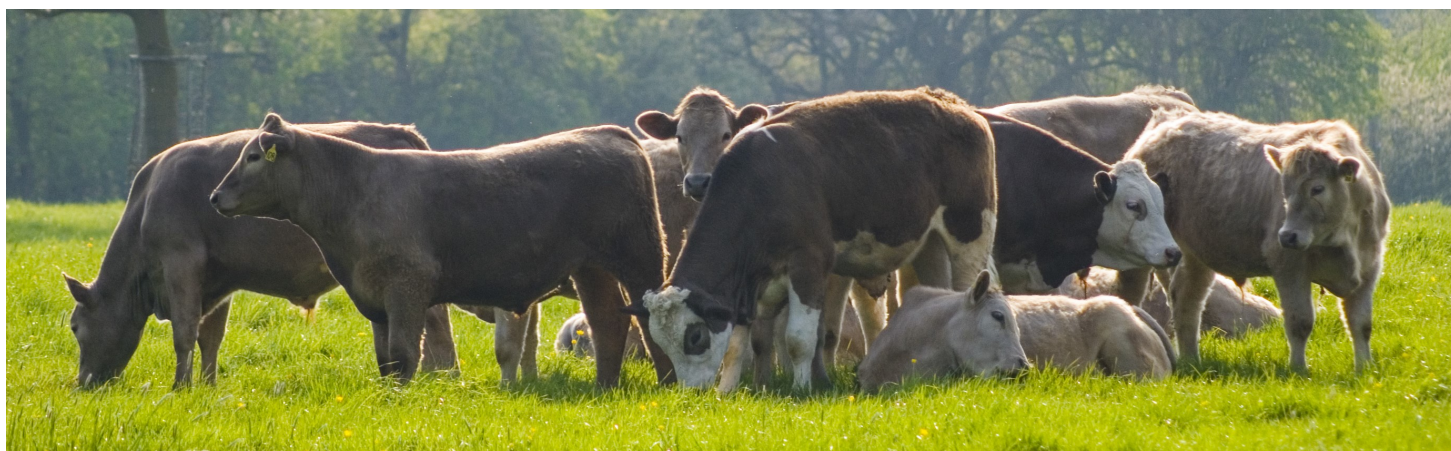


UK Beef Market Outlook



July 2021

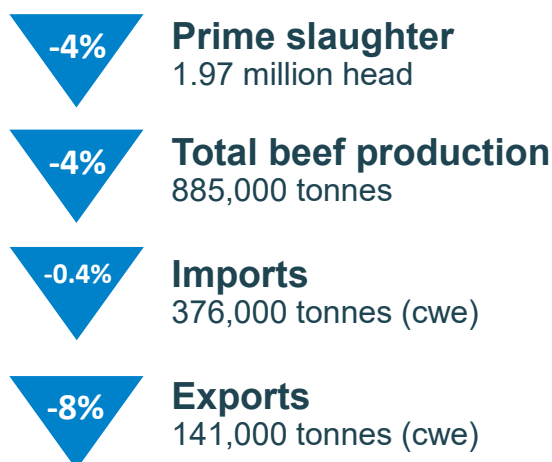
AHDB Market Intelligence - redmeat.mi@ahdb.org.uk



Summary

- Continued steady decrease in both dairy and suckler breeding herds in 2021
- Tighter cattle numbers expected to limit slaughter and beef production
- 2% decline in domestic beef consumption expected. Some recovery in foodservice activity is not expected to outweigh an ease in retail sales
- Lower first quarter trade expected to weigh on full year import and export volumes
- Imports also expected to be limited somewhat by tighter Irish supplies. Lower forecast exports also influenced by reduced domestic production

