UK beef outlook

December 2019

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Summary

- Breeding herd expected to shrink, albeit at a slower rate
- Imports may recover slightly. Irish production and prices will be key.
- Lower exports due to expected fall in production
- Forecast assumes access to EU market after January 2020

Key 2020 Stats

- -3% Prime slaughter 1.96 million head
- -4% Total beef production 869,100 tonnes
- 5% Imports 385,000 tonnes (cwe)
- -9% Exports 152,000 tonnes (cwe)

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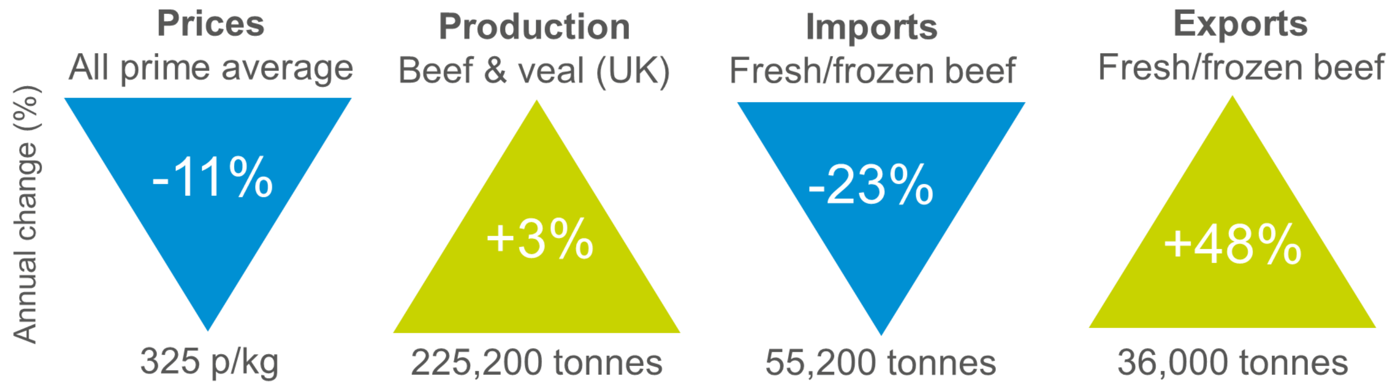
Current market situation

Quarter 3 highlights

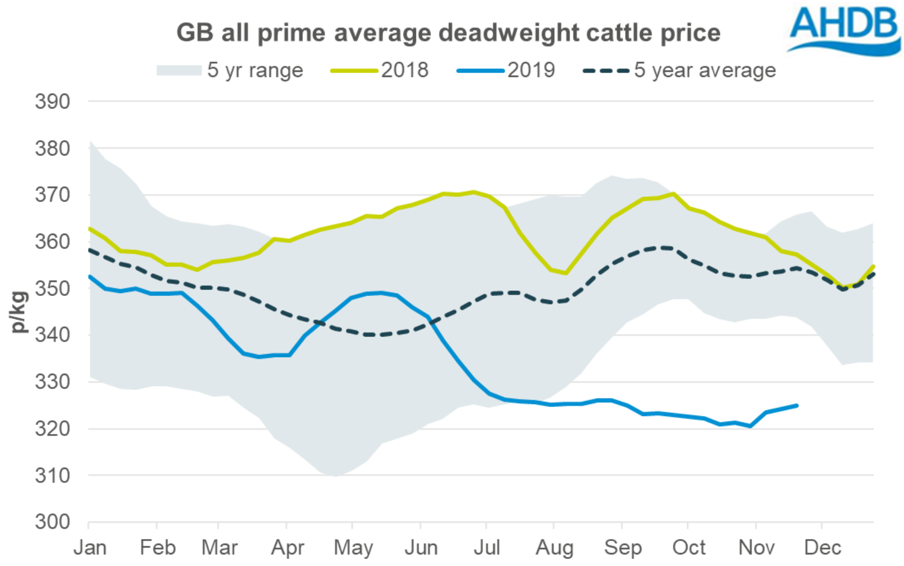


Source: AHDB, Defra, IHS Maritime & Trade-Global Trade Atlas®, HMRC

Prices

Cattle prices in Q3 continued to fall, albeit at a slower rate than seen in the second quarter. Although there was some stability in prices in August, prices on average ended the quarter 4.6p/kg lower than at the start. This has been caused by a combination of factors.

There have been some positive movements in prices in the last couple of weeks, particularly for cattle meeting specifications. However, it is too early to tell if this is a longer-term change in direction.



