



MARKET REPORT - JANUARY 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.*

Prepared By: Iain Macdonald, Senior Economics Analyst

Contact: info@qmscotland.co.uk

Date: 8/2/2022

Quality Meat Scotland is a Non-Departmental Public Body. This advice is provided under the Quality Meat Scotland Order 2008 Schedule 1 point 18 ' Advising on any matters relating to the red meat sector (other than remuneration or conditions of employment) as to which the Scottish Ministers may request Quality Meat Scotland to advise, and undertaking inquiry for the purpose of enabling Quality Meat Scotland to advise on such matters '. This advice is freely available and further information can be provided by the designated contact above.

Data Disclaimer:

Accurate, timely and
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.

© Agriculture and Horticulture Development Board [2022]. All rights reserved.

1.0 Cattle Update

1.1 Farmgate prices – prime cattle

- 1.1.1 After rebounding over the festive period, prime cattle prices returned to a seasonal downwards trend at Scottish abattoirs in January, ending the month averaging 1.3% below their level in the final week of 2021 and 3.1% lower than at their pre-Christmas peak in November.
- 1.1.2 In the week to January 29th, they averaged 405.8p/kg; their lowest since the second week of June.
- 1.1.3 Although prices remained above early 2021 levels, the gap narrowed, dipping below 5% having been very stable between June 2021 and early January 2022 at around 8-9%. While the margin over the five-year average also eased slightly, to 10.5%, it has only slipped marginally below its second half of 2021 range of 11-13%, reflecting that downwards pressure is not unusual in January.
- 1.1.4 Prime cattle prices continued to trade at a seasonal record; though they remained well below the record high when adjusted for inflation.
- 1.1.5 R4L steers closed January at 410.9p/kg, down 0.8% from the end of 2021 and by 3.1% from the pre-Christmas peak in November. The consistent premium for R4L heifers over steers seen in the first half of 2021 has returned since mid-December, and R4L heifers ended January at 412.3p/kg. -U3 young bulls lacked direction in January, averaging 402p/kg during the month.
- 1.1.6 While prices in England & Wales have also softened into the New Year, the declines have been marginal, leaving the overall average down by 1% on its pre-Christmas high, at 405.6p/kg, while R4L steers have fallen by 1.4% to 418.6p/kg.
- 1.1.7 As a result, the Scottish premium for all prime cattle trended sharply lower during the month, averaging 1% but ending it at just 0.2%. Meanwhile, having traded at a discount of around 1% to E&W levels in December, R4L steer prices spent three of the four weeks in January below the E&W average, ending the month at a 1.8% discount and below each of the three E&W reporting regions.
- 1.1.8 At prime cattle auction sales in Scotland, prices have settled down after the Christmas disruption, with steers and heifers averaging 230-240p/kg lwt. Like deadweight prices, the rate of year-on-year increase slowed through January, ending the month at 6%.

1.2 Availability and slaughter

- 1.2.1 BCMS cattle population data from October signalled a sharp increase in prime cattle supply on Scottish farms, with a 5.4% lift at 18-30-months compared to October 2020. Overall GB supply was little different however, with numbers up 1-2% in Northern England and Wales but down 3-4% in Central and Southern England.
- 1.2.2 A rebalancing of overall and regional supplies as the year progresses may lead to a change in market dynamics. Indeed, at 12-24 months, cattle numbers were more closely matched, up by 0.9% across GB and by 1.8% in Scotland, while numbers aged 6 to 18 months were 1.8% higher across GB but down slightly in Scotland.
- 1.2.3 The seasonal supply of cattle into abattoirs will however reflect the capacity to handle the available cattle, plus factors such as age at death, including a shift away from young bulls which has been pressuring the kill in the summer months, and whether increased heifers will be slaughtered as prime cattle or end up boosting herd replacement rates and adding to cull cow slaughter instead.
- 1.2.4 In the Christmas and New Year holiday weeks, prime cattle slaughter fell to around two-thirds of its 2021 weekly average at Scottish price reporting abattoirs. In the first three full processing weeks of 2022, numbers were similar to last year's weekly average. However, slaughter remained unusually low for the time of year, being around 10% lower than in early 2021 and 7% below the five-year average.

- 1.2.5 At E&W price reporting abattoirs, prime cattle slaughter has also made a weak start to 2022, averaging around 2% below the 2021-weekly average and 10% below the same period of 2021 in the first three full weeks of the year.
- 1.2.6 Defra data for December shows that prime slaughter at GB abattoirs continued to fall sharply on last year. At 12%, the year-on-year decline was double that seen in the year as a whole. There was an 11% decline in E&W, while the steep 16% fall in Scotland partly reflected delayed slaughter in 2020.
- 1.2.7 In the calendar year, heifer slaughter fell by a below-average 5% and therefore accounted for a slightly higher share of the GB prime kill than in 2020. Since averaging 37% from 2010-17, the heifer share has been trending higher, reaching a 21st century high of 41.2% in 2021.

1.3 Mature cattle market

- 1.3.1 While there was a significant 7% contraction in the slaughter of mature cattle at GB abattoirs in 2021, there was a reduced net outflow of cows from Scottish farms for slaughter, resulting in a 7% annual increase at Scottish abattoirs.
- 1.3.2 The GB decline of 1.5% in December consisted of a 3% fall in E&W but an 11% lift in Scotland.
- 1.3.3 At reporting Scottish abattoirs, where weekly cow slaughter has remained at a seasonally high level early in the New Year, market prices have shown some slight seasonal upwards pressure in January. O+3 grades reached 300.7p/kg in the final week of January, placing them 0.9% higher than at the end of 2021, 9% higher than the same week last year, and 16% above their five-year average.
- 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 After briefly rising above 2020 levels in August and September, estimated UK market supply (production + imports – exports) was lower again in October and November, by a respective 5% and 2.3%, with higher imports unable to offset reduced production and export strength.
- 1.4.2 In the first eleven months, net supply was 2.1% below 2020 levels.
- 1.4.3 Kantar data for the 12 weeks to Boxing Day shows a slight improvement in retail performance from earlier in the autumn, with GB households spending 2% more on fresh beef than in 2019. With retail prices beginning to pick up more strongly, sales volumes were down by more than 5%, with a reduced share of households buying beef and the frequency of purchase falling.
- 1.4.4 Category data signalled stronger sales for processed beef, with spend on burgers up 17% on 2019, with households buying them more often despite significant price inflation.
- 1.4.5 Retail price inflation has been picking up in the Kantar data, with fresh beef prices averaging 8% higher than in late-2019 and by 9% on 2020, with burgers costing 6-7% more.
- 1.4.6 While the beef & veal index in ONS consumer price data (CPIH) was up 7.3% on a year earlier in December, taking a longer-term view, it was still at 99.1 on a 2015=100 scale while the Scottish R4L steer price would be at 114.2, highlighting the squeeze in the supply chain.

1.5 UK imports

- 1.5.1 According to HMRC data, UK beef imports rebalanced lower again in October and November following a surge in September. While holding 8% above year earlier levels, volumes did slip back slightly behind the five-year average for the first time in six months in November.
- 1.5.2 Nevertheless, November marked a sixth 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 The year-on-year increase in beef imports from the EU slowed to a seven-month low of 6% in November, with volumes holding only a fraction above the five-year average in November.
- 1.5.4 While imports from non-EU sources continued to run at more than double year-earlier levels in November, likely reflecting demand for higher value cuts at competitive prices in the catering sector, volumes were still 28% below the five-year average, accounting for just 4% of the total.

1.6 Irish Republic 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 June 2021.
- 1.6.2 R3 grade steer prices in the Irish Republic reached their highest level of 2021 in the final week of the year and have continued to trend slightly higher through January, rising another 0.5%. However, a stronger sterling has reduced some of this upwards pressure and prices closed January slightly below where they had closed 2021, at 363.6p/kg.
- 1.6.3 Despite a stronger sterling, the Scottish premium over Ireland (R4L v R3 steers) has narrowed in the New Year, slipping to around 13% at the end of January compared to an autumn average of 18%.

1.7 UK exports

- 1.7.1 After slowing against the seasonal trend in August and September, UK beef exports set successive year-to-date highs in October and November. They also returned to year-on-year growth, up 13% in October and by 9% in November; though they did lag 2-3% behind the five-year average.
- 1.7.2 Export performance was strong relative to tight domestic supply, with the share of production exported exceeding the five-year average in October and November.
- 1.7.3 Exports to EU countries reached consecutive year-to-date highs in October and November, rising 15% and 20% above year earlier levels, but were still down 10% and 8% respectively on the five-year average. While non-EU trade softened, falling nearly a quarter behind November 2020 levels, past growth meant that volumes still held a fifth above the five-year average.

