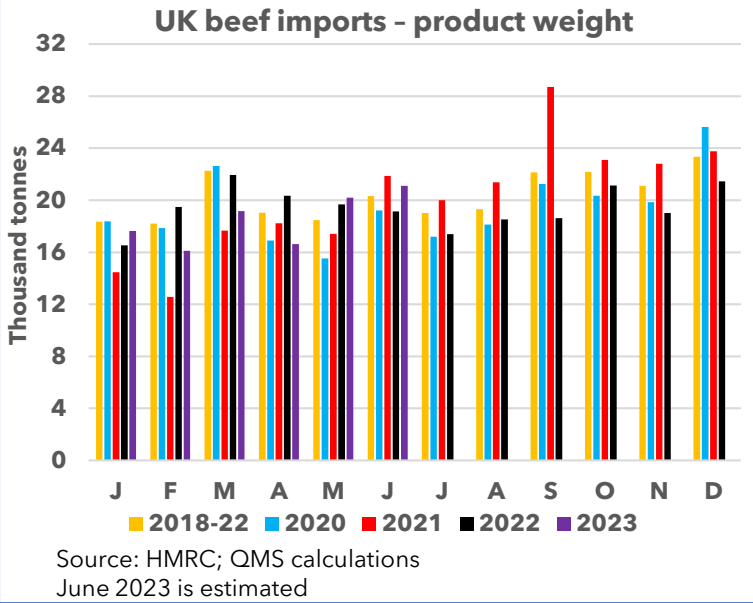
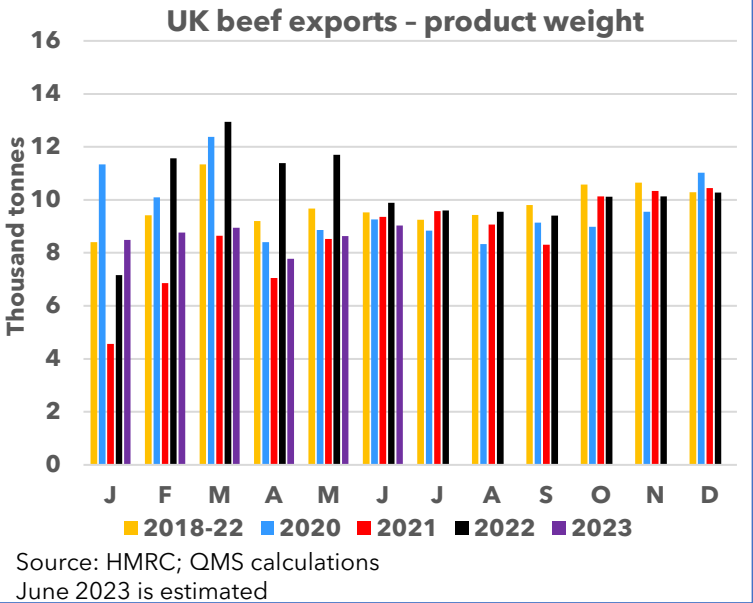
Cull cow slaughter continued to show significant year-on-year increases during Q1 2023, supported by attractive cull cow price levels, but there have been signs of a slowdown since, with the kill of over 30-month females falling behind 2022 in April and May across GB. In Scotland, dairy cows underpinned the lift in kill in the first five months of 2023.



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



A focus on UK international trade in beef – firm May for imports



In spring 2023, UK beef export volumes lagged well behind the highs of spring 2022, and were more similar to 2020 and 2021 levels, though at significantly higher average prices.

As had been the case for much of 2022, shipments to the EU continued to out-perform non-EU markets, falling by 23% year-on-year in May compared to a near-halving of non-EU trade. EU trade also remained well above the lows of 2021.

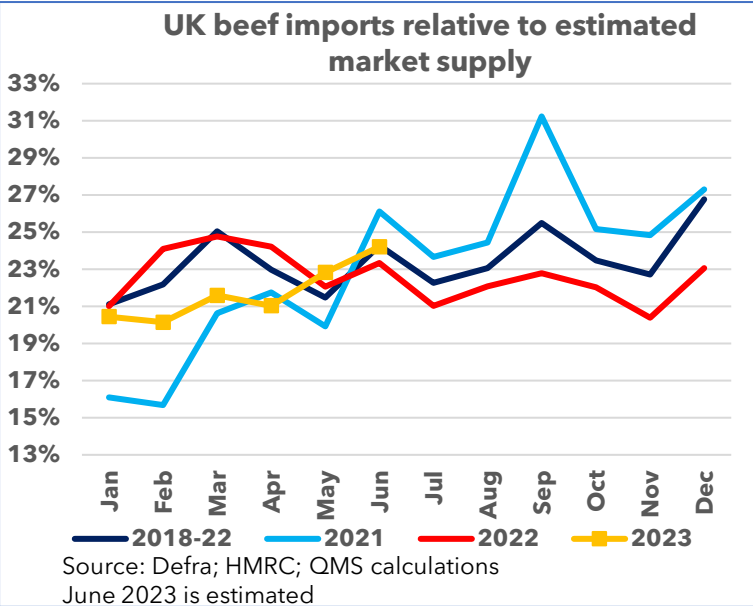
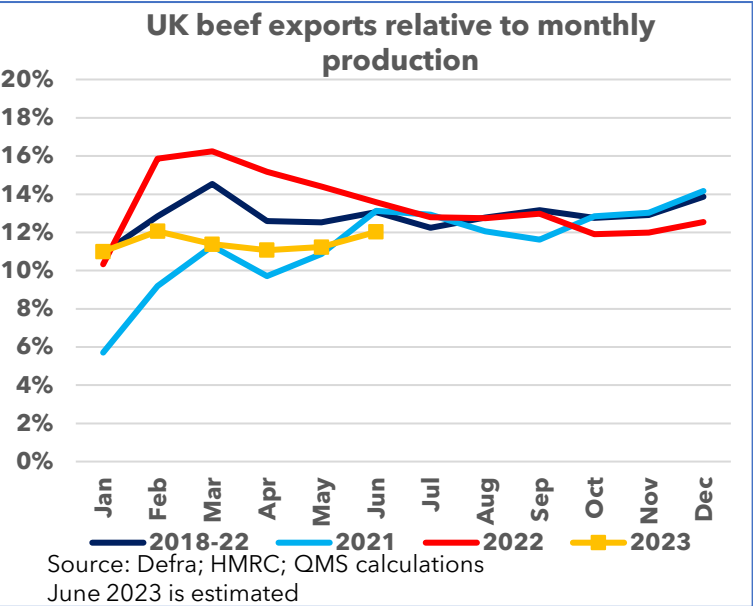
After a weak opening third of the year, beef imports pushed 13% above year-earlier levels and 8% above the five-year average in May. Imports from the EU were still down, but the gap narrowed to 1%, while shipments from non-EU sources showed a second month of year-on-year increase, more than doubling, largely driven by product from Brazil.

The EU share of UK trade in volume during January to May 2023 was 95.4% for imports and 90.3% for exports.

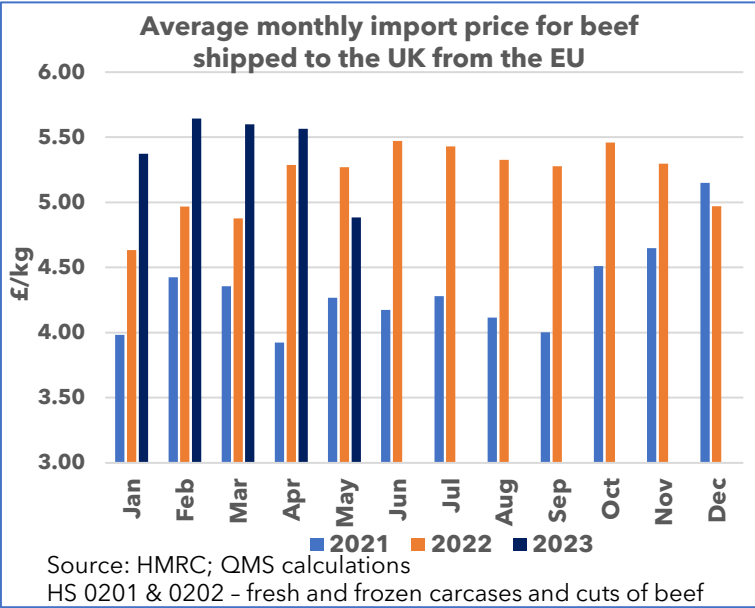
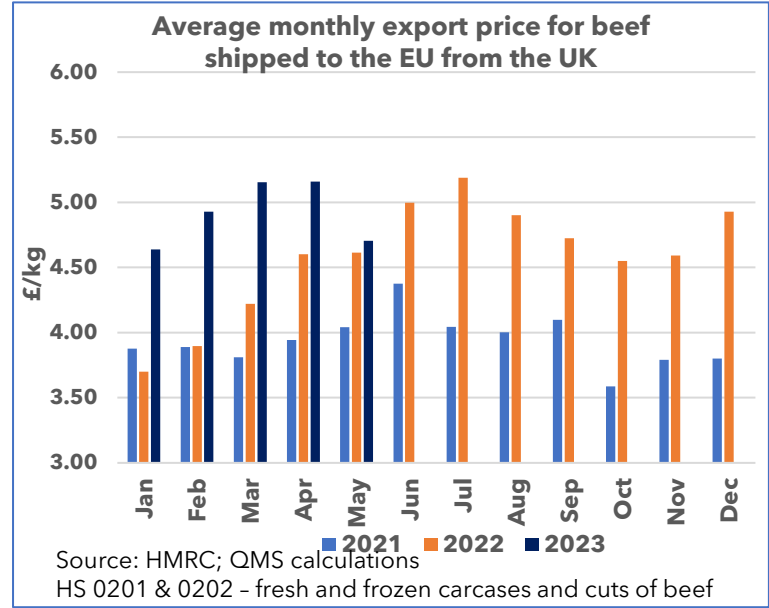
Note:

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

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

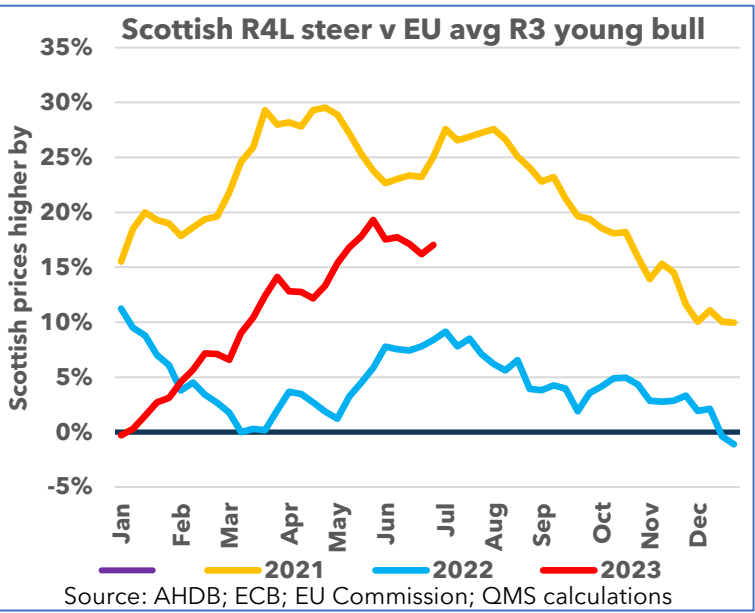
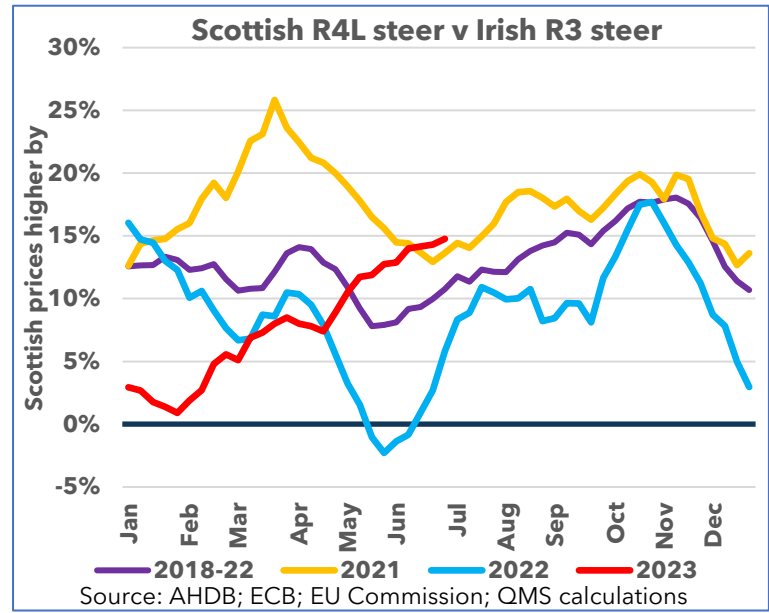


Variables influencing international trade in beef – import and export prices already under significant downwards pressure in May



Irish prices have been falling sharply despite slaughter remaining at a seasonally low level and Scottish prices have widened their lead over Irish levels despite also sliding. In early July, Irish R3 steer prices were down 2% year-on-year.

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. Scottish R4L steer prices have opened a 17% lead over the EU average for R3 young bulls, up from 8% in July 2022 but still below the 25% reached in early July 2021

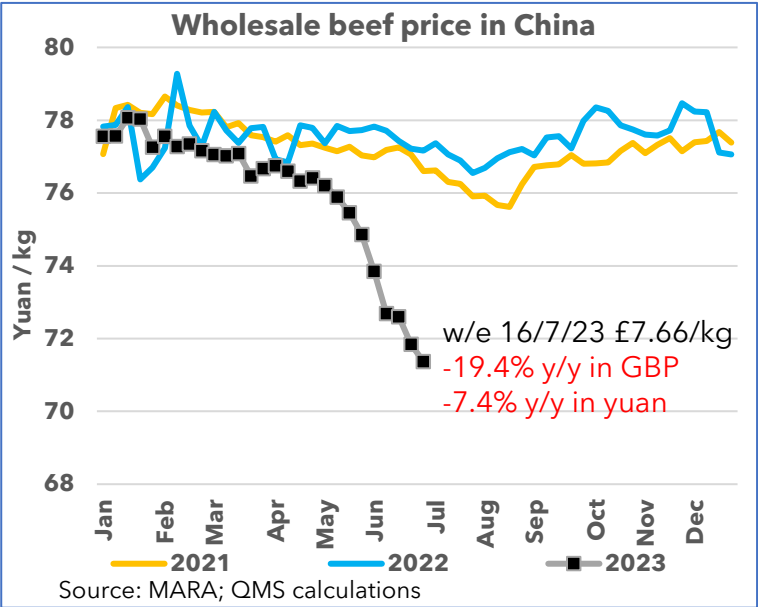
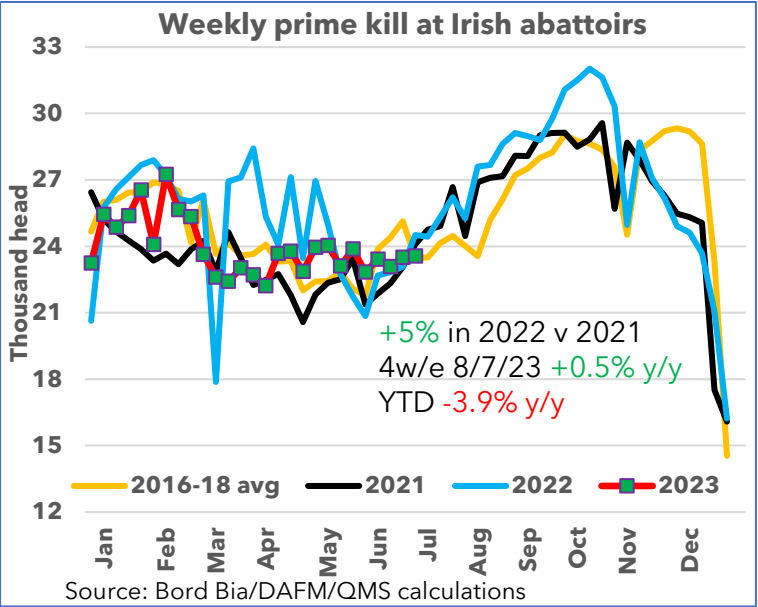


Selected EU cattle prices for R3 males, converted from euro to p/kg dwt			
	Week 27 2023	Week 23 2023	Week 27 2022
Germany (young bull)	394.9	396.6	415.7
Netherlands (young bull)	339.2	383.5	448.6
Spain (young bull)	451.2	452.5	430.2
Poland (young bull)	387.5	408.5	391.8
Irish Republic (steer)	424.9	445.2	431.8
For comparison: Scotland R4L steer	487.6	502.5	456.9

Source: AHDB; EU Commission; LMC; QMS calculations

Please note that a +0.6% adjustment has been made to EU prices to reflect different spec and the weekly average exchange rate is sourced from the ECB

Variables influencing international trade in beef

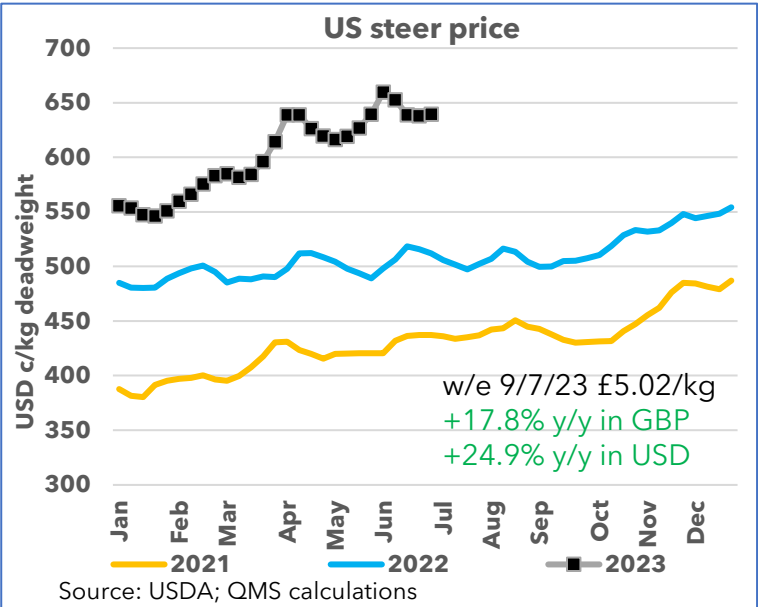


In the Irish Republic, downwards pricing pressure has come despite slaughter remaining at a seasonally low level, although numbers did rebound year-on-year through June. December population data from Ireland pointed to increased numbers in the slaughter pool for 2023, though with the potential for some 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 has led to a build-up of product in China, reducing wholesale prices by 6% since late-May. However, the US market remains firm due to tight supply.

