



MARKET REPORT - FEBRUARY 2022

Purpose: *To provide an update on the cattle, sheep and pig markets and highlight the general economic conditions in which the red meat sector has been operating.*

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Data Disclaimer:

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independent data you can trust

AHDB

All deadweight price data used in this report is supplied to QMS by AHDB, who collect the data from reporting abattoirs each week and publish a consolidated set of data, regionally within GB for cattle, and GB-wide for sheep and pigs.

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1.0 Cattle Update

1.1 Farmgate prices – prime cattle

- 1.1.1 After trending seasonally lower in January at price reporting Scottish abattoirs, prime cattle prices made a tentative recovery in February, ending the month averaging 0.5% higher than at the end of January. Though, at 408.2p/kg, they were still 2.6% below their pre-Christmas peak from November.
- 1.1.2 After slipping below 5% in late-January, the year-on-year increase in the prime cattle average widened to 6% in February, while the margin over the five-year average rebounded towards 13%, having slipped to 10.5% at the end of January. This reflects that the slight upturn in February went against the seasonal trend of recent years.
- 1.1.3 R4L steers continued to fall in price at Scottish abattoirs until mid-February before rebounding and ending the month 0.4% higher than in late January, but still 2.6% below their November high. R4L heifers continued to trade at a premium to R4L steers, ending the month at 413.7p/kg while -U3 young bulls continued to lack direction, averaging 401p/kg during the month.
- 1.1.4 After falling 0.5% in January, the average price in England & Wales fell at a faster pace in the first half of February before rebounding in the second half of the month to end it 0.2% above where it had closed January. After averaging 418p/kg in January, R4L steers slipped to 416p/kg in February.
- 1.1.5 Having trended sharply lower through January, from 1.6% down to just 0.1%, the Scottish premium over E&W for prime cattle remained constrained in February, averaging 0.7% and remaining at an unusually low level. Meanwhile, R4L steers traded at a discount to E&W levels of around 1% for a third straight month, spending most of the month as the lowest of the four GB reporting regions.
- 1.1.6 At prime cattle auction sales in Scotland, steers averaged around 230p/kg through February while heifers averaged 243p/kg. The rate of year-on-year increase was slightly firmer than for deadweight prices, at 8-9%.

1.2 Availability and slaughter

- 1.2.1 BCMS cattle population data for January indicated a continuing strong year-on-year increase in prime cattle on Scottish farms, with lifts of 3-3.5% for males and females aged 18-24 months. Having been down 0.5% year-on-year in October, numbers picked up in England, by around 2.5%, while the increase in Wales accelerated to 5%.
- 1.2.2 There were still slightly fewer cattle on English farms at 24-30 months, meaning that the 18-30 month pool of cattle was up 1.7% in England & Wales overall, while it was up 2.9% in Scotland.
- 1.2.3 Looking forward, numbers were also higher in the younger age categories across GB, although the pace of increase is likely to slow in Scotland due to marginally fewer males at 6-12 and 12-18 months.
- 1.2.4 Having been down by around 6% on the year and by 4% on the five-year average in 2021, prime cattle slaughter at GB abattoirs showed further decline in early 2022, with provisional Defra figures signalling a 13% decrease on the opening month of 2021. In E&W, there was an 11% decline, while the Scottish Government reported a 16% reduction in prime cattle kill north of the border.
- 1.2.5 Prime cattle slaughter at the price reporting abattoirs in Scotland rose strongly from January on a weekly average basis in February. Whilst reaching its highest levels since May 2021, it continued to fall short of year earlier levels, down almost 5%.
- 1.2.6 At E&W price reporting abattoirs, prime cattle slaughter showed a similar pattern to Scotland, rising on a weekly average basis in February but continuing to fall short of year earlier levels, down 4%.
- 1.2.7 A weak end to 2021 for slaughterings across GB resulted in increased prime cattle availability on farms at the turn of the year. Continuing year-on-year declines at the beginning of 2022 in the prime kill across GB therefore suggests that cattle are still backing up, possibly through slower finishing.

- 1.2.8 As a result, the seasonal pattern of slaughter is likely to adjust this year, and the reaction of producers to surging input costs may also have implications for the seasonal availability of prime cattle.

1.3 Mature cattle market

- 1.3.1 Having fallen nearly 7% on the year and by 5% on the five-year average in 2021, Defra slaughter data points to a continuing downwards trend in mature cattle slaughter at GB abattoirs at the beginning of 2022. Provisional January figures point to a fall of 4% year-on-year in E&W, partially offset by the 4% uplift reported north of the border by the Scottish Government.
- 1.3.2 After a strong start to the year at reporting Scottish abattoirs, the number of cows procured deadweight has fallen below its 2021-weekly average in February and 11% behind year earlier levels.
- 1.3.3 After a weak seasonal uplift in prices during January, the cow market has surged in February. Indeed, O+3 grades were up less than 1% in the four weeks to late January, but jumped nearly 8% in February to reach 324.2p/kg. As a result, the year-on-year increase widened to 14%, from 9% in late January, while the margin over the five-year average reached 21%.
- 1.3.4 Tight beef supply and a firm EU beef market are likely to have continued underpinning cow prices through support for the value of price sensitive manufacturing grade beef.

1.4 Market supply and retail demand

- 1.4.1 Estimated UK market supply (production + imports – exports) showed its steepest year-on-year decline of 2021 in December (-7.5%), with reduced domestic production added to by a fall in net imports. This is estimated to have seen the annual supply deficit reach 2.1% at the year-end.
- 1.4.2 Moving into 2022, net supply is estimated to have shown another steep fall, down nearly 5% on the opening month of 2021 as a rebound in net imports partially offset a sharp 8% fall in production.
- 1.4.3 Kantar data for the 12 weeks to February 20 shows firm retail demand, with GB households spending 6% more on fresh beef than two years before. However, significant price inflation resulted in a 2% reduction in sales volumes, with a reduced share of households buying it and buying it less often.
- 1.4.4 Category data continues to highlight strong growth in spending on burgers, up nearly 20% on two years before and outpacing inflation.
- 1.4.5 As indicated, retail price inflation is significant according to Kantar data, with fresh beef and burger prices averaging around 8% higher than two years before. Compared to the previous winter, prices were up almost 10% for fresh beef and by more than 5% for burgers.
- 1.4.6 While the beef & veal index in the ONS' consumer price report (CPIH) rose for a ninth straight month in January, its annual increase slowed to 5.8% having reached 7.3% in December. For historical context, it remained slightly below its 2015 average level.

1.5 UK imports

- 1.5.1 According to HMRC data, UK beef imports reached their second highest monthly total of 2021 in December. However, they fell behind year earlier levels for the first time since March, in part reflecting stock-building in late 2020 ahead of single market exit, and behind the five-year average for the first time since May.
- 1.5.2 Nevertheless, December marked a seventh straight month in which imports accounted for a higher share of UK beef market supply than on average over the previous five years.
- 1.5.3 Reflecting stockbuilding a year earlier, beef imports from the EU in December 2021 fell 10% short of year earlier levels. They were also below their five-year average, but by a much smaller 1%.

- 1.5.4 Imports from non-EU sources continued to exceed year earlier levels in December, up 25%. However, volumes were still 23% below the five-year average, accounting for just 4% of the total.

1.6 Irish Republic and EU market

- 1.6.1 In the Irish Republic, a significant increase in availability for slaughter in the first half of this year seems likely given a strong lift in males and females aged 1-2 years on farms in December 2021.
- 1.6.2 R3 grade steer prices in the Irish Republic finished 2021 at their highest of the year and they have risen further in 2022 despite a rebound in slaughter well above early 2021 levels. Prices firmed by 0.5% in January, accelerating to 4% in February, closing the month at 378.4p/kg.
- 1.6.3 The strength of the upturn in Ireland has seen the Scottish premium (R4L v R3 steers) narrow further, slipping to 9% at the end of February and half its autumn 2021 average.
- 1.6.4 Cattle prices in many EU countries have been surging in recent weeks, and the Scottish R4L steer price was less than 4% above the EU average for R3 grade young bulls at the end of February, compared to a gap of around 20% a year earlier. In Germany, R3 young bulls have passed 440p/kg and O3 cows 370p/kg, while Polish prices have reached 375p/kg and 325p/kg respectively.

1.7 UK exports

- 1.7.1 UK beef exports continued to trend higher in December, reaching an annual peak. While lagging December 2020 levels, when sales had been brought forward in advance of the introduction of EU customs controls, volumes exceeded their five-year average by 5%.
- 1.7.2 Export performance held firm relative to tight domestic supply, with the share of production exported marginally higher than in December 2020 and exceeding the five-year average for a third month.
- 1.7.3 Exports to EU countries reached an annual peak in December but lagged year earlier levels, down 2.4%. While volumes remained behind their five-year average, the gap narrowed to less than 2%.
- 1.7.4 While non-EU trade softened relative to 2020 for a second month in succession, down 15%, past growth meant that volumes still held well above the five-year average (+54%).

