UK sheep outlook

July 2021

AHDB Market Intelligence — redmeat.mi@ahdb.org.uk

KEY POINTS

- Tight domestic supplies
- Exports to fall due to lower production and logistical challenges supplying the EU
- Imports to remain low
- Supported prices

Key 2021 Stats

steady **Breeding flock: 13.8m head**

steady **Lamb crop: 17.2m head**

-6% **Lamb slaughter: 12.3m head**

-15% **Ewe slaughter: 1.2m head**

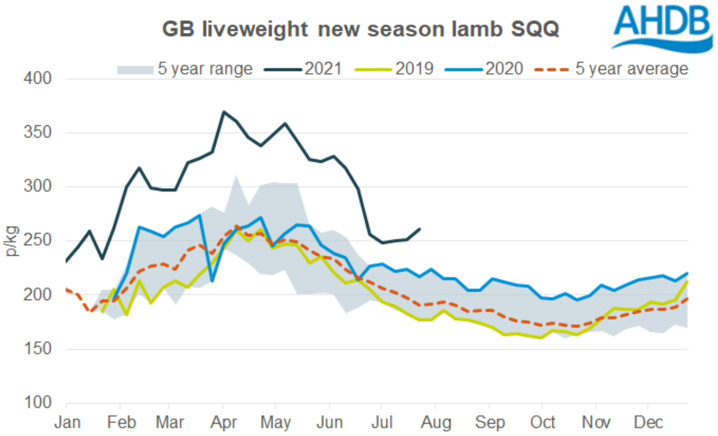
All figures are forecasts and subject to revision. Year-on-year changes are shown.

Contents

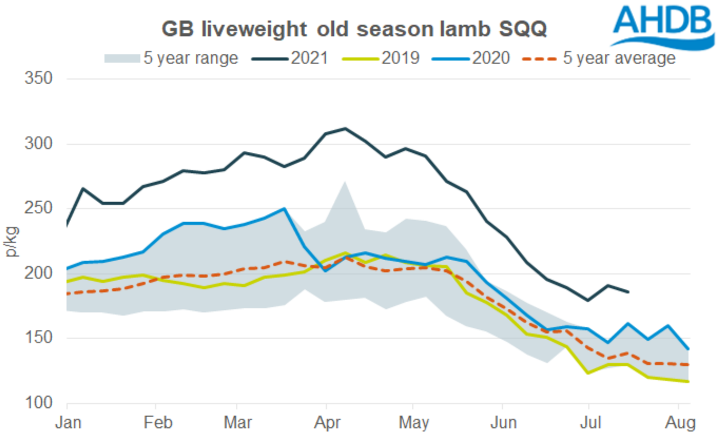
Current market situation

Prices

Finished lamb prices have continued to be strong through the first half of 2021, continuing the trend set in 2020. This spring, prices reached some record breaking highs, supported by lower production. Domestic demand has been strong with the demand from retail and takeaways helping to offset losses in the eating-out market.



