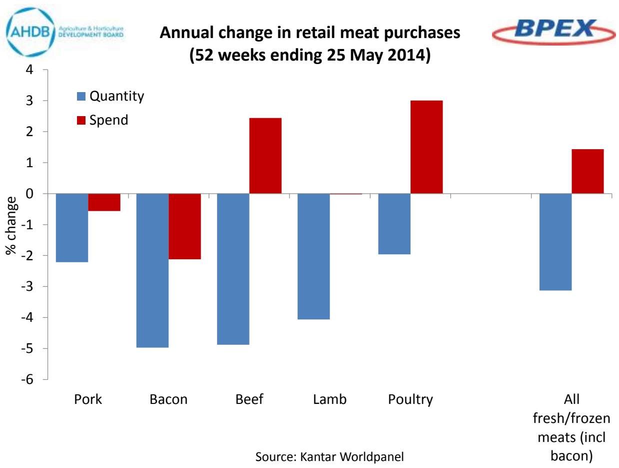
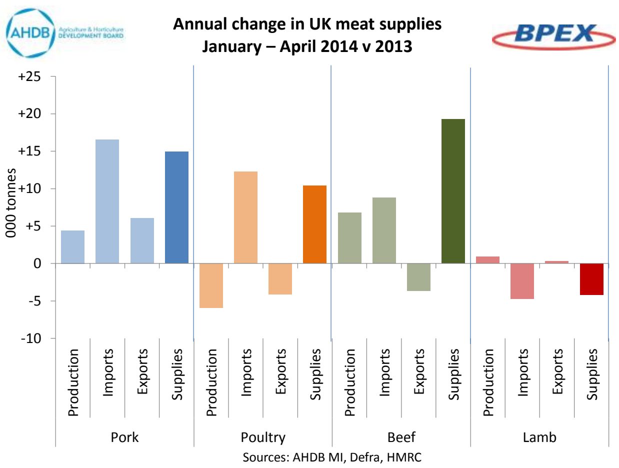
Mixed fortunes for pork's competitors

While pig meat consumption has help up relatively well during the economic slowdown, latest data from Kantar Worldpanel show a 2% decline in fresh and frozen pork purchases in the year ending 25 May 2014. This comes despite some easing in retail pork prices as of late, indicating subdued demand. In fact, falling meat consumption was evident across all fresh and frozen red meat and poultry categories. Despite lower unemployment and a recovering economy, UK consumer budgets continue to be squeezed as a result of wages staying below the inflation rate. This is leading to some changes in consumer preferences and retailers' promotions which are starting to hit volume sales for all major proteins.



The overall fall in consumption of fresh and frozen meat (and bacon) comes despite higher supplies of most meats being available on the UK market, with the exception of lamb. This is being driven by higher imports (again lamb being the exception), with much of the extra product likely destined for use in processed products or foodservice. Retail purchases of most processed meat products, including ready meals, have been higher in early 2014 than a year earlier.



Poultry meat is a direct competitor of pig meat and, as highlighted in last month's Pig Market Trends, sales have grown over time. However, despite its competitive pricing, even poultry has suffered lately. For the year ending 25 May, fresh and frozen poultry meat purchases came down by around 2% on the previous 12 months. This is partly a consequence of higher retail prices; consumers still spent 3% more during the period.

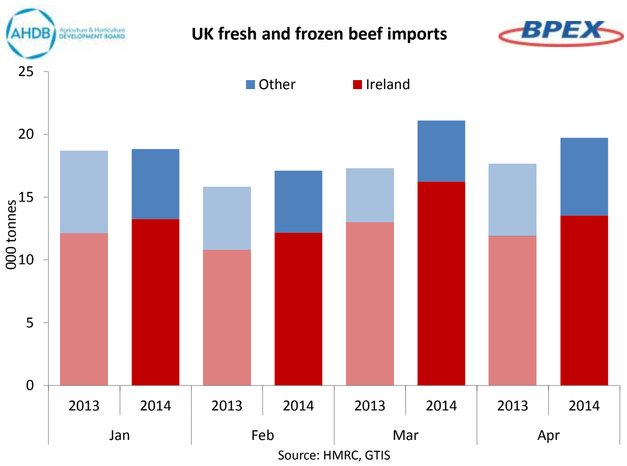
UK poultry meat production fell back in early 2014, in contrast to the steadily rising production of recent years, contributing to the higher prices. Overall output in the first four months of 2014 was 1% lower than a year before at 562,000 tonnes, although chicken production was little changed. Higher imports, along with lower exports, have more than offset the lower domestic supplies. However, with most retail sales of fresh poultry being UK product, the imported meat is likely ending up in other parts of the market.

With feed prices falling of late, prospects for some resumption of the upward trend in poultry meat production look reasonable. However, with wholesale prices under pressure from lower priced imports, particularly as the pound strengthens against the euro, much will depend on whether consumer demand begins to strengthen as economic recovery becomes more embedded.

