QMS Monthly Market Update September/October 2023

Purpose:

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

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Summary of market developments – beef market

Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
R4L steer price at Scottish abattoirs	p/kg dwt, w/e 21 October	499.7	+0.4p	+0.1%	+8.4%	+24.9%
Prime cattle slaughter at price reporting Scottish abattoirs (88% of kill in 2022)	Average in four weeks to October 21, head procured deadweight	6,042		+6.5%	+0.2%	-7.1%
Cull cow slaughter at price reporting Scottish abattoirs (66% of 2022 kill)	Average in four weeks to October 21, head procured deadweight	1,095		+37.4%	-19.5%	+11.1%
UK beef market supply	Tonnes in Jul-Sep 2023 (estimate)	248,400			0.0%	-2.9%

- After a significant rebound in late-August and early September, prime cattle prices have steadied at around 2.5% below the peak they reached in May. Year-on-year increases have settled at around 8-10% while the margin over the five-year average has reached 25-26%. After a brief rebound, cow prices have started to slide seasonally.
- A significant increase in prime cattle availability compared to its seasonal summer low, as the early finishing spring-2022 calves have come on stream, is likely to have brought market prices back into balance after the period of sharp rebound. While a slight increase on farm in Scotland compared to 2022 in the July population data reflected a short-term build-up following reduced abattoir capacity in June, slaughter is expected to be close to year-earlier levels in late-2023 at Scottish abattoirs.
- BCMS data showed a continuing year-on-year increase in prime cattle on E&W farms in July (+2.1%), so the sharp rebound in slaughter seen there in recent weeks seemed inevitable after year-on-year decline between mid-August and mid-September.
- UK beef production has fallen slightly in the year-to-date but reduced exports have seen total beef market supply edge above 2022 levels. Retail sales volumes have risen slightly on 2022 since the summer and will be rising seasonally as the festive period draws closer.
- While BCMS data for July showed a 3.3% year-on-year decline in beef-sired females aged over 30 months on Scottish farms, a slowdown in cow slaughter suggests that the herd may now have begun to stabilise. A reduced 2023 calf crop will begin to pressure beef supply in autumn 2024, with its peak impact likely in early-2025.

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Farmgate prices – steadying at around 2.5% below May peak but 8-10% higher year-on-year.

Most recent years have seen a slight upturn over the peak Christmas procurement period

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Availability and slaughter – slaughter has shown a strong seasonal upturn, and has been much closer to 2022 levels in Scotland after a steep reduction through spring and summer

Source: BCMS; QMS calculations
* Weighting based on slaughter volume in each age group, Jul-Sep 2022

Source: BCMS; ScotEID; QMS calculations
Figures often revised slightly higher in next monthly report

BCMS cattle population data for July showed a changing picture in Scotland, with the number of prime cattle on farms (males + beef-sired females 12-30 months) going from -2.5% year-on-year in April to +0.9% year-on-year in July. However, this reflected a short-term build up following reduced slaughter capacity in June. In E&W, the pace of year-on-year uplift slowed from April, but significant increases in the older age groups, which account for the majority of the kill in E&W during the autumn, point to strong supplies.

Prime cattle slaughter has risen strongly from its summer low point across GB, and this may help explain why market prices have stabilised following a period of sharp upturn.

Looking forward, calf registrations have fallen significantly in 2023, with this likely to have its peak impact on availability for slaughter in early 2025.

Source: Defra; QMS calculations

Source: Scottish Government; QMS calculations

Source: AHDB; QMS calculations

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Seasonality of production – availability has risen strongly from its seasonal low as increased numbers of spring-2022 calves come on stream

In theory, availability for slaughter should be building strongly in Scotland as supplies of the early-finishing calves from spring-2022 increase.

Carcase weights fell on a year earlier in the second half of 2022, likely reflecting dry weather and high feed and fertiliser costs, and this remained the case in the first quarter of 2023. However, this position has reversed in Scotland since April, supporting production volumes.

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Mature cattle market – after a brief rebound, prices have been sliding in line with a seasonal increase in weekly slaughter in October

A brief cow price rally came to an end in late-September as slaughter numbers began to build seasonally.

Cow prices have returned closer to normal levels relative to prime cattle prices since the summer (see chart on page 7), meaning less of an incentive to cull. However, the gap is still smaller than pre-2022 levels. In the week ending 21 October, R4L steer prices were 28.3% higher than R4L cows compared to 17.8% in the same week of 2022 but 33.3% in 2021 and 38.5% in 2020.

