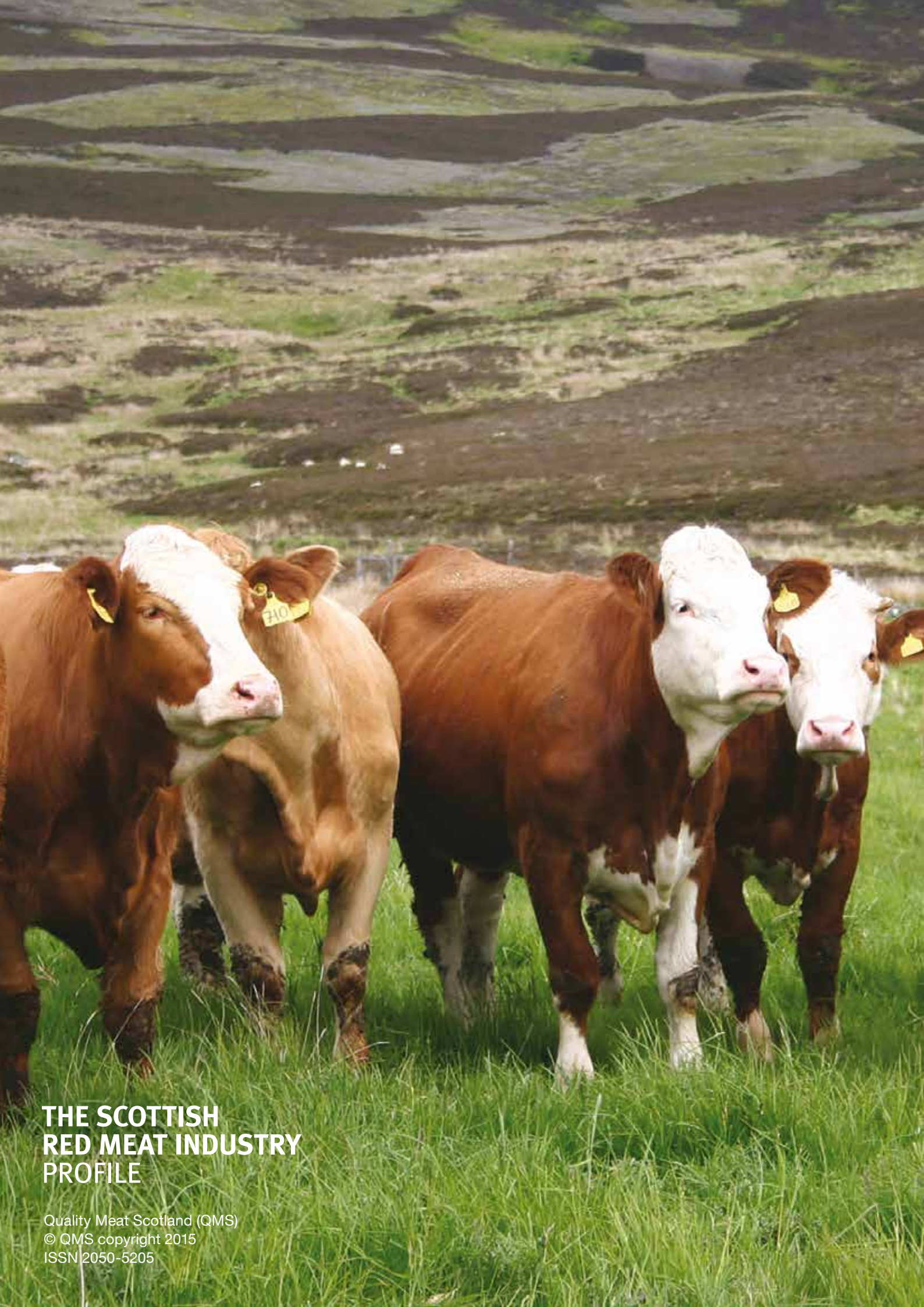




THE SCOTTISH RED MEAT INDUSTRY PROFILE



2015 EDITION



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Quality Meat Scotland (QMS)
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Introduction

This report draws together a wide range of the latest information on the Scottish red meat sector and encompasses the whole production chain from producer to final consumer.

The data has been collated from a number of sources, and, unless otherwise stated, covers the 2014 calendar year. The report's objective is to provide users with a single source of key information on the shape and scale of Scotland's red meat industry. This is the tenth edition of this publication, and it highlights the continued importance of the red meat sector to Scotland's economy.

After the harsh weather conditions of 2012/13, Scottish producers would have found 2014 an easier year to deal with. Better conditions during the peak spring calving and lambing periods led to reduced mortality and helped boost productivity. Indeed, calf registrations increased despite a further decline in the beef breeding herd, while the number of lambs per ewe rose sharply. In the pig sector, lower feed costs and the higher producer prices of 2013 meant that producer confidence began 2014 at its highest level for a number of years. During the year there was a further expansion in the sow herd, and previous investments in genetics and herd health supported increased sow productivity.

However, while better grass growth, lower purchased feed costs and increased productivity will have helped reduce pressure on beef producers' margins from one side, this was offset by a significant decrease in farmgate prices. Though lamb producers are likely to have benefited from an increased lamb crop, the timing of sales will have been a key determinant in profitability. Indeed, while the annual average auction price was slightly higher than in 2013, there was considerable variability during the year, with prices trading around 10% lower during the July to October period, but higher at the beginning and end of the year. In the pig sector, a better supplied global market for grains and oilseeds pushed feed costs down sharply for a second year,

but producer prices decreased sharply in the second half of 2014, potentially offsetting the gains from cheaper feed costs.

The volume of red meat available for consumption in the UK during 2014 increased by three per cent on the previous year. There were increases across the board, mainly as a result of increased domestic production due to higher productivity and increased carcase weights. However, despite the recovery in both the wider UK economy and consumer confidence continuing, retail consumption of the prime cuts of beef, lamb and pork fell back, suggesting that the volume of red meat used by the food manufacturing and foodservice trades increased and/or there was a build-up of meat in cold stores.

The UK's overall trade in red meat increased during 2013, with imports rising by 2% and exports by 3.5%. On the beef side, imports grew strongly as the UK's major supplier, the Irish Republic, saw a considerable increase in production. On the export side, higher production and imports made an increased volume of beef available for sale overseas. Similarly, pigmeat import and export volumes also increased as domestic production rose and falling prices on the Continent made cheap imports look attractive to buyers in the food manufacturing sector. By contrast, sheepmeat trade volumes contracted as the principal UK supplier, New Zealand, had less sheepmeat to sell and rebalanced its exports towards Asia, while a stronger sterling against the euro acted as a headwind to exports.

All in all, on the one hand, Scottish livestock producers benefited from lower input costs, increased productivity and better weather conditions in 2014. However, on the other hand, farmgate prices for cattle and pigs averaged significantly lower than in 2013 while sheep prices trailed year-earlier levels through much of the key selling period. In the processing sector, Scotland's companies benefited from lower raw material prices, having felt a significant squeeze on their margins in 2013. Then again, despite the continued recovery of the British economy, consumption of the prime cuts of red meat slipped back.



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Executive Summary

Farming of cattle, sheep and pigs made a greater contribution to Scotland's economic output in 2014. Excluding subsidy payments, combined output from the three species rose by 2% to nearly £1.19bn. Since overall agricultural output contracted, livestock production increased its share of the total by two percentage points to 39%.

The Scottish beef breeding herd contracted for a fourth year. Numbers slipped by 1.5% to 422,900 head. However, beef-sired calf registrations increased by 1.5%, indicating increased productivity. The breeding sheep flock grew by 3.5% in 2014 to a seven-year high of 3.039m head. Meanwhile, the Scottish sow herd grew considerably, up 16.5% at 33,200 head.

Scottish abattoirs handled slightly fewer prime cattle in 2014 and 7.5% fewer mature cattle. However, average carcase weights increased, pushing annual beef production volumes up by 2.5% to 169,750t. In the sheep sector, slightly higher overall slaughterings and heavier carcase weights led to a 2.5% increase in sheepmeat production at Scottish abattoirs to 27,900t. Despite an increased pig population, pig slaughterings decreased by 1.5% in 2014 at Scottish abattoirs. However, this was more than offset by heavier carcase weights, meaning that total pigmeat production increased by 0.5% to 24,200t.

Total sales revenues from the primary red meat processing sector are estimated to have edged up by 0.7% in 2014, reaching £876m. Increased meat production volumes are estimated to have offset lower wholesale prices.

England and Wales remained the largest market for Scottish processors in 2014, with more than two-thirds of all revenues being generated there. During 2014 there was a slight rebalancing of sales back towards Scotland. Export sales are estimated to have edged up by 2% to £75.5m

but, at 9% of total turnover, continued to account for a smaller share of Scottish sales than for the UK red meat industry as a whole.

After three years of considerable increases, farmgate cattle prices fell back in 2014. The annual average deadweight price for a steer was 8.5% lower than in 2013 at 369p/kg dwt. Though prime sheep prices showed significant differences to year-earlier levels for much of 2014, the annual average price at Scottish auctions was up 1.5% at 184p/kg lwt. Meanwhile, both store cattle and store sheep prices increased by an average of around 5% in 2014. At 158p/kg dwt in 2014, prime pig producer prices are estimated to have averaged around 4.5% lower than in the previous year.

With a strong global harvest and heightened retailer competition, food prices fell back in the UK as the year progressed. However, due to past increases in farmgate cattle prices continuing to pass through the chain of production, beef retail prices averaged 2.7% higher than in 2013. Lamb retail prices followed a relatively steady pricing trend through 2014 and averaged slightly higher than in the previous year. However, pork and bacon averaged cheaper than in 2013.

The total volume of red meat available for consumption in the UK during 2014 increased by 3% to a three-year high of 2.7m tonnes. Most of the increase was down to higher domestic production volumes.

The annual average agricultural input cost in the UK decreased by more than 5% during 2014 and fell to its lowest level since 2010. The principal driver was a fall in feed costs, but energy and fertilisers were also cheaper than in 2013.

Despite higher domestic production of beef, sheepmeat and pigmeat in 2014, total red meat imports to the UK increased by 2% to 962,000t.

With more red meat on the UK market in 2014, an increased volume of red meat was available for export. As a result, UK red meat exports increased by 3.5% to 417,800t.



Farming Contribution

Once subsidy payments have been excluded, Scottish agricultural output stood at £3.03bn in 2014. This was down by more than £100m (3%) from the previous year when output had surged.

Having fallen in 2013, combined output from cattle, sheep and pig farming rebounded in 2014, rising 2% to nearly £1.19bn. This overall increase came as surging output from sheep and pig production more than offset a decline in beef output. With overall agricultural output contracting, livestock farming's share of the total increased from 37% in 2013 to 39% in 2014.

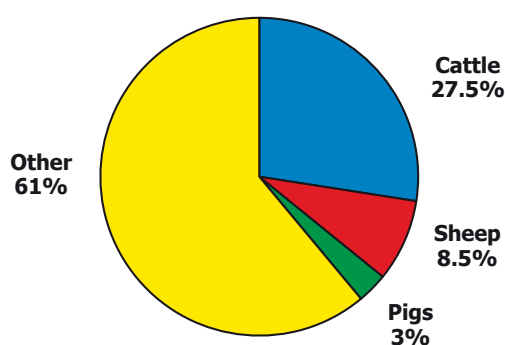
Though output from beef production fell for the first time in nine years, it remained the largest sector of Scottish farming. Output decreased by 2% and slipped to a three-year low of £837m. Nevertheless, with overall output sliding to a greater degree, cattle production took a slightly increased share of agricultural production, edging up to 27.5%. With fewer cattle killed and prices averaging lower than in 2013, output from finished cattle and calves declined by 1.5%, contributing £660.6m to Scottish agricultural output. Meanwhile, production of store cattle and calves fell even more significantly, down 31% to £49.8m. By contrast, capital formation (the asset value of replacement breeding cattle) increased by 14% to £126.9m, as fewer cows were culled, more heifers were retained for breeding and mortality declined.

After two years of significant decline, sheep sector output jumped by 10.5% to £255.6m in 2014. As a result, its share of agricultural output increased by a percentage point to nearly 8.5%. Improved weather between mating in the autumn of 2013 and lambing in the spring of 2014 led to a larger lamb crop, while ample grass supplies supported lamb growth and carcase weights. There was a slower increase in store lamb production, and wool output edged higher. However, capital formation declined.

The pig sector rebounded strongly in 2014 after two successive annual declines. The combination of an increased sow herd, productivity improvements and higher carcase weights, due to lower feed costs, led to a 19% rise in output from finished pig production. This was despite

producer prices falling sharply in the second half of the year. With capital formation edging lower, overall pig sector output increased by just under 19%, reaching £94.6m. Its share of overall agricultural production subsequently rose to just over 3% from 2.5% in 2013.

Livestock contribution to agricultural output in Scotland - 2014



Source: Scottish Government (2015a)

Contribution to Scottish Agricultural Output

	2012		2013		2014	
	£m	%	£m	%	£m	%
Cattle	844.9	28.8	852.9	27.1	837.3	27.5
Sheep	252.2	8.7	231.4	7.4	255.6	8.4
Pigs	83.8	2.9	79.6	2.5	94.6	3.1

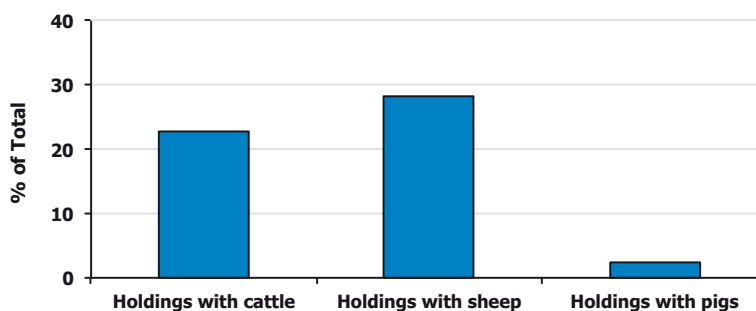
Source: Scottish Government (2015a)



Livestock continues to be of greater significance to Scottish agriculture than it is either in the UK as a whole or, on average, in the EU.

Sheep production maintained its position as the most common farming activity in Scotland, with more than 28% of Scottish holdings involved in sheep production during 2014. Twenty three per cent of holdings were involved in cattle production while 2.5% produced pigs. The total number of agricultural holdings in Scotland fell by 1% to 52,277 in 2014. Cattle, sheep and pig farming all saw declines, ranging from just 0.1% for sheep to 1% for cattle and 5% for pigs.

Proportion of Scottish holdings with livestock enterprises



Source: Scottish Government (2015b)

Contribution to Agricultural Output (%)

	Scotland (2014)	UK (2014)	EU (2012)
Cattle	27.5	13.6	8.5
Sheep	8.4	5.4	1.4
Pigs	3.1	4.9	9.6

Source: Scottish Government (2015a); Defra (2015a); European Commission (2014)



Cattle Production

In December 2014, Scotland's beef herd was nearly 1.5% smaller than a year earlier at 422,900 head. Numbers fell by 5,600 head over the course of the year. This was the fourth consecutive contraction in the beef herd, leaving numbers 8% lower than they had been at the end of 2010. By contrast, there were an additional 7,100 dairy cows on Scottish farms at the end of 2014. This expansion of more than 4% pulled the dairy herd to its largest level in seven years. Numbers reached 174,500 head.

The regional spread of cattle across Scotland remained heavily concentrated in the South West and North East.

In Scotland, livestock production is heavily influenced by land type. As a result, in the North West, Tayside, the Borders and Argyll & Bute the cattle population is skewed towards the beef herd. By contrast, in the South West, there is a heavier focus on finishing store cattle and dairy production. In the North East, producing beef calves and finishing beef cattle take place in relatively equal measure.

Herd size

In June 2014, the average size of a Scottish beef suckler herd held at 47 cows for a second year. This was once again well above the UK average, which stood at 28 in 2012.

Average herd sizes have fallen slightly across Scotland since decoupling of subsidy payments in 2005.