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%

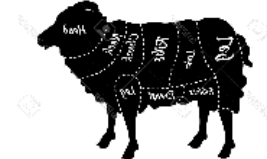
Source: CSO



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

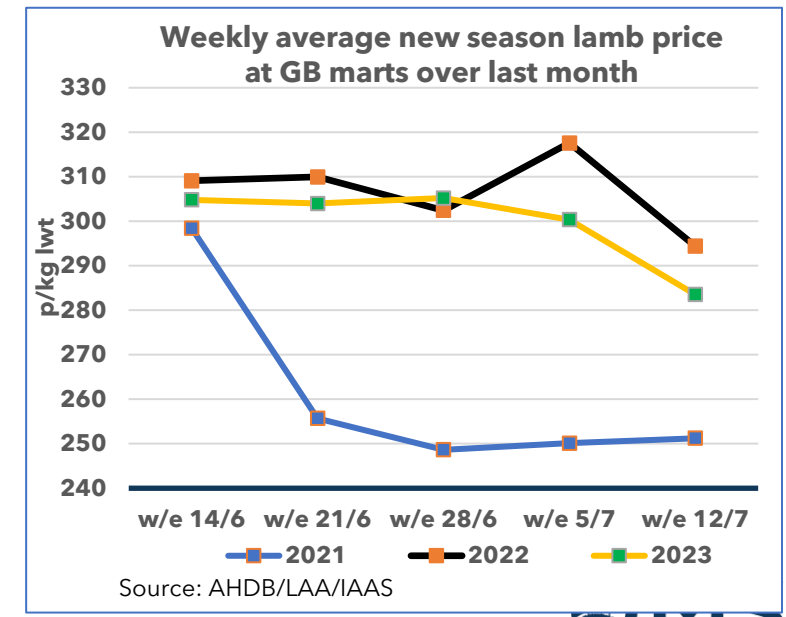
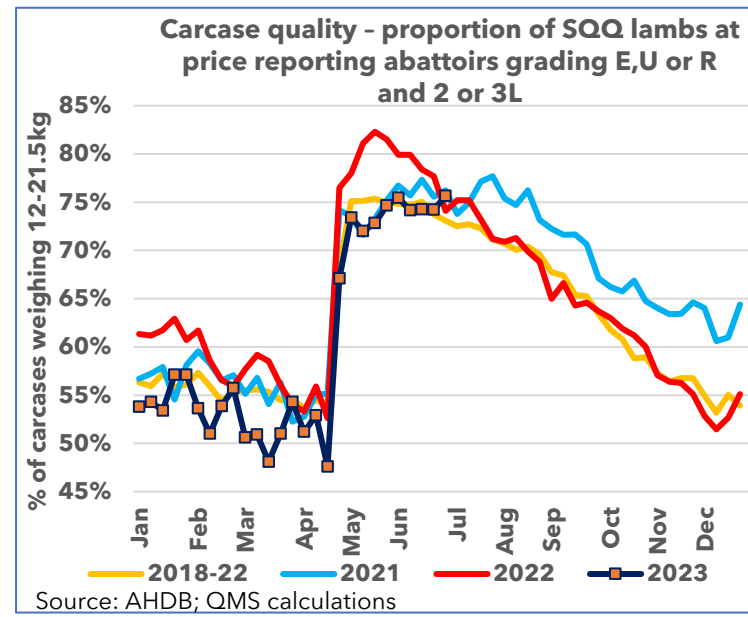
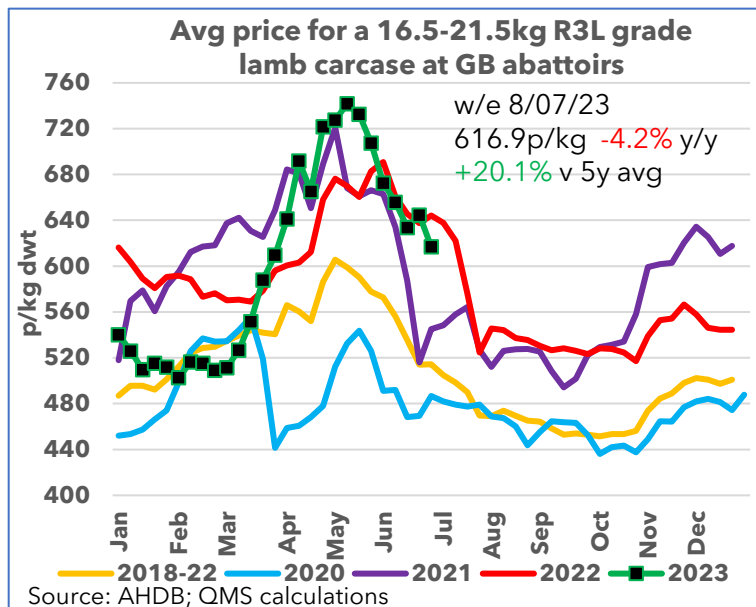
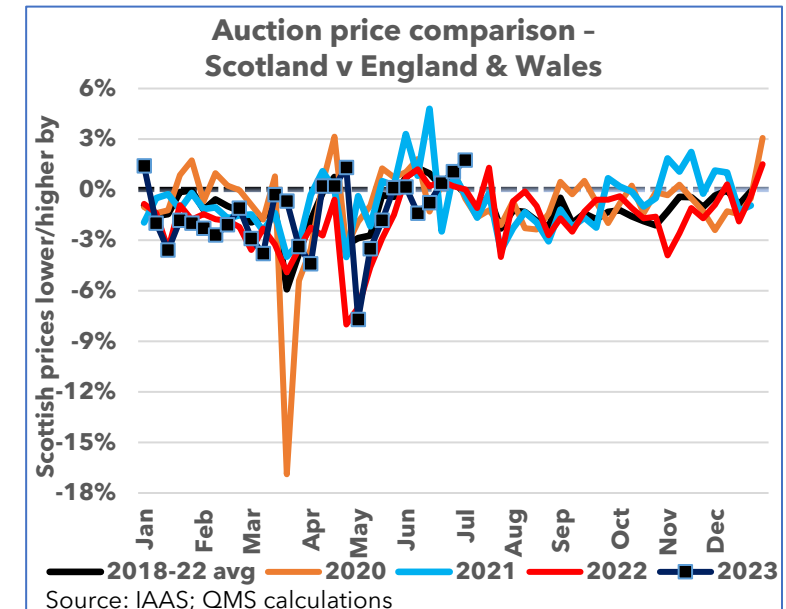
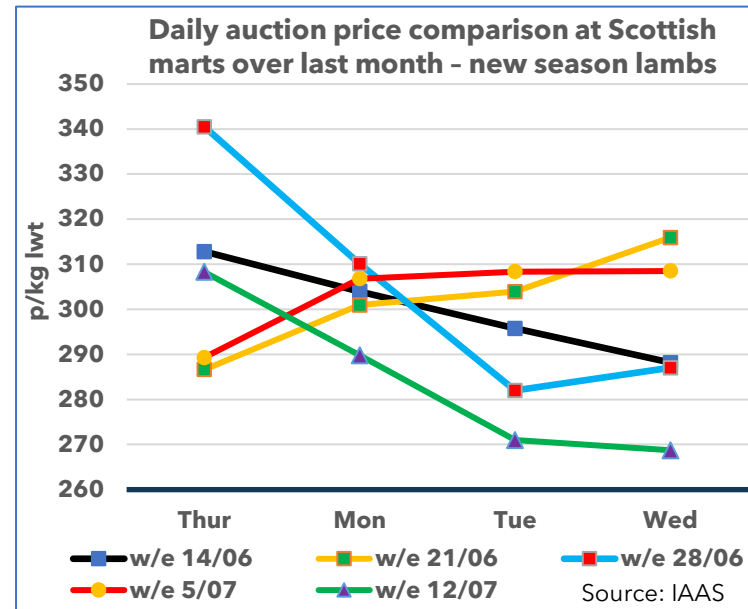
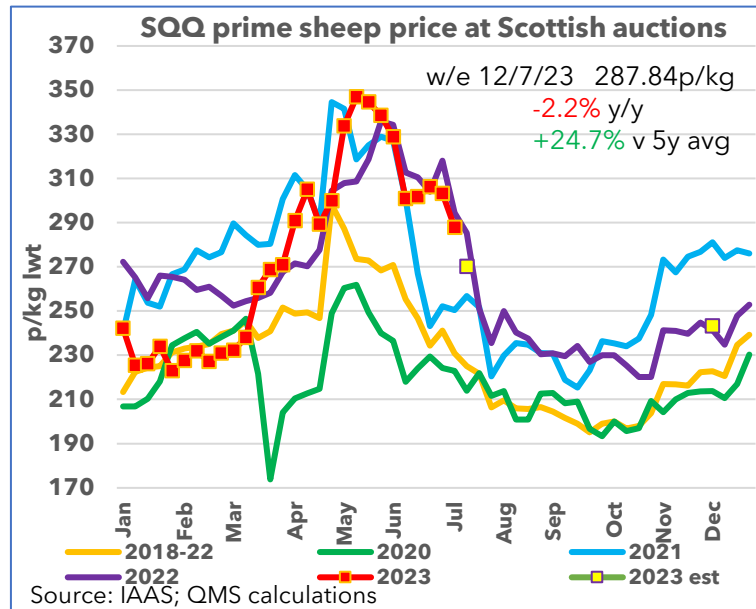
Summary of market developments – sheep market



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 12 July	287.84p/kg	-15.39p	-4.3%	-2.2%	+24.7%
New season lamb marketings at Scottish auctions	Average in four weeks to July 12, head	8,694		+188%	-11.2%	-0.9%
Total lamb marketings at GB auctions	Average in four weeks to July 12, head	102,704		+1.9%	+1.2%	+5.0%
UK sheepmeat market supply	Tonnes in Apr - June 2023 (estimate)	63,700			-10.3%	-3.3%

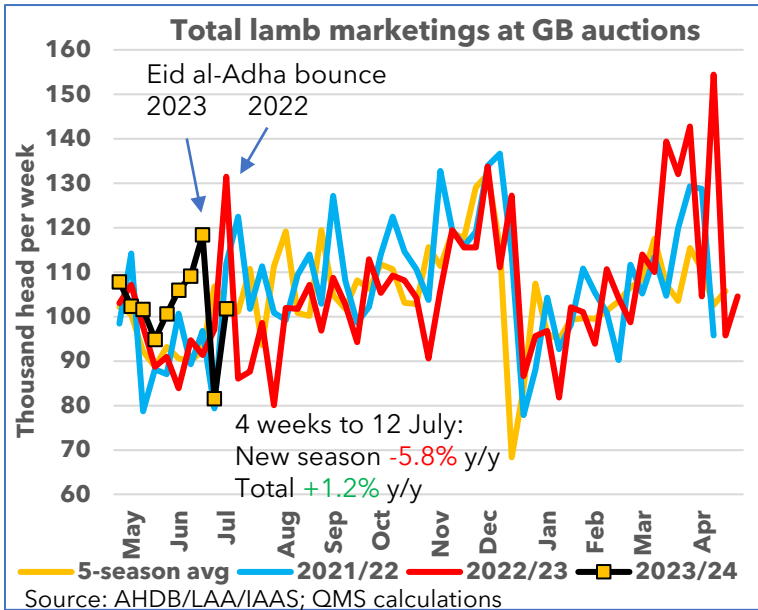
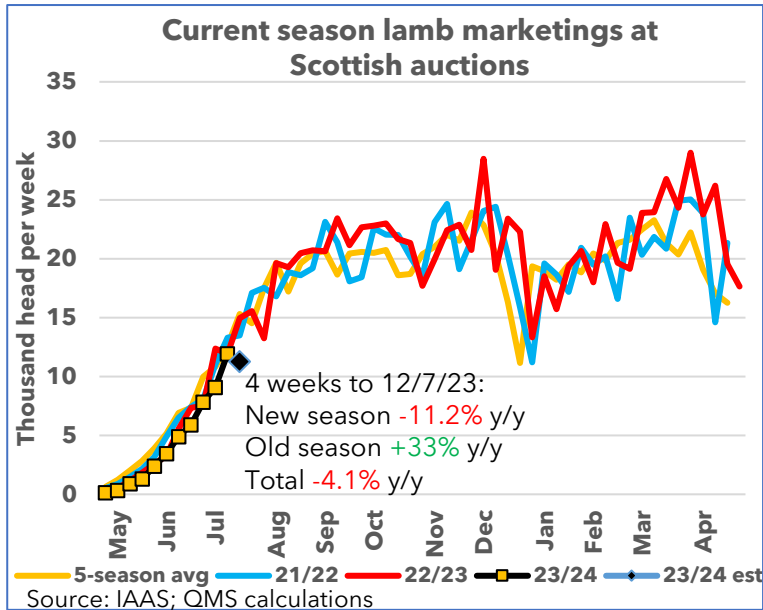
- After some resurgence around Eid al-Adha in late-June and early-July, auction prices for new season lambs have fallen back significantly as supplies pick up, slipping towards the 260-270p/kg lwt level in mid-July. Lamb prices have continued to track slightly behind 2022 levels but have remained 20-25% above the five-year average.
- While new season supplies have been building more slowly than in previous years, increased hogg availability continued to support overall lamb availability at GB level in June, but hogg supplies have now dwindled.
- 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 should have 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 sales data indicates that lamb has been weak outside of Christmas and Easter, suggesting that it may have become even more of a festival treat than in the past.
- UK lamb imports have continued to run well behind year earlier levels in 2023, with a very limited seasonal lift at Easter. Combined with positive export opportunities, this has ensured that market supply has remained tight in 2023, supporting lamb prices despite soft domestic demand and a weakening global market.