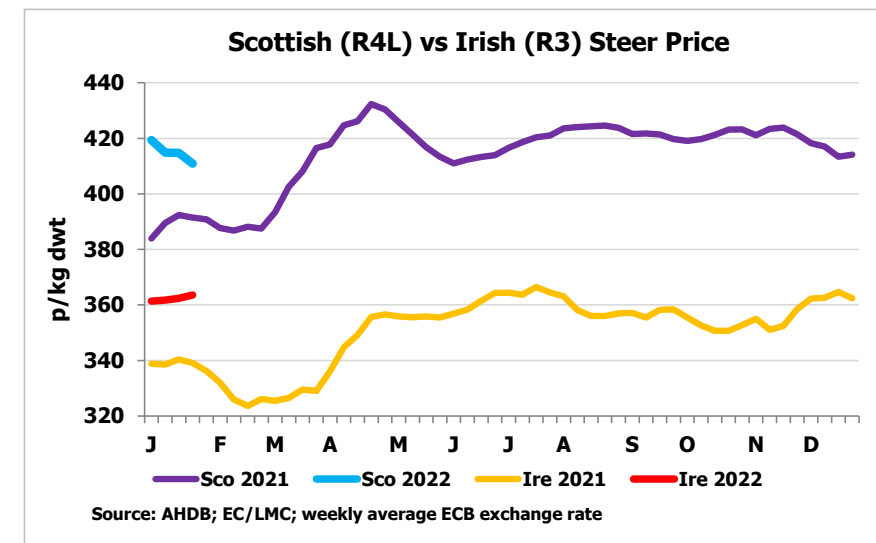
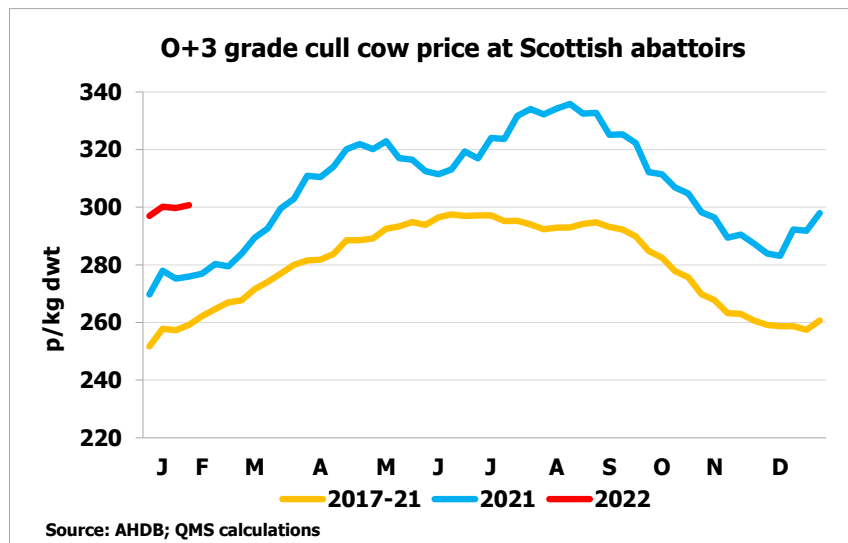
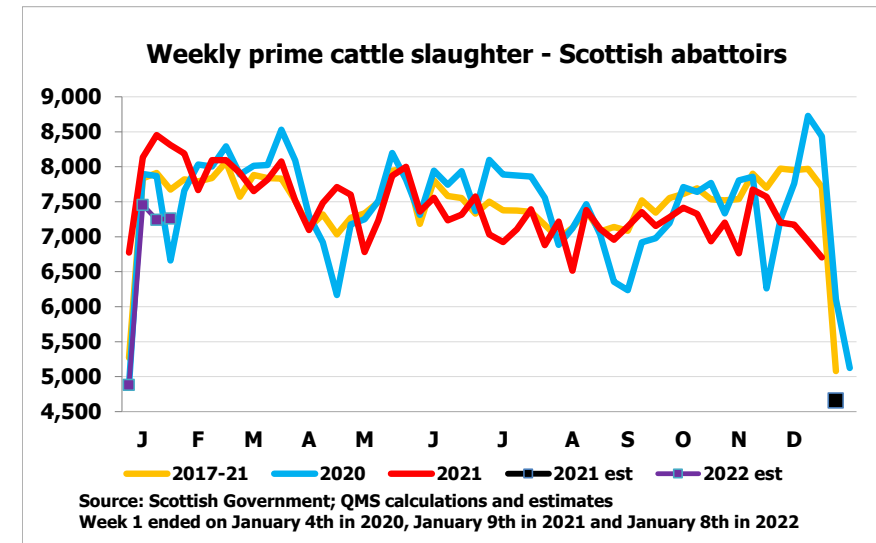
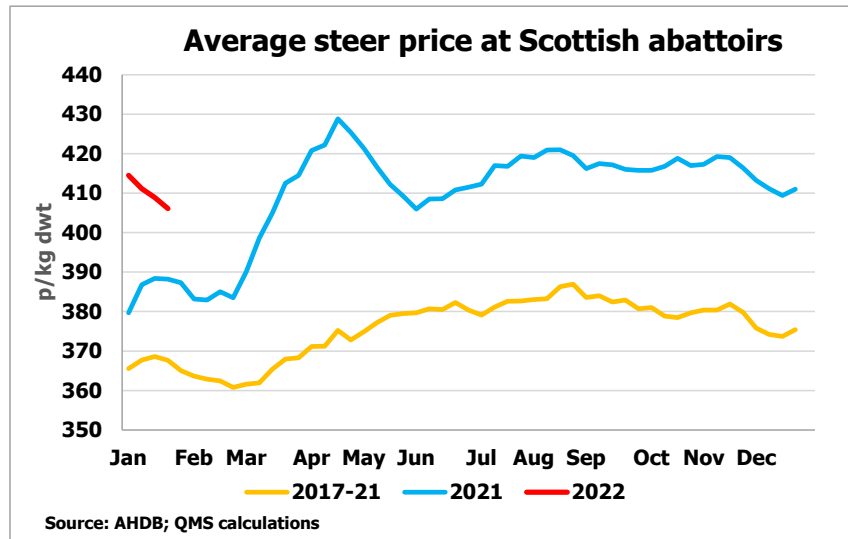
1.8 By-product market