Source: AHDB

Production/slaughter

Beef and veal production during the third quarter this year totalled 225,200 tonnes, up 3% compared to the same time last year. In July, production was limited by both fewer prime and adult throughputs compared to last year. Production in August was 3% higher than the previous year, boosted by heavier carcase weights. Meanwhile September's production was up by 9% compared to last year, bolstered by higher throughputs of both prime steers and heifers.

Total prime cattle slaughter for the quarter totalled 495,900 head, up 3% on the year. This was driven predominantly by a rise in the number of prime heifers (+5%) and steers (+2%) coming forwards.

Trade

During the third quarter of this year, the UK imported 55,200 tonnes of fresh and frozen beef, 23% less than the same period last year. Imports from Ireland, the UK's largest source of imported beef, fell by 16% compared to last year. Shipments from Germany, Poland and the Netherlands were also lower than last year.

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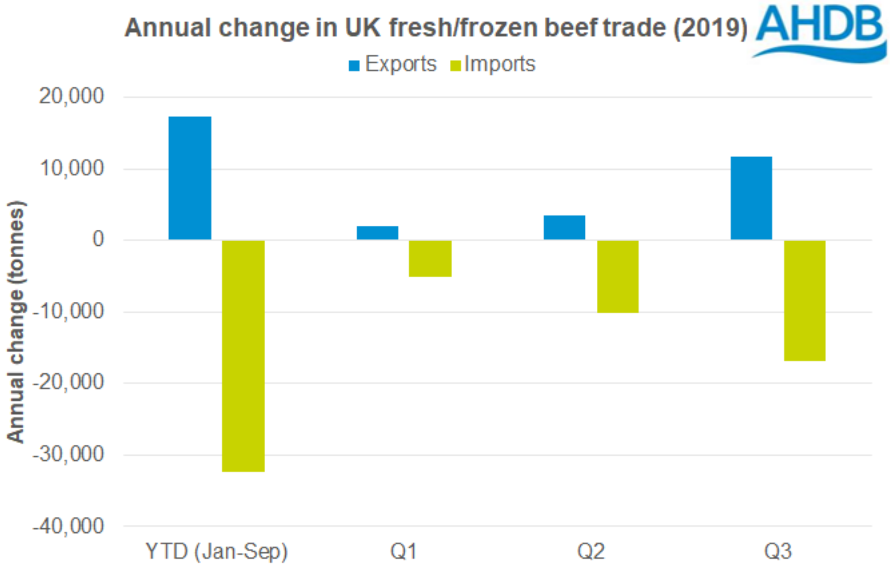

Source: IHS Maritime & Trade-Global Trade Atlas®, HMRC

Over the same period, the UK exported 36,000 tonnes of fresh and frozen beef. This is 48% more than the same period last year. Shipments increased to all major destinations, including Ireland (+45%), France (+35%) and the Netherlands (53%). However, while exports have surged in volume terms, there has not been the same uplift in terms of value. During the third quarter, exports of fresh and frozen beef totalled £120.5 million, only 16% more than last year.

Domestic demand for beef has remained subdued, both at a retail and foodservice level. According to Kantar, in the 52 weeks ending 3 November, GB retail consumers spent £2.17 billion on beef, down 2% year-on-year. Volumes meanwhile were down 1% on the year, at nearly 280,000 tonnes.

Forecast supplies of beef and veal in the UK

000 tonnes		2018	2019(f)	2020(f)	2021(f)	2022(f)
Production		890	904	869	851	843
Imports		451	367	385	385	385
	(fresh/frozen)	(361)	(310)	(326)	(326)	(326)
	(processed)	(90)	(57)	(60)	(60)	(60)
Exports		147	167	152	138	138
Total consumption*		1193	1104	1102	1098	1090

*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

UK beef forecast

Breeding herd

In October 2019, the breeding herd recorded a decline of 2% (60,000 head) compared to the same point in the previous year. With the herd in decline, fewer heifers are required to act as replacements. As such, this has allowed heifer slaughter to remain elevated throughout this year.

The decline in the breeding herd is expected to continue next year. We expect a drop in the region of 1.7%. This is mostly from a decline in the suckler herd, as a prolonged period of low beef prices have provide little incentive to expand herds.

The UK dairy herd continues to play a significant role in prime beef and cow beef registration. As with the suckler herd, the GB milking herd has also been in a period of decline. Interestingly, registrations of dairy females in the year to September were almost identical as the same period in the previous

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year. This could indicate some stability in the future milking herd.