Farmgate prices - prime sheep - seasonal decline underway following support from Eid al-Adha in late-June



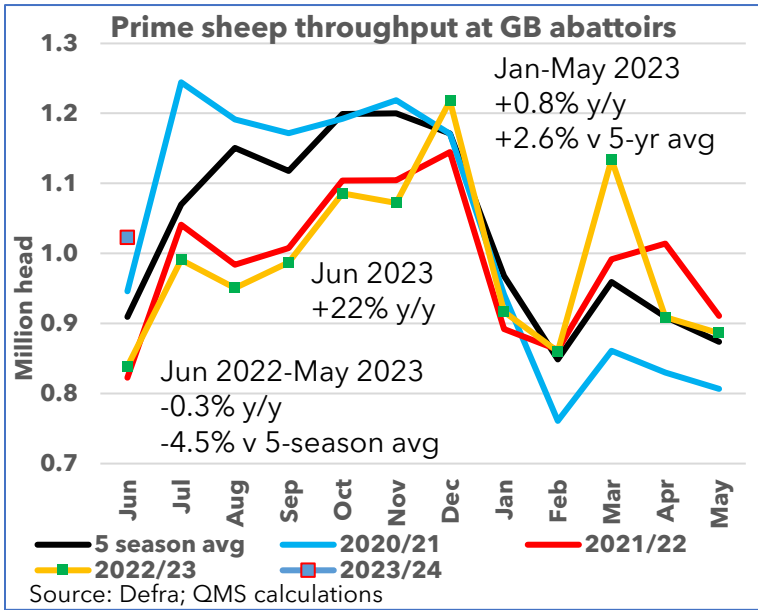
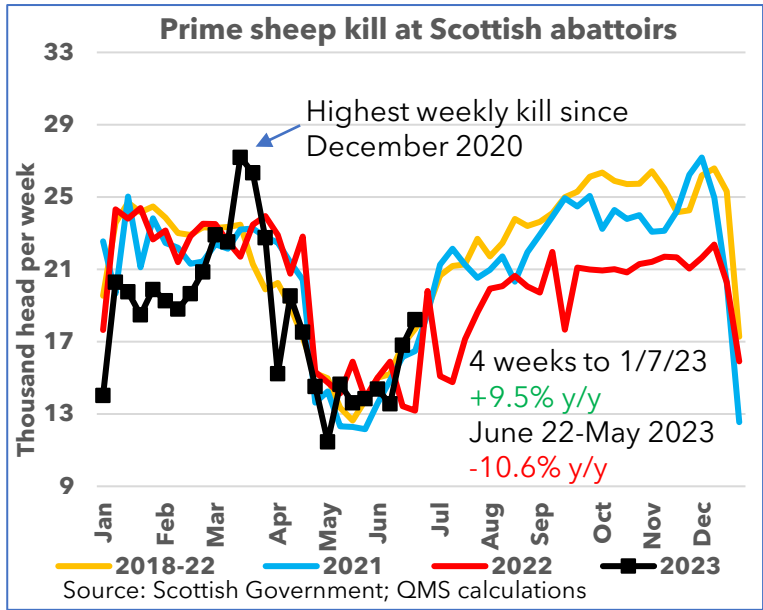
Charts based on old season lamb prices from January to April and new season lambs from May to December

Availability and slaughter – new season lambs have continued to reach the market more slowly than in 2022 and hogg availability has now dwindled



New season lambs have continued to arrive on the market more slowly than in 2022 across GB. While auction market throughput was supported by a significantly increased volume of late-season hogs in June, this supply has now been used up. June slaughter numbers were boosted by demand for Eid al-Adha, which had been in early July in 2022.

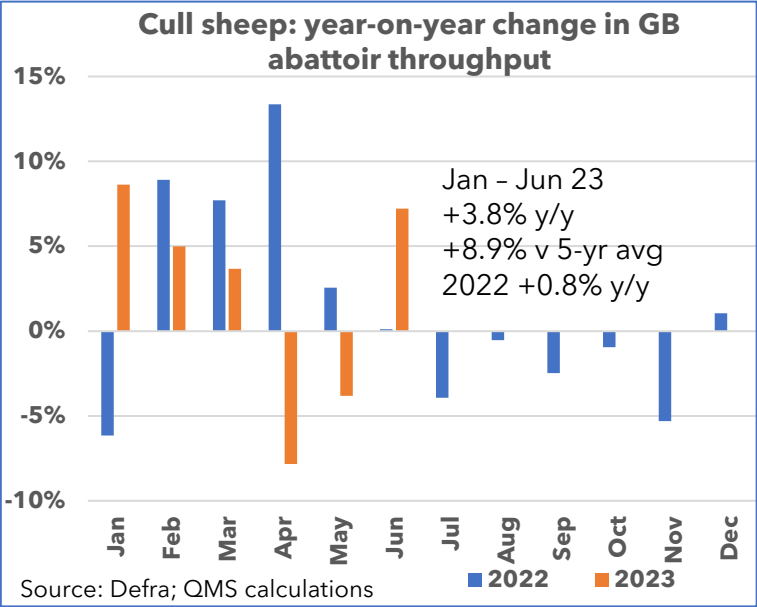
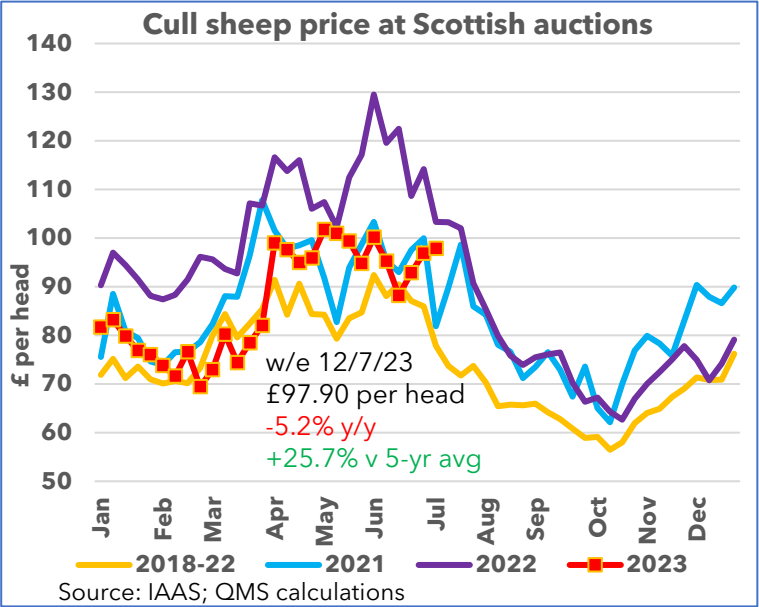
Looking forward, December survey results suggest an increased breeding flock in England, so there could be some catch-up in lamb marketings in the second half of July now that a period of wet weather should have helped grass growth to rebound. In Scotland, given the slightly reduced breeding flock indicated 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%

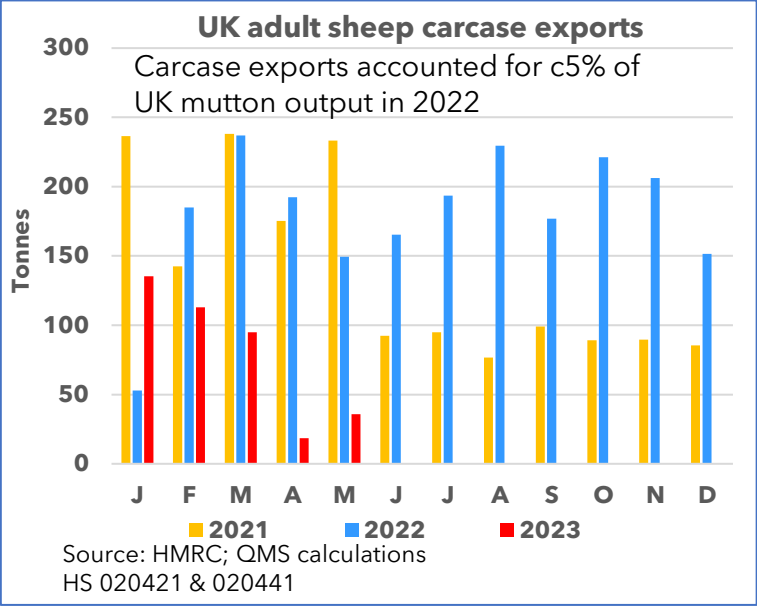
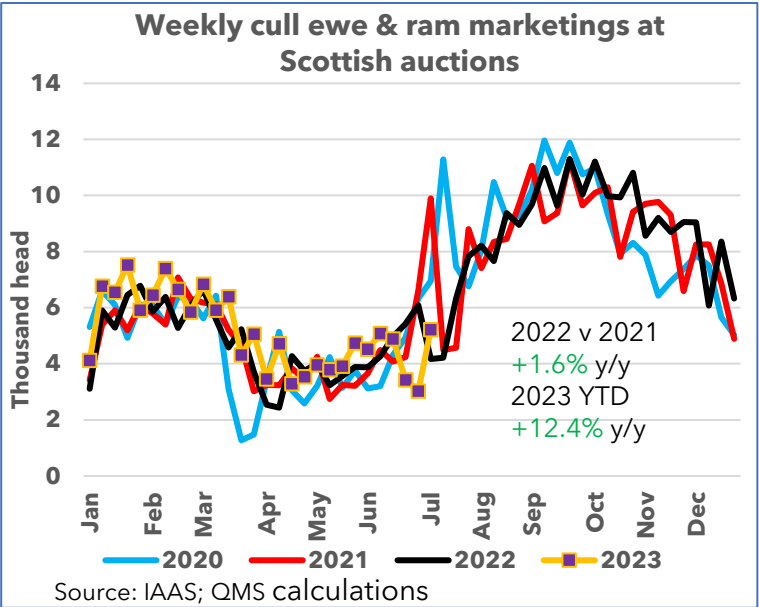
Source: Defra; Welsh Govt; Scottish Govt; QMS calculations

Cull sheep market - prices rebounded in the first half of July after a period of reduced supply but continued to trail 2022 levels



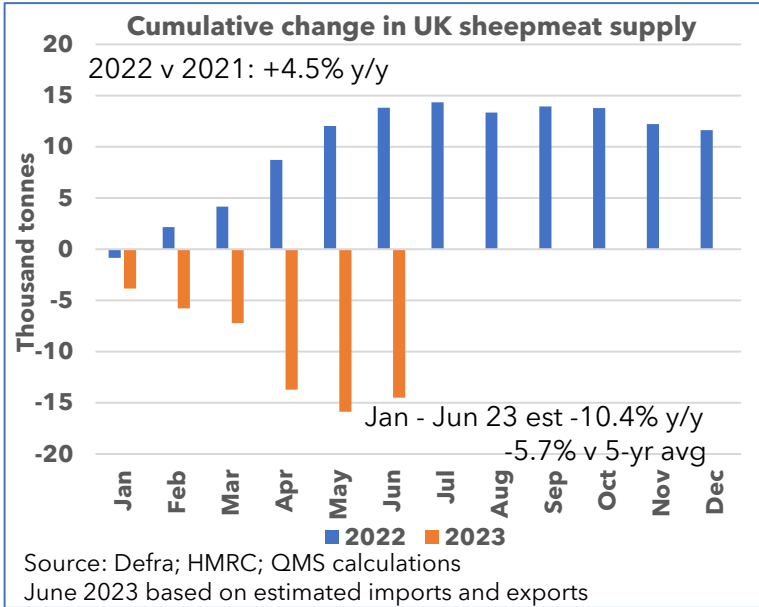
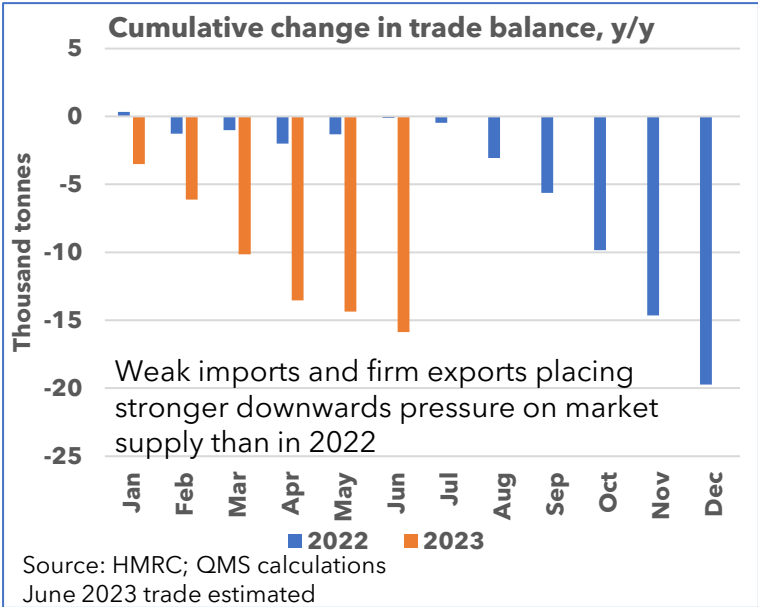
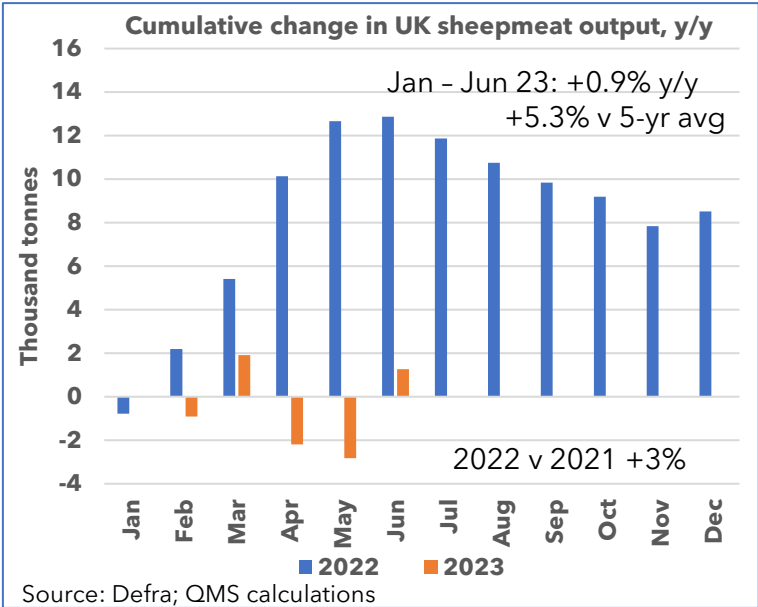
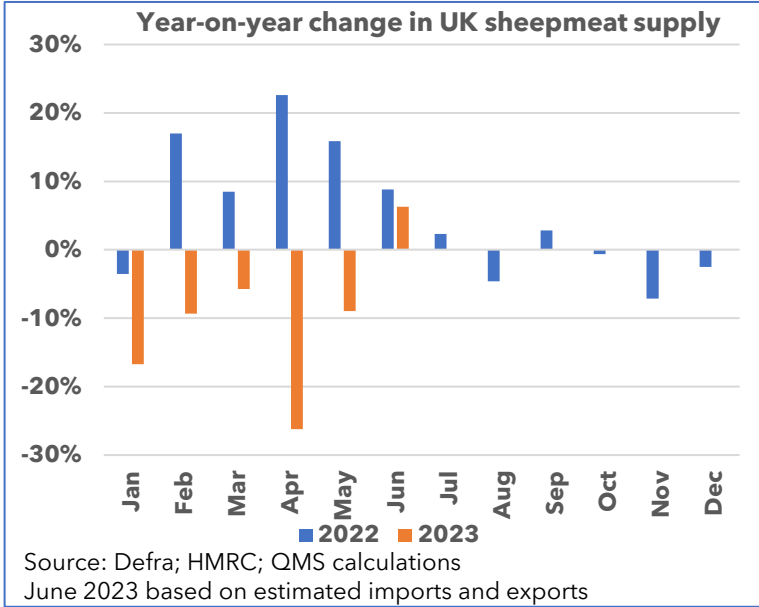
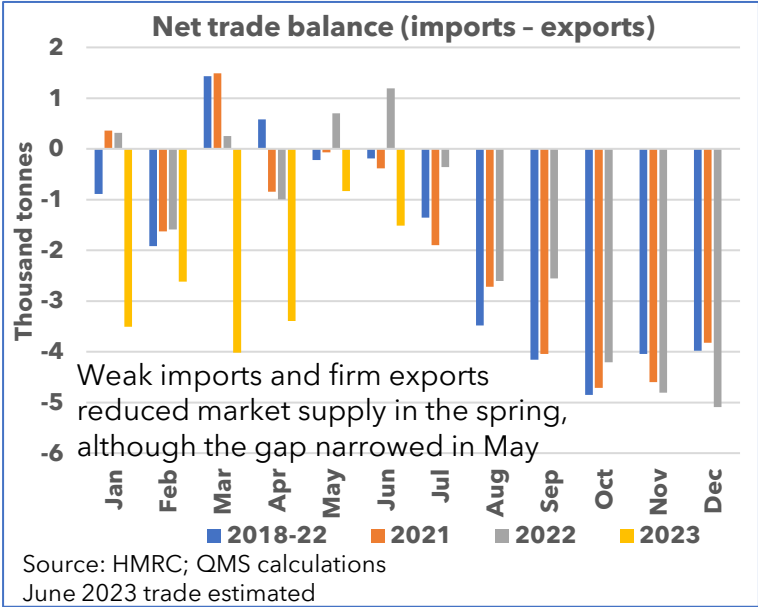
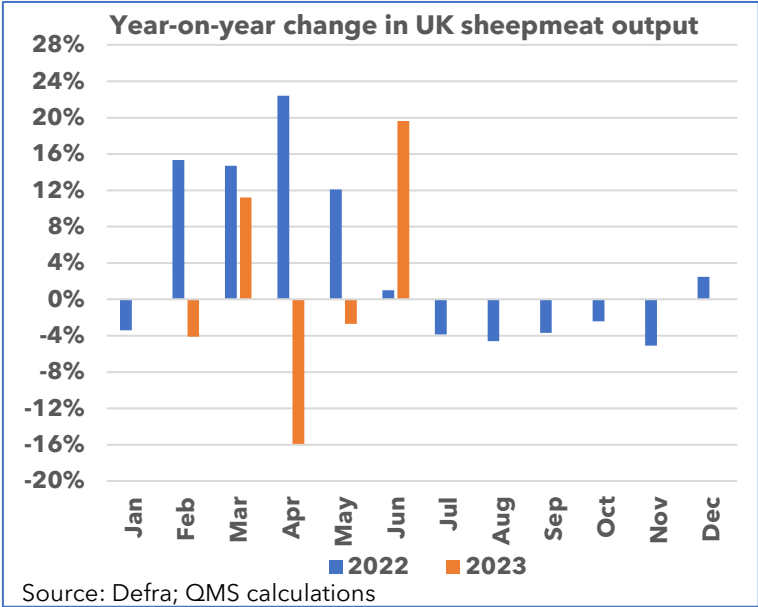
After a brief dip in the second half of June, cull ewe values have rebounded towards the £95-100 per head range at Scottish auctions, supported by seasonally low supply. However, prices continued to fall short of their 2022 peak.

