

UK beef outlook

July 2020

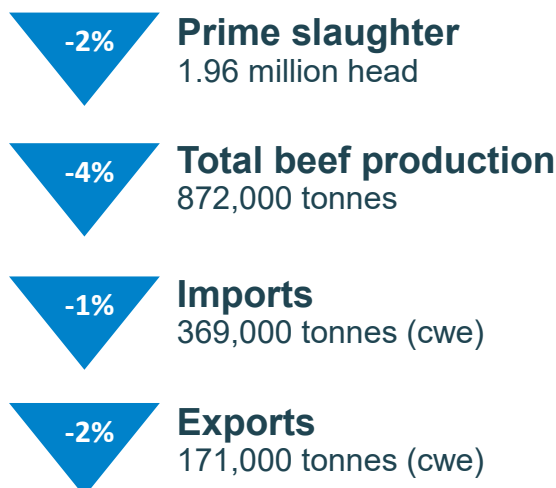
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Summary

- Economic uncertainty from Brexit and COVID-19
- Breeding herd expected to contract again
- Imports expected to remain steady on 2019, as domestic beef consumption falls. Irish production and prices will be key.
- Exports forecast to fall slightly on 2019 due to lower production
- Prices expected to remain under pressure for the remainder of 2020
- This forecast uses an optimistic demand scenario for COVID-19 recovery, and continued trade access to EU market after 2020

Key 2020 stats



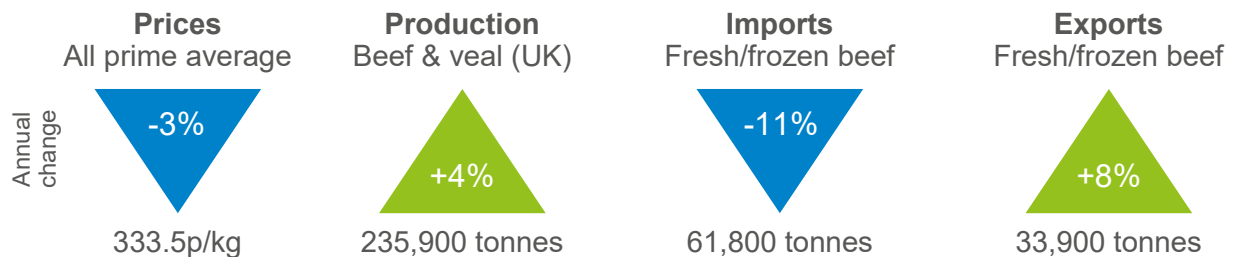
Figures are forecasts and subject to revision
Arrows refer to year-on-year change

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Current market situation

Quarter 1 highlights

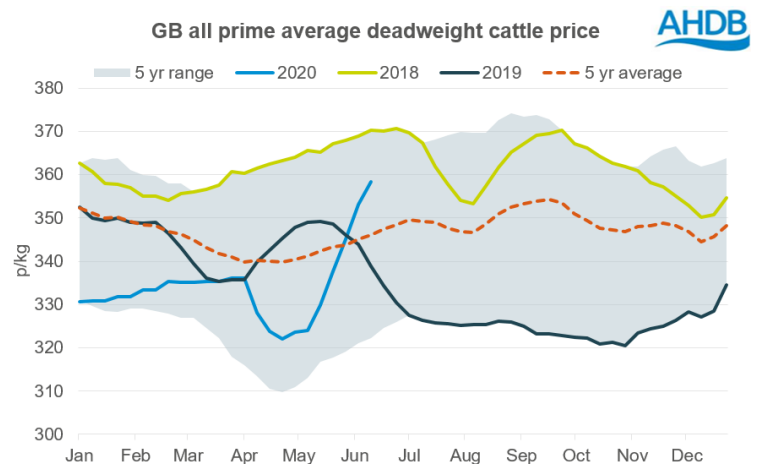


Source: AHDB, Defra, IHS Maritime & Trade - Global Trade Atlas®, HMRC

Prices

Deadweight prices for prime cattle rose modestly during the first quarter of the year (Q1), ending the period up nearly 6p on average. However, prices were suppressed by around 14p compared to the five-year average for the quarter. Cull cow prices enjoyed keener growth, finishing Q1 just over 11p higher on average than at the start of January.

Since Q1, deadweight cattle prices have fluctuated widely in response to supply and demand effects of the COVID-19 pandemic. Both prime cattle and cow prices tumbled in April due to carcase balance and other issues. They have since rebounded to surpass the five-year average in recent weeks in response to marketing and as foodservice demand slowly returns.