Source: AHDB, LAA, IAAS

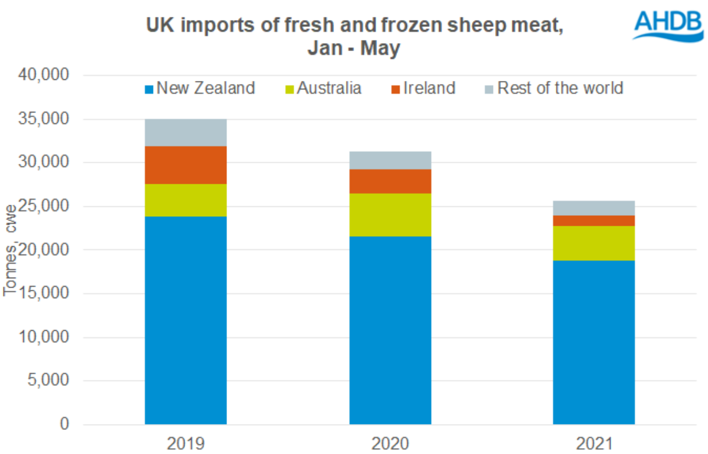


Source: AHDB, LAA, IAAS

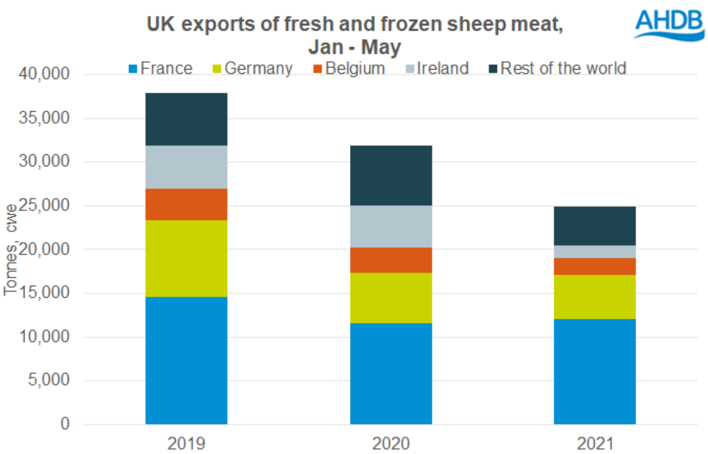
Trade

During the first five months of this year the UK imported 27,000 tonnes (carcase weight equivalent) of sheep meat (excluding offal), down 20% year-on-year, according to HMRC data. UK imports have long been under pressure, with volumes from New Zealand and Australia reducing in recent years. Imports from Ireland have more than halved.

UK exports of sheep meat decreased 23% on the year, to 25,000 tonnes (cwe, excluding offal). Additional trade friction between the UK and EU has put volumes under pressure. Demand on the continent is also reported to have reduced, whereas domestic demand has been relatively strong. UK export volumes are closely correlated to production volumes, and so the reduction in production will also have had an impact on export volumes.



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



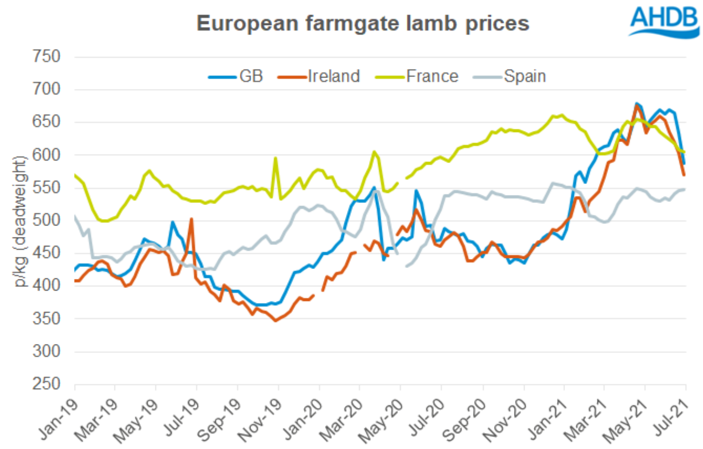
Source: IHS Maritime and Trade- Global Trade Atlas®, HMRC

Lamb Consumption

Over the past 12 months (52 w/e 13 June 2021) lamb has been the fastest growing meat protein (+11%) in volume terms, according to Kantar data. These retail gains, along with the takeaway and delivery boom, have compensated for eating-out losses in lamb. AHDB estimates lamb volumes in foodservice have grown 3% over the last year (AHDB estimates based on Kantar Out-of-Home, 52 w/e 13 June 2021).

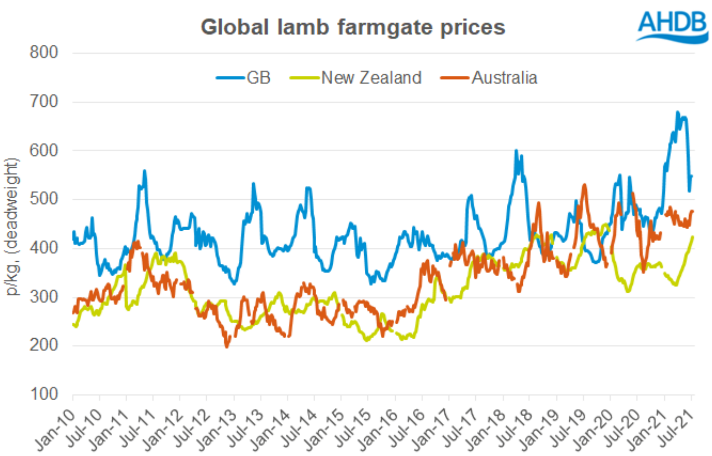
EU

Consumer demand in the EU is reported to have been dampened during the Covid-19 pandemic. Farmgate prices in Ireland and France have both been strong, recording similar trends to here in the UK through much of the year so far. As in the UK, prices in these markets have reduced in recent weeks. In the European Commission's latest outlook EU production was forecast to be steady this year with a noticeable decrease in import volumes. Consumption of sheep meat in the EU this year is forecast to fall by 1.2%.



