

UK Beef Market Outlook



January 2021

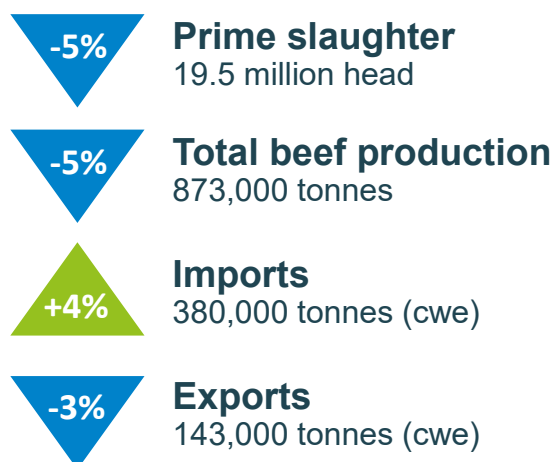
AHDB Market Intelligence - redmeat.mi@ahdb.org.uk



Summary

- Continued contraction expected in both dairy and suckler breeding herds.
- Lower forecast beef production, driven by tighter cattle numbers.
- Domestic consumption expected to fall back from 2020 to be in line with 2019 levels, due to lower retail sales. Some recovery in foodservice demand expected, but not to pre-pandemic levels.
- Imports expected to show some recovery, linked to lower production and growing foodservice demand.
- Exports forecast to contract somewhat, due to lower domestic production, initial trade friction at border points due to new trading rules and slow foodservice recovery abroad.

Key 2021 outlook stats



Figures are forecasts and subject to revision

Contents

| | |
|--------------------------------|---|
| Current market situation | 2 |
| UK beef forecast..... | 3 |
| Breeding herd | 3 |
| Calf registrations..... | 4 |
| Cattle slaughter..... | 4 |
| Carcase weights | 5 |
| Beef production..... | 5 |
| Domestic demand..... | 5 |
| Trade | 5 |
| Price outlook..... | 6 |
| Risks to the forecast | 6 |

Current market situation

2020 highlights

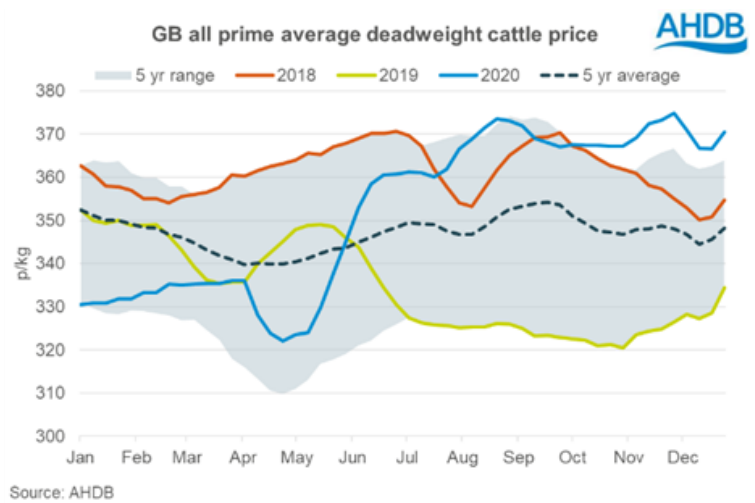
| | Prices (Jan-Dec) All-prime average (GB) | Production (Jan-Dec) Beef & veal (UK) | Imports (Jan-Nov) Fresh & frozen beef | Exports (Jan-Nov) Fresh & frozen beef |
|---------------|--|--|--|--|
| Annual change | +5% | +2% | -3% | -16% |
| | 352.2p/kg | 931,200 tonnes | 219,400 tonnes (swt) | 105,700 tonnes (swt) |

SWT: Shipped weight

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

Prices

GB cattle prices rose steadily during the first few months of 2020, before experiencing a period of fluctuation as markets reacted to the first national COVID-19 lockdown. A combination of foodservice closures and consumers' panic-buying cheaper cuts led to carcase value imbalance and a drop in prices. As the market adjusted, weather improved and retailers promoted more expensive cuts like steak, cattle prices rallied through the summer months and remained elevated for the rest of the year. Tighter domestic cattle supplies and lower imports also helped. Demand moving into retail, and retailers sourcing more British cattle in particular have both been supportive of domestic prices.



