Weekly Intelligence Update

Brought to you by the NFU Economics team

Week 31/07/20

Sector Headlines

Deadweight cattle prices strengthen again

- In the week ending 25 July, the GB overall deadweight prime cattle price averaged 361.9p/kg, up 1.9p on the week before. Estimated slaughter at British abattoirs fell 1,100 head on the week to 32,600 head.
- Cull cows also enjoyed increases, with the GB average price up another 2.7p on the week to 263.6p/kg. Estimated slaughter was up marginally on the week (+300 head) at 9,600 head.
- Industry reports suggest that cattle numbers in both the UK and Ireland are tight, with processors bidding competitively to fulfil orders.

Eid supports lamb prices

- During the week ending 29 July the GB liveweight NSL SQQ increased 7.3p week-on-week, to 224.36p/kg. Most days during the week recorded rises, however there were especially strong gains week-on-week on Monday and Tuesday, when prices averaged at around the 230p/kg mark.
- Throughputs for the week reflected the upcoming Eid-al Adha festival, totalling 155,000 head, up 12,800 head on-the-week.
- In the week ending 25 July the GB deadweight NSL SQQ was relatively stable, falling 1.8p to 478.1p/kg. Prices continue to trend high for the time of year.
- Estimated kill for the week totalled 245,500 head, the highest weekly kill so far this year. This is most likely reflective of both the time of year with kill seasonally increasing, but also Eid-al Adha which is this weekend.

Global Releases

Global wheat surplus reduced by IGC

- This week the International Grains Council (IGC) cut 5.6Mt from its 2020/21 global wheat production forecast. At 762.0Mt the global wheat crop would still be 12.1Mt above the demand prediction and a notably smaller surplus than the 16.2Mt forecast last month.
- The cut to global production includes reductions for: EU-27 down 2.8Mt to 125.6Mt, USA down 1.5Mt to 49.6Mt, Russia down 1.0Mt to 78.0Mt and Argentina down 0.6Mt to 20.4Mt. Total stocks would still be large and increase by the same amount as the expected surplus during 2020/21, but the increase would be less than previously thought.
- Furthermore, most of the year on year increase in stocks is expected in China (+8.0Mt) and India (+4.4Mt). As these countries have minimal involvement in wheat exports, these extra stocks would not really be available to the wider market.

Wider Economy

UK businesses borrow £50bn in state-backed coronavirus loans

- More than £50bn has been borrowed by British businesses struggling to survive the pandemic in government-backed scheme, showing the continued need for support for companies even as lockdown measures are eased.
- The Treasury said on Tuesday that close to 1.2m businesses had taken bank bailout loans and other debt that were partly or fully guaranteed by the government. Most of this had been lent through the "bounce

back" scheme, which allows very small companies to borrow up to £50,000 with only light checks on their ability to repay.
- This has caused concern about the future of the scheme — which has supported banks to lend close to £34bn to 1.1m small firms — with estimates from the Office for Budget Responsibility that up to 40% could default.
- More than 57,000 businesses have borrowed £12.7bn using the coronavirus business interruption loan scheme (CBILS), which offers larger loans of up to £5m. The coronavirus large business interruption scheme (CLBILS) — which part guarantees loans of up to £200m — was used to lend £3.1bn.
- The rate of increase in companies taking government-backed loans has slowed. Last week, banks had approved £47.9bn through government-backed coronavirus lending schemes, of which £32.8bn was made through bounce back loans.

Furlough scheme has now cost £31.7bn

- The Treasury said this week that the furlough scheme — which helps pay the wages of more than 9m people — has now cost £31.7bn.
- Next month, employers will start to share some of these staff costs again by paying national insurance and pension contributions.
- Also, so far, more than 53,000 restaurants have signed up to the government's 'eat out to help out' scheme, which will give customers a 50% discount every Monday, Tuesday and Wednesday in August.

Ending UK furlough scheme will fuel unemployment, think-tank warns

- UK unemployment will rise to 10% of the workforce by the end of the year because of the government's decision to bring a premature end to its furlough scheme, the National Institute for Economic and Social Research has warned.
- Publishing its latest quarterly forecasts, the think-tank said on Tuesday that its main scenario was for UK output to fall by 10% in 2020, and to remain 6% below its pre-coronavirus trajectory in 2024.
- In this scenario, unemployment would rise above 3m to almost 10%, its highest rate since the early 1990s, and although the jobless rate would fall after that, it would not return to pre-Covid levels by 2024.

Service sector rebounds more than expected

- The IHS Markit/interim, purchasing managers' services index (PMI) — which gauges how activity has changed compared with the previous month — rose to 56.6 in July from 47.1 the previous month.
- The services sector accounts for 80% of the UK economy. This level, well above the 50 mark that represents a majority of businesses reporting an increase in activity, had not been seen since the same period in 2015. It was much higher than the 51.5 reading forecast by economists.
- However, some economists were wary about how much the data revealed about the recovery. They said retail sales were unrepresentative of overall spending while PMIs had not been a reliable indicator of the scale of economic output growth during the pandemic because they only record a month-on-month change in activity.
- Once pent-up demand for goods that were unavailable during the lockdown was released, economists warned that overall buying might ease. And, given the drop in household income due to job losses, wider spending may not in fact recover to pre-virus levels.