Source: AHDB, European Commission

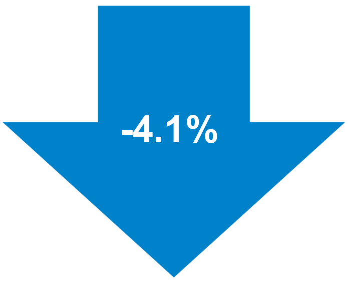
Global situation



Source: AHDB, MLA's NLRS, NZ AgriHQ

Farmgate prices in New Zealand and Australia have cooled slightly from their high levels of recent years, although by no means could they be described as low. Production and export availability remains tight in both countries as farmers look to rebuild their flocks following recent droughts.

New Zealand forecast sheep meat production



At 436,000 tonnes

Australian forecast sheep meat production

At 650,000 tonnes

Change is shown in year-on-year. Australian data is for the 2021 calendar year while the New Zealand forecast is for the 2020-21 production year (Oct-Sep)

Source: Beef and Lamb New Zealand, Meat and Livestock Australia

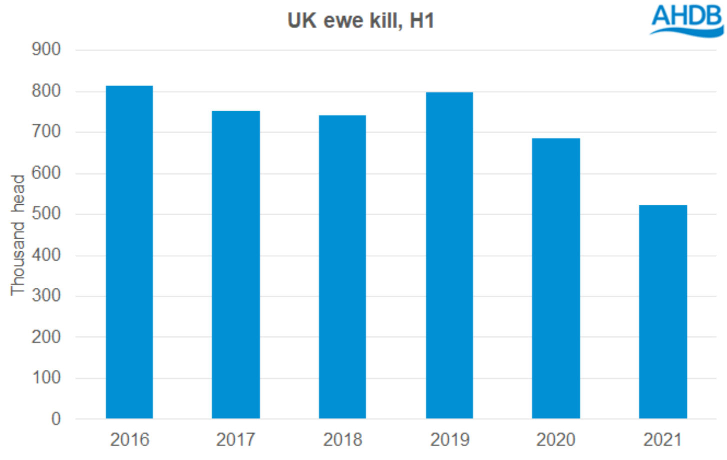
Outlook

Flock numbers

Breeding flock

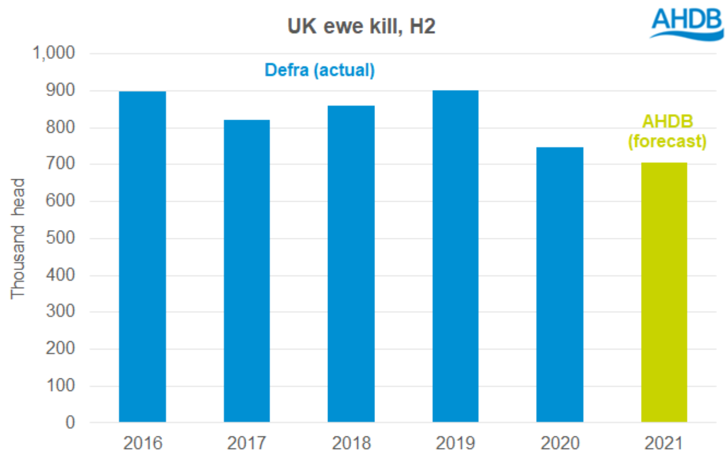
Unsurprisingly, the size of the ewe breeding flock has one of the biggest influences on our sheep meat production. It is also one of the factors which farmers have the most control over from one year to the next. Many other factors either take time to improve, such as ewe quality, or are outside of farmers' direct control, for example the weather.

Typically, the national breeding flock does not expand particularly quickly. Over the past fifteen years there have been only two occasions when the flock has increased by 2% or more year-on-year. The first was in 2011 and the second in 2014. A 1% movement in the national flock is equivalent to around 130,000 head.



