# UK sheep outlook

## January 2021

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**KEY POINTS**

- Falling UK sheep meat production expected
- Tight global supplies and potential complications at the UK-EU border limit import levels
- Exports to fall due to lower production and logistical challenges supplying the EU
- Limited global supplies may offer some price support
- Domestic demand unlikely to maintain the growth seen in 2020

## Key 2021 Stats

steady **Breeding flock: 13.8m head**

steady **Lamb crop: 17.3m head**

-4% **Lamb slaughter: 12.5m head**

+7% **Ewe slaughter: 1.5m head**

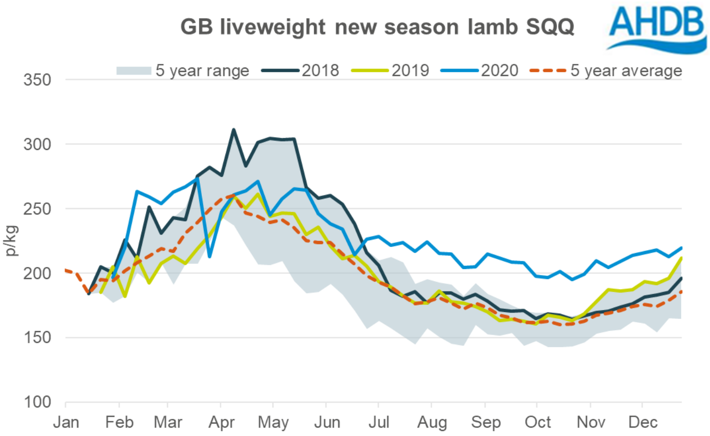
All figures are forecasts and subject to revision. Year-on-year changes are shown.

## Contents

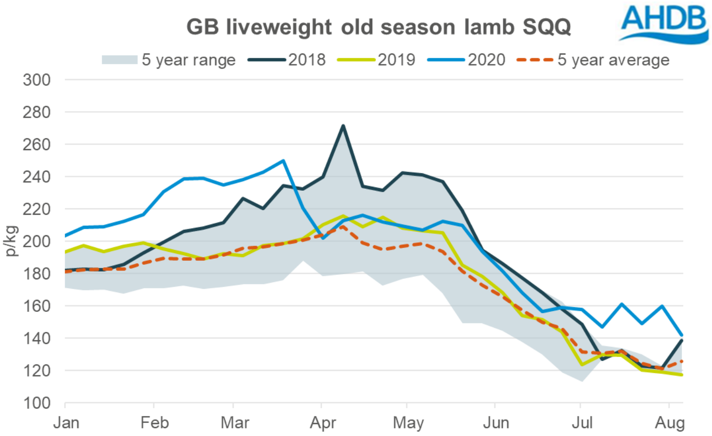
# Current market situation

## Prices

GB finished lamb prices were strong for the majority of 2020, with prices well above the five-year average for most of the year. The GB liveweight NSL SQQ was at the highest level in at least five years from late June onwards, with prices almost consistently above 200p/kg. Domestic demand has been strong, with retail and takeaway growth more than compensating for lost eating-out opportunities and some decline in French demand.




Source: AHDB, LAA, IAAS




Source: AHDB, LAA, IAAS

## Production

Clean sheep slaughter in 2020 totalled 13.06 million head, 1% lower than 2019. The decline was somewhat smaller than we anticipated in our previous forecast. It seems lambs came forward for slaughter earlier than usual in the latter part of 2020. Uncertainty over our trading relationship with the EU in 2021 could have encouraged earlier finishing. High prices would also draw increased numbers forward. Reports indicate finishing conditions were favourable to facilitate this earlier slaughter profile. Altogether, a combination of these factors probably contributed to the strong slaughter numbers in the latter part of 2020.

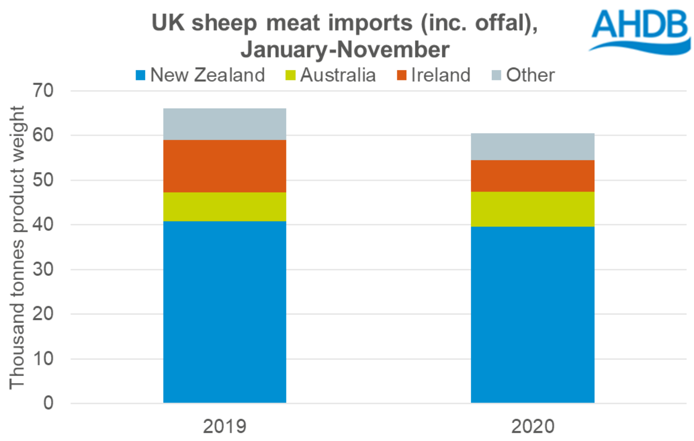
Adult sheep slaughter in 2020 was 16% lower than year earlier levels, at 1.44 million head. Ewe cullings were very high in 2019, suggesting a younger national flock on farms in 2020 that would ultimately reduce culling levels.

