



MARKET REPORT - SEPTEMBER 2021

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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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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Cattle Update

Farmgate prices – prime cattle

- Prime cattle prices have softened from their seasonal peak in late August, with the overall average at reporting Scottish abattoirs, slipping 1% to 416p/kg in the week to October 2.
- However, prices held around 8-9% above year earlier levels for a fourth month in September, while the increase over the five-year average stayed at 11-12%.
- Prime cattle prices have remained at record levels for the time of year, holding slightly above 2013 levels, though are well below the record high when adjusted for inflation.
- R4L steers peaked at 424.6p/kg in late August, softening to 419.7p/kg by the end of September, making them slightly closer to their June low (411p) than April high (432p). R4L heifers have continued to trade at a slight premium to steers, ending September at 421.3p/kg. -U3 young bulls have returned close to their August high, reaching 416.8p/kg.
- A particularly noticeable feature of recent market conditions has been a further narrowing of Scottish premia over E&W. One likely factor is a tighter supply of cattle on farm in E&W than in Scotland, but it could also reflect a more significant labour supply challenge north of the border leading to a backlog of slaughter-ready cattle, pressuring relative prices.
- Having stabilised at already low levels of around 3.5% for prime cattle and 2.5% for R4L steers in July and August, Scottish premia slipped to an average of 2.3% and 0.3% in September. These had been around 6% and 4% respectively in September 2020.

Availability and slaughter

- BCMS cattle population data from July 2021 continues to point to tight supply in the short-term, particularly south of the border where the number of cattle aged 18-30 months was down much more sharply than in Scotland. Across GB, the situation will change as higher numbers of spring-2020 born cattle begin reaching slaughter condition. However, a younger slaughter profile will lead to an earlier build of spring-2020 born cattle in Scotland.
- In September, prime cattle slaughter at price reporting abattoirs in Scotland continued to run below the year-to-date weekly average and five-year average for the time of year. Numbers averaged 1.7% higher than in August, compared to a rise of 3.5% on average over the previous five-years.
- At reporting abattoirs in E&W, slaughter numbers were below the year-to-date weekly average in four of the five weeks of September.
- During August, Defra slaughter data shows that prime slaughter at GB abattoirs fell at a similar 5% year-on-year rate as it had in the first eight months as a whole. The declines in August were estimated at 6% in E&W and 3% in Scotland.

Mature cattle market

- Slaughter of mature cattle has also been lower than in 2020 at GB abattoirs, falling 6% in the first eight months (though Scottish abattoirs have handled 7.5% more). There was a 4% decline in August, with a fall of 5% in E&W partially offset by a 1.5% lift in Scotland.
- At reporting Scottish abattoirs, where slaughter has been well above the year-to-date weekly average since July, cow prices peaked in mid-August before taking a strong

seasonal downturn through September. Having peaked at 336p/kg, O+3 grades had slumped to 312p/kg in the final week of September – a fall of 7%.

- The general tightness of supply of prime and mature cattle continues to underpin cow prices, which closed September up 11% on the year and by 14% on the five-year average.

Market supply and retail demand

- After a recovery in net UK market supply (production + imports – exports) in April and May, volumes fell back behind 2020 by 4% in June, with the gap widening to 7% in July. Higher imports were more than offset by lower production and slightly higher exports.
- Kantar data for the 12 weeks to September 5th shows that GB household spending on beef exceeded 2019 levels by nearly 3%, despite a smaller share of households buying it, as stronger growth rates for roasts and steaks offset a 10% reduction in spend on mince. However, a different dataset covering smaller product categories indicates slightly reduced spend on fresh beef.
- Category data signalled stronger sales for processed beef, with spend on burgers up 11% on 2019, while cooked meats even exceeded 2020 levels.
- Beef retail price inflation remained relatively weak, with prices averaging 3.5% higher than two years ago, though mince was 5% cheaper.

UK imports

- After a sharp year-on-year decline in Q1, HMRC data shows that UK beef import volumes rebounded higher in April, with the growth accelerating through to July (+15%). In June and July, volumes were strong enough to move around 5% above the five-year average.
- Beef imports from the EU also returned to growth in April but the pace of uplift has been below average, reaching 12% in July. After surpassing their five-year average in June, imports from the EU were 6% above it in July.
- Although the volume imported from non-EU countries fell back from June's year-to-date peak, July volumes were still more than 2.5 times year earlier levels, reflecting the reopening of the catering sector and demand for higher value cuts at competitive prices. Nevertheless, reflecting a pre-pandemic trend, they were still down 22% on their five-year average and accounted for only 4.5% of the total.

Irish Republic market

- Prime cattle slaughter continued to trend seasonally higher in September, reaching a level around 20% above the year-to-date weekly average and slightly in front of historic averages. Increased supplies of younger cattle have been coming onstream while the sharp fall in older cattle in early 2020 has been working its way out of the system.
- While R3 steer prices have remained below their summer peak, they did edge higher in September and held around 15% above year earlier levels.
- In sterling, Irish R3 steers continued to trade around the 360p/kg mark, holding 7-10% higher than last year. The premium for Scottish R4L steers held at 16-18% in September, ending the month at the lower end of this range but above the 2020 average of 14%.

UK exports

- UK beef exports continued recover in July, with volumes reaching a year-to-date high in contrast to July being the annual low point on the five-year average basis. After edging above 2020 in June, the increase reached 10% in July, with volumes above the five-year average for a second month and by a similar degree.
- UK exports to the EU continue to recover from the challenging start to the year, reaching a new year-to-date high in July, back above 2020 for the second time in three months and to within 1% of their five-year average.
- UK beef export performance outside the EU continued its mixed picture in July, with volumes slipping to a three-month low and their share of the total dropping to its lowest of the year (26%). Nevertheless, volumes still exceeded 2020 by a third and were up two-thirds on the five-year average.
- One growth market so far this year has been The Philippines, but trade has now been suspended following the detection of an isolated case of BSE on a farm in England.

By-product market

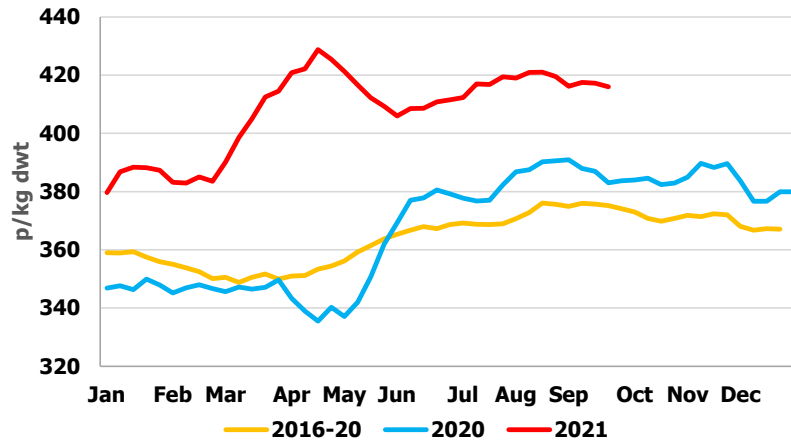
- After a brief pause early in the month, the upwards trend in US steer by-product value resumed, reaching a new year-to-date high in the final week of the month, equivalent to 25.1p/kg liveweight. Reflecting global economic trends, by-product value, which includes hides and fats, was 89% higher priced than last year in USD and up 80% in sterling.