After starting 2023 ahead of 2022 levels, mature cattle slaughter has fallen well short of year-earlier levels in the summer and autumn, suggesting that the beef herd may be beginning to stabilise.

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Herd reduction likely to be slowing in the beef sector

Source: Defra; QMS calculations

Source: BCMS; QMS calculations

Females aged 30 months+ on Scottish farms (y/y change)			
Month	Dairy	Beef	All
Jan 2022	-1.3%	-0.4%	-0.6%
April 2022	-1.1%	-0.7%	-0.8%
July 2022	-1.0%	-1.4%	-1.3%
Oct 2022	-0.5%	-1.6%	-1.3%
Jan 2023	-1.0%	-3.3%	-2.7%
Apr 2023	-1.2%	-3.6%	-2.9%
Jul 2023	-1.0%	-3.3%	-2.6%

Source: BCMS; QMS calculations

Females aged 30 months+ on farms in England & Wales and GB (y/y change in July 2023)			
	Dairy	Beef	All
E&W	-1.4%	-3.6%	-2.3%
GB	-1.4%	-3.5%	-2.4%

Source: BCMS; QMS calculations

Breeding herd – females over 2 years old that have calved (y/y change in June 2023)			
	Dairy	Beef	All
Scotland	+2.0%	-3.5%	-1.9%
England	-0.7%	-3.6%	-1.8%

Source: Defra; Scottish Government; QMS calculations

In July 2023, there were nearly 401,600 beef-sired females aged 30 months and over on Scottish holdings. This was a 13,700 head and 3.3% reduction from a year earlier, marking a slight slowdown in the pace of year-on-year decline from April. In June 2023, there were 394,700 beef females over 24 months in Scotland with offspring, down 3.5% and 14,500 head year-on-year.

A significantly lower cow kill at Scottish abattoirs compared to 2022 suggests that the beef herd may be beginning to stabilise. In addition, BCMS data has signalled a change in the balance of the over 30 month kill towards dairy-sired cattle in 2023 while fewer Scottish-born OTM cattle have been processed in E&W than in 2022.

Source: AHDB; QMS calculations

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

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A focus on UK international trade in beef

- export volumes soft and imports dipping back behind 2022 levels

In August, UK beef export volumes continued to run at their lowest levels for the time of year since 2018 but export prices held firm.

In contrast to most of the past two years, exports to EU countries underperformed non-EU destinations. They fell by 18% year-on-year in August whereas shipments to non-EU countries reached a year-to-date high and were only 2% behind year earlier levels, compared to a 42% reduction in the year-to-date. Exports to the EU were similar to the lows of mid-2020 and 2021 for a second month; though export prices did remain significantly higher, supporting export revenue.

Beef imports to the UK slipped back behind 2022 levels in August after three months of growth. Imports from the EU were down by 0.4% while the volume arriving from non-EU countries dropped to a four-month low and was down by 27% on the same month last year.

The EU accounted for 95.1% of UK import volumes and 89% of exports in January to August 2023.

Note:

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

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

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Variables influencing international trade in beef – competitive pressures from lower prices in Ireland but import and export prices remained close to previous peak in August

Source: HMRC; QMS calculations
HS 0201 & 0202 – fresh and frozen carcases and cuts of beef

Source: HMRC; QMS calculations
HS 0201 & 0202 – fresh and frozen carcases and cuts of beef

Irish cattle prices fell faster than those in Scotland between May and August and have rebounded more slowly, resulting in a further widening of the price gap, which has reached 25% in October.

EU beef prices continue to look historically firm, supported by declining production, but market prices are back below the highs reached in 2022 in many countries. The lead for Scottish R4L steers over the EU average for R3 young bulls has reopened since mid-August, with EU prices lifting more slowly than those in Scotland.