Source: Defra

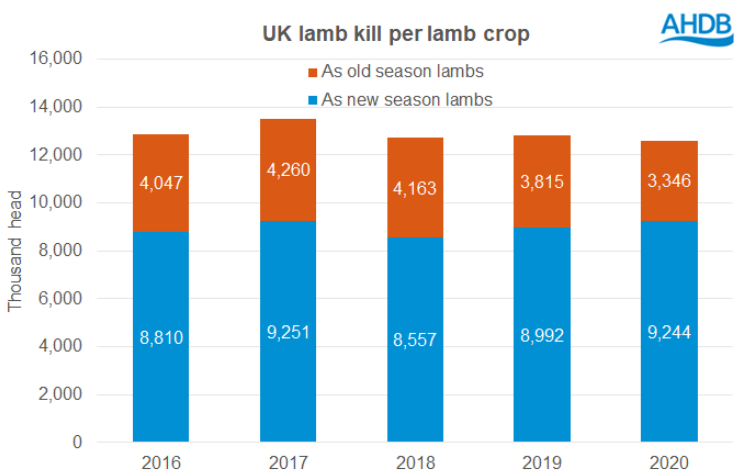
Over the past 18 months, the adult sheep kill has been low. In H1 of 2020 adult sheep kill was down 110,000 head year-on-year at 687,000 head. During H2 of 2020 UK adult sheep kill stood at only 750,000 head, according to Defra data, down 150,000 head on the year, and 120,000 head below the five year average.



Source: AHDB, Defra

Coming into 2021 breeding ewe numbers were stable at just under 14 million head. This was despite low ewe slaughterings during 2020, and no industry reports of higher than usual on-farm deaths. So far in 2021 ewe slaughterings have continued at low levels, at just over 500,000 head in H1 2021.

Coupled with the low ewe slaughter levels, total lamb slaughter has also been lower than we might have expected. From the 2020 lamb crop, 12.6 million lambs have come forwards. Initially, in part due to concerns around what the post-Brexit trade environment might look like, lambs were sent forwards at a rapid rate. Around 400,000 additional lambs, over and above what we would expect in a typical year, came forwards in 2020 from the 2020 lamb crop.



Source: AHDB/LAA/IAAS, Defra

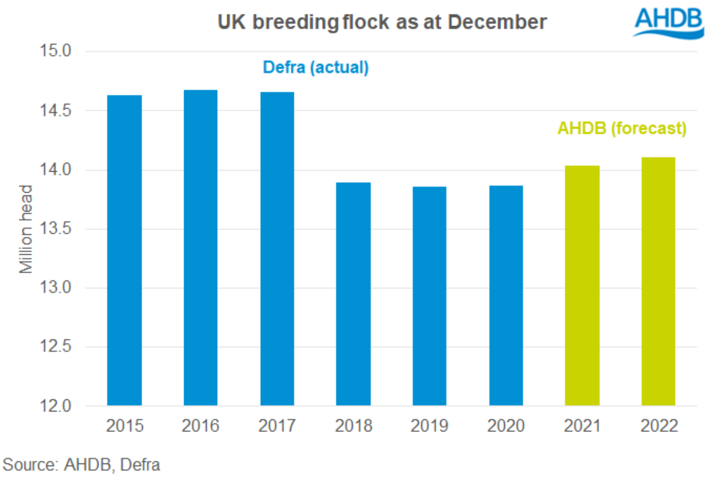
Looking at the carry-over from the 2020 lamb crop, we have seen the opposite trend recorded. At the start of 2021 (when we already knew about the 400,000 lambs slaughtered early), we were still expecting around 250,000 more old season lambs to come forward than actually did. In addition, live exports have reduced, which would have been expected to push slaughter numbers up further.

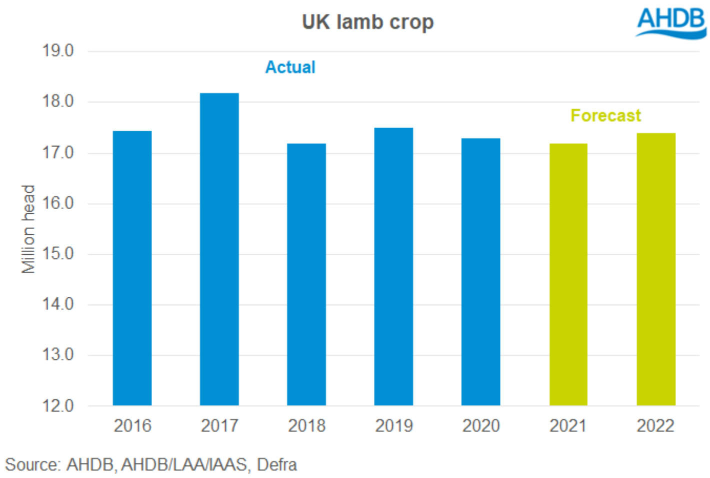
Add these factors together and it points towards a very large, unprecedented, increase in the size of the breeding flock. However, there are a number of reasons why this may not be the case.

