

# UK sheep outlook

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## KEY POINTS

- Economic uncertainty from Brexit and COVID-19
- 7% decline in production this year forecast
- Imports to remain lower with product availability in New Zealand and Australia down
- Domestic and export demand under pressure from COVID-19
- Breeding flock to continue to contract

## Key 2020 Stats

steady	Breeding flock: 13.8m head
-1%	Lamb crop: 16.8m head
-4%	Lamb slaughter: 12.6m head
-9%	Ewe slaughter: 1.5m head

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

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# Current market situation

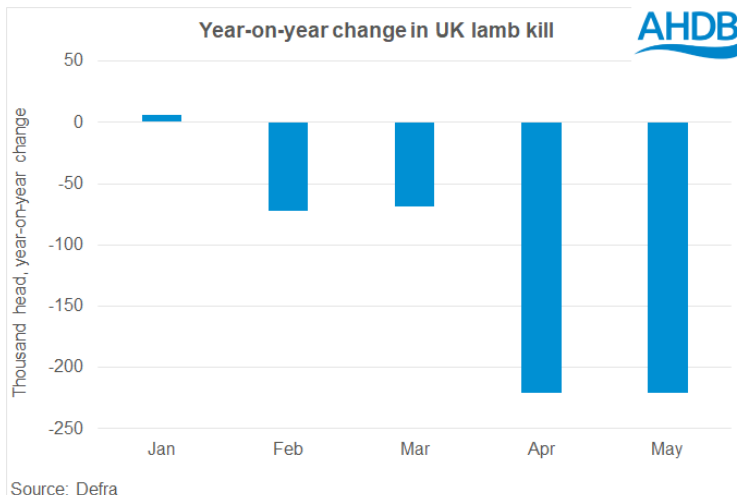
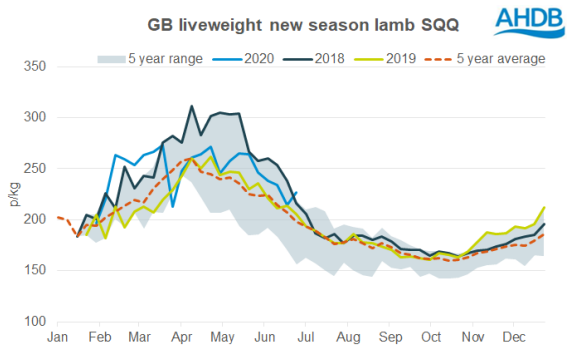
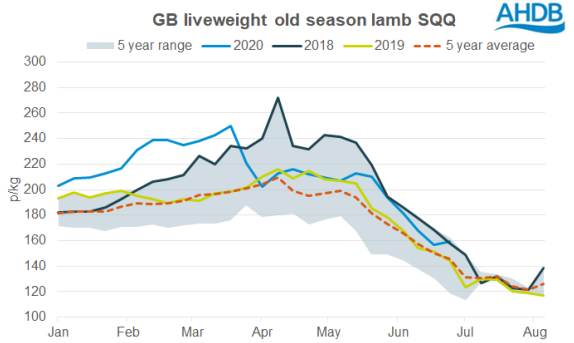
## Prices

Finished prices have been mixed so far this year. Until the second half of March prices were strong and trending above 2018 levels. However, COVID-19 put significant pressure on prices as demand here and on the continent changed. Prices for new season lambs did largely recover, although there was without doubt some pressure limiting the rise.

More recently prices have come under more typical seasonal pressure.

## Production

During the first five months of the year UK sheep meat production totalled 105,200 tonnes cwe, down 16,000 tonnes on-the-year. Production was expected to contract anyway during the opening months of the year, driven by fewer lambs on the ground. However, COVID-19 pushed kill levels down even further than previously forecast. A lack of demand, rather than capacity, was behind the additional declines.