Store cattle trade

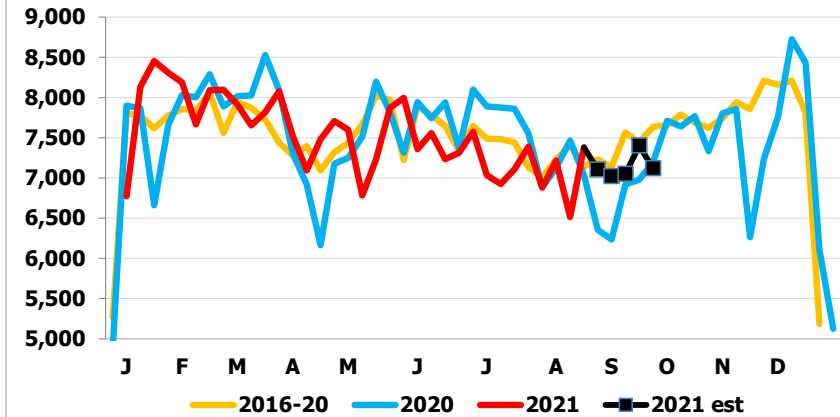
- At Scottish auctions, store cattle marketings picked up slightly in the first three weeks of September to average around 1,500 steers traded at 6-18-months per week. The final fortnight of the month saw the autumn peak begin, with more than 4,100 head traded per week. After running 11% below 2020 levels for in the four months to mid-September, numbers have started the main autumn period up slightly on 2020.
- Whereas prices for 6-12-month steers have been volatile and averaged slightly lower in September than August, at £936, 12-18-month steers trended higher for a third month, up 4% at a year-to-date high of £1,109.
- In September, the younger group averaged 3.6% more expensive than last year while yearlings traded 7% higher than last year.

Cattle Charts

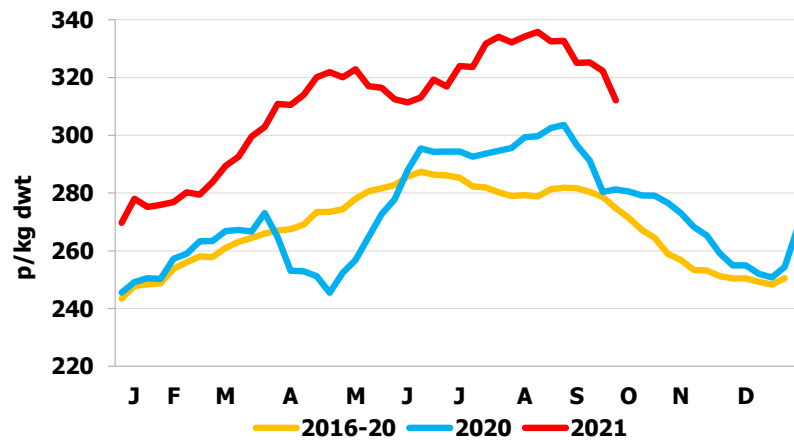
Average steer price at Scottish abattoirs



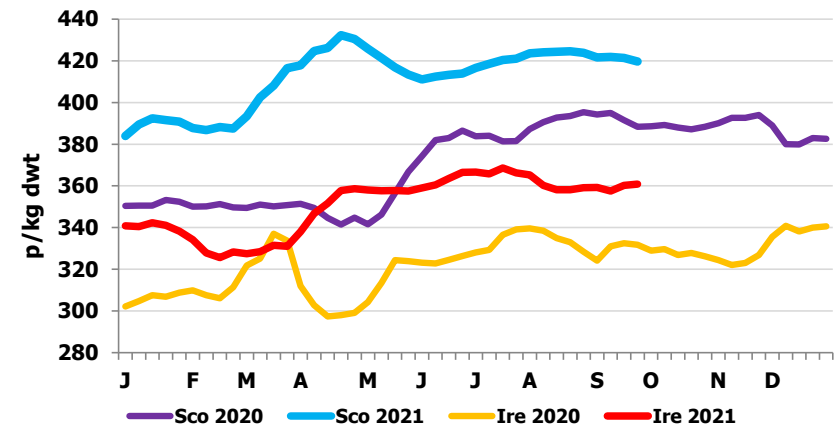
Weekly prime cattle slaughter - Scottish abattoirs

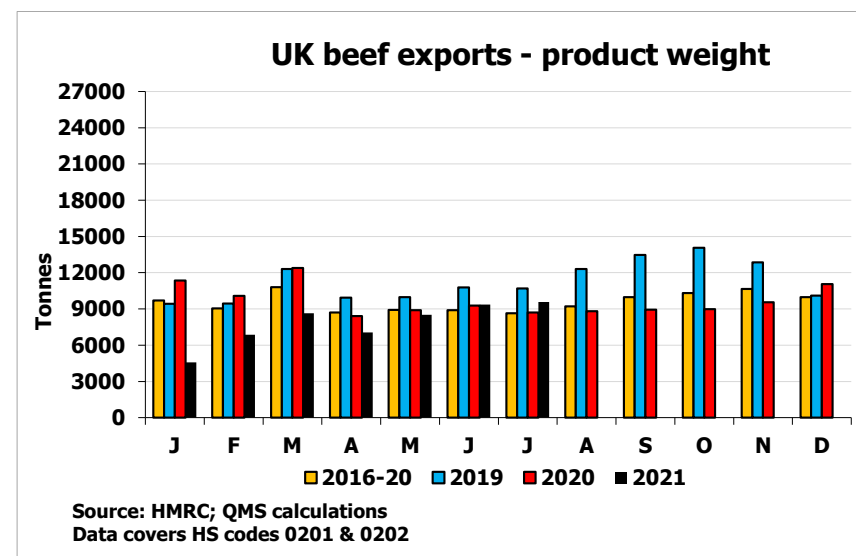
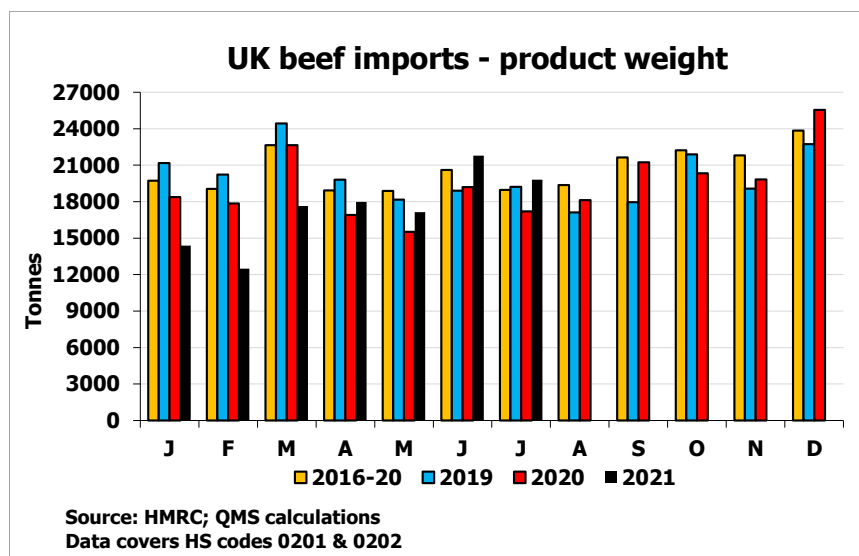
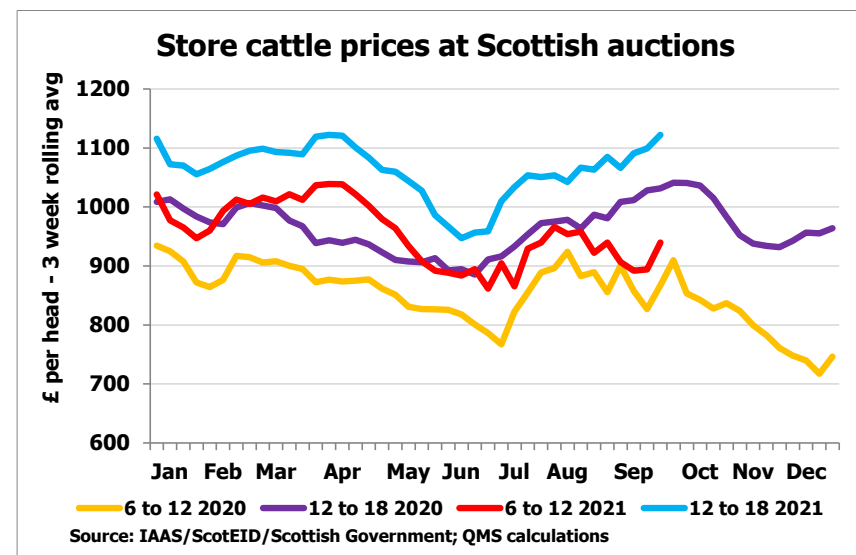
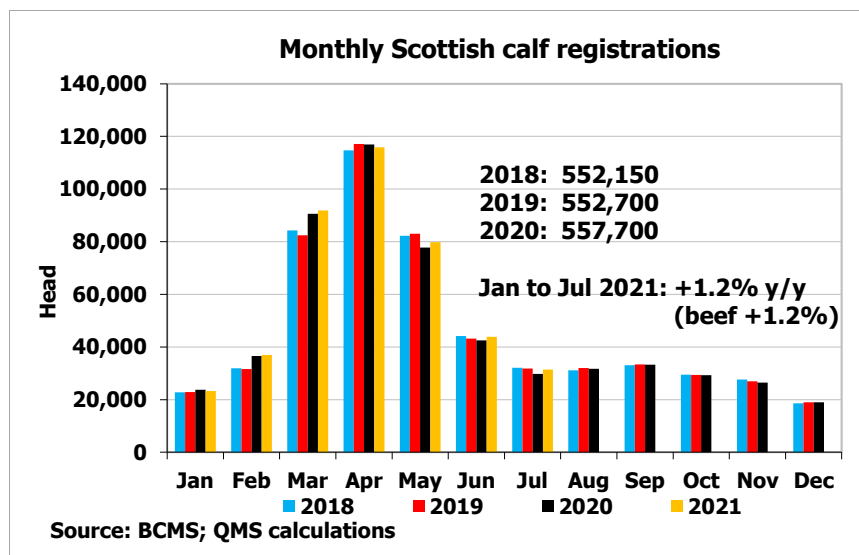