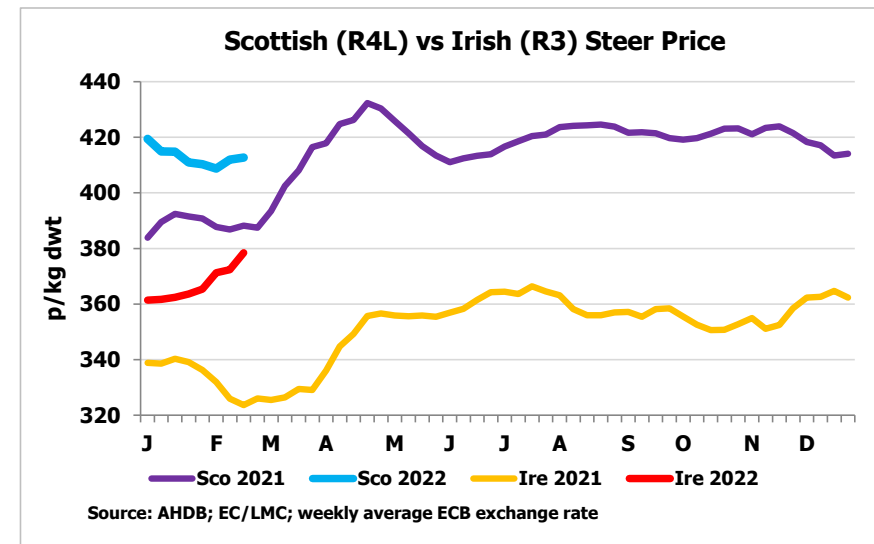
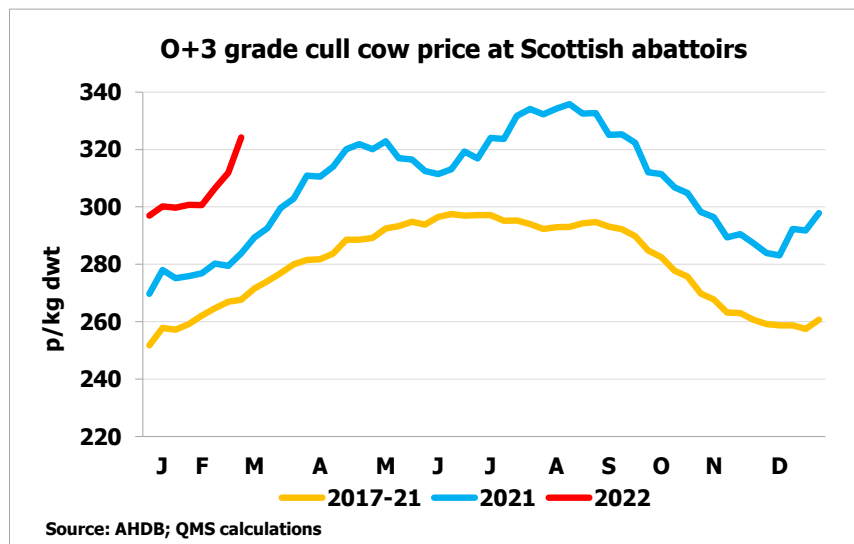
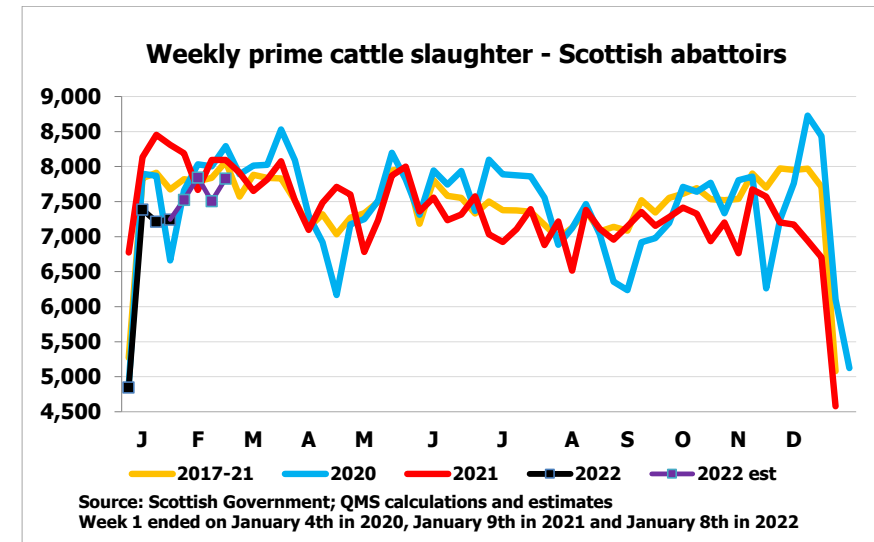
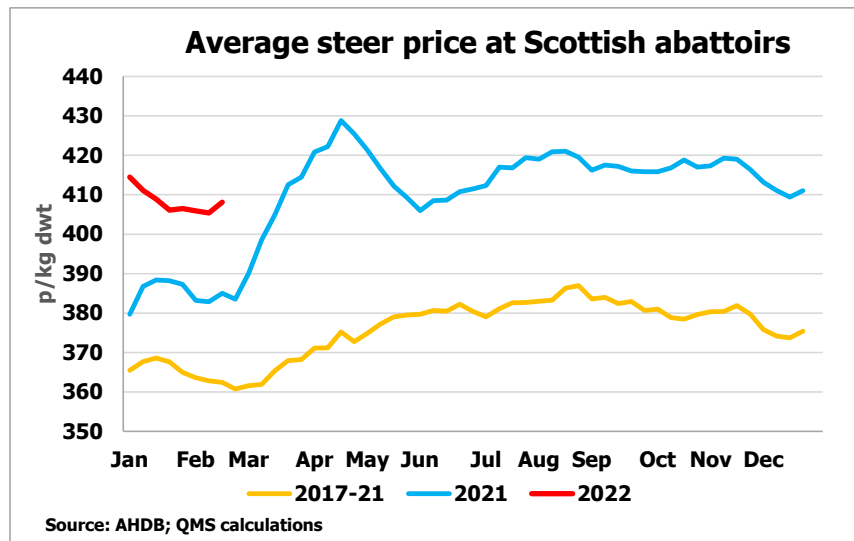
1.8 By-product market