Key 2021 outlook stats

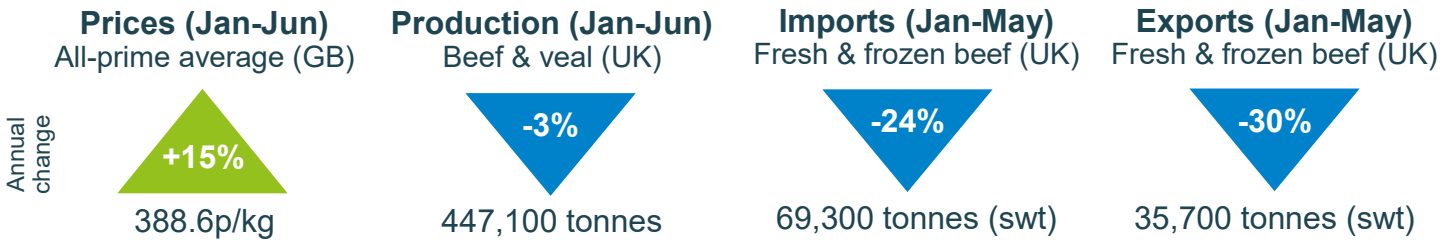


Figures are forecasts and subject to revision

Contents

Current market situation: 2021 highlights	2
UK beef forecast.....	2
Breeding herd	3
Calf registrations.....	3
Cattle slaughter.....	4
Carcase weights	4
Beef production.....	5
Domestic demand.....	5
Trade	5
Price outlook.....	6
Risks to the forecast	6

Current market situation: 2021 highlights



SWT: Shipped weight

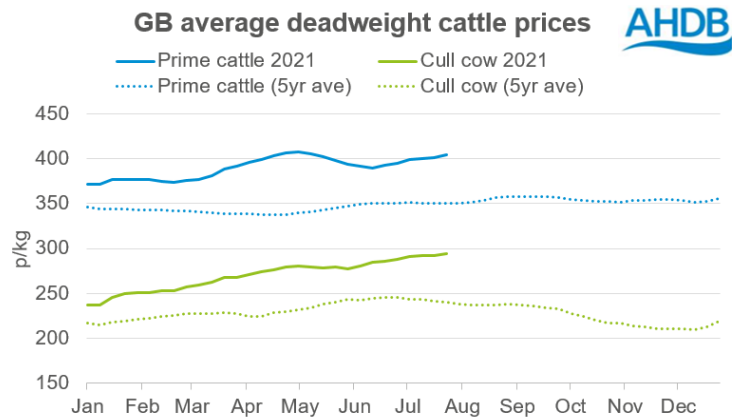
Source: AHDB, Defra, IHS Maritime & Trade - Global Trade Atlas®, HMRC

Prices

GB cattle prices began the year strongly, continuing the upward momentum seen towards the end of 2020. With a national lockdown in place for most of the first quarter, strong demand for beef in retail continued to boost prices. Tighter cattle numbers also offered price support.

March in particular saw strong price growth, potentially in anticipation of COVID-19 restrictions easing towards the end of the month, and outdoor dining in April. By the week ending 3 April, the all-prime average price had risen by 25p/kg to 396.1p/kg. Over the same time, the cull cow price had appreciated by 34p to average 270.6p/kg.

Since the end of the first quarter, prices have remained elevated. The all-prime measure broke the £4/kg mark for five weeks from mid April, then eased into early July before strengthening again. Cow prices on the other hand have continued to strengthen. Both prices have been supported by tighter supplies and strong retail demand.



Source: AHDB

Prices are GB average based on AHDB samples. Prime cattle price is an average of steers, heifers and young bulls.

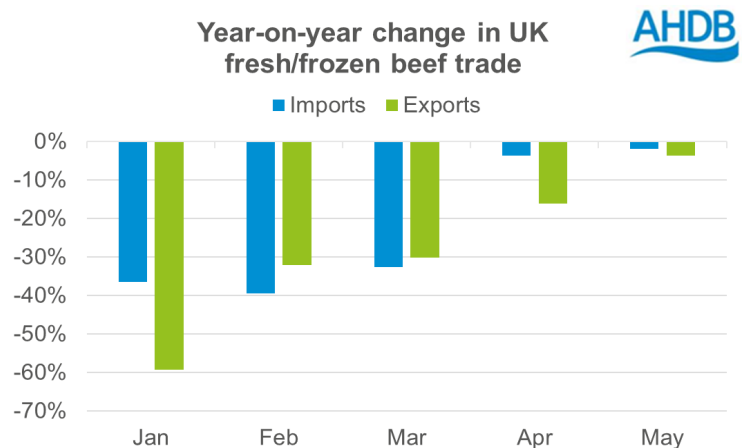
Production & slaughter

UK beef production from January-June totalled 447,100 tonnes according to Defra figures, 3% less than the same period in 2020. This is largely attributable to lower cattle slaughter, as on average, prime cattle carcasse weights showed little change. Total prime cattle kill stood at 995,700 head, down 3% year-on-year. All categories declined in number, with the majority of the decline being in throughputs of steers. Cow slaughter totalled 298,100 head for the quarter, down 4% year-on-year.

