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Market Report

AUGUST 2023

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Welcome to our Market Report for August

Key Points to Note

- Beef Overview
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- Lamb Overview
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- Poultry Overview
- Russian Grain Deal

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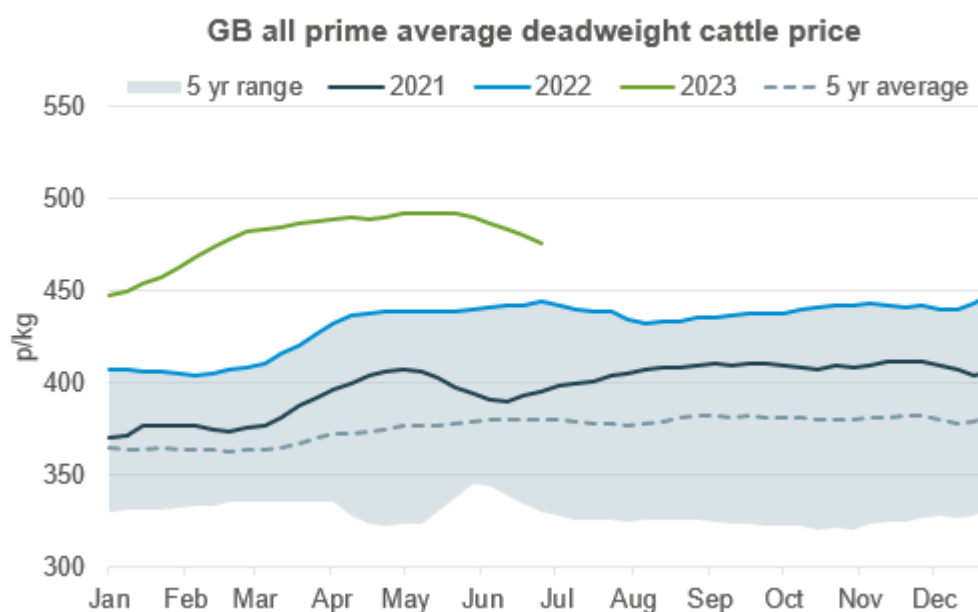
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Beef Overview

GB prime cattle prices remain elevated compared to prices seen at the same period last year, as we see higher slaughter levels.

The all-prime deadweight average measure was 481.4p/kg for the four weeks in June. This represents a fall of just over 10p from the four weeks in May, where the measure reached an all-time high of 491.5p/kg. The week ending 1 July saw the average fall to 476.1p, down 10p from the beginning of the four-week period. Prices continued to exceed levels seen in the same month in previous years, at 39p higher than 2022, and just over 101p higher than the 5-year average.



Beef Market Outlook

Beef production is forecast to fall by 1.7% in 2023 versus 2022 with consumption expected to remain subdued as cost-of-living continues to pressure consumers.

Imports are forecast to fall by 2%, driven by easing domestic demand and exports are forecast to fall by 7% following lower trade in the first quarter.

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Current market situation

Deadweight cattle prices have remained at record-high levels through the first 6 months of 2023.

Slaughter numbers were above year on year levels during the first quarter for both prime cattle and cows, but throughputs pulled back slightly through April and May.

From a demand perspective, the year-on-year declines seen in retail purchases have slowed for steak meat and roasting joints, with mince in particular performing well whereas foodservice has seen the opposite with demand for steak meat continue, with alternatives not usually seen through the summer months such as feather blade also commanding higher than normal prices as volume is required.