Source: AHDB; ECB; EU Commission; QMS calculations

Source: AHDB; ECB; EU Commission; QMS calculations

Selected EU cattle prices for R3 males, converted from euro to p/kg dwt

	Week 42 2023	Week 38 2023	Week 42 2022
Germany (young bull)	416.5	413.3	453.9
Netherlands (8-11 months)	395.9	308.9	435.1
Spain (young bull)	435.6	435.6	445.5
Poland (young bull)	417.6	383.8	416.0
Irish Republic (steer)	400.5	407.3	399.2
For comparison: Scotland R4L steer	**499.7**	**499.3**	**461.0**

Source: AHDB; EU Commission; LMC; QMS calculations

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

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Variables influencing international trade in beef

Source: Bord Bia/DAFM/QMS calculations

Source: MARA; QMS calculations

USDA Global Beef Market Forecasts, October 2023 (million tonnes carcase weight)				
Key indicators	2021	2022	2023	2024
World, production	58.36	59.29	59.31	59.13
USA, production	12.73	12.89	12.29	11.52
Brazil, production	9.75	10.35	10.56	10.84
EU, production	6.88	6.72	6.50	6.44
Australia, production	1.90	1.88	2.17	2.25
All countries, imports	9.95	10.26	10.35	10.21
China, imports	3.02	3.50	3.60	3.50
USA, imports	1.52	1.54	1.64	1.66
EU, imports (from non-EU sources)	0.32	0.40	0.39	0.39
Source: USDA Foreign Agricultural Service				

Source: USDA; QMS calculations

In the Irish Republic, slaughter has now climbed towards its seasonal peak, placing some renewed downwards pressure on market prices when quoted in euro. However, the kill has remained well below the highs of 2022. Population data has pointed to further declines in Irish production in 2024 and 2025. At EU level, production is also expected to contract further.

At a global level, beef prices are coming under pressure from rising production in Australia and Brazil, while weaker than expected consumer demand led to a build-up of product in China, reducing wholesale prices by 6% between late-May and mid-July, from which the rebound has been weak. However, the US market remains firm due to lower domestic output, driven by drought induced herd liquidation in 2021 and 2022. Initial forecasts for 2024 point to the global market remaining relatively tight, but with the potential for further downwards pressure on Australian and Brazilian beef prices.

Cattle on Irish farms (thousand head)			
Age group	Dec 2021	Dec 2022	y/y change
<12 months	2,108	1,995	-5.3%
1-2 years	1,767	1,801	+1.9%
2+ (males & non-breeding females)	332	337	+1.5%
Cows	2,395	2,372	-1.0%
Source: CSO			

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Summary of market developments – sheep market

Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
New season SQQ lamb price at Scottish auctions	p/kg lwt, w/e 25 October	252.24p/kg	-6.35	+2.7%	+14.6%	+27.4%
New season lamb marketings at Scottish auctions	Average in four weeks to 25 October, head	25,495		+8.5%	+14.8%	+26.8%
Total lamb marketings at GB auctions	Average in four weeks to 25 October, head	109,298		+5.5%	+2.4%	+1.2%
UK sheepmeat market supply	Tonnes in Jul - Sep 2023 (estimate)	64,300			-2.9%	-6.1%

- After a period of stability at around 245p/kg lwt at Scottish marts in September, prices have traded above 250p/kg for most of October. Given a cooling market in late-October 2022, this has seen year-on-year increases approach 15%, while prices have moved more than 25% above the five-year average. However, prices have slipped below 250p/kg in the final days of October.
- In Scotland, June census results showed a 2.2% contraction of the breeding flock and 4.5% reduction in lambs since the last census in 2021 but, after a slow start, finished auction throughput has now risen beyond last year's levels. With England's June lamb crop also down significantly, it points to fundamentally tight supply this season across GB.
- Retail data indicates that lamb sales performance has improved relative to 2022 since the summer, supported by a stabilisation of retail prices.
- Although UK lamb imports have fallen sharply in the year-to-date, monthly imports reached a year-to-date high in July and then August saw the first year-on-year increase of 2023. This import rebound is likely to reflect highly competitive market prices in Australia and New Zealand plus improved market access for Australia under the terms of the Free Trade Agreement. While rising imports remain a significant downside market risk, August volumes were still down by 24% on a decade before.
- In contrast to beef and pork, UK lamb exports have performed well in 2023, ensuring that market supply has remained tight, supporting lamb prices.

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Farmgate prices - prime sheep – prices have pushed above 250p/kg lwt at Scottish marts in October, 10-15% above 2022 levels and 25-30% above the five-year average, but there has been some softening in the final days of the month

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

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Availability and slaughter – new season lamb numbers catching up in Scotland after a slow start, but GB lamb supply fundamentally tight this season

After a slow start to the season, Scottish auctions have seen a higher throughput than in 2022 since mid-August, and the number of new season lambs sold has now risen beyond 2022. Auction throughput has mostly continued to run behind 2022 in E&W, though the decline has slowed in recent weeks, and there was a notable spike in late-October on both sides of the border.