We would have expected the lower ewe kill levels in 2020 to have had an impact on the size of the breeding flock recorded in December 2020. Also, there has been a divergence in trend between cull ewe throughputs at British auction markets and Defra's slaughter figures. Cull ewe market throughputs have not recorded the same reduction seen in Defra slaughter figures.

The lower slaughter numbers may justify a very large increase in the size of the breeding flock. But, it is probably better to be cautious, in that a movement of more than a couple of percent would be extreme. There is some small anecdotal evidence or flock expansion, driven by strong prices for the past few years and concerns about the future of subsidy payments. However, there do not appear to be widespread industry reports suggesting many farmers are vastly increasing their numbers of breeding ewes.

With all that in mind, we are forecasting a rise of just over 1% in the flock at December 2021.





Lamb crop

Reports have described lambing this spring as being a 'good average'. The lamb crop has been forecast to be at around 17.2 million head, similar in size to the crop in 2020. There have been no industry reports of wide spread disease or parasites, and conditions last autumn at tupping were reasonable.

Numbers available for kill

Lambs

The monthly lamb slaughter profile from the 2020 lamb crop reflected the uncertainty of future UK/EU trading relations with lambs coming forwards earlier than usual. For the 2021 lamb crop, the kill profile is expected to return to a more normal pattern. Therefore the lamb kill in H2 2021 is forecast to be 4% lower year-on-year, at 7.1 million head. To balance this, the kill is then forecast to record a year-on-year increase during H1 2022.

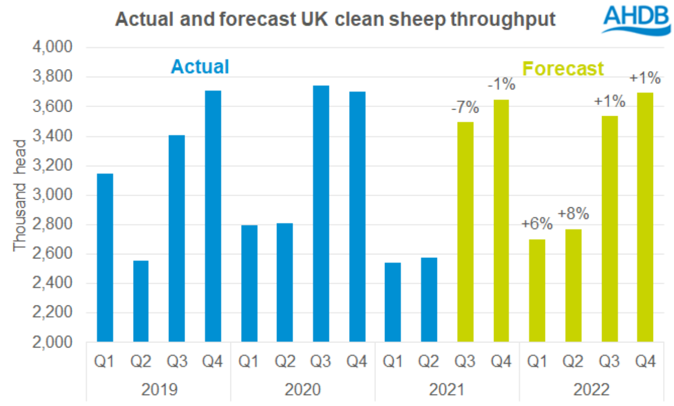
Adult sheep

The cull ewe kill recorded by Defra has been exceptionally low for the past 18 months, down 300,000 head in the 12 months ending June 2020 alone. Kill levels are forecast to be low for the remainder of this year, before returning to more typical levels in 2022. It would be reasonable to assume ewe kill has actually been higher than the data suggests.

Actual and forecast UK sheep slaughter

	Lambs			Adult sheep		
'000 head	2020	**2021**	**2022**	2020	**2021**	**2022**
Q1	2,797	2,543	**2,703**	379	270	**390**
Q2	2,811	2,574	**2,771**	308	252	**353**
Q3	3,745	**3,494**	**3,538**	403	**347**	**410**
Q4	3,705	**3,650**	**3,696**	344	**358**	**402**
Year	13,059	**12,262**	**12,709**	1,435	**1,227**	**1,554**