Altogether, UK sheep meat production was 4% lower than year earlier levels in 2020, totalling 296,100 tonnes.

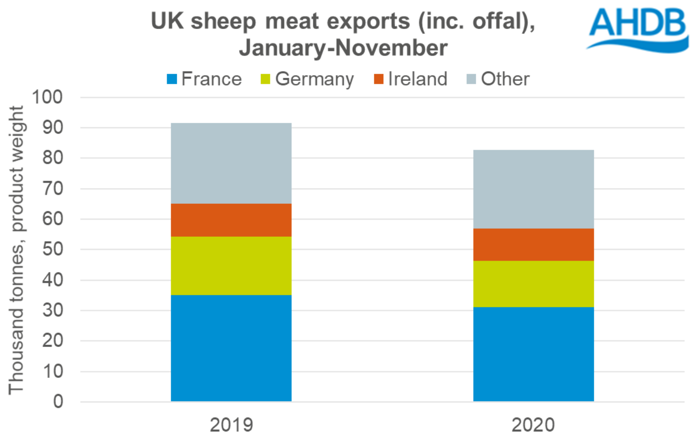
## Trade

According to HMRC data, the UK imported 63,500 tonnes (carcase weight equivalent) of sheep meat (excluding offal) between January and November 2020. This was 6,000 tonnes (9%) less than in the same period of 2019. Most products recorded a decline, with the exception of frozen bone-in cuts. There was a particular drop in shipments from Ireland, with this supplier perhaps finding it more lucrative to send less processed product to France and Germany, especially considering the challenges COVID-19 has presented meat processing plants.

UK exports of sheep meat decreased (-18%) on the year across January-November 2020, totalling 81,200 tonnes (carcase weight equivalent, excluding offal). Domestic demand has been relatively strong, probably limiting supplies available for export, especially considering reports of reduced consumer demand elsewhere in Europe.




Source: IHS Maritime & Trade- Global Trade Atlas®, HMRC

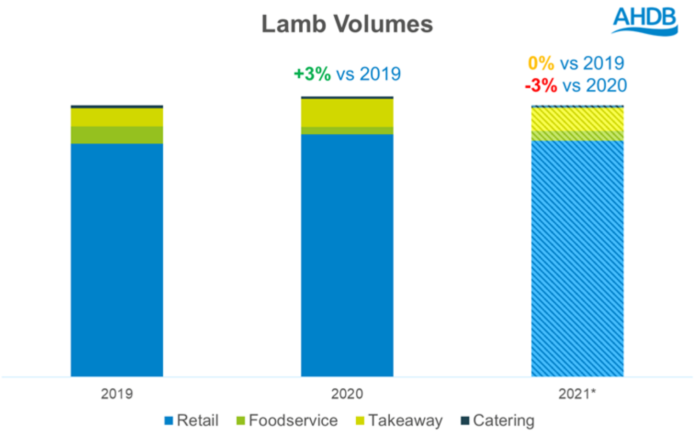



Source: IHS Maritime & Trade- Global Trade Atlas®, HMRC

## Lamb Consumption

Consumer behaviour has been distinctly abnormal during 2020 due to the coronavirus pandemic and restrictions imposed.

In the year ending 27 December 2020, total lamb retail volumes were up 4% according to Kantar figures. This is a significant contrast to the pre-COVID period, when lamb retail volumes were falling. Although eating-out volumes have clearly been hit due to forced closures and lack of confidence, takeaways have seen a significant uplift linked to lamb kebabs. As such, we estimate that total lamb volumes sold in 2020 were about 3% higher than in 2019.




*AHDB estimate for 2021
Source: AHDB

## EU

Heavy lamb prices in the EU have also been strong across 2020. By mid-November the EU average deadweight price had increased to over €600/100kg and has since continued to rise. Estimates from the EU mid-term outlook suggest sheep and goat meat production was about 3% lower than the year before and imports were also about 4% down. Tight supplies in the southern hemisphere limited volumes available for global export markets. So, even though demand has been disrupted, sheep meat availability has been low.