After three weeks behind year-earlier levels, auction volumes reached their highest in nearly four months in the second week of July, and numbers are expected to climb seasonally in the coming weeks.

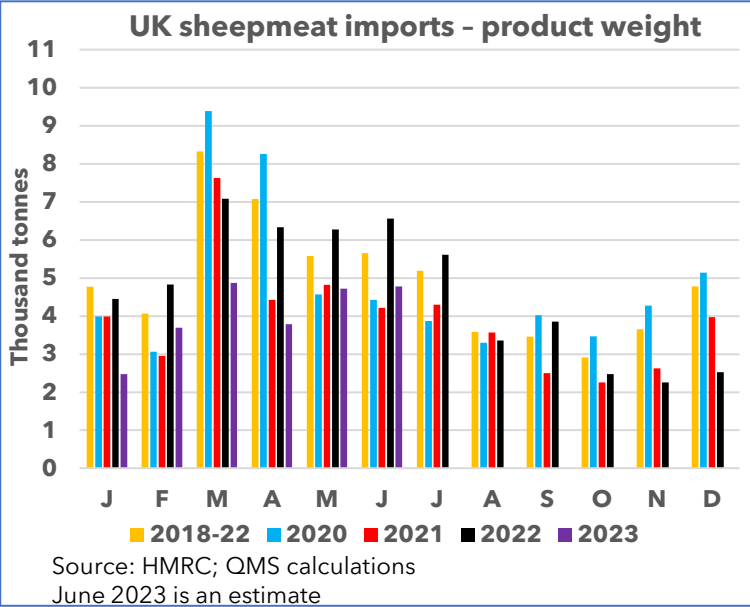
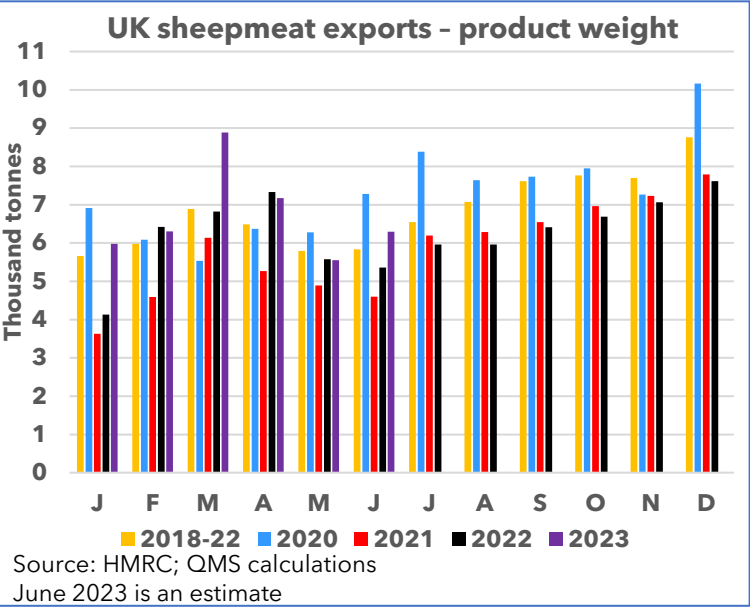


While domestic mutton production has increased in 2023, the volume exported as carcasses fell back significantly relative to 2021 and 2022 during the spring, signalling some rebalancing of demand to the home market.

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

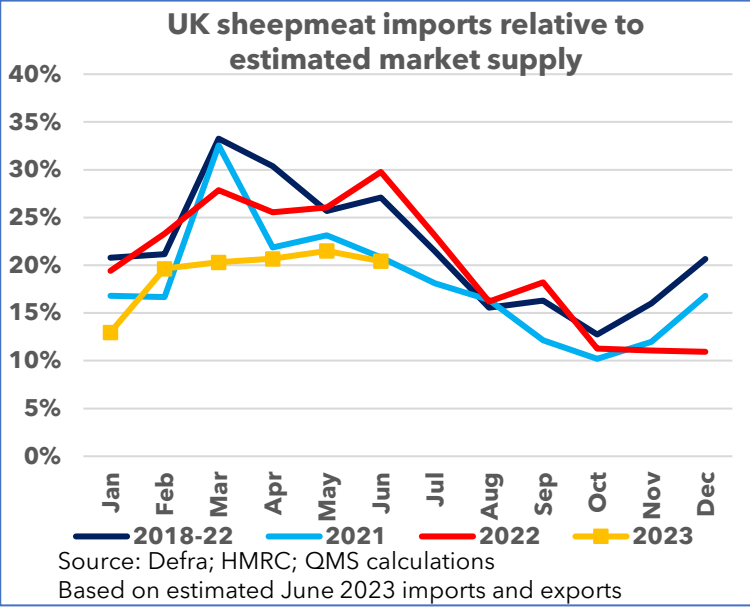
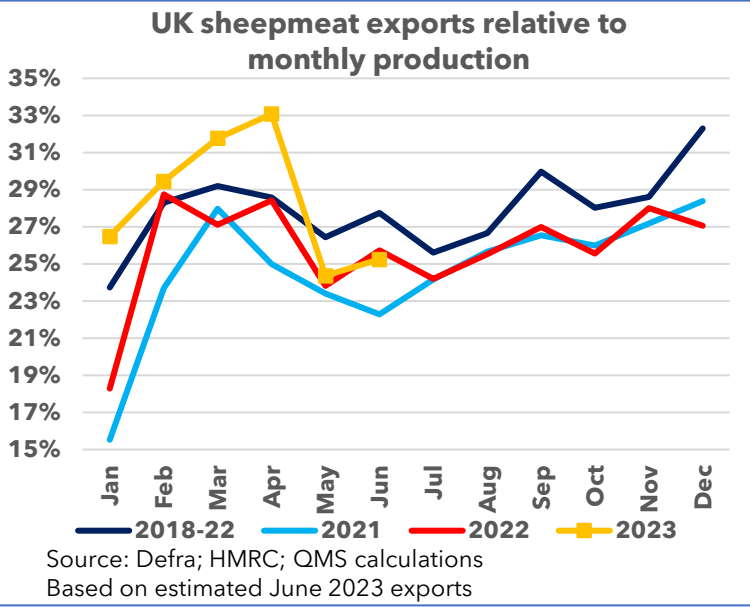


A focus on UK international trade in sheepmeat - firm exports but imports down sharply on spring 2022



After a strong opening third of the year, UK sheepmeat export volumes had a weaker May, with volumes at an 11-month low, dipping behind the five-year average, and falling sharply relative to domestic production. However, Eid al Adha is likely to have supported a return to year-on-year export growth in June and export prices in the key French market have shown little seasonal downturn since Ramadan and Easter, suggesting that demand has remained firm.

Imports had an historically weak final quarter of 2022 and the trend has continued in 2023. Over the January to May period, imports were down 33% year-on-year and by 34% on the five-year average.



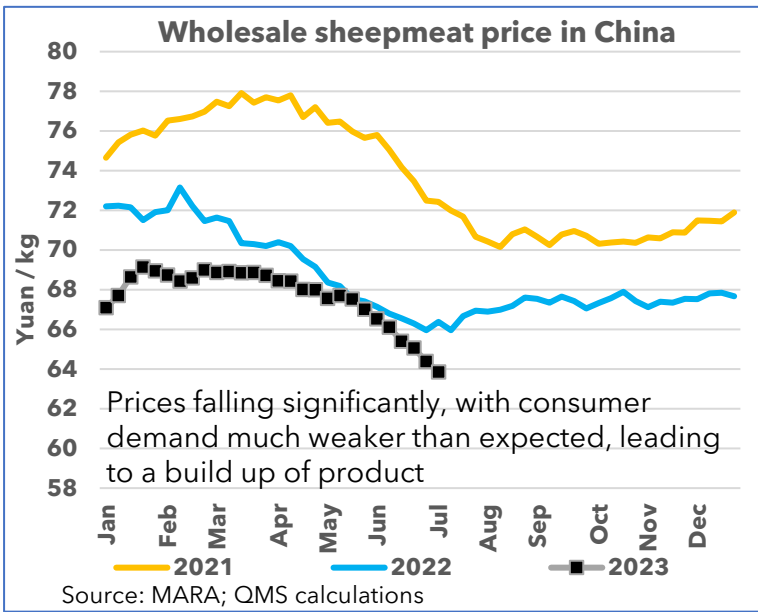
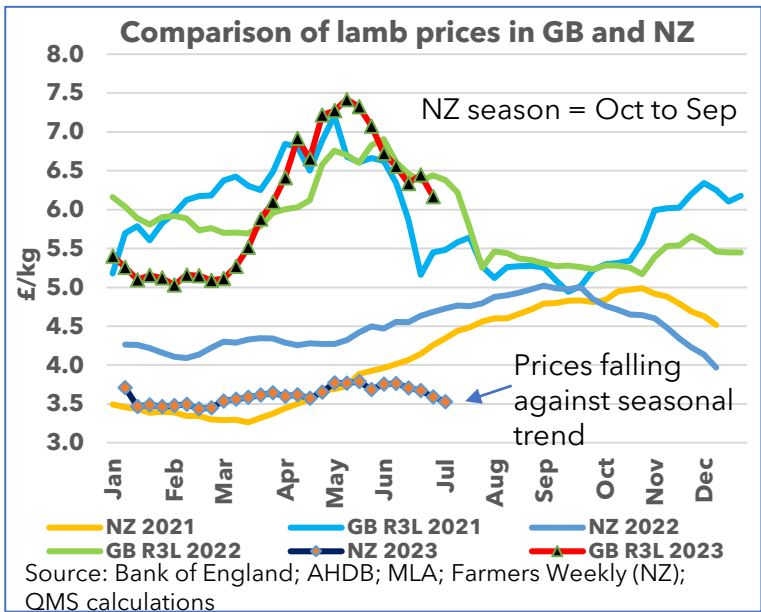
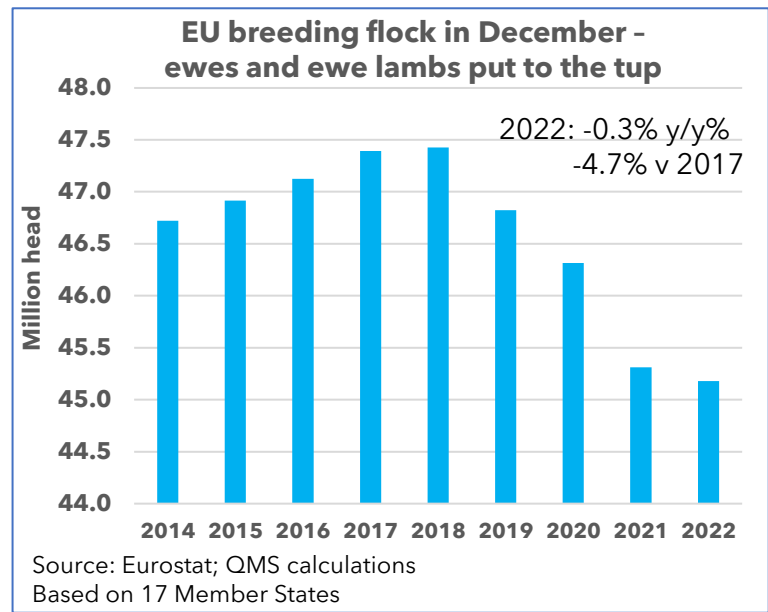
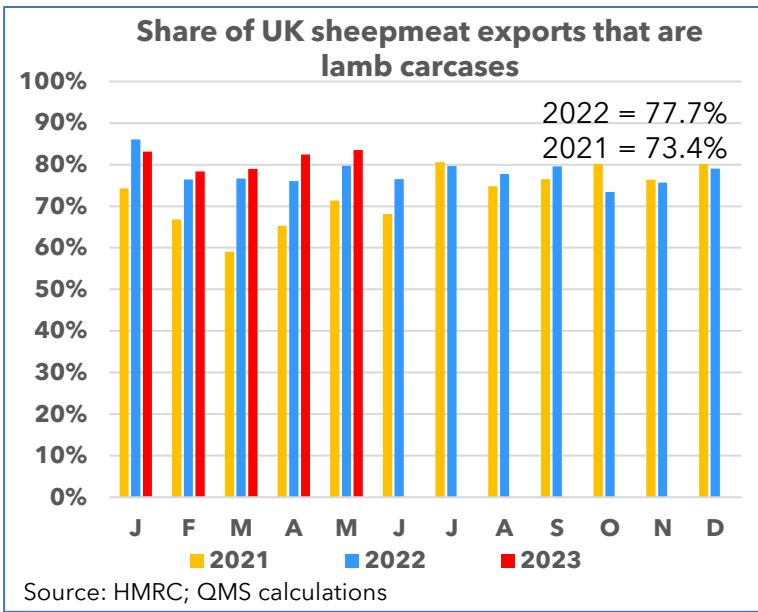
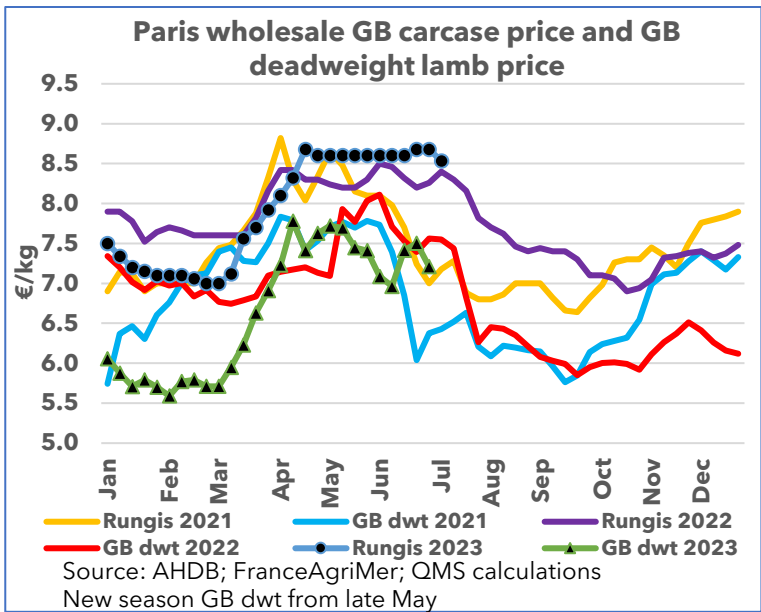
Beef + Lamb NZ have highlighted continued year-on-year declines in shipments to the UK in June as NZ processors have refocused on China this year, while there has been a rebalancing of exports to Europe towards the EU from the UK this year. However, June appears to have been a soft month for NZ sheepmeat exports globally, with a year-on-year decline of around 30% in volume and 10% in average value per tonne.