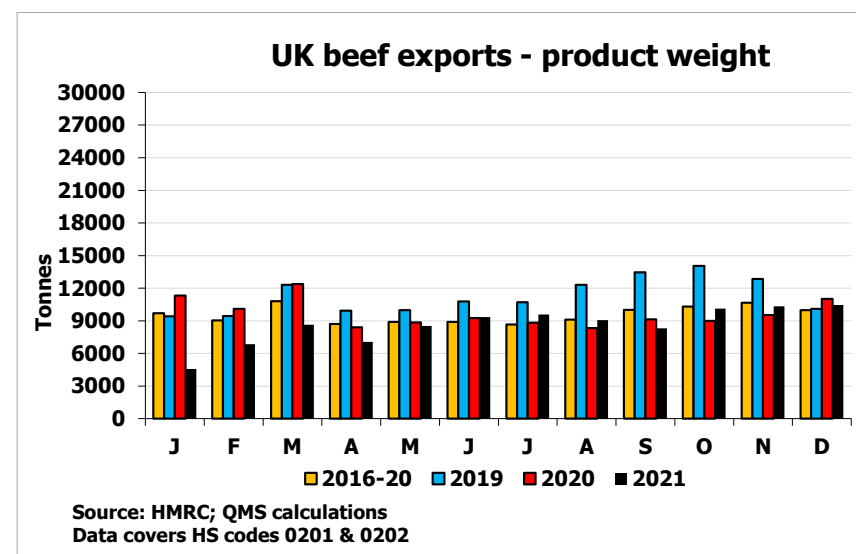
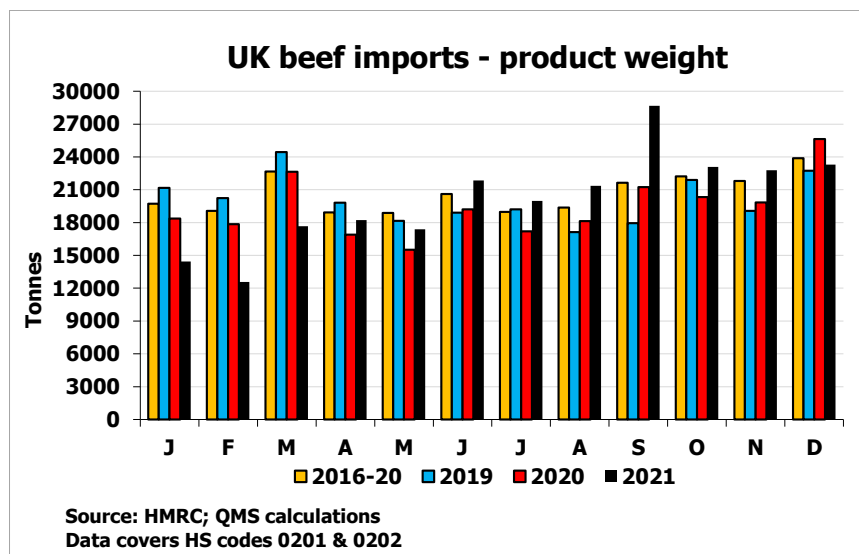
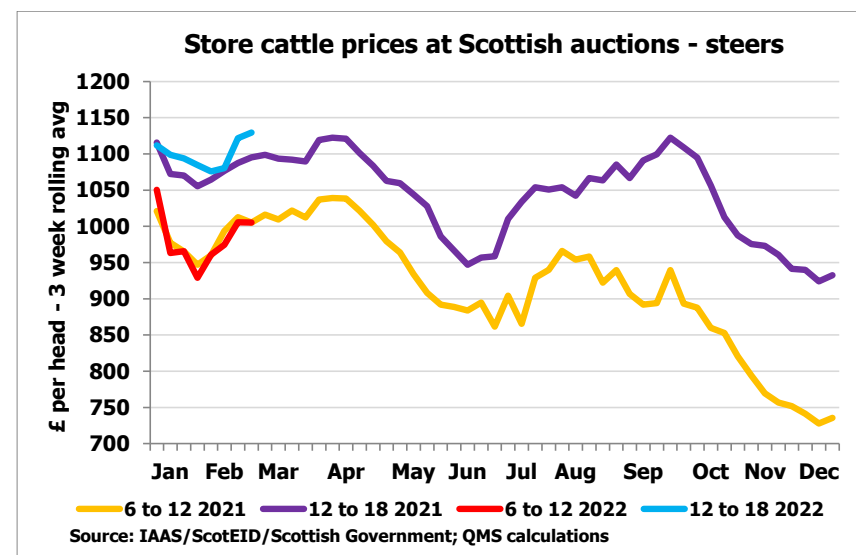
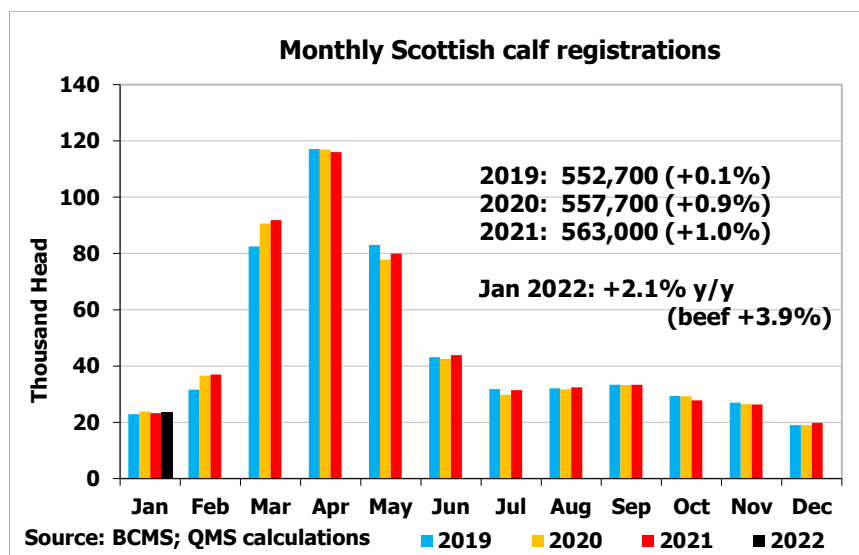
- 1.8.1 After sliding 18% between mid-November and the year-end, steer by-product value in the USA has been fluctuating in a narrow range in 2022. Hide value rebounded slightly in February.
- 1.8.2 Throughout February, steer by-product was valued 45-50% higher than a year earlier and closed the month worth 22.9p/kg lwt. In contrast to the overall trend, hide value remained lower than in 2021.

1.9 Store cattle trade

- 1.9.1 The number of steers and heifers aged 6-18-months sold at store cattle sales at Scottish marts rose seasonally in February, but remained well below their expected spring peak. However, the lift from January was weaker than in 2021 and 11% fewer were traded in February than a year earlier.
- 1.9.2 Average prices paid for store cattle in February trended higher after falling back through January and cleared at a higher level than in the previous month. For steers aged 6-12 months, prices averaged 5.5% higher than in January, at £1,004, while prices for the 12-18 month group rose 2.6% to £1,119.
- 1.9.3 Store heifers averaged £900 at 6-12-months and £1,035 at 12-18-months in February.
- 1.9.4 Store cattle values continued to closely match year earlier levels, with the February average up marginally for steers aged 6-12 months and by 2.6% in the older group. Heifers were down by nearly 1% in the younger group but a fraction dearer in the older category.

1.10 Cattle Charts





2.0 *Sheep Update*

2.1 Farmgate prices – prime sheep

- 2.1.1 Lamb prices showed a slight rebound at GB reporting abattoirs in the first half of February, having trended downwards since mid-December. However, there were renewed declines in the second half of the month.
- 2.1.2 Medium (16.5-21.5kg) R3L carcasses ended February 1.3% below where they had closed January, averaging 573p/kg. This was 21% below the new season peak and the lowest level since the beginning of November.
- 2.1.3 Given a very firm start to 2021, prices fell behind year earlier levels in the second week of the month and ended it down 7%. Meanwhile, the increase over the five-year average slowed to 17%.
- 2.1.4 At Scottish marts, lamb prices spent much of January trading around the 265p/kg lwt mark. In February, they traded at a slightly lower level, averaging closer to 260p/kg and around 25% below their new season peak. They ended the month down 7% year-on-year.
- 2.1.5 The margin over the five-year average softened further through February, slipping to 16% in the week to March 2.
- 2.1.6 Prices traded at a fairly consistent discount of around 2% to the E&W average through February at Scottish marts.

2.2 Availability and slaughter

- 2.2.1 Combining June Census results for Scotland (+1%), England (-4%) and Wales (+6%) indicates that the GB lamb crop in 2021 was down 0.8% on the year and by 2.6% on the five-year average.
- 2.2.2 Between June and December, the lamb kill fell 12% on 2020 and by 10% on the five-year average at GB abattoirs. Set against the small reduction in lamb crop, this points to an increased carryover of hogs into 2022.
- 2.2.3 While this may have been weighing on market prices, it has presented an opportunity for an increased market share for domestic product on the home market and to grow exports.
- 2.2.4 At GB abattoirs, provisional January slaughter data points to this expected higher carryover beginning to materialise as prime sheep slaughter exceeded year earlier levels by nearly 5%. This reduced the year-on-year shortfall in the cumulative kill since June to 10%.
- 2.2.5 In January, E&W abattoirs handled 7% more lambs than a year earlier, while the latest Scottish slaughter statistics are showing a 2% uplift in Scotland; though numbers were still well behind the five-year average for the month.
- 2.2.6 Hogg marketings at GB auction sales averaged 3% per week higher in the four weeks to March 2 than in the five weeks to February 2. However, they were still down over 9% on their August to December average, reflecting the seasonal balance of supply. Nevertheless, for a second month in a row, volumes exceeded year earlier levels, up 2%.
- 2.2.7 At Scottish marts, numbers picked up more strongly between January and February, averaging 14% higher per week, and showed less of a seasonal reduction from their August to December average, down 2.5%. However, they continued to trail year earlier levels, by 4%.

2.3 Mature sheep trade

- 2.3.1 Having fallen 15% in 2020, Defra slaughter figures highlight an even steeper fall of 20% in mature sheep processing at GB abattoirs in 2021.
- 2.3.2 January 2022 slaughter data points to a sharp rebound in GB mature sheep slaughter, up 20% on the year. However, it was still 27% below its 2016-20 average for the month.
- 2.3.3 At Scottish marts, cull ewe marketings averaged slightly higher in the four weeks to March 2 than in the five weeks to February 2 but remained well below their autumn peak and were down slightly on 2021, supporting market prices.
- 2.3.4 Cull ewe values trended higher through February, returning towards the peak seen in mid-January and reaching the average level seen between April and July 2021 (£96).
- 2.3.5 The weekly average ewe price in February was £92, slightly below the January level but 19% higher than last year.

2.4 Market supply and retail demand

- 2.4.1 Having fallen nearly 9% from 2020 levels in the year as a whole, and particularly sharply between July and November, UK sheepmeat supply is estimated to have edged above year earlier levels in December, running 0.7% higher, as a return to a more normal level of net exports offset a continuing contraction in production.
- 2.4.2 Moving into 2022, an initial estimate has supply falling 1% behind January 2021 levels due to an expectation of a strong rebound in exports more than offsetting a recovery in production.
- 2.4.3 According to Kantar, GB household spending on fresh lamb was up more than 12% from two years before in the 12 weeks to February 20. However, retail price inflation continued to accelerate, resulting in a significant reduction in the volume bought (-6%). In a possible sign of price sensitivity, the reduced share of households buying lamb also bought it slightly less often; in late 2021, frequency of purchase had remained elevated.

2.5 UK imports

- 2.5.1 Although the volume of sheepmeat imported to the UK showed a second month of seasonal upturn in December, it continued to prove historically weak, down nearly a quarter on the year and by more than a third on the five-year average.
- 2.5.2 In December, imports accounted for only 18.1% of market supply, more than eight percentage points below the five-year average.
- 2.5.3 Legs accounted for 48% of imports volumes in December, down from 52.5% in November but slightly above the annual average level (45.5%).