## Global situation

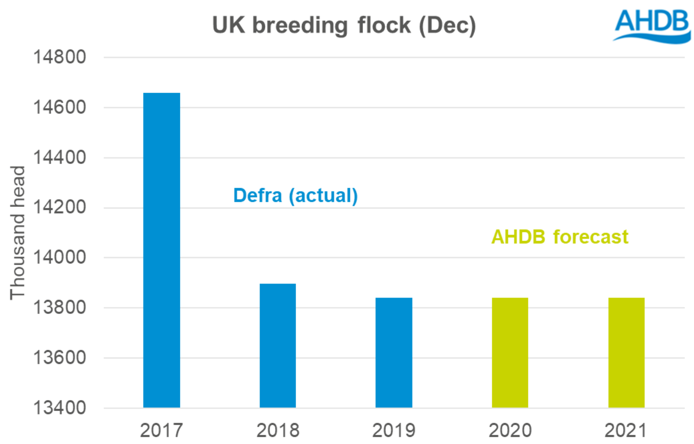
Lower production volumes meant sheep meat exports from Australia fell by 12% compared to a year earlier in 2020, eclipsing the marginal (+1%) increase from New Zealand over the same period. Even though COVID-19 meant demand from key importing nations, including China, did not meet previous expectations, the global market balance remained tight by historic standards. Farmgate prices therefore remained relatively high, especially in Australia, though New Zealand prices did temporarily drop to the lowest since 2017 in May.

# Outlook

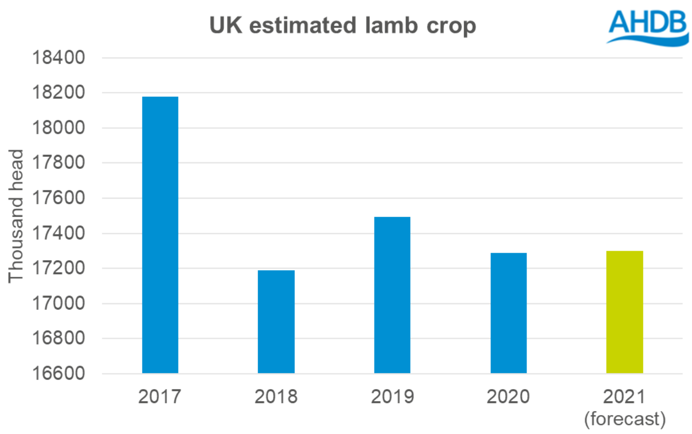
## Flock numbers

### *Breeding flock*

Defra June survey figures suggest a 4% decline in the UK breeding flock at this point in the year, compared with 2019. However, anecdotal reports from the industry have led us to believe that the breeding flock was stable compared to the year before around tupping. Producers are though to have taken a "wait-and-see" approach to the uncertainty surrounding our negotiations with the EU. The strong lamb prices would also be supportive of maintaining flock numbers. Our base assumption is that numbers will also remain stable in 2021, although this will depend on how the market performs this year and whether any more details regarding the replacements for BPS and current agri-environment schemes are revealed. This remains an area of some uncertainty.




Source: Defra, AHDB




Source: AHDB, LAA, IAAS, Defra

### *Lamb crop*

The 2020 lamb crop is estimated as 17.3 million head, similar to 2019 (-1%). This reflects stability in both breeding flock numbers and the lamb rear rate. The lamb crop is expected to be similar again this year, though of course this will depend on weather conditions at lambing time. Recent wet conditions could be a risk if sufficiently widespread and long-lasting. Conditions during the autumn were generally reasonable for the time of year and so ewe condition at tupping is not thought to have been a limiting factor.

## Numbers available for kill

### *Lambs*

In the first half of this year, lamb slaughter levels are expected to be tight. A relatively high portion of the 2020 lamb crop was slaughtered as new season lambs last year, meaning a smaller number have been carried over into 2021. Old season lamb slaughter between January and May is forecast at 3.6 million head, 7% lower than last year. However, the number coming through may be affected by retention rates; high finished prices might drive increased ewe lamb slaughter, though conversely increased confidence could potentially encourage some flock expansion.

Slaughter of new season lambs from the 2021 crop is also expected to be lower this year. The trading uncertainty that drew numbers through earlier in 2020 is no longer present. It also seems unlikely domestic demand will retain the boost seen this year. A more typical slaughter profile for the 2021 lamb crop suggests new season lamb slaughter will be 3% lower this year at 8.9 million head.