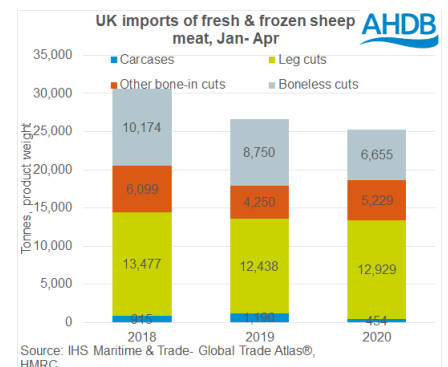
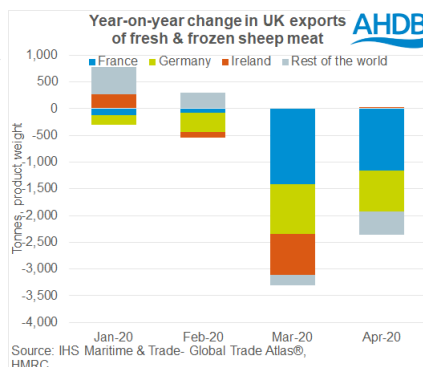
Lamb kill is down on-the-year by almost 600,000 head between January and May. Much of the decline was weighted towards April and May, pushed downwards by the lack of demand. Prior to COVID-19, lamb kill levels had roughly been in line with the December forecast, with only a few changes to timings.

Adult sheep kill was down 75,000 head during the first five months of 2020.

## Trade

Between January and April UK imports of fresh and frozen primary sheep meat totalled 25,300 tonnes product weight, down 5% year-on-year. Shipments from New Zealand and Ireland were both down, whereas there has been a small rise from Australia.

UK exports can be firmly divided into two time periods. In January and February export volumes were similar to last year. However in March and April there was a sharp decline. In total UK exports for the period are down 18%, to 25,600 tonnes product weight.



## GB retail

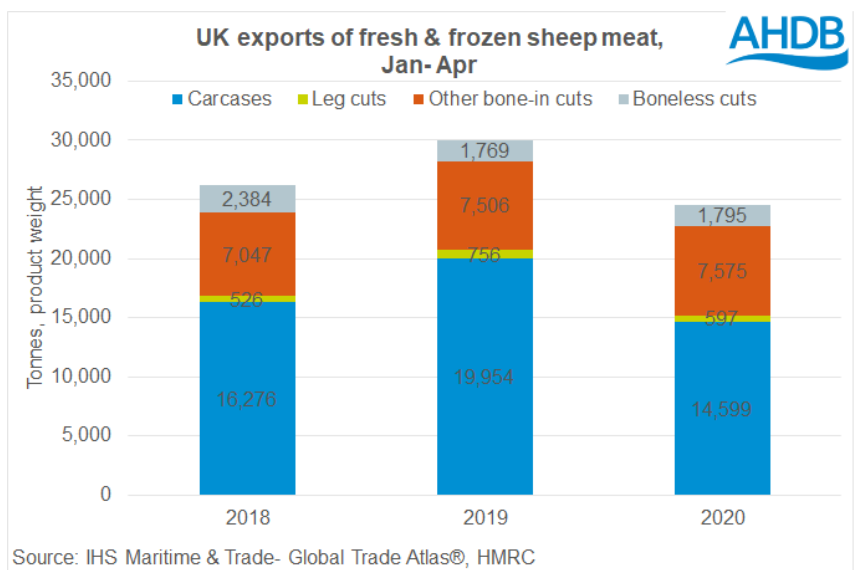
Lamb consumption has long been under pressure in the UK. The impact of COVID-19 began to hit lamb consumption even more during March, with consumers reducing eating out, but increasing consumption in home. With the UK in lockdown and all social gatherings prohibited over the key Easter weekend, demand during April was weak and lower than a 'normal' Easter. Since then, retail demand has increased year-on-year, but the closure of the eating out market offsets this.

Many consumers have also had financial concerns, and are either currently on a reduced income, or concerned that their income could be lower in the near future. Concerns over the UK recession will be impacting how consumers shop and spend.

## EU

The EU market has been impacted in much the same way as the UK. Since March many countries have had varying restrictions in place to control COVID-19. France, the largest export market for UK sheep meat, began closing some food outlets in March. At some points only supermarkets were open, which significantly reduced demand for UK lamb carcasses. Many of the butchers and markets have now re-opened in France.

Consumer demand on the continent faced many of the same pressures as here: reduced social gatherings, closure of many restaurants and also financial uncertainty.



## Global situation

COVID-19 is not only having an impact here in Europe, but across the world. Sheep meat import demand in China has been limited, in part due to lockdown restrictions. China was in lockdown over the Chinese New Year festival which meant demand was significantly reduced. However, China had already imported and put into storage large volumes of meat in preparation for the festival. Overall, this means demand from China is likely to remain subdued for some time until meat in frozen stores has been consumed.