2.6 NZ market update

- 2.6.1 NZ exporters continue to target the Chinese market where wholesale lamb prices remain firm at around £8.50/kg. This focus continues despite firm prices available in the UK for lamb legs, reported at over £7.10/kg by the NZ Farmers Weekly and up 40% year-on-year in NZD.
- 2.6.2 Beef + Lamb NZ are projecting a 1% decline in lamb export volumes in the October 2021 to September 2022 season, but at significantly higher prices (+14%).

2.7 UK exports

- 2.7.1 UK sheepmeat export volumes set a year-to-date peak for a sixth straight month in December. However, after almost matching year earlier levels in November, they fell behind by 23% in December as shipments had surged a year earlier ahead of single market exit and the introduction of EU import controls.
- 2.7.2 Export volumes were 18% below their five-year average in December compared to a 19% shortfall in the year as a whole.
- 2.7.3 The volume exported to the EU reached a year-to-date high in December but still lagged its year earlier total by 19% and five-year average by 17%. Sales of fresh lamb carcasses continued to account for the vast majority of exports to the EU, at 83% of trade in December.
- 2.7.4 Non-EU exports ended 2021 with an eighth straight month of year-on-year decline. They accounted for 5% of total export volumes compared to 9% in the year as a whole.

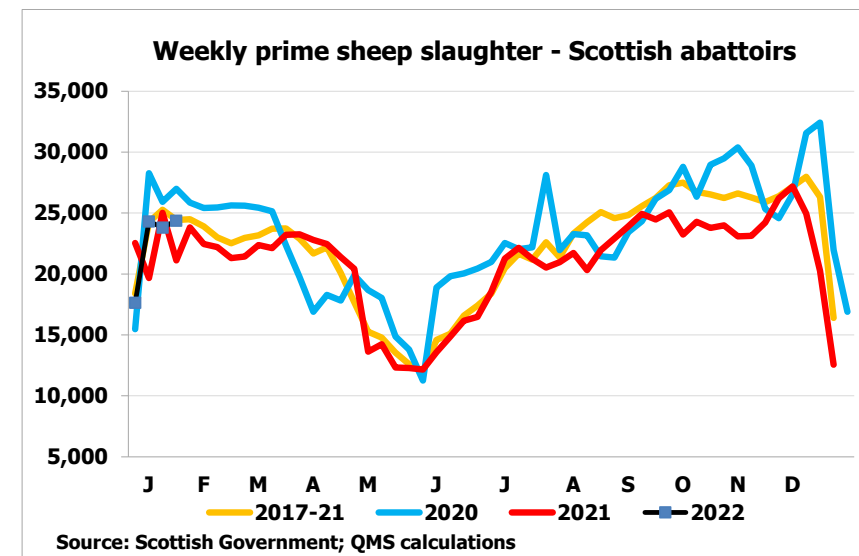
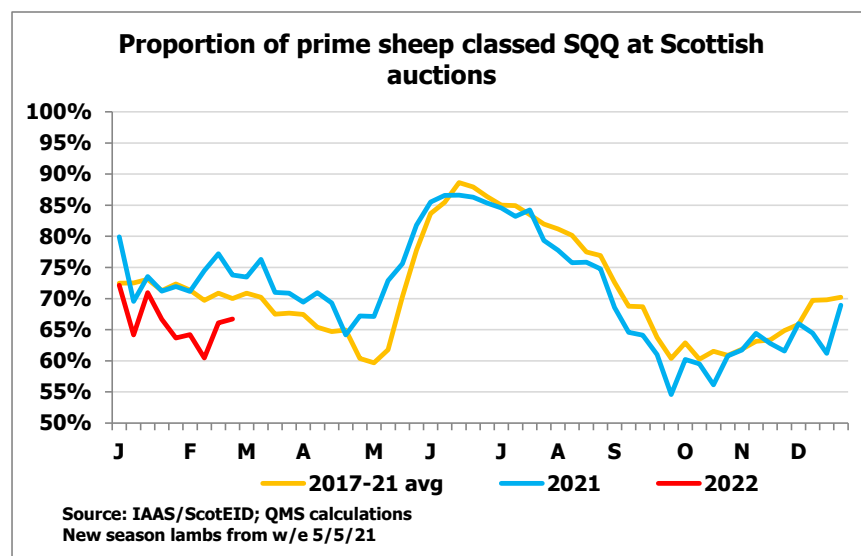
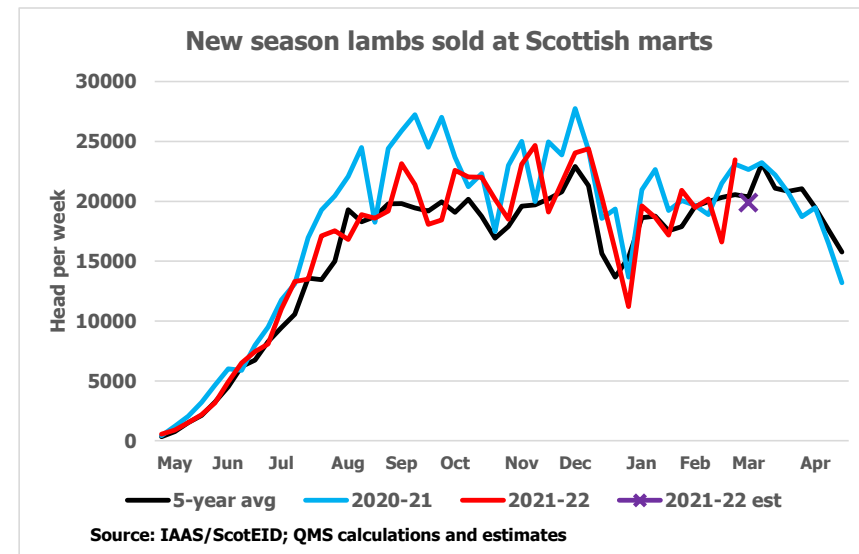
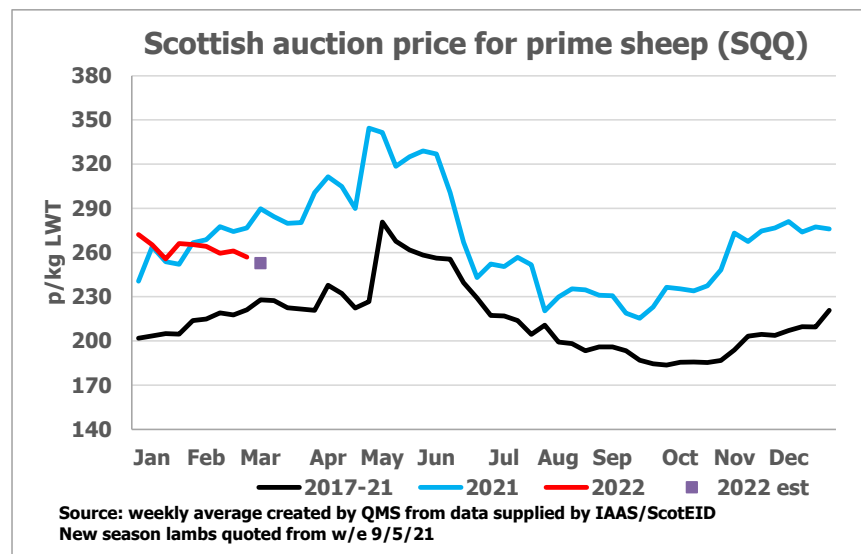
2.8 French lamb market

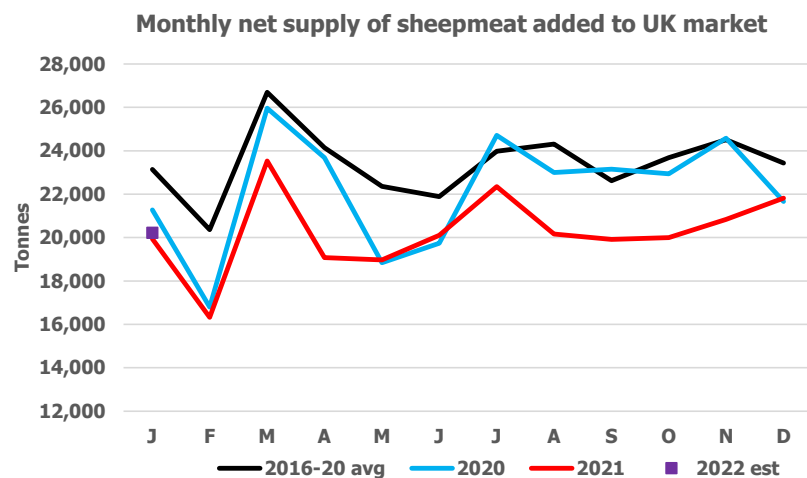
- 2.8.1 Comparing the GB deadweight lamb price and wholesale carcass prices for imported UK lamb at Rungis market in Paris provides a good indicator of export competitiveness.
- 2.8.2 GB export competitiveness in the French market has spent much of 2022-to-date at around its 2021-average level, with the price at Rungis 8-11% higher than the GB deadweight price, compared to the weekly average margin of 8.9% in 2021.
- 2.8.3 Imported carcasses at Rungis wholesale market converted to an average of £6.34/kg in the final week of February but a rise in sterling into March has seen this fall back below £6.30/kg.
- 2.8.4 Imports trade at a discount to domestic product at Rungis, with this working out at 12% for 16-22kg R grade carcasses with medium fat cover on March 7th.