Source: AHDB

Production & slaughter

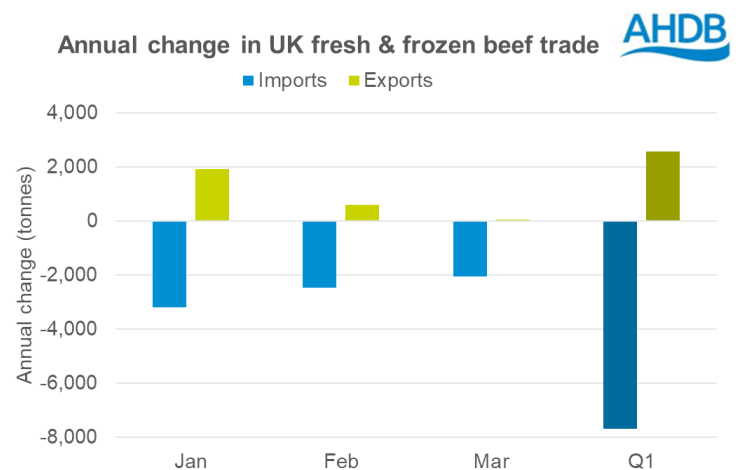
UK beef and veal production during Q1 totalled 235,900 tonnes, up 4% compared to the same period in 2019. This was mostly due to higher slaughter levels, although carcase weights were on average 1% heavier on the year. While production in all three months was higher year-on-year, March production was up by 8%, primarily due to a rise in slaughter.

Total prime cattle slaughter for the quarter totalled 517,100 head, up 4% on the same period last year. This was primarily driven by a 6% (12,400 head) rise in the number of heifers slaughtered, while steer slaughter was up by 3% (6,800 head). Total cow slaughter totalled 165,500 head, down 1% on the same period in 2019.

Trade

During Q1, the UK imported 61,800 tonnes of fresh and frozen beef, down 11% from 2019. Imports from Ireland, the UK's largest supplier, were down 10%. Shipments from the Netherlands and Germany also fell on the year, while slightly more beef was imported from Poland.

Exports of fresh and frozen beef during the quarter rose by just over 8% year-on-year to total 33,900 tonnes. The largest year-on-year increases in shipments were to the Netherlands, Japan and the Philippines, which offset lower shipments to Italy, Hong Kong, France and Ireland. However, the rise in export volumes during Q1 did not translate into a rise in value. Beef exports for the quarter totalled £103.7 million, 7% lower than the same period last year.



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

Domestic demand

Prior to the COVID-19 outbreak, total retail volumes of beef were tracking behind the previous year, down -1.1% (Kantar, 52 w/e 23rd Feb 2020). The year-on-year performance of burgers struggled compared with a strong summer season in 2018, while volumes of steaks and corned beef also faltered as they lost shoppers. Losses for steak also impacted the eating-out market, with overall beef volumes down -3.4% (MCA, YE Dec 2019)

However, beef has proven to be an important staple for consumers during the COVID-19 outbreak, with the greatest volume percentage increase out of all the proteins, at +22% (Kantar, 12 w/e 17 May 2020). The main driver of this was the rise in mince-based meals during lockdown, due to its versatility. The sunniest spring on record also helped kick off barbecue season early, boosting sales of beef burgers. The previously declining trend for steaks also reversed.

UK beef forecast

Breeding herd

We expect the breeding herd to contract by around 1.6% in 2020 compared to the year before. This is mostly due to a reduction in the dairy herd.

In April 2020, the GB breeding herd was 2% smaller year-on-year, a decline of 72,700 head. As the breeding herd continues to shrink, fewer heifers are needed to act as replacements, hence the elevated heifer slaughter so far in 2020. The UK dairy herd continues to play a significant role in prime beef and cow beef production. Like the suckler herd, the GB milking herd has been in a long-term period of decline. Economic uncertainty due to COVID-19 market disruption may have also further incentivised producers to slaughter unproductive cows, and is unlikely to incentivise beef producers to expand.

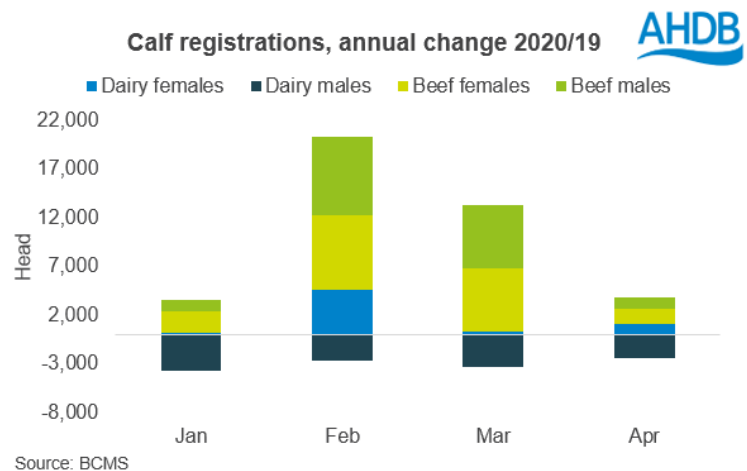
Interestingly, registrations of dairy females in the year to April have risen 4% on the same period in 2019, suggesting some stabilisation in the future milking herd. The use of sorted and beef semen in dairy inseminations has increased in recent years. As such, the number of beef calves out of dairy dams is increasing. During the first quarter of 2020, beef calves accounted for 45% of births to dairy dams, up from 44% in 2019. As such, the number of beef/dairy cross animals on the ground has increased.