O+3 grade cull cow price at Scottish abattoirs



Scottish (R4L) vs Irish (R3) Steer Price





Sheep Update

Farmgate prices – prime sheep

- After a relatively stable period between early August and mid-September, lamb prices at GB reporting abattoirs then slumped to a season-to-date low. While edging higher again in the final week of the month, R3L grade carcasses in the medium 16.5-21.5kg weight range were still priced around 5% lower on the month and down more than 30% on their new season peak, clearing at 502.3p/kg dwt.
- This was still 11% above 2020 levels and 24% above the five-year average.
- At Scottish marts, auction prices for lambs have showing a traditional seasonal trend. However, after slumping to a new season-to-date low in mid-September, they have rebounded higher, reaching a ten week high of 236p/kg lwt in the week to October 6. This was still 31% below the new season peak.
- Having fallen to around 5% in mid-September, the year-on-year increase in auction prices had surged to 22% at the beginning of October, with the lead over the five-year average widening from a low of 22% back out to 38%.
- Auction prices at Scottish marts averaged around 2% below E&W levels between mid-July and late September, before edging higher by 0.7% in the week ending October 6.

Availability and slaughter

- Defra has published June census results for England, indicating a 3.9% decline in the lamb crop, placing it 6% below the five-year average. Ewe numbers fell another 1.5% despite favourable market conditions, while the lambing rate dropped back.
- Reflecting reduced supply, auction volumes at GB marts trailed 2020 levels by 14% in September, having been 6% lower in August. However, the shortfall on the five-year average narrowed from 10% to less than 1.5%.
- At Scottish marts, numbers fell short of 2020 levels by 17% in August, with the gap widening towards 23% in September. They were, however, up 3.5% on the five-year average, with 2020 levels unusually high due to early marketing.
- While supply has been tight relative to 2020, weekly average auction marketings rose slightly between August and September at GB level; though they remained below their July peak, reflecting demand for Eid.
- At Scottish marts, volumes continued to rise in September, averaging 11% higher than in August, which in turn averaged 9% above July.
- There was a significant increase in the number of lambs sold at GB auction sales at the start of October without dampening prices, though this had followed a fortnight of reduced marketings which may have left the market short.
- At GB abattoirs, prime sheep slaughter fell even further behind 2020 levels in August, after a 16% decline in July had been influenced by the earlier timing of Eid al-Adha limiting availability at the peak procurement period for the festival. Numbers fell 19% behind in August, with a 15% decline in the June to August period also working out at a 9% reduction on the five-year average.

- However, the slower start to the season is likely to see slaughter fall to a lesser extent going forward.
- In August, the year-on-year fall in slaughter was steeper at 20% in E&W abattoirs than in Scotland, where the reduction was 7%.

Mature sheep trade

- Having contracted by more than 15% in 2020, ewe slaughter at GB abattoirs continued to slide sharply on a year earlier in the first eight months of 2021, falling by 24%.
- Cull ewe marketings continued to increase seasonally in September at Scottish marts, averaging 19% higher than in August. However, they trailed 2020 by 9%.
- Tight ewe supply into abattoirs and auctions continues to underpin ewe prices at Scottish marts, which averaged nearly 20% higher than last year in September.
- While holding well above 2020 levels, ewe prices did rebalance sharply lower in August before fluctuating around an average of £73 between mid-August and early October.

Market supply and retail demand

- Having fallen sharply in the first third of the year, UK sheepmeat market supply rebounded in May and June to show small increases over 2020. However, supply fell again in July, down 9% as reduced domestic production was only partially offset by lower net exports.
- Kantar data indicates that retail demand for lamb held firm in summer 2021 with GB households spending 10% more buying than in 2019. The share of households buying lamb remained slightly elevated, though an average price increase of around 10% means that sales volumes were unchanged on 2019.

UK imports

- While sheepmeat imports to the UK were above 2020 levels for a second time in three months in July, up 10%, they still trailed the five-year average by 25%.

NZ market update

- NZ farmgate prices have surged in recent months, moving around a third above 2020 levels and passing the the new season highs of late 2019. In sterling, prices have reached £4.80/kg in early October.
- While the NZ breeding flock is estimated to have continued to trend lower, Beef + Lamb NZ are projecting a slightly increased lamb crop for the October 2021 to September 2022 season (+1.6%) due to a good scanning and favourable weather conditions. However, despite attractive market prices in Europe, the rebalancing of NZ exports to China is likely to continue given that wholesale lamb prices remain firm at around £8/kg in early October.

UK exports

- Although UK sheepmeat exports reached a year-to-date high in July, they showed continuing weakness, down 27% on 2020, when Eid procurement had boosted trade more significantly. While still 8% below the five-year average, this compares with an average shortfall of 25% in the first half.

- UK sheepmeat exports to the EU reached a new high for the year so far in July. Similar to exports as a whole, volumes were 26% lower than last year and 8% below the five-year average. Carcases accounted for 83% of sales in July, up from 72% in the first half.
- Exports to non-EU countries slumped to their second lowest level of the year so far in July, down 42% on 2020 and by 5% on the five-year average. Their share of the total slipped below 5% compared to an average of 11% in the first half.