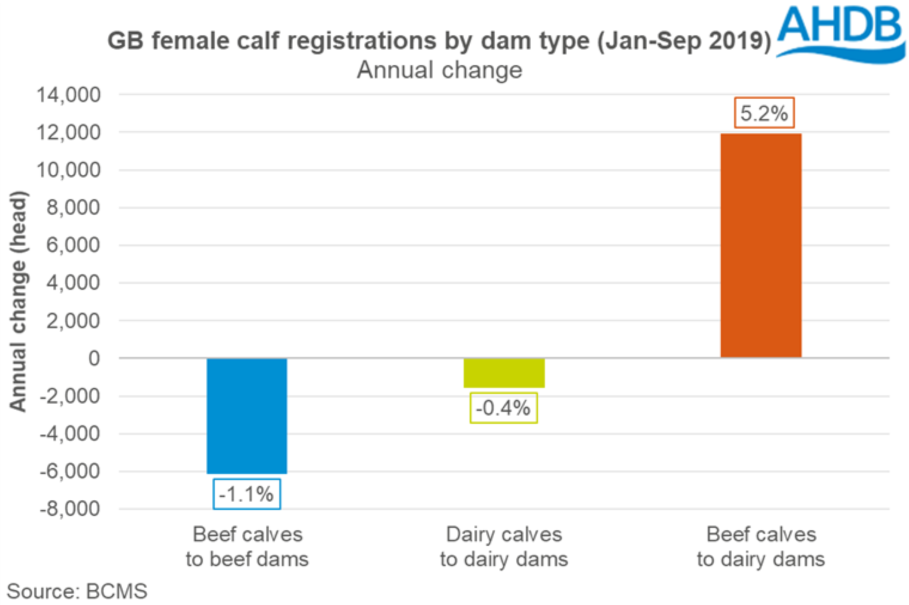
The use of sorted and beef semen in dairy inseminations has increased in recent years. As such, the number of beef calves out of dairy dams has been increasing. In the year-to-September, beef calves account for 45% of births to dairy dams, up from 36% in 2015. As such, the number of beef/dairy cross animals on the ground has increased.

It is likely that these beef/dairy cross animals will be more suited for beef production rather than as replacements. In particular, offspring from the high yielding dairy breeds are likely to be too 'milky' to be suited as replacements. In the longer term, this could put further pressure on the beef suckler herd.

Calf registrations

Overall, GB calf registrations so far this year have been marginally down on last year. In the year to September, 2.16 million cattle were registered, 0.4% (8,000 head) less than during the same period last year.

Cows have generally been in good condition this year, which will have supported fertility rates. Furthermore, the relatively mild winter and spring meant that mortality was lower than last year.



There has been an increase in the number of beef animals registered this year. This is a likely reflection of the increased usage of beef semen in dairy inseminations. In the year to September, 1% (14,400 head) more beef cattle were registered than last year, with the majority of the uplift from the third quarter alone.

Looking ahead to 2020, calf registrations are likely to be slightly lower again, due to the shrinking breeding population.

Although this year so far has been relatively stable in terms of the number of youngstock born, the majority of the uplift has been from beef calves from dairy dams. As such, these may not necessarily act as replacements in the suckler herds. Therefore, this may not translate into the stabilisation of the breeding herd.

Slaughter

Prime slaughter in 2019 is expected to be slightly higher than last year. Our latest forecast suggests that slaughter could reach 2.01 million head, 1% (19,700 head) more than in the previous year.

The latest data from October shows that there are 46,800 (-2.3%) fewer prime cattle aged between 12 and 30 months, compared to last year. This is likely a result of the drop off in cattle registrations in 2018. Additionally, the number of younger cattle (under 12 months) is also down by 1% on the year.

Therefore, supply is expected to be shorter in 2020, particularly in the first half of the year. We