Overall lamb throughput in 2021 is forecast at 12.5 million head, 4% below year earlier levels.

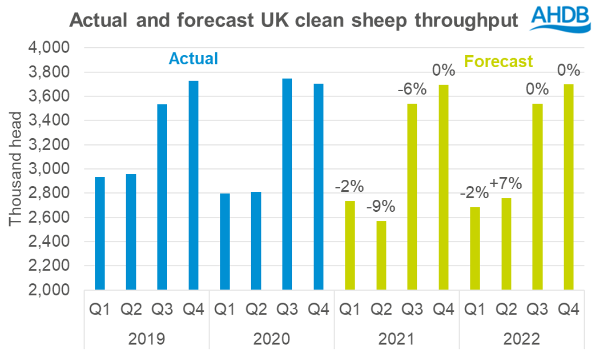
### *Adult sheep*

Cull slaughter fell sharply in 2020, following a high rate in 2019, which would have lowered the average age of the herd. Slaughter is forecast to pick up again this year, though will remain below the 2019 peak.

### *Actual and forecast UK sheep slaughter*

| | Lambs | | | Adult sheep | | |
|---|---|---|---|---|---|---|
| Thousand head | 2020 | **2021** | **2022** | 2020 | **2021** | **2022** |
| Q1 | 2,797 | **2,735** | **2,683** | 379 | **383** | **383** |
| Q2 | 2,811 | **2,571** | **2,759** | 308 | **351** | **348** |
| Q3 | 3,745 | **3,541** | **3,541** | 403 | **408** | **405** |
| Q4 | 3,705 | **3,697** | **3,698** | 344 | **397** | **395** |
| Year | 13,059 | **12,544** | **12,681** | 1,435 | **1,539** | **1,530** |

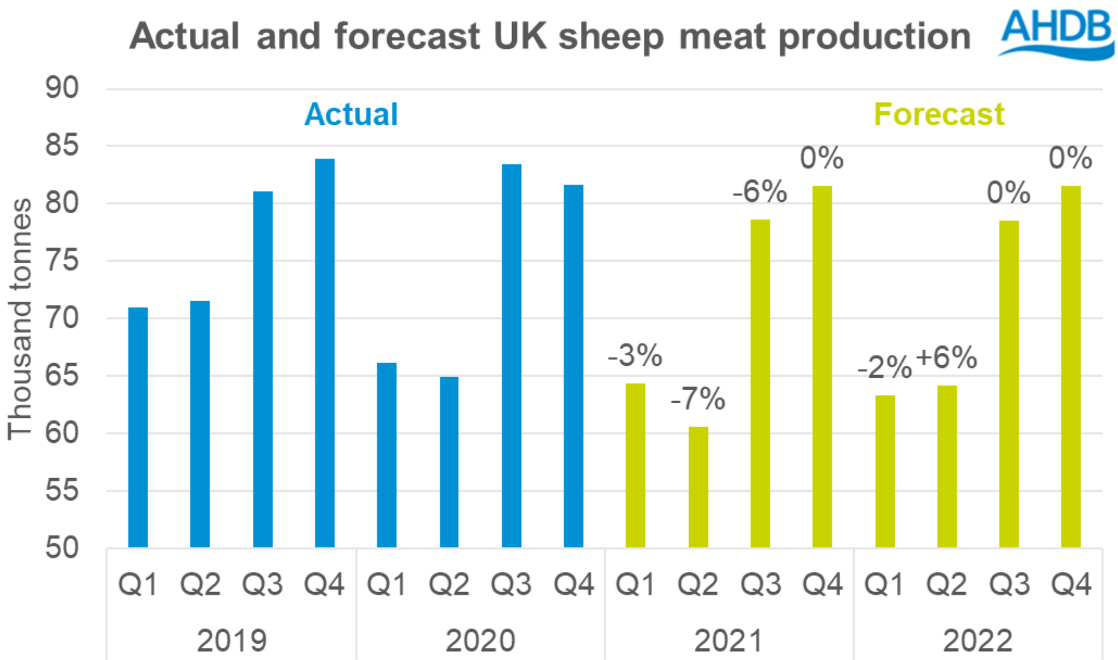
Source: Defra, AHDB. Figures in bold are forecasts




Source: Defra, AHDB forecasts
Percentages refer to year-on-year change

## Production

Combining a fall in lamb slaughter with growth in adult sheep culling means UK sheep meat production is set to fall by about 4% this year to 285,000 tonnes.