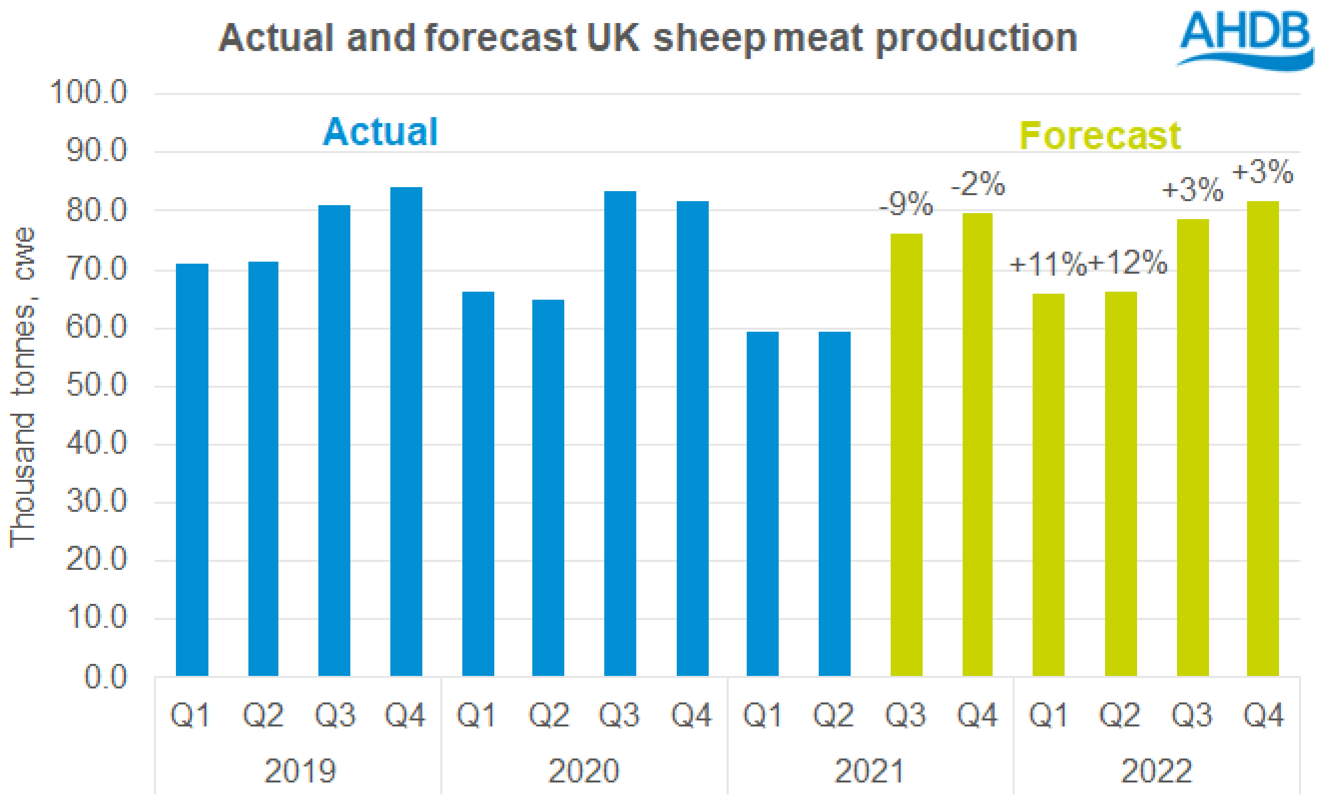
Source: Defra, AHDB. Figures in bold are forecasts



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

Production

Combining a fall in lamb slaughter with low adult sheep culling means UK sheep meat production is set to fall by about 7% this year to 274,000 tonnes.



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

Trade

Imports

Similar to the case for the past few years, UK imports are forecast to decline this year. Supply in Australia and New Zealand continues to be lower than historic levels, and with increased demand in Asia, supplies available for the UK and EU are likely to feel the squeeze.

Australia has begun rebuilding its national flock, but this will take some time. In New Zealand the current lamb crop is smaller, and alongside an increase in farmers retaining more ewe lambs, this means New Zealand production is forecast to decline.

Much of this tight supply situation will be mitigated through a dip in Chinese demand. Demand in China may fall slightly as Chinese domestic pork production recovers from African Swine Fever. Covid-19 restrictions are also expected to impact global foodservice for some time.

Global shipping costs remain high, and container availability is challenged. This will reduce the competitiveness of New Zealand lamb on the European market. Some reports suggest shipping costs could be as much as 500% above average. Imports are important in balancing demand in the UK, both in terms of cuts preferred by UK consumers, and the timing of supply.

UK imports are forecast to decline 13% this year, to 58,000 tonnes (cwe). Longer term we forecast volumes to stabilise reflecting the UK's continued need for imports to balance domestic production.

As the vast majority of UK imports come from New Zealand, we do not anticipate trade friction between the UK and the EU to have a lasting material impact on imported volumes.