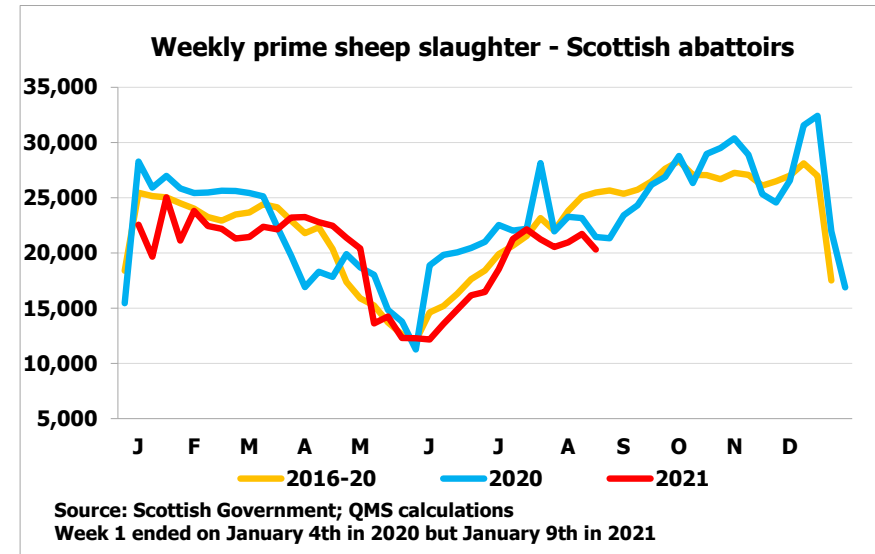
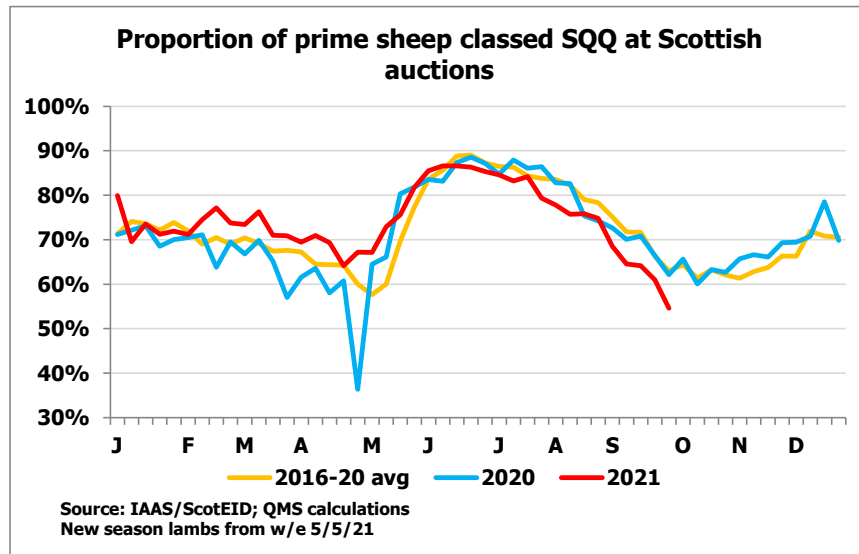
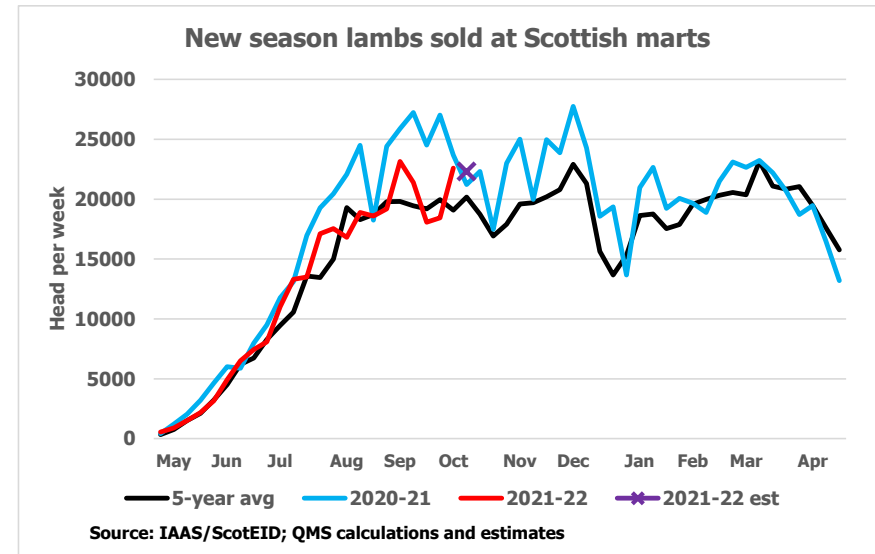
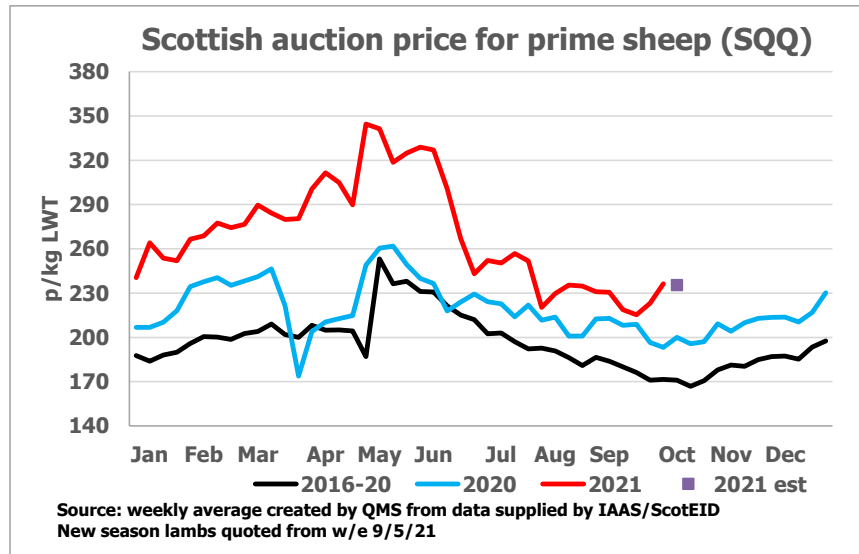
French lamb market