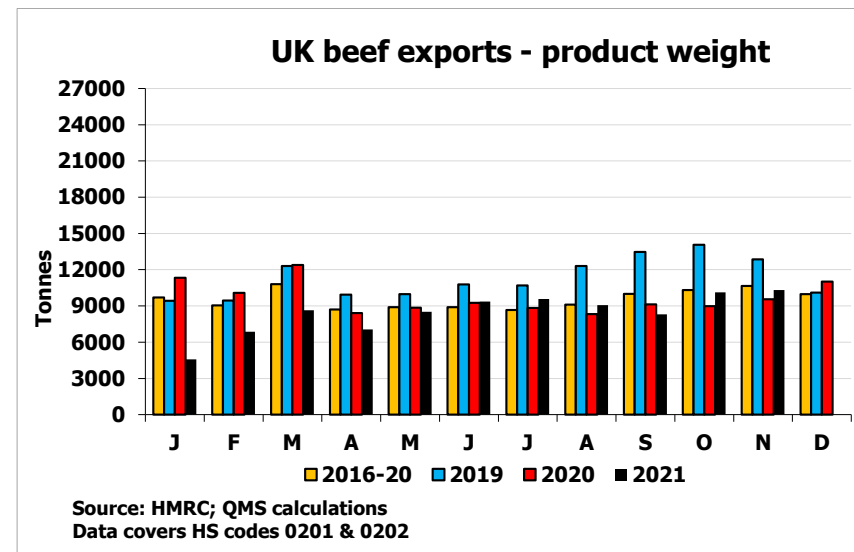
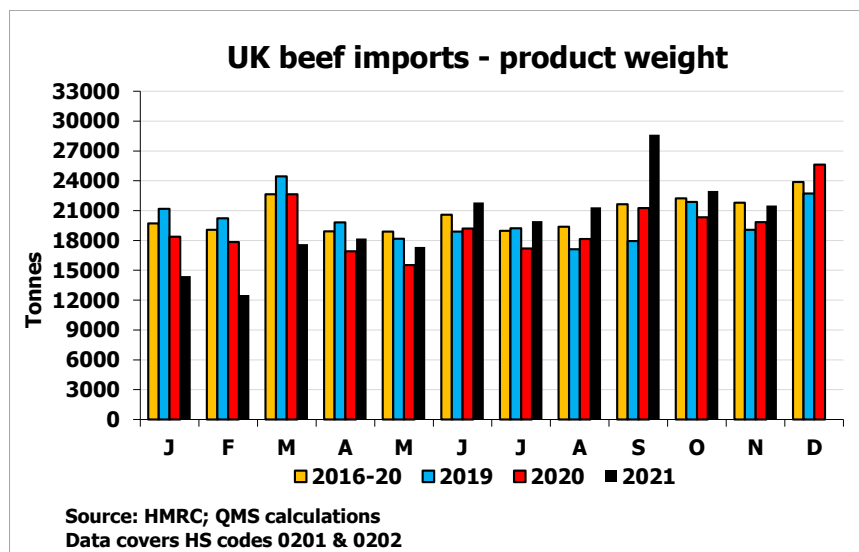
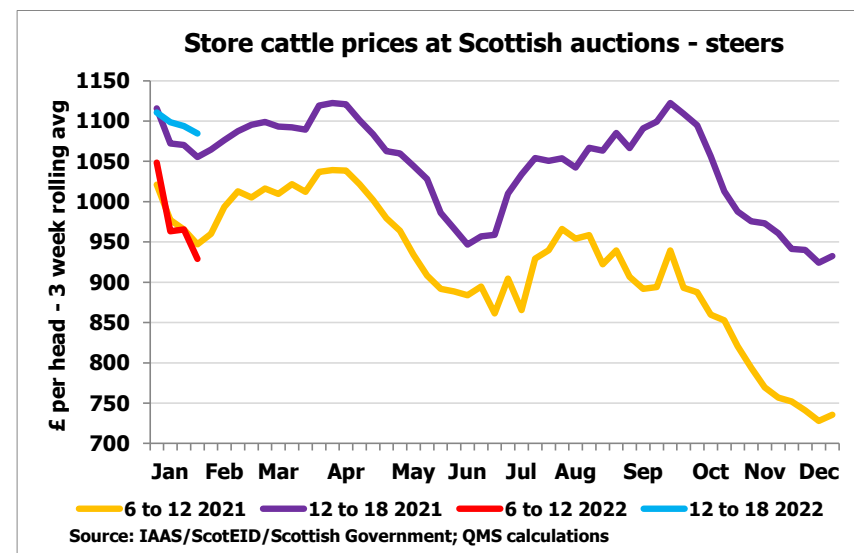
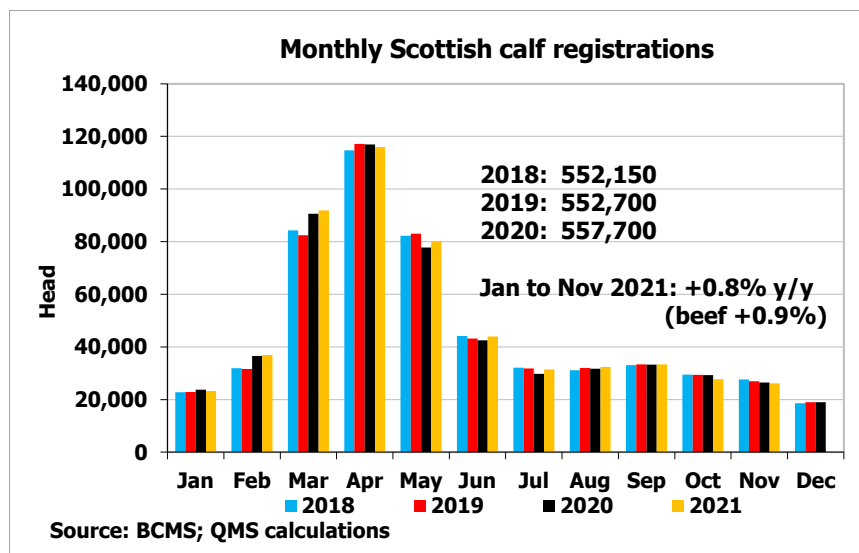
- 1.8.1 After sliding 18% between mid-November and the year-end, steer by-product value in the USA made a slight recovery moving into 2022. However, there was some renewed downwards pressure at the end of the month, including for hides.
- 1.8.2 Throughout January, steer by-product was valued around 50% higher than a year earlier and closed the month worth 23p/kg lwt. While offals and tallow were significantly dearer than a year earlier, hide value fell well behind early 2021 levels along with blood meal.

1.9 Store cattle trade

- 1.9.1 At Scottish auctions, the number of steers aged 6-18-months sold at store cattle sales returned towards November levels in January, but remained well below their expected spring peak. Over the four weeks, 1% fewer were traded than a year earlier.
- 1.9.2 Prices paid for store cattle in January increased seasonally from late 2021 levels, with an average of £952 for the 6-12-month age group being a nine-month high, while the £1,090 paid for those aged 12-18-months was the highest since September 2021.
- 1.9.3 Store heifers averaged £821 at 6-12-months and £1,003 at 12-18-months in January.
- 1.9.4 Despite surging by over 30% from December, prices paid for steers at 6-12-months cleared 1% lower than in January 2021, but prices across the 12-18-month group held 2% higher. Meanwhile, store heifers were slightly cheaper than in early 2021.

1.10 Cattle Charts





2.0 *Sheep Update*

2.1 Farmgate prices – prime sheep

- 2.1.1 Lamb prices peaked at GB price reporting abattoirs in the first half of December and have been trending lower since.
- 2.1.2 Medium (16.5-21.5kg) R3L carcasses were 6% lower in the final week of January than at the year-end, averaging 581p/kg. As well as being the lowest since the first week of November, this was 8.5% below the pre-Christmas high (634p/kg) and down a fifth on the new season high from May 2021 (721p/kg).
- 2.1.3 Given that the market had made a strong start to 2021, the year-on-year increases have slowed from around 30% in late-2021 to less than 4% at the end of January. While the margin over the five-year average has slowed from its highs of around 50% before Christmas, it remained considerable at just under 30%.
- 2.1.4 At Scottish marts, lamb prices have also been trading at a lower level in the New Year than they had been in November and December, with SQQ hogs averaging around 265p/kg for much of January, and holding at this level at the beginning of February. This is around 3% below the 275p/kg average from late 2021 and 23% below the new season peak.
- 2.1.5 Given the strong start to 2021 for hogg values, the fall in early 2022 has seen prices converge on year earlier levels, compared to the increases of roughly 30% in late 2021. While the margin over the five-year average has also softened, it has remained considerable at 25-30%.
- 2.1.6 After spending much of the final quarter of 2021 at a slightly higher level than in E&W, prices at Scottish marts fell behind in mid-December, remaining lower into 2022.

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 At GB abattoirs, prime sheep slaughter continued to fall short of year earlier levels in late-2021, although the pace of decline slowed further, to 8% in November and 5.5% in December.
- 2.2.3 Between June and December, the kill fell 12% on 2020 and by 10% on the five-year average, and contrasting this steep fall with the small reduction in lamb crop points to an increased carryover of hogs into 2022. While potentially weighing on market prices, it would point to an increased market share for domestic product on the home market and support exports.
- 2.2.4 In December, the year-on-year reduction in lamb slaughter was 4% at E&W abattoirs and 19% in Scotland, with June to December falls of 11% and 13% respectively.
- 2.2.5 Prime lamb marketings reached a season-to-date peak at GB auctions in mid-December ahead of Christmas. However, numbers did fall short of the pre-Christmas peak from 2020, running around 10% lower between mid-November and mid-December.
- 2.2.6 In January, prime hogg marketings were 12% below their August to December weekly average at GB marts. However, they did push 7% ahead of early 2021 levels, potentially providing some early evidence of an increased carryover.
- 2.2.7 At Scottish marts, there was a sluggish start to 2022 for prime hogg marketings with numbers trailing their August to December weekly average by 14.5% and year earlier levels by 9%.

2.3 Mature sheep trade

- 2.3.1 Having contracted by more than 15% in 2020, Defra figures indicate that the decline in ewe slaughter at GB abattoirs accelerated to over 20% in 2021. However, volumes did end the year at their highest monthly volume, almost matching year earlier levels in December.
- 2.3.2 At Scottish marts, having fallen back seasonally in the final quarter, cull ewe marketings have slipped further in the New Year, averaging around 5,500 head per week compared to nearly 7,100 in December. However, this was around 6% above January 2021 levels.
- 2.3.3 After a strong end to 2021 and unlike the market for prime sheep, ewe values picked up further into January at Scottish marts, approaching the highs of spring and summer 2021, before softening in the second half of the month.
- 2.3.4 The weekly average ewe price in January was £92, up from £89 in December and £80 in January 2021. It was the highest monthly average since June and up 16% year-on-year.

2.4 Market supply and retail demand

- 2.4.1 The sharp decline in new supply of sheepmeat added to the UK market intensified in November, falling by 15% on a year earlier due to the combination of reduced domestic production and increased net exports.
- 2.4.2 In the first eleven months, new supply fell by 9.9% on 2020.
- 2.4.3 According to Kantar, GB household spending on fresh lamb was up more than 12% on 2019 in the 12 weeks to Boxing Day. However, retail price inflation picked up further, with the average selling price up nearly 14% on 2019 and 10% on 2020, resulting in a slight reduction in purchased volumes compared to late 2019. While a reduced share of households bought fresh lamb, those that still did bought it more often.

2.5 UK imports

- 2.5.1 Sheepmeat import volumes continued to slide seasonally until October before showing some uplift in November. However, for a third straight month they trailed year earlier levels by more than 35%, with the gap to the five-year average widening to -45%.
- 2.5.2 In November, imports accounted for only 12.6% of market supply, nearly seven percentage points below the five-year average.

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/kg. This focus continues despite firm prices available in the UK for lamb legs, reported at nearly £7/kg by the NZ Farmers Weekly and up 41% year-on-year in NZD.
- 2.6.2 Beef + Lamb NZ have reported that NZ lamb shipments leaving for the EU + UK in December showed a significant recovery after proving weak for most of the year, climbing 31% over year earlier levels and pushing 7% beyond the five-year average, with the share destined for the UK increasing well above its annual average.