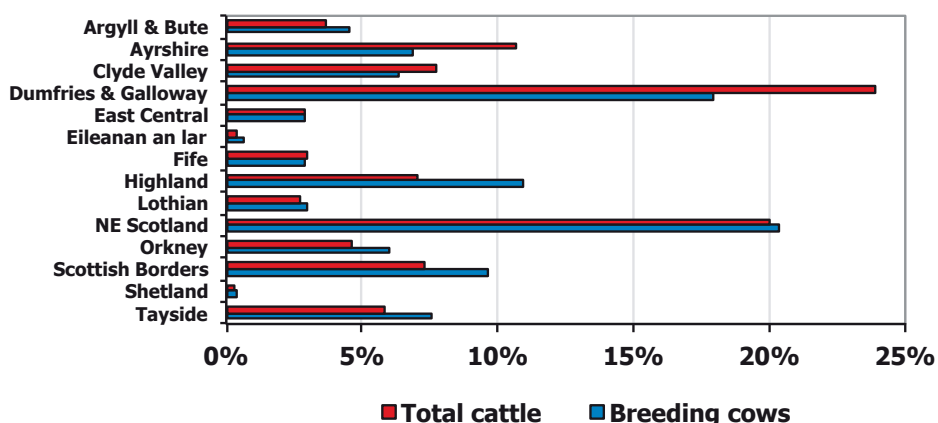
With crofting prominent in the Highlands and Islands, average herd size is much smaller in the North West than elsewhere. Though Orkney herds averaged above the national level, the average holding in Shetland kept only 11 beef cows while there were just six beef cows on the average Western Isles holding.

The largest average herd size was in the Scottish borders with 72 head. Lothian and Dumfries & Galloway followed closely – with 64 and 65 head, respectively.

Scottish Cattle Population

	2012	2013	2014
	'000 head		
Beef breeding herd	431.4	428.5	422.9
Dairy breeding herd	162.6	167.4	174.4
Total cattle herd	1,755.4	1,724.6	1,730.9
Breeding herd comprises female cattle over two years of age with offspring			
Source: Scottish Government (2015c)			

Regional distribution of cattle



Source: Scottish Government (2015b)

Breeding cows = female beef cattle over two years of age with offspring

Scotland has a number of large cattle enterprises. As a consequence, 13.5% of holdings accounted for almost half of the beef herd in 2013, while 15.5% of holdings with cattle under 12 months of age kept more than 50% of the Scottish total. However, the beef sector was less concentrated than sheep or pig farming.

Beef Cows Per Holding - Regional Average

	North West	North East	South East	South West	Scotland
2005	31.5	57	66.5	55.5	51
2013	28.5	54.5	63	51	47
2014	28.5	55	63	50	47

Source: Scottish Government (2015b)

Calf registrations

2014 saw a small recovery in calf registrations in Scotland. Total registrations rose by nearly 1.5% to 558,800 head. This followed two years of decline.

Beef-sired registrations accounted for the entire increase in 2014, rising by more than 2% and reaching 453,500 head. By contrast, dairy registrations decreased for a second year, with a 1.5% decline taking numbers down to 105,300 head. As a consequence, beef-sired calves accounted for 81% of the registered births on Scottish farms in 2014 – a three-year high.

Scottish calf registrations provide a leading indicator of potential beef production in the following couple of years. Beef calf registrations fell back in 2012, helping to explain why prime cattle slaughterings trailed year-earlier levels in 2014.

To get a handle on potential supplies in 2015, it is therefore necessary to look at calf registrations in 2013. With beef calf registrations falling sharply during the first half of 2013, it follows that supplies tightened in the first half of 2015. Looking into the second half of this year, lower calf registrations in the second half of 2013 indicate that the lower kill numbers of H1 2015 are likely to persist. The slightly higher registrations of 2014 suggest that there may well be a lift in supplies in 2016.

The Scottish Government reported that the number of calves born between December 2013 and November 2014 qualifying to receive support payments under the Scottish Beef Scheme was almost 1.5% higher than in the previous period, at 410,700 head. This accounted for 90.5% of the beef-sired calves born during the period, suggesting that 9.5% of the beef-sired calves born came from the dairy herd.

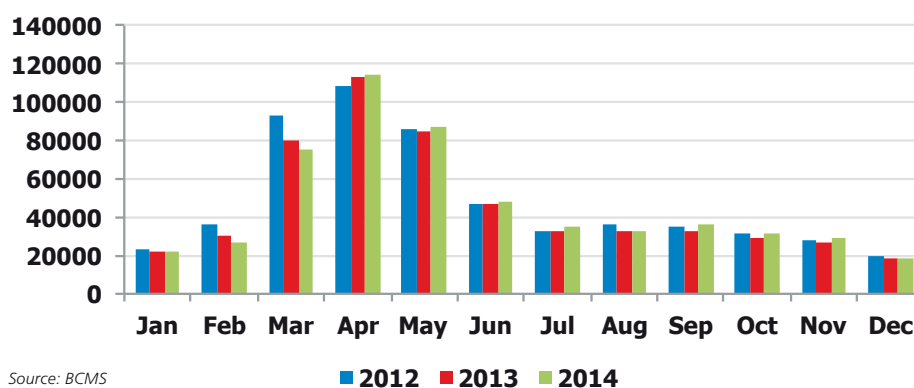
In 2014, nearly 23% of the calves born in Scotland were either Limousin or Limousin Cross. Although this meant that Limousin retained its position as the most popular sire in Scotland, its share of the total continued to fall, slipping by a further percentage point. Back in 2010, it had held a 26% share of the total.

Number of Scottish-born Calves Registered with BCMS

	2012	2013	2014
Calf registrations	578,000	551,500	558,800
Of which beef-sired	465,800 (80.5%)	444,400 (80.5%)	453,500 (81%)

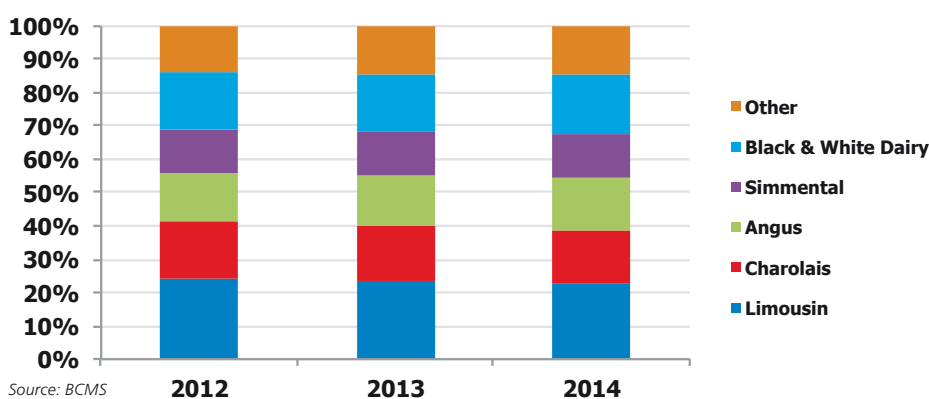
Source: BCMS

Scottish calf registrations



Source: BCMS

Scottish calvings - top sires



Source: BCMS

Although total dairy registrations fell in 2014, 2.5% more black and white dairy calves (Friesians and Holsteins) were registered, pushing their share of total calvings marginally higher. At nearly 17.5% of total registrations in 2014, they maintained their position as the second most popular sire in Scotland.

While the popularity of Charolais continued to decrease, falling 2.5% in 2014, slightly more Simmental-sired calves were born than in the previous year. This meant that the share of Charolais in the total slipped from 16.5% in 2013 to 16% in 2014 while the Simmental share eased marginally to 13%.

In reflection of the premia available in the slaughter market, the number of Aberdeen Angus-sired calves

increased by more than 6% in 2014. This pushed the share of Aberdeen Angus up from around 15% in 2012 and 2013 to 16% in 2014 and meant that Aberdeen Angus came close to catching up with Charolais.

The popularity of other sires continued to vary. Of the native breeds, the number of Beef Shorthorn-sired calves rose by 11% while there was a 23% increase in Herefords. Meanwhile, Luing registrations lifted slightly having fallen in 2013. However, there was a further 4% decline in Highland calves. In terms of other popular breeds, British Blue registrations picked up slightly while Saler registrations rose by 4.5% in 2014, having grown by 3% in 2013.

Sheep Production

According to the December Census, the Scottish breeding sheep flock expanded by more than 3.5% in 2014, to reach a seven-year high of 3.039m head.

The number of ewes kept for breeding rose by 7.5% to 2.253m head, suggesting increased producer confidence following a good 2014 lamb crop. However, the previous year's smaller lamb crop limited the availability of shearing ewes and, at 677,600 head, 4% fewer were put to the ram in the autumn of 2014. Nevertheless, a surge in lambs being put to the ram (up 27% to 108,600 head) came close to offsetting lower shearing availability.

The number of lambs being retained for future breeding rose by 1% in 2014 to 597,100 head. Although this increase was underpinned by the larger 2014 lamb crop, the use of more of these lambs for breeding in 2014 restricted the number being held back until the 2015 mating period.

Due to better weather in the summer and autumn of 2014, lambs finished more quickly than in the previous year. Consequently, the number of slaughter hogs being carried into 2015 decreased by 55,800 head (5.5%) to 963,000 head. This decline will have also been influenced by the higher level of retentions for future breeding.

Just three regions accounted for 45% of the breeding flock in June 2014. The Scottish Borders had the largest flock, with 16% of the total, while Dumfries & Galloway had 15% of the total and Highland took a 14% share.

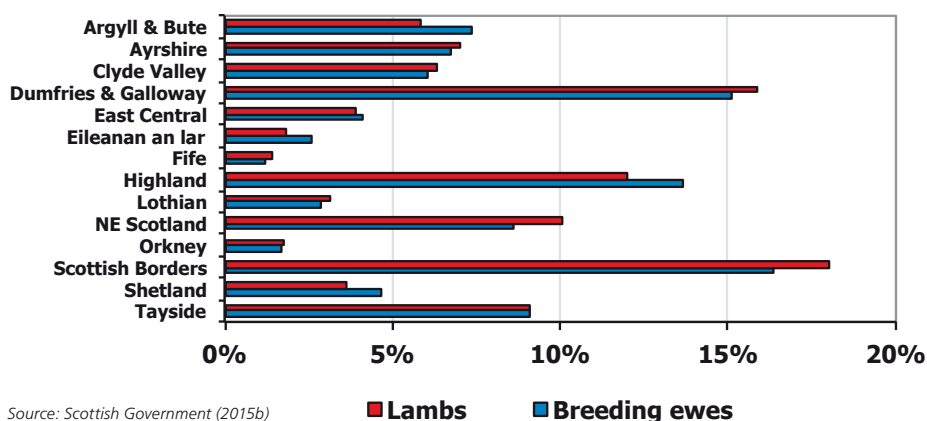
Regional variation in ewe performance due to factors such as weather and ground conditions lead to a different distribution of lambs across Scotland. In 2014, the Scottish Borders was home to nearly 18% of Scotland's lambs, while Dumfries & Galloway had nearly 15% of the total and nearly 12.5% lived in Highland region.

Scottish Sheep Population

	2012	2013	2014
	'000 head		
Breeding sheep flock	2,939	2,882	3,039
Lambs for future breeding	619.2	589.8	597.1
Total sheep	4,908.5	4,764	4,841

Source: Scottish Government (2014c)

Regional distribution of sheep



Regional Lambing Performance (lambs as % of ewes)

	North West	North East	South East	South West	Scotland
2013	104.5	139	129.5	116	118.5
2014	107	146.5	135	124.5	125.5

Source: Scottish Government (2015b)

A much improved period of weather between mating in the autumn of 2013 and lambing in the spring of 2014 gave a significant boost to ewe performance across Scotland. At 125.5% the national lambing percentage recovered to a three-year high and was above its ten-year average of 124%.

The largest improvements in lambing performance came in the South of Scotland with a 6.5% improvement in the South East and 7% improvement in the South West. Meanwhile, in the North East, the improvement was 5.5% and it was less than 3% in the North West. This suggests that the weather improvements between 2012/13 and 2013/14 were more significant in the South.

Looking deeper into the regional statistics shows that only Orkney saw a poorer lambing ratio in 2014 while the Shetland figure only edged up. The largest improvements, of around 7.5%, occurred in Ayrshire and Dumfries & Galloway.

Fife continued to have the best ewe performance, edging over the 150% mark. Although ewe performance in the North West was well below average, Orkney was a notable exception; producers there achieved a lambing ratio of 135%.

Ewe's Per Holding - Regional Average

	North West	North East	South East	South West	Scotland
2005	112	171.5	454	340	224
2013	98.5	174.5	410	299	206
2014	97.5	169	406	296	205

Source: Scottish Government (2015b)

The average Scottish breeding ewe flock fell marginally to 205 head in June 2014. This meant that the average Scottish flock remained smaller in size than the UK average, which stood at 223 in 2012. The fall in the national average was limited by a shift in the balance of holdings away from the North West to the South West, where holdings tend to be much larger.

Since decoupling of subsidy payments in 2005, average flock sizes have fallen significantly outside the North East.

Scottish sheep production has a significant number of large units. Indeed, just 21% of holdings accounted for nearly three-quarters of breeding ewes in 2014.

South East Scotland has the largest farms, with each having an average of 406 breeding ewes in June 2014 – almost double the Scottish average. Looking more closely at the data for the South East region shows that its higher average is largely due to the Borders. Indeed, during 2014, the average Borders sheep holding kept 519 ewes. At 366 ewes, Tayside had the second largest flocks in Scotland. East Central (South West) took third place with 339.

The North West has the smallest farms, averaging 97.5 ewes apiece in 2014. This average was held down by the Western Isles, which had an average of just 33 ewes per holding in 2014.



Pig Production

Having grown slightly in 2013, the December Agricultural Survey reported a significant expansion of the Scottish sow herd in 2014. Collectively, producers added around 4,700 sows – an increase of 16.5%. Nevertheless, compared with December 2004, the breeding herd was 31% smaller.

After optimism caused by strong producer prices and lower feed costs in 2013 led producers to retain additional gilts for breeding, the sharply lower prices of late 2014 are the most likely reason for a significant reversal in December 2014. Gilt retentions slipped back by 7% to 5,500 head.

The number of prime pigs on Scottish farms increased by 9.5% to 282,000 head in December 2014. However, a further lift in the live export of weaner pigs from Scotland to English farms meant that their numbers increased by a smaller proportion than the sow herd. As a consequence, in December 2014, there were 8.5 prime pigs for every sow – down from nine in 2013 and an average of 10 over the 2004–12 period.

North East Scotland is home to the vast majority of the country's sows. The region's share of the national herd held at 60% in 2014, as sow numbers increased in line with the national average. Meanwhile, the South East saw its share of the national herd increase by 1.5 percentage points to 28.5%, as sow numbers rose by 10%. By contrast, sow numbers declined in both the North West and South West, meaning that their shares decreased slightly.

The average Scottish sow herd increased by four sows in the year to June 2014, recovering the previous year's decline due to the combination of increased sow numbers and fewer holdings. The average Scottish holding continued to have fewer sows than the average UK holding, which had 70 in 2012.

In the North East, the average holding kept 182 sows in June 2014; this marked a significant increase on the previous year and was more than

Scottish Pig Population

	2012	2013	2014
	Head		
Pig breeding herd	28,100	28,500	33,200
Total pig herd	324,100	293,500	322,100

Source: Scottish Government (2015c)

Sows Per Holding - Regional Average

	North West	North East	South East	South West	Scotland
2013	11.5	156	71	12	53
2014	11	182	75	12	57.5

Source: Scottish Government (2015b)

three times the national average. This difference in scale was also true for fattening pigs, with the average North East holding keeping 677 in June 2014 compared to a national average of 243. This increased from 628 fattening pigs in June 2013. Both statistics reflect the concentration of commercial pig production in this area of Scotland.

Pig production remains highly concentrated within a small number of businesses. In 2014, just 11.5% of holdings with breeding female pigs accounted for 93% of the sow herd,

while 98% of fattening pigs lived on only 14.5% of holdings. Concentration was slightly higher than in 2013.