2.9 Store lamb trade

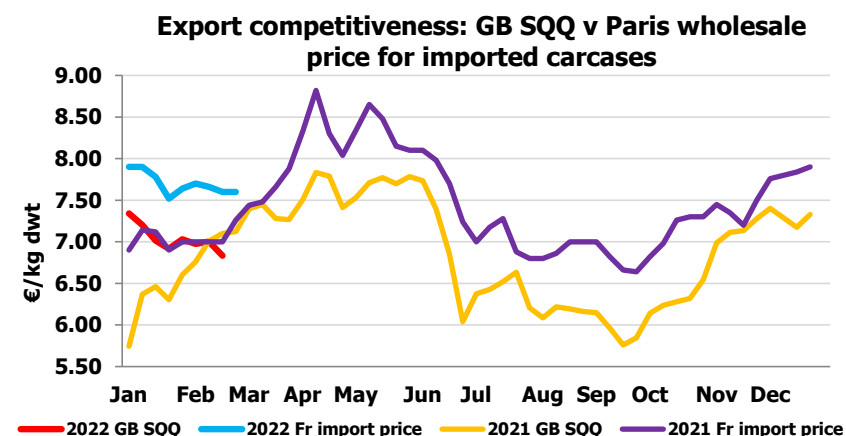
- 2.9.1 During February, an average of nearly 3,300 store hoggs were traded each week at Scottish marts, at an average selling price of £78.80. Marketings were down by roughly a third from January but prices were, on average, unchanged.
- 2.9.2 The number of store hoggs being sold continued to exceed year earlier levels, following a 3% increase in January by being up closer to 4%. Meanwhile, the average selling price went from around 2% behind year earlier levels in January to 4% lower in February.
- 2.9.3 During February, Blackface lambs averaged £68, Cheviots £78.40, Suffolks £91.80 and Texels £90.10, with only Suffolks selling for less than in January. For Blackface and Texels, these were declines of 5-6% on 2021 but Cheviots and Suffolks cleared 2-3% higher.

2.10 Sheep Charts

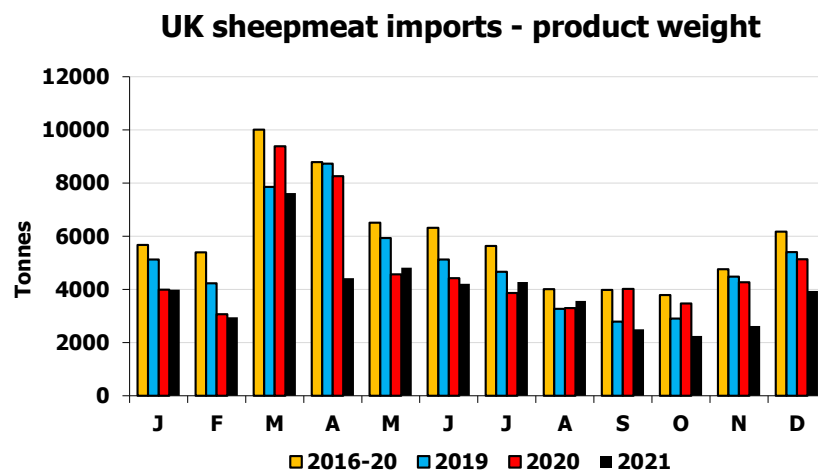




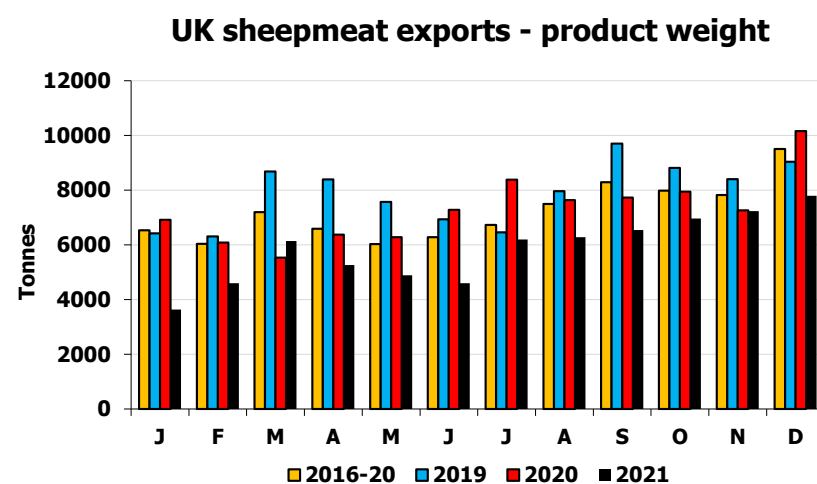
Source: QMS calculations from Defra slaughter statistics and HMRC trade data
Trade data based on HS0204 in product weight and January 2022 volumes are estimated



Source: AHDB; FranceAgriMer; weekly average ECB exchange rate
New season GB lambs from w/e 23/5/21
Wholesale price is for a 16-22kg imported carcass, grading R and with medium fat cover, at Rungis market in Paris



Source: HMRC; QMS calculations
Data covers HS code 0204



Source: HMRC; QMS calculations
Data covers HS code 0204

3.0 Pigs Update

3.1 Farmgate prices – prime pigs

- 3.1.1 Prime pig prices showed signs of a seasonal rebalancing in February. In the final week of the month, at 138.1p/kg, the GB Standard Pig Price (SPP) was 0.1% higher than in late January while, at 141p/kg, the average price for carcasses weighing 70-104.9kg was only 0.5% lower.
- 3.1.2 While heavy carcasses face significant price penalties due to the reduced sell-on value of their component cuts, the discount for those weighing at least 105kg compared to those at 80-89.9kg narrowed further, to around 11% in February from 13% in January and an average of 19% between April and October 2021.
- 3.1.3 Since the market has fallen at a slower pace than in early 2021, the year-on-year decline eased further in February, ending the month at 0.5%. For carcasses weighing 70-104.9kg, prices were actually slightly higher than in 2021 in the final three weeks of the month.
- 3.1.4 However, reflecting that the winter of 2020/21 had also been a very a challenging time for the pig market, the discount to the five-year average closed February 2022 at almost 6%.

3.2 Carcase weights

- 3.2.1 The share of standard carcasses weighing at least 105kg at reporting abattoirs averaged around 18% for a second month in February. In the distressed market conditions of early 2021, due to the temporary closure of some processing sites, this proportion had reached 5-6%, while it had fallen as low as 1.5% in the summer of 2021.
- 3.2.2 Carcase weights were slightly lower, on average, at SPP reporting abattoirs through February than in January, dipping to around 95kg, but they remained seasonally higher than in late-2021. Having reached 7% at the end of January, the year-on-year increase in weights slowed through February, ending the month at 5.1%, but this was still above the Q4 2021 average.
- 3.2.3 Significantly higher carcase weights continued supporting the average price per carcase, which closed February 5% higher than a year earlier and 4% above its five-year average.

3.3 Availability and slaughter

- 3.3.1 Defra reported a 1.7% year-on-year increase in prime pig slaughter at GB abattoirs in 2021, with numbers rising 4% in the January to May period before falling in the final seven months.
- 3.3.2 With abattoirs unable to raise output to meet an increased number of fattening pigs on farm, the backlog of pigs grew in the second half of the year and, by December, the year-on-year increase in fattening pigs on English farms had reached 11%.
- 3.3.3 In Scotland, December census results have not yet been published but based on herd sizes in June 2021, it could have pushed the GB-wide backlog to over 190,000.
- 3.3.4 Moving into 2022, January saw a 5% rebound in GB prime pig slaughter from a year earlier. However, throughput had been constrained in early 2021 by temporary abattoir closures and volumes still trailed their January 2016-20 average by 7%.
- 3.3.5 Slaughter of standard pigs at GB price reporting abattoirs averaged significantly higher in February than in the opening month of the year. However, it continued to trail year-earlier levels, suggesting limited inroads have been made to the backlog.

- 3.3.6 Having shown some recovery in the final quarter of 2021, the prime pig kill fell substantially at Scottish abattoirs in January, likely influenced by the sale of Brechin abattoir at the end of the month.
- 3.3.7 However, it is hoped that the change in ownership of Brechin abattoir will eventually lead to a recovery in slaughterings, while the subsequent conversion of these carcasses into cuts of pork and other pigmeat products in Scotland will add value to the Scottish economy.

3.4 Cull sow trade

- 3.4.1 While sow slaughter at Scottish abattoirs contracted by 18% in the calendar year of 2021, throughput exceeded year earlier levels by 8% from April onwards. The weekly average in January 2022 was then higher than April to December levels.
- 3.4.2 At GB level, the sow kill had ended last year on a high, with significant increases in November and December taking numbers in the calendar year marginally higher than 2020. Sow slaughter then surged nearly 60% above 2021 levels in January.
- 3.4.3 Based on UK exports of pig carcasses, sow prices fell sharply through the autumn but while they did steady in the final month of the year, they were still down nearly 7% year-on-year.