Calf registrations

Overall, GB calf registrations so far this year have been slightly higher than last year. Between January-April (inclusive) calf registrations totalled 1.08 million head, up nearly 3% (29,300 head) on the same period in 2019. Favourable conditions last year and over winter will have helped support cow condition and fertility.

The number of calves for possible beef production registered over the same period has risen by 3% (23,100 head) on the year, with a rise in births of beef males and females outweighing a fall in dairy male births. This is a likely reflection of the increasing amount of beef semen used in dairy inseminations.

Looking ahead for the rest of 2020, calf registrations are expected to be lower overall due to the ongoing contraction in the breeding herd.



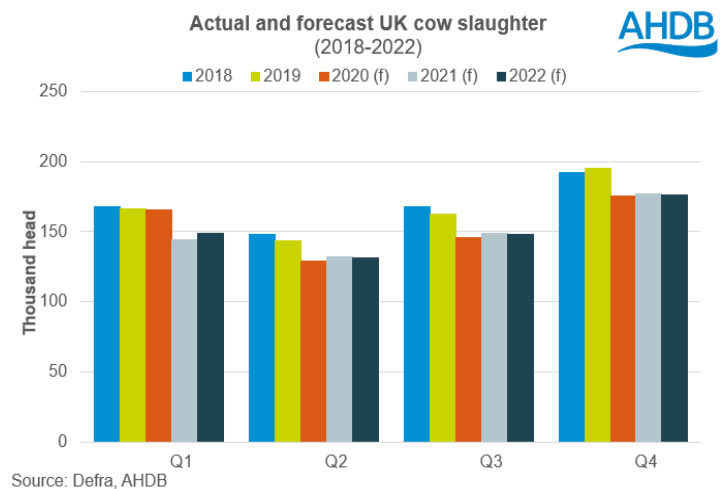
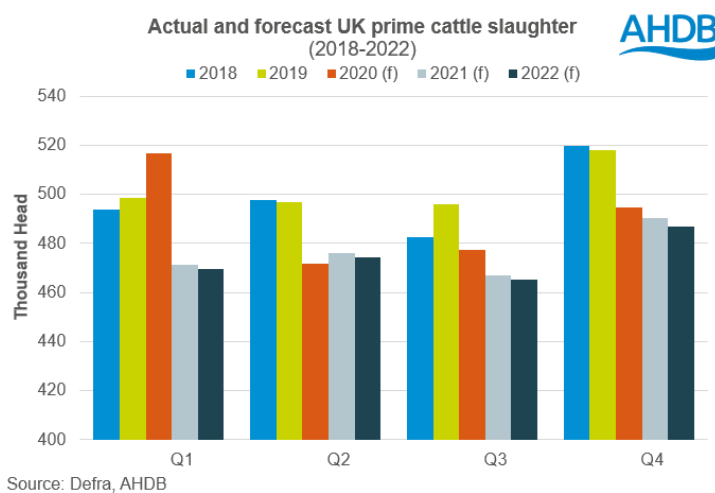
Slaughter

Prime slaughter in 2020 is expected to be lower than last year. Our latest forecast suggests that slaughter could fall by around 2% to 1.96 million head. Prime slaughter in 2019 totalled just under 2.01 million head, and beef production was 2% higher than forecast due to heavier weights.

The latest data from April shows that there were nearly 75,000 head (5%) fewer prime cattle aged between 12-30 months on the ground, compared to last year. This is likely due to the lower calf registrations seen in spring 2018. The number of calves aged 0-12 months is stable on the year.

Looking further forwards, the reduction in prime slaughter is expected to continue. Recent data suggests that the decline in the GB milking herd is slowing, suggesting that heifer replacement may begin to stabilise. With an increasing amount of beef coming from the dairy herd, fewer younger cattle will come forward for beef production if the breeding herd stabilises. As such, this will reduce the availability of prime cattle and therefore, production.