During 2013 there were 46 holdings with more than 250 sows, averaging 564 each, while the 115 holdings with more than 100 fattening pigs kept an average of 1,625 each. In the South East, which includes Tayside, the average holding with more than 250 sows kept 642, compared with 571 in the North East. The North East, however, had an average of 1,781 fattening pigs on its largest holdings compared with 1,557 in the South East.





Primary Processing Contribution

Supply of Product to the Processing Sector

Cattle

Scottish abattoirs slaughtered 411,000 prime cattle during 2014. This was fourth consecutive year of decline, though the rate of decline did slow to just 0.3%.

The slaughter of mature cattle fell by 7.5% in 2014 to 57,900 head.

In 2014, the number of cattle killed at Scottish abattoirs and entering the food chain slipped by just over 1% to 468,900 head.

In 2014, the average prime cattle carcase weight reached a new record high of 363kg. This was a 3.5% increase from the previous year. Meanwhile, the average cow carcase weight rose by 10kg to 350kg.

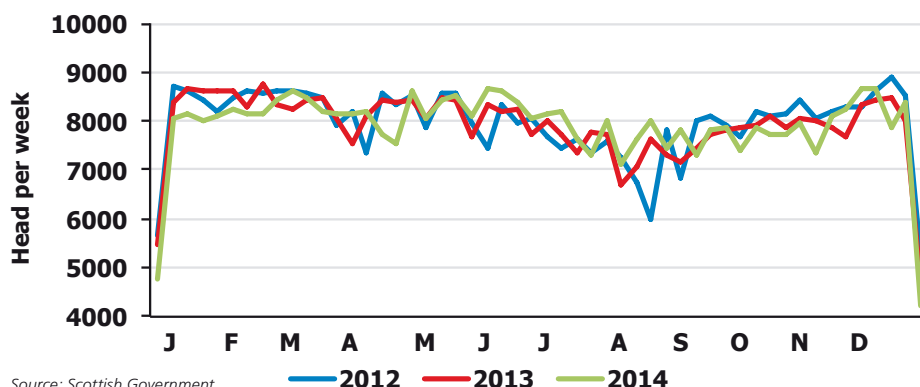
Underpinning this increase in carcase weights was the much improved summer grass growth and wider availability of supplementary feeds at the lowest prices for a number of years. This, combined with lower producer prices per kilo, gave producers an incentive to take cattle to heavier weights, in order to maintain income per animal.

Carcase weights began to reach levels where the size of prime cuts of beef (steaks and roasting joints) meant that they became more difficult to sell to multiple retailers at premium prices.

Despite lower cattle slaughterings, the increase in carcase weights meant that total beef production at Scottish abattoirs increased by nearly 2.5% in 2014 to reach 169,750t. This returned production to the same level as it had been in 2012.

During the year, the distribution of kill by gender changes. Steers and heifers are dominant throughout, averaging 80% between them in 2014, but this fell to less than three-quarters in July and August when young bull throughputs peaked. Peak cow culling occurs in the autumn, pushing up

Seasonal supply of prime cattle to Scottish abattoirs

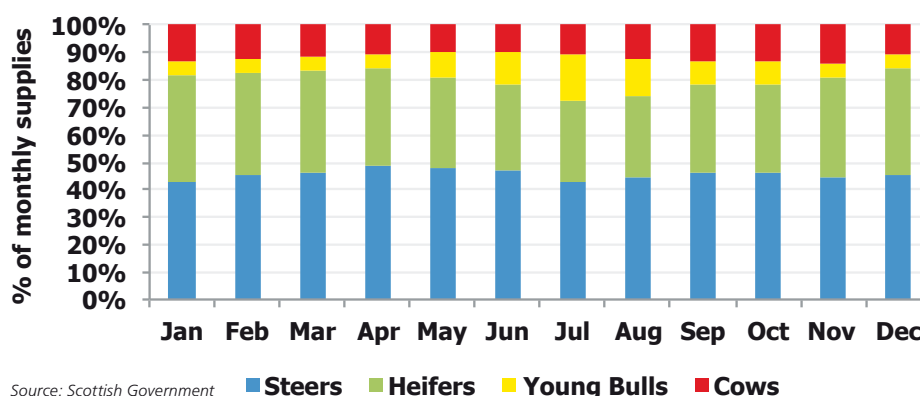


Average Carcase Weights

	Scotland			UK
	2012	2013	2014	2014
	kg per head			
Steers	377	373	384	368
Heifers	327	324	336	325
Young bulls	343	347	354	345
All prime cattle	354	351	363	349
Cull cows	344	340	350	311

Sources: Defra; Scottish Government

Seasonality of cattle supplies by gender in 2014



the share of cows in the total cattle kill to 14% between September and November.

The share of the total kill by gender changed in 2014. A wider availability of male prime cattle led to a two percentage point rise in the share of the steer kill to nearly 46%, while

young bulls made up around 8% of the slaughter mix compared with 7.5% in 2013. By contrast, heifer numbers tightened, lowering their share by 1.5 percentage points to just over 34%. Meanwhile, a significantly lower cow kill saw their share of the total cattle kill slip from 13% in 2013 to 12% in 2014.

Age of cattle at slaughter

The age profile of male prime cattle changed in 2014 as an increased share of young bulls in the prime cattle kill resulted in a greater bulge in the profile at 15 and 16 months. However, the age profile for steers shifted towards a slightly older age as lower feed costs, greater forage and feed availability and lower producer prices encouraged producers to add weight compared with 2012 and 2013.

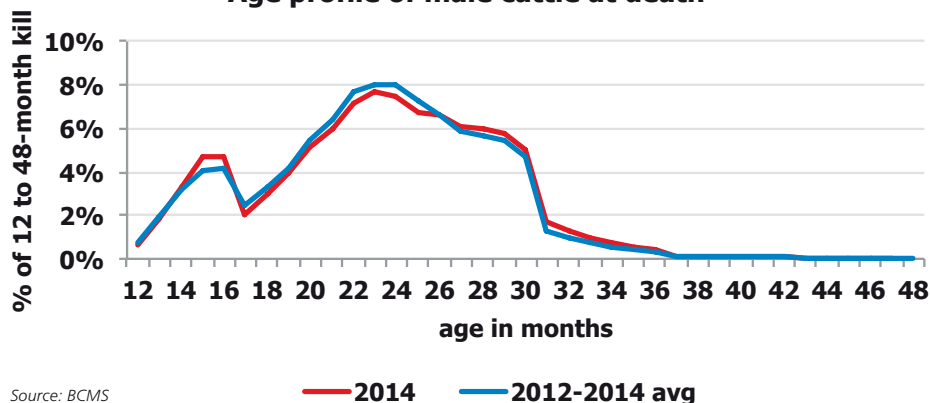
In terms of the heifer age at death profile, the slight bias in the curve towards older cattle in 2014 is also likely to reflect the factors pushing producers towards heavier carcass weights.

In the profile of over-30 month female cattle it can be seen that in the beef herd, cows tend to live for longer. In the dairy herd, cows appear to be culled mainly between four and seven years of age (48–84 months) while only very few will live past the age of 14 years (168 months). For beef cows, the profile is relatively stable from four years all the way up to 13–14 years where it begins to tail off. The age profile for beef cows approaches zero around three to four years later than for dairy cows, at around 212 months.

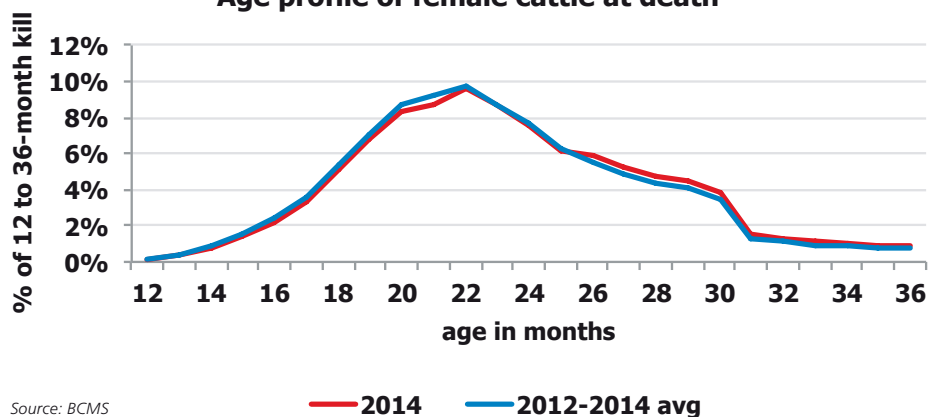
The higher levels of female beef cattle being killed between 31 and 36 months of age will mostly reflect the slaughter of older heifers. It will also include heifers that have been served for the first time, but failed to conceive. This may also be reflected in the slightly higher level of culling at three to four years.

The average age at death for a dairy cow in 2014 was just under six years; for beef it was just over eight years. This would suggest that the average dairy cow will have had three calves while the average beef cow will have had six calves. However, it should be noted that on the beef side, the flat age profile would suggest that 10 or 11 calves would be almost as common as six calves.

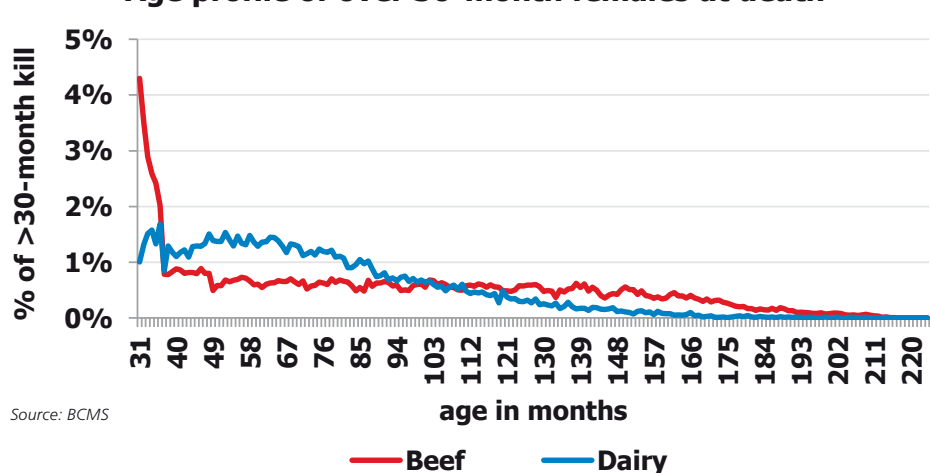
Age profile of male cattle at death



Age profile of female cattle at death



Age profile of over 30-month females at death



Sheep

Helped by better winter and spring weather, the Scottish lamb crop was considerably larger in 2014 than it had been in the previous year. Despite a small decrease in the autumn 2013 ewe flock, increased productivity led to a 5% increase in lamb numbers.

With increased ewe productivity providing Scottish abattoirs with a larger supply base to draw from, lamb slaughterings rose by 3% year-on-year during the May to December period of 2014. However, most of the increase came in the summer, with numbers trailing year-earlier levels by 3.5% in the final quarter.

In the year as a whole, clean sheep slaughterings increased by nearly 1% to 1.342m head. The increased supply of new season lambs was partially offset by a lower hogg carryover at the beginning of the year and/or increased exports for slaughter elsewhere in the UK, which saw throughput fall 3% year-on-year in the first third of 2014.

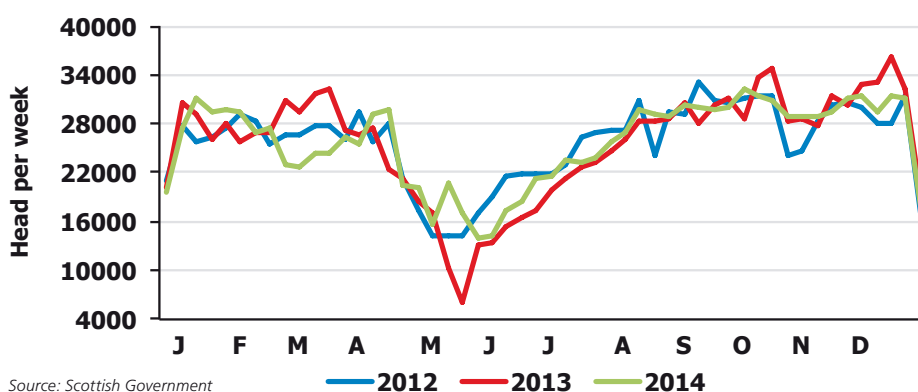
The number of ewes and rams handled by Scottish abattoirs fell by 1.5% in 2014 to 28,700 head. The low level of slaughtering in Scotland continues to reflect that the majority of Scottish cull sheep are transported to abattoirs in England and Wales.

Using a rule of thumb that 20% of ewes will be culled each year suggests that, based on the autumn 2013 ewe flock, 580,000 Scottish ewes could have been slaughtered in 2014. It then follows that perhaps 550,000 Scottish ewes will have been slaughtered in England & Wales during 2014.

At 20.1kg, the average lamb carcase at Scottish abattoirs edged higher in 2014 but remained lower than two years before. Carcase weights began the 2014/15 season well below year-earlier levels, before recovering from September onwards.

Total sheepmeat production at Scottish abattoirs increased by nearly 2.5% in 2014 to reach 27,900t. Slaughterings increased by 1% and carcase weights by 1.5%.

Seasonal supply of prime sheep to Scottish abattoirs



Average Carcase Weights

	Scotland			UK
	2012	2013	2014	2014
	kg per head			
2012	20.3	19.9	20.1	19.4
2013	32.6	29.4	31.0	27.3

Sources: Defra; Scottish Government

Carcase Quality

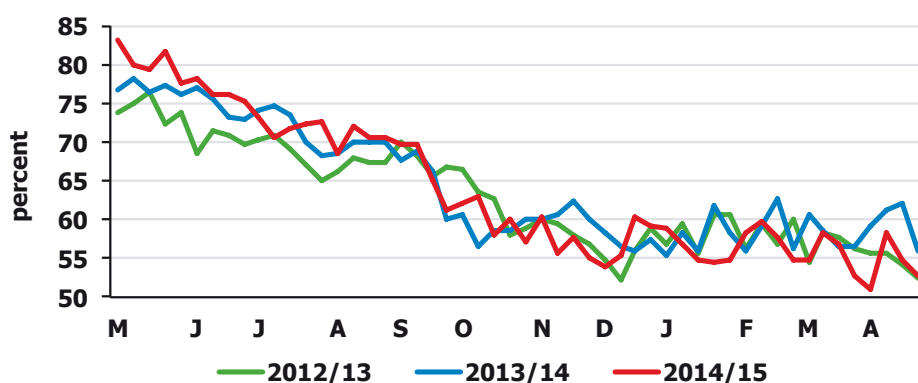
64% of the 2014 GB lamb crop slaughtered at price-reporting abattoirs achieved at least an R3L grading. This was half a percentage point higher than in the previous year and was historically high (though still 0.5 percentage points below the 2010 lamb crop). The year-on-year improvement may reflect an improved quality and quantity of feed and forage during the spring and summer of 2014 leading to better feed conversion rates.

Although slightly above the previous season's carcase quality on average, there were significant differences during the season. Indeed, carcase

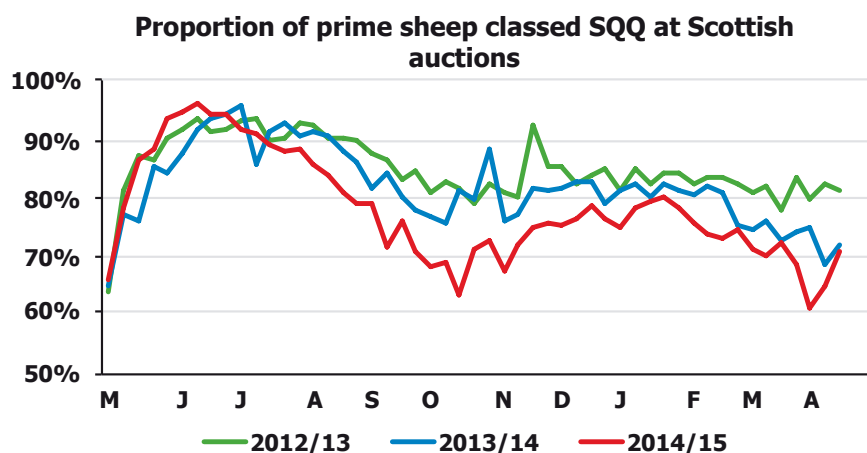
quality was generally much higher from May until late October. However, from November to April, carcase quality trailed year earlier levels.