Source: Defra, AHDB forecasts
Percentages refer to year-on-year change

## Trade

This forecast uses a demand scenario in which the year is broadly in two halves. In the first half of the year, a full lockdown until mid-February has been assumed, followed by a partial easing of restrictions. In the latter half of the year, it has been assumed that restrictions have eased to allow the eating-out market to re-open albeit with social distancing measures in place.

### *Imports*

Sheep meat imports have been falling for a number of years. The dominant global exporters, Australia and New Zealand, have increasingly focused on the Chinese market and at the same time their supply availability has wavered.

The picture remains similar this year. New Zealand are anticipating a drop in product available for export in the 2020-21 season (October 20 -September 21) due to a smaller lamb crop and increased retention rate as farmers now seek to recover numbers following the drought. This will restrict supplies available for them to export. However, indirectly, the impact may be mitigated somewhat by increased exports from Australia where herd rebuilding is already underway. Chinese demand for imported protein could also fall back further as their domestic pork production starts to recover from African Swine Fever. COVID-19 restrictions are also still likely to limit the global demand for foodservice products in at least the first part of the year. Altogether, these factors may limit how tight global supplies of sheep meat are this year.

Sheep meat imports into the UK are needed in order to supply sufficient volumes of cuts consumers prefer, such as legs. For this reason, there is a limit to how much imports can fall in relation to demand. In 2020, supplies available on the UK market fell despite an apparent increase in consumption, suggesting a draw-down on stock levels. In 2021 we anticipate UK imports will only be able to fall slightly (-2%) compared to the already low 2020 level, totalling about 67,500 tonnes.

There remains a risk that imports could be disrupted by new checks and paperwork at the UK-EU border. As these are to be phased in gradually, here we have assumed this does not have a hugely significant impact on volumes throughout the year. It remains to be seen if this will be the case.

### *Exports*

Exports typically reflect domestic production trends. Falling production levels this year will limit supplies available to export. Recently, domestic demand has also been relatively strong compared to demand from our export markets, which has also dampened export volumes. This year, at least in the short-term, exports also face logistical challenges due to the new regulations surrounding exports to the EU.

We expect UK sheep meat exports to fall by 4% this year, to about 85,600 tonnes. The decline will be biased towards the first half of the year, and particularly quarter one, as exporters work through the new regulations required when exporting to the EU. By the end of the year, some growth may be possible, especially if continental foodservice demand is recovering from the coronavirus pandemic.

## Domestic consumption

In 2020, it is estimated that total consumption of sheep meat increased compared to 2019. However, even though exports fell last year, lower production and a drop in import levels means stocks would need to be drawn down to support this increase in consumer demand. This tight supply situation will have been key to supporting lamb prices during the year.

In 2021, consumption is expected to fall back by about 3%, which would be roughly in line with 2019 levels. Retail and takeaway volumes are not expected to hold on to all the gains made this year, with lamb's higher price point being a challenge as the economic downturn is increasingly felt by consumers. Foodservice may well do better than in 2020, but is likely to remain far away from 2019 levels.

Given falling production in the UK and some limitation on global supply availability, we don't expect to see stock replenishing activity. So, supplies available to the market fall by 3%, in line with the drop in consumption.

## Price impact

Lately, prices have been well above levels seen in recent years. In the short term, limited domestic and global supply availability in the face of strong domestic demand may continue to offer support, even with some export disruption.

It would be optimistic to envisage prices remaining similarly elevated throughout 2021. As the year progresses, we are likely to see domestic demand becoming more challenging, meaning supply availability feels less tight. Uncertainty also remains over how demand in Europe and on key global markets, such as China, will develop this year, due to both the coronavirus pandemic and African Swine Fever developments. These trends will be key for setting global prices, which also have an influence here.

Input cost are also important for profitability. More information on the feed outlook can be found in the Farm Inputs Overview, which also discusses labour costs, straw prices and the weather.

