The Red Meat Sector: Through the Pandemic and Beyond

Iain Macdonald
Senior Economics Analyst

Red Meat Production in Scotland – a key economic sector

Farm output

BEEF £805.4m (-4.2%) — 23.6% of Scottish agri output

SHEEP £251.8m (-11%) — 7.4% of Scottish agri output

PIGS £117.4m (+14.1%) — 3.5% of Scottish agri output

Self-sufficiency

BEEF 158% (abattoir) 176% (farm)

SHEEPMEAT 228% (abattoir) 567% (farm)

PIGMEAT 33% (abattoir) 67% (farm)

Abattoir output

ABATTOIR OUTPUT £783.5m (-5.2%)

BEEF £598.5m (-6.9%)

SHEEP MEAT £111m (+8.7%)

PIG MEAT £51m (+8.5%)

SKINS & HIDES £23m (-33.7%)

Red meat processing sales

25% Scotland

64% Rest of UK

11% International Exports

Abattoir sector employment

3,000

43% are non-UK EU nationals (41% in 2018)

£72m of wages (+2.4%)

Scottish Government Type II Economic Multipliers, 2017 (National rank in brackets)

	Output	Income	Employment	GVA
Agriculture	1.6 (27)	2.2 (11)	1.5 (61)	1.8 (24)
Meat processing	1.9 (3)	2.3 (6)	3.0 (8)	2.9 (5)

Red Meat Production in North East Scotland – a key economic sector

Share of Scottish population, June 2019

- 19.7% beef cows
- 31% males 1-2 years

- 9.6% ewes
- 10.9% lambs
- 144.4% lambing rate (126.7% national)

- 61.3% sows
- 61.2% non-breeding pigs

Aberdeen, Aberdeenshire and Moray

Source: QMS analysis of Scottish Government data

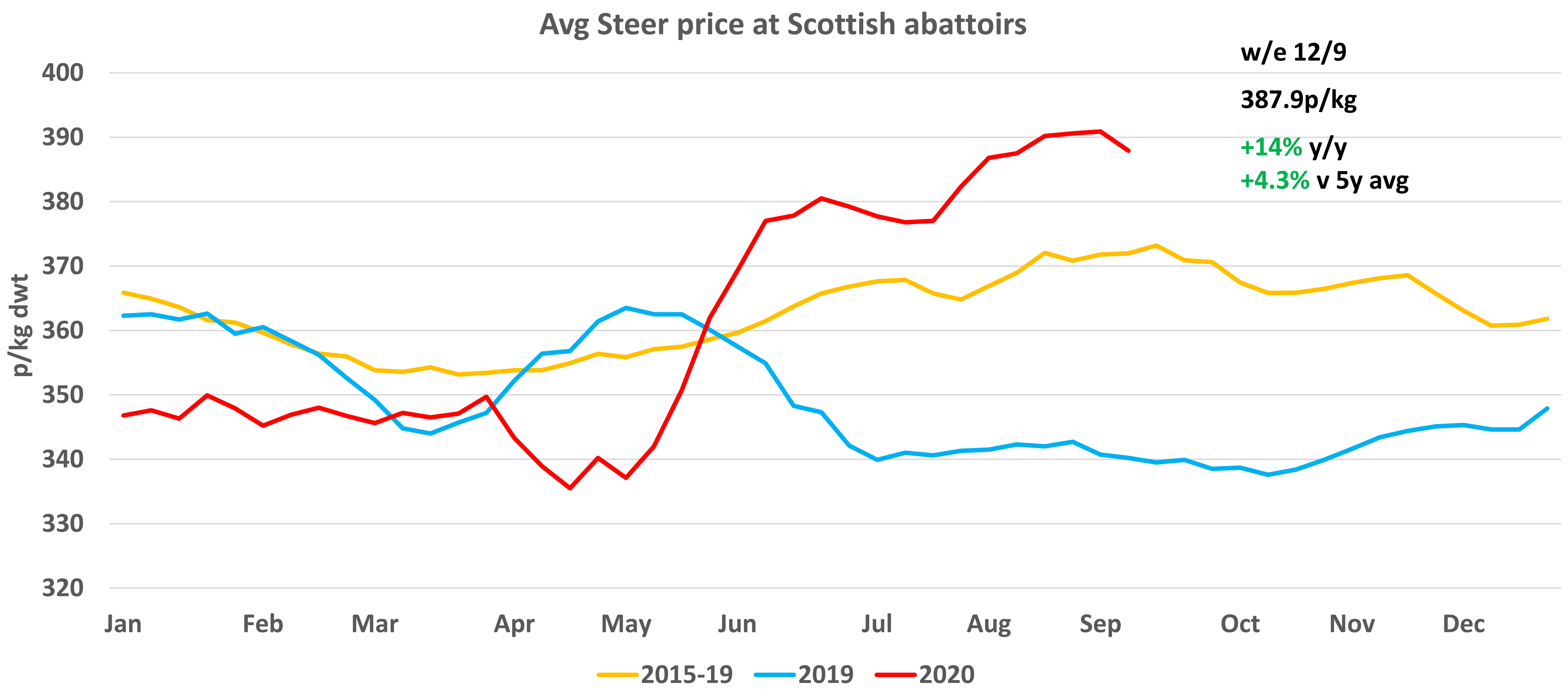
Share of Scottish abattoir throughput, 2019