A further proxy of carcase quality is the proportion of prime sheep sold at auction that qualify as 'Standard Quality Quotation' (SQQ). The SQQ covers prime sheep weighing from 25.5kg up to a maximum liveweight of 45.5kg. Having opened the season with a higher proportion of lambs meeting the SQQ weight range, this quickly turned and trailed the levels of the previous two seasons consistently from mid-July onwards.

Proportion of GB sheep carcases achieving R3L grade or better



The differential was at its widest during the peak autumn selling period; this was likely a reflection of the better grass growth of last summer supporting lamb growth rates. The gap with the 2013/14 season narrowed significantly in April 2015, possibly as low-ground supplies tightened, leaving the lighter hill lambs on the market.



Source: AHDB/IAAS

Pigs

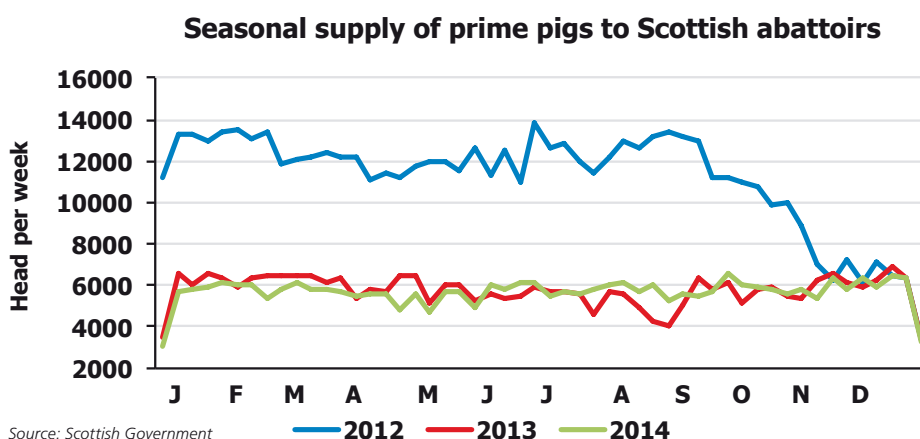
Scottish abattoirs slaughtered 295,600 clean pigs during 2014. This was down by 1.5% on the previous year when 299,400 had been handled.

There continued to be little interest in slaughtering sows in Scotland, as just 2,100 sows and boars were slaughtered at Scottish abattoirs in 2014. Though down 28% on the previous year, it matched the 2012 number. The majority of Scottish sows were slaughtered in English abattoirs.

Using a rule of thumb that around one-third of sows will be culled each year suggests that 9–10,000 Scottish sows will have been slaughtered south of the border in 2014.

For a second consecutive year, pig producers took advantage of lower feed costs and increased feed availability by increasing carcass weights. In terms of sales revenue per pig, heavier weights will have helped to offset partially the sharp decline in per kilo producer prices during the second half of the year.

A 2% increase in average carcass weights more than offset the decline in slaughter numbers and meant that pigmeat production volumes at Scottish abattoirs rose by 0.5% to 24,200t.



Source: Scottish Government

Average Carcase Weights in Scotland

	2012	2013	2014
	kg per head		
Clean pigs	78.1	79.2	80.9

Source: Scottish Government; QMS estimate

Scottish Red Meat Abattoir Sector

Twenty-three licensed red meat abattoirs operated in Scotland during 2014 and submitted levy returns to QMS. Of this total, 20 sites processed cattle, 18 processed sheep, and 15 processed pigs. During the year, some 2.137m animals were processed by Scottish abattoirs, up marginally from 2013.

Scottish Abattoir Output						
	Number of animals		Volume of meat (t)		Estimated value (£m)	
	2013	2014	2013	2014	2013	2014
Cattle	474,360	468,880	165,950	169,750	664.5	675
Sheep	1,358,840	1,370,410	27,270	27,890	146	149
Pigs	302,310	297,730	24,110	24,220	27.5	24.5
Skins & hides	n/a	n/a	n/a	n/a	35	28

Sources: QMS Processor Survey; Scottish Government

It is estimated that the total turnover of the primary processing sector during 2014 increased by £3.5m, or 0.4%, to £876m. Employment is estimated to have stabilised in 2014 at approximately 2,700.

Despite lower cattle throughput and slightly cheaper wholesale prices in 2014, the impact of heavier carcass weights on total beef output is estimated to have pushed up sales revenues by around 1.5% to £675m.

Wholesale sheepmeat prices are

estimated to have held steady in 2014. Therefore, due to increased production, turnover from sheepmeat processing is expected to have grown by 2% to approximately £149m in 2014.

With a major player in the sector operating on a contract killing basis, pig processing revenues look low relative to the number of pigs being processed. The lower price of pigmeat in 2014 is expected to have led to a reduction in processor sales revenues, despite an increase in production volumes. Turnover also fell due to an increase in

the share of slaughterings at contract kill abattoirs.

Sales of skins and hides were worth an estimated £28m to Scottish red meat processors in 2014. This was down 20% on the previous year, and, although the combination of lower cattle throughput and a fall in cattle hide prices will have contributed, the main driver was a sharp decline in sheepskin values. This was the consequence of a tightening of environmental regulations in the Chinese tanning industry.

Scottish Abattoir Sector Scale			
	Cattle	Sheep	Pigs
Abattoirs killing stock	20	18	15
Proportion of kill in 5 largest abattoirs (%)	71.5	87.7	92.8
Proportion of kill in 10 smallest abattoirs (%)	4.5	3.2	7.2

Source: QMS levy returns

The cattle processing sector is more evenly spread in terms of capacity than the sheep or pig sectors. There are a number of medium-sized plants working with cattle, whereas sheep

and pig processors tend to be either very small or very large. During 2014, the five largest abattoirs in the cattle and sheep sectors saw their share of production fall slightly, whereas it

increased amongst pig processors. The share of the kill in the 10 smallest abattoirs increased across each of the three sectors.

Distribution of Scottish Red Meat Sales in 2014 (at first point of sale)						
	Scotland		Rest of UK		Exports	
	Value (£m)	% by value	Value (£m)	% by value	Value (£m)	% by value
Beef	163	24	473.5	70	38.5	6
Sheepmeat	18	12	94	63	37.0	25
Pigmeat	16	67	8	33	<1	<1
Total red meat	197	23	575.5	68	75.5	9

Source: QMS Processor Survey

England and Wales remained the largest market for Scottish processors in 2014, with more than two-thirds of all revenues being generated there. During 2014, there was a slight rebalancing of sales back towards Scotland.

The Scottish processing sector continued to send less of its produce overseas than the UK as a whole. With beef producer prices higher in Scotland and the scale of production lower, Scottish processors find it harder to compete in price sensitive markets on the Continent than their counterparts elsewhere in the UK. Although the exchange rate made it harder for sheepmeat exports into the EU as 2014 progressed, Scottish processors managed to grow sales. This was partly down to increased production leaving more product available for export. Pigmeat exports remained at a negligible level.

Processors again derived the largest proportion of their revenue from boneless and part-boned primals (estimated at 78%). This reflects the operating structures of Scotland's largest processors, where a number of firms based in Scotland are part of larger UK meat businesses and the majority of the processing of the carcase takes place at other locations in the UK.

Fifth-quarter product continued to play an important part for cattle and sheep processors, helping them to achieve better balance of the carcase. It is of particular importance to the export trade, accounting for approximately 20% of overseas sales revenues.

Multiple retailers continued their domination of the sales profile of Scottish red meat processors, accounting for around 55% of sales. However, this share fell slightly relative to a year earlier, as sales at multiple retailers fell back and more product was available for the food manufacturing trade.

The higher proportion of sheepmeat sold to multiple retailers reflects the customer base of the small number of large plants killing sheep in Scotland.

Fifth-quarter product has a considerably different sales pattern from carcase meat. As prices for these raw materials tend to be much cheaper

**Distribution of Red Meat Sales by Market Outlet in 2014
(based on a sample of processors)**

	Beef	Sheepmeat
	% by value	
Multiple retailers	47	84
Independent retailers	6.5	1
Retail wholesalers	18	5
Food manufacturers	19.5	5
Food service & catering suppliers	8.5	5

Source: QMS Processor Survey

than for carcase meat, the majority of fifth quarter product goes into the food manufacturing chain, where the ability to add value while holding prices down for a highly competitive market is imperative.

Overseas Sales of Red Meat in 2014

During 2014, Scotland is estimated to have sold £75.5m of red meat to customers outside the UK, which equates to a 2% increase from 2013. The value of exports made up around 9% of the processing sector's total red meat sales during 2014. This was unchanged from 2013.

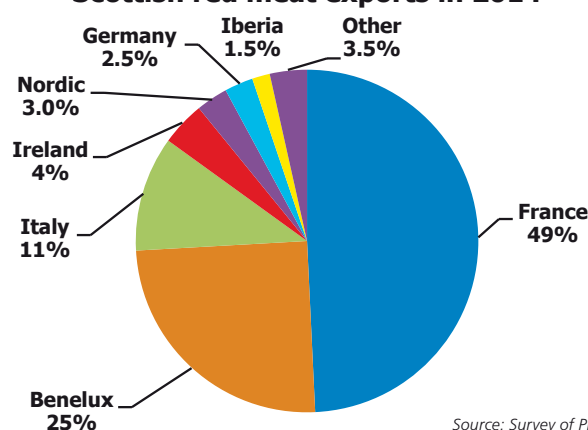
France maintained its position as the principal destination for overseas sales of Scottish red meat, accounting for 49% of sales revenues. This was up from 48% a year earlier. It is estimated that France bought around 30% of the beef exported by Scottish processors and 70% of the lamb. Fifth quarter product has also traditionally sold well in France.

The wealthy trio of Belgium, the Netherlands and Luxembourg are also significant customers for the Scottish industry, accounting for a quarter of

the market in 2014. Significant economic challenges in Italy acted as a headwind to trade, and sales fell. As a consequence, 11% of total sales were made to Italian customers, down from 13% in 2013. Italy is mainly a market for Scotch beef. Elsewhere in Europe, sales to the Nordic countries halved, but trade with Germany nearly doubled and sales to Ireland grew six-fold. Meanwhile, exports to Iberia grew more slowly.

A key function of exports is to help Scottish processors balance the carcase by selling certain products overseas which they may not be able to sell easily in the home market. In particular, sales to Poland and other countries in Eastern Europe acted as a destination for lower value beef and fifth quarter product, both destined for the food manufacturing trade. This also applied to most sales to Hong Kong and Ireland. At the premium end of the value scale, exports to Switzerland increased by a quarter while there were small deliveries of high value cuts to Malta and Hong Kong. In addition, a large part of the trade with Sweden was in the higher value cuts of beef and lamb.

Scottish red meat exports in 2014



Source: Survey of Processors

Prices

General Economic Factors

Consumer Prices Index (CPI)

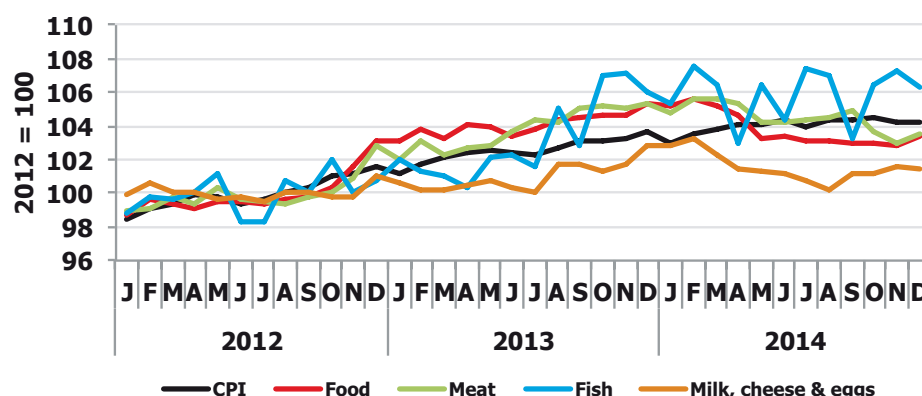
The general level of inflation fell significantly as 2014 progressed. Having risen by 2.6% in the previous year, CPI rose by just 1.5% in 2014 and dipped to only 0.5% in December. Despite a robustly growing economy, strong competition within industry sectors and continuing weak wage growth placed downwards pressure on consumer prices. In addition, falling oil and food prices began to pull CPI lower in the second half of the year.

Having risen at a faster pace than headline CPI in six out of the previous seven years, 2014 saw food prices decrease slightly. This followed a strong global harvest in 2013 which lowered prices of many arable crops and grains, placing downwards pressure on prices across the food basket. Prices were also held back by the expectation, and then the reality, of a second consecutive strong harvest in 2014. Meanwhile, meat price inflation slowed due to increased supplies.

Food price inflation was relatively low during the first half of 2014, running at around 2% in the first quarter and averaging zero in quarter 2. In the second half of the year, food prices then slipped into deflation. The rate of deflation got progressively wider as the year went on, ending the year at -1.9% in December.

Each category of the food basket had a lower rate of inflation in 2014 than in 2013, and most saw their lowest inflation rate for a number of years. Three of the nine categories showed deflation.

Consumer Prices Index



Source: ONS (2015)

Annual CPI Inflation (%)			
	2012	2013	2014
CPI	2.8	2.6	1.5
Food	3.1	4.1	-0.2
Meat	3.7	3.9	0.6
Fish	3.6	3.3	2.6
Milk, cheese & eggs	0.9	1.0	0.5
Bread & cereals	2.2	3.9	-0.6
Fruit	1.7	8.6	0.3
Vegetables	3.3	6.2	-4.7

Source: ONS (2015)

Two of the food categories to show deflation in 2014, bread & cereals and oils & fats, saw relatively modest price declines of 0.6%. However, vegetable prices averaged nearly 5% lower than they had in 2013, causing a considerable drag on the overall rate of food price inflation. A further four categories saw low rates of inflation of around 0.5%, including meat and dairy, reflecting lower farmgate prices brought on by

increased supplies starting to pass through the chain and consumer resistance to higher prices. This small increase will also reflect the higher rates of inflation at the beginning of the year, when farmgate prices had been above year earlier levels. Fish prices and the cost of sugary treats continued to grow more strongly, with both showing annual increases of around 2–2.5%.

Exchange Rate Movements

Throughout 2014, sterling was stronger against the euro than it had been in 2013. On average, the euro bought 80.5p in 2014 compared to nearly 85p in 2013, meaning that the pound averaged around 5% stronger. The gap opened the year at a minimal level before widening to between 3% and 4% from February to May as it became clear that economic prospects were much brighter in the UK than in the Eurozone. After the European Central Bank loosened its monetary policy stance in May, the differential then widened to between 6% and 8% over the final seven months of the year.

The stronger sterling against the euro made things harder for UK exporters. To remain competitive on their euro price, a stronger sterling would mean having to accept a significantly lower return on each sale in sterling terms. As a consequence, export margins are likely to have tightened.

The other challenge of a stronger sterling comes from the import side. A stronger sterling means that it is cheaper to import meat from the Continent, placing downwards pressure on prices in markets where price sensitivity is highest – most likely in the manufacturing trade.

If export margins are tighter while prices fall in the manufacturing trade then the likely result is lower revenues on each carcass. This, in turn, makes it harder for processors to pay higher prices for livestock.

Sterling also averaged stronger against the New Zealand dollar (NZD) in 2014 than in the previous year. Having averaged around 52.5p in 2013, the NZD was worth closer to 50p during 2014. As a consequence of the 4% strengthening, downwards pressure will have been placed on the price of lamb imported from New Zealand.