2.7 UK exports

- 2.7.1 Export volumes set a year-to-date peak for a fifth straight month in November and returned to around year earlier levels having been a fifth lower in the year-to-date. While still lagging the five-year average due to tight supply, the gap was its smallest of 2021, at less than 8%.

- 2.7.2 Although sheepmeat exports to the EU eased a fraction from October's year-to-date high, they exceeded year earlier levels by 3.6% and came within 7% of their five-year average.
- 2.7.3 Sales of fresh lamb carcasses continued to account for the vast majority of exports to the EU, at 81% of trade in November.
- 2.7.4 Exports to non-EU countries trailed year earlier levels for a seventh month in a row in November, but they did recover to a seven-month high, reaching 8% of total shipments.

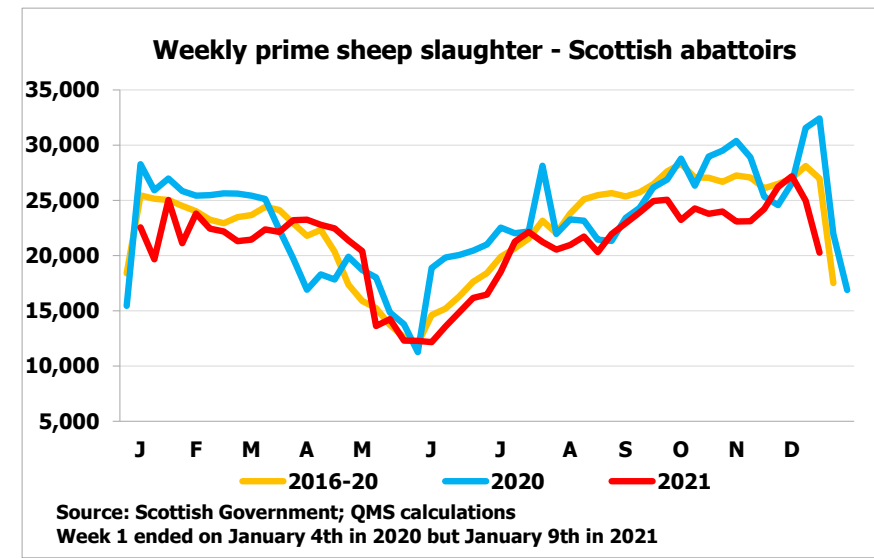
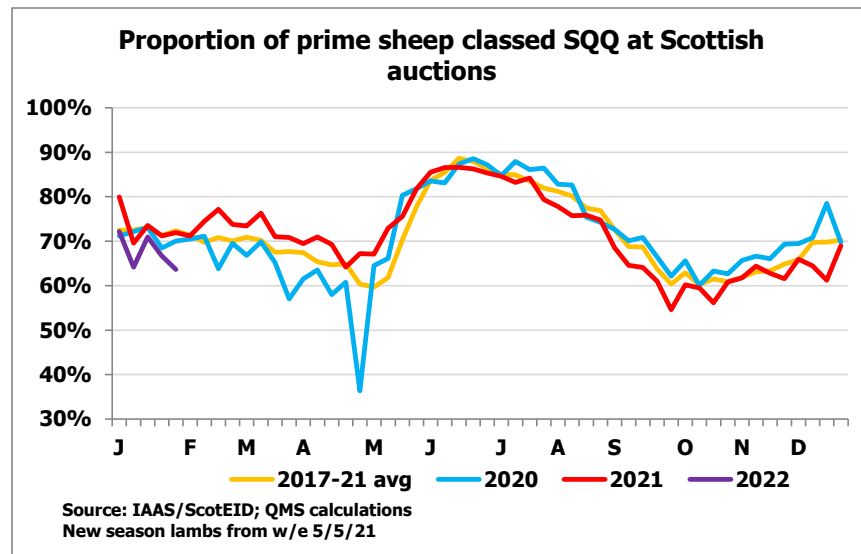
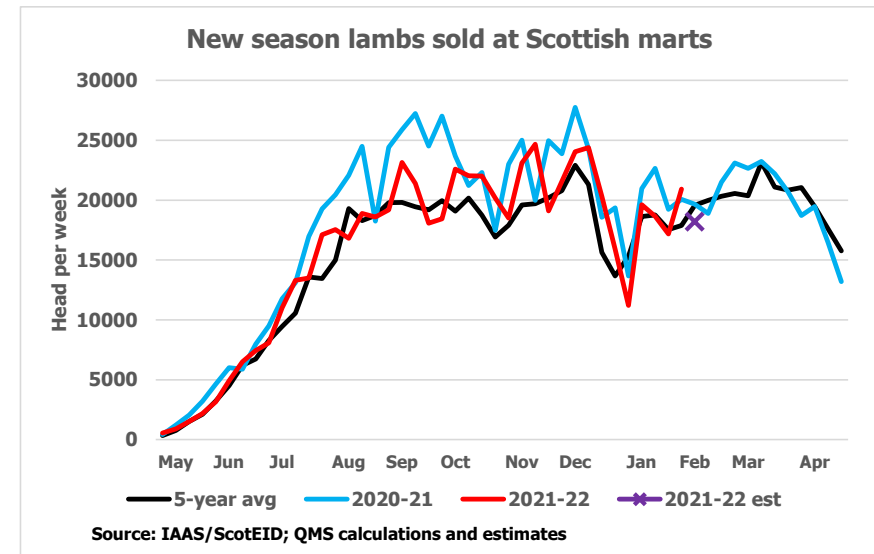
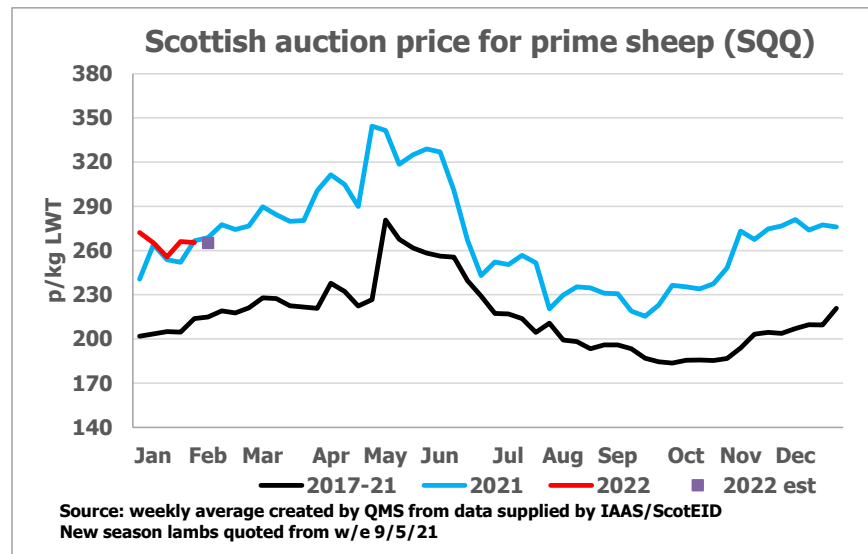
2.8 French lamb market