Trade

From January-May, the UK imported 69,300 tonnes of fresh and frozen beef (shipped weight), 24% less than the same period in 2020. This was predominantly due to lower volumes from Ireland (-28%), with lower shipments from the majority of other EU suppliers. Imports from non-EU countries rose by 25% year-on-year to 2,400 tonnes.

Over the same period, the UK exported 35,700 tonnes of fresh and frozen beef (shipped weight), down 30% from the same period a year ago. The main drivers behind this were lower shipments to the EU (-35%), specifically to the Netherlands and Ireland. Shipments to non-EU countries fell 15% to 2,000 tonnes, largely driven by Hong Kong and China.



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

Domestic demand

Beef proved to be a staple for consumers in-home at the start of COVID, seeing the fastest volume increase in retail of all the meat proteins in the 52 w/e 14 June 2020. As the pandemic progressed, retail volumes remained positive up until March 2021. However, as beef sales data started to be compared against the significant sales seen at the start of the pandemic, monthly volumes have gone into decline year-on-year. Volumes however remain significantly up versus two years ago. Therefore, volumes in the 52 w/e 13 June 2021 are positive at +2.8% but beef is now the slowest growing meat protein, with lamb being the fastest.

Mince, a popular cut during COVID panic buying due to its versatility, in the past year has seen volume declines of -1.8%. Although, the cut is still up +8.0% compared to two years ago. Also driving retail losses in the past year are beef ready meals and pastry based products. Compensating for these year-on-year losses is continued momentum for steaks, roasting, burgers and added value as consumers are barbecuing and treating more at home.

The difficult foodservice conditions continued into 2021, with lockdowns only easing gradually during the first half of the year. We estimate the eating-out market for beef in 52 w/e 13 June 2021 saw volume declines of -57% year-on-year, with steak being the worst hit dish. Deliveries and takeaways offered a lifeline for the foodservice market, and we estimate that beef volumes in this market rose by +90% in the same time period. The biggest contributors to this were burgers and beef-based Chinese dishes (AHDB estimates based on Kantar Out-of-Home, 52 w/e 13 June 2021). We believe that the volume gains in retail and delivery/takeaway just balance out the eating-out and public sector losses in the 52 w/e 13 June 2021.

UK beef forecast

Breeding herd

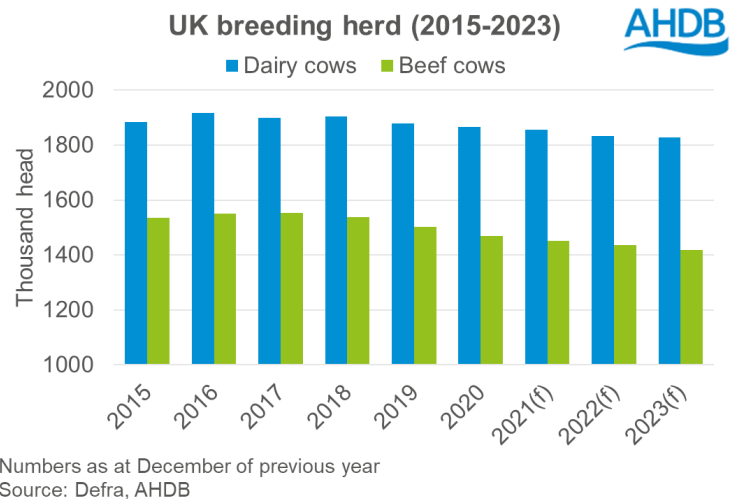
Data from Defra shows that both the UK dairy and suckler breeding herds were 1% smaller at 1 December 2020. We expect that both herds could contract by a further 1% in 2021, following long-term trends, and unchanged from our previous forecast in January. There are several underpinning factors behind this. Reduction in farm support payments is 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 suckler numbers, even after increased use of beef semen in the dairy herd. For the dairy herd, contraction is also likely to be driven by continued improvements in milk yield, and pressure from rising feed costs.