3.5 Pigmeat supply and retail demand

- 3.5.1 UK pigmeat supply is estimated to have held above year earlier levels in December, running 3% higher as production was nearly 4% higher due to increased carcass weights while net import levels were similar due to similar sized declines in both (in volume terms).
- 3.5.2 Kantar data for the 12 weeks to February 20 continued to signal firm pigmeat demand in GB as spending on fresh pork was 11% higher than two years before, underpinned by a higher share of shoppers buying it and buying it more often. In the processed ranges, demand for cooked meats remained strong, with spend up 12.5%, but sausages showed a weaker increase of 5% and spending on bacon rashers declined by 3%.
- 3.5.3 In the 12 weeks to late February, the Kantar data showed much weaker pork price inflation than for beef and lamb, with fresh cuts averaging 1.2% dearer than a year earlier and up by less than 3% on two years before. Bacon rashers were cheaper than both a year earlier (-1%) and two years before (-3%), without stimulating demand.

3.6 UK imports and EU market conditions

- 3.6.1 UK pork imports slipped to a five-month low in December, proving 20% lower than in 2020 and down 23% on the five-year average, reflecting a well-supplied market. By contrast, imports of bacon & ham showed a ninth month of year-on-year growth (+6%); though volumes still trailed the five-year average (-4%).
- 3.6.2 The net result was a year-on-year decline of 11.5% in overall pigmeat imports – the steepest since March – while lagging the five-year average by 16.5%.
- 3.6.3 EU pig prices have started to climb significantly in February for the second year in a row, rising 1% in the third week of the month and by 3% in the final week. Forecasts for the key German market point to a further uplift into March and then a surge in the second week of the month.
- 3.6.4 Having averaged around a third during the autumn, the GB premium over the EU pig price softened to a fairly consistent level around 27% between mid-December and mid-February. However, it ended the month at 22%, with EU prices for E grade pigs reaching 113p/kg, and the German price forecast suggests it could drop below 10% by mid-March.

- 3.6.5 EU December 2021 livestock survey results reported year-on-year reductions of 5-6% in the fattening pig categories so it seems likely that a tightening of supply has been a significant contributor to the market rebalancing, along with seasonality. It is possible that a surge in population in Eastern member states was also a factor in the sharp rise in the German quote.
- 3.6.6 Latest UK import data for December indicated a slowing of the year-on-year decline in average price of pork imports from the EU to 4%. This followed two months at -14% and was the second weakest of the year behind June. The current rebalancing of EU prices is likely to limit the option of a cheaper alternative from abroad, supporting values across the supply chain.

3.7 UK pigmeat exports

- 3.7.1 In December, UK pork exports fell slightly from November's six-month high and continued to run well behind year earlier levels, down 24%. They were 6% below the five-year average.
- 3.7.2 Monthly exports to the EU dipped on the month but were still the second highest of the year in December and trailed year earlier levels by 13% compared to a calendar year fall of 40%. Exports to non-EU countries reached a six-month high and, while 31% behind 2020 levels, they were still up 19% on the five-year average, accounting for 58.5% of total shipments.

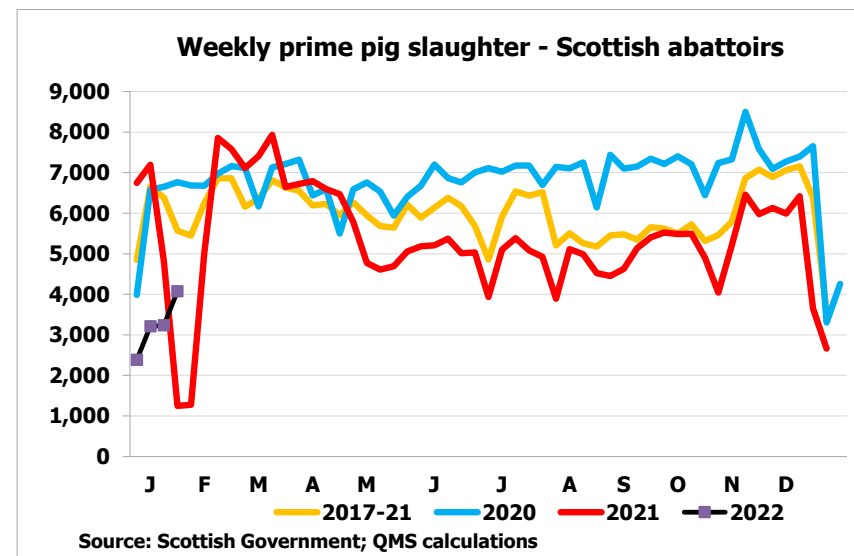
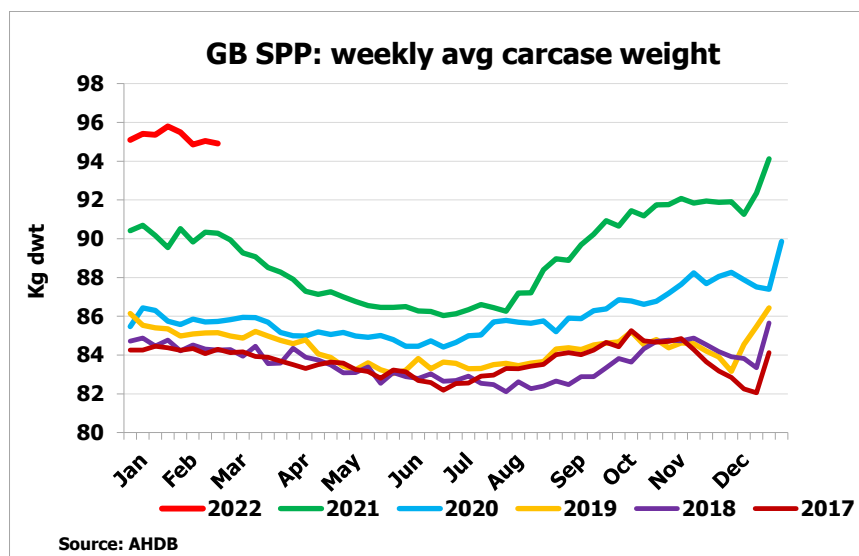
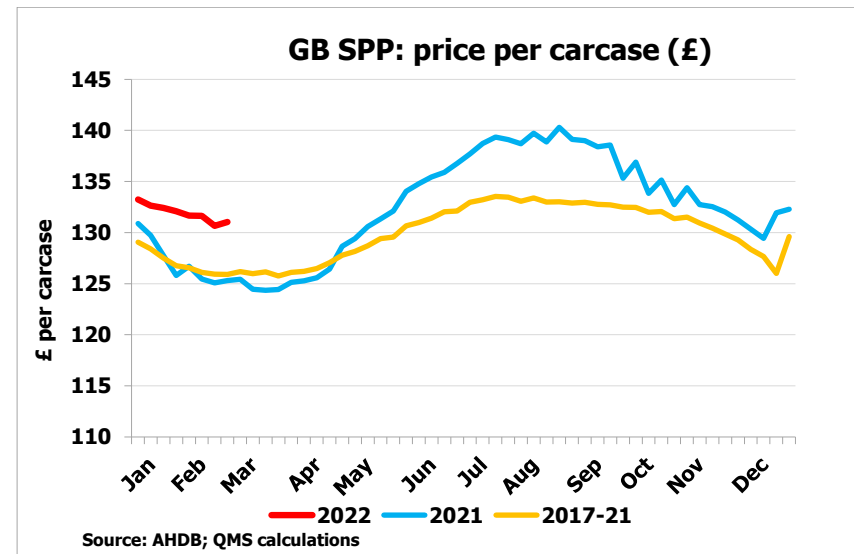
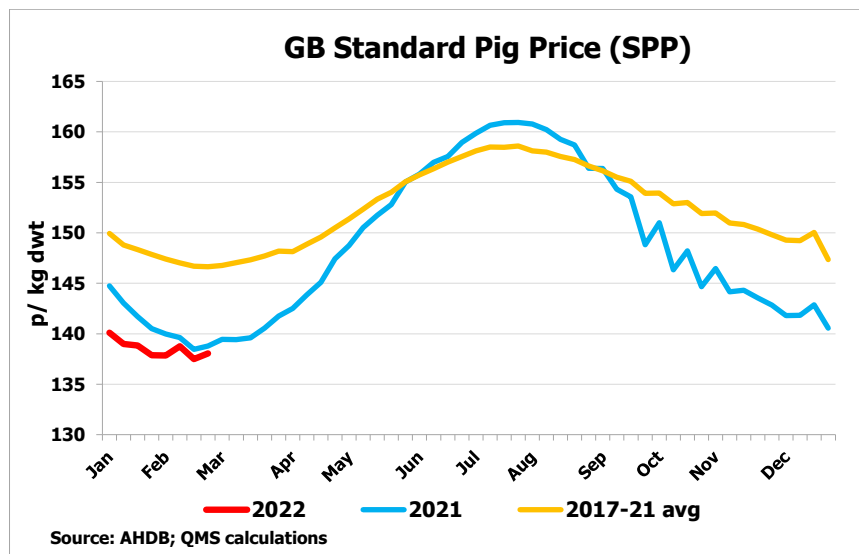
3.8 Chinese pork market