Note:

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

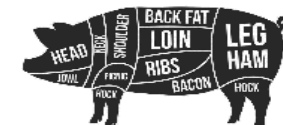
Estimates for June are based on seasonal trends in trade volumes and domestic production

Variables influencing UK sheepmeat trade – Prices in France continue to look attractive to GB lamb exporters. 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			

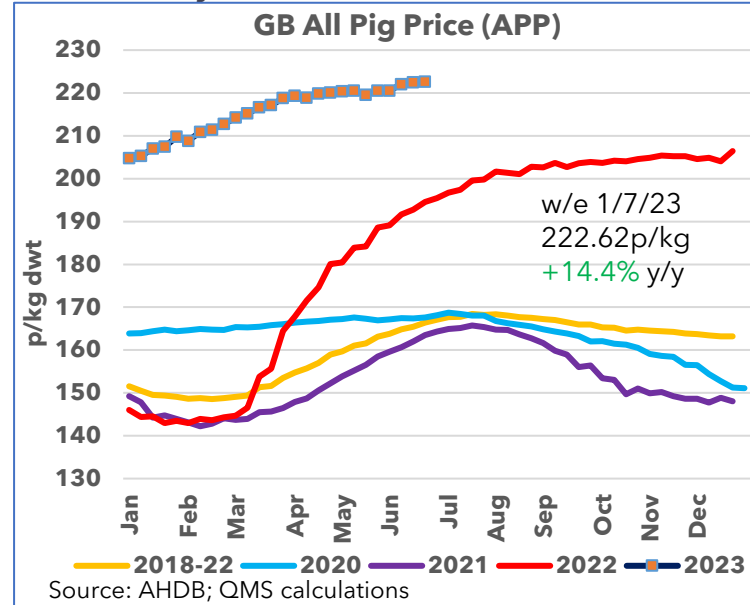
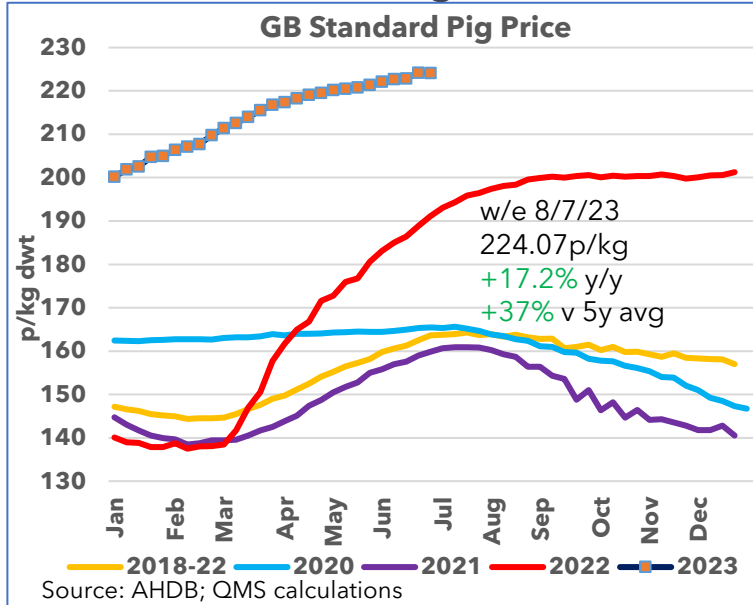
Summary of market developments – pig market



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 8 July	224.07p/kg	-0.1p	+0.9%	+17.2%	+37%
Average carcase weight of standard pigs	Average in four weeks to 8 July, EU spec	88.5		-0.8%	-0.8%	+3.8%
Prime pig slaughter at GB abattoirs	Total during June 2023, thousand head	660.8		-16% (change in daily avg kill June v May)	-11.9%	-7.3%
UK pig market supply	Tonnes in Apr-Jun 2023	320,600			-2.5%	+2.2%

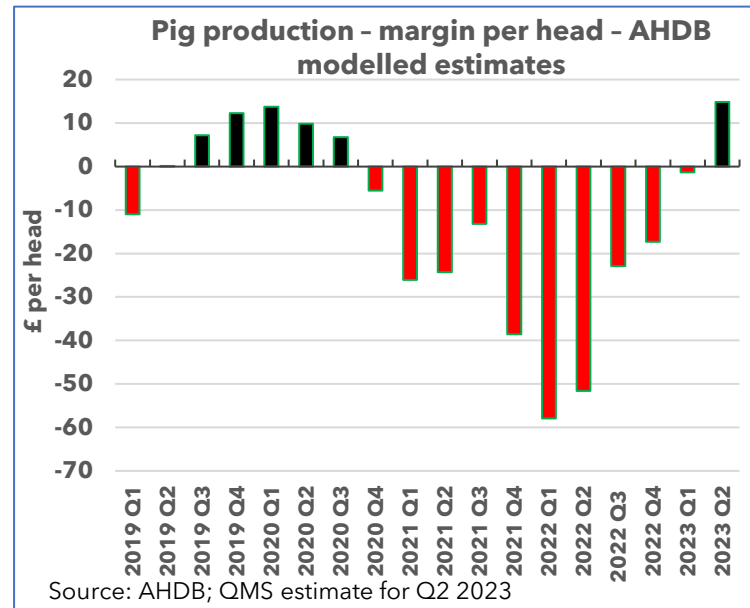
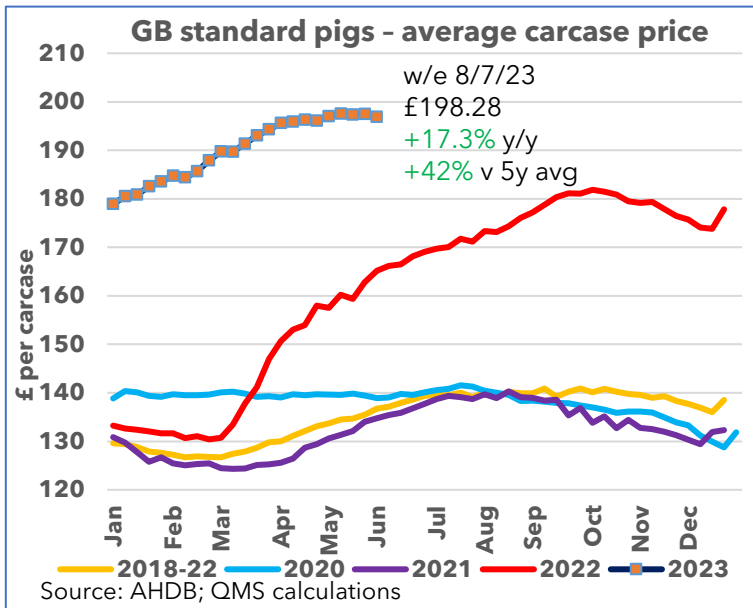
- Prime pig prices continued to rise through June, but the pace slowed, and a dip in the SPP in early July suggests that the seasonal change in market balance is beginning to take effect. Nevertheless, prices remain around 15% above year-earlier levels and 40% above the five-year average.
- The sharp fall in GB abattoir slaughter in 2023-to-date fits with the reduction in prime pig numbers on farm following a reduction in the breeding herd in 2022, in turn supporting farmgate prices. While ScotEID slaughter data is also signalling reduced availability on Scottish farms this year, Scottish abattoirs have been handling slightly more prime pigs this year.
- Lighter carcase weights compared to 2022 will have added further to the fall in pigmeat output at GB level in 2023, and stocks of pigmeat built up in 2022 are likely to be declining.
- Tight supply on the continent has seen EU pig prices narrow the gap to GB levels in 2023, supporting GB price competitiveness at home and in export markets. However, UK imports have started to rise, limiting the tightening in supply in the domestic market.
- In China, although futures market pricing is still pointing towards some tightening of supply in the second half of the year, wholesale pork prices are now below GB farmgate levels, making it a less attractive export destination.

Farmgate prices - prime pigs - showing continued upwards seasonal pressure through June but early signs of a seasonal change in market balance in July



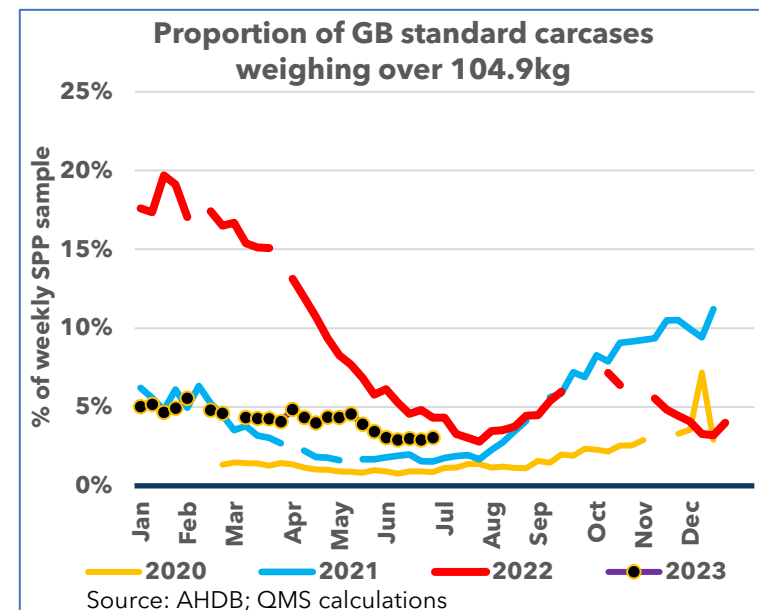
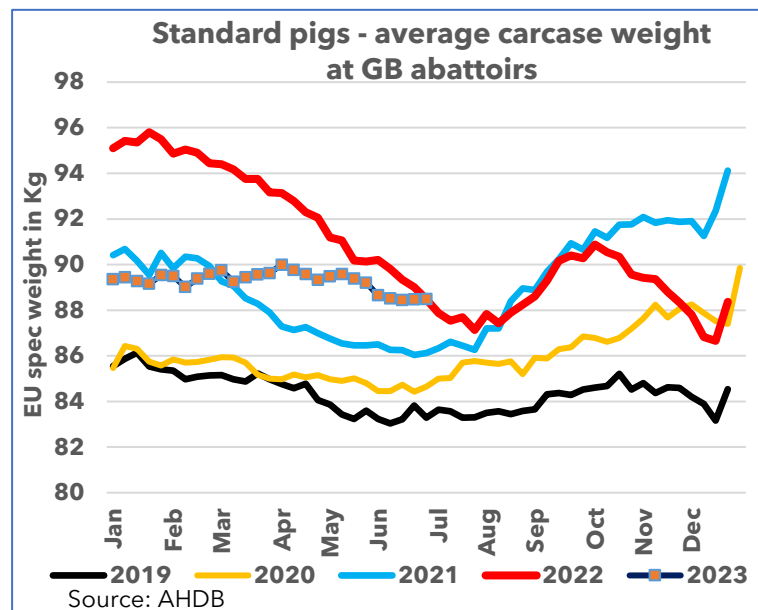
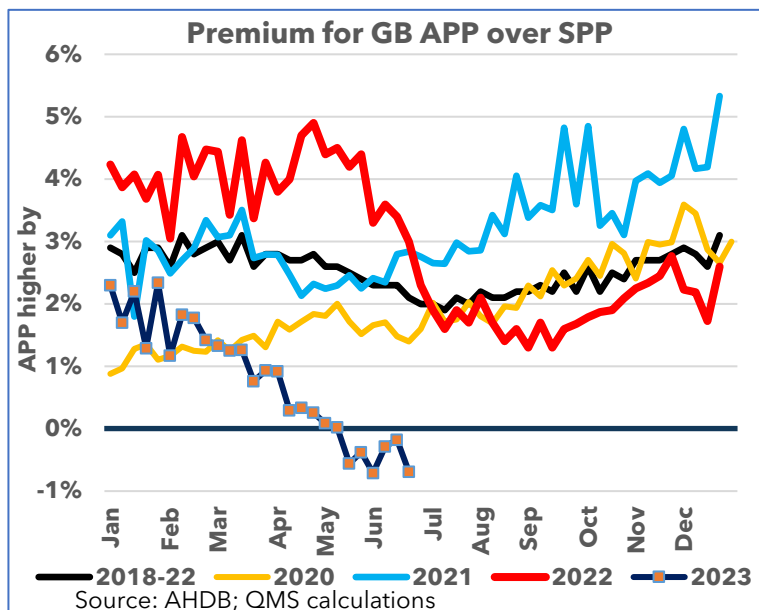
Pig prices continued to lift through June but a slight dip at the start of July could be the first signs of a seasonal change in market balance taking effect.

With carcass weights beginning to show a delayed seasonal decline in June, the average carcass price has begun to stabilise, and its margin over 2022 has now converged on the lead shown by per kilo prices.



The further lift in pig prices between spring and summer 2023 plus a reduction in price for straight feeds are likely to have helped start the beginning of a recovery in producer finances from a sustained period of losses. However, energy and interest costs are likely to have risen considerably for many businesses.

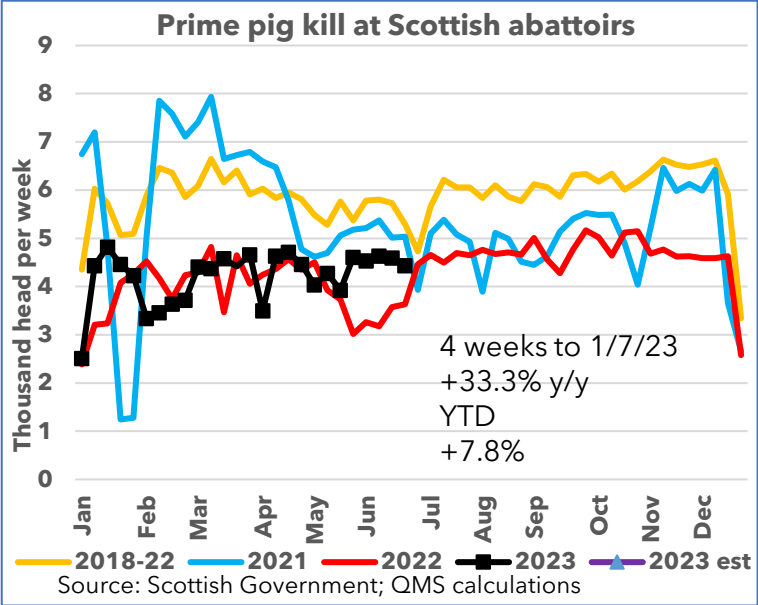
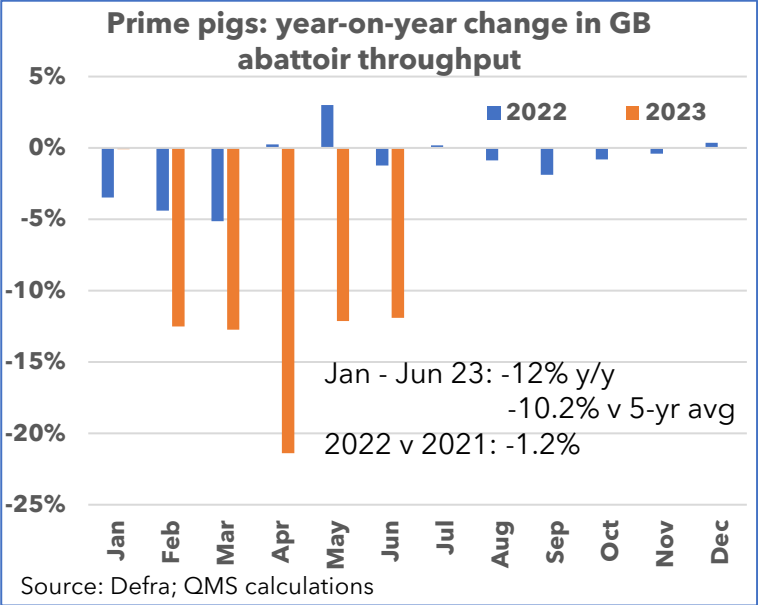
Indicators of market disruption - lack of premium for pigs with specific production characteristics points to very tight market. Carcase weights have shown some seasonal decline but remain elevated.