- 33.7% cattle slaughter
- 46.1% sheep slaughter
- 81.2% pig slaughter

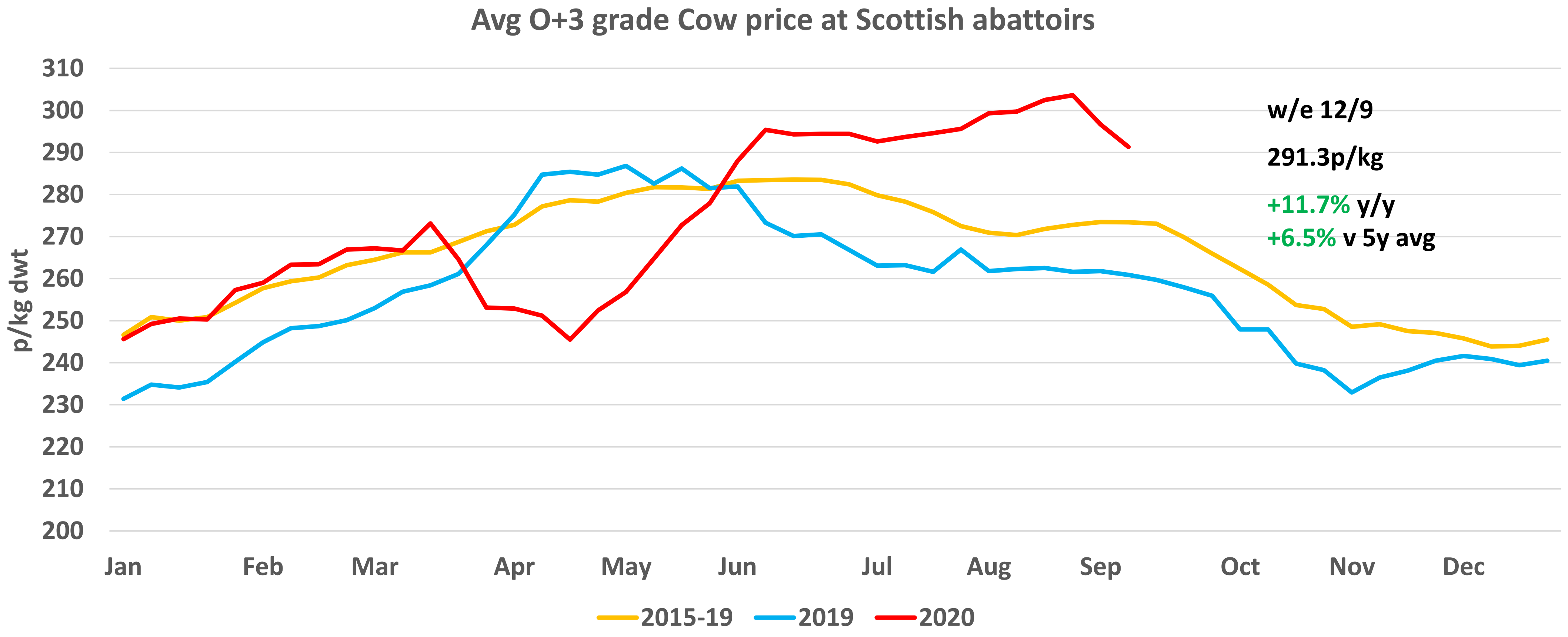
Aberdeen, Aberdeenshire, Angus, Moray and Speyside

