The Red Meat Sector Operating Environment

Half-yearly review: January 2018

Iain Macdonald
Senior Economics Analyst
Quality Meat Scotland

0131 472 4040
imacdonald@qmscotland.co.uk

Executive Summary

- The UK economy grew more slowly in 2017 as consumer spending came under pressure from a squeeze on incomes. However, business-to-business services continued to perform well and overseas demand for UK goods and services firmed. Business surveys reported a more positive economic environment towards the year-end, particularly in manufacturing, but investment has been weaker than might have been expected. The strong upturn in employment of recent years showed signs of coming to an end, though this may be more of a labour supply issue than weak demand for staff.

- Inflation has remained well above the Bank of England's (BoE) 2% target due to the lagged effect of past rises in import and commodity prices. Despite record employment and rising labour requirements, pay growth has remained below inflation, reducing real wages.

- With the banking sector remaining more risk averse than in the first decade of this century, firms have shown signs of looking to alternative sources of financing. While some business surveys have reported subdued demand for credit, the official data shows firm growth in lending to companies and households. Supported by low interest rates, growth in consumer credit remained strong, but it has passed its peak.

- While the amount of money spent at retailers held firm in the autumn of 2017, rising inflation meant that growth in sales volumes at non-food stores slowed while food purchases slipped back.

- Monetary policy continues to support the UK economy, holding down interest rates for firms and households. Thus far, the BoE has been willing to accept above-target inflation. On the fiscal side, the UK government has signalled an intention to slow the pace of budget deficit reduction. While it has continued to lower taxes on labour income, working-age benefits are facing cuts.

- The euro area economy continued to strengthen as 2017 progressed, with rising economic activity helping countries with elevated unemployment rates make a significant dent in this spare capacity. The European Central Bank (ECB) maintained a loose monetary stance, but did begin to reign in its asset purchase programme. Policy continued to support growth in lending to firms and households, but core inflation has remained stable. The EU Commission has affirmed its support for a small degree of fiscal expansion, but Member State budgets point to a neutral fiscal stance.

- Following 2016's rebalancing, sterling was more stable in 2017. In addition to sentiment about future trading relationships, changes in the outlook for monetary policy have become a more prominent driver of exchange rate fluctuations. A weaker sterling has made it easier for UK red meat exporters to compete in price sensitive markets at home and overseas.

- The UK economic outlook is mixed. Inflation may begin to ease slightly from 3% as the impact of past increases in import and commodity prices diminishes. With pay growth likely to remain soft, the squeeze on disposable incomes that began early in 2017 is likely to continue. Although some investment plans will remain on hold due to longer-term economic uncertainty, where a weaker currency has supported export activity, there is the potential for investment in additional capacity. With the UK economy close to full employment and migration slowing, employment growth may slow.

- Lower domestic production and a weak sterling supported livestock producer prices in H2 2017. Strong retail competition has restrained meat price inflation in recent years, but retail prices have edged higher as the supply chain begins to recover some of its increased raw material costs.

- Going forwards, beef production is expected to fall slightly in H1 2018, but sheep and pig production are expected to increase. Tight supply is likely to support import demand for beef while restricting export growth. For sheepmeat, rising import prices are likely to continue constraining import demand, while exports should be underpinned by a weak currency and rising home production. Pigmeat trade is likely to contract, limited by rising production in both the UK and on the continent.

Contents

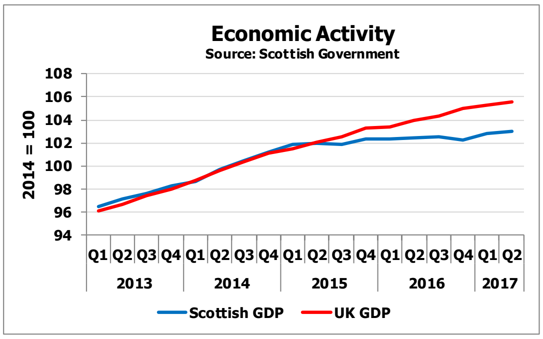
What is happening in the UK economy?