Future stabilisation in the milking herd could be on the horizon, due to increased dairy female registrations over the last year, driven by greater sexed semen use. It is not expected that the milking herd will return to growth in the near future, with culling of older cows expected to be supported by rising feed costs, especially as the winter housing period approaches. This may not translate into growth in the milking herd, but may mean the average herd age decreases if a greater number of older cows are culled. Read our [Dairy Market Outlook](#) for more information. 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 herds, registrations of beef calves (incl. suckler-bred and dairy crosses) increased by 1.4% in 2020, continuing the long-term trend. Increased registrations of beef calves of both sexes, coupled with a 4% increase in the number of dairy females registered came at the expense of dairy males, which decreased by 13% in 2020. These figures reflect the increasing use of beef and sexed dairy semen among dairy producers, as well as general improvements in productivity in both herds.

Going forward, registrations of dairy males are expected to decline by a further 19% in 2021 as these trends in semen use continue. Beef/dairy cross calf registrations are also expected to ease in 2021 by around 2%, due



partly to expected contraction in the milking herd, but also due to higher expected registrations of dairy females. These are forecast to grow by a further 7% in 2021. It would be rational to expect lower numbers of suckler-bred calves being registered, if the herd remains in decline.

Cattle slaughter

Prime cattle slaughter during the first half of 2021 has been lower than the same period in 2020, but higher than we forecast it would be back in January. Strong cattle prices, buoyed by robust domestic retail demand for beef, could have encouraged more cattle forward for slaughter sooner than expected. Indeed, BCMS figures suggest the average age at slaughter for prime male beef cattle (aged 12-30 months) so far in 2021 is slightly younger than it was in 2020.

Despite higher-than-expected slaughter, cattle supplies look still to be in a tighter position year-on-year. Defra figures show that there were fewer beef animals in the UK aged between 12-24 months at 1 December 2020, as well as those aged over 24 months. This agrees with more recent data from BCMS, which shows lower numbers of beef animals aged between 12-30 months. Taking this into consideration, **our full-year prime cattle forecast has been revised upwards to a year-on-year decline of -4%**, reflecting higher-than-expected slaughter so far in 2021, but sustained tighter cattle supplies.

Population data from BCMS does point to a slight increase in younger beef animals; those aged between 12-18 months, and those aged under 12 months. However, this is not enough to outweigh lower numbers of cattle aged between 18-30 months that would most likely be marketed this year.

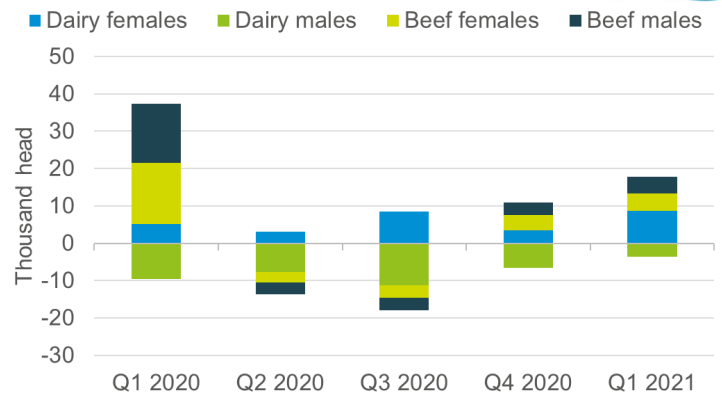
Cow slaughter so far in 2021 has been closer to our expectations. Defra census results show that there were 3.307 million cows in the UK at 1 December. This was slightly more than was previously forecast, due to a larger-than-expected dairy herd. Hence, leaving the remainder of our forecast unchanged, we now expect that **cow slaughter will decline by -4% year-on-year**. Total cow numbers are still expected to decline by 1% for the year overall, but from a higher starting point.

Carcase weights

An average of overall prime cattle carcase weights for the first five months of 2021 showed little change from the same period in 2020. On average, steers were 0.7kg (0.2%) lighter, heifers were 0.2kg lighter (-0.1%), and young bulls were 6.7kg (2%) heavier.