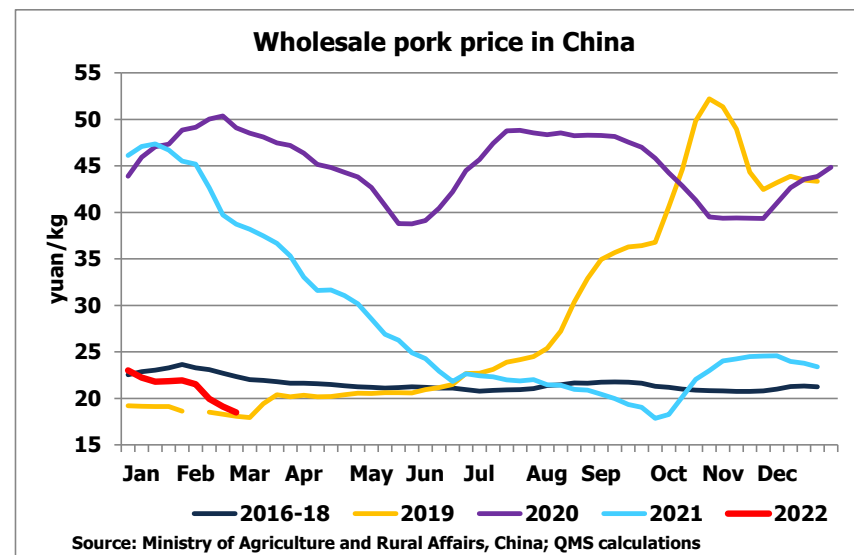
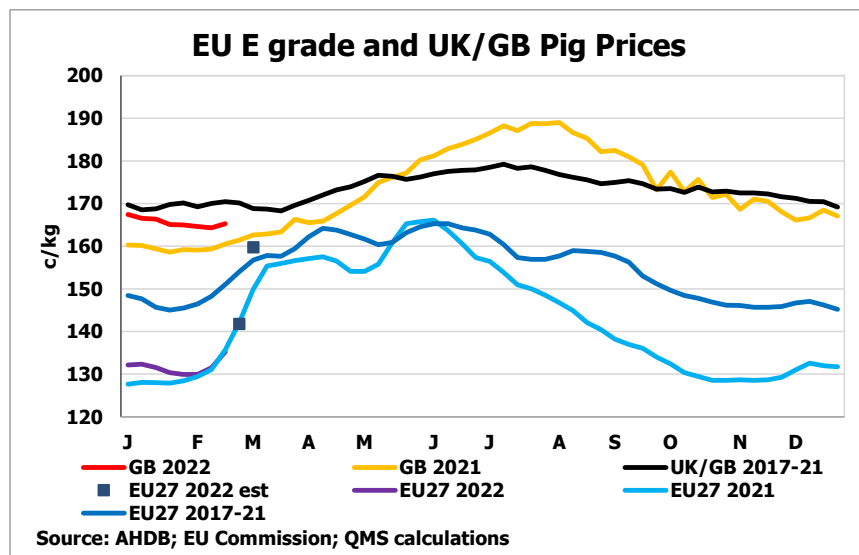
- 3.8.1 Exports to China/Hong Kong have underpinned overall UK pork exports in recent years, and although annual volumes declined by 30% in 2021 and its share of the total slipped back by three percentage points to 45.5%, it remained a vital market. In December, volumes sold to China recovered to a six-month high but were still 43% below 2020 levels.
- 3.8.2 The cost of wholesale pork in China has taken a sharp seasonal decline since the Chinese New Year holidays, declining by 16% over four weeks. This left prices in the first week of March 4% above their October 2021 low and 17% below their 2016-18 average for the time of year.
- 3.8.3 Given high feed costs, the authorities have started adding pork to state reserves in attempt at stabilising the market, and farmgate futures prices continue to signal that market participants are expecting a recovery through the summer and into the autumn.
- 3.8.4 Although USDA forecasts point to a further reduction in China's pork import requirements in 2022, imports are set to hold nearly three times higher than pre-ASF levels.

3.9 Feed costs – additional pressure on margins

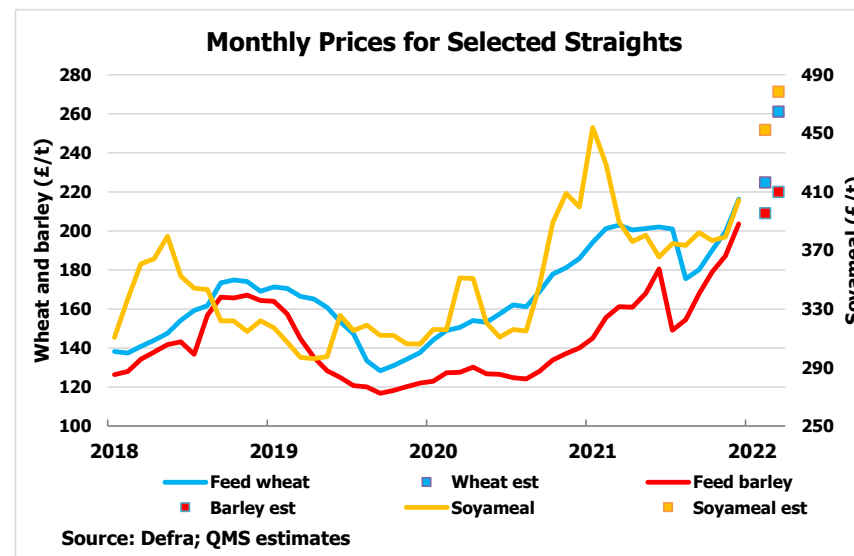
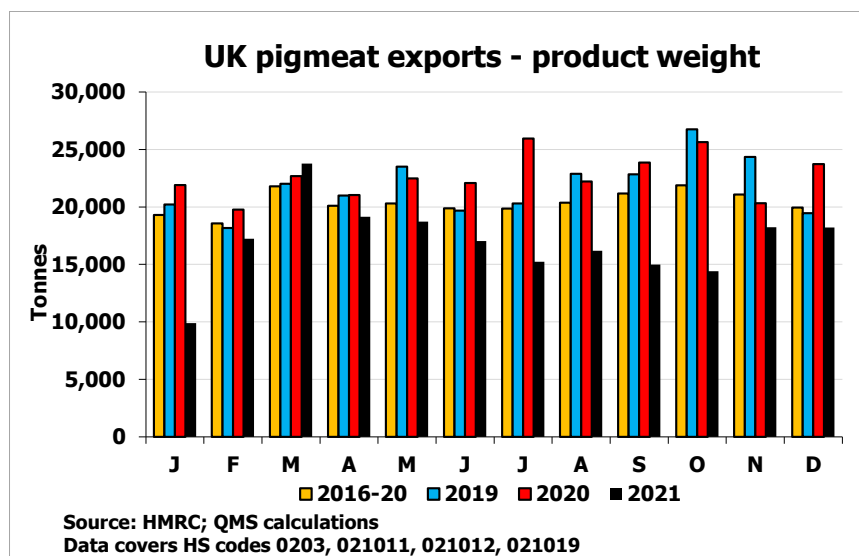
- 3.9.1 The pace of increase in Defra's monthly straights prices for feed wheat and barley softened into 2022, with respective lifts of 1% and 3%. However, soyameal rose by 7% for a second consecutive month. Despite this recent pressure, soyameal proved cheaper than in January 2021, when it had spiked, but wheat was up 12% on the year and barley by 44%; the latter resulting in only a 5% premium for wheat over barley, down from 25% in January 2021.
- 3.9.2 Political tensions in Russia and Ukraine and the anticipated negative impact from dry weather on grain and soya crops in South America underpinned arable crop prices in early 2022.
- 3.9.3 Following Russia's invasion of Ukraine in late-February, wheat and barley prices spiked further due to the major uncertainty over the continuing flow of crops onto the global market from ports in the Black Sea region, plus uncertainty over the crop being planted this spring.
- 3.9.4 Defra's compound pig feed price series returned to its upwards trend in Q4 2021 after a brief dip in Q3 and reached a new record high, up 12% on Q4 2020. Since then, further increases in grain and oilseed prices are likely to have been passing through to the cost of compounds.

3.10 Pig Charts





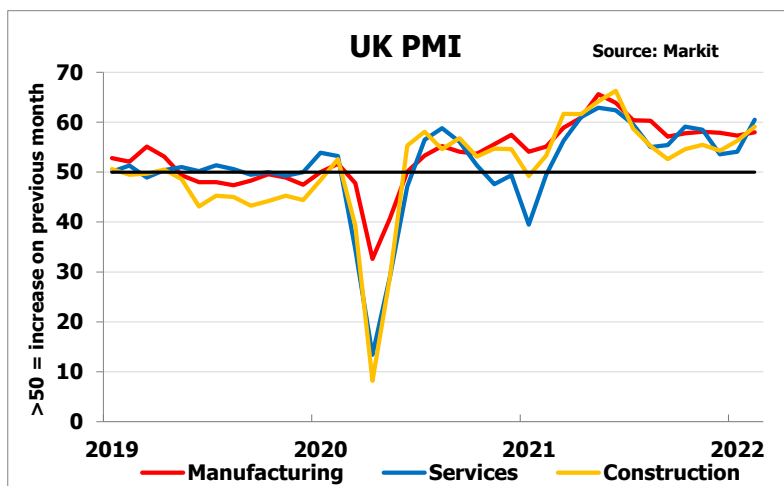
3.11



4.0 Business Environment

4.1 Business activity

- 4.1.1 UK economic output (measured by Gross Domestic Product or GDP) slipped back by 0.2% in December, returning it to its February 2020 level, driven by a 3% fall for consumer-facing services, including an 8% reduction for food and beverage services.