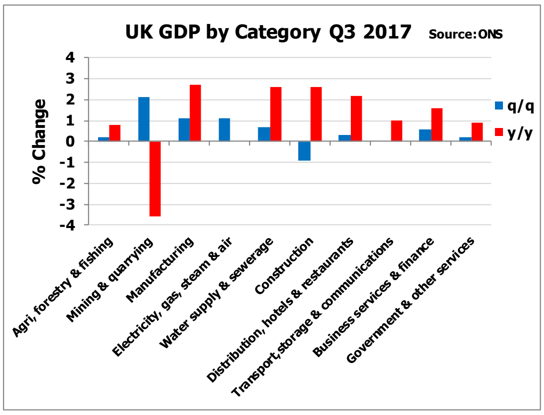
Macroeconomic Indicators

Economic Activity:

	Economic Growth Rates						Source: ONS
	Q3 2017		Q2 2017		Q1 2017		2016
	q/q	y/y	q/q	y/y	q/q	y/y	y/y
Scotland (GDP[1])	n/a	n/a	+0.1	+0.5%	+0.6%	+0.4%	+0.4%
UK (GDP)	+0.4%	+1.5%	+0.3%	+1.5%	+0.3%	+1.8%	+1.8%

GDP





During 2016, the UK economy grew by 1.8% - its slowest pace since 2012 according to The Office for National Statistics (ONS). Much of this slowdown came before the EU referendum. However, moving into 2017, the pace of expansion has slowed further, leaving the UK economy 1.5% larger than a year earlier in the second and third quarters (Q2 and Q3). This compares with an average growth rate of 2.2% between 1992 and 2016.

Since 2015 the Scottish economy has diverged from the wider UK economy, showing little growth. In 2016, output grew by only 0.4%. Q1 2017 saw a rebound in some sectors after a difficult end to 2016, but the slow pace of growth resumed in Q2. Manufacturing output slipped back by 0.7% in Q2 after beginning the year strongly; though it did remain higher than at any point in 2016 and was up 0.2% year-on-year. Services posted their best quarter since early 2016, growing 0.7% to be up 1.3% on the year. However, construction contracted for a sixth quarter and was 5.5% smaller year-on-year. Agriculture, forestry & fishing posted respective quarterly and annual growth rates of 0.6% and 0.4% in Q2.

In 2016, the service sector out-performed the overall economy for the 18th time in 20 years, growing by 2.9%. However, services have seen a significant slowdown in growth in 2017 rising by only 0.1% in Q1 and then by 0.4% in Q2 and Q3, leaving output 1.4% higher on the year in Q3 – their slowest annual growth rate for four years. Consumer-facing services have had a challenging year following considerable expansion between 2013 and 2016, while property and the financial sector remained weak. On the other hand, business-to-business activity has held up along with health and education.

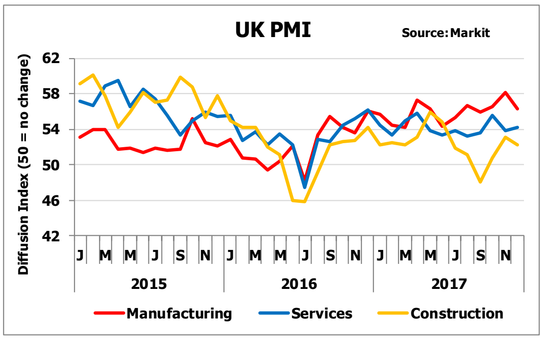
The UK economy continued to rebalance away from production (of which manufacturing accounts for 70%) in 2016, lagging services for the 19th time in 20 years. Production rose by 1.2%, with manufacturing rising at a slower pace of 0.7%. However, manufacturing has made a comeback in

[1] GDP (Gross Domestic Product) = GVA (Gross Value Added) + taxes on products – subsidies on products. It is a measure of the total economic output of the domestic economy. GDP is seasonally adjusted to allow comparisons from quarter-to-quarter and is referred to in real terms – adjusted for inflation.

2017, with quarterly growth of 1.1% in Q3 making the sector 2.7% larger than a year earlier. An historically weak sterling has supported goods exports, which were up 14.3% year-on-year in Q3.

Following a strong end to 2016 and start to 2017, construction contracted 0.5% in Q2 and 0.9% in Q3. Following a sharp fall of 5.7% in 2016, the agriculture, forestry & fishing sector has stabilised this year and was 0.8% larger year-on-year in Q3.

Purchasing Managers Index (PMI)



The monthly PMI surveys provide a more up-to-date measure of UK private sector activity. As can be seen in the chart, business activity growth held firm in the second half of 2017 (H2). A weighted average score for the three sectors lifted from 53.6 in Q3 to 54.7 in Q4, but fell short of its Q4 2016 level and was at a five-year low for the quarter. PMI surveys suggest that the UK private sector has been growing at an annual rate of around 1.5% since mid-2016.