Cow slaughter in 2019 totalled 667,000 head, which was 8% higher than forecast. So far in 2020, cow slaughter has been below 2019, despite prices running above last year. It is likely that cow slaughter will fall away in the long term as contraction of the breeding herd slows.



Carcase weights

Carcase weights are expected to be lighter in 2020 overall compared to last year, as more forage and less grain is fed out. Forage stocks were well-supplied going into winter, and the mild winter weather supported animal condition, and so average weights were heavier than 2019 between January and April 2020. However, average weights have fallen in May, potentially due to dry spring weather restricting grass growth.

Longer term, carcase weights are expected to decline steadily. This is due to a combination of an increase in registrations of native bred cattle, and more beef coming from the dairy herd. These animals tend to have poorer conformation and less muscle than pure beef types.

Forecast supplies of beef and veal in the UK

000 tonnes	2018	2019	2020 Q1	2020 Q2(f)	2020 Q3(f)	2020 Q4(f)	2020(f)	2021(f)	2022(f)
Production	890	906	234	205	210	224	872	847	843
Imports	451	371	94	87	86	101	369	427	427
(fresh/frozen)	(361)	(310)	(77)	(74)	(70)	(84)	(306)	(355)	(355)
(processed)	(90)	(61)	(17)	(13)	(16)	(17)	(48)	(72)	(72)
Exports	147	174	43	38	45	45	171	171	171
Total consumption*	1194	1103	285	254	251	280	1070	1103	1099

*carcase weight equivalent, calculated from production, trade, and including changes in stocks

Totals may not sum due to rounding

Source: Defra, IHS Maritime and Trade - Global Trade Atlas®, HMRC, AHDB

Trade

UK beef exports are forecast to be lower than 2019 because of longer-term production declines. However, the fall is not expected to be as steep as previously forecast, due to an anticipated fall in domestic beef consumption caused by COVID-19. UK imports in 2020 are also expected to adjust to be slightly lower than 2019 for the same reason.

Trade has helped to balance the rise in beef production in the first four months of 2020. In the year to April, imports of fresh and frozen beef fell nearly 10% year-on-year, while exports rose by nearly 3%. Imports into the UK are strongly affected by Irish production. Irish prime slaughter is down just under 5% in the year to 15 June, around 30,000 head behind the same period in 2019.

Strikes in late 2019 and supply and demand disruptions due to COVID-19 response measures have affected Irish beef throughput particularly, due to the sector's reliance on exports for foodservice. Exports during the first four months of 2020 are down 7% year-on-year as a result. Irish throughput has begun to recover as COVID-19 lockdown measures are eased across the continent. Just how quickly production and exports recover may have some bearing on UK prices, if Irish supplies are plentiful and more competitively priced than UK beef.

Domestic demand

Domestic demand is forecast to be slightly lower in 2020, due to the severe restriction on foodservice markets and economic downturn caused by COVID-19. Retail demand for beef, especially mince, soared in the initial weeks of lockdown, as more people were cooking at home instead of eating out. Retail demand for primary beef has remained elevated throughout the lockdown period, with steaks and burgers helped by good weather and promotions. While retail demand has gone a good way to offsetting foodservice losses due to COVID-19, it is doubtful that foodservice outlets will be able to operate at pre-pandemic levels for some time, and so demand overall is likely to remain subdued for the rest of the year. Economic uncertainty may also lead to consumers tightening their budgets and spending less on meat as a result.

Price outlook

The key influencers on GB beef prices in the short term will be domestic demand and Irish supply. With domestic demand looking to remain subdued for the rest of 2020, and higher Irish supplies on the horizon, it is difficult to make a case for support to cattle prices in the next few months. Demand is expected to recover in 2021, based on an [optimistic COVID-19 outlook \(Scenario A\)](#), and so prices may benefit from that going forwards, coupled with tighter long-term cattle supplies.

Risks to the forecast

Several risks should be considered when interpreting the above forecasts. Perhaps the most immediate risk to markets is the ongoing management of COVID-19, and how lockdown measures are lifted in the UK and in key trading countries. **The current forecast assumes an optimistic scenario for COVID-19** ([more information on the demand scenarios can be found here](#)). However, if infections begin to rise again, social restriction measures may be prolonged, or worse still, the country may enter another lockdown period. This would have repercussions for domestic supply and demand, and international trade.

Lasting economic uncertainty caused by COVID-19 may also blur forecasts in the longer-term. Reduced incomes and lower consumer confidence could affect how and where beef is bought and consumed, which may pressure farmgate prices and trade.

The UK's departure from the EU is another key risk. **This forecast assumes continued access to the EU after 2020.** If this remains the case, trade will probably continue as it has been, with perhaps some increased logistical friction at border points. However, if a no-deal scenario arises, this could disrupt trade flows, at least in the short-term.