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.

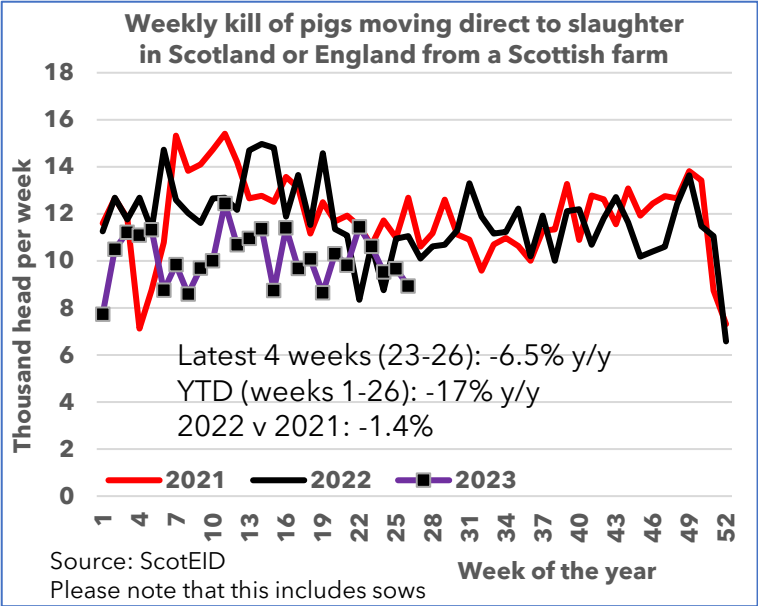
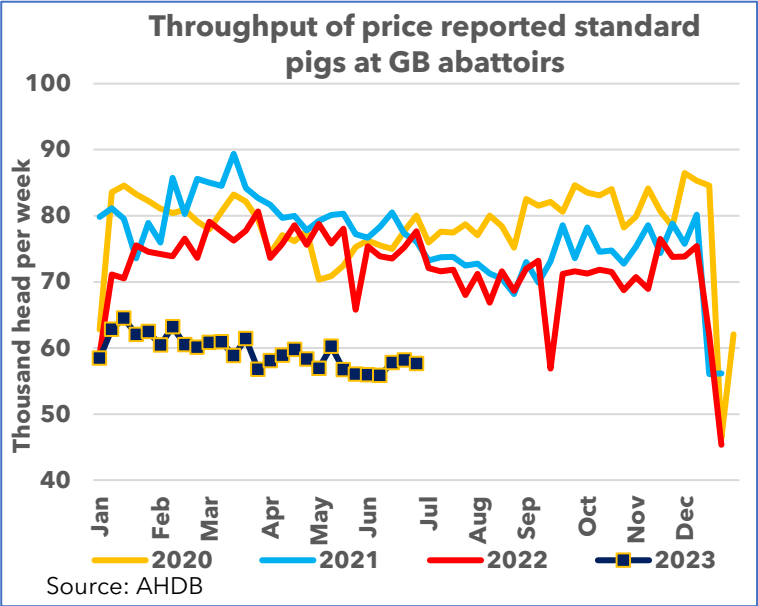
Carcase weights have only shown a slight seasonal downturn this summer and the share of heavy carcasses in the standard pig price sample remains well above pre-backlog levels.

Availability and slaughter – tight supply following herd contraction but throughput has risen above 2022 levels in Scotland



The contraction of the GB breeding herd driven by financial pressures on producers in 2021 and 2022 has resulted in reduced availability for slaughter since late-2022, with the pace of contraction accelerating in 2023. The standard pig price sample does point to a slightly rebound in weekly slaughter in the second half of June.

Prime pig slaughter showed a second month of significant year-on-year increase in June at Scottish abattoirs. Although this largely reflected a low period in 2022, the kill over a four-week period reached its highest since December.

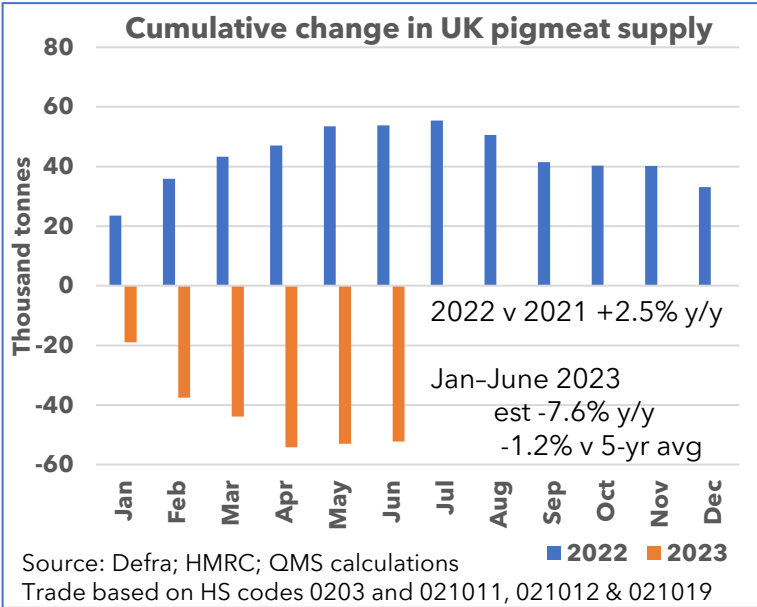
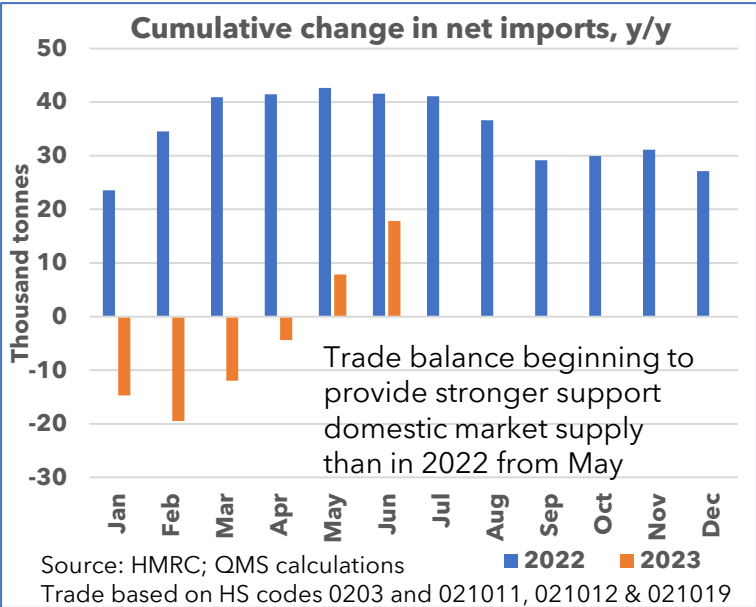
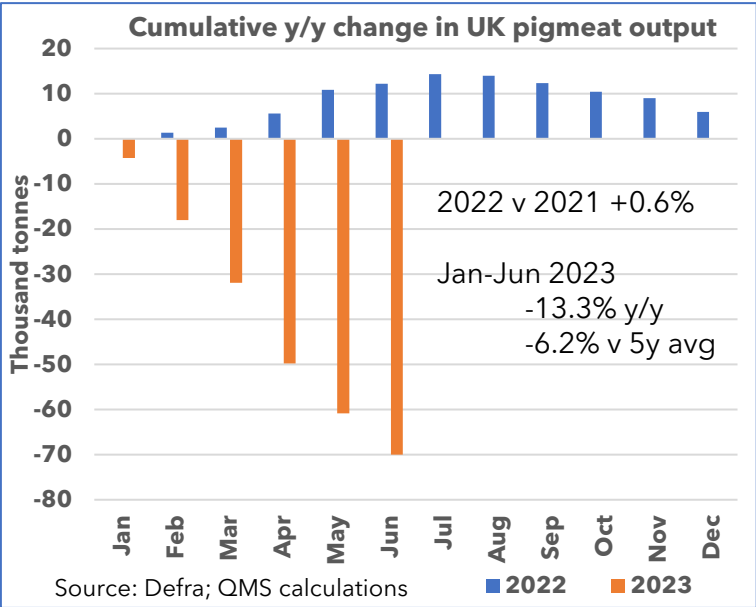
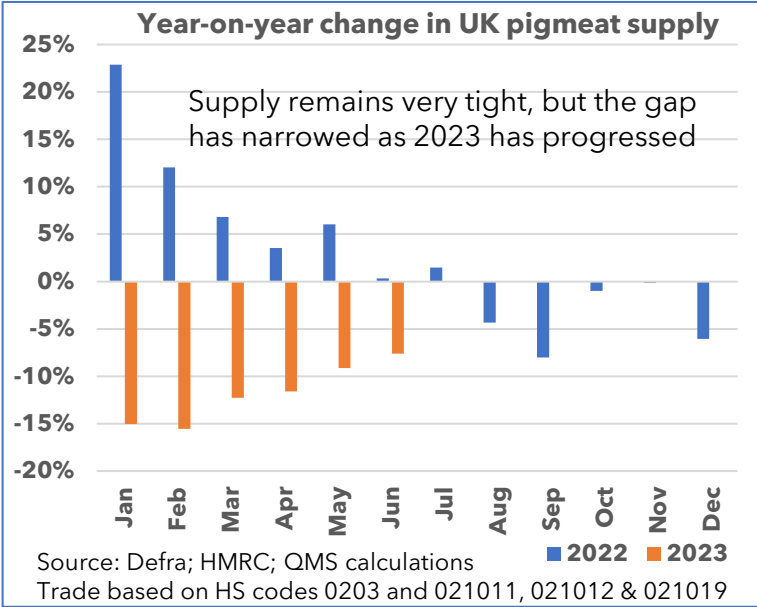
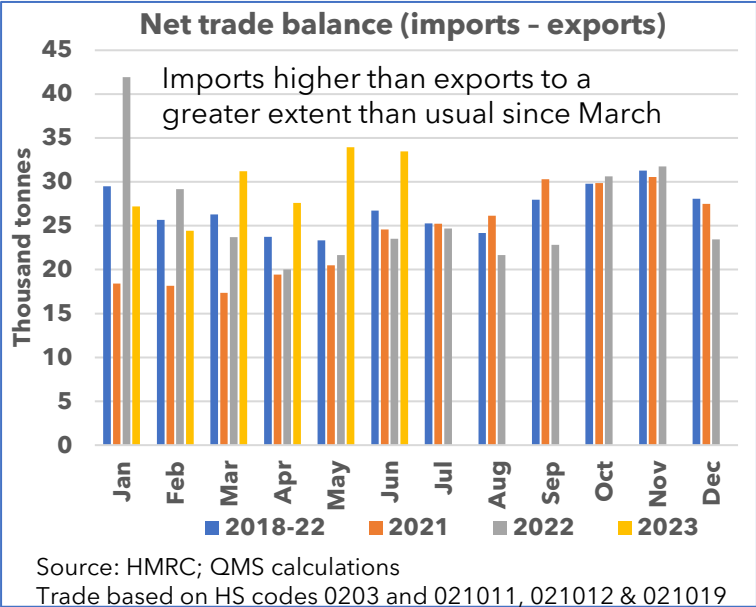
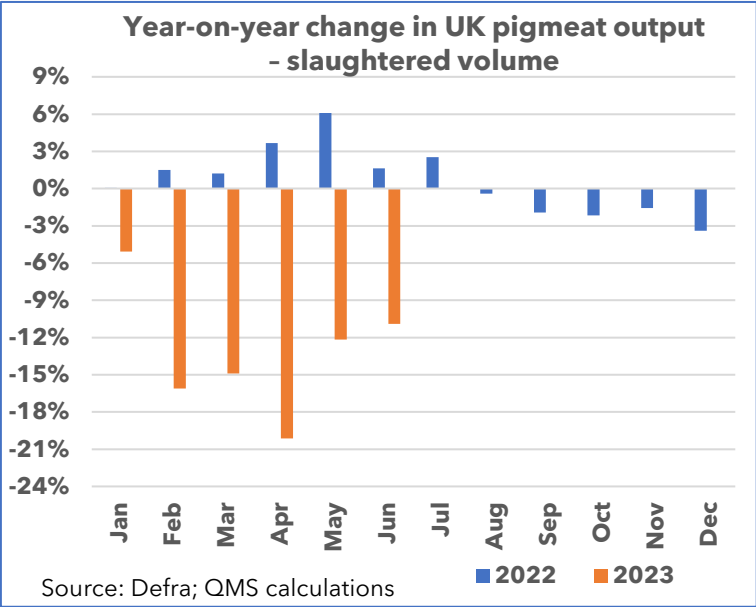


While the number of pigs sent directly to slaughter from Scottish farms has fallen well below 2022 levels in the year-to-date, numbers did fall at a much slower pace in June - though this was the low point for the kill in 2022 and weekly volumes did slow through the month.

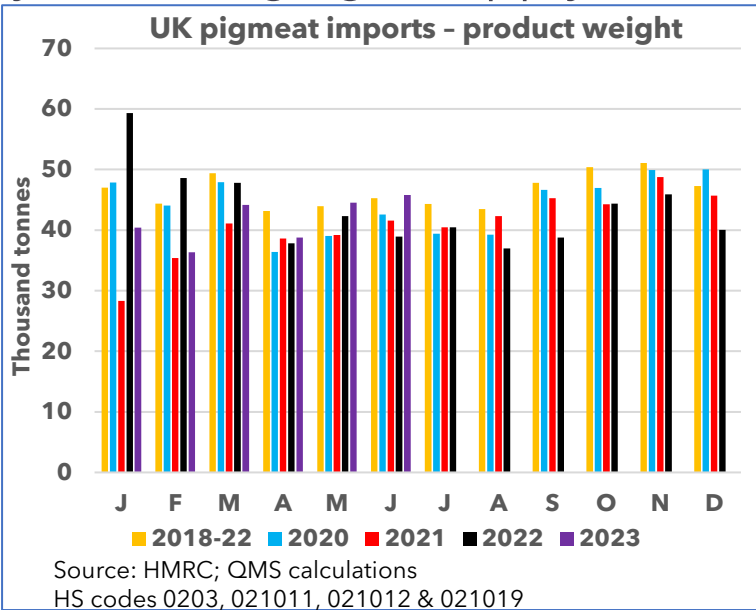
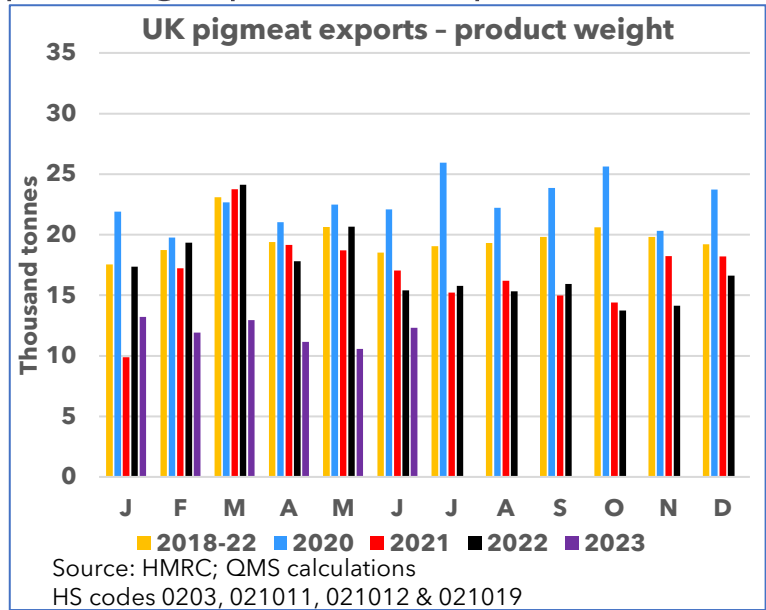
December Census - England (Note: Scottish results not available)	
Female breeding herd	-20% y/y
Fattening pigs	-7.9% y/y
Source: Defra	