Between the middle of April and the last week of November, the all-prime average weekly deadweight cattle price had risen by 16% from a low of 322.1p/kg to a peak of 374.8p/kg.

Production & slaughter

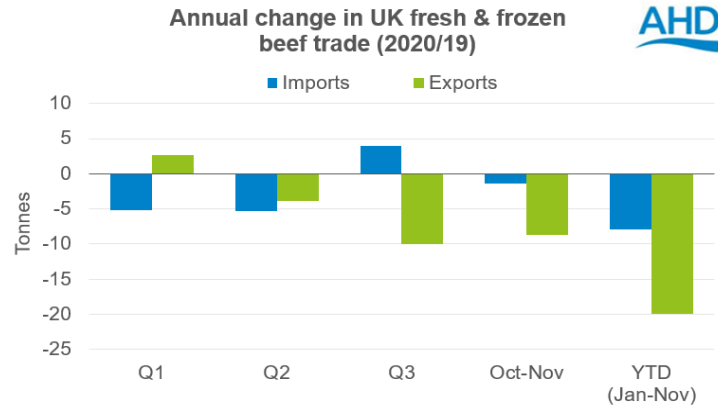
UK beef production during 2020 totalled 931,200 tonnes, up 2% on 2019. This was largely due to a rise in cattle slaughter, unexpected at the beginning of the year, with average prime carcase weights relatively unchanged from the year before. The strong demand for domestic beef and resultant high prices, encouraged animals forward earlier than we had predicted pre-COVID.

Total prime cattle slaughter reached 2,049,200 head for the full year, also up 2% on 2019. This was primarily due to a 4% rise in the number of heifers slaughtered, while steer slaughter rose by 1% year-on-year. Total cow slaughter reached 674,700 head, up 1% on the year before.

Trade

During the first eleven months of 2020, the UK imported 219,400 tonnes of fresh and frozen beef, 3% less than the same period in 2019. Imports from Ireland were steady on the year for the same period; the majority of the decline was due to lower shipments from the Netherlands and South America.

Over the same period, the UK exported 105,700 tonnes of fresh and frozen beef, down 16% (20,000 tonnes) year-on-year. Shipments to the EU declined by 23%, with the majority of the decline in volumes to the Netherlands. Shipments to other EU countries also declined, including Ireland, France and Italy. Exports to non-EU countries rose by 16%, with notable growth in shipments to Japan and Canada.



Domestic demand

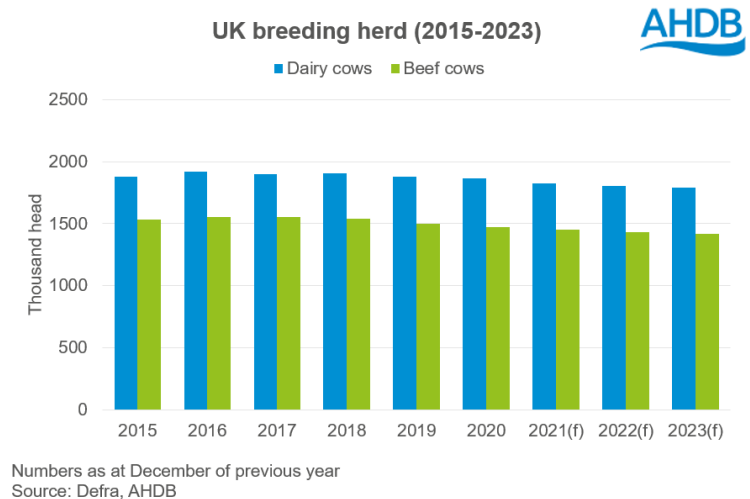
Beef has proven to be an important staple for consumers at home during the COVID-19 outbreak, with the greatest volume increase in retail of all the proteins, at +11% (Kantar, 52 w/e 27th Dec 2020). For beef, the largest actual growth in retail volumes was around mince, burgers and steak. These cuts proved popular during a large part of 2020, with mince-based meals offering good versatility to consumers. The sunniest spring on record also helped kick off barbecue season early, boosting sales of beef burgers. This also helped reverse the trend of declining steak consumption in-home.