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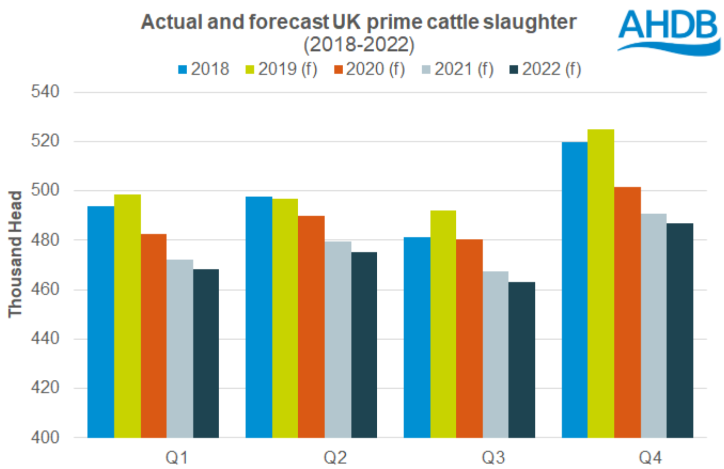
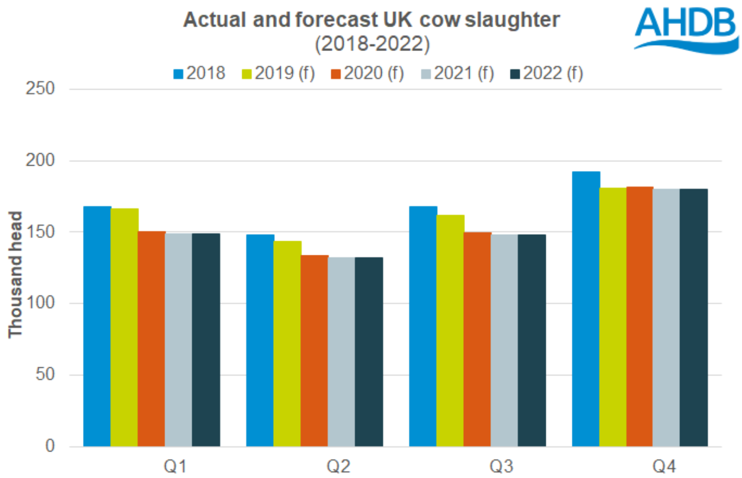
forecast that in 2020, prime slaughter will total around 1.96 million head, 2.7% (58,000 head) less than we expect to see this year.

Looking further forwards, the reduction in prime slaughter is expected to continue. Recent data suggest that the decline in the GB milking herd is slowing. With an increasing amount of beef coming from the dairy herd, fewer younger cattle will come through if the breeding herd stabilises. As such, this will reduce the availability of prime animals and therefore production.

Cow slaughter this year has been lower than last year. This is not surprising as cow slaughterings have been particularly high over the last couple of years. Cow prices for the majority of this year have lower than previous years and so culling cows is not as attractive. Cow slaughter is likely to stabilise going forward as contraction of the breeding herd slows.



Source: Defra, AHDB



Source: Defra, AHDB

Carcase weights

Carcase weights this year have been consistently heavier than last year, particularly though the summer months. Cattle were in good condition when been turned out, following concentrate feeding through last winter. Good weather in spring and summer supported good grass growth, which is likely why carcase weights were particularly high during this period.

Going forwards, carcase weights are expected to be slightly lower next year. With ample supplies of silage in stores, diets are likely to return to a more forage based system over the winter period, in contrast to last year. Therefore, it is unlikely this shift back will be able to attain the same growth as last year, when many producers used concentrate feeds to compensate for a lack of forage.

Overall, we expect that the combination of lower slaughter and lighter carcases will reduce production by around 4% in 2020.

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 tend to have poorer conformation and less muscle.

Trade

Trade helped to balance the UK market this year. As a response to the poorer prices, imports of fresh/frozen been have fallen by nearly a quarter, while exports have increased by almost 50%.

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Imports into the UK are strongly affected by Irish production. In the first half of the year, Irish production was up by 6% on the year, which pressured domestic prices.

However more recently, Irish production has stalled due to protests at the end of August. In the third quarter, throughputs were down by nearly 20% on the year. This has had the overall effect on the year of reducing throughputs by 3%, despite numbers in the first half of the year being up by 5%. It has been widely reported that there is now a large backlog of cattle to work through. This is likely to take some time given the slaughter capacity reportedly available. Additionally, processors are likely prioritising in-spec cattle, rather than catching up on the 'backlog'. Therefore, we could see more heavier, out of-spec cattle processed over the coming months, which could add to supplies in the short-term.

In the longer term, Irish production is likely to tighten. Calf exports have been increasing over the last couple of years, with exports up by nearly a quarter in the year-to-September. This will likely reduce the availability of animals to finish. Furthermore, there is a longer-term shift from beef to dairy cows, which is also likely to mean lighter carcase weights and potentially poorer conformation.

Despite this, UK imports are expected to show some recovery (5%) in 2020, in light of the expected decline in domestic production. After performing strongly in 2019, export volumes are expected to fall by around 9%, again due to a reduction in supplies.

A key risk to this forecast is domestic demand. Beef demand has been subdued for much of this year, both in and out of the home. Though there has been some stabilisation over the past few months, unless demand picks up, exports will play an increasingly important role in setting domestic beef prices.