Scottish June census results showed a significant decline relative to 2021, reflecting both a smaller ewe flock and lower lambing rate (though the lambing rate held above its 2012-21 average of 1.26).

June census results reported for England showed a sharp decline in lamb numbers due to a poor lambing rate and, coupled with the Scottish results, points to a fundamentally tight supply this season.

Slaughter at Scottish abattoirs has continued to decline relative to previous years.

June 2023 Census – Scotland and England					
	Sco v2021		Eng v2021		Eng v2022
Ewes for further breeding & slaughter	-2.2%		+1.2%		+1.5%
New season lambs	-4.5%		-3.4%		-4.9%
	Sco		England		
	2021	2023	2021	2022	2023
Lambs per ewe	1.306	1.275	1.274	1.274	1.216

Source: Defra; Scottish Government; QMS calculations

Cull sheep market – seasonally low prices with marketings around their autumn peak

Cull ewe values appear to have bounced slightly from their seasonal low, with weekly marketing levels dipping slightly from their autumn peak.

This price lift has come slightly earlier than recent years, lifting market prices above 2022 levels, having spent most of the year behind.

While domestic mutton production has increased in 2023, the volume exported as carcases fell back significantly relative to 2021 and 2022, until July, signalling some rebalancing of demand to the home market. However, this may have changed again in August, with exports surging.

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

Source: Defra; QMS calculations

Source: HMRC; QMS calculations
Sep 2023 trade estimated

Source: Defra; HMRC; QMS calculations
Sep 2023 based on estimated imports and exports

Source: Defra; QMS calculations

Source: HMRC; QMS calculations
Sep 2023 trade estimated

Source: Defra; HMRC; QMS calculations
Sep 2023 based on estimated imports and exports

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A focus on UK international trade in sheepmeat – higher exports and lower imports in year-to-date, but signs of an import rebound in July and August

UK sheepmeat exports were up 8% on 2022 in August, slightly behind the 10.5% increase in the year-to-date, but at a three-year high for the month. After a short-lived dip in late-September, the price of GB lamb at Rungis market in Paris rebounded in early-October before steadying. By contrast, in October 2022, prices had been cooling at Rungis, suggesting firmer demand this year (see page 18).

After a very weak end to 2022 and soft first half of 2023, UK sheepmeat import volumes reached their highest of the year in July. While imports were then lower in August than July, they were at a seven-year high for the month, up 33% on 2022. Imports from NZ moved beyond year-earlier levels for the first time in 2023, up 45% on August 2022, while imports from Australia reached a year-to-date high, exceeded 2022 levels for a third month, and were 2.5 times year-earlier levels. Average import prices continued to run sharply lower than last year in August, with product arriving from NZ down 19% and Australian sheepmeat nearly 40% cheaper.

Given seemingly attractive price levels in the GB market plus increased market access for Australia since the end of May, higher imports remain a significant downside market risk; though August import volumes were still down by 24% on a decade before.

Note:

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

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

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Variables influencing UK sheepmeat trade – Prices in France continue to look attractive to GB lamb exporters. Highly competitive prices in Australia and NZ, where Australian production growth and a weak Chinese market are pressuring prices, now appear to be supporting UK imports.

Oceania lamb production forecasts

	2022	2023	y/y change
Australia (thousand tonnes)			
Sheepmeat production	708	737	+4%
Sheepmeat exports (product weight)	428	462	+8%
New Zealand (head) (June 2023 stock number survey)			
Breeding ewes	15.48m	15.34m	-0.9%
Lamb crop for 2023/24	20.23m	20.36m	+0.6%

Source: MLA; Beef + Lamb NZ; QMS calculations

Summary of market developments – pig market

Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
GB Standard Pig Price (SPP)	p/kg dwt, w/e 21 October	219.64p/kg	-0.48p	-1.7%	+9.6%	+36.5%
Average carcase weight of standard pigs	Average in four weeks to 21 October EU spec	90.3		+0.6%	-0.3%	+3.4%
Prime pig slaughter at GB abattoirs	Total during September 2023, thousand head	650.9		-4.7% (change in daily avg kill Sep v Aug	-10.2%	-11.2%
UK pig market supply	Tonnes in Jul-Sep 2023	327,800			+2.5%	+1.9%