Source: QMS levy reports

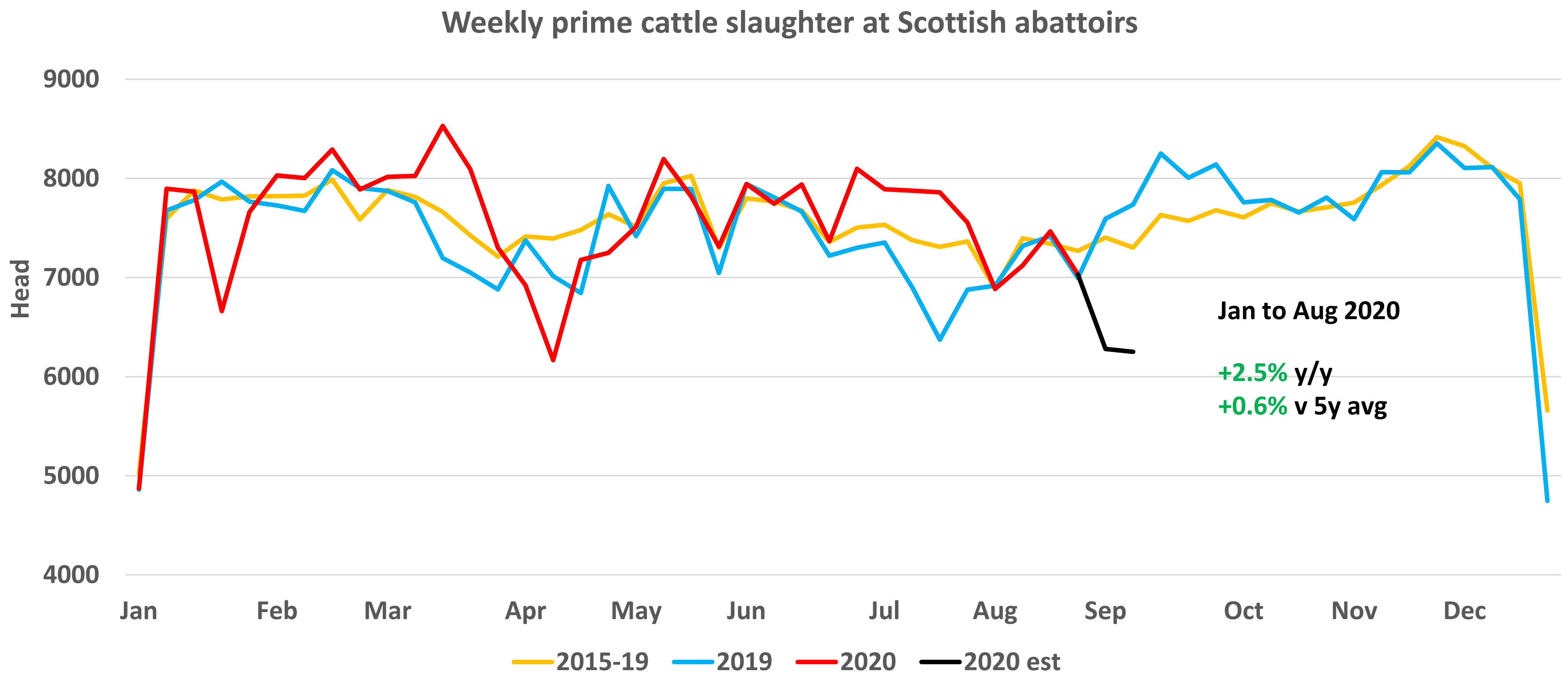
Strong recovery in the cattle market



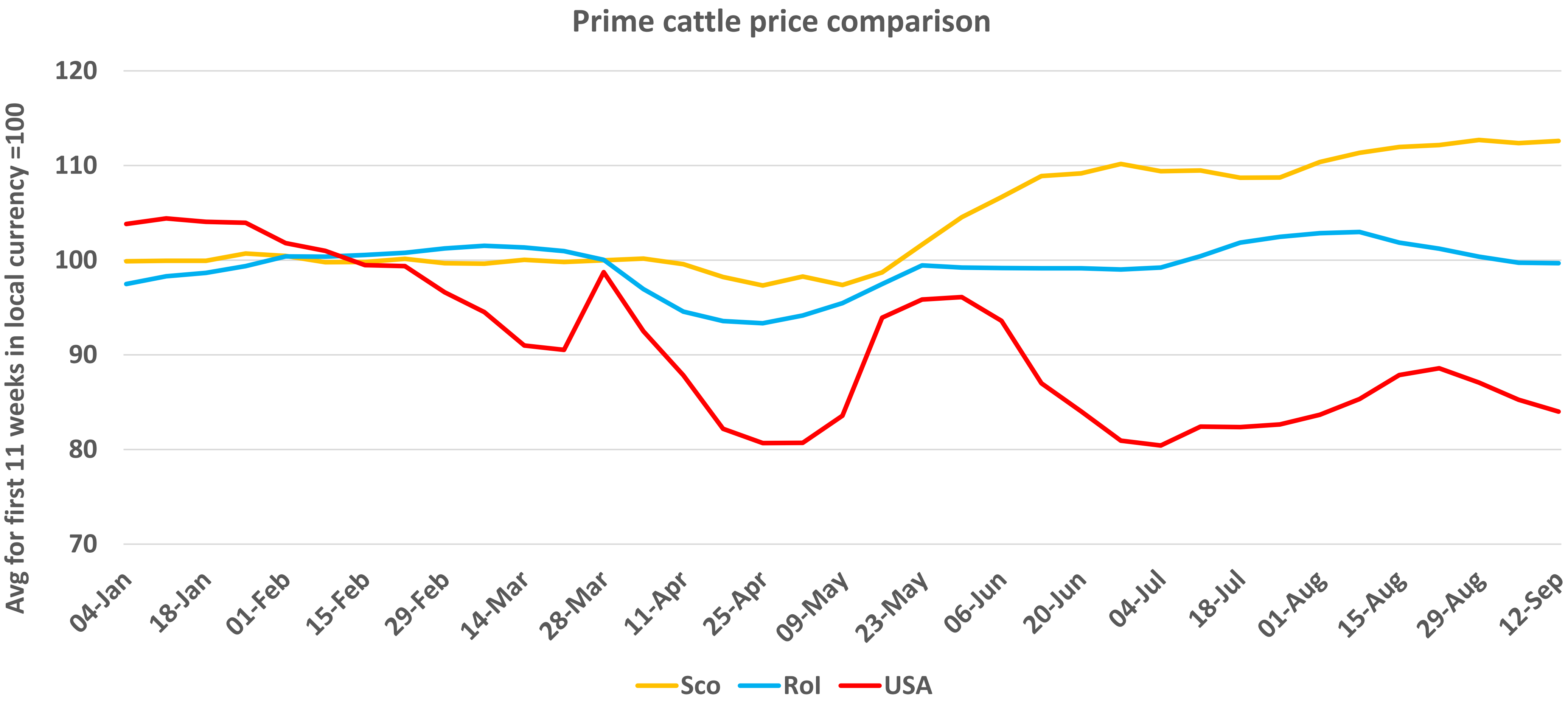
Strong recovery in manufacturing grade beef