In New Zealand and Australia sheep meat production has been limited in recent months due to social distancing measures. Also, the drought has broken, and the rainfall means many farmers are now looking to restock, having downsized during the prolonged dry period. This is likely to keep global supplies tight, at least for the coming year or two.

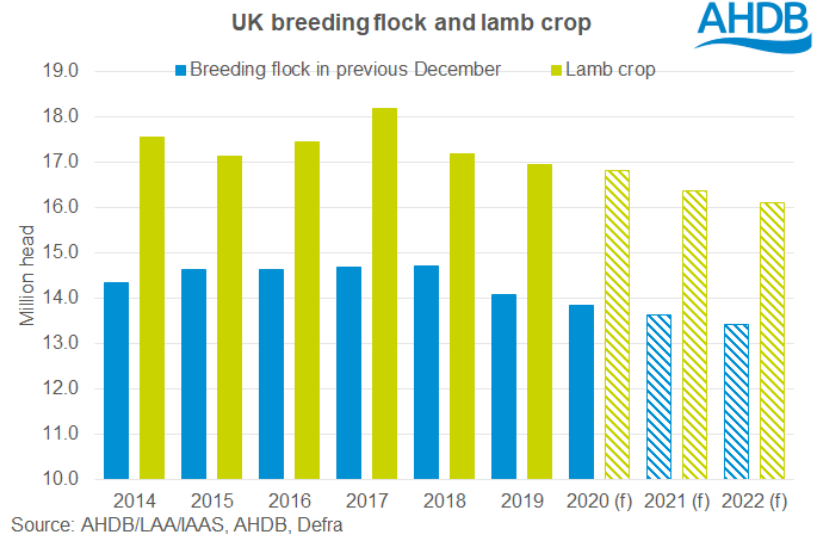
# Outlook

## Flock numbers

### Breeding flock

The breeding flock in December 2019 was largely steady on the year at 13.8 million head according to Defra. The breeding flock is small compared to where it has been in recent years. Concerns over Brexit are likely to be having an impact on farmers' decisions about how many lambs to retain for future breeding.

Looking forwards, we forecast there to be some continued contraction. In the short term, the potential contraction is driven by Brexit uncertainty, whereas future contraction could come from changes to farm subsidy payments.



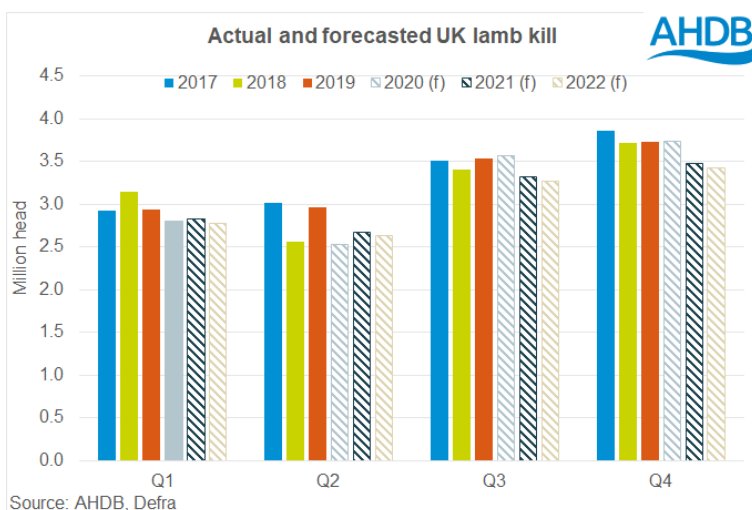
### Lamb crop

Survey data on the size of the 2020 lamb crop is not yet available. However we forecast it to be around 16.8 million head, which is only marginally smaller than the 2019 lamb crop. The weather at lambing was fair, although ewes did have a wet winter period leading up to lambing.

Longer term, the lamb crop is of course forecast to reflect changes in the size of breeding flock, although any exceptional weather events would change this, affecting lambing rates.

## Numbers available for kill

### Lambs



Overall, from the 2020 lamb crop, the lamb kill is forecast to be similar to that from the 2019 lamb crop which is unsurprising considering the lamb crops are forecast to be similar. However, in the calendar year of 2020 there is a significant contraction in the kill year-on-year. This is largely due to low throughputs in Q2.