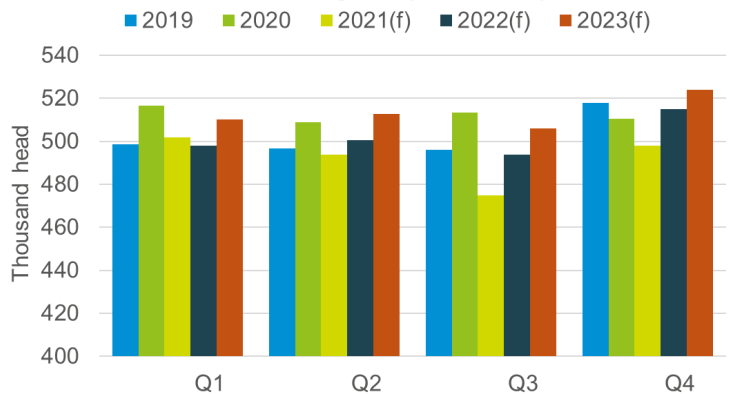
Average prime cattle carcase weights have been on a general downwards trend since around 2015, a trend that we expect to continue. This is due to a combination of increasing registrations of native-bred cattle, and more beef coming from the dairy herd. Continued higher prices may also encourage producers to market cattle sooner, at lighter weights, although there is less evidence of this at the moment. Indeed, the average slaughter age of beef males fell slightly in 2020, compared to 2019.

GB calf registrations, annual change



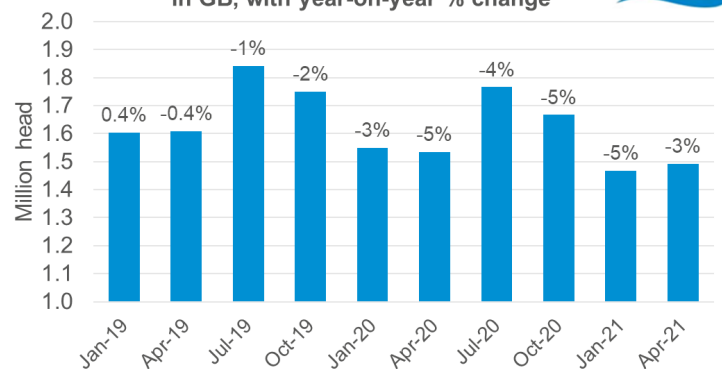
Source: BCMS

Actual and forecast UK prime cattle slaughter (2019-2023)



Source: Defra, AHDB

Number of prime cattle (aged 12-30 months) in GB, with year-on-year % change



Number of beef males, beef females and dairy males recorded at the 1st of the month. Numbers account for beef heifer replacements.

Source: British Cattle Movement Service

Beef production

Lower expected prime cattle and cull cow slaughter, combined with marginally lower carcase weights, leads to an **expected 4% decline in total UK beef production year-on-year in 2021**.



Forecast supplies of beef and veal in the UK

000 tonnes	2019	2020	2021 Q1	2021 Q2(f)	2021 Q3(f)	2021 Q4(f)	2021(f)	2022(f)	2023(f)
Production	906	923	226	217	212	230	885	895	907
Imports	382	377	64	85	107	119	376	376	376
(fresh/frozen)	(315)	(309)	(50)	(71)	(87)	(97)	(305)	(306)	(306)
(processed)	(67)	(68)	(14)	(15)	(20)	(22)	(70)	(70)	(70)
Exports	174	153	26	33	38	44	141	162	162
Total consumption*	1114	1148	264	269	281	305	1119	1108	1121

*carcasse 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

As lockdowns gradually ease, consumers have showed signs of getting back to some normality. 'Freedom day' during July means we anticipate more of a return to eating out in the second half of 2021. However, the market will not fully recover to pre-COVID levels due to business closures, the economic backdrop, and still some level of uncertainty.

Beef is not predicted to maintain high retail growth in 2021, but we do expect it to track significantly above 2019 levels. In-home occasions are expected to gradually move back to out-of-home over the coming months but we do see some working from home continuing as a legacy behaviour. This trend is not isolated to beef, but smaller reductions are predicted in the outlook scenario vs 2020 for pig meat and lamb.

Beef in the eating-out market will start to see a recovery this year but volumes will still be approximately half of that seen in 2019. Beef deliveries and takeaways will however remain buoyant. Overall **beef volumes for the full year 2021 are expected to be down -2% year-on-year**. However when we compare back to 2019, being a more typical year, volumes are expected to be up 2%.

For 2022 we predict these trends will continue as we see retail and foodservice continue on its path back to normality. Eating-out will not return to pre-COVID levels this year and retail sales of red meat may start to suffer again as media noise around the industry accelerates. Overall beef volumes for the full year 2022 are expected to be down -2% versus 2021, and flat versus 2019.