Processors adapted operations well

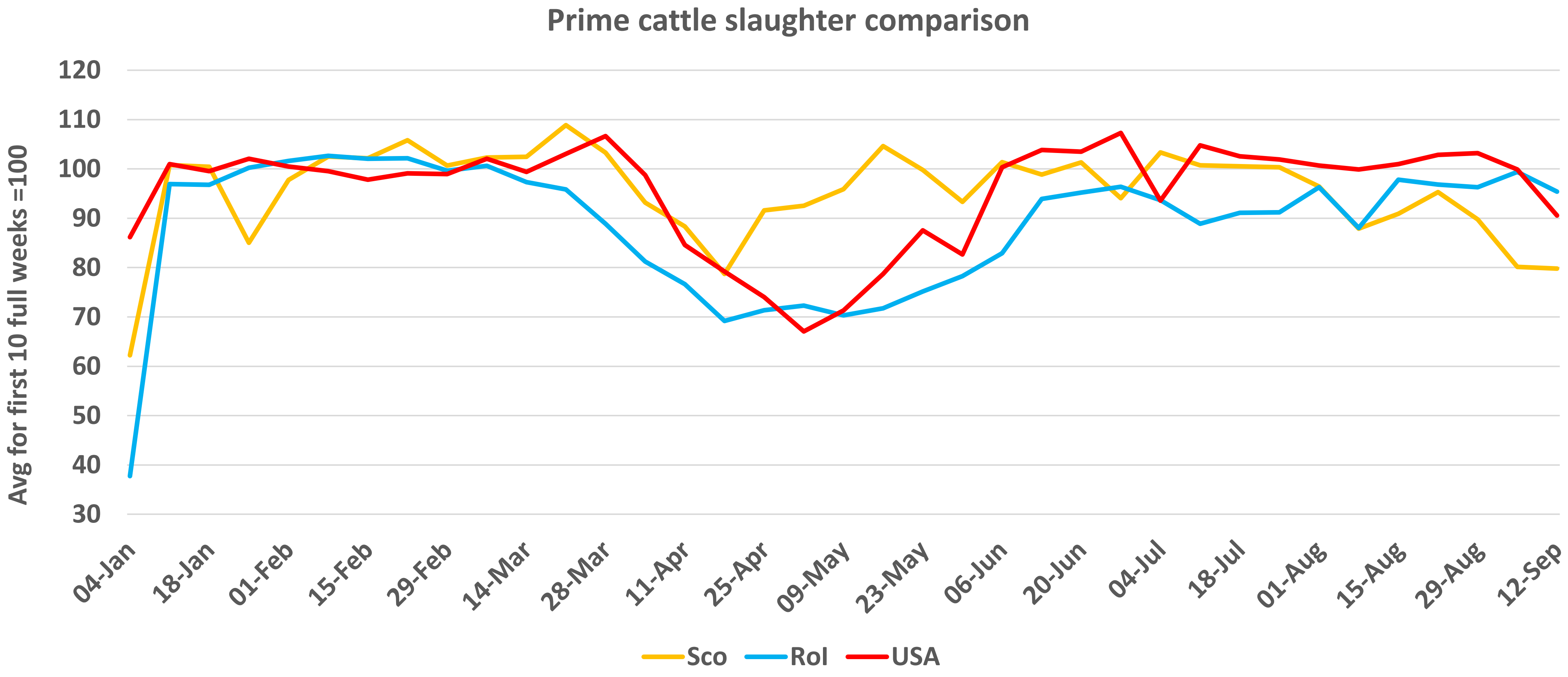


Scottish Producers Fared Relatively Well



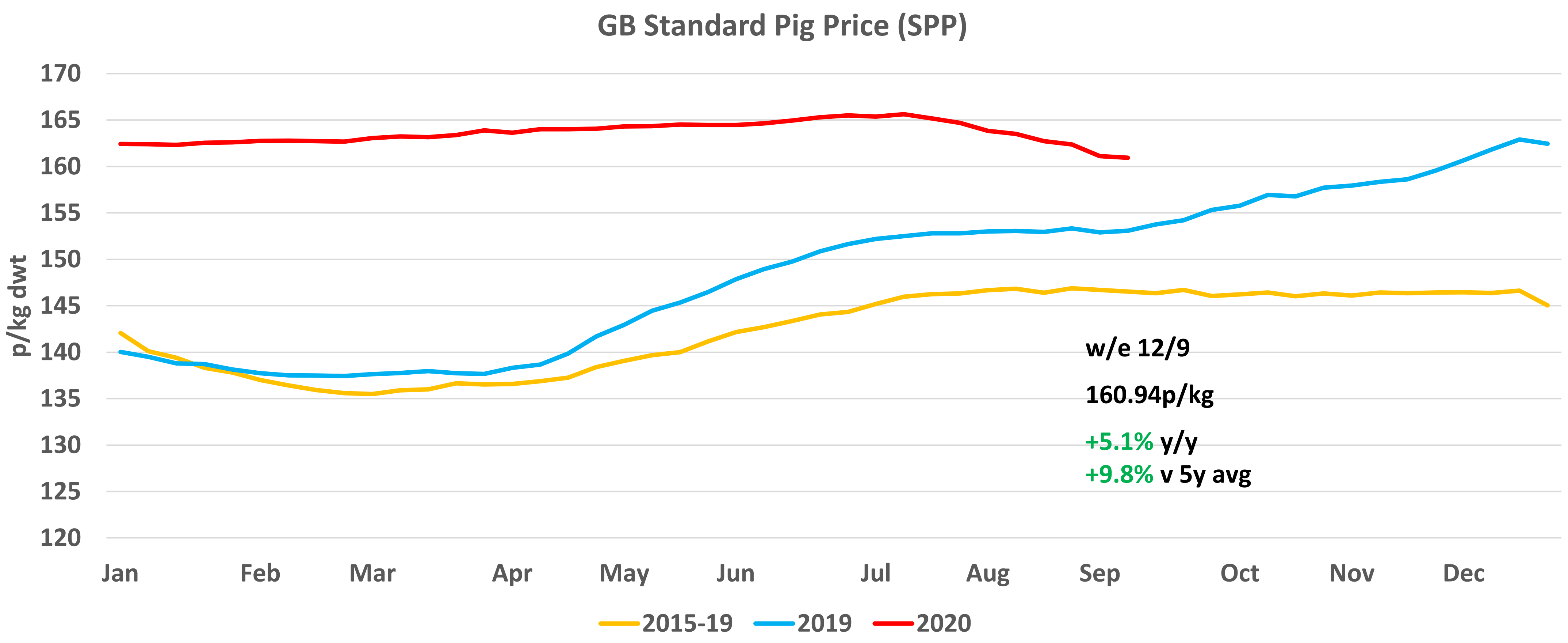
Irish R3 steer price sourced from EU Commission
US dressed delivered steer price sourced from USDA

Scottish abattoirs adapted relatively well



Irish slaughter data sourced from DAFM
US slaughter data sourced from USDA and is for all cattle

Steady seasonal upturn continued



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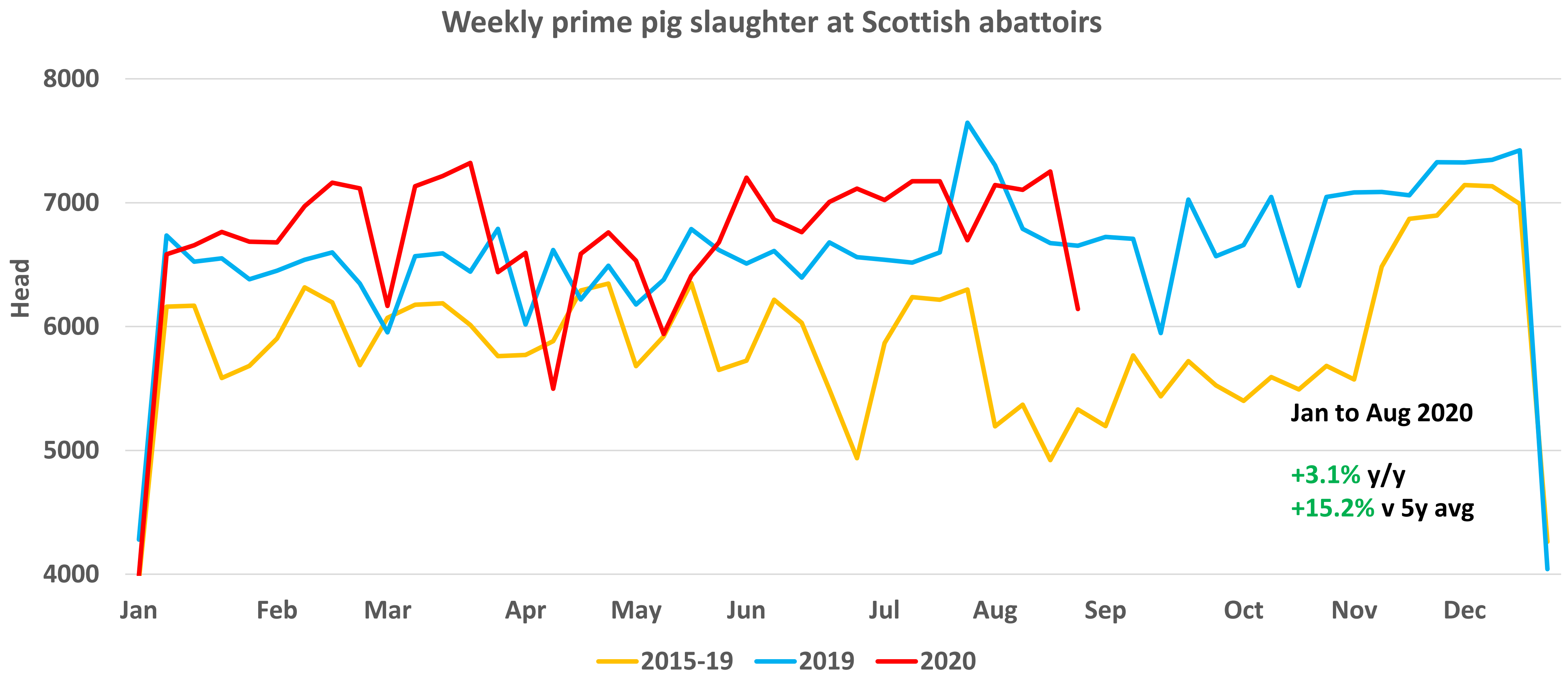