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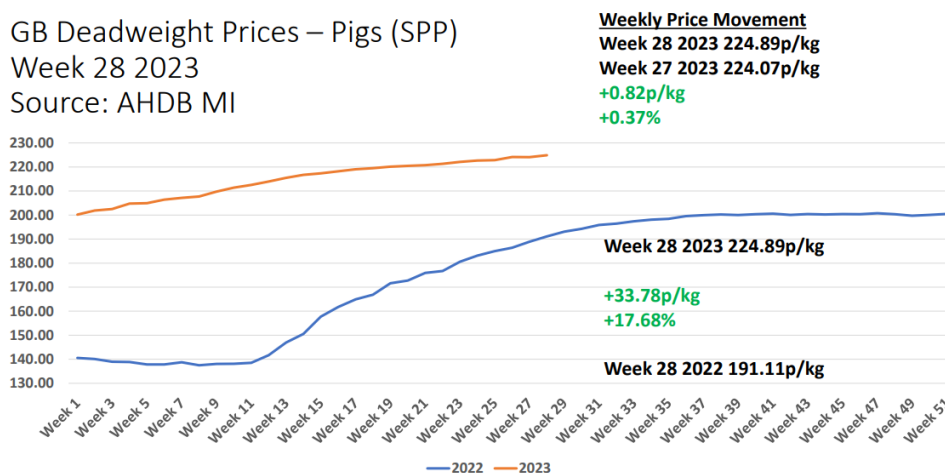
Pork Overview

As domestic supplies continue to run tight pig prices have remained supported through the month of July, while carcase weights have also eased slightly.

The SPP (Standard Pig Price) averaged 222.95p/kg in June, an increase of almost 2.3p from May. Weekly increases averaged just short of 0.7p for the month, resulting in the SPP now having gained for 25 consecutive weeks. The latest week's data (w/e 01 July) shows the SPP sitting at 224.17p/kg, a 23p increase since the start of the year.

For the four weeks ending 24 June, the EU spec APP (All Pig Price) averaged 221.36p/kg. Like the SPP, the APP has seen weekly increases over the period average at 0.7p. However, having recorded a drop in the last week of May, the APP has now only seen four consecutive weeks of growth, but sits 16p above where it started the year.

GB Deadweight Prices – Pigs (SPP)
Week 28 2023
Source: AHDB MI



Pork Outlook

Pig meat production continues to be forecast to end the year 15% behind volumes from 2022, driven by a 14% reduction in clean pig kill. A gradual recovery is still expected in the breeding herd, with numbers predicted to increase by 7,000 head. Both imports and exports are now projected to decline year on year as available supplies domestically and abroad tighten. Domestic demand continues to ease, remaining at a forecasted -3%, driven by the cost-of-living crisis reducing volumes in retail sales and eating-out.

In the first 3 months of 2023 industry headlines have been focused on the tight supply situation both domestically and across the continent, and rightly so. UK pig meat production in Q1 was down 11% year on year and EU production was 8% behind Q1 2022. This has kept prices supported with significant rises seen across both the UK and European market since the beginning of the year.

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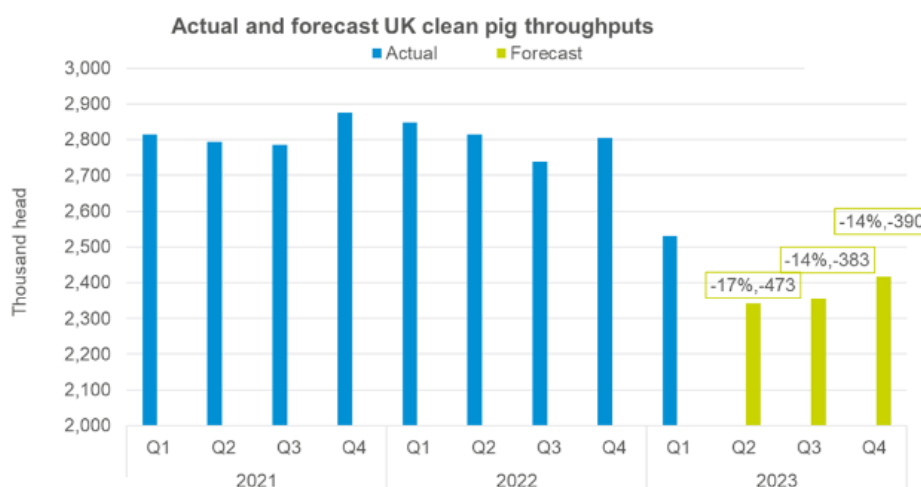
Although there has been some easing on inflationary pressure on input costs, prices for key commodities still remain historically high. This has resulted in our estimated cost of production and net margins improving from the dire situation witnessed 12 months ago, offering some signs of the green shoots of recovery.