- Farmgate pig prices have fallen seasonally since August, with weekly slaughter and carcase weights picking up from their summer low. Nevertheless, prices remain up by around 10% year-on-year and by over 35% on the five-year average.
- GB abattoir slaughter continued to fall sharply below 2022 levels in September, reflecting the knock-on effect of a reduced breeding herd. However, England's June census results do now point towards some stabilisation in the sow herd, with prime pig availability likely to stabilise at a lag.
- ScotEID slaughter data has shown a reduced availability on Scottish farms in 2023 but the number being sent to slaughter across GB in September did show some recovery from 2022. However, prime pig slaughter continued to run more than 20% behind 2022 levels at Scottish abattoirs for a third month in September, reflecting supply chain challenges.
- EU pig prices have seen a stronger seasonal reduction than GB prices, resulting in a wider pricing gap, and this may have flowed through to some import price reduction since July. However, EU pig supply remains fundamentally tight.
- UK import volumes had already started to rise before any softening of EU pig prices and, combined with a sharp reduction in UK exports, this has begun to limit the tightening of supply in the domestic market.

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Farmgate prices – prime pigs – seasonal price fall continuing but values remain up by around 10% year-on-year and by over 35% on the five-year average, supporting slow recovery in finances

Pig prices have continued to show a slight seasonal trend lower in October, with rising weekly slaughter and carcase weights supporting a seasonal uplift in production volumes. However, prices have held nearly 10% above year-earlier levels and over 35% above the five-year average.

A seasonal uplift in carcase weights has limited the fall in average price per carcase, with it down 1.5% from its summer peak compared to a 2.7% reduction in per kilo prices.

The current combination of farmgate prices and the cost of straight feeds are likely to be supporting some recovery in producer finances from a sustained period of losses. However, energy, labour and interest costs will have risen considerably for many businesses this year and herd size has reduced. Modelled production costs are just under £2/kg dwt.

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Indicators of market disruption – lack of premium for pigs with specific production characteristics points to tight market. Carcase weights have risen seasonally and remain historically elevated.

The premium for the overall average pig price (APP) over standard pigs (SPP) has disappeared, indicating that pigs with specific production characteristics are no longer receiving premia in the marketplace, signalling an extremely tight market – though as the market balance has changed seasonally in recent weeks, the discount for the APP has narrowed. It should be noted that the two price reporting samples are not identical.

Carcase weights have risen seasonally, and the share of heavy carcases in the standard pig price sample has remained elevated above pre-backlog levels. The year-on-year increase in carcase weights seen during the summer has disappeared, reflecting a short-lived backlog on farms in 2022 which underpinned weights.

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Availability and slaughter – supply remains tight compared to recent years but availability for slaughter likely to be edging seasonally higher. Abattoir throughput has fallen back sharply in Scotland since mid-July.

The contraction of the GB breeding herd due to financial pressures in 2021 and 2022 continues to reduce prime pig production. However, England's June census results suggested that that the sow herd is beginning to stabilise, and this should help slow the year-on-year decline in availability for slaughter. Meanwhile, the standard pig price sample continues to signal a seasonal upwards trend in weekly slaughter.

The number of pigs sent to slaughter from Scottish farms bounced back above 2022 levels in September, suggesting that we may have passed the low point in production, and it will be interesting to see whether this recovery has been sustained into October.

However, after two months of significant year-on-year increase at Scottish abattoirs, prime pig slaughter fell back behind 2022 levels in July, driven by supply chain challenges. It remained subdued in August and September.

June 2023 Census – Scotland and England

	Sco v2021	Eng v2021	Eng v2022
Female breeding herd	-5.0%	-17.9%	-1.5% y/y
Fattening pigs	+0.1%	-13.9%	-13% y/y

Source: Defra; Scottish Government

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

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

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A focus on UK international trade in pigmeat – imports picking up while exports fall sharply relative to 2022, reflecting tight domestic supply

While tight domestic supply continued to constrain exports in August, imports held above 2022 levels for a fifth month, leading to some recovery in UK pigmeat market supply.

Imports of pork (HS0203) were up 22.5% on year-earlier levels in August, with this the fifth consecutive month of expansion. Meanwhile, August was only the second month of 2023-to-date to show higher bacon & ham imports (HS0210) than last year (+12%).

