Weekly Intelligence Update

Brought to you by the NFU Economics team

Week 10/07/20

Sector Headlines

GB planted area declines confirmed following tough year

- AHDB has released the results of their Planting and Variety survey results, providing planted area estimates for the 2020/21 season.
- As anticipated, every single region within GB recorded a decrease in wheat area. Nationally, data shows a year-on-year reduction of 25%, putting the GB area of wheat at 1.36 million hectares. The challenging weather played a major part in this reduction. Persistent rain throughout autumn and winter altered many growers' intentions, with them switching to plant spring crops when unable to get their winter crops drilled.
- The overall winter barley area for 2020 has reduced by 34% year-on-year to 296,000 hectares. Similar to winter wheat, the weather posed significant challenges whilst drilling, and after November much winter barley would not have been drilled.
- The spring barley area is recorded at 1.06 million hectares, increasing by 52% on the year. The most notable rise has been in England (+76%). A lack of winter drilling of both wheat and barley led to spring barley as the most viable option for many growers.
- With dryness during planting and excessive autumn rain, coupled with cabbage steam flea beetle (CSFB) damage, there has been a drastic reduction in OSR in England for 2020. The area is now at 355,000 hectares, down 28% year-on-year. This will be the lowest recorded area in England since 2002.

Cattle price holds steady

- The all-prime average price stood at 361.2p/kg for the week ending 4 July, up half a penny on the week before.
- Slaughter at British abattoirs was estimated at 34,400 head, virtually unchanged from the previous week, but 3,300 head higher than in the same week last year.
- Cull cow prices fell by 1.6p to average 259.1p/kg, as estimated slaughter rose by 800 head to 11,500 head for the week. This is the first fall in deadweight cow prices for about three months. However, the measure is still currently the highest it has been at this time of year in the last six years.

Global Dairy Trade auction index jumps on strong whole milk powder demand

- The latest Global Dairy Trade event saw the overall price index rise for the fourth consecutive time; rising by 8.3% overall from the previous auction. This is the largest increase since November 2016, driven by a 14% jump in the whole milk powder (WMP) price index.
- The uplift in WMP prices has been linked to the increased volumes placed on the auction combined with strong short-term demand, with demand in China said to be increasing as foodservice recovers.
- At this time of year, production levels in New Zealand (NZ) are seasonally low, and stocks run down. It may be that the increased availability at the latest event spurred on buyers and pushed up bids.

Global Releases

EU Commission's short-term outlook

- The EU commission has published its latest short-term outlook report for EU agricultural markets, and prospects for the agri-food sector for 2020/21.
- EU cereal production is forecasted at 286.3 million tonnes, a decrease of 2.7% compared to 2019/20, but still 1.7% above the 5-year average. This is explained by a lower acreage of winter cereals but also dry conditions during crop development, especially for wheat.

- In 2020, the EU milk collection is forecast to reach close to 144 million tonnes, 0.7% above 2019 levels and more than anticipated in the spring short-term outlook.
- Beef production is expected to decline by 1.7% in 2020. This would be the consequence of reduced demand from foodservice due to lockdown measures, as well as limited supply due to smaller herds and early slaughtering at lower weights because of lower availability of feed during the dry spring.
- Poultry production is due to decline by 2% in 2020, with the sector promptly adapting to the lower demand and lower prices. Market uncertainties, including in terms of exports, also explain this decrease.
- Pigmeat production should increase slightly in 2020 by 0.5%, supported by favourable prices, return of consumer demand, solid export prospects mainly to China and recent investments in the sector.

Wider Economy

Coronavirus: Public spending on crisis increases to £190bn

- Public spending on the battle against coronavirus has risen to nearly £190bn, according to latest Treasury figures. It comes after Chancellor Rishi Sunak announced another £30bn of support in his summer statement on Wednesday.
- Although Mr Sunak said his priority was getting people back to work, he acknowledged that the extra support would not be enough to save every job and prevent further economic hardship.
- Direct spending on the crisis, excluding the latest £30bn package, has risen to £158.7bn, Mr Sunak revealed on Wednesday.
- This extra spending is likely to push the gap between what the government spends and what it raises in taxes - the deficit - above the OBR's latest estimate of around £300bn.

Coronavirus: Taxes will rise to pay for virus, IFS think tank warns

- Taxpayers face the prospect of higher taxes in the future when the government's massive coronavirus support measures have to be paid off, experts warn. The Institute of Fiscal Studies think tank says the economy will remain in a "support and recovery" phase for some time, but higher taxes are inevitable.
- On Thursday, in its analysis of the latest measures, the IFS predicted that government borrowing would surge to about £350bn this year. In March, the government forecast a deficit of about £50bn to £60bn this year. The IFS said it expected further spending support in the autumn Budget.
- Of the policy measures announced in Wednesday's summer statement, the biggest was the plan to pay employers £1,000 for every furloughed worker they retain past January. The total bill could rise as high as £9.4bn, but only if every furloughed worker keeps their job.
- Some commentators have questioned this policy, stating that firms will either want their staff back, or they won't, with a majority of the job retention bonus money going to support jobs which would have returned from furlough anyway.

UK construction sector rebounds but job losses mount

- UK construction activity rebounded more than expected in June as the economy reopened but worries about long-term demand led to further jobs cuts.
- The IHS Markit/Cips UK Construction purchasing managers' index rose to 55.3 in June, from 28.9 the previous month. The reading marks the steepest pace of expansion since July 2018 and is above both the increase to 47 forecast by economists and the 50 mark that indicates a majority of companies reporting an improvement compared with the previous month.
- However, the index measuring business expectations for the year ahead remained historically subdued and businesses reported falling jobs numbers.