4.1.2 The closely watched PMI monthly business surveys carried out by Markit signalled a significant upturn in UK private sector activity growth in February.

4.1.3 Scores in the services and construction sectors returned to their highest levels since summer 2021, while manufacturing activity edged above its

average since September, with activity supported by rising demand as public health restrictions were relaxed.

- 4.1.4 An outlook of rising demand meant that firms continued to hire new workers, although labour shortages in some sectors were a limiting factor.
- 4.1.5 While supply chain challenges continued, firms did report that pressures had eased from their peak; although substantial upwards pressure on input costs remained.
- 4.1.6 In the Scottish Government's regular business surveys, the share of accommodation and food services sector firms fully trading recovered to 82% in the February 7-20 period, up from 70% in the previous fortnight and 60% around the turn of the year. However, 41% still reported that turnover was unusually low for the time of year.

4.2 Consumer Price Inflation

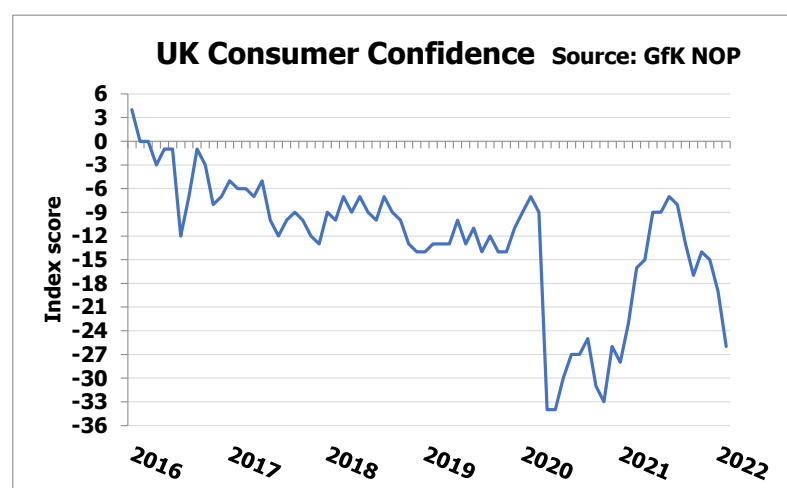
- 4.2.1 The ONS' favoured measure of inflation, the CPIH, continued increasing into 2022, reaching an annual rate of 4.9% in January, almost double the annual rate in 2021 as a whole and four points higher than in January 2021.
- 4.2.2 Even before the spike in oil and gas prices after the Russian invasion of Ukraine, the Bank of England had been expecting inflation to exceed 7% in Q2 2022.
- 4.2.3 Rising energy costs and supply chain pressures have seen stronger inflation rates in the cost of goods than for services. Indeed, the overall measure of goods price inflation reached 7.2%, having began 2021 at -0.2%, whereas services inflation steadied at 3.1%; although this has nearly doubled over the past year, likely reflecting higher input costs, including wages.
- 4.2.4 In January, energy cost inflation slowed for a second month but remained substantial, at 23.2%, with fuel inflation slowing to 24.6%.

- 4.2.5 After jumping two points in December, food price inflation stabilised at 4.5% in January. Vegetable oil prices have risen strongly in line with global oilseed and energy markets but inflation in the bread & cereals category remained below average, edging up to 3.6%, suggesting limited pass through of rising wheat prices so far. Meanwhile, inflation of ready meals slowed to 3.9%, the weakest rate since September.
- 4.2.6 Catering services inflation edged up on the month but remained lower than at its autumn peak, with prices up 4.4% on the year in January.

4.3 Labour Market

- 4.3.1 ONS labour market data shows that the headline employment rate in Q4 2021 remained below its pre-pandemic level, at 75.5% down from 76.6% in December 2019-February 2020. Unemployment remains slightly higher than pre-pandemic but most of the difference reflects a reduction in labour force participation, mainly in those aged 50-64, driven by long-term sickness.
- 4.3.2 The number of vacancies in the UK has continued to trend higher, with provisional figures for November to January signalling a 9.5% increase on the previous three-month period and more than double year-earlier levels.
- 4.3.3 While average weekly earnings also continued to rise in Q4 2021, a 4.3% year-on-year increase meant that wages fell slightly in real terms.
- 4.3.4 This squeeze in real wages is set to intensify in 2022 as rising energy and other commodity costs filter through supply chains and maintain upwards pressure on consumer prices.

4.4 Consumer Confidence



4.4.1 After a brief pause in late 2021, the sharp fall seen in GfK/NOP's long running survey of consumer confidence during the autumn of 2021 returned in early 2022, with a rising cost of living driving sentiment.

4.4.2 After a fall of 4 points to -19 in January, the index slipped another 7 points in February to a 13-month low.

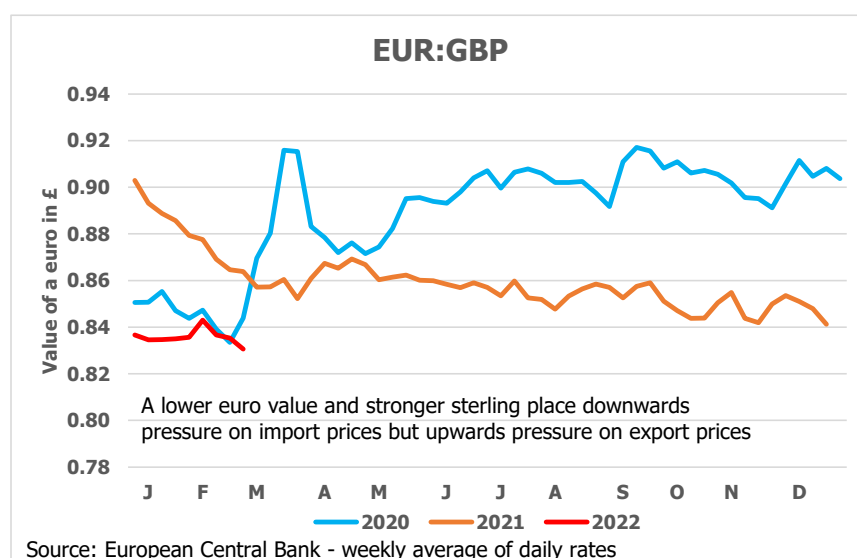
- 4.4.3 Although people remained much more negative about the general economic environment than of their own household financial conditions, the indices relating to personal financial conditions fell deeply into negative territory. Indeed, for personal finances in the year ahead, the score dropped 12 points to -14.
- 4.4.4 Sentiment around making large purchases declined by another 5 points, having dipped by 4 in January and 3 in December, while a net balance of households continued to favour saving money.

4.5 Exchange Rates:

	w/e 6/3/22	February 2022			w/e 7/3/21	February 2021		
		Low	High	Avg		Low	High	Avg
€:£	83.1p	83.2	84.7	83.8	86.4p	86.0	88.2	87.3
\$:£	75.0p	73.4	75.3	73.9	71.8p	70.8	73.4	72.1
NZD:£	50.9p	48.7	50.4	49.3	52.0p	51.6	52.7	52.2

Euro rates sourced from the ECB; averages for USD and NZD rates calculated by QMS from daily rate published by the Bank of England
Note: an increased value in pence means a fall in the relative value of sterling, supporting export competitiveness and pushing up import costs

- 4.5.1 Regular changes in the outlook for monetary policy caused some volatility in the sterling to euro exchange rate in Q4 2021. Sterling then firmed more consistently at the beginning of 2022 as the Omicron wave dissipated and the expected path for interest rates shifted towards more regular increases in the UK.
- 4.5.2 After a brief weakening in early February after euro area policymakers signalled that higher interest rates were on the way, sterling quickly returned to its January position.
- 4.5.3 In February, sterling averaged 4% stronger than a year earlier and marginally higher than its 2021-closing value.



4.5.4 Financial market volatility since the Russian invasion of Ukraine gave a boost to the value of sterling relative to the euro, and a euro bought around 82.5p on March 3-7. However, it moved above 83p again on the 8th.

4.5.5 Although a stronger sterling has reduced the competitiveness of domestic products, it is still significantly weaker than its mid-2014 to mid-2016 peak.

- 4.5.6 Despite two interest rate increases in the final quarter of 2021, New Zealand's currency weakened significantly. However, it reversed course in late-February, supported by a third rate increase, returning it close to its average level through 2021.
- 4.5.7 The US dollar rose significantly in the second half of 2021 due to a stronger shift in monetary policy expectations than in the UK, where inflation has risen by less. Some of this pressure reversed in January but it returned in late February as geopolitical uncertainty boosted the value of the US dollar through its 'safe-haven' status.
- 4.5.8 While firming further into March, the USD has risen back to around where it was at the time of the Presidential Election of 2020 and is well below the March 2020 peak.
- 4.5.9 Nevertheless, a rising US dollar will have reinforced the spike in global commodity prices when converted into sterling.