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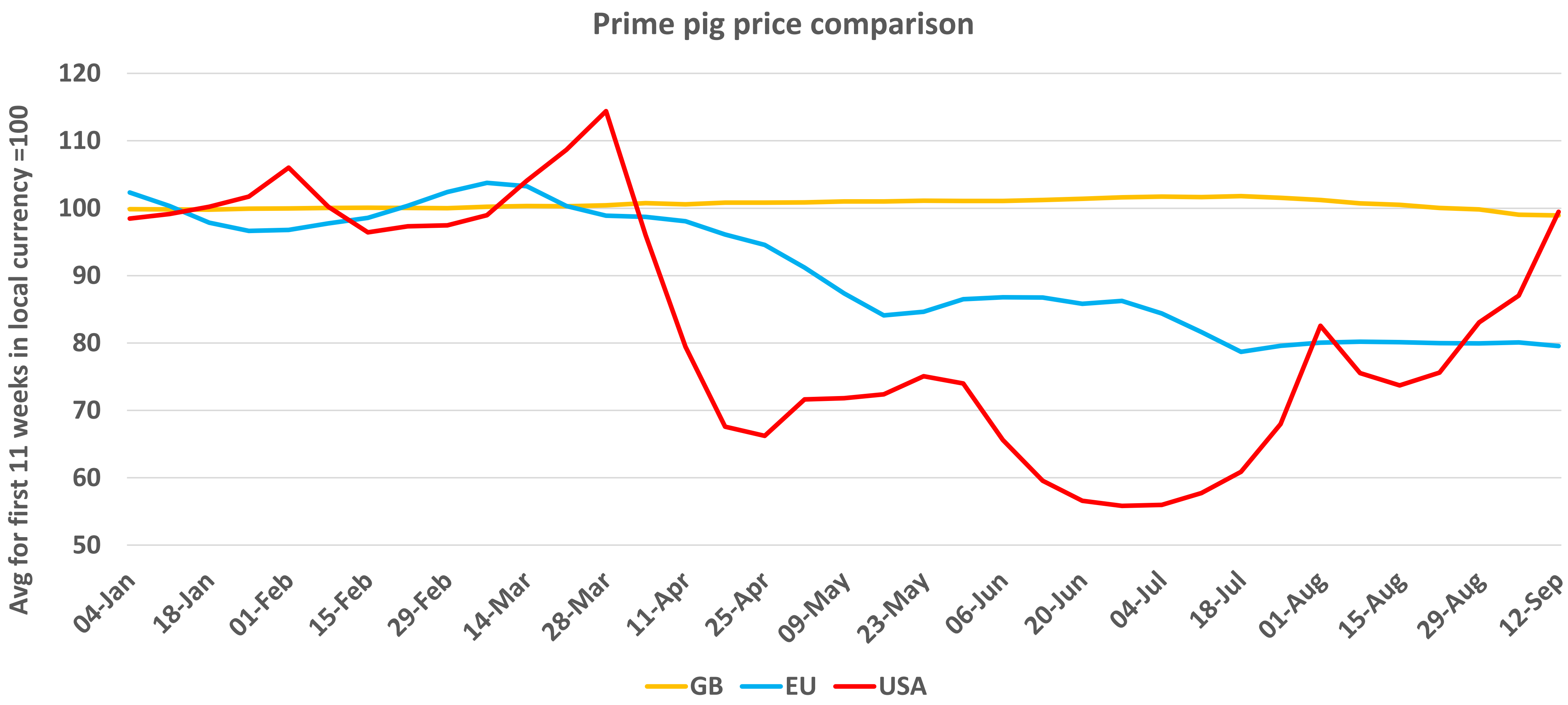
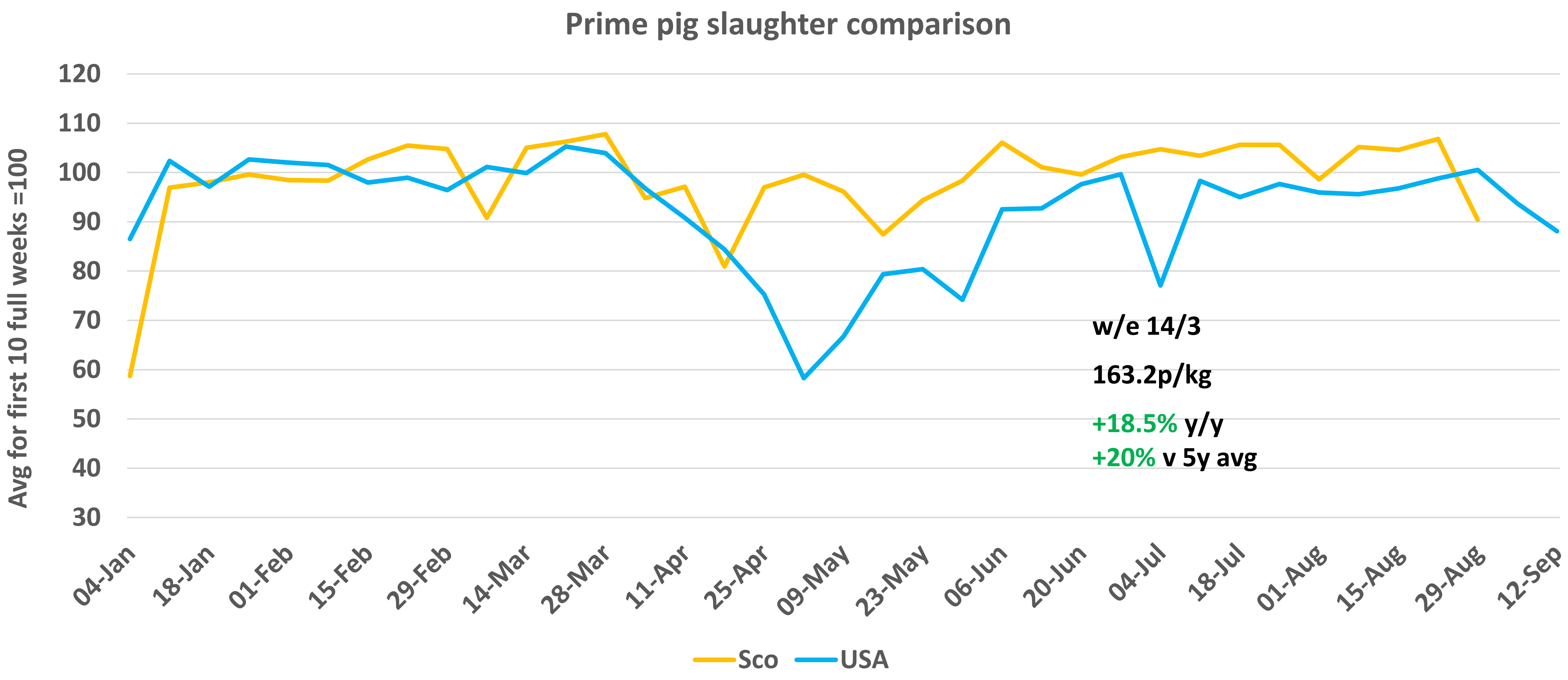