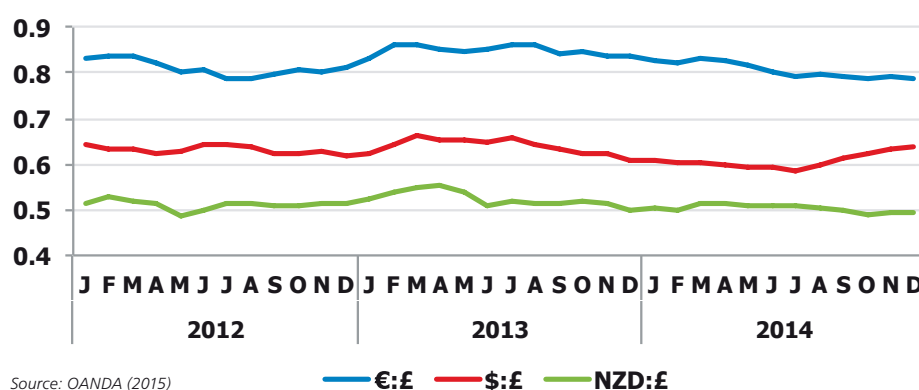
During 2014, the exchange rate with the NZD was actually relatively stable on a month-to-month basis, edging higher over the summer as expected interest rate increases in NZ failed to materialise. Most of the year-on-year differential occurred in the opening third of the year, when lamb imports are at their highest, due to a short-lived weakness in the value of sterling early in 2013.

The exchange rate between sterling and the US dollar (USD) affects the price of globally traded commodities such as energy and protein feed, which

tend to be denominated in US dollars. With sterling averaging 5% stronger against the USD in 2014, UK producers will have faced less pressure on input costs than might otherwise have been the case.

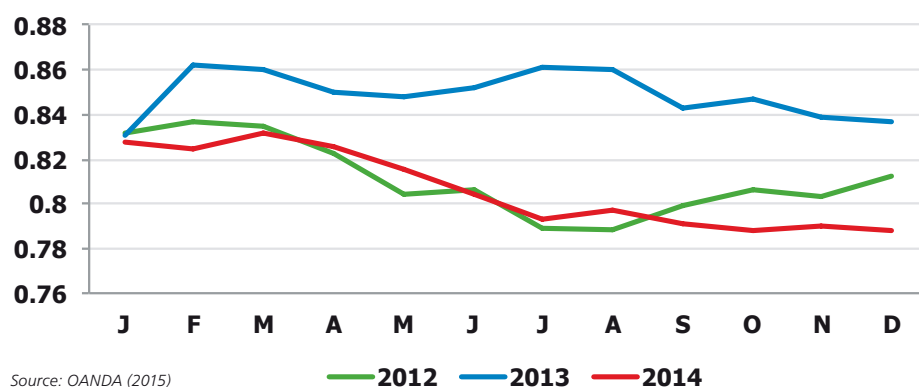
A weaker USD compounded the effects of the significantly lower prices for importing wheat and protein products in the first half of the year. However, as the USD firmed over the second half of 2014, there will have been less downwards pressure on input costs.

Exchange rates 2012-14



Source: OANDA (2015)

Exchange rate (£:£)



Source: OANDA (2015)

Price Movements

Producer Prices

Cattle

After three years of considerable producer price increases, 2014 saw cattle prices fall. Having averaged 403p/kg dwt in 2013, the annual average steer price fell to 369p/kg dwt in 2014, a decrease of 8.5%. Increased domestic production - due to higher slaughterings and heavier carcase weights - plus the combination of higher imports and lower exports - due to increased production in Ireland and a stronger sterling - pushed up beef supplies and placed downwards pressure on producer prices.

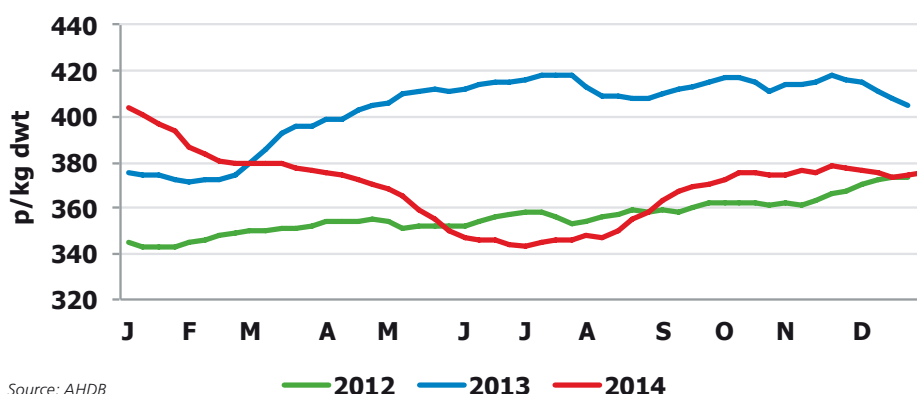
Although producer prices fell in 2014, the annual average was still the second highest on record.

Deadweight prime cattle prices averaged 7% higher in Scotland than they did in England & Wales in 2014. During 2013, the differential had been smaller at 5%.

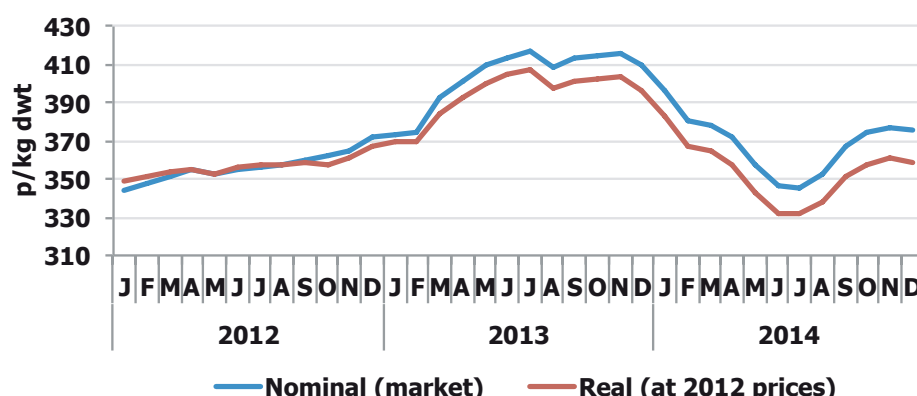
At 239p/kg dwt, the average cull cow price at Scottish abattoirs was 13.5% below its 2013 level. Scottish abattoirs paid an average of 11.5% more for cull cows than their counterparts in England & Wales.

Having outpaced the general level of inflation in the UK economy in 2011, 2012 and 2013, producer prices fell sharply in real terms during 2014¹. In Scotland, real-terms prices fell by 10%, while they fell by a slightly faster rate of 11% at the GB level. As a result, the gains of 2013 were more than reversed, leaving prices slightly below their 2012 real-terms levels.

Scottish deadweight steer price



Scottish deadweight steer price



¹ Real prices: Where inflation is greater than zero, the price that the producer receives is lower in real terms than the market (nominal) price, as the sales proceeds have less purchasing power in the wider economy than in the past due to a rise in the general level of prices. For example, a sales price of 400p/kg in period 2 would be equivalent to a price of 392p/kg in period 1 if the rate of inflation was 2%. As inflation increases, the real price diverges from the nominal price to a greater extent - with inflation at 4%, a price of 400p/kg in period 2 would be equivalent to just 384p/kg in period 1. The inflation rate used is the RPIJ - a measure of retail price inflation published by the ONS.

Sheep

Prime sheep producer prices followed a traditional seasonal pattern in 2014, rising between the start of the year and Easter before spiking at the start of the new season in May as supplies tightened. As new season lambs began to reach the market in more significant quantities in June and July, prices fell sharply, before sliding at a slower pace through August and September. After peak volumes reached the market in September, prices then began to lift in October on rising demand in the run-up to the festive season.

The influence of festivals on the lamb trade was, once again, in evidence during 2014. With lamb a prominent ingredient of meals at Easter across Europe, prime sheep prices built on firmer demand from both the home and overseas markets. Then in June and July, prices were influenced by the Islamic festival of Ramadan. Indeed, since both Ramadan and the seasonal price decline occurred two weeks earlier than in 2013, it appears that the timing of the festival had underpinned prices for slightly longer than usual in 2013. In October, a further Islamic festival saw lamb prices rise in the preceding week, despite a significant increase in marketings. Ahead of Christmas and New Year, there was yet more evidence of firmer demand for lamb, with prices rising steadily from October onwards despite strong supplies. An annual peak in exports to southern Europe helped underpin the market.

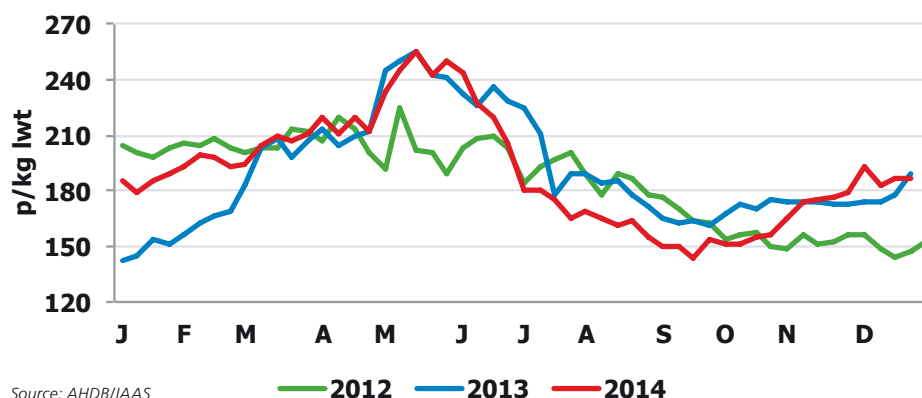
Although prices showed significant differences from 2013 at many points of the year, the annual average price at Scottish auctions was little different to its 2013 level, rising by just 1.5% to 184p/kg lwt. Meanwhile, the annual average price at GB price reporting abattoirs was exactly the same as it had been in 2013, at 412p/kg dwt.

For a second year, Scottish prime sheep auction prices averaged 1% below the England & Wales average.

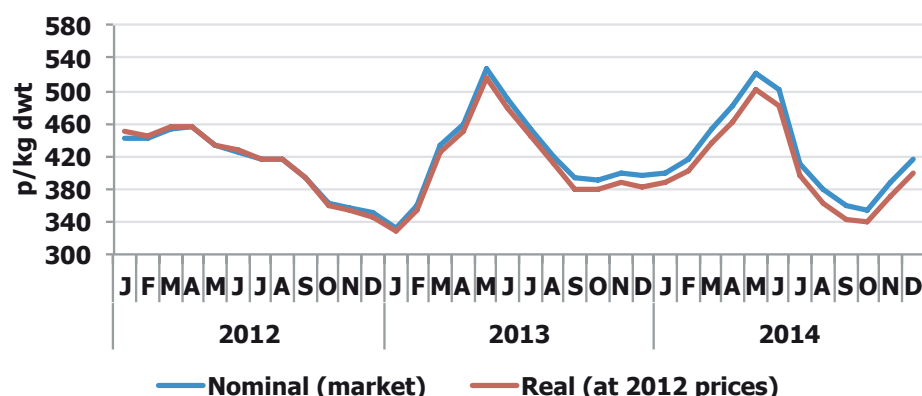
At Scottish auctions, the annual average cull ewe price was £58.52/head in 2014. This was up nearly 18% on the previous year. In Scotland, ewe prices averaged 5% below the levels of auctions in England & Wales. This was slightly higher than the 4% differential in 2013.

When adjusted for an annual retail price inflation rate of 1.7%, real-terms producer prices fell slightly in 2014. As deadweight lamb prices matched their 2013 average in 2014, this meant that, in real terms, they fell by 1.7%. Since auction prices increased at a slightly slower pace than the price level, they fell marginally in real terms.

Scottish prime lamb auction price



GB deadweight lamb price



Pigs

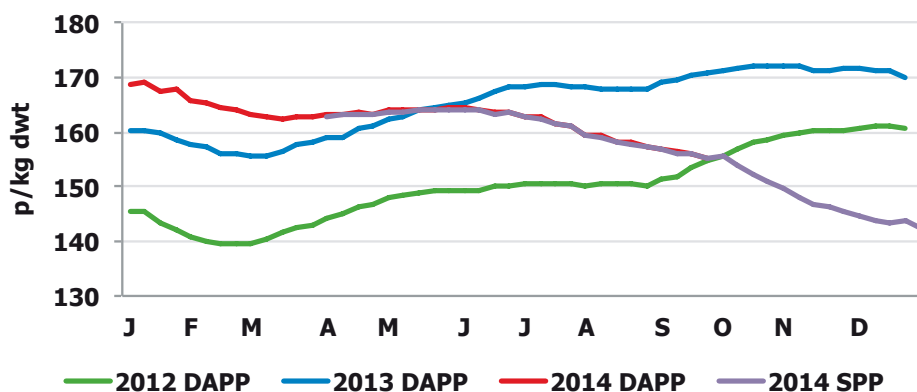
Prime pig producer prices followed their historic seasonal pattern during the first half of 2014, edging lower as demand fell back after the festive period before rising slowly as slaughter numbers eased back through the spring and into summer. However, in the second half of the year, prices fell steadily, failing to increase in the lead-up to Christmas, in contrast to previous years.

The sharp price decline in the second half of the year was influenced by a number of factors. Firstly, UK prime pig slaughterings increased significantly. This factor was then compounded by heavier carcase weights, which were supported by greater feed availability and lower feed prices. Adding to the volume of product on the home market were slightly higher net imports, as the EU proved well supplied with cheap pigmeat as production increased and the key Russian market was closed. This more than offset a small increase in exports. Also playing a part will have been lower prices for imported product, which raised competition in price sensitive markets, while export prices had to fall to keep UK pigmeat competitive on the Continent. Adding to these trade pressures was the strengthening of sterling.

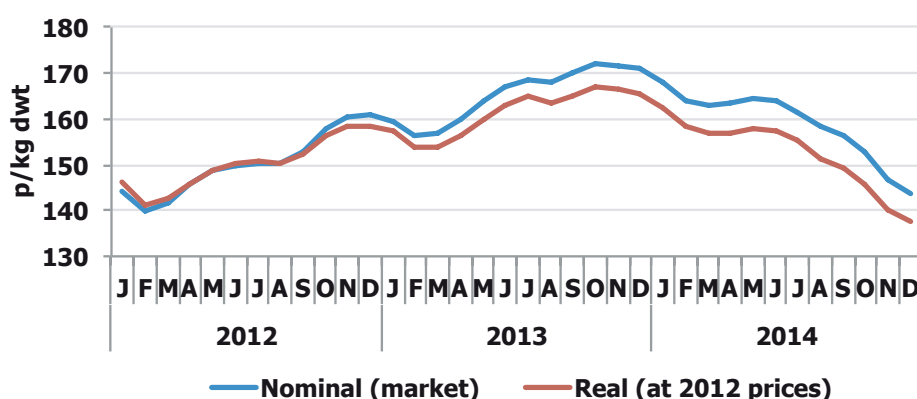
2014 saw a change in price reporting, as the DAPP was replaced by the SPP at the end of September. This was down to industry concerns that the DAPP was not reflecting true market conditions as it included premia for specific traits. The SPP now reports prices on a 'standard' basis. This change should, therefore, be noted when comparing average annual farmgate prices for 2014 with 2013. As can be seen in the first chart, the SPP was similar to the DAPP from when it was first published in April up until the DAPP was replaced in September.

With producer prices averaging around 4.5% lower than a year earlier in 2014, once inflation has been accounted for, prices trailed 2013 levels by approximately 6% in real terms.

GB producer price for pigs (DAPP)



GB producer price for pigs (DAPP)



Farm Assurance Premium at Scottish Auctions

Although individual sales may differ, there is a general pattern throughout the year in which the prices paid at Scottish auctions for Scotch Farm Assured cattle and sheep will be higher than for Non-Farm Assured

stock. Each year, the premium for cattle tends to be larger than for sheep, averaging around 15% and 5%, respectively. In 2014, both premia increased from the previous year; cattle to more than 16.5%, while for sheep, it doubled to nearly 5%.