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

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



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

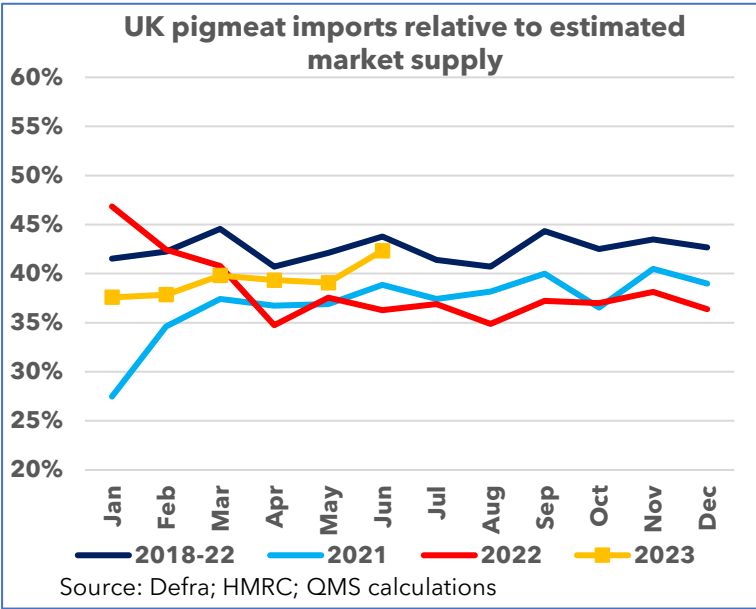
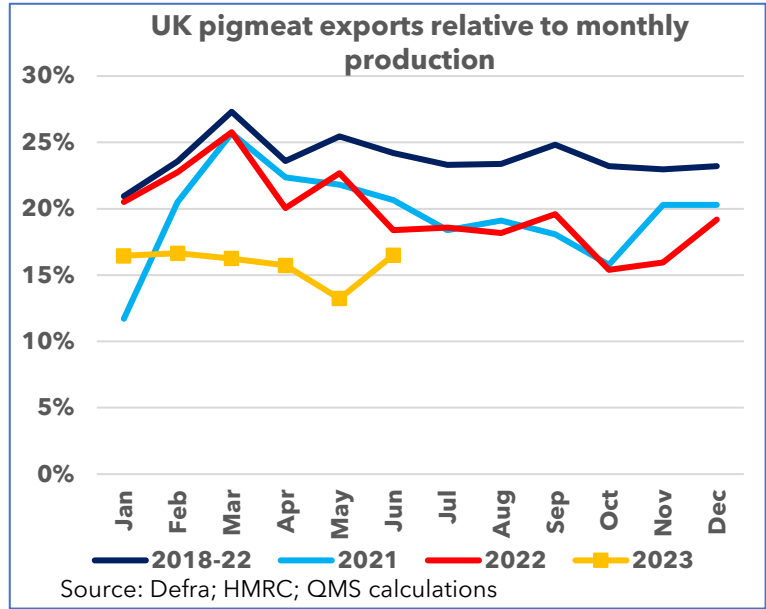


Tight pig supply in the UK and in the EU is likely to have limited imports and exports of pigmeat at the beginning of 2023; though imports have started to move beyond 2022 levels.

After a 12% year-on-year uplift in April, imports of pork (HS0203) were 11% higher in May, reaching a four-year high for the month. Bacon & ham imports (HS0210) did still trail year earlier levels, for a sixth consecutive month (-4%) but were above the five-year average.

Exports of pork (HS 0203) to the EU reached a year-to-date high but continued to show considerable year-on-year contraction, down 43%.

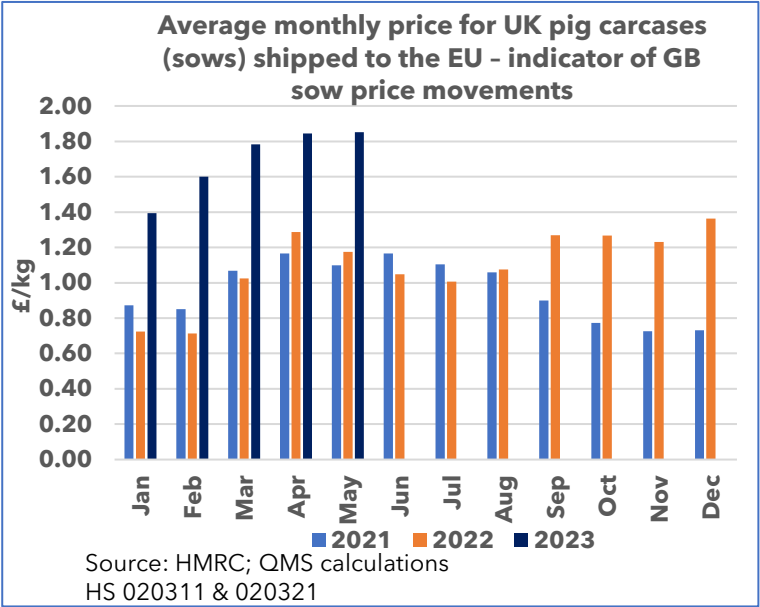
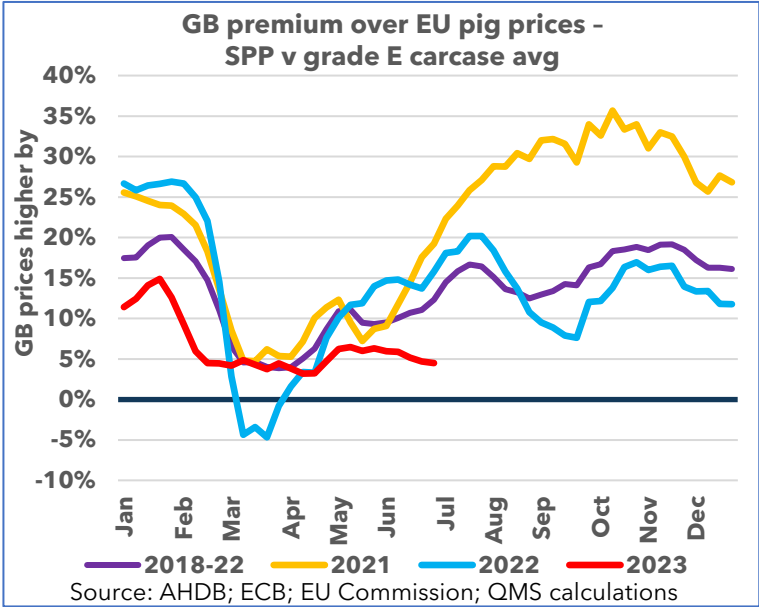
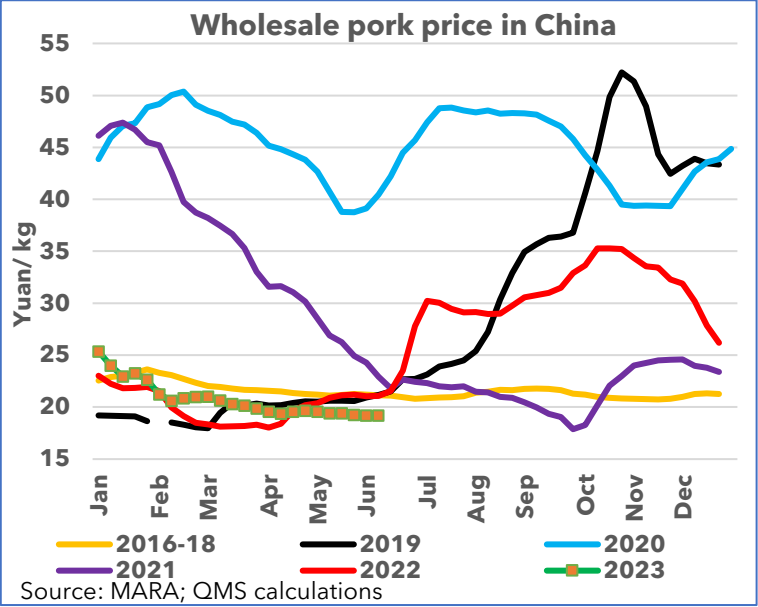
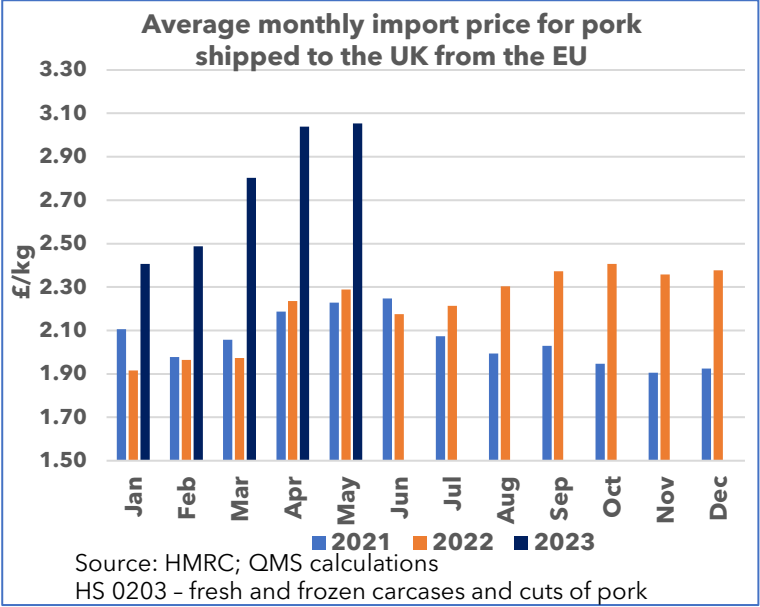
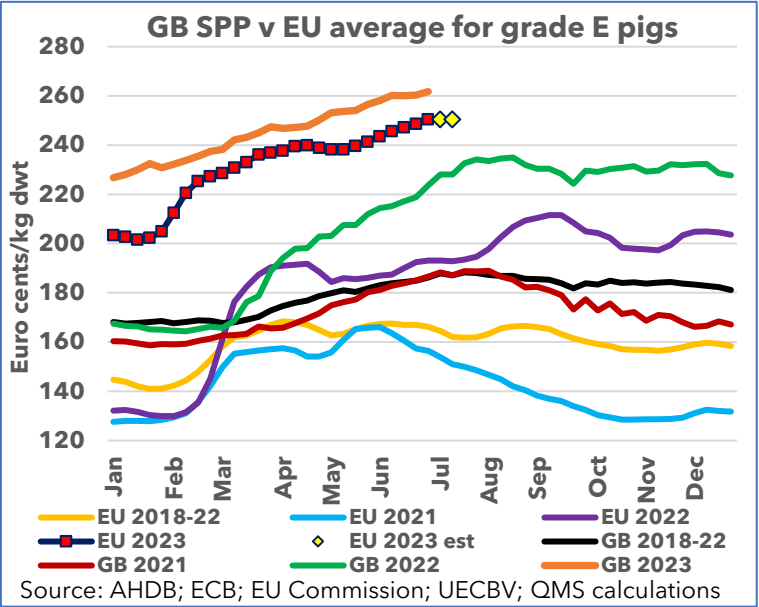
By contrast, exports (HS 0203) to non-EU countries slumped to their lowest level in many years, with sales to China and Hong Kong less than half of their May 2022 volume and at their lowest since January 2015.



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 June is estimated

Factors driving UK international trade in pigmeat – A tight EU pig market continues to support GB price competitiveness, underpinning GB pork prices at home and on the continent. Futures market pricing in China still points to expectations for supply to tighten slightly in the second half of the year and the USDA has revised its forecast for imports to China slightly higher. However, wholesale prices in China are now below GB farmgate price levels, making it a less attractive destination.



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

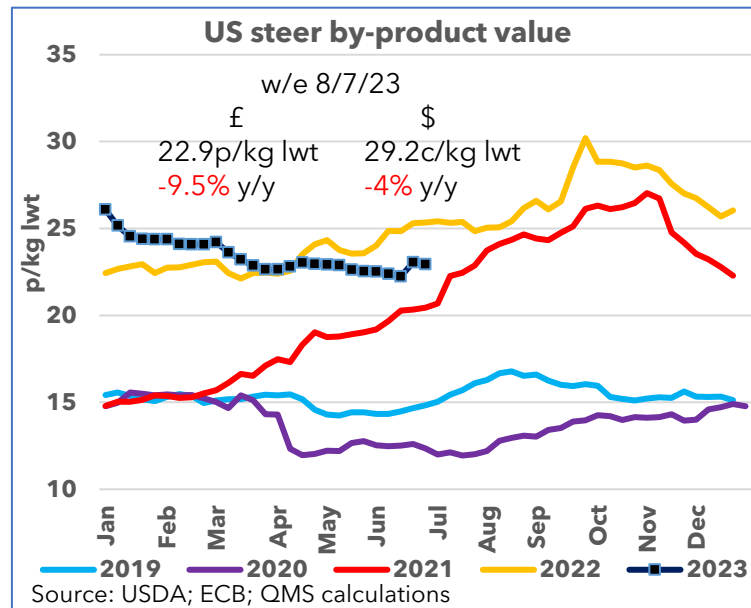
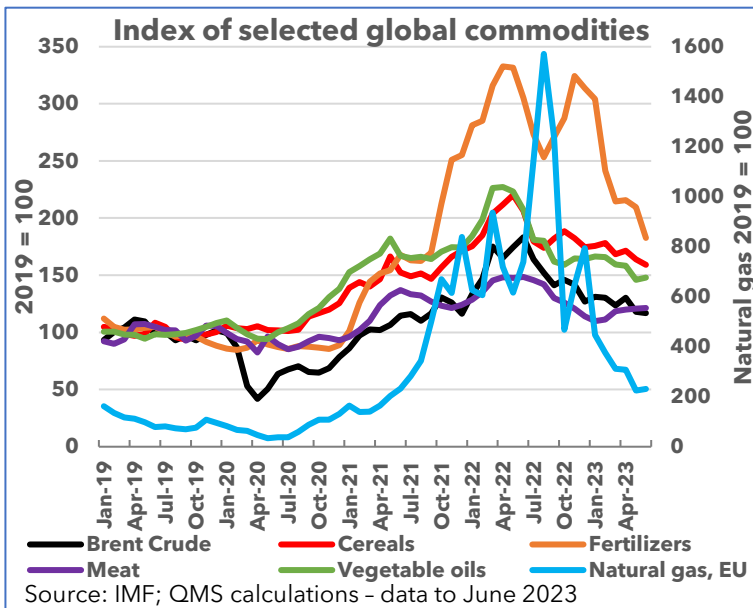
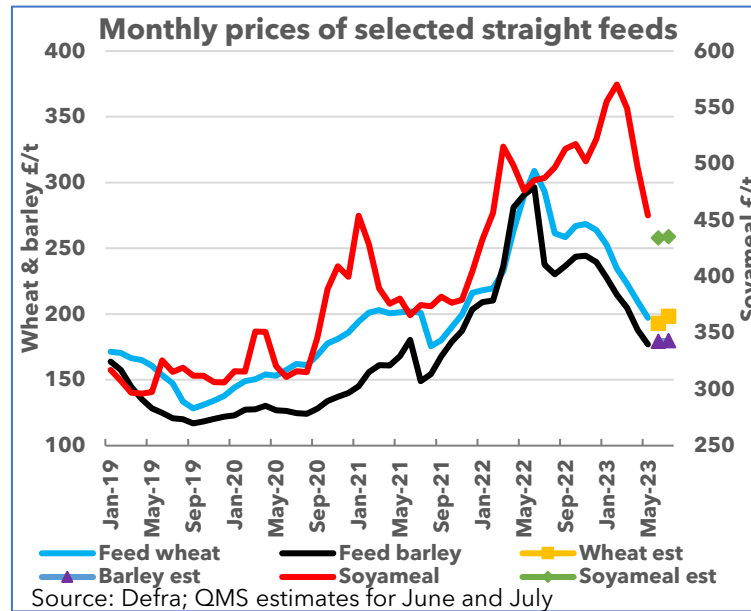
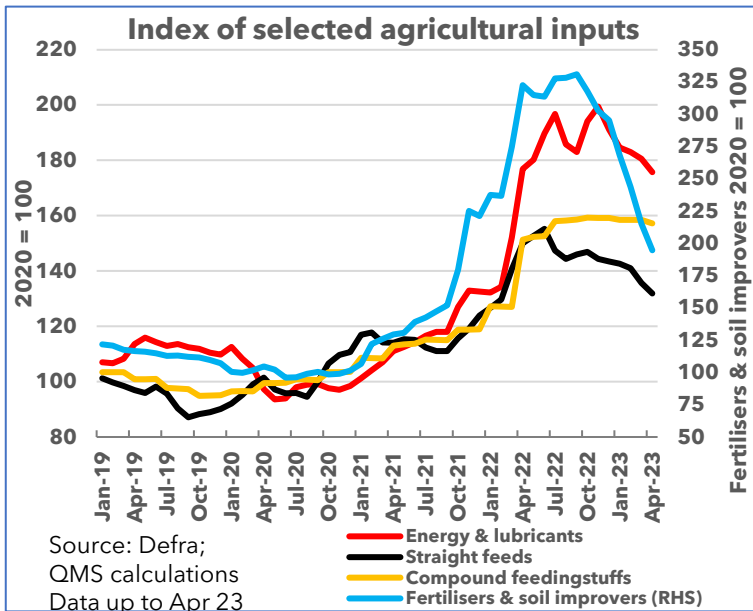
Source: USDA Foreign Agricultural Service

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 are reflecting past rises in raw material prices. Wage and borrowing costs are also still rising significantly.
- Consumer confidence has continued to rebound from its autumn 2022 low despite recent negativity around the potential for sharp increases in mortgage rates, with households back in balance between those feeling optimistic and pessimistic around their personal finances. However, the Bank of England has highlighted that the majority of mortgage payment increases are expected later in 2023 as new fixed rate deals are agreed.
- Strong average earnings growth has continued to support increased retail sales in cash terms, but much higher prices are leading to reductions in purchased volumes.
- The meat retail market continues to be characterised by consumers trading down towards cheaper products, forcing up prices for beef mince, and sharp pork price rises are starting to weigh heavily on sales volumes.
- PMI surveys continue to point to positive trading conditions for UK service sector businesses, but manufacturing is facing soft demand. While previously inactive people have started to look for work, providing a slight boost to labour supply, it has not dampened wage pressures, which are likely to have been supported by cost-of-living increments.