China in focus: what are the opportunities?

Since the outbreak of African Swine Fever in China in autumn 2018, the nation's reliance on imported protein sources has increased significantly. This surge in demand has rippled through markets at a global level.

Beef has been able to benefit somewhat from the increase demand for protein from China. Chinese imports of beef (including offal and processed products) increased by 54% on the year to 1.3 million tonnes in the year-to-October. The major beef producing regions in South America, as well as Australia and New Zealand have been the main suppliers of beef to China, as such any benefit in prices have been pretty isolated to these nations.

The UK is likely to begin to benefit from the demand in the near future. In October, the UK and China finalised the details to the market access agreement. This will enable a selection of UK processors to export beef to the nation. While this is a significant breakthrough, it is unlikely that the UK will be able to become one of the major suppliers of beef to the nation. As such, the impact on prices may be limited.

The Chinese government is prioritising recovery in domestic pork production. Industry sentiment is that the Chinese pig herd will have made significant progress by 2025. As such, the uplift in demand is unlikely to provide benefits in the long-term.

Nevertheless, Chinese beef consumption in China is expected to grow. By 2027, consumption is expected to reach 4.7 Kg cw per capita, up from 3.9 Kg cw in 2017. This is driven by urbanisation and the growing middle class.

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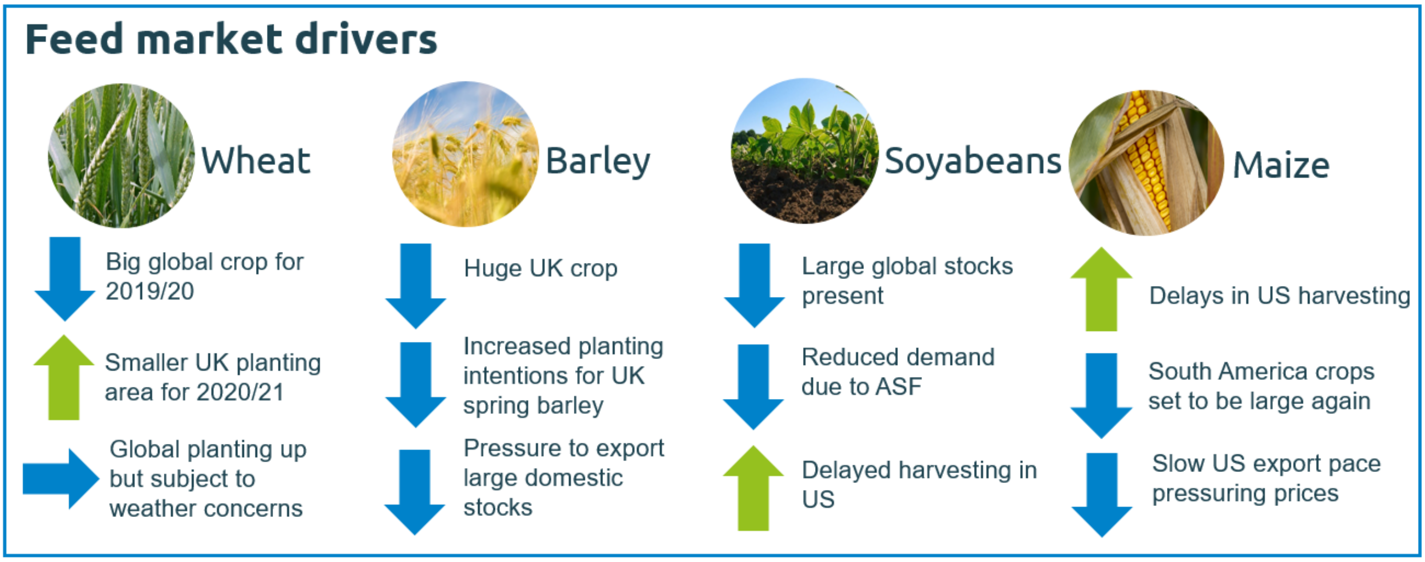
Input costs overview

The Defra agricultural price index has shown signs of decline for both inputs and outputs in recent months, this is following on from a particularly high period in 2018. So far in 2019, on-farm feed, fertiliser and fuel costs have remained relatively in line with 2018 levels, whilst some other input costs such as labour, machinery and veterinary services have shown more signs of growth.

Feed market



More information on the feed outlook can be in the Farm Inputs Overview, which also discusses **labour costs, fertiliser prices and a weather outlook.**

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