Taking services first, December saw a lift in output growth to its second highest level since April. However, order growth is reported to have dipped back to a 16-month low with subdued business investment and consumer spending limiting further increases. As a result, firms reduced their backlog of work. More positively, there was a lift in optimism about the year-ahead with 43% of firms expecting to expand. A quarterly average score of 54.5 for Q4 was the highest of 2017 and suggests that service sector output rose at a quarterly rate of 0.4-0.5%.

In manufacturing, the December PMI reported a slowing in output and new order growth, but both remained historically strong. Expansion was greatest in the production of intermediate goods with investment goods manufacturers also making progress. However, the consumer goods sector had a weaker month. This may reflect subdued domestic consumer sentiment whereas export demand has held firm due to a strengthening global economy and a competitive exchange rate. 54% of manufacturers expected a rise in sales in the coming year. The Q4 average PMI score of 57 was up by a point on Q2 and Q3 and was a four-year high for the quarter.

The UK construction sector has had a weaker 2017 than service providers or manufacturers. Overall construction order growth in December continued to be underpinned by strong demand for new homes, but demand for commercial and infrastructure projects remained weak. However, growth in new projects reached a seven-month high and firms stepped up their input purchases. The Q4 reading of 52 was a recovery from 50.4 in Q3 but remained below Q1 and Q2 levels.

Business Investment

The ONS estimates that UK business investment rose by 0.5% for the second consecutive quarter in Q3 2017, but was up by a relatively sluggish 1.7% year-on-year. A breakdown by sector shows that, at £6.35bn, manufacturing investment rose by 1.3% on the quarter and by 7.6% on the year. The relative out-performance of manufacturing reflects a need to increase capacity to meet rising orders.

Summary

Official data indicates that the UK economy grew more slowly in 2017. Manufacturing had an encouraging year, supported by a weak currency, but consumer-facing services faced growing headwinds. Business surveys reported rising demand for UK goods and services from both the home market and overseas, resulting in a backlog of work, suggesting increased capacity will be required. However, economic and political uncertainty has resulted in relatively subdued business investment.

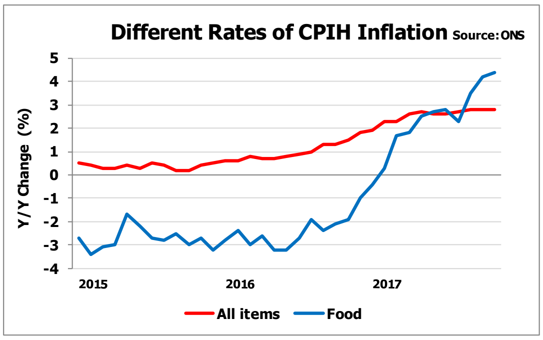
Inflation:

	UK Rates of Inflation (y/y)		Source: ONS
	Sep to Nov 2017	Jun 2016 to Aug 2017	2016
CPIH	2.8%	2.7%	1.0%
Core inflation[2]	2.5%	2.5%	1.6%

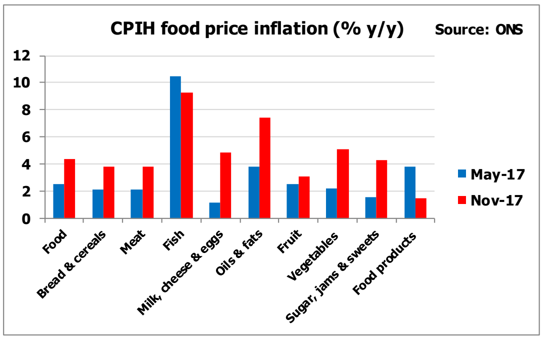
The Consumer Prices Index including owner-occupiers' housing costs (CPIH) - the ONS' favoured measure of inflation – rose sharply in the second half of 2016 (H2) and early 2017, doubling from 1.3% in October 2016 to 2.6% by April 2017. Since then, it edged higher before steadying at 2.8% in the autumn. Having held below the Bank of England's 2% inflation target from November 2013 until January 2017, it has exceeded 2% since February. It was last higher than 2.8% in March 2012.

Core inflation also picked up in late 2016 and early 2017, before stabilising at 2.5% in autumn 2017. This lift in core inflation lagged the rise in the headline rate as increased commodity and import prices took their time to be reflected in the prices of goods which have longer periods between re-pricing.