However, there is still plenty of challenges on the path ahead that will need to be overcome before industry confidence returns to what it once was. In the short term the cost-of-living crisis continues to dampen demand while the ongoing risk of a disease outbreak remains ever present. In the longer term, volatile input prices remain a key watch point, while domestic processing capacity stays in the industries focus given recent announcements regarding abattoirs at risk of closure.

Supply

With census figures showing a sharp decline in the UK breeding herd and significant drops in the number of pigs intended for breeding, it was inevitable that industry would feel the very real pinch of tightening supply of finished pigs in 2023.

So far this year (Jan-Apr), 3.3million head of clean pigs have been slaughtered, 10% below the numbers recorded in 2022. We forecast that Q2(May-Aug) will see the least availability in supply, with clean pig kill down 17% year on year, as the impact of fertility issues brought on by last summer's heatwave are seen. Recovery in numbers is expected to be limited due to only marginal growth as noted previously (+7,000 head) in the breeding herd, bringing the full year kill to 9.6 million head. As a result, we forecast that the production of pig meat will decline 15% in 2023, ending the year at around 890,000 tonnes with average carcase weights sitting at 89kg.



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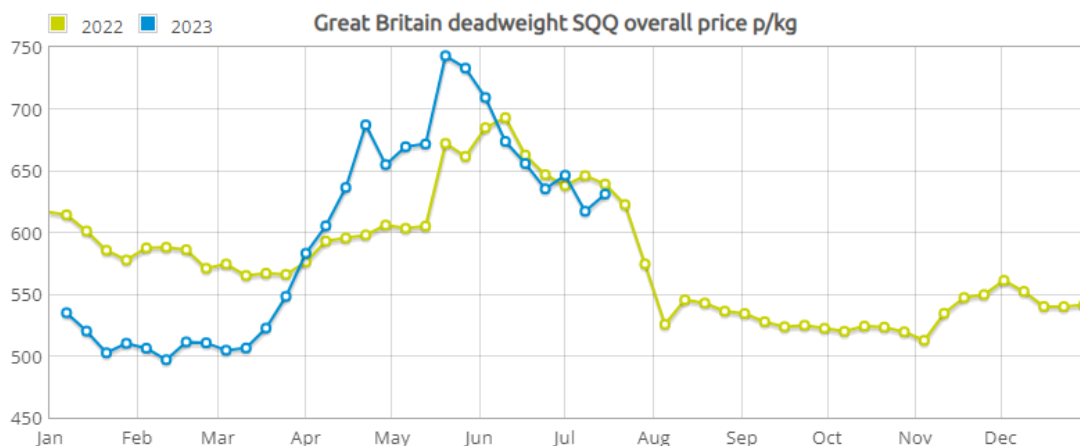


UK Lamb Market & Overview

An increase in production is forecast for 2023, of approximately 2% year-on-year, driven by higher carry-over and a broadly stable lamb crop. With consumption expected to weaken, linked to recessionary pressures and tighter consumer budgets. Imports are also forecast to ease by nearly 20% year-on-year, driven by weaker domestic demand with exports forecasted to grow in line with the projected domestic market balance, by around 15%.

Current Market Situation

Finished lamb prices started the year in a weaker position compared to recent years but have strengthened as the months have passed. While a higher carry-over of old season lambs and the post-Christmas demand slump weighed on prices initially, the earlier timing of Easter and Ramadan have helped support prices into the spring. New season lamb prices have begun the season in record position, with lambs generally slower to come forwards keeping prices buoyant.



Flock numbers

As of 1 December 2022, the UK breeding flock had grown by 1% from the year before to stand at 14.4 million ewes.

Assuming a slightly lower lambing percentage (based on variable commentary around scanning rates, and a relatively cold and wet spring), forecast for the 2023 lamb crop will remain broadly stable compared to last year at 17.15 million head.

The expected growth in the UK breeding flock will slow over the coming year, following trends seen over the past three years. The national flock has been rebuilding ever since 2018, when the Beast from the East hit. However, annual growth rates have been slowing, and the flock remains smaller than it was pre-2018.