UK exports of pork (HS 0203) to the EU rebounded from the low levels of June and July but were still down 34% year-on-year in August.

Exports (HS 0203) to non-EU countries rose to a five-month high in August but were down 14% year-on-year. Within this total, deliveries to China and Hong Kong were down only 3% on last year and accounted for 63% of non-EU trade and 35% of overall pork export volumes.

Note:

HMRC trade data used here covers HS codes 0203 (fresh or chilled & frozen swine meat) & 021011, 021012 & 021019 (bacon & ham – 'salted, in brine, dried or smoked').

Trade data for September is estimated

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Factors driving UK international trade in pigmeat – A stronger seasonal softening of the EU pork market than in GB has seen the price differential widen to a more normal level for the time of year and import prices may have fallen back since July. However, EU supply remains fundamentally tight, with sow numbers down another 2.4% year-on-year in May/June 2023 across the 13 reporting member states.

Source: AHDB; ECB; EU Commission; UECBV; QMS calculations

Source: HMRC; QMS calculations
HS 0203 – fresh and frozen carcases and cuts of pork

Source: MARA; QMS calculations

Source: AHDB; ECB; EU Commission; QMS calculations

Source: HMRC; QMS calculations
HS 020311 & 020321

USDA Global Pork Market Forecasts, October 2023
(million tonnes carcase weight)

Key indicators	2019	2020	2021	2022	2023	2024
World, production	101.5	96.1	108.0	114.5	115.5	115.5
China, production	42.6	36.3	47.5	55.4	56.5	56.0
All countries, imports	9.3	11.6	11.5	9.80	9.64	9.75
China, imports	2.45	5.28	4.33	2.13	2.28	2.30
EU, production	23.0	23.2	23.6	22.3	21.5	21.2

Source: USDA Foreign Agricultural Service

Summary of economic developments

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- While some commodity prices have risen in autumn 2023, they have remained well below their 2022 peak, pressured in part by a weaker US dollar. Nevertheless, farmers and processors continue to face unusually high levels of input prices, with wage and borrowing costs also rising significantly.

- Strong average earnings growth has continued to underpin increased retail sales in cash terms and, with inflation rates beginning to slow in many sectors, this should begin to support sales volumes.

- The beef retail market continues to be characterised by consumers trading down towards cheaper products, but a slowdown in price increases has boosted steak sales. Sharp pork price rises are weighing heavily on sales volumes, but this has been reflective of tight supply, and some of the pressure is beginning to ease. A sharp slowdown in lamb price inflation may have contributed to an improvement in sales volumes.

- Consumer confidence improved further in September, likely supported by wages beginning to outpace inflation.

- PMI surveys are signalling a slight economic contraction in the UK, with demand softening in services while deteriorating further in manufacturing. While employment and vacancies have begun to fall, wage pressures remain considerable, supported by cost-of-living increments, particularly in the public sector.

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Production costs and by-product revenues

Commodity prices have fallen from their highs, but many are still well above pre-covid levels, meaning that businesses are still having to deal with higher cost bases than they have been used to. Crude oil prices have shown some rebound since July, and this has passed through to fuel costs, with war in the Middle East adding to this pressure in October. Natural gas and fertilisers are also above their lows. Contract pricing of inputs means that businesses may still be facing rising or unchanged costs even as commodity prices have dipped from their peak.

A well-supplied global grain market continues to limit any price rises from concern over the US harvest. Meanwhile, a record Brazilian soyabean crop has ensured that soyameal prices have fallen below year-earlier levels and Argentina is expected to see a sharp rebound in production in the coming season.

By-product value has shown a more limited autumn upturn in 2023, resulting in a significant year-on-year reduction, added to by a stronger sterling than in October 2022. Currency movements meant that hides were down 13% on 2022 in GBP in late-October compared to a 5% reduction in USD.

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Exchange Rate Movements – expectations that UK interest rates have peaked has led to a softening of sterling, providing some renewed support to the competitiveness of domestic products

Source: ECB

Source: EU Commission/LMC; ECB; QMS calculations

After three months of relative stability, sterling has weakened slightly against the euro, reflecting expectations that UK interest rates may now have reached their peak, given the slowdown in UK inflation and some weakening of labour market indicators. Nevertheless, the Bank of England is of the view that price and wage-setting decisions have changed since the pandemic, biasing them to the upside, so they have been overly cautious with interest rate policy to try and get inflation down towards the 2% target, and this stance has ensured that sterling has remained firmer than it had been in spring 2023.