Farm Assurance Premium for Prime Cattle at Scottish Auctions

	Scotch Farm Assured Avg selling price p/kg lwt	Non-Farm Assured Avg selling price p/kg lwt	FA premium (p/kg lwt)	FA premium (%)
2013	224.0	198.0	26.0	13.1%
2014	201.0	172.3	28.7	16.6%

Source: AHDB/IAAS

Farm Assurance Premium for Prime Sheep at Scottish Auctions

	Scotch Farm Assured Avg selling price p/kg lwt	Non-Farm Assured Avg selling price p/kg lwt	FA premium (p/kg lwt)	FA premium (%)
2013	181.8	177.6	4.3	2.4%
2014	184.9	176.6	8.4	4.7%

Source: AHDB/IAAS



Store Prices

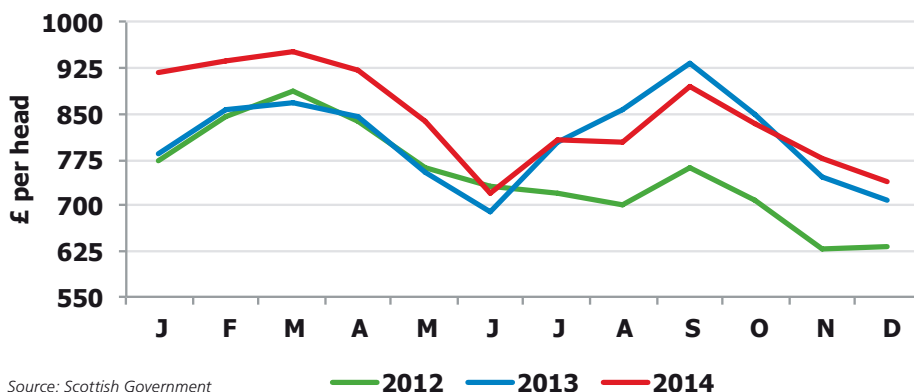
Cattle

Store cattle prices followed a traditional pattern in 2014, peaking in the key selling periods of the spring and autumn before dipping back in the summer and winter when demand is weaker.

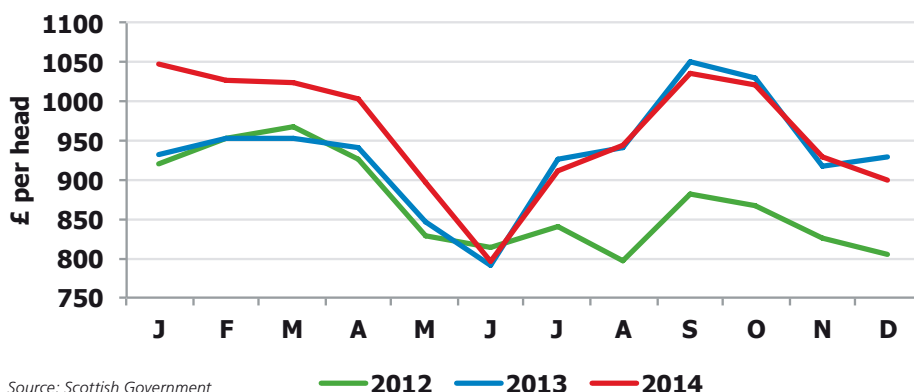
Store cattle prices made a strong start to 2014 and exceeded 2013 levels throughout the first half of the year. However, with prices for finished cattle trailing 2013 levels, the store trade appears to have rebalanced in the second half of 2014, running slightly behind year-earlier levels.

The average 6–12-month-old store steer sold for £885/head during 2014, which was 6% higher than in 2013. Meanwhile, the average steer aged 12–18 months sold for £995/head. However, despite tighter supplies of older store cattle, which fell 7% while younger cattle numbers edged up, the annual increase was smaller, at 3%.

Store steers 6 - 12 months old



Store steers 12-18 months old

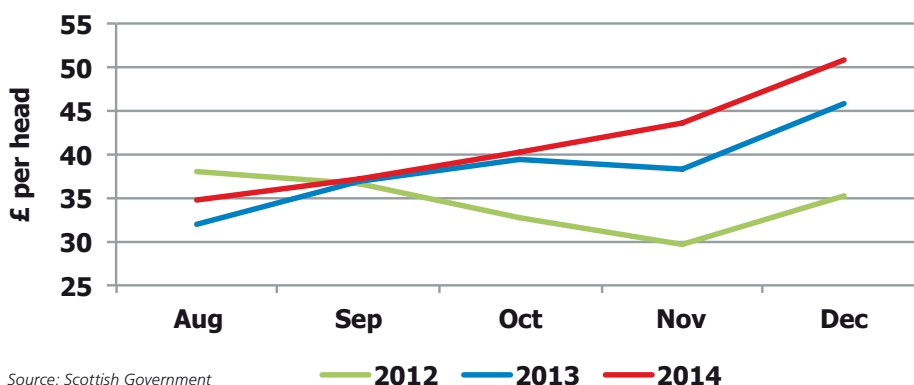


Sheep

Store lamb prices increased steadily through the autumn of 2014, failing to pause in November as they had in the previous two years. This meant that having been similar in September and October, average prices for Blackface store lambs then ran well in advance of year-earlier levels through November and December.

The average Blackface store lamb sold for nearly £40/head in 2014, which was up 4.5% from the 2013 average of just over £38. Prices firmed despite a higher level of marketings, which rose 16%.

Blackface store lamb autumn sales average prices



Producer Input Costs

In 2014, input costs for farmers fell significantly and were at their lowest level since 2010. This was primarily down to feed costs, which trended lower due to a second consecutive strong global harvest. The falling cost of oil and a rise in the value of sterling also had an impact.

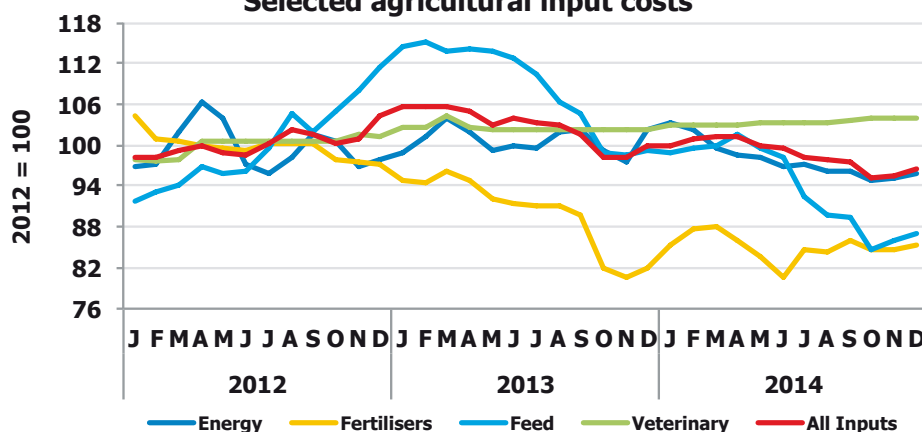
Energy costs trended lower through the year. This was down to the cost of oil and gas starting 2014 below 2013 levels and then sliding sharply through the second half of the year. Lower oil costs fed through directly to petrol and diesel prices and kept a lid on the cost of electricity and heating fuel.

Having trended downwards from the second half of 2011 until the end of 2013, fertiliser costs were more stable in 2014. This is likely to reflect that the market had adjusted to find a new balance between supply and demand. On the demand side, slower economic growth in emerging economies, particularly China, has been the main contributor to lower demand for minerals.

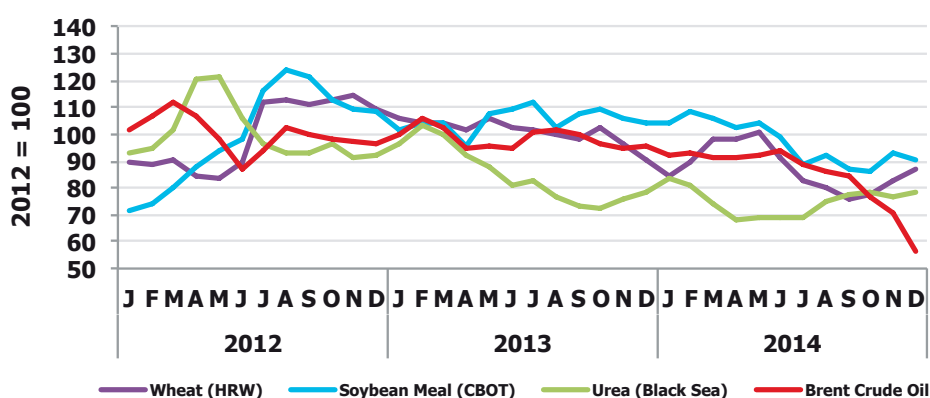
Feed prices began 2014 trending lower due to the previous year's global harvest raising supply above demand. This trend then began to pick up pace through the spring, on the back of predictions of a further bumper harvest in 2014, before declining further as increased levels of production materialised.

During a year of lower producer prices for many livestock producers, falling input costs are likely to have eased the pressure on margins.

Selected agricultural input costs



Global commodity prices in sterling terms



	2012	2013	2014	Annual change 2013:2014
	2010=100			%
Energy	122.4	123.4	119.2	-3.4
Fertilisers	125.2	113.1	106.8	-5.6
Feedstuffs	128.5	139.4	120.7	-13.4
Veterinary	103.5	106.1	107.0	+0.8
Total Inputs	113.8	116.9	110.8	-5.2

Source: Defra (2015b)

Retail Prices

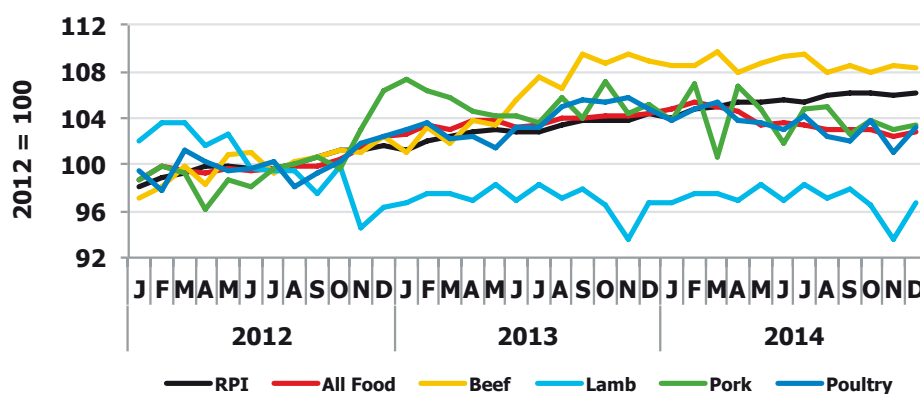
The Retail Prices Index (RPI) breaks food prices down into more detailed categories than the Consumer Prices Index (CPI). Within the RPI food basket, the majority of foodstuffs saw a markedly slower pace of price growth in 2014. Only lamb, fish, butter and cheese saw price increases exceeding those of the previous year while 17 products were cheaper than in 2013. A second consecutive strong global crop harvest coupled with increased domestic meat production placed downwards pressure on food prices.

Having steadied in the final third of 2013, the average beef retail price edged slightly lower through 2014. With producer prices falling in the first half of the year, relatively flat retail prices will have given processors and retailers an opportunity to recover some of the margin lost between mid-2010 and mid-2013, when producer prices had risen sharply. Although beef ended 2014 cheaper than it had begun the year, as the market proved well supplied, the annual average price still increased by 2.7%. This was because of the significant increase in prices in mid 2013 which meant that there was a much lower base volume to compare against in the first half of 2014.

Lamb retail prices exhibited a relatively steady trend for a second consecutive year. The one exception was a price dip in November, the third successive year this has happened. While home-killed lamb followed a downwards trend through 2014 due to increased lamb supplies, the opposite was true for imported product. It became more expensive in the autumn as supplies tightened in New Zealand.

The average retail price for pork showed considerable month-to-month volatility during 2014, suggesting that it was regularly used for price promotions. This volatility meant that while prices trended lower as the year progressed, they were higher than 12 months earlier during four of the 12 months and averaged only 1% lower in the calendar year. Meanwhile, bacon prices also edged lower in 2014. As was the case for beef and lamb, the UK pigmeat market proved well supplied in 2014, pressuring prices.

Retail Prices Index



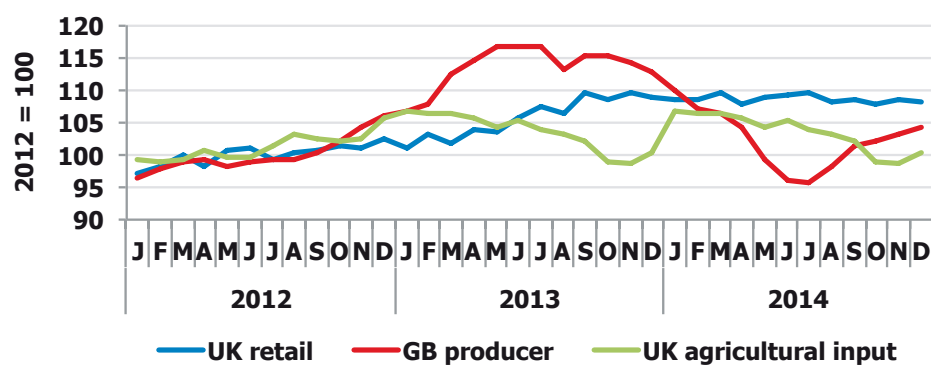
Annual RPI Inflation (%)

	2012	2013	2014
RPI	3.2%	3.0%	2.4%
Food	3.2%	3.7%	0.0%
Beef	10.9%	5.8%	2.7%
Lamb	1.8%	-3.0%	1.1%
Pork	6.9%	5.2%	-1.2%
Bacon	0.6%	5.5%	-0.4%
Poultry	1.0%	3.9%	-0.4%
Fish	4.3%	3.8%	3.0%

Source: ONS (2015)

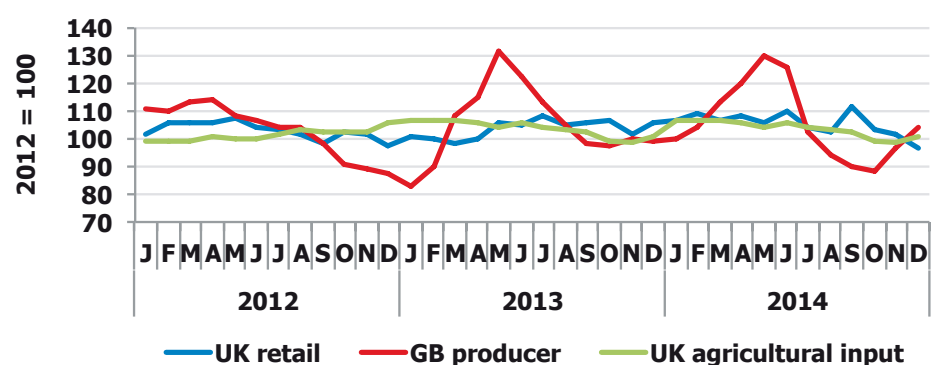


Index of input costs and producer and retail prices for beef



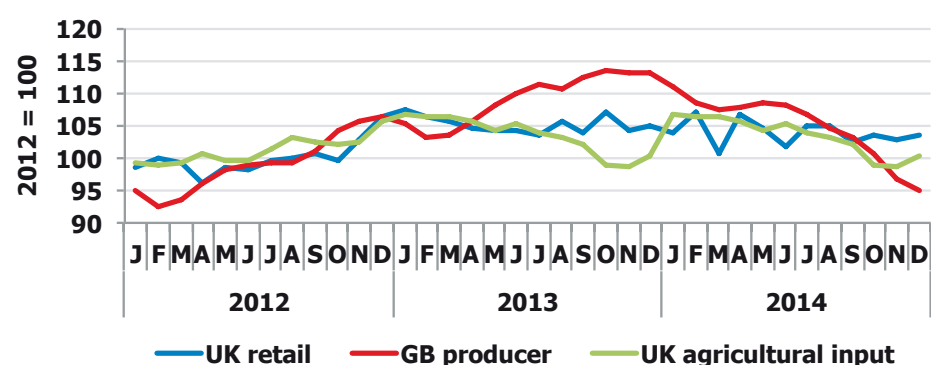
Sources: AHDB; Defra (2015b); ONS (2015)

Index of input costs and producer and retail prices for lamb



Sources: AHDB; Defra (2015b); ONS (2015)

Index of input costs and producer and retail prices for pork



Sources: AHDB; Defra (2015b); ONS (2015)

Consumption and Use

Product available for consumption

The total volume of beef available for consumption in the UK increased significantly in 2014, rising by 4% to a three-year high of 1.06m tonnes. The increase was the result of both increased domestic production and a rise in net trade. Imported beef accounted for 30.5% of total supply, up slightly from 30% in 2013.