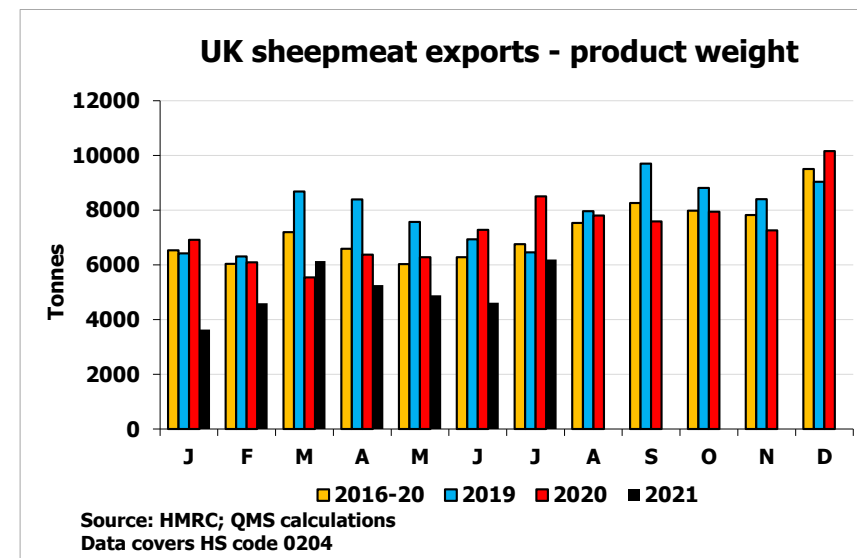
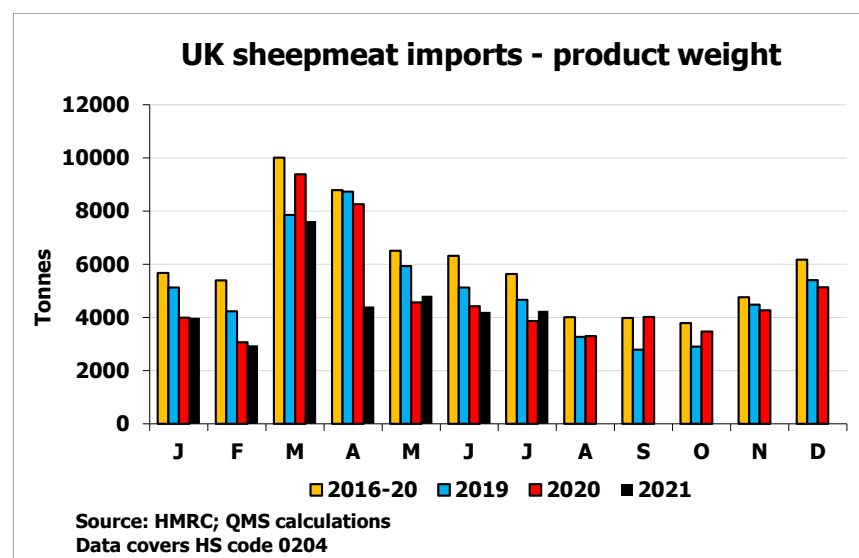
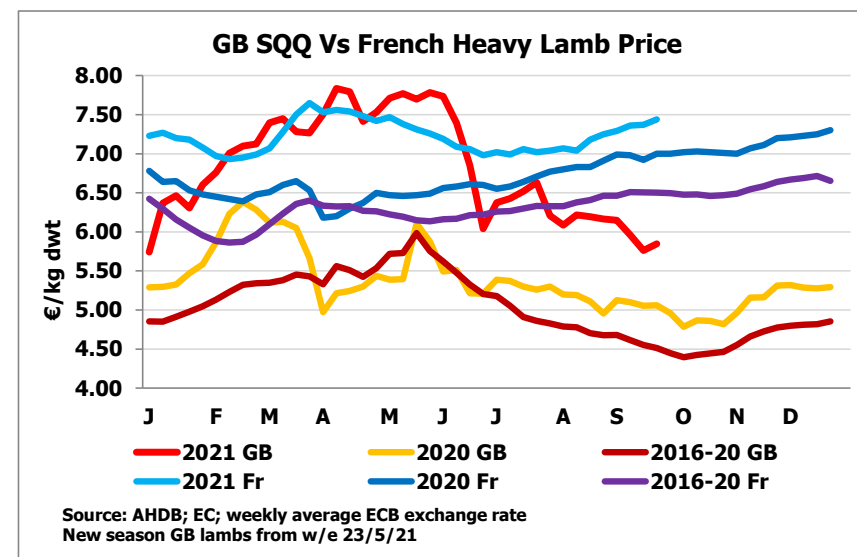
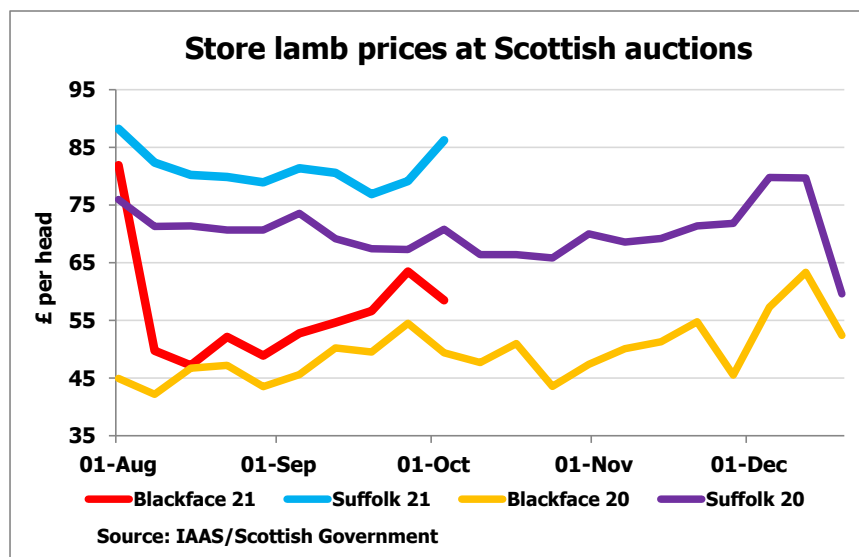
- In France, farmgate prices have been climbing seasonally since mid-August, and their premium over GB levels has widened from around 15% in August to 27% in late September, closing the month at the equivalent of £6.39/kg.
- After rising marginally in August, the wholesale price of imported R grade carcases at Rungis market in Paris fell slightly faster in September, resulting in a new year-to-date low late on in the month. However, prices edged higher again into October, and were around 15% higher than last year compared to a lift of around 5% in the French farmgate price.
- GB export competitiveness in the French market improved in September as wholesale prices traded 14-15% higher than the GB deadweight price, compared to an average gap of 8.5% in the first eight months. Prices were equivalent to £5.70/kg in late September, edging up to £5.80 in early October.

Store lamb trade

- Data from the first two months of the store lamb selling period highlights high levels of confidence, with finishers paying around 15% more for lambs than in autumn 2020, despite marketings holding very close to last year's high levels.
- During September, 1.5% fewer store lambs were sold at Scottish marts than last year and prices cleared 16% higher, averaging £68.90, up from £59.30.
- Blackface store lambs averaged around £57 (£50 in 2020), Cheviots £67 (£57), Texels £79 (£69), and Suffolks £80 (£69). While 14% fewer Blackface lambs were sold, there were significant increases of 5-11% for the other main breeds.

Sheep Charts





Pigs Update

Farmgate prices – prime pigs

- Since reaching a summer peak at the end of July, prime pig prices have cooled seasonally. However, the speed of decline has been unprecedented this year, with the GB Standard Pig Price (SPP) declining by 7.5% over nine weeks, slipping to 148.8p/kg in the week to October 2, down from a high of 160.9p/kg.
- The week to October 2 saw a record weekly decline in the SPP of 4.75p/kg, double the previous record of -2.88p back in early 2016.
- Between replacing the DAPP in 2014 and 2020, the SPP decreased between July and December in five of seven years, averaging 8.5%. In 2016 and 2019, a surge in the global market driven by import demand from China had led to unusual upwards pressure.
- This year, there is domestic pressure from an increase in pig availability coupled with limited labour resources to process them, plus a downturn in the global market following the recovery in pig production in China.
- Having been around 15% behind year earlier levels in February, the year-on-year decline in the SPP had fallen to around 2% in August. Meanwhile prices went from around 2% below their five-year average in February to push ahead by 5.5% in July. Through September, the year-on-year decline widened to 5%, while the difference with the five-year average turned negative at the end of the month, dropping 2.5% below.

Evidence of market disruption

- Clear evidence of the main driver of the unusually strong price declines can be seen in the weekly price reports. Back in July and August, around 94% of standard carcasses were in the 70-104.9kg weight range compared to a winter low of around 92%, when processing site closures led to a backlog of pigs on farms. However, this share has been falling sharply, dropping behind the winter low in late September, ending the month at 91%, with 7.2% being over 105kg compared to just 1.5% in early July.
- High levels of productivity in pig farming mean that pigs grow very quickly and delays in processing quickly result in pigs exceeding target carcass weights, leading to heavy price discounts, with those weighing over 105kg generally trading 20% cheaper on a price per kilo basis than for those weighing 80-89.9kg.
- While carcass weights increase seasonally between summer and autumn, the delays in processing have resulted in a steep lift in weights this year, going from around 86kg at the beginning of July to nearly 91kg in late September – a rise of 5.7% compared to an average lift of 1.7% in the previous five years.
- Having peaked at around 5% last winter, year-on-year increases in carcass weights had dipped below 1% in late July and early August. However, this margin was approaching 5% again by late September.
- Until the final week of September, higher weights than last year had been holding the value of the average standard pig carcass marginally in front of 2020 levels and 8-10% above the five-year average. However, carcass value fell by £3.24 in the week to October 2, dipping 1.5% below 2020 with the lead over the five-year average softening to 5%.