Slaughter of new season lambs has been limited so far this year, with a lack of demand due to COVID-19. These lambs are forecast to come forwards gradually through the next 12 months.

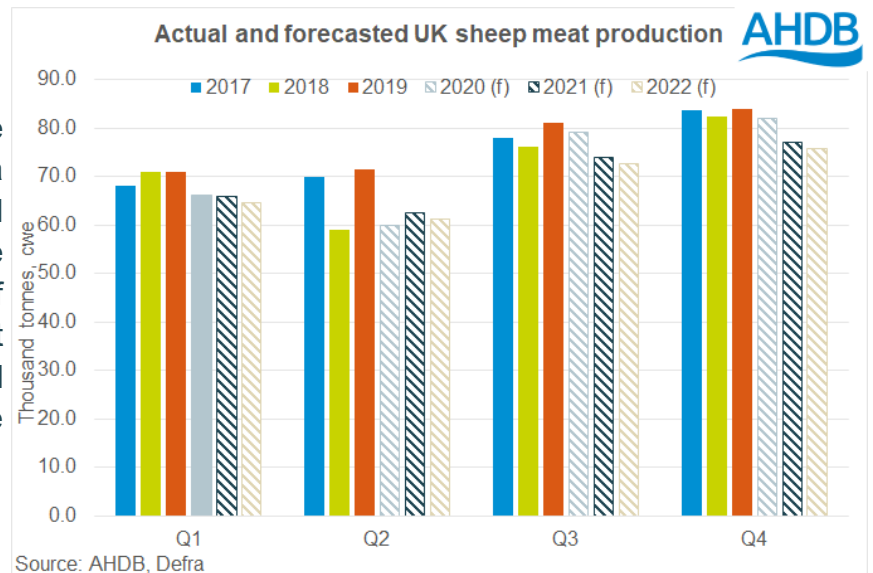
### Adult sheep

Cull kill was exceptionally high during 2019, with carcase weights also higher. In 2020 kill numbers are forecast to decline slightly, to more 'normal' levels.



## Production

Total production is forecast to be 287,000 tonnes cwe this year. This is a sharp decline on 2019 levels, and roughly in-line with 2018 volumes. The decline is weighted towards the first half of the year, although with reduced adult sheep kill it is forecast for some small declines through the second half of the year.



## Trade

### Imports

In total this year imports are forecast to decline too; driven by tighter production in New Zealand and Australia, as well as sustained demand from China with its protein shortage. Overall volumes are forecast to contract by 16%, to 62,600 tonnes cwe.

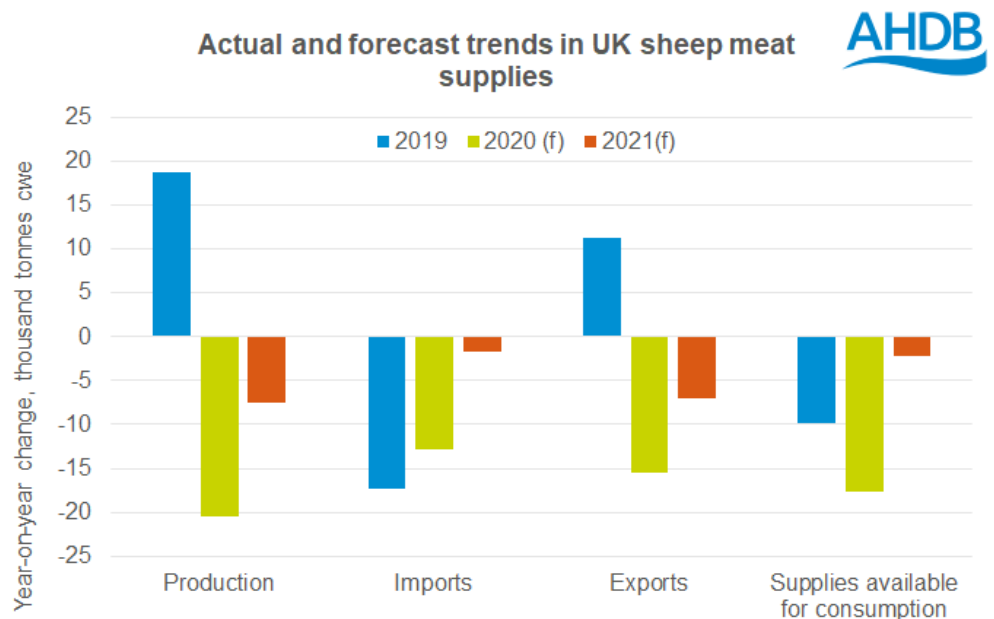
Longer term there is the potential for a small rise in total import volumes if New Zealand and Australia both re-build their national flocks and increase production again. Some Chinese farmers have also expanded their sheep operations in response to strong prices, which could affect import demand in China. Overall however, volumes are likely to remain low in historic terms.