Trade

Imports

For UK beef imports, volumes in the first quarter of the year were significantly lower than anticipated, partly due to disruption from post-Brexit trade friction and COVID-19. Monthly volumes have however been in an upward trend since January. Domestic beef consumption in 2021 is still expected to be lower than last year, due mainly to an easing in retail sales, but not by as much as was previously forecast. The anticipated rise in foodservice activity towards the end of the year, coupled with lower domestic beef production, is expected to increase demand for imported beef. High domestic cattle prices could also contribute. Moves by retailers to stock more British product may also increase the need for imported beef to supply foodservice markets in particular. Any contraction in retail sales, as demand moves back out of home, could lessen support for British cattle prices.

However, several factors could limit import volumes in 2021, or raise the cost of imported beef. According to Bord Bia, Irish cattle supplies are expected to be tighter for the rest of 2021, in the region of 110,000 fewer cattle. If realised, that could point to a 6% reduction in Irish cattle kill compared to 2020. Wider EU beef production is forecast to fall 1.4% for the year overall. Exportable supplies are also expected to be tighter globally for the rest of the year, mostly driven by Australia, Brazil and Argentina. Another factor closer to home is future changes to requirements on UK imports from the EU, which could affect volumes imported towards the end of the year (see *Risks to the forecast* section).

With the above in mind, **UK imports are expected to be marginally down on 2020 (-0.4%)**, reflecting low first-quarter volumes, but increasing trade in the second half of the year.

Exports

From an export perspective, volumes are expected to remain lower compared to last year, but to a greater extent than was previously forecast. This is largely due to trade figures for the first quarter of 2021 being much lower than expected. Trade in the second half of the year is expected to increase as foodservice reopens abroad, although not by enough to outweigh losses earlier in the year. Strong recovery is anticipated in European foodservice markets in the third and fourth quarters of the year, which is forecast to drive up EU beef imports for the year overall. Lower beef production on the continent, and Ireland, is also expected to contribute to increased imports. Demand from Asian markets is also expected to remain robust.

On the other hand, tighter supplies and stronger cattle prices here could limit UK exports somewhat. Beef consumption - while forecast lower compared to 2020 - is also expected to be higher than pre-pandemic levels due to elevated retail demand, which could keep more product in the UK. In addition, administrative and logistical challenges remain for trade between the UK and EU, as well as uncertainty over management of COVID-19 cases and the impact of easing restrictions. With the above factors in mind, 2021 beef exports are forecast to be down about 8% year-on-year, reflecting low volumes in quarter one, but increasing trade towards the end of the year.

Price outlook

GB cattle prices have stayed elevated through the first half of 2021. Factors that have contributed to this price strength have been evident from both sides of the market. On the supply side, cattle numbers have been tighter so far in 2021 compared to last year. From a demand perspective, pandemic-induced closures of pubs and restaurants (a trend continued from 2020) has encouraged more demand from retail for domestic product.

Going forward, there are several factors that could influence GB cattle prices. Data pointing to tighter domestic cattle supplies for the rest of the year could offer price support. Moreover, cattle slaughter in Ireland is forecast to remain lower in 2021 compared to last year; this could also limit supplies available for the UK market. Irish production is expected to recover in 2022. Any continued strength in domestic retail demand will also offer support to GB cattle prices.

On the other hand, easing COVID-19 restrictions and a rising population of vaccinated consumers is expected to lead to more demand from foodservice. However, activity in the eating out market is expected to remain considerably lower than pre-pandemic levels. Imported beef tends to do well in the foodservice market, so any increase in demand for imported beef in this sector may lessen support for domestic cattle. It will be important for domestic prices that out-of-home outlets back British beef.

Input prices will of course be another key watch point for producers, and they can be as influential on margins as finished prices. 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 immediate risks are the ongoing management of COVID-19, and how the industry continues to adjust to new trading rules with the EU. Lasting economic uncertainty caused by COVID-19 may also blur forecasts in the future. Another factor to consider is future changes to requirements on UK imports coming from the EU, under the new trading relationship. At time of writing, additional paperwork including export health certificates will be required from October 2021, with further requirements such as physical checks coming into place from January 2022. This could affect volumes imported in the second half of the year and early 2022, depending on how traders navigate these new requirements.

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 the impact of changes in environmental policy in more detail in our longer-term view.