Availability and slaughter

- England's June census results showed a 6% increase in fattening pigs compared to 2020, while Scotland's December census pointed to a strong increase in supply going into 2021.
- Defra slaughter data has shown a strong increase in GB abattoir throughput so far this year, climbing 4.3% over 2020 in the first eight months. However, the cumulative total had been 6% higher in the first half of the year before a fall in July and smaller increase in August meant that slightly fewer pigs were handled over July and August than last year, leading to a backlog building on farms.
- Slaughter of standard pigs at GB price reporting abattoirs trended steadily lower between April and mid-September. However, after a rebound of 4.6% in the penultimate week of September, numbers then rose another 7.5% to a 14-week high. Nevertheless, this was barely above the year-to-date average and will have made little inroads into the backlog.
- Labour shortages are believed to be more significant in butchery than in slaughter, limiting the ability of processors to break carcasses down into a range of cuts and maximise overall carcase value.
- At Scottish abattoirs, the year-on-year decline in prime pig slaughter continued to accelerate in August, reaching 32%, up from 23% in May, 26% in June and 30% in July. Following the suspension of the largest abattoir in Scotland's approval to export to China, it has become less economic to process pigs there, leading to increased cross-border movement for slaughter to sites which have retained their access to China. However, this situation may begin to change due to labour shortages and a slump in trade with China.

Cull sow trade

- While sow slaughter at Scottish abattoirs was 32% lower than last year over the first eight months as a whole, throughput was 8% higher between April and August.
- At GB level, the sow kill had been 7% higher than 2020 in the first half but mounting labour challenges have resulted in the apparent prioritisation of prime pigs, lowering sow throughput by 2% in July and then 35% in August.
- Based on UK trade data, after a weak start to the year when export activity was reduced, sow prices are estimated to have rebounded in March and exceeded year earlier levels between May and July, while remaining well below early 2020 levels.

Pigmeat supply and retail demand

- UK pigmeat supply is estimated to have surged by nearly 14% from 2020 in Q2. While the rate of increase slowed in July, it was still considerable at 9% as sharply lower export volumes more than offset small falls in domestic production and imports.
- Kantar retail category data for the 12 weeks to September 8th points to continuing firm pigmeat demand in GB demand. Spending on fresh pork was around 8% above 2019 levels, while in the processed ranges, spend on bacon rashers was 6% higher, with 10% more spent on sausages, and an 11% increase for cooked meats.
- Growth in spending on sausages and cooked meats came despite price increases of 7-8% on 2019, with inflation slower at 3% for fresh pork and only 0.5% for bacon rashers.

UK imports and EU market conditions

- UK pork imports slipped to a five-month low in July and were 5% lower than last year and 24% below the five-year average – similar to the declines in May and June.
- By contrast, imports of bacon & ham showed a fourth month of year-on-year growth in July, up 7%. Nevertheless, imports remained below their five-year average, down 13%.
- The net result was a slight overall decline in pigmeat imports for a third month compared to 2020, but a 20% shortfall on the five-year average.
- EU pig prices have been declining steadily since mid-June, with the grade E average falling almost 20% over 16 weeks, including a 4.5% reduction in September. A forecast for Germany points to further pressure into mid-October.
- While the record GB price fall at the end of September reduced the GB premium over the EU average from 32% to 29%, it remained close to the highs of winter 2020/21 and well above the mid-March to mid-June average of 8%. EU prices have slipped to 115p/kg, pressuring prices in GB supply chains due to the option of a cheap alternative from abroad.
- The average price of pork imports from the EU trailed 2020 levels by 14-16% between January and April, with the gap narrowing to 6% in May and 2% in June, reflecting the EU market rebound. However, the gap opened again in July, averaging 8% cheaper.
- However, while imported pork is looking cheap, the strength of domestic production and export market challenges mean that import requirements remain historically weak.

UK pigmeat exports

- After a difficult start to the year due to new barriers to trade with the EU while production was hit by temporary abattoir closures, export volumes recovered quickly and exceeded 2020 levels again by March. However, the situation deteriorated again, with pork exports at a nine-year low for the month in July; though they still held well above the January low.
- Export statistics highlight limited improvement in exports to the EU by the summer, with shipments in July still lagging 2020 levels by 38%, placing them 51% below the five-year average. Although exports to non-EU countries were 40% lower than in 2020 in July, past growth meant they held above the five-year average, by 8% and their share of exports remained elevated at 64% compared to a five-year average of 45%.

Chinese pork market rebalancing

- Exports to China/Hong Kong had been the main driver of increased non-EU trade in recent years, with its share of UK export volumes climbing from under a quarter in 2016-18 up to 49% in 2020. However, after rebounding in February and March, sales to China have been sharply below 2020, with the decline accelerating to 51% in July. Nevertheless, this was still up slightly on 2019 and 82% above July 2018 volumes.
- Chinese wholesale pork prices fell by 9% in September on the back of a 4% decline in August. After the China Day holidays, the average price on October 8-9 was down another 6%. The deficit to the 2016-18 average has widened to 16% and the cost of pork has plummeted from the equivalent of £5.30/kg in January to around £2/kg in October.
- The change in the Chinese market has been a major factor in recent producer price declines in the EU and US as well as the UK. In August, US exports to China were less

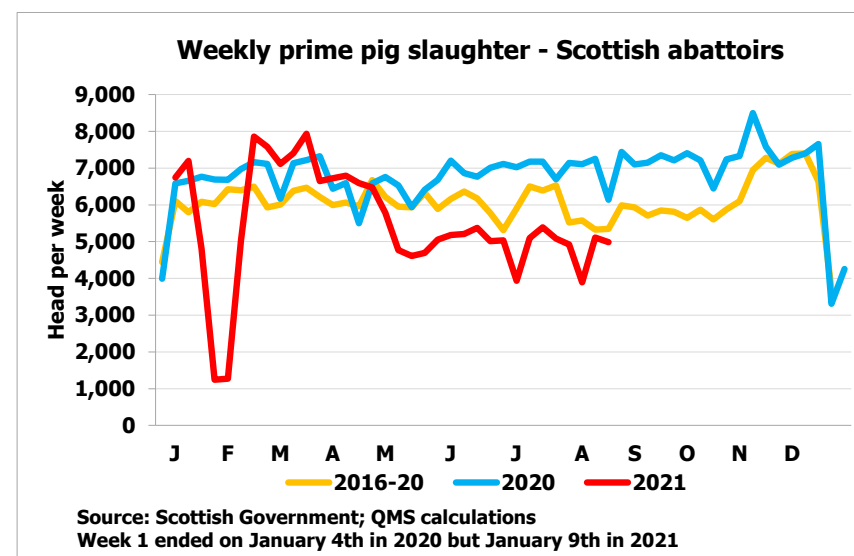
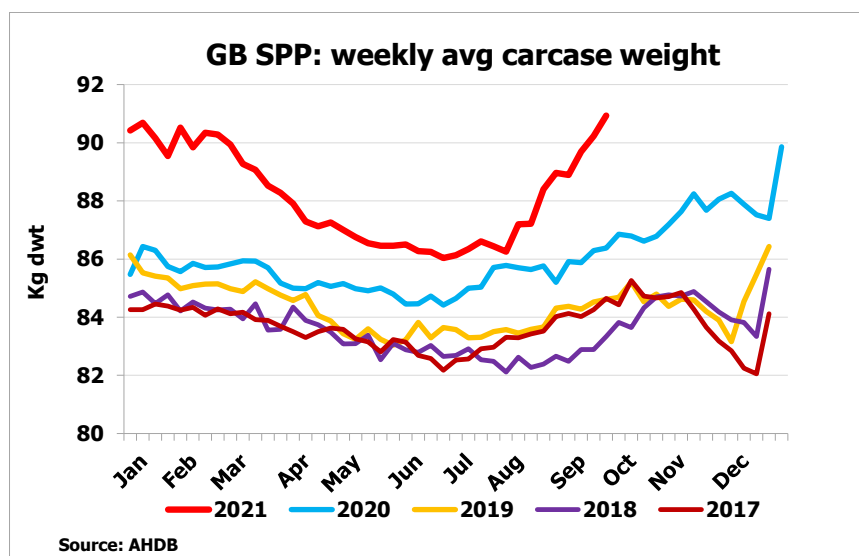
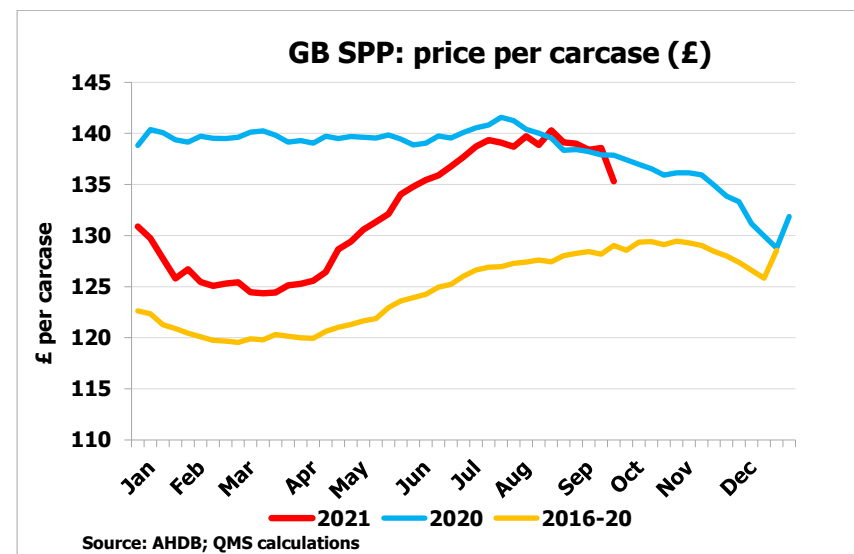
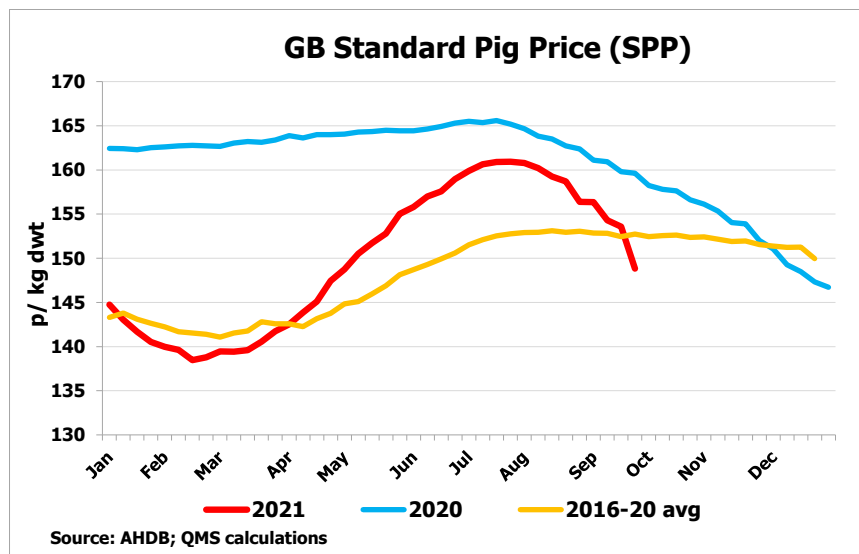
than half of year earlier levels, while EU shipments were lower year-on-year for a fourth month in July, down 44%.