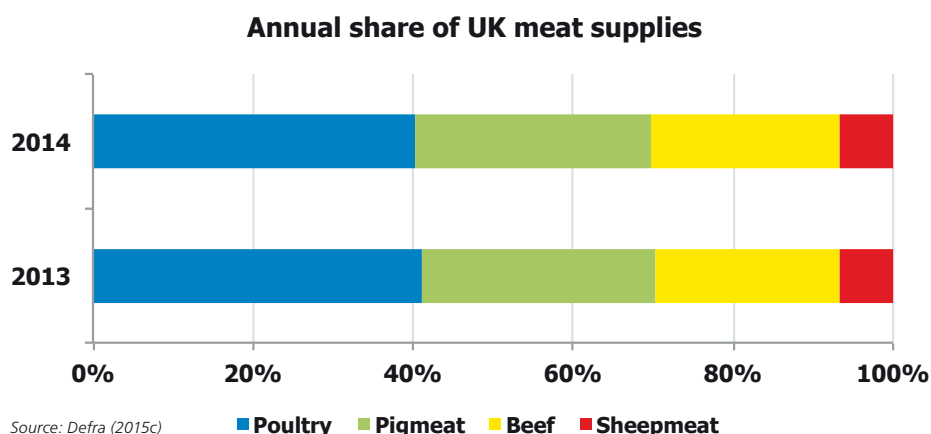
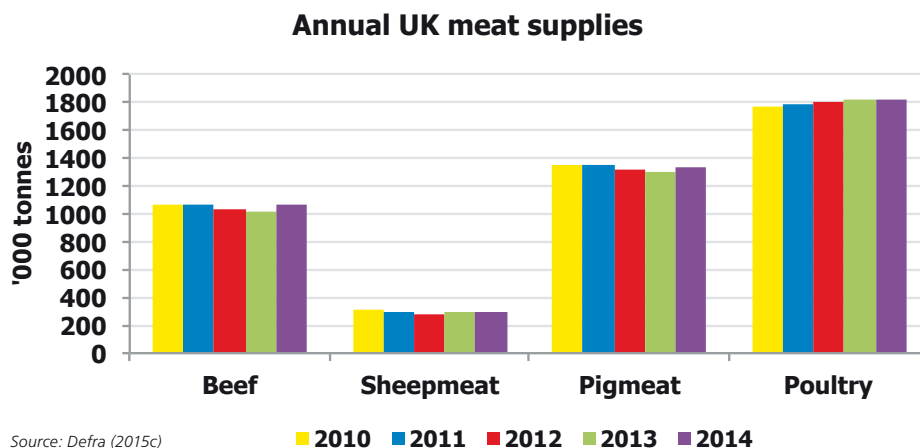
The total volume of sheepmeat available for consumption increased for a second consecutive year in the UK in 2014. Supply grew by 0.7% and reached 302,200t – a four-year high. A rise in net exports partially offset increased home production. Imported sheepmeat accounted for 37% of annual supplies compared with 40% in the previous year.

In 2014, the total volume of pigmeat available for consumption recovered some of the ground it had lost in the previous six years. Volumes picked up by 2.5% to reach 1.34m tonnes. While domestic production rose by 4%, net imports fell marginally. Imports accounted for 55% of total supply, down fractionally on the previous two years.

The overall volume of red meat available for consumption increased by 3% in 2014, reaching a three-year high of 2.7m tonnes. With poultry supply falling by 1%, this meant that red meat took an additional percentage point of share in total meat supply, reaching 60%. Total meat supplies increased by 1.5% to 4.52m tonnes, the highest level since 2011.

Retail Consumption

Kantar Worldpanel figures show that the volume of prime beef cuts (e.g. steaks, roasts and mince) sold by multiple and independent retailers to households in GB in the 52 weeks to January 4 2015 was down 1.5% at 276,800t. In Scotland, consumption fell by 2% to 29,000t. Given that the volume available for consumption increased by 4%, lower retail sales



indicates that unless volumes used in food manufacturing and foodservice increased significantly, product built up in cold stores.

GB household lamb consumption fell by 8.5% to 78,300t. Scottish consumption volumes fell more slowly, down 5% at 4,200t. As was the case for beef, lower consumption contrasted with higher overall sheepmeat supply, suggesting increased use in food

manufacturing and/or a greater carryover of product into 2015.

The volume of pork retailed decreased by 1% at the GB level in 2014 to 177,400t. North of the border, there was a 2% decline to 12,600t. Again, lower retail consumption indicates that product will have built up in cold stores unless the food manufacturing and food service trades increased their use of pigmeat.

	Retail sales volume (t)	Total supply (t)	Retail sales as a proportion of total meat supply
Beef	276,800	1,060,800	26%
Lamb	78,300	302,200	26%
Pork	177,400	1,337,100	13.5%

Sources: Defra; Kantar Worldpanel

Per capita supplies

Kg per person	Beef	Sheepmeat	Pigmeat	Poultry	Total meat
2013 UK	15.9	4.7	20.4	28.6	69.5
2014 UK	16.4	4.7	20.7	28.1	70.0
2014 Scotland	19.8	3.0	17.2	24.9	65.0

Sources: Defra; ONS; Scottish Government; QMS calculations

In the UK, the total volume of meat available for consumption per head of population is estimated to have risen by half a kilo in 2014 as meat supply growth outpaced the population increase.

While per capita supply is estimated to have risen for beef and pigmeat, and steadied for sheepmeat, it is thought to have fallen for poultry.

In Scotland, data from Kantar Worldpanel indicates that the volume of beef purchased from multiple retailers and butchers is higher on a per person level than in the rest of Britain, whereas lamb and pork are lower. Evidence from Defra's annual Household Food Survey supports this conclusion at UK level.

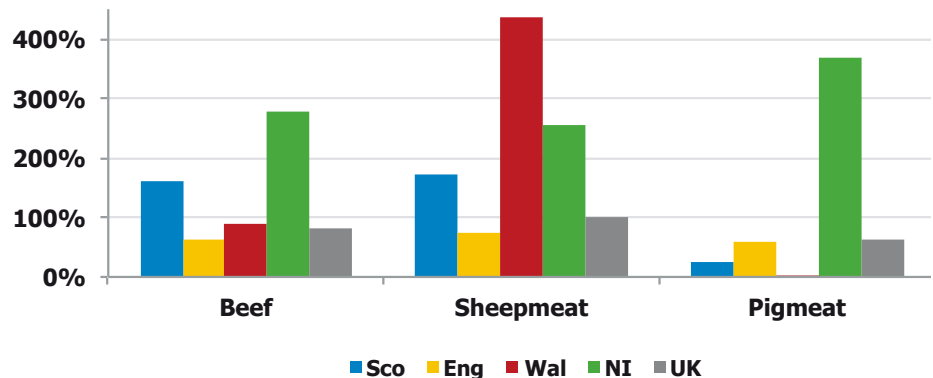
Self-sufficiency

It is estimated that Scottish abattoir beef and sheepmeat production volumes exceeded the volume of beef and sheepmeat potentially available for consumption by a considerable extent during 2014, whereas net imports of pigmeat were required to satisfy potential consumer demand. While abattoir beef production was estimated at 160% of potential consumption and sheepmeat production at 173%, pigmeat was estimated to have covered just 26% of national supply.

In the UK as a whole, beef production was at 82% of total availability in 2014, sheepmeat production was at just over 100%, but pigmeat production was only at 61% of potential consumption.

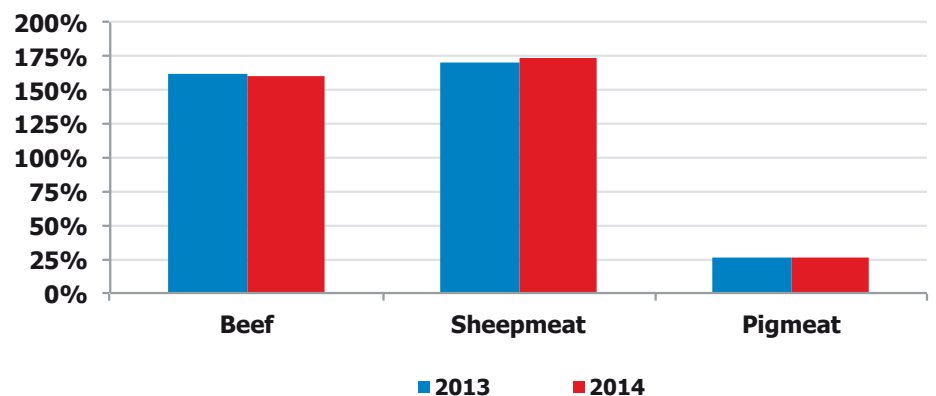
Scottish self-sufficiency is estimated to have fallen for beef and pigmeat in 2014 but to have increased for sheepmeat. The decreases for beef and pigmeat were driven by available supplies rising more strongly than production. By contrast, abattoir production of sheepmeat is estimated to have outpaced supply growth, leading to a slightly higher level of self-sufficiency.

Estimated self-sufficiency in 2014



Sources: Defra; ONS; QMS calculations; Scottish Government

Estimated self-sufficiency in Scotland



Sources: Defra; ONS; QMS calculations; Scottish Government

UK Overseas Trade

Details of imports and exports of red meat into and out of Scotland are unavailable separately from UK figures. Consequently, this section summarises trade data for the UK as a whole and reflects the trade environment in which Scottish producers and processors operate.

Despite higher domestic production of beef, sheepmeat and pigmeat in 2014, total red meat imports increased by 2% to 962,000t. With more red meat on the UK market in 2014, an increased volume of red meat was available for export. As a result, UK red meat exports increased by 3.5% to 417,800t.

Imports

Beef

Beef imports to the UK increased by 5.5% in 2014 to 254,800t. This exceeded the previous year's level by 13,500t and was the highest import volume since 2004.

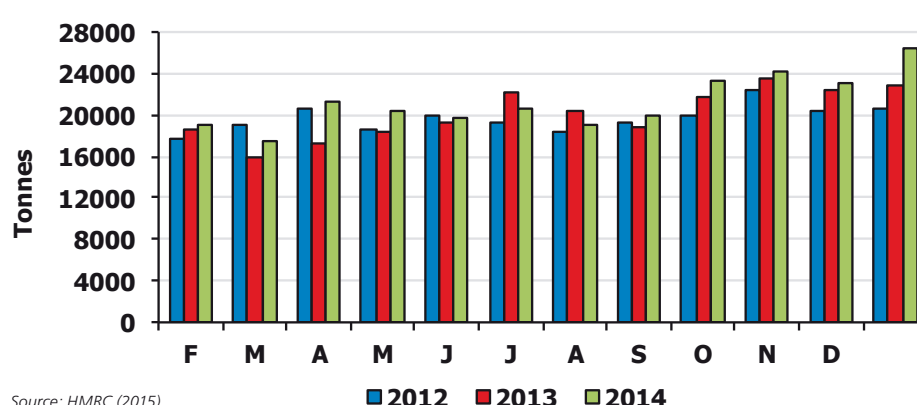
Imports of fresh and frozen beef accounted for 30.5% of annual UK beef consumption in 2014. This was up slightly from 30% in 2013.

Closer examination of the figures shows that while UK imports of fresh beef rose by nearly 8% to 188,600t, marginally less frozen beef was imported, with volumes down 0.2% at 67,200t. The continued shift away from frozen beef towards fresh beef may reflect the legacy of the horsemeat incident of early 2013.

Ireland increased its share of total beef imports into the UK in 2014 compared to 2013. At nearly 179,000t, shipments increased by 11% on the previous year and accounted for 70% of imports compared with two-thirds in 2013.

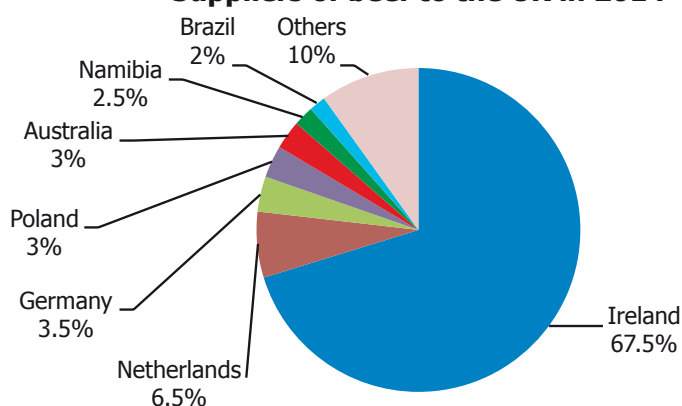
Imports also increased from a number of other EU countries in 2014, including Holland, Poland, France, Denmark and Belgium. However, deliveries from Italy, Germany and Spain fell. Total imports from these eight countries were 1% lower at 47,100t. This was 18.5% of total imports, down from 20% in 2013.

UK beef imports



Imports of beef from non-EU countries decreased by 13% to 27,500t in 2014. Although deliveries from Australia and New Zealand picked up, less beef was brought in from Brazil, Uruguay, Namibia and Botswana. Deliveries from outside the EU accounted for 11% of total beef imports, a fall of two percentage points when compared with 2013.

Suppliers of beef to the UK in 2014



Sheepmeat

UK sheepmeat imports decreased by 6% in 2014, slipping to 92,900t. The reasons for this decrease included lower supplies in the key supplier, New Zealand (NZ), plus increased UK production and lower demand for UK exports in the EU which lowered import requirements.

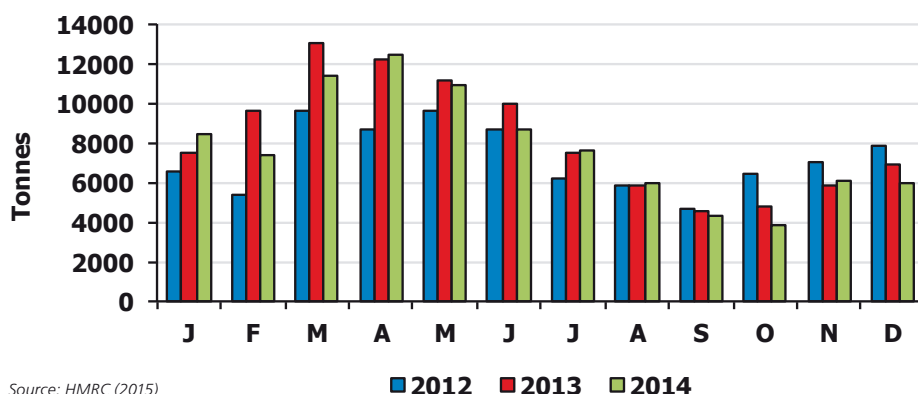
Imported fresh and frozen sheepmeat accounted for 31% of UK consumption in 2014. In 2013, it had been two percentage points higher.

During the peak importing period of the spring, when domestic product is less readily available, sheepmeat arrived later than in 2013 as Easter fell three weeks later in 2014. This was a contributing factor to the sharp declines in import volumes in February and March, but smaller declines in April and May.

Despite sending less sheepmeat to the UK in 2014, New Zealand (NZ) maintained its position as the principal supplier. Annual imports from NZ decreased by 9.5% to 65,000t. Although they accounted for 70% of total shipments, this was down from 72.5% in 2013.

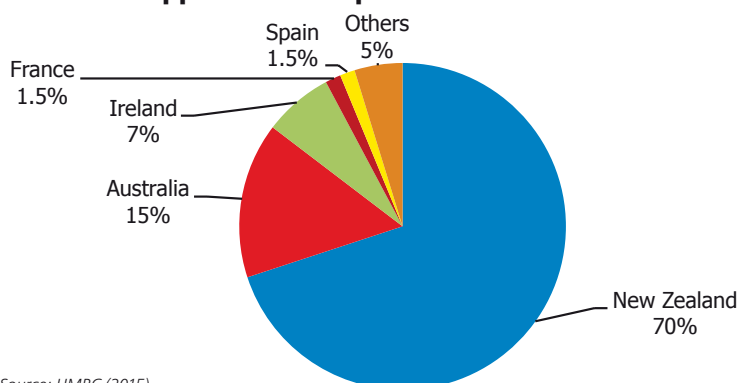
In contrast to NZ, Australia proved well supplied with lambs in 2014, and this helped the country to ship more sheepmeat to the UK than in the previous year. Deliveries rose by 18% to 14,300t and covered 15.5% of total UK sheepmeat imports, up from less than 12.5% in 2013. However, it should be noted that deliveries from Australia are heavily restricted by an annual quota for tariff-free access to the EU market of approximately 19,200t.