The UK beef market remains under pressure as increased supplies are entering the market at a time when consumer demand appears to be very subdued. Latest figures show a 5% year-on-year decline in beef consumption for the 52 week period ending 25 May. There has been an even sharper fall in sales of roasting and stewing cuts, while mince sales have held up better, falling by only 2%. Burger sales were up 8% having recovered from last year's horsegate revelations, with other processed products also faring better. These trends mean that it has been more difficult for processors to optimise the value of carcases.

Currently UK beef production is ahead of 2013 levels, with slightly more prime cattle coming forward and much increased carcase weights after the better feed situation over the last year. In the first four months of the year, domestic beef production was up 2% on the year.

At the same time UK imports of beef have increased compared with a year ago, with volumes up 11% in the first four months, almost entirely due to a 15% increase in Irish volumes. This comes as Irish production has been well ahead of year earlier levels. Higher numbers have been slaughtered and weights have lifted after the better seasonal conditions. With the UK remaining by far the largest destination for Irish beef, this increase was largely inevitable. Additionally Irish cattle prices have been under sustained pressure since last summer and have fallen considerably, resulting in the price differential between the GB and Irish trade being wider than usual. This, combined with the strengthening of sterling against the Euro, has further encouraged these imports.



The same drivers have meant that UK exports remain uncompetitive in key export markets. So, with increased domestic production, higher imports and lower exports, the volume of beef on the UK market has been much higher than year earlier levels. These increased supplies have largely met very lacklustre demand, with mild weather and strong prices discouraging consumers to some degree. This follows on from a reportedly poor Christmas, which resulted in beef prices not undergoing the expected seasonal increase.

As such, the supply/demand balance has been out of kilter and become very unfavourable for producers. Farmgate beef prices have come under serious and sustained pressure since the turn of the year. The latest GB all prime price for the start of June represented a decline of 14% since the start of January.

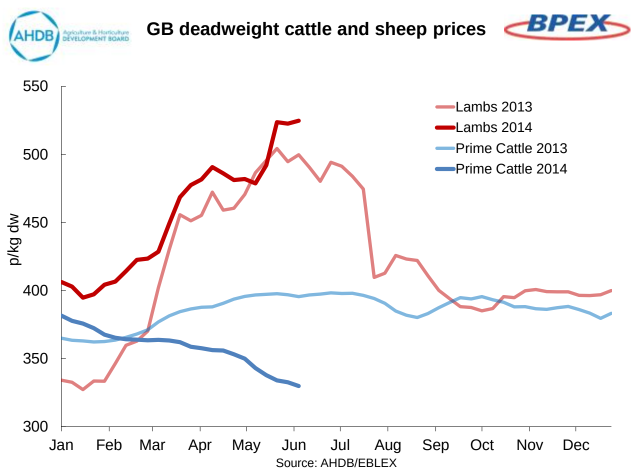
The current excess supply in the beef market is likely to be a relatively short-term phenomenon. Forecasts suggest that production will start to fall back again later this year and into 2015, both in the UK and Ireland. This should stabilise the market and lead to some firming of prices, provided consumer demand holds up.

During 2014, the lamb market has largely experienced benign conditions, as the global and domestic supply and demand balance looks to be much improved. Although overall retail lamb purchases have been down on last year, this is in comparison to a period of strong sales on the back of increased imports from New Zealand. Purchases of British lamb remain robust.

With a smaller lamb crop in 2013 and better marketing conditions, lamb supplies in the early part of this year were mostly tight. However, they were offset by much increased carcase weights, after the better seasonal conditions. Similarly, lower adult sheep cullings were somewhat offset by higher weights. As such, UK production has been running slightly ahead of 2013 especially after a strong April. Current indications are that supplies of new season lambs will be higher and throughputs are currently well ahead of recent levels.

These largely level domestic supplies, combined with a generally much reduced volume of imports have met a seemingly much improved demand position, both at home and abroad. So far this year imports of sheep meat have mostly tracked below the high levels recorded in early 2013. Volumes from New Zealand were down in particular, as their focus switches to China and they have found some improvement in other markets. While Australia has increased shipments to fill some of this gap, they are still limited in their ability to fill any shortfall, mostly as a result of the current quota regime in the EU. With good demand on the global market, average import values have been well ahead of year earlier levels too, adding further support to the UK market.

Currently export demand seems to have been robust in 2014, with traditional European markets generally holding up relatively well. Meanwhile, the newer non-EU markets have continued to take much increased volumes, with the first quarter of the year a new record high for exports to these destinations.



Overall the lamb market at home and globally has experienced much more favourable market conditions than a year ago. As such, domestic farmgate values have been largely favourable and have tracked ahead of recent levels. At the start of June the trade was still holding up strongly (rather than experiencing the usual season decline) and was at record levels for the time of year.

Prospects remain broadly positive for the remainder of the year, although prices will probably ease seasonally. Even with a better UK lamb crop this year, tight supplies in New Zealand and Australia are likely to limit the availability of lamb. This should continue to provide some support to the domestic market.