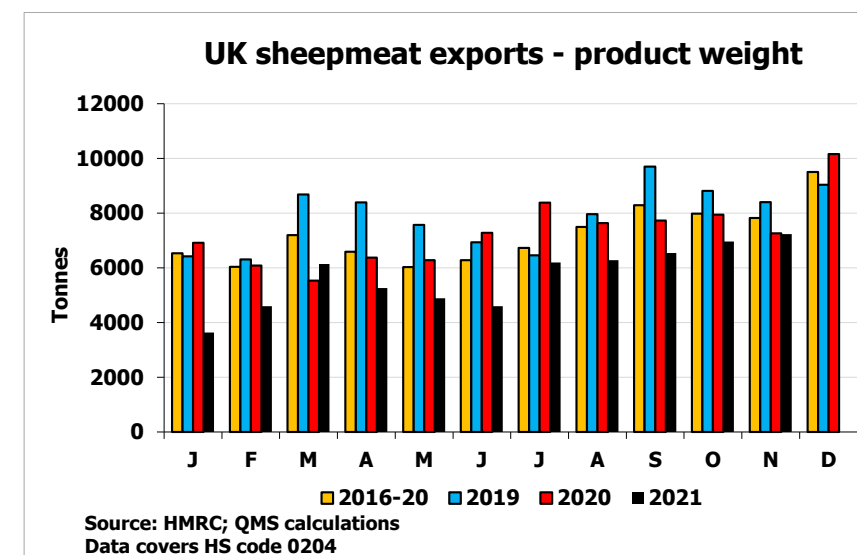
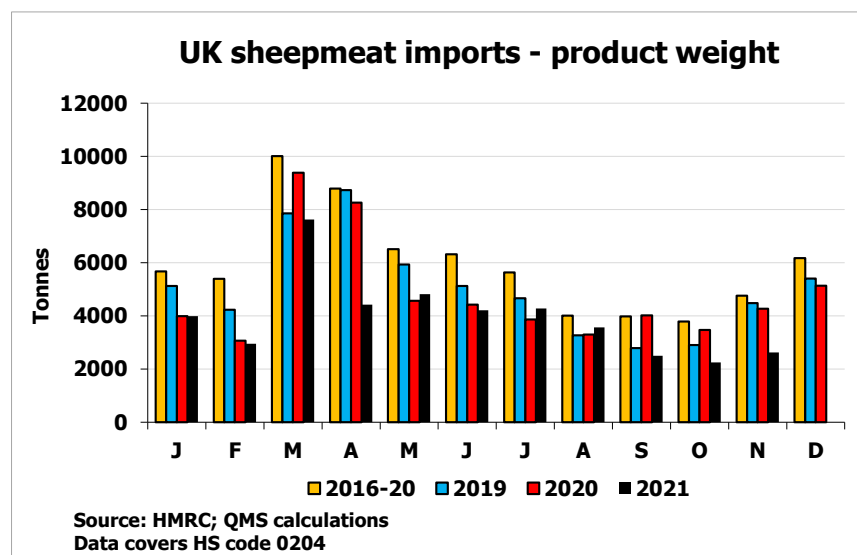
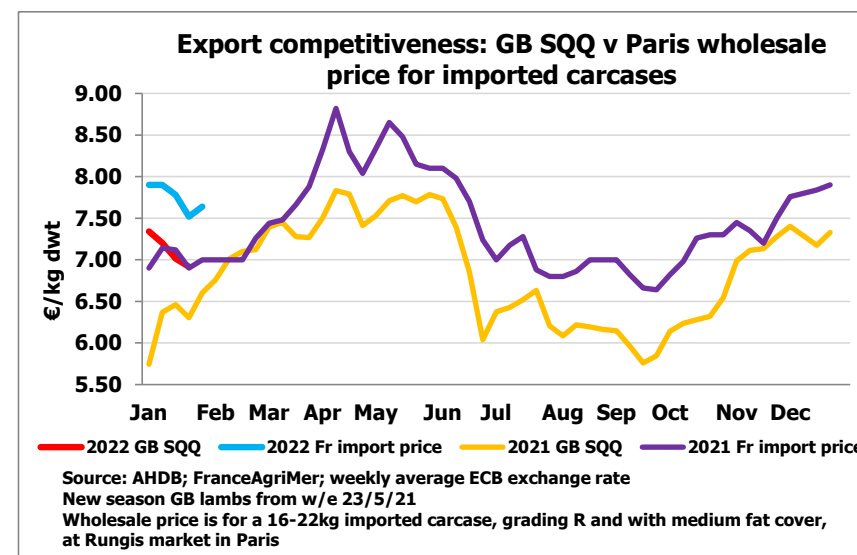
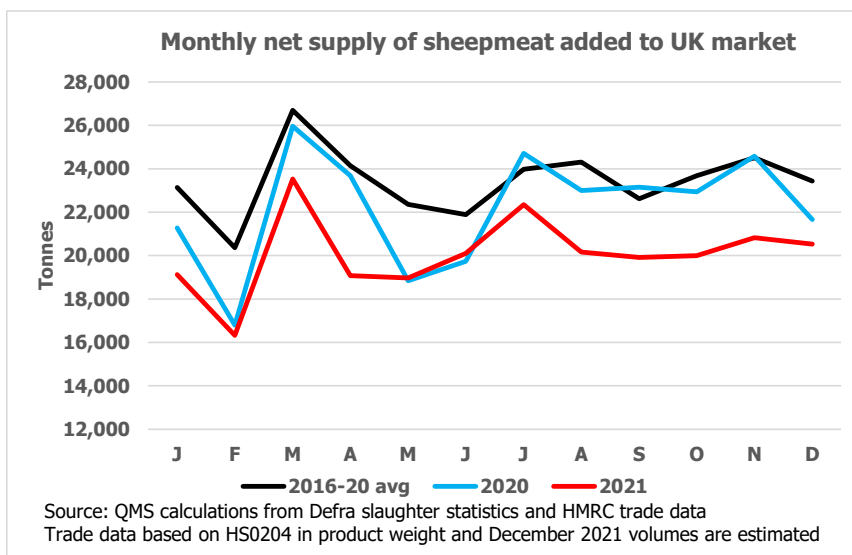
- 2.8.1 Comparing the GB deadweight lamb price and wholesale carcass prices for imported UK lamb at Rungis market in Paris provides a good indicator of export competitiveness. After weakening considerably in November, GB export competitiveness in the French market rebounded to around its annual average in late-December and spent much of January slightly above this 2021 average level.
- 2.8.2 In January 2022, prices at Rungis were 8-11% higher than the GB deadweight price, similar to the weekly average margin of 8.9% in 2021.
- 2.8.3 Over the past year, imported wholesale prices at Rungis have out-performed local farmgate prices in France when quoted in euro. While the gap has narrowed recently, it still held in the final week of January, when farmgate prices were up 7% year-on-year and imported carcasses by 9%.
- 2.8.4 French farmgate prices were equivalent to £6.44/kg in late January and imported carcasses at Rungis wholesale market converted to an average of £6.28/kg.
- 2.8.5 Imports trade at a discount to domestic product at Rungis, with this working out at 10.5% on February 8th.

2.9 Store lamb trade

- 2.9.1 During January, an average of nearly 4,700 store hogs were traded each week at Scottish marts, at an average selling price of £79.40. While well below autumn levels, volumes were similar to those seen in early-2021 trading.
- 2.9.2 This average selling price was lower than the highs seen through December (£87.60), but still above the £78 average in November and well above the levels of August to October. However, the sharp year-on-year increases seen at autumn sales came to an end, with this being 1% lower than in January 2021.
- 2.9.3 During January, Blackface lambs averaged £65.80, Cheviots £75.60, Suffolks £93.30 and Texels £87.80. For Texels, this was 1% lower last year, with declines of around 2% for the other breeds.

2.10 Sheep Charts





3.0 Pigs Update

3.1 Farmgate prices – prime pigs

- 3.1.1 Prime pig prices have continued to decline into the New Year, reflecting a seasonal trend along with a continuing backlog of pigs waiting for slaughter. In the final week of January, at 137.9p/kg, the GB Standard Pig Price (SPP) was 1.9% lower than in the last week of 2021, while the average price for carcasses weighing 70-104.9kg fell by 1.4% over the same period, averaging 141.8p/kg.
- 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 has narrowed to around 13% in early 2022 from closer to 20% in the autumn.
- 3.1.3 Since the market has fallen at a slower pace than in early 2021, the year-on-year decline eased from 4.2% at the year-end to 1.9% at the end of January. It had already softened from a peak of around 6% between late-September and late-November. For carcasses weighing 70-104.9kg, the rate of decline slowed to 0.5% at the end of January.
- 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 January 2022 at almost 7%.

3.2 Carcase weights

- 3.2.1 Having already surged in the autumn, the share of standard carcasses weighing at least 105kg at reporting abattoirs jumped again in January, averaging around 18%. 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 have climbed further in the New Year at SPP reporting abattoirs, averaging around 95.5kg and approaching 96kg at the end of the month, up from 92kg in late-2021. Year-on-year weight increases had softened from a peak above 5% in October, but they moved beyond 5% again at the beginning of 2022 and jumped to 7% at the end of January.
- 3.2.3 Significantly higher carcase weights have supported the average price per standard carcase, which closed January 5% higher than a year earlier and 4% above its five-year average.

3.3 Availability and slaughter

- 3.3.1 December census results for England showed an unusually small seasonal decline in fattening pig numbers of 3.5% between June and December compared to a five-year average of 8%.
- 3.3.2 Comparing against a more normal seasonal scenario, this suggests that slaughter numbers could have been 177,000 below potential between June and December. The result in England was that the year-on-year increase in slaughter pigs on farms widened to 11% in December.
- 3.3.3 In Scotland, December census results have not yet been published but since the number of fattening pigs on Scottish farms was 8% of the English total in June 2021, this could suggest around 14,000 fewer pigs being slaughtered from Scottish farms than potential over the same period, pushing the GB backlog to 191,000.
- 3.3.4 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. After a strong November (+10%), numbers slipped back in December.

- 3.3.5 Slaughter of standard pigs at GB price reporting abattoirs has started 2022 below its 2021-weekly average, suggesting little inroads have been made to the backlog.
- 3.3.6 At Scottish abattoirs, the prime pig kill continued to recover through November and December. Nevertheless, it remained well below autumn 2020 levels as meat from the country's largest abattoir was still unable to be shipped to China.
- 3.3.7 It is hoped that a change in ownership of Brechin abattoir will result in a more significant recovery in slaughtering in 2022, 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.
- 3.4.2 At GB level, the sow kill ended the year on a high, rising 11% on a year earlier in November and then by more than a third in December, pulling the annual total up fractionally on 2020.
- 3.4.3 Based on UK exports of pig carcasses, sow prices fell sharply through the autumn, slipping below the lows of late 2020 and early 2021 in October and dipping further in November.