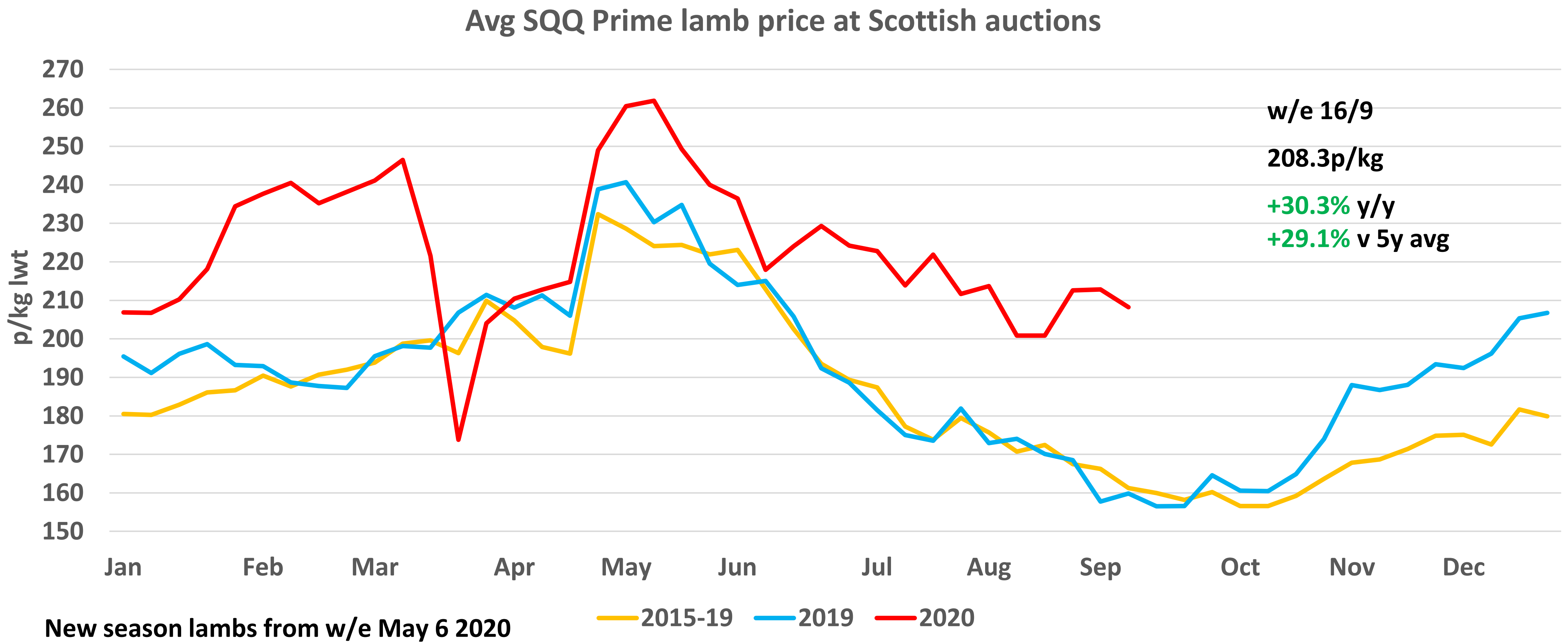
EU average grade E carcase price sourced from EU Commission
US barrows & gilts price sourced from USDA