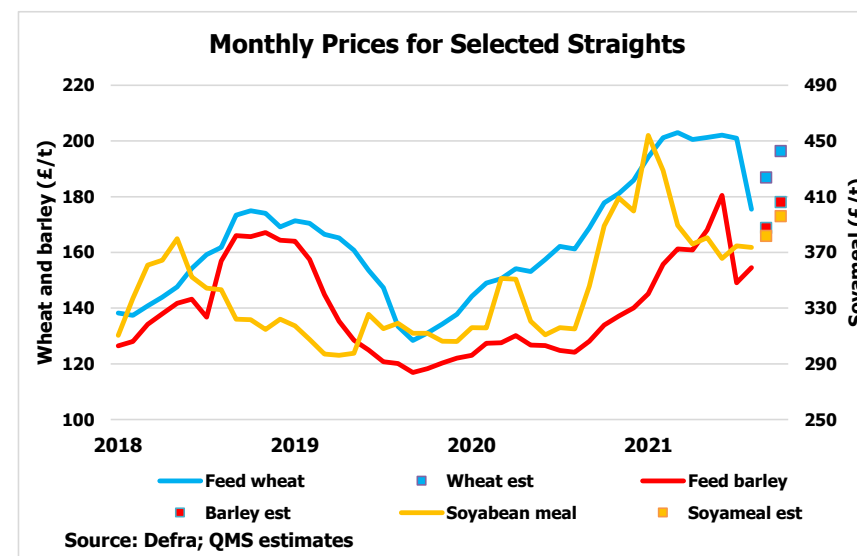
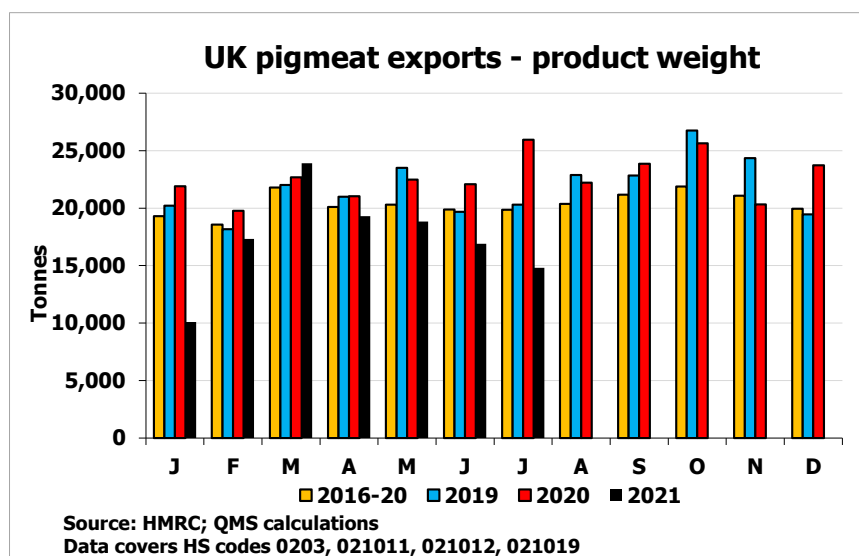
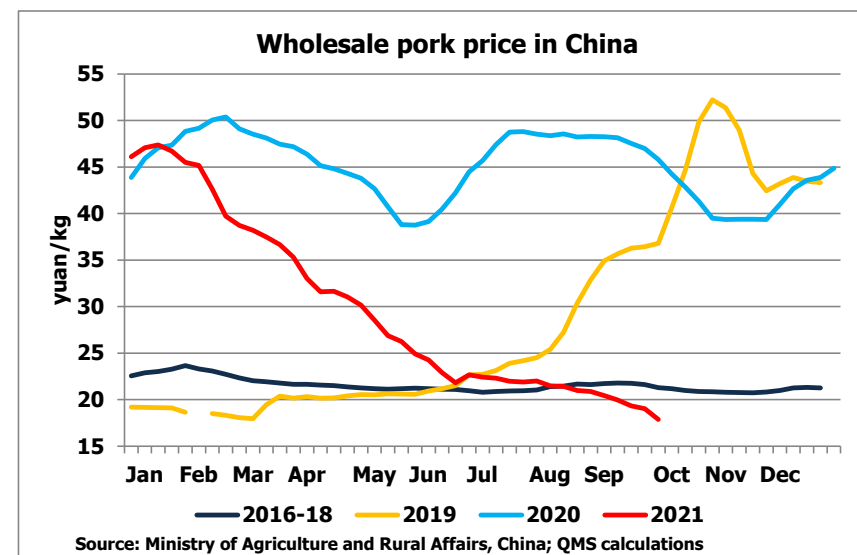
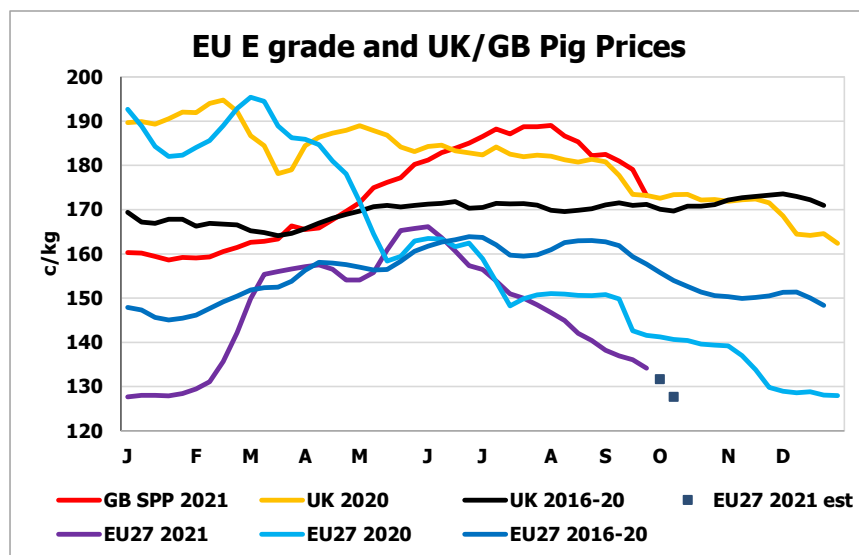
- Live hog futures prices in China are pointing to further declines heading into November, before some recovery is expected in the first half of 2022. If producers are making significant losses at current price levels, then herd liquidation could add to the downside pressure in the short-term, before supporting values once supply tightens again.