3.5 Pigmeat supply and retail demand

- 3.5.1 UK pigmeat supply is estimated to have continued rising strongly in November, up 8% on a year earlier, driven by a strong month for slaughter and carcase weights, while net import levels were similar to a year earlier.
- 3.5.2 Kantar data for the 12 weeks to Boxing Day continued to signal firm pigmeat demand in GB as spending on fresh pork was 11% above 2019 levels, supported by shoppers buying it more often. In the processed ranges, demand for cooked meats remained strong, with spend up 13% on 2019 and slightly higher than in 2020, but sausages showed a weaker increase of 5% on 2019 while spending on bacon rashers declined by 4%.
- 3.5.3 While average prices for fresh pork, cooked meats and sausages were 7-8% higher than 2019, a majority of this inflationary pressure came in 2020. Bacon rashers were cheaper than in 2019 (-1%) and 2020 (-3%), without stimulating a strong increase in demand.

3.6 UK imports and EU market conditions

- 3.6.1 While reaching a year-to-date high in November, UK pork imports declined by 11% on the year and by 19% on the five-year average, reflecting a well-supplied market. Meanwhile, imports of bacon & ham have rebounded from their lows and November was the eighth month of year-on-year growth (+10%); though volumes still trailed the five-year average (-6%).
- 3.6.2 The net result was a year-on-year decline of 4% in overall pigmeat imports – similar to the previous two months – while lagging the five-year average by 15%.
- 3.6.3 EU pig prices have been fluctuating in both directions through December and January but ended the first month of 2022 1.4% above their autumn 2021 low and 1.9% above year earlier levels. Forecasts for Germany point to stability in the first half of February and wholesale prices for some cuts have edged higher in the first week of the month.
- 3.6.4 Having averaged around a third during the autumn, the GB premium over the EU pig price rebalanced in December, settling at a slightly lower but still significant level of around 27%. EU prices closed January at a highly competitive 108.9p/kg.

- 3.6.5 Latest UK import data for November indicated a second successive month where the average pork import price from the EU was down 14% on the year. Although UK import requirements have been reduced by a well-supplied market, the option of a cheaper alternative from abroad will have exerted downwards pressure in price sensitive market segments.

3.7 UK pigmeat exports

- 3.7.1 Having slumped in October, UK pork exports rebounded to a six-month high in November. However, they still fell around 9% short of year earlier levels and the five-year average.
- 3.7.2 Monthly exports to the EU set a year-to-date high for a third straight month and returned to year-earlier levels having fallen 35.5% in the first 11 months. Meanwhile, exports to non-EU countries rebounded to a five-month high and, while nearly 15% behind 2020 levels, they did move beyond the five-year average (+7%) and accounted for 55% of total shipments.

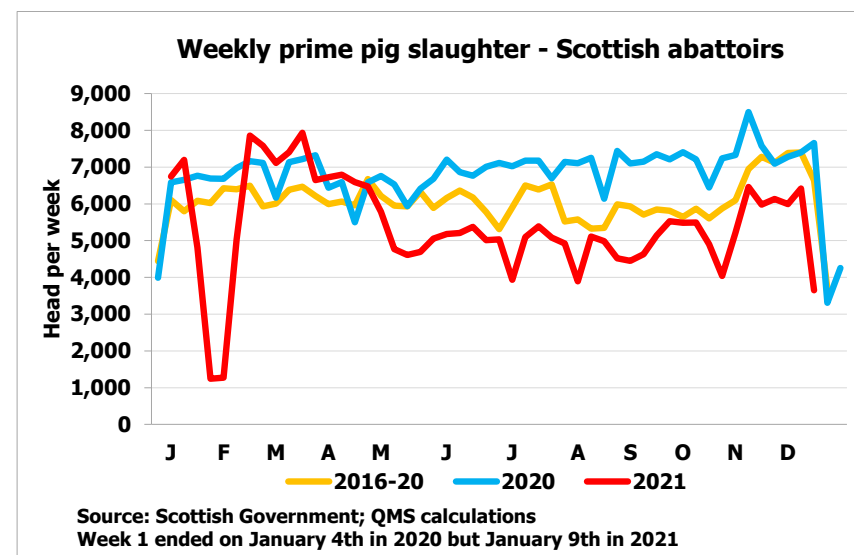
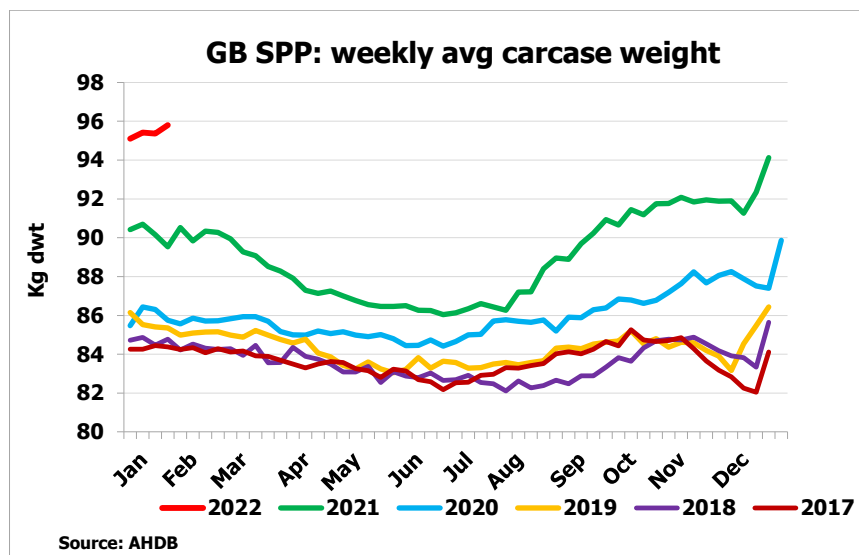
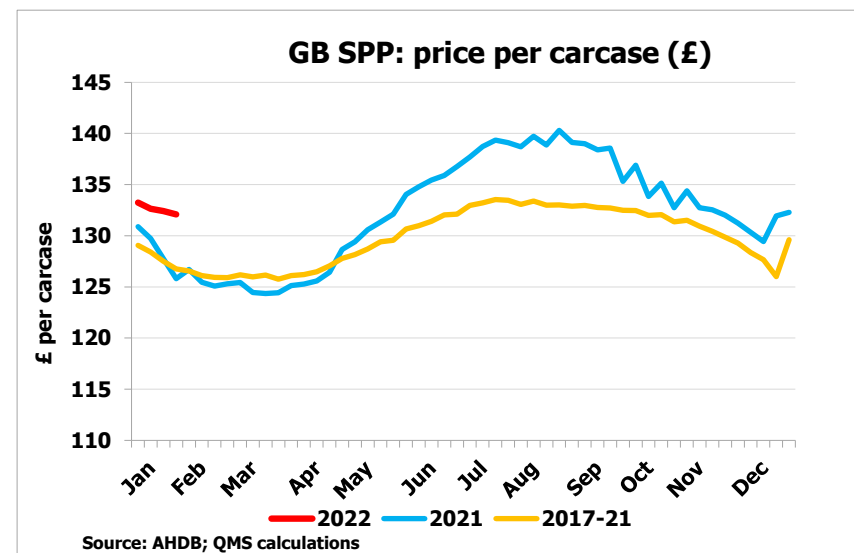
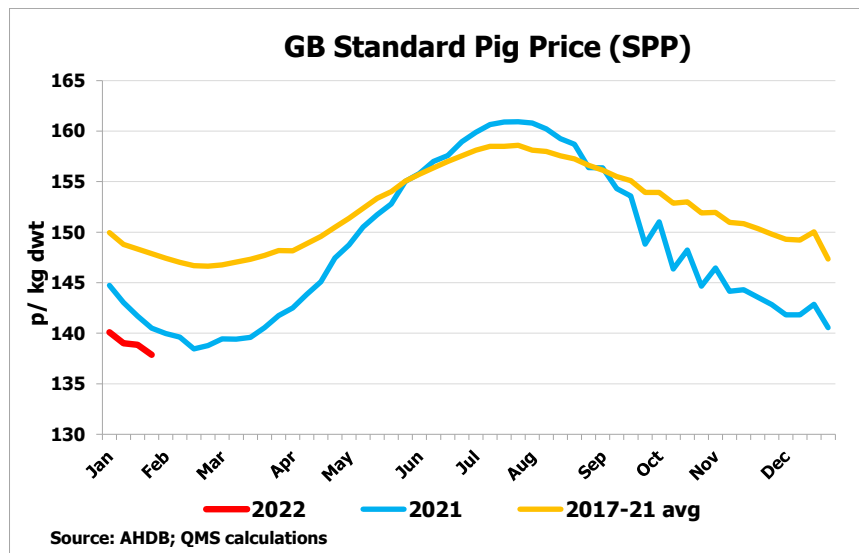
3.8 Chinese pork market