Exports

Historically, export volumes have been closely correlated to domestic production trends. Declines in production limit export volumes, and that will be the case this year. In addition, so far this year there have been some logistical challenges due to the new regulations surrounding UK/EU trade. This has dampened UK export volumes so far in 2021. While we expect those logistical challenges to ease slightly as the year progresses, they are likely to continue for the coming months.

Recently, domestic demand has also been relatively strong compared to demand from our export markets, which has made exporting less attractive.

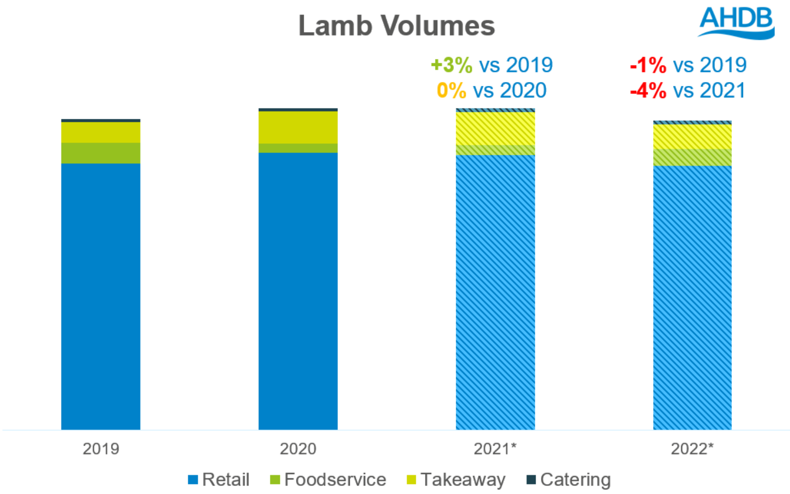
Domestic consumption

AHDB's consumer and retail insight team produce a demand forecast based upon the latest retail and eating out data. Within this forecast AHDB produces a "supplies available for consumption" figure which is based upon product available for consumption. Please note, these figures are in different units—product weight vs carcase weight equivalent.

Last year it is estimated that consumption of sheep meat in the UK was higher than in 2019. However, there was a decline in imports, and Defra reported that production also fell, driven by the reduction in ewe slaughter. Exports fell too, but not by enough to offset this. If we increase the ewe kill above recorded levels (as mentioned above, to reflect trends recorded in auction market data), then we can more closely match "supplies available for consumption" (production plus imports minus exports) to the trend recorded in estimated demand.

In 2021, UK estimated sheep meat consumption is forecast to be similar to that in 2020 and above pre-pandemic levels. Forecast production levels for this year include a continued lower ewe kill. If the ewe kill was at a more typical level, then a similar trend could be recorded between estimated demand and supplies available for consumption.