Scottish abattoirs adapted relatively well



US slaughter data sourced from USDA and is for all pigs

Exceptional lamb market before and after late-March collapse



New season lambs from w/e May 6 2020

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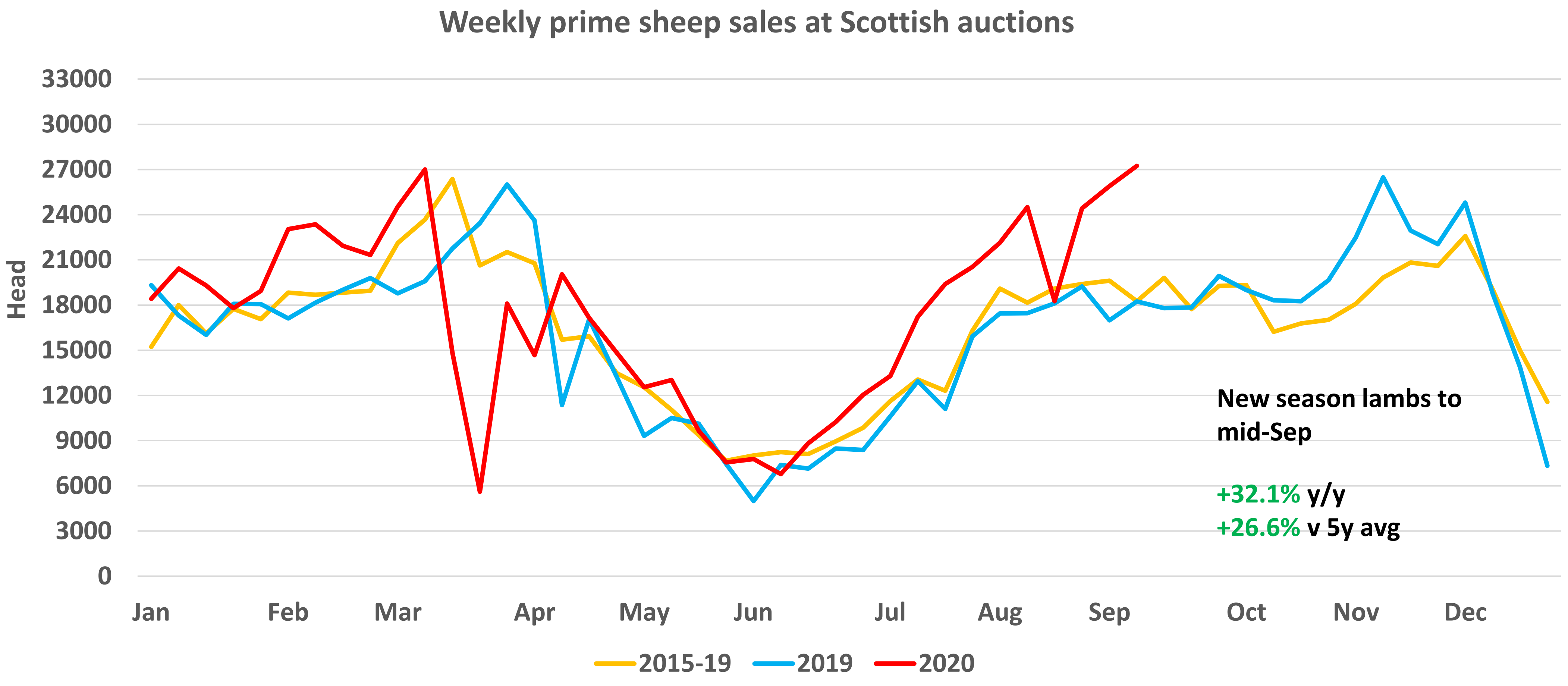
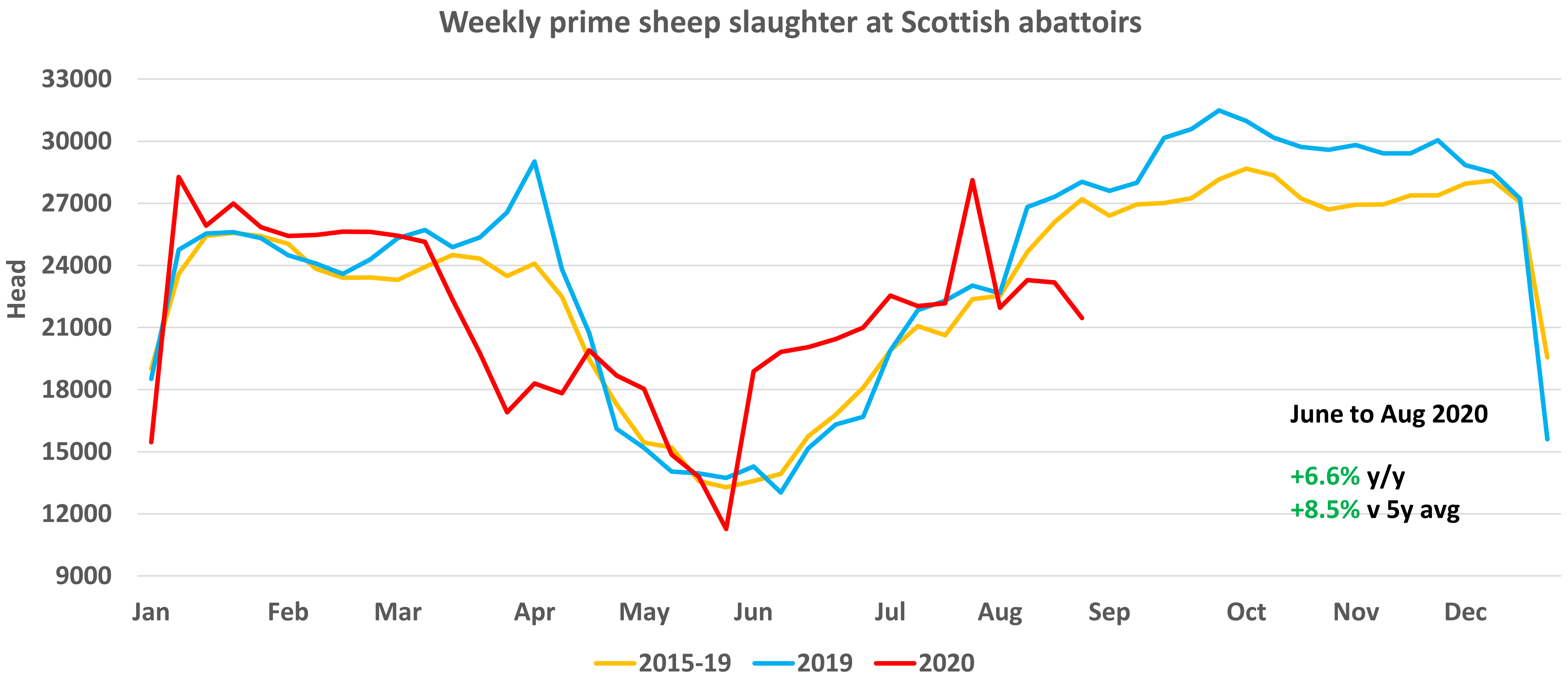
Auctions adapted operations well