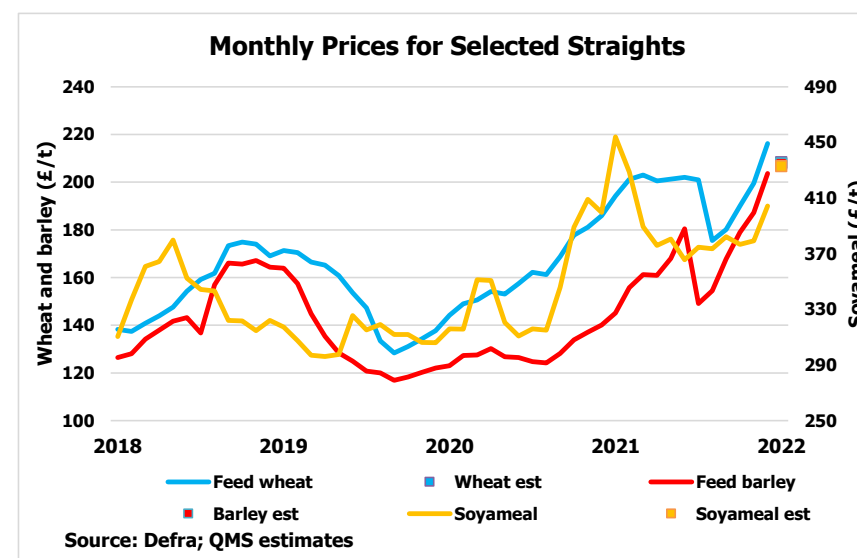
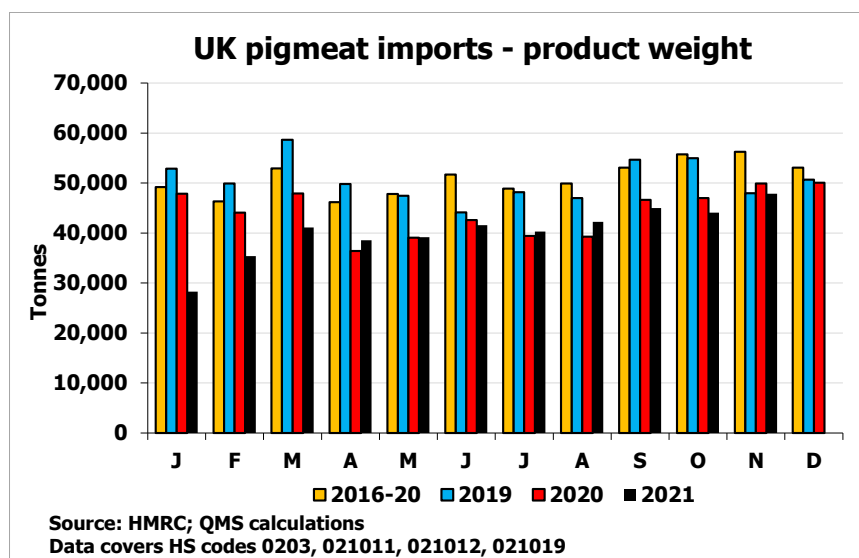
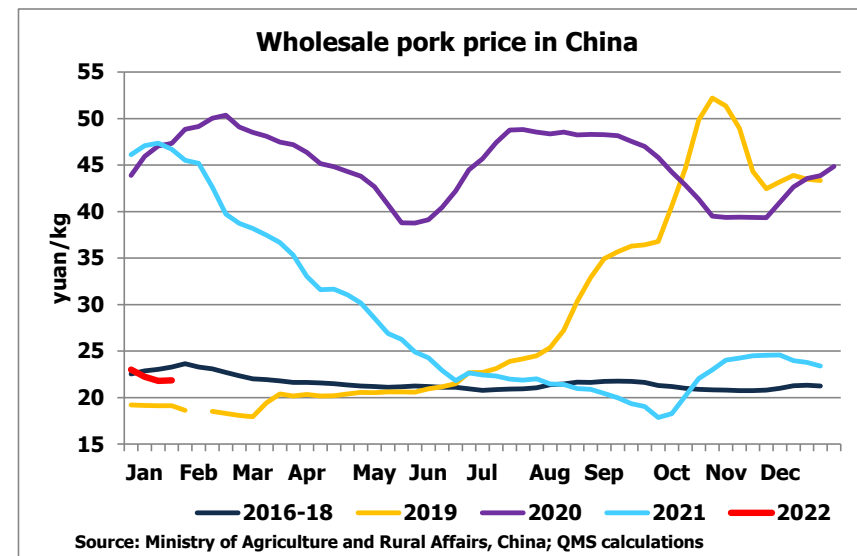
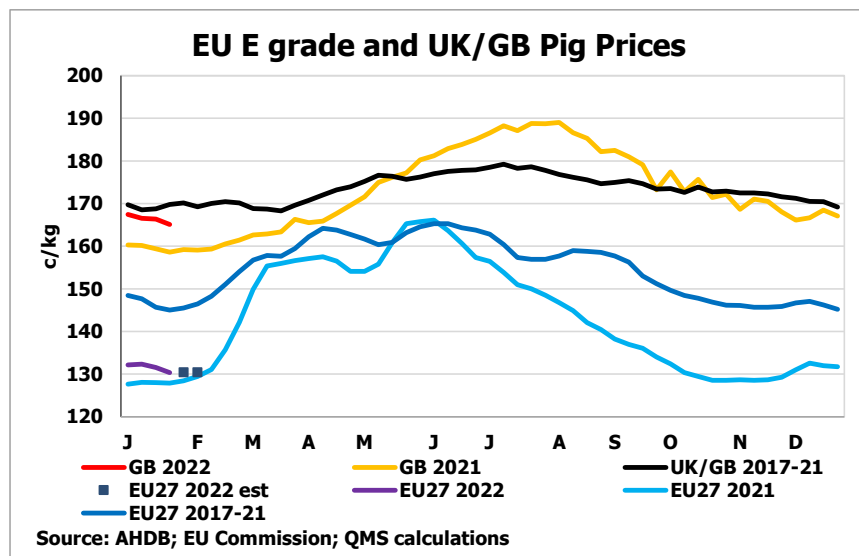
- 3.8.1 Exports to China/Hong Kong have underpinned overall UK pork exports in recent years, with its share of export volumes reaching 49% in 2020 before falling back in 2021 due to reduced import requirements in China. Although the volume shipped to China in November was still down 32% on the year, it was a five-month high and well above pre-2019 levels.
- 3.8.2 While the the cost of wholesale pork in China fell back behind its 2016-18 average in the run up to the Chinese New Year, it remained significantly dearer than at its October 2021 low. Farmgate futures prices are signalling some seasonal downwards pressure in the spring followed by a slow rebound through the summer and into the autumn.
- 3.8.3 Government data suggests that pork production in China surged by nearly 30% in 2021, closing in on its pre-ASF level. However, the sow population reportedly ended the year only 4% higher, suggesting that herd liquidation underpinned increased slaughter, potentially resulting in a contraction in production in 2022.
- 3.8.4 Despite upwards revisions, USDA forecasts from January still have Chinese production rising to a lesser extent than the Government data did last year. As a result, they are forecasting a further increase this year and a small fall in imports during the calendar year as a whole. Nevertheless, imports would still remain nearly three times higher than pre-ASF levels.

3.9 Feed costs – additional pressure on margins

- 3.9.1 Defra's monthly straights prices for feed wheat and barley showed significant increases in the final month of 2021, with wheat and barley rising 8-9% on the month and soyameal by nearly 7%. This saw wheat push 16% above year earlier levels and barley by 45%, while soyameal became slightly dearer than in late 2020.
- 3.9.2 Political tensions in the key grain exporting region around the Black Sea and the anticipated negative impact from dry weather on grain and soya crops in South America have underpinned arable crop prices in early 2022.
- 3.9.3 The price spread between feed wheat and barley has narrowed further in early 2022, with some analysts expecting this to continue at least until prospects for this year's harvests in the Northern Hemisphere harvest become more apparent.
- 3.9.4 Defra's Q3 2021 report indicated that while compound pig feed was slightly cheaper than in Q2, it still proved 13% more expensive than a year earlier. Since then, renewed increases in grain and oilseed prices are likely to have been passing through to the cost of compounds.

3.10 Pig Charts

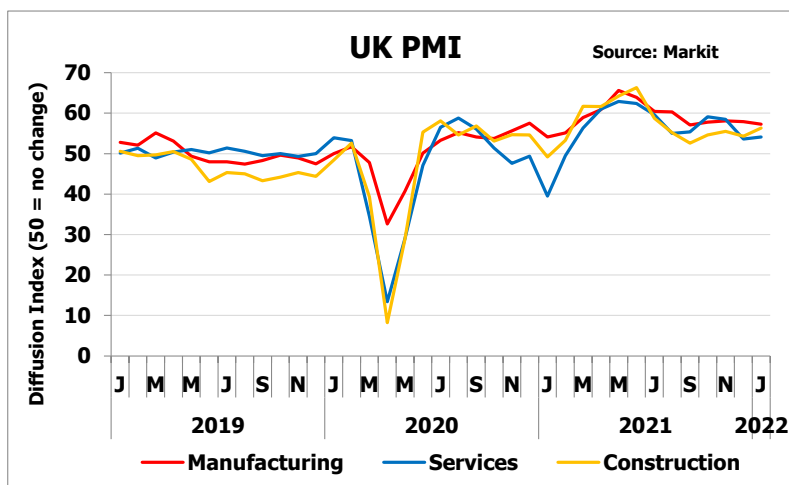




4.0 Business Environment

4.1 Business activity

- 4.1.1 UK economic output (measured by Gross Domestic Product or GDP) finally returned to its pre-covid-19 level in November 2021; although the private sector remained smaller.