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Lamb Imports

Data for the first quarter of 2023 shows that the quantity of sheep meat imported into the UK has returned to the long-term path of decline. 10,700 tonnes of fresh and frozen product were imported across the quarter, **down 33% year-on-year**.

New Zealand and Australia have been the key drivers with both markets increasing their focus on China as a more attractive market.

With our domestic new season supplies on their seasonal increase, and a subdued outlook for domestic consumption, we could see import levels below that of 2022 for the rest of the year.

The UK-Australia and UK-New Zealand FTAs (Free Trade Agreements) came into force at the end of May, which opens the door to more imports of red meat. However, modelling suggests imports will not dramatically increase because of these agreements. This is because Australia and New Zealand already have access to lucrative markets in Asia, for example, and, all things remaining equal, are unlikely to divert product from these markets to the UK just because they will have tariff-free access.

However, if circumstances change, then there is potential for more product to be sent to the UK, so there may be harmful consequences in the future.

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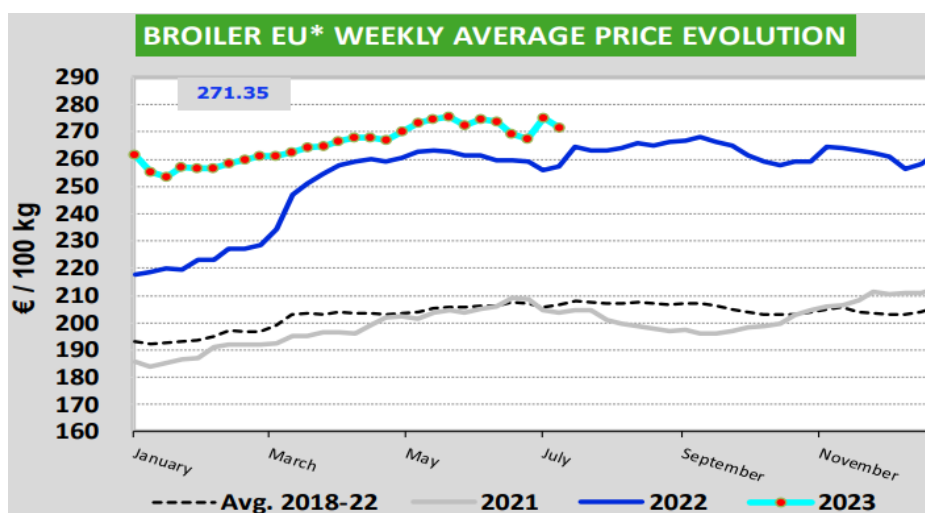
Poultry

In the UK demand from foodservice is still strong with the onset of the Summer and hopefully more settled weather. Through August thigh meat & wings have also increased in demand from both retail and foodservice, this also is a result of consumers looking to spend less. Retail demand has and will continue to have an effect on supply and availability on volume to foodservice as they promote instore throughout the summer on the three for £ deals.

Product arriving from France, in particular Confit Duck Legs, are now after a long period of short supply starting to show again with product being offered.

EU Poultry

Challenges across central and southern Europe have been amplified with the extreme heat killing many chicks which if it continues through the summer months will almost certainly have an impact on volume coming out of the EU.



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Russia withdraws from Black Sea grain deal

Russia's decision to end its crucial Black Sea grain deal that allowed Ukraine to export grains from three of its ports, has been met with condemnation from around the world.

The deal as we know allowed cargo ships to export sunflower, maize, wheat and barley from Ukraine, one of the world's biggest grain producers. The deal also has helped stabilise grain prices in the past year and prevent food shortages in some African and Middle Eastern countries.

The decision is likely to have knock-on effects for poultry producers, as grain prices will inevitably rise again worldwide.

By terminating the agreements, Russia is single-handedly blocking one of the crucial main export routes from Ukraine of grains and is solely responsible for disruptions of grain deliveries worldwide and fuelling food price inflation globally.

Final Thought

“The Attitude You Bring to the Day, Is What the Day Will Bring to You”

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