### Exports

Exports typically reflect domestic production trends. Export volumes were supported during 2019 by higher production. Volumes this year are forecast to decline in line with production, but are also reflective of lower demand due to COVID-19 in Europe.

## Domestic consumption

Domestically, consumption is expected to decline. This continues the long term decline in lamb demand but also reflects COVID-19. The re-opening of the eating out market, especially independent pubs and restaurants, is key for UK lamb consumption as lamb tends to over index at these venues. As lamb tends to be viewed as a premium protein choice, how consumer confidence and the economy perform will be key to demand.



## Price impact

Back at the end of 2019 it looked as though the UK sheep meat market would be tight in 2020 and prices would be supported. However, since then the market place has shifted dramatically. Looking at those first opening months of this year, the tight supply situation supported farmgate prices. Farmgate prices came under pressure and dropped when export demand all but disappeared briefly. How total demand (exports plus UK consumption) balances with supply (UK production plus imports) is of course key to price developments.

## Potential impacts of COVID-19 and Brexit on the forecast

Throughout the main forecast we have presumed a 'business as usual' relationship for trade between the UK and EU, as well as the UK's recovery from COVID-19 being relatively smooth. This can be seen in more detail in "scenario A" [as described here](#).

Should the UK's recovery from COVID-19 be less smooth, and slower, then this is likely to reduce domestic demand further, especially if unemployment levels rise significantly. A slower recovery and lower consumer confidence is likely to mean consumers are more reluctant to eat out, limiting consumption. Consumers are also likely to be looking for something which they view as 'good value' when making retail purchases and may trade down. Should recovery in Europe also be slower, this would limit demand for UK lamb exports. Anything to reduce total demand is likely to add pressure to farmgate prices, especially if total supply does not decline.

At the time of writing, mid-June, Brexit negotiations are still on-going. The beginning of July is the deadline by which a request for an extension to the transition period must be made. Both sides have indicated they do not intend to ask for an extension, meaning the transition period will end on 31 December 2020. This leaves two main options for the future of UK trading relations with the EU; trading on WTO terms, or a trade agreement in place by 1 January 2021. Anything which reduces the UK's access for sheep meat to Europe would likely negatively affect export volumes and/or prices.

## Summary table

*Actual and forecast supplies of sheep meat in*

000 tonnes (cwe)	5 yr ave	2019				2020				2021						
		Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Production	296.6	70.9	71.5	81.0	84.0	307.5	66.1	60.0	79.0	81.9	287.1	66.0	62.5	74.0	76.9	279.5
Imports	101.0	21.3	23.8	13.5	15.8	74.4	19.3	20.2	11.1	11.1	61.6	17.7	19.2	10.6	12.6	60.0
Exports	96.2	22.3	23.7	25.2	27.2	98.4	19.2	18.1	22.8	22.8	82.9	17.9	17.0	20.1	20.9	75.9
Available for consumption	301.4	69.9	71.7	69.3	72.6	283.5	66.2	61.1	66.9	71.4	265.5	67.0	63.4	63.8	67.8	263.6

000 tonnes (cwe)	5 yr ave		2016	2017	2018	2019	2020	2021	2022
	Year	Year	Year	Year	Year	Year	Year	Year	Year
Production	296.6	290.3	299.3	288.6	307.5	287.1	279.5	273.9	
Imports	101.0	109.0	94.7	91.8	74.4	61.6	59.5	61.5	
Exports	96.2	82.3	94.2	87.2	98.4	82.9	75.9	75.9	
Available for consumption	301.4	317.0	299.9	293.3	283.5	265.8	263.6	260.1	5

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.