Source: Bank of England; QMS calculations

Source: Bank of England; QMS calculations

US economic data has remained relatively firm in 2023 but a slowdown in US inflation has limited expectations for further interest rate rises, limiting room for the dollar to rebound. While now below its summer peak against the dollar, sterling should hold stronger than in autumn 2022 when UK fiscal policy announcements led to a devaluation. A weaker USD than a year ago has softened input costs, but is also likely to have eased UK returns on dollar-denominated exports to non-EU countries. For example, an export price of $5,000/t would have returned £4,425 in October 2022 but £4,105 in October 2023 (-7%).

QMS
Quality Meat Scotland

Retail demand and prices – signs that meat prices are beginning to stabilise but beef and pork still well above 2022 levels, limiting sales volumes. Foodservice sector firms continue to pass on higher cost base, signalling robust demand.

Retail demand remains firm overall with rising UK wages (+8.51% y/y in Jun-Aug) supporting the overall amount of money spent on groceries. However, sharply higher prices continue to limit sales volumes.

Sales figures from the 12 weeks to the start of October point to an improved trading environment relative to last year, particularly for beef, though sales had been very weak in summer 2022.

Lamb remains an expensive protein despite its average price now steadying. However, value and volume growth point to an improved level of demand.

Pork retail prices continue to show sharp year-on-year uplift as previous rises in farmgate and import prices pass through the supply chain, squeezing sales volumes in line with tight supply. However, the pace of price increase has slowed significantly from its peak.

Y/Y change in GB retail sales reported by Kantar in 12 weeks to 1/10/23

	Value	Volume	Avg price per kilo
Fresh beef	+11.8%	+1.1%	+10.6%
Fresh lamb	+4.3%	+3.7%	+0.6%
Fresh pork	+12.0%	-7.2%	+20.7%
Fresh poultry	+13.1%	+4.2%	+8.6%
Total grocery market	+8.9%	-1.7%	+10.8%

Source: Kantar

Retail demand and prices – beef and pork prices continue to show strong year-on-year increases, limiting sales volumes, but lamb sales improving across GB. Beef underperforming in Scotland.

BEEF
12 weeks to October 1 2023

LAMB
12 weeks to October 1 2023

PORK
12 weeks to October 1 2023

	GB	Scotland	GB	Scotland	GB	Scotland
Value (£m)	510.6 (+11.2% y/y)	51.2 (+1.5% y/y)	106.4 (+4.1% y/y)	6.7 (+17.3% y/y)	205.7 (+11.0% y/y)	15.2 (+22.6% y/y)
Volume (t)	53,017 (+0.6% y/y)	5,140 (-7.7% y/y)	8,754 (+2.0% y/y)	530 (+9.7% y/y)	31,342 (-7.0% y/y)	2,268 (+3.0% y/y)
Avg price (£/kg)	9.63 (+10.6% y/y)	9.96 (+9.9% y/y)	12.15 (+2.1% y/y)	12.58 (+6.9% y/y)	6.56 (+19.4% y/y)	6.72 (+19.1% y/y)
Penetration*	65.8% (-1.6% y/y)	70.2% (-1.3% y/y)	21.9% (+4.8% y/y)	16.6% (+22.2% y/y)	45.1% (-1.6% y/y)	39.6% (+1.6% y/y)
Frequency**	4.3 (+0.8% y/y)	4.3 (-5.6% y/y)	2.3 (-0.8% y/y)	2.2 (+0.1% y/y)	3.0 (-2.6% y/y)	2.9 (+9.3% y/y)

- **Slowdown in steak price increases supported 4% y/y lift in sales volumes.**
- **Lamb mince performed strongly, with volumes up 11.5% y/y.**
- **Pork belly and 'other' cuts showing volume growth due to slower price rises.**

Data covers sales of fresh and frozen unprocessed red meat
*Penetration % - Number of households/individuals that bought at least once in the time period as a percentage of total households/individuals.
**Frequency - Average number of purchase trips per buyer in the time period.

QMS Quality Meat Scotland

Economic indicators – mixed picture with business surveys pointing to reduced activity and reported employment levels declining but wage growth is out-pacing inflation and household sentiment has improved further.

Quality Meat Scotland

QMS

Quality Meat Scotland