Production costs and by-product revenues

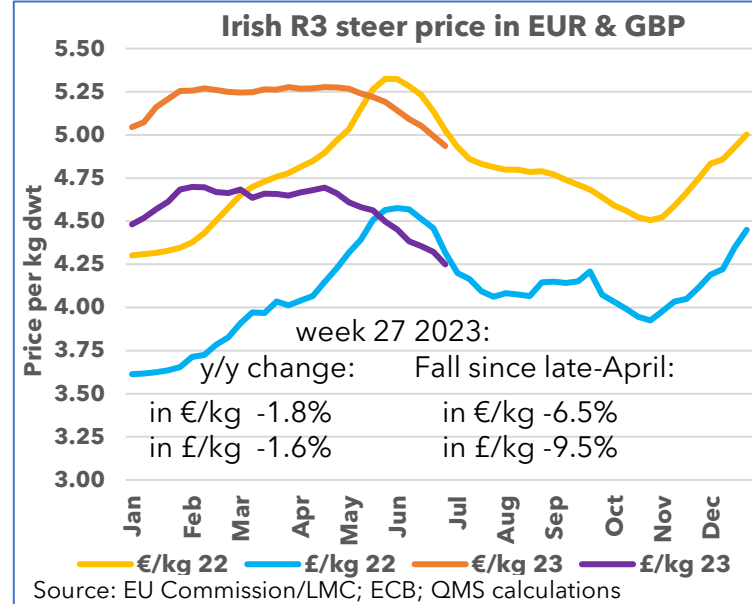
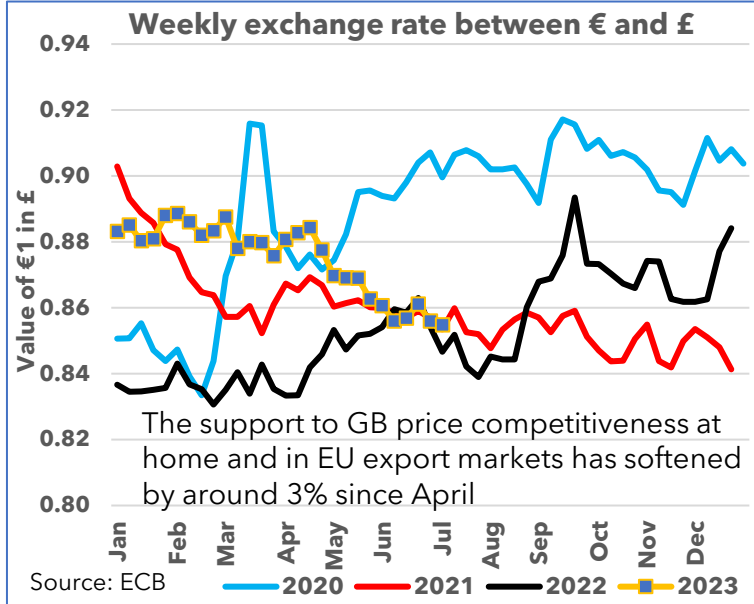


Commodity prices have fallen from their highs, added to by a weaker US dollar, but many are still well above pre-covid levels, meaning that businesses are still having to deal with higher cost bases than they have been used to. Contract pricing of inputs means that businesses may still be facing rising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

The end to the initiative which had been allowing crop exports from Ukraine's southern ports up until mid-July has resulted in a bounce in wheat prices. As well as concerns over this deal, hot dry weather in the US in June had led to some upwards pricing pressure, although an easing of US drought conditions in July has limited the upside. A record Brazilian soyabean crop has ensured that soyameal prices have fallen below year-earlier levels but downwards revisions to US output expectations have limited the downside.

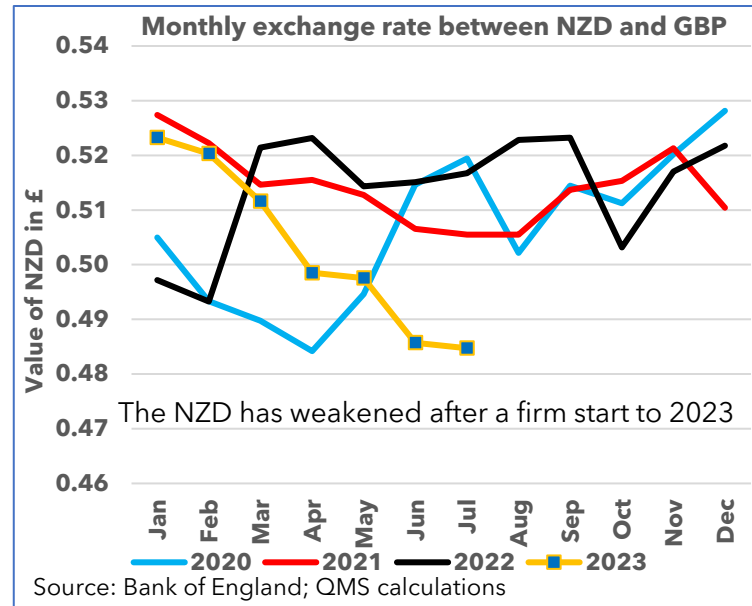
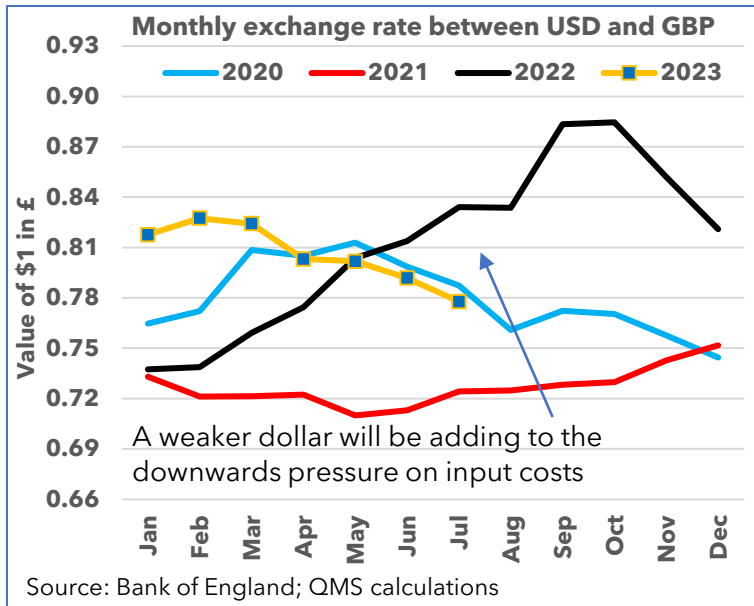
By-product value has followed commodity markets lower since autumn 2022 and a weaker US dollar has offset some of a recent rebound. After softening at the start of 2023, hide values have stabilised in the USA. However, in mid-July, a stronger pound than a year ago meant that hides were down more on 2022 in GBP (-14%) than in USD (-5%).

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



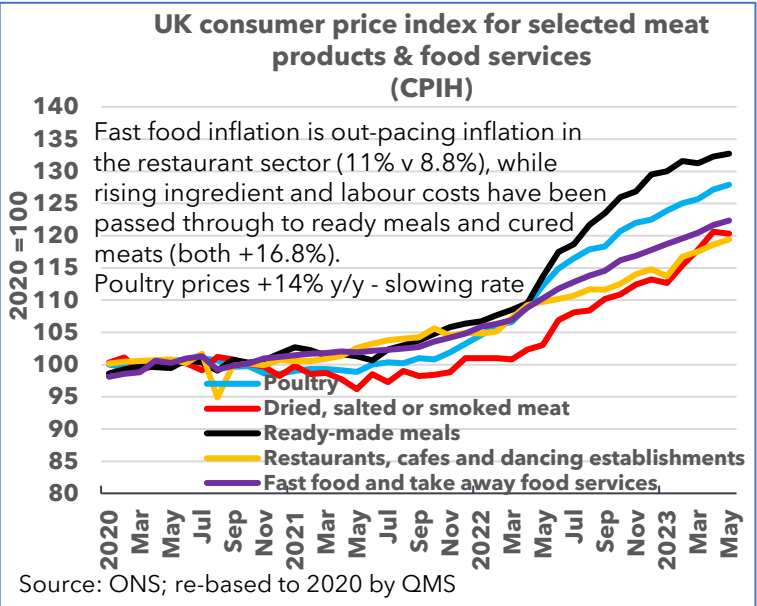
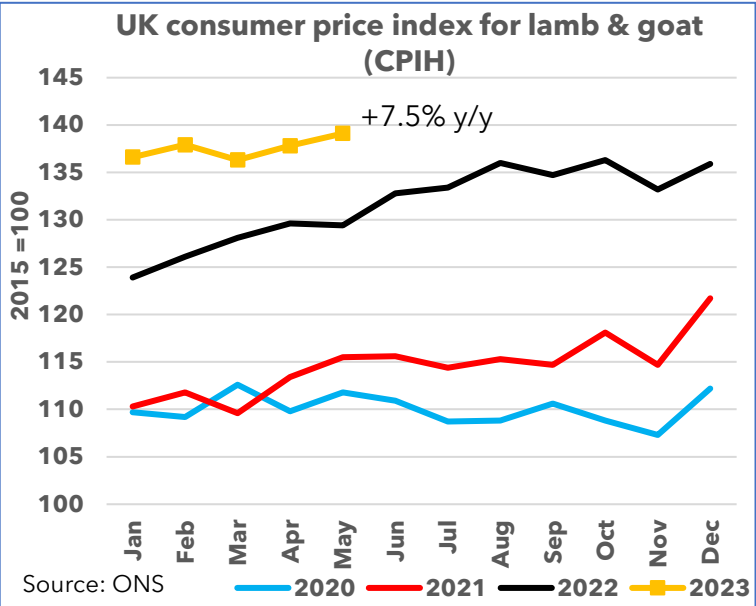
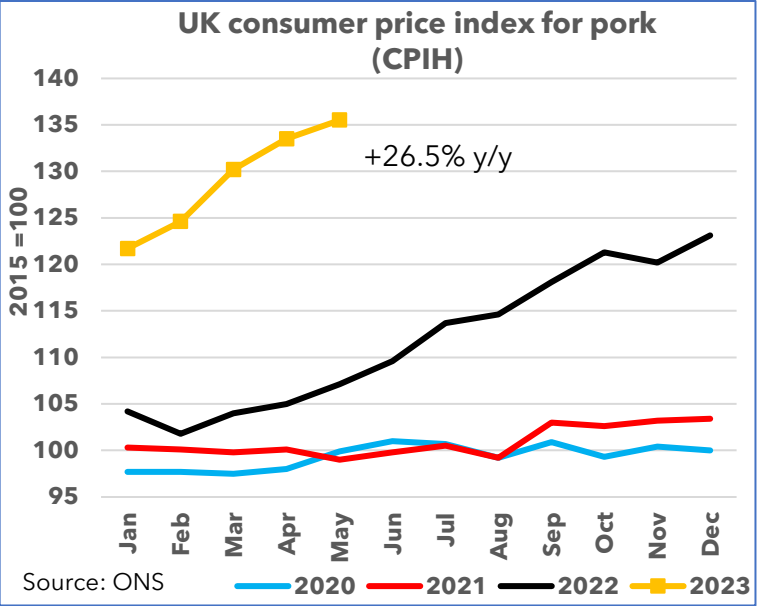
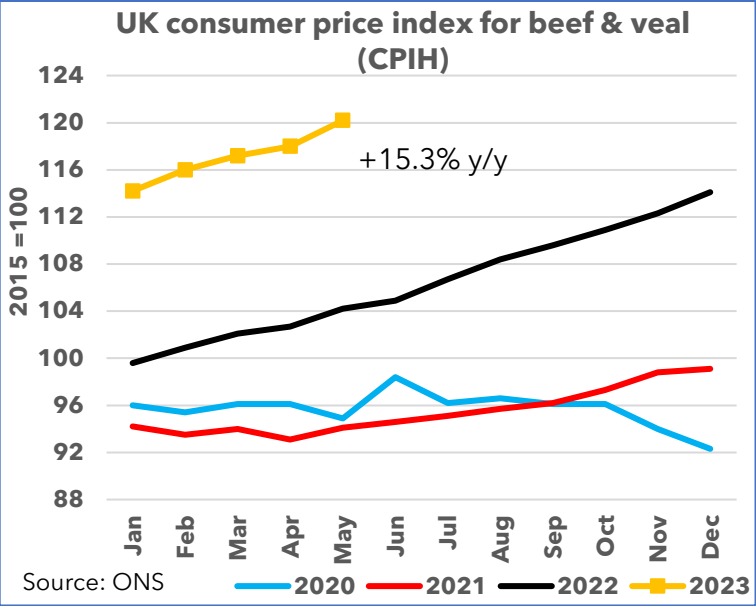
A rising sterling has boosted Irish beef price competitiveness in recent weeks, adding to the local downwards pressure on cattle prices

A rising sterling has reflected a change in expectations for monetary policy, with interest rate expectations rising further as UK inflation has remained elevated. 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.



US economic data has remained relatively firm in 2023 but a slowdown in inflation has limited expectations for further interest rate increases, pressuring the dollar. A significantly weaker USD than a year ago has added further downwards pressure to commodity prices and input costs, in turn potentially also softening 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 July 2022 but £3,890 in the first half of July 2023 (-7%).

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 (+6.9% y/y in three months to May) supporting the overall amount of money spent on groceries. However, sharply higher prices continue to limit sales volumes.

Within product categories, there has been a shift in spend towards cheaper cuts, such as beef mince and shoulder roasts of lamb and pork, softening overall average price increases. However, beef mince prices have started to rise strongly, perhaps reflecting increased demand and limited supply.

Lamb retail performance has been underpinned by Easter and Ramadan and remains an expensive protein despite its inflation rate softening.

Pork retail prices are rising very quickly as higher farmgate and import prices pass through the supply chain.

Y/Y change in GB retail sales reported by Kantar in 12 weeks to 11/6/23			
	Value	Volume	Avg price per kilo
Fresh beef	+8.6%	-2.8%	+11.7%
Fresh lamb	+12.9%	+7.4%	+5.1%
Fresh pork	+11.2%	-10.3%	+24.0%
Fresh poultry	+12.7%	+0.6%	+12.0%
Total grocery market	+10.7%	-3.0%	+14.1%
Source: Kantar			

Economic indicators – economic sentiment has improved in 2023 as cost pressures appear to have passed their peak. Rising wages have continued to support household spending but have not been enough to keep pace with inflation.