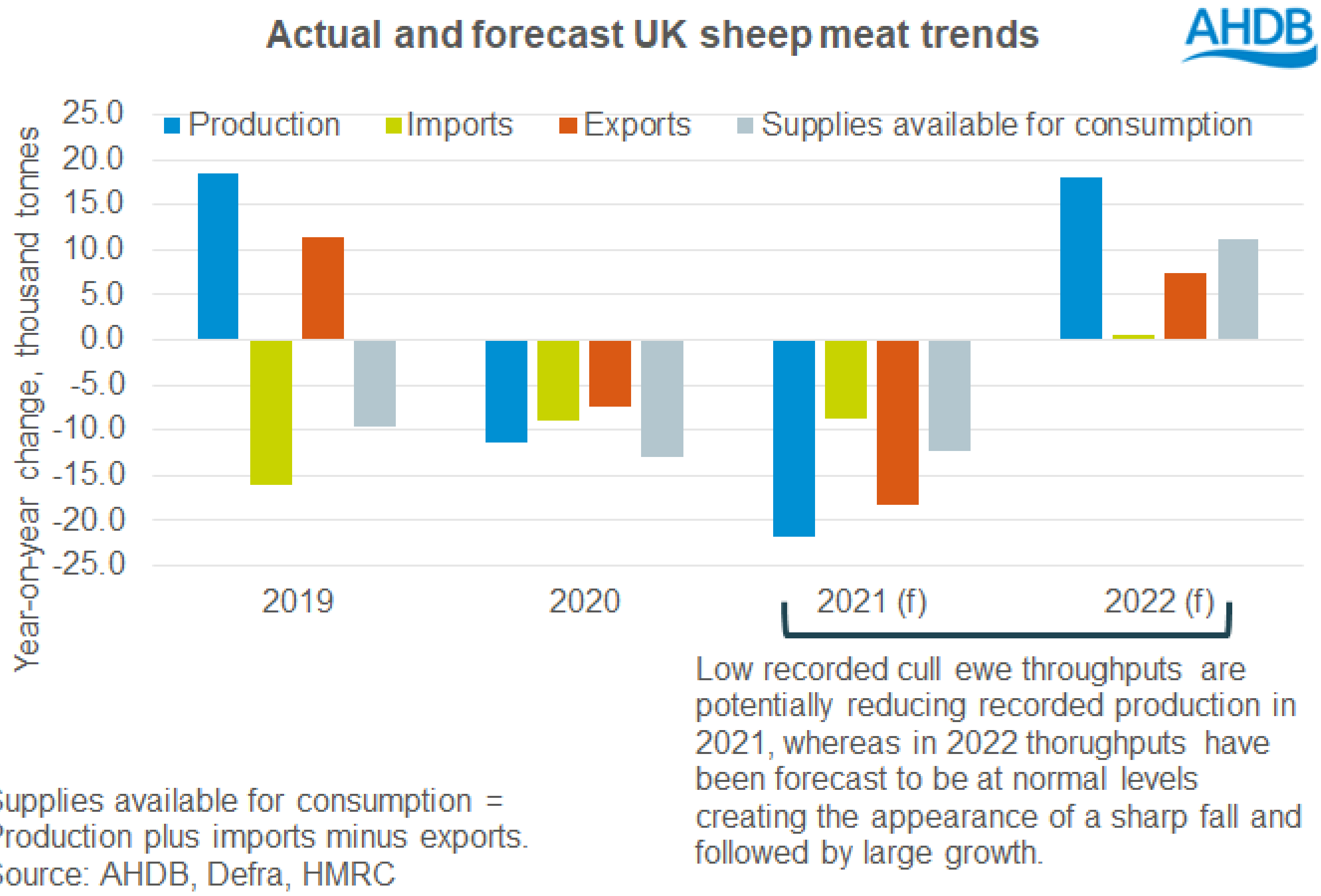
As discussed earlier in this forecast, there are reasons to suggest why the ewe kill may be higher than officially recorded. However, another way to balance the domestic market would be for exports to decline or imports to increase. Unfortunately, forecasting trade to record the volumes needed to balance the market that way, would be inconsistent with the other known information.



*AHDB estimate
Source: AHDB

Increasing imports would mean prices in the UK would need to attract product away from China, while supplies in New Zealand and Australia tighten. Shipping container space is currently constricted and shipping costs are high, so we believe this may be unlikely. Export volumes could drop, but due to carcase balance needs this seems unlikely to be able to drop enough to deliver the additional product. It all points us back towards the low ewe kill figure.

In this forecast ewe kill levels in 2022 have been put at normal levels – which is why there seems to be a large increase in supplies available for consumption in that year. Estimated demand next year is forecast to be down just below pre-Covid-19 levels.



Supplies available for consumption = Production plus imports minus exports.
Source: AHDB, Defra, HMRC

Price impact

Prices are have been strong for some considerable time and although there are signs that global prices are decreasing, high shipping costs and tight domestic supply may buffer the UK market. Just how supported domestic prices can be, will largely depend upon the domestic supply of both lambs and adult sheep for slaughter.

It may not be too optimistic to envisage prices similar to 2020 through the remainder of 2021, although going into 2022 prices may face downward pressure again, as domestic consumer demand returns to pre-pandemic trends.

Summary table

Actual and forecast supplies of sheep meat in the UK

000 tonnes (cwe)	2019	2020					2021					2022	2023
	Year	Q1	Q2	Q3	Q4	Year	Q1	**Q2**	**Q3**	**Q4**	**Year**	**Year**	**Year**
Production	308	66	65	83	82	296	60	60	**76**	**80**	**274**	**292**	**294**
Imports	76	19	20	13	15	67	17	**16**	**13**	**13**	**58**	**59**	**60**
Exports	99	19	21	25	26	91	15	**15**	**21**	**22**	**73**	**81**	**85**
Available for consumption	285	66	64	72	70	272	61	**60**	**68**	**71**	**260**	**271**	**268**

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.