Source: IAAS/AHDB

Some impact on sheep slaughter

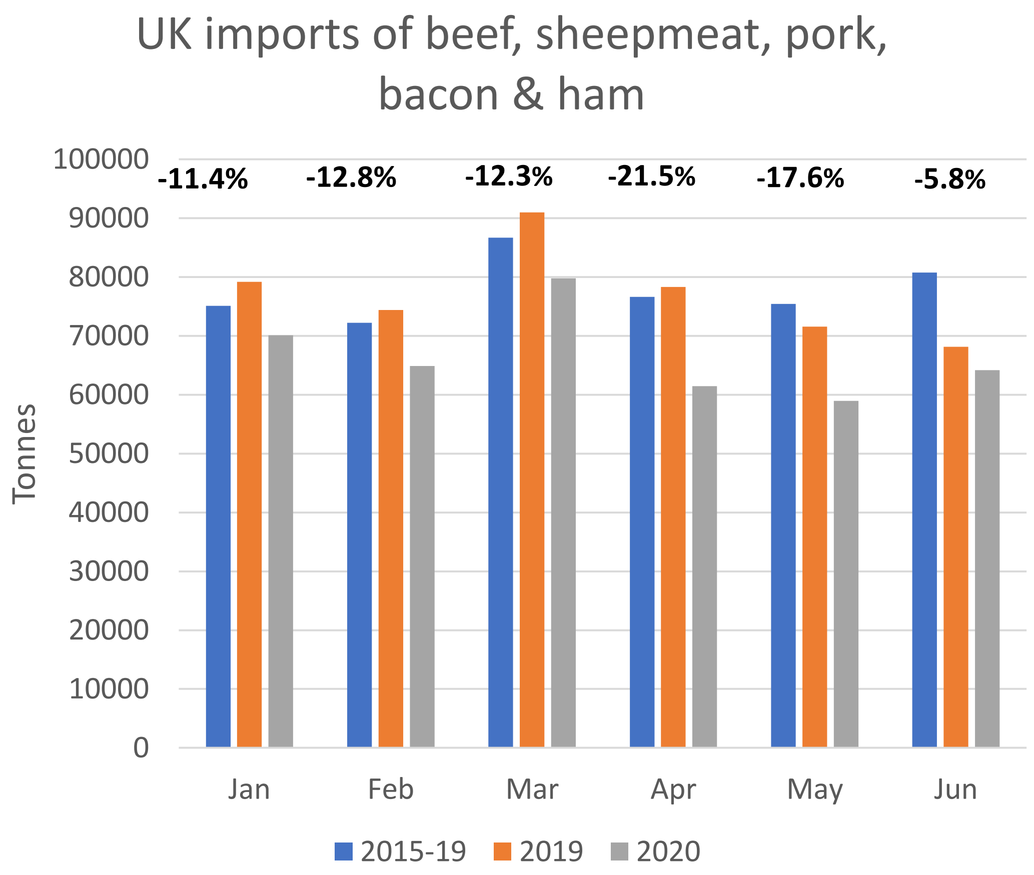


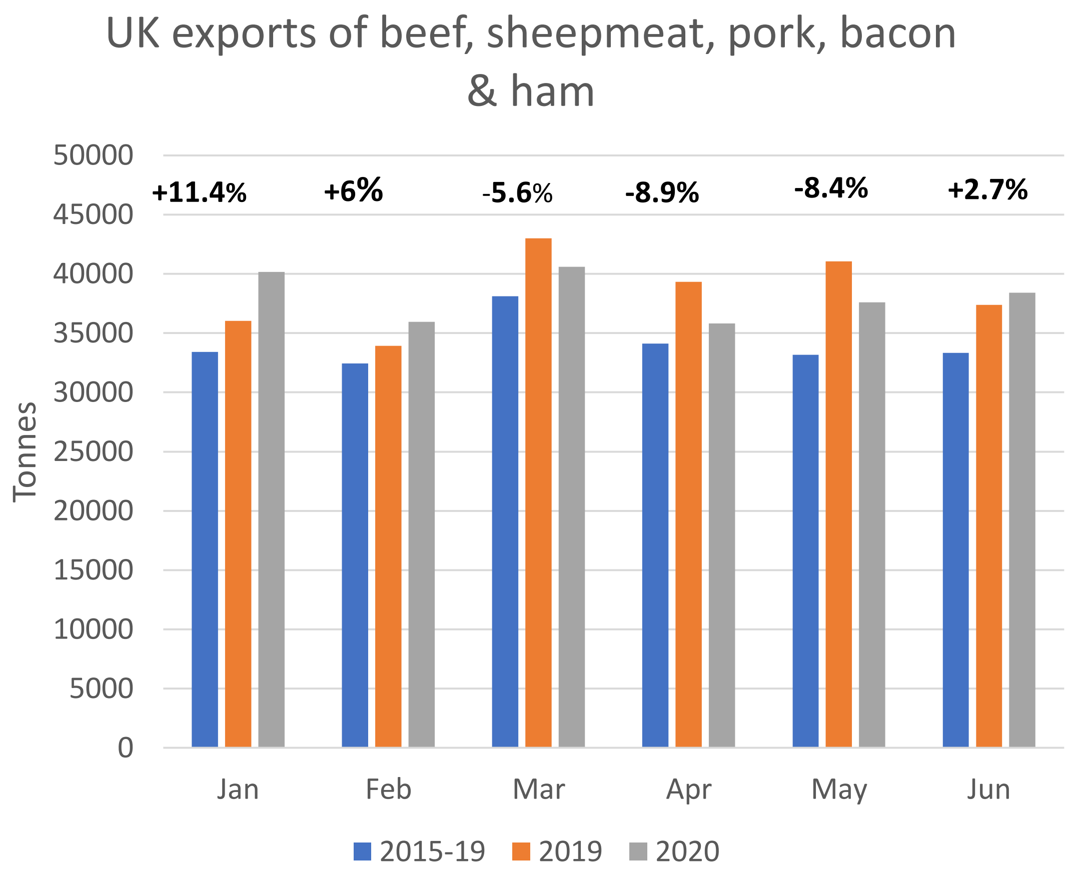
Domestic Demand

Estimated Split of GB Sales Volumes by Outlet Category in the year to June 2019			
	Retail sales (fresh, frozen and processed products)	Foodservice (e.g. Fast food, takeaway, restaurants, contract catering)	Rise in retail sales needed to offset 50% reduction in Foodservice
Beef	79%	21%	13.1%
Lamb	85%	15%	8.9%
Pigmeat	86%	14%	8.2%
			Source: AHDB (2019); QMS calculations

GB Retail Sales Growth, 12 weeks to July 12 2020				
	Retail spend	Retail volume	Share of households buying	Frequency of purchase
Beef	+24.4%	+21.3%	+4.0 percentage points (72.7%)	+9.1% (4.8 times)
Lamb	+19.2%	+10.0%	+3.7 percentage points (32.2%)	+4.4% (2.5 times)
Pork	+29.0%	+21.8%	+4.8 percentage points (52.2%)	+9.4% (3.3 times)
				Source: Kantar Worldpanel; QMS calculations

Lower Foodservice Activity = Reduced Imports





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Q4 2020 Outlook – Beef Sector

	y/y change
Calf registrations in 2018	-2.6%
Male cattle 12-24 months, December 2019	-5%
Jan to mid-Sep estimated prime slaughter	+1.4%

2021 Outlook – Beef Sector

- Calf registrations recovered slightly in 2019 (+0.1%)
- Brexit – will Irish beef face UK Global Tariff?
- If so, without rise in GB beef price, Irish price needs to halve to stay 10% cheaper (based on R3 steer carcase of 390kg and prices in w/e 13/9/20)
- As a net importer, beef price likely to rise, so would UK introduce a quota to limit retail price inflation?

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Pig Sector - Outlook

- UK production growth of 3.7% in 2020 forecast by AHDB, followed by 3.1% in 2021
- China pork shortage to continue
- ASF in Germany – uncertain impact
- Brexit – net importer from the EU, so tariffs could push up farmgate prices

Outlook – Sheep Sector

- Breeding flock in December +0.5% y/y, good weather in spring
- Store lambs +91,500 y/y (+42%) to w/e 12/9
- Brexit – UK sheepmeat exports exposed if face EU tariff shield
- 36.7% reduction in price needed to stay competitive after tariff (based on €6/kg wholesale carcase price at Rungis market in Paris 21/9/20)
- Exports 29.5% of Scottish sheepmeat processing sales in 2019
- 30% of UK mutton carcase production exported before accounting for cuts
- Scotland extra-exposed in 2021 due to later lambing and slower finishing
- Exposure may be lower than when modelling work carried out in 2016 and 2017 due to sharp reduction in imports, higher baseline prices, and weaker £

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Key factors for outlook across all sectors

- Economic outlook – end to furlough scheme, redundancies
- Change in meat demand channels – some more permanent
- Brexit – deal or no deal?
  - – non-tariff barriers irrespective of FTA
  - – technical details being left very late
- Labour supply in processing sector