4.1.2 The closely watched PMI monthly business surveys carried out by Markit signalled a slight improvement in UK private sector activity growth in January, having weakened a little in December due to the Omicron variant.

4.1.3 Most of the Omicron-effect in December came in the service sector and its index showed only a muted

recovery at the beginning of 2022 as demand for consumer services remained soft. However, there were reports of rising demand for the coming months and firms took on additional staff, where possible, as competition for workers remained heightened, raising wages.

- 4.1.4 In manufacturing, activity growth had barely dipped in December and a further slight fall in January reflected the continuing impact of supply chain challenges on output. Firms took on additional staff in an attempt at reducing order backlogs, but shortages remained. Interestingly, it was reported that input cost inflation had dipped back from its peak but firms were raising stocks of inputs as insurance against further price rises and availability challenges.
- 4.1.5 In the Scottish Government's regular business surveys, the share of businesses in the accommodation and food services sector trading dipped from around 99% in the run up to Christmas to 91% and 93% in the next two periods covering late-December to January 23.
- 4.1.6 Meanwhile, labour constraints remained significant in manufacturing and accommodation & food services in January, with 37% and 43% of surveyed firms in the respective sectors finding it harder than usual for the time of year to recruit staff.

4.2 Consumer Price Inflation

- 4.2.1 The ONS' favoured measure of inflation, the CPIH, continued to climb in December, reaching an annual rate of 4.8%, double that of six months before and six times the rate of December 2020.
- 4.2.2 The Bank of England expects inflation to rise further, potentially exceeding 7% in Q2 2022 before slowing.
- 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 climbed to 6.9%, up from 2.9% in June and -0.2% a year earlier. The cost

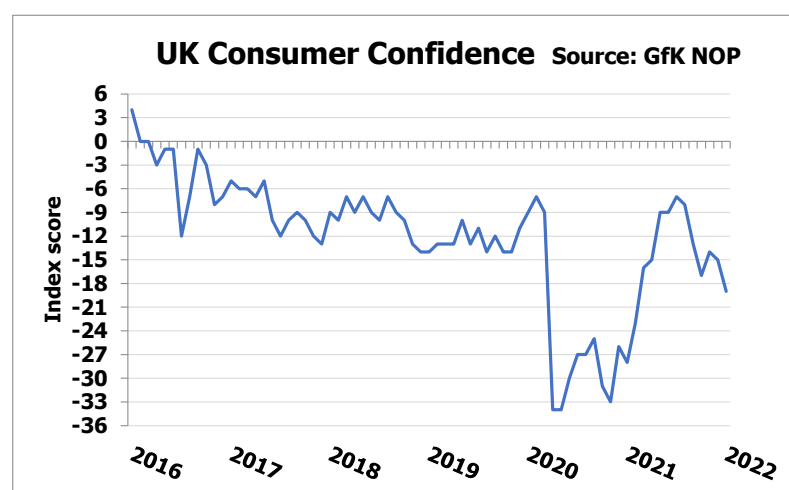
of services continued to edge higher, reaching 3.1%, compared to 2.1% in June and 1.6% in December 2020, likely reflecting higher input costs, including wages.

- 4.2.4 In December, energy costs were up 24.5% on the year while fuel inflation was 28%; though both rates had eased from a peak in November.
- 4.2.5 Food prices showed further increases in inflation rates in December, with the overall rate jumping to 4.5% from 2.5% in November with evidence of rising commodity prices passing through to the retail shelf. For example, bread jumped from 1.4% to 4.4%.
- 4.2.6 However, inflation slowed in catering services, with prices at restaurants & cafés up 4.1% on the year, compared to rates of 5.0% in October and 4.2% in November.

4.3 Retail sales

- 4.3.1 ONS retail sales data highlights a challenging December, with overall seasonally adjusted spend down 3.1% on the month. Non-food stores faced most of the hit, with spend down 6.2%, whereas spending in food stores was down by a marginal 0.3%.
- 4.3.2 However, spend did hold well above late-2020 levels, up 5.7% overall, by 2.9% in food stores, and 5.4% in non-food; though sharply rising prices did mean that these translated across to slightly reduced sales volumes.
- 4.3.3 Despite Omicron, social activity remained much stronger than a year earlier, reflected in fuel sales still being a quarter higher on the year after adjusting for much higher fuel prices.

4.4 Consumer Confidence



4.4.1 The GfK/NOP's long running survey signalled a sharp fall in consumer confidence in autumn 2021, with this decoupling from the state of the pandemic and showing a greater link to supply chain pressures and a rising cost of living.

4.4.2 Interestingly, confidence dipped only 1 point in December despite the arrival of Omicron, before

falling 4 points to -19 in January at a time when fears over covid-19 were waning.

- 4.4.3 As has been the case for a prolonged period, people have been much more negative about the overall state of the UK economy than of their own personal financial conditions. For example, the index for economic expectations for the year ahead was at -32 while the index for expectations of personal financial conditions was at -2. While the former fell 8 points on the month, the latter fell by a more muted 3 points.
- 4.4.4 Sentiment around making large purchases declined by another 4 points, having dipped by 3 in December while a net balance of households continued to favour saving money.

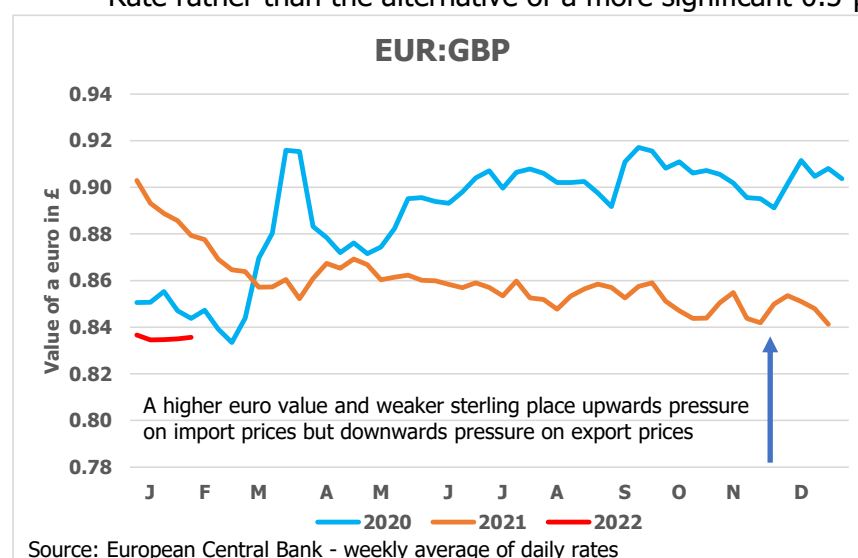
4.5 Exchange Rates:

	w/e 4/2/22	January 2022			w/e 5/2/21	January 2021		
		Low	High	Avg		Low	High	Avg
€:£	83.6p	83.2	84.1	83.5	87.9p	88.4	90.6	89.3
\$:£	73.9p	72.8	74.7	73.7	73.2p	72.8	74.1	73.4
NZD:£	48.9p	48.9	50.4	49.7	52.5p	52.2	53.6	52.7

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 After a period of fluctuation in the autumn due to the outlook for monetary policy changing regularly, sterling firmed at the beginning of 2022 as fears over the potential economic shock from the Omicron variant waned and the expected path for interest rates shifted towards more regular increases.

4.5.2 After a month of stability, there was a renewed weakening of sterling in early February, as euro area policymakers signalled that higher interest rates are on the way. At the same time, there was a marginal vote in favour of a 0.25-point increase in UK Bank Rate rather than the alternative of a more significant 0.5-point uplift.



4.5.3 After fluctuating between 84-86p in the final quarter of 2021, a euro was valued at around 83.5p for much of January, before rising to 84.5p in early February.

4.5.4 In January, sterling averaged 7% stronger than a year earlier and slightly higher than its 2021-closing value.

4.5.5 Although a stronger sterling coupled with greater trade frictions on exports to the EU than on imports has reduced the competitiveness of domestic products, sterling 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, likely driven by a weakening outlook for the global economy.

4.5.7 The US dollar rose significantly in the second half of 2021 June due to a shift in monetary policy expectations in the US, with the focus moving towards a significant tightening of economic stimulus measures as inflation has surged more strongly than in the UK. However, some of this pressure has reversed in the New Year.

4.5.8 A rising US dollar had reinforced the lift in global commodity prices when converted into sterling in the second half of 2021, so the recent reversal has been welcome. However, the dollar has remained around 3-4% stronger than in February 2021.