There were of course extraordinarily difficult out-of-home eating conditions during 2020, notably for steaks, considering their popularity when eating out. We estimate the eating-out market in 2020 for beef saw volume declines of -56% due to COVID-19 restrictions. In-home meals rose significantly during 2020, and consumers took advantage of more convenient options such as delivery and takeaway. However, closures of fast food chains at the start of lockdown resulted in a contraction of the market for beef during spring 2020. Despite this, we estimate overall beef delivery and takeaway volumes rose by +28% in 2020. The biggest contributors to this were burgers and beef-based Chinese dishes (Kantar Out-of-Home, 40 w/e 4th Oct 2020).

UK beef forecast

Breeding herd

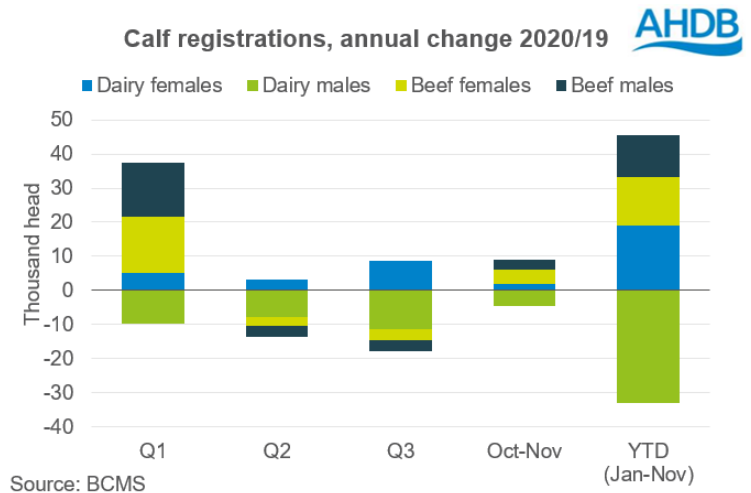
Data from Defra shows that both the UK dairy and suckler breeding herds were 1% smaller year-on-year at 1 June 2020. We expect both herds to contract by a further 1% in 2021, following long-term trends. There are several underpinning factors behind this. Reduction in farm support payments, important for both herds, but is likely to be a key influence on the future of the suckler herd in particular. In addition, prime heifer slaughter was elevated in 2020, suggesting that fewer replacements will be available to support numbers, even after increased use of beef semen in the dairy herd. For the dairy herd, contraction is likely to be driven also by continued improvements in milk yield.



Registrations of dairy females between Jan-Nov 2020 rose 4% year-on-year, the first rise for several years. This suggests some future stabilisation in the dairy herd. The dairy herd continues to play a significant role in prime beef production, a role that will increase going forward, as changes to dairy bull calf management are implemented.

Calf registrations

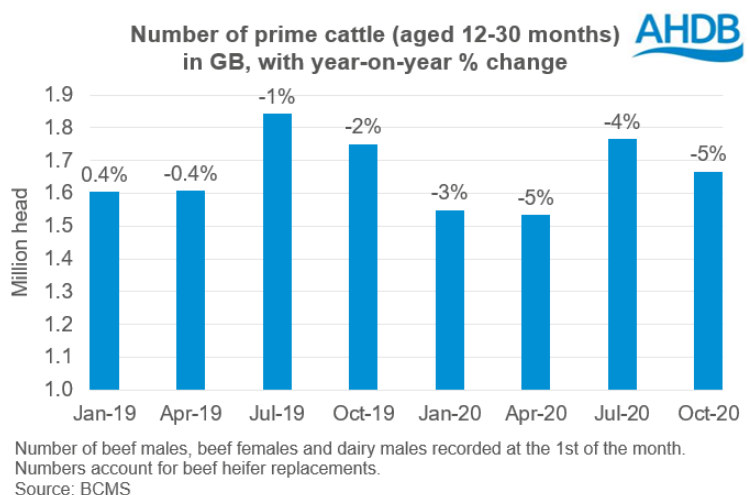
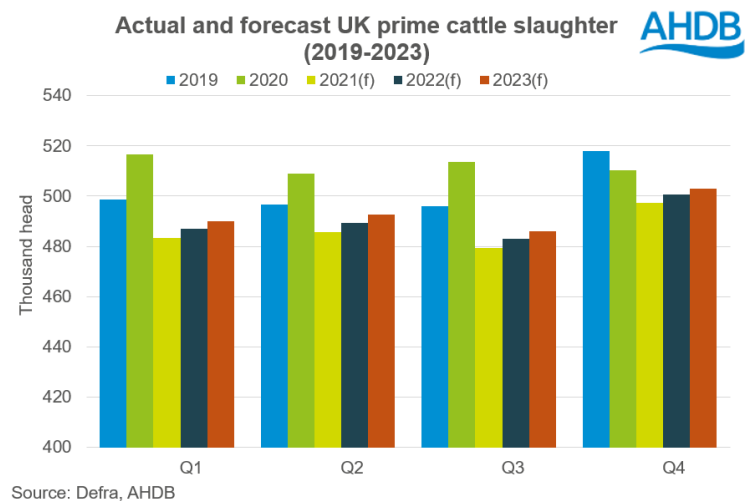
Despite the ongoing contraction in the breeding herd, annual registrations of beef calves have been increasing for several years. This trend continued during the first 10 months of 2020, with registrations up 1.3% on the same period in 2019. Higher registrations of beef calves, alongside higher registrations of dairy females, came at the expense of dairy males. This is a reflection of the increasing use of beef semen among dairy producers, as well as general improvements in productivity. Registrations of dairy males are expected to keep declining, as trends in sexed and beef semen use continue.