# Summary table

*Actual and forecast supplies of sheep meat in the UK*

| 000 tonnes | 2019 | 2020 | | | | | 2021 | | | | | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Q1 | Q2 | Q3 | Q4 | Year | Q1 | **Q2** | **Q3** | **Q4** | **Year** | **Year** |
| Production | 307 | 66 | 65 | 83 | 82 | 296 | 64 | **61** | **79** | **82** | **285** | **288** |
| Imports | 76 | 19 | 20 | 14 | **16** | **69** | 19 | **20** | **13** | **15** | **68** | **68** |
| Exports | 99 | 20 | 21 | 25 | **24** | **89** | 17 | **20** | **25** | **25** | **86** | **86** |
| Available for consumption | 285 | 66 | 64 | 72 | **74** | **276** | 67 | **61** | **67** | **73** | **267** | **270** |

Source: AHDB, Defra, IHS Maritime & Trade– Global Trade Atlas®, HMRC
Figures in bold are forecasts. All figures subject to revision. Totals may not sum due to rounding

# How does AHDB produce the sheep forecast?

Twice a year AHDB produces forecasts for the sheep, cattle and pig sectors. These are released in April and October, and follow large population data releases from Defra. In between these outlooks, AHDB conducts reviews of each forecast. This is done to update each forecast, and evaluate how they are performing. Small tweaks may be made based upon new, or revisions in historic Defra slaughtering data, changing industry conditions and new market intelligence.

## What data is available?

Each month Defra releases monthly slaughtering figures for the UK and sometimes revises previous figures. Large revisions are unusual, but can go back many months.

Twice a year, Defra (along with the devolved governments) conducts population surveys. The June survey results are provisionally released in October with a final figures being supplied in December. In December, a census is conducted, and the results from this are released the following spring. This data is often revised 12 months later. For the purpose of the sheep forecast, the size of the breeding flock is taken from the December census.

The June survey data forms the basis of the lamb crop estimate, and livestock auction market throughputs allow AHDB to estimate the number of new season lambs slaughtered prior to the June survey being conducted. Combining these figures together gives an estimate of the size of the lamb crop.

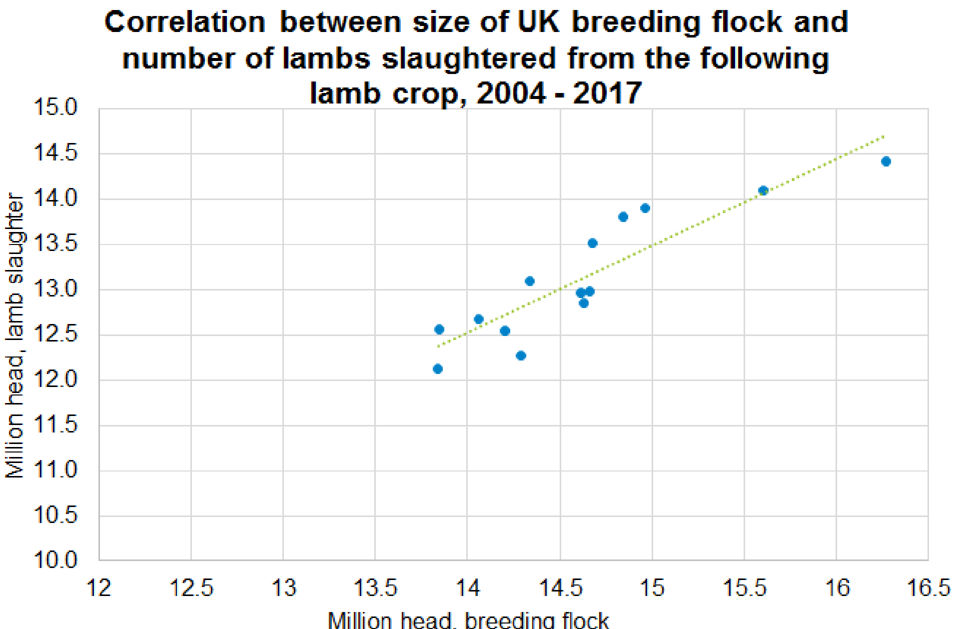
Sometimes Defra do make revisions to historic data. Of course this does affect the accuracy of the forecast, although no better source of data exists, and in any case conducting a comprehensive survey of the UK livestock population is understandably a substantial undertaking.

## How are slaughterings forecast?

Once a lamb crop figure is established, AHDB takes this number and removes those lambs it expects to be retained as breeding replacements. This is done based upon historic ratios and importantly also on information gathered as the season progresses. The remaining lambs are then forecast for slaughter based upon historic seasonal patterns, again using the monthly Defra slaughtering data, with some adjustments made based upon finishing conditions in any one year, trade and other relevant information.

## Is the December census accurate?

The census is conducted by Defra, but AHDB uses the data regularly, more for the trend than the number of sheep itself. There is a significant correlation between the size of the UK breeding flock as recorded on the census in December of one year, and the number of UK lambs slaughtered from the following lamb crop.




*Source: Defra, AHDB*