Feed costs – additional pressure on margins

- Defra's monthly straights prices indicated a 13% drop in the cost of feed wheat in August following five months of relative stability. However, feed barley rebounded by 4% having rebalanced a month earlier than wheat. Soyameal continued to lack direction, but was at its second cheapest since September 2020. Year-on-year increases slowed to 9% for wheat, approached 25% for barley and steadied at 19% for soyameal.
- Global grain markets have been reacting to changes in USDA forecasts for production and use, with the latest updates signalling a tighter balance, pushing prices higher. Feed wheat is now expected to run around 20% above autumn 2020 levels, while barley is expected to rise even more significantly.
- Soyameal remains cheaper than at its early 2021 peak but it has begun to rise again after steadying through the spring and summer. Looking forward, Chicago futures are pointing to some upwards pressure through the autumn and into the first half of 2022. Exchange rates will be a key factor to watch - a strengthening US dollar would raise import costs.
- Defra's compound feed price data for Q2 2021 indicated that pig feed was already 14% higher than a year earlier, coming within around 3% of the 2013 peak. With little upwards pressure in Q3 2020, the year-on-year increase in Q3 2021 is likely to climb further.

Pig Charts





Business Environment

Economic Activity:

Purchasing Managers Index (PMI) scores for September indicated a further slowdown in the UK economic recovery. While holding well above the 50 score indicating stable activity, the manufacturing sector dipped from 60.3 to 57.1, while there was a marginal rebound to 55.4 in services, compared to respective highs of around 66 and 63 in May. While demand has dipped from its high, firms were also grappling with supply chain challenges and finding it hard to recruit sufficient levels of skilled workers, leading to rising backlogs of work.

Scotland's PMI slipped two points to 56.1 in September and while five points below the May record, it was above the UK PMI for the second month in a row. Although labour challenges were highlighted, the level of hiring was strong enough to minimise further increases in backlogs. Unsurprisingly, input costs continued to surge, particularly in manufacturing.

In the Scottish Government's business survey for September 6-19, the proportion of accommodation and food services sector staff on furlough dipped below the national average of 6%. However, nearly two-thirds of firms in the sector were finding it harder to recruit than normal, compared to 40% nationally and 35% in manufacturing, with half linking this to a lack of EU workers compared to 30% nationally and 33% in manufacturing.

Consumer Confidence and Spending

GfK's monthly survey had indicated a stabilisation in consumer confidence around early 2020 levels through the summer, with the score ranging from -7 to -9 between May and August. However, a five-point decline in September saw confidence slip back to its 2019 range, reflecting rising concerns over the cost of living. Further declines seem highly likely in October.

Optimism around personal finances in the coming year dropped six points to +5, while the score for general economic conditions dropped ten points to -16, and there was greater pessimism around making large purchases (-6).

According to the ONS, UK retail sales turnover fell by 0.3% in August after a 2.4% reduction in July. Food stores drove the decline, down 1%, while there marginal falls of 0.2% for non-food stores and online retail. Spending at fuel stations continued to increase, up 2%.

While spending in food stores may have eased back for a second month, sales did exceed summer 2020 levels by 1.1% over the June to August period. While only up slightly on the year, August spend was still around 4% higher than February 2020 and August 2019 levels. With inflation picking up in food stores, sales volumes did fall behind 2020 levels in August. However, prices were only 1.2% above 2020 levels and a prolonged period of weak inflationary pressure means that volumes were still significantly above pre-pandemic levels.

Spend on fuel has now surpassed pre-pandemic levels, though remained slightly lower in inflation-adjusted terms, while online sales showed a fourth month of considerable year-on-year reductions and were around 10% below their April peak.

Inflation

Official inflation figures published by the ONS signalled a significant lift in the general level of prices across the UK economy in August, with the CPIH rising 0.6% from July to move 3% above year earlier levels. Goods and services driving the overall increase included second hand cars, fuel, appliances, furniture, tools, toys, soft drinks, fish, hotels, air travel and ferries. Higher inflation indicates that increased input costs have begun to pass through supply chains.

For food, the CPIH jumped by 1% between July and August, adding to the narrative of food shortages beginning to bite. However, to put things into some context, food prices had been fairly flat before that and were down on a year earlier for nine straight months, so the jump meant that the index was only up 0.3% on August 2020 and 0.8% on two years before.

It should be noted that within the meat category, beef and veal retail prices were still lower than a year earlier despite significant farmgate price uplift, while lamb and goat prices were up 6%, pork was unchanged on a year earlier, and cured meats were 2% cheaper. Beef was also still more than 4% cheaper than it had been in 2015.

In restaurants and hotels, the price level increased 1.3% between July and August, but this was driven by accommodation rather than catering, with the former up 5.9% but the latter by 0.2%, with both surging above August 2020 levels when there had been significant price cuts, in part down to the Eat Out to Help Out scheme.

Exchange Rates:

	w/e 10/10/21	September 2021			w/e 11/10/20	September 2020		
		Low	High	Avg		Low	High	Avg
€:£	85.9p	85.0	86.4	85.7	90.8p	88.8	92.4	90.9
\$:£	73.5p	72.1	74.5	72.8	77.2p	74.4	78.7	77.2
NZD:£	51.0p	51.1	51.6	51.4	51.1p	50.3	52.3	51.5
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								

Having generally trended slowly higher against the euro between May and mid-August, sterling has been more volatile in recent weeks, with the euro bouncing between 85-86p. In September, sterling averaged 6% stronger on the year and up 6% on where it had closed 2020.

The outlook for monetary policy is becoming an increasingly important driver of the value of sterling, with data pointing to stronger economic activity or higher inflation bringing forward expectations of the first interest rate increase tending to push up sterling, and vice versa.

Although a stronger sterling in 2021 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.

A mid-August lockdown saw the value of the NZ dollar fall towards its lowest levels of the pandemic, boosting the competitiveness of NZ sheepmeat in the UK. However, this pressure quickly reversed and the NZD has been at its strongest against sterling since May.

The US dollar has shown some recovery against sterling since June as a result of changing expectations around the outlook for US monetary policy. With a future drawdown in stimulus measures being signalled by the US Federal Reserve in September, the dollar bounced to its highest of the year against sterling. Nevertheless, the large scale of the economic stimulus means that the dollar is still considerably weaker than in Q3 2020.

While input cost inflation has been a significant challenge for UK farming and red meat processing businesses, a weaker dollar has softened the lift in global commodity prices over the past year when converted into sterling. In a case of bad timing, this is now beginning to reverse, adding upwards pressure to input costs.