Cattle slaughter

Prime cattle slaughter is expected to fall by 5% year-on-year in 2021 to 1.95 million head, driven largely by tighter cattle availability. Defra figures show that there were fewer animals in the UK aged from 12-24 months at 1 June 2020, as well as fewer animals aged 24 months and over. This agrees with more recent figures for GB from the British Cattle Movement Service from 1 October, which show a year-on-year contraction in animals aged 12-30 months.

Looking at BCMS population data, it is evident that prime cattle supplies have been tighter for some time. This was a key factor in our forecast last year, in which we expected that 2020 prime cattle slaughter would fall by 2% year-on-year. Despite the continued lower cattle availability, prime slaughter finished the year 2% above the year before. We believe several factors were behind this. Stronger prices caused by the rise in beef sales via retail (see the *Prices* section on page 2) likely drew more cattle forward. The EU-exit deadline at the end of 2020 may have also prompted producers to sell more cattle. Demand from retailers, where British beef does relatively well, was also much higher than expected before COVID-19 struck, replacing foodservice demand significantly.



Elevated prime slaughter in 2020, coupled with a continued tightness in prime cattle supplies, point to a decline in slaughter availability in 2021. We also expect that cow slaughter will ease, having been elevated during 2018-2020.

Carcase weights

An average of overall prime cattle carcase weights for the first eleven months of 2020 showed virtually no change from 2019. On average, steers were 1.5kg (0.4%) lighter, while heifers (+2.4kg) and young bulls (+2.5kg) were 0.7% heavier. Cattle were generally lighter through the summer months, potentially linked to the strong rally in prices over that time.

Longer term, carcase weights have been declining steadily, a trend that we expect to continue in 2021. This is due to a combination of an increase in registrations of native-bred cattle, and more beef coming from the dairy herd. Continued higher prices may also encourage producers to finish cattle sooner, at lighter weights. The average slaughter age of beef males fell slightly in 2020, compared to 2019.

Beef production

Lower expected prime cattle and cull cow slaughter, combined with marginally lower carcase weights, leads to an expected 5% decline in total beef production year-on-year in 2021.



Forecast supplies of beef and veal in the UK

| 000 tonnes | 2019 | 2020 | 2021 Q1(f) | 2021 Q2(f) | 2021 Q3(f) | 2021 Q4(f) | 2021(f) | 2022(f) | 2023(f) |
|--------------------|-------|-------|------------|------------|------------|------------|---------|---------|---------|
| Production | 906 | 923 | 219 | 212 | 213 | 229 | 873 | 874 | 874 |
| Imports | 382 | 367 | 93 | 83 | 95 | 108 | 380 | 384 | 384 |
| (fresh/frozen) | (315) | (301) | (77) | (69) | (77) | (89) | (312) | (315) | (315) |
| (processed) | (67) | (66) | (17) | (14) | (18) | (20) | (69) | (69) | (69) |
| Exports | 174 | 147 | 39 | 35 | 35 | 33 | 143 | 144 | 146 |
| Total consumption* | 1,114 | 1,144 | 273 | 260 | 273 | 304 | 1,111 | 1,114 | 1,114 |