UK sheepmeat imports



Source: HMRC (2015)

Suppliers of sheepmeat to the UK in 2014



Source: HMRC (2015)



Pigmeat

UK pigmeat import volumes increased for the first time in a number of years in 2014. Total volumes imported rose by 2% from 601,500t in 2013 to 614,300t in 2014.

With UK pigmeat consumption rising at the same pace, imports held at 46% of consumption for a second year. This was despite the increased availability of cheaper pork for import from the EU.

Breaking pigmeat imports into fresh & frozen pork and bacon & ham shows that deliveries of former increased by 2% to 358,100t while shipments of the latter were 2.5% higher at 256,200t. As a result, pork once again accounted for approximately 58.5% of total pigmeat imports.

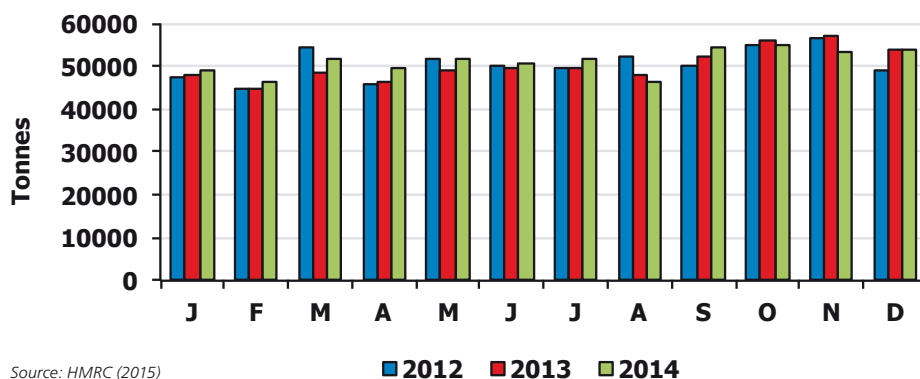
Denmark retained its position as the largest supplier of pork to the UK in 2014 as shipments increased by 1% to 89,700t. This followed two years of significant declines and meant that its overall market share was relatively steady at 25%. By contrast, the second and third largest suppliers of pork to the UK – Germany and Holland – both shipped less than in 2013, with deliveries down by 4% and 1%, respectively, to 74,600t and 55,800t. As a consequence, their market shares fell slightly to 21% and 15.5%.

Most of the other main EU suppliers delivered more pork to the UK than in 2013. The most significant increases came from Belgium, Spain (both 11%) and France (6%).

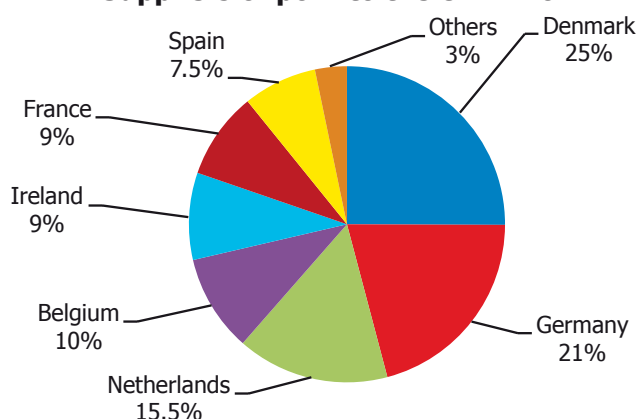
Denmark also held its position as the principal supplier of bacon & ham to the UK in 2014. With deliveries up by 11% on the previous year at 115,100t, Denmark accounted for 45% of total bacon & ham shipments compared with 41.5% in 2013.

Holland was the second largest supplier of bacon & ham to the UK. However, in contrast to Denmark, it shipped less to the UK than in the previous year. Deliveries fell by 5% to 88,100t, nearly 34.5% of the total. Imports from Germany increased by 4% to 35,600t. This was around 14% of bacon & ham volumes.

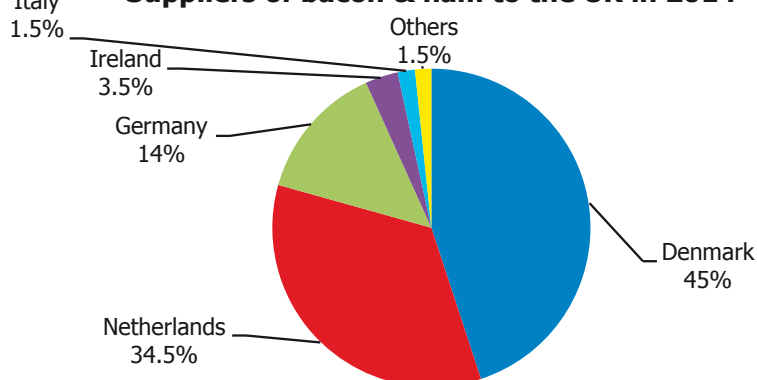
UK pigmeat imports



Suppliers of pork to the UK in 2014



Suppliers of bacon & ham to the UK in 2014



Exports

Beef

As UK beef production increased in 2014, more product was made available for export, resulting in a 6.5% increase to 112,100t.

Nearly 13% of UK beef production was exported in 2014. This compared with 12.5% in the previous year.

The Irish Republic remained the UK's largest customer in 2014, taking 32% of total export volumes. In addition to product destined for retail, this also reflects cross-border movements of beef between Northern Irish abattoirs and cutting plants in the Republic for further processing.

Exports to the Republic increased by 7% in 2014, reaching 36,250t. However, volumes remained well below 2012 levels.

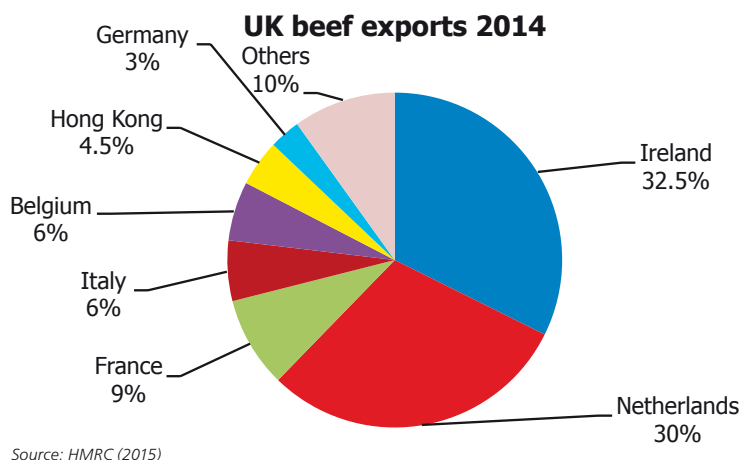
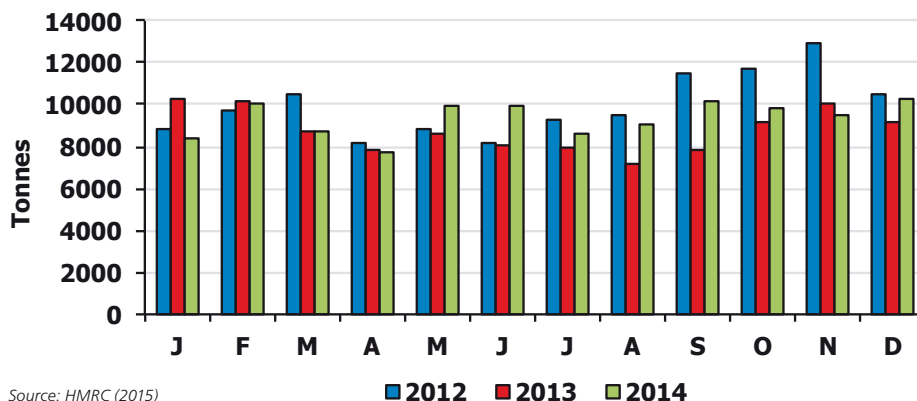
Of the other significant European markets, France, Belgium, and Germany bought less UK beef than a year earlier. By contrast, UK exports to Holland and Italy picked up. Of the smaller EU buyers, trade with Denmark, Sweden and Spain grew, though shipments to Poland slipped back.

Overall UK exports to EU Member States rose by 3.5% to 104,000t. Highlighting the challenge posed to exporters by currency movements, the average value per tonne of beef exported to the EU declined by 5% to £3,350.

UK beef exports to non-EU countries grew strongly in 2014, rising by more than three-quarters and reaching 8,100t. This meant they took a 7% share of total exports, up from 4% in 2013.

Most of the increase in non-EU trade came courtesy of a jump in shipments to Hong Kong. Indeed, exports to Hong Kong increased substantially from less than 1,100t in 2013 to more than 5,000t in 2014. Approximately 98% of the beef shipped to Hong Kong was frozen.

UK beef exports



Sheepmeat

UK sheepmeat exports fell by 1.5% in 2014 to 102,250t. Exports accounted for 34.5% of sheepmeat production in 2014. This was down from 36% in 2013, but matched its 2012 level.

Despite a rise in the value of sterling against the euro in 2014, UK exports to the EU increased slightly. At 86,600t, volumes were up 0.3% on the previous year and accounted for nearly 85% of total exports compared with 83% in 2013. However, the average value per tonne exported to the EU did fall slightly to £4,030. Average export prices began the year higher, before falling behind year earlier levels between June and November. A recovery in December indicates that the balance shifted towards higher value cuts in the run up to the festive season.

Despite overall shipments to the EU rising slightly, exports to the largest market, France decreased by 5.5% to 50,800t. This resulted in a two percentage point decline in the share of total exports going to France, slipping to 49.5%.

The other EU markets taking delivery of less sheepmeat from the UK in 2014 were Germany, Holland, Portugal and Denmark. However, exports to Belgium, Italy, Spain, Sweden, Austria and Ireland showed gains on the previous year. The large increase in exports to Ireland meant that it accounted for 8% of UK sheepmeat exports, up from 5% in 2013.

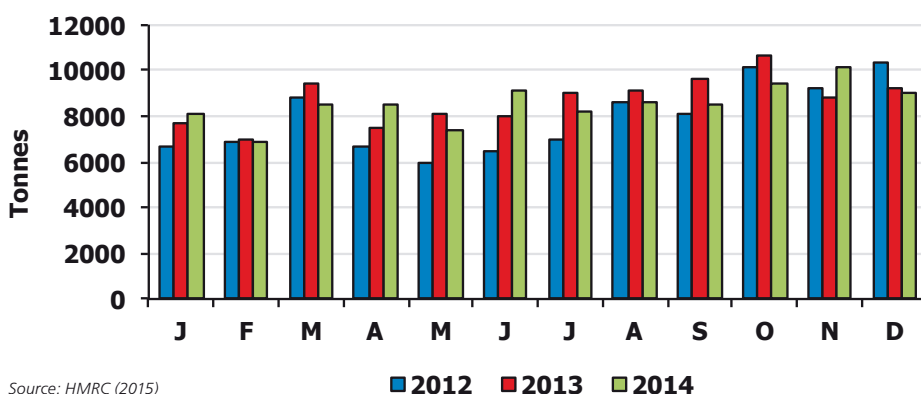
UK exports to non-EU markets decreased by 11% to 15,700t in 2014. This meant that the share of non-EU markets in overall sheepmeat exports slipped from 17% in 2013 to 15.5% in 2014.

In the first eight months of 2014, UK exporters continued to make inroads into the Hong Kong (HK) market. Indeed, sales averaged 1,300t per month over this period compared with 1,000t in the same period of 2013. However, from September onwards volumes shipped to HK fell sharply, averaging 300t. This meant that, in the year as whole, export volumes to HK decreased by 12.5% to 11,400t. This worked out at 11% of total exports, compared with 13% a year earlier.

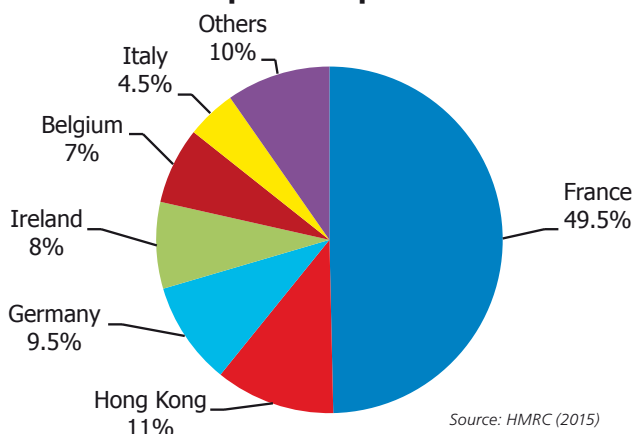
Exports to HK helped processors balance the carcass, acting as a market for cheaper cuts. This was also true of Ghana, though shipments fell significantly year-on-year.

Helping to balance the carcass at the higher end of the value scale were the wealthy European (but non-EU Members) countries of Norway and Switzerland. Trade with Norway fell by nearly a third to 1,400t in 2014 while exports to Switzerland increased slightly to 240t.

UK sheepmeat exports



UK sheepmeat exports in 2014



Pigmeat

In 2014, UK pigmeat exports increased by 5% to 203,400t. With UK pigmeat production volumes also rising, the share of exports in pigmeat production only edged higher to 23.5%.

There was a 5% increase in UK fresh and frozen pork exports in 2014, with volumes reaching 189,500t. Meanwhile, exports of bacon & ham rose by 3% to 29,800t. This meant that pork accounted for 93% of pigmeat exports for a second successive year.

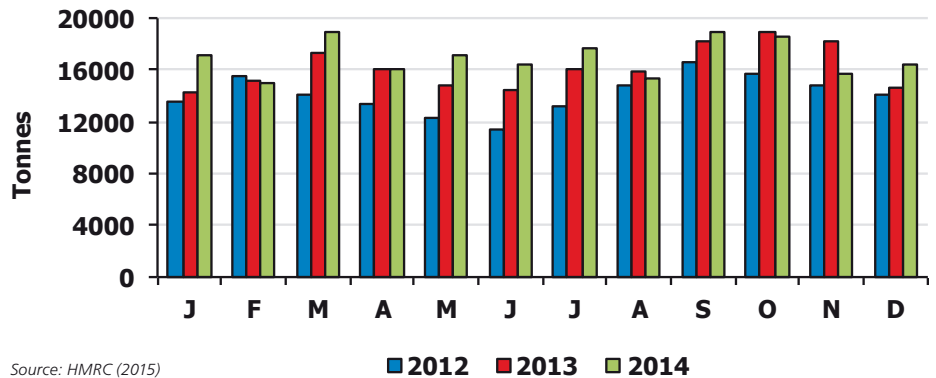
UK exporters managed to grow shipments to EU Member States in 2014. Export volumes grew by 1% to 128,500t. This equalled 68% of total pork exports. The majority of pork shipments were delivered to four countries: Germany, Ireland, Denmark and Holland. Each accounted for between 10 and 16% of pork exports.

Pork export prices had to fall significantly in 2014 in order to remain competitive in price-sensitive markets due to the rise in value of sterling and lower EU pig prices. The average value per tonne shipped to the EU decreased by 6% to £1,225.

There was a 15% expansion in UK exports outside the EU in 2015. Shipments totalled 61,100t. This growth was mainly down to further expansion into China and Hong Kong. Volumes rose by 11% and reached a combined total of 45,400t. This was 24% of UK pork exports. Other fast-growing markets included the Philippines and Korea.

The 3% increase in UK exports of bacon & ham was driven by trade with Ireland. Ireland purchased 15% more bacon & ham from the UK than in 2014 and increased its share of exports to 71% from 64% in 2013. By contrast, deliveries into Holland fell markedly.

UK pigmeat exports



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