*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

Domestic demand

With national lockdowns introduced at the start of 2021, there is a further impact on foodservice volumes. We anticipate more of a return to eating out in the second half of 2021 but that the market will not fully recover to pre-COVID levels. Beef is not predicted to maintain high retail growth in 2021, but we do expect it to track above 2019 levels. The strong volume growth in 2020 was partly triggered by consumers' uncertainty and subsequent panic buying. This trend is not isolated to beef, as there are similar reductions in the outlook scenario vs 2020 for pig meat and lamb.

Overall, beef volumes for the full year 2021 are expected to fall 3% year-on-year. However, when we compare back to 2019, being a more typical year, we expect volumes to stand-on. In-home occasions are expected to remain raised from typical pre-COVID levels, but easing further into 2021 in line with foodservice openings. The performance of steak may be heavily linked to the ability of foodservice re-opening, while cuts offering versatility and inspiration to consumers are likely to appeal in-home.

Sensitivity towards price is likely to remain high as economic ripples are felt by consumers. Communication around quality and key product benefits will be important as shoppers evaluate their purchase decisions closely.

Trade

UK beef imports are forecast to show some recovery in 2021, by 4% compared to 2020. While domestic beef consumption is forecast to fall overall, the anticipated rise in foodservice activity, coupled with lower domestic

production, is expected to increase the use of imported beef. Moves by retailers to stock more British product may also increase the need for imported beef to supply foodservice markets in particular, when they re-open. Any contraction in retail sales, as demand moves back out of home, could lessen support for British cattle prices.

However, several factors may limit import volumes in 2021, or raise the cost of imported beef. According to Bord Bia, strong Irish cattle slaughter in 2020 is expected to have tightened prime cattle supplies there for the year ahead, particularly in the first half of 2021. Demand for imports will of course depend on how COVID-19 is managed domestically and how eating-out markets recover. Volumes will also depend on how much disruption is caused by the new trading arrangements between the UK and EU, with initial trade friction a risk to volumes in the short-term.

For UK exports, volumes are expected to contract by a further 3% in 2021. This is due, in part, to lower domestic production. Trade friction at borders due to new customs checks are also expected to impede volumes somewhat in early 2021. In addition, shipments will be influenced by how export markets recover from COVID-19. Foodservice markets across Europe have been hugely disrupted, and will take time to recover. Furthermore, if increased interest by UK retailers in stocking home-grown product continues, this may also limit supplies available for export.

Price outlook

While GB cattle prices have entered 2021 in a generally strong position, there are several factors that may have a bearing on prices moving forward. On the one hand, data pointing to tighter cattle supplies in both GB and Ireland may be positive for domestic cattle prices in the short-term. In addition, data from last year has shown that restricted foodservice activity (whether it be full closure due to lockdown or limited service due to social-distancing rules) drives higher demand at retail, which benefitted farmgate prices in 2020.

On the other hand, continued economic uncertainty and the prospective end of furlough schemes may lead to many consumers tightening their belts, and potentially opting for cheaper cuts when they shop. As we saw last year, similar behaviour caused initial problems for the carcass balance and thus, prices. How, and how quickly, the country emerges from a lockdown situation, and how the eating out market re-opens going forward will be crucial factors to watch.

Input prices will of course be another key watch point for producers, and they can be as influential as finished prices on margins. We take a closer look at key farm inputs elsewhere in our Agri-Market Outlook, which you can find [here](#).

Risks to the forecast

Several risks should be considered when interpreting the above forecasts. Perhaps the most immediate risks are the ongoing management of COVID-19, and how the industry adjusts to new trading rules with the EU. This forecast is based on a [central scenario for COVID-19 recovery](#). Any deviation from this could spell different outcomes for demand, supply and trade. Lasting economic uncertainty caused by COVID-19 may also blur forecasts in the future.

A significant risk to forecasting beef markets in the longer-term is the phasing-out of direct farm subsidy, and the success and uptake of the new Environmental Land Management Scheme (ELMS), which are still very much in development. We talk about this in more detail in our longer-term view, which you can find [here](#).