Food Prices



Following two years of food price deflation of 2-3%, this position reversed quickly between late 2016 and early 2017. By February 2017 food prices exceeded year earlier levels and food inflation stabilised around 2.5% between May and August, before climbing to 4.4% in November; a 50-month high. At this level, food contributed 0.31 percentage points to the headline CPIH inflation rate. Past increases in UK farmgate prices and the cost of imported foodstuffs have reached the wholesale sector, with UK food manufacturers reporting a 5% annual increase in their output prices in November[3]. Although retail competition remains heightened, this pressure has been reflected in shop prices.



Within the food basket, the strongest rate of inflation in November was 23% for butter, reflecting the impact of a global shortage on wholesale prices, while the cost of chilled fish was up 15% on last year. Other products rising faster than average included bread (6.0%), yoghurt (6.8%), and cheese & curd (7.1%). Nevertheless, a few groups still exhibited deflation, such as pizza & quiche (-3.0%), margarine & other vegetable fats (-8.9%), and sauces, condiments (-2.2%). After a prolonged period of deflation, meat prices began to exceed year earlier levels in April and averaged 3.8% higher in November. Two meat categories remained slightly lower than last year – poultry (-0.6%) and edible offal (-1.5%). However, beef & veal and pork were up by 1.9%, cured meats were 5.3% dearer than last year and lamb & goat led the way on 9.2%.

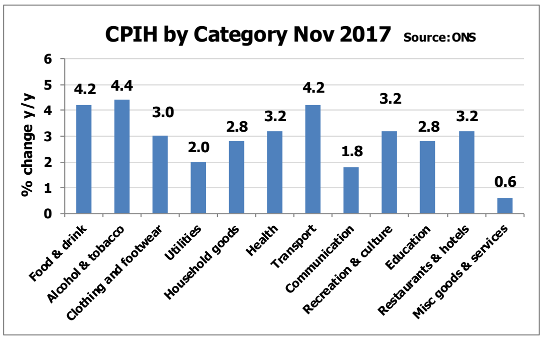
While survey evidence from the British Retail Consortium (BRC) also indicated higher food prices in November 2017 than twelve months before, the rate of increase was a slower 1.3% for fresh foods and 1.8% for non-perishable food. The price deflator used by the ONS to convert retail sales values into volumes in predominantly food stores reached a 50-month high of 3.6% in November.

[2] Due to the tendency of food and energy prices to fluctuate sharply, the ONS publishes a more reliable indication of underlying inflation: CPIH excluding energy, food, alcohol and tobacco. This is commonly known as 'core inflation'.
[3] See series K37L in the ONS Producer Price Index dataset.

Fuel & Energy Prices

In addition to food, the cost of fuel and energy has moved from deflation in 2016 to inflation in 2017. With the sterling price of oil exceeding year earlier levels for most of the time since August 2016, prices of refined hydrocarbons have risen and fuel has become more expensive. Global oil prices were underpinned in 2017 by collaboration between major oil producing nations to restrict supply growth plus political tensions in the Middle East. In the CPIH index, petrol and diesel have been dearer than a year earlier since September 2016, but fuel inflation did slow to 3.5% in November, perhaps reflecting competitive pressures. Meanwhile, overall energy inflation stood at 6.4% in November. Whereas gas was unchanged year-on-year for a fifth month, electricity was up 11.4%.

Consumer Goods Prices



With rising input costs passing through supply chains goods price inflation picked up as 2017 progressed, opening the year at 1.1% and climbing to 3.3% by November. According to recent PMI surveys, higher wages, raw material and transport costs have raised input costs, while the BRC survey for November indicated that costs rose in the autumn due to the renegotiation of fixed-price contracts for inputs that were entered into during the previous environment of low inflation. Although the exchange rate was similar to a year earlier in November, its past depreciation continued to have an impact through lagged adjustments to prices and attempts to rebuild margins. Strong competition on the high street has limited the degree of pass-through, but elevated consumer inflation expectations will have helped firms raise prices. Clothing prices tend to be volatile from month-to-month but have been averaging around 3.5% higher than a year earlier since May. Inflation in furniture, furnishings & carpets dipped back from around 6% in Q3 to a marginally above average 2.9% in November, while inflation in household appliances, such as fridges and washing machines, rose to a three-month high of 4.7%. However, some products have remained in deflation. For example, men's footwear prices were down 0.8% and data processing equipment was 5.3% cheaper. In the ONS retail sales dataset for November, the deflator (inflation rate) for non-food stores eased for a third month, slipping to a seven-month low of 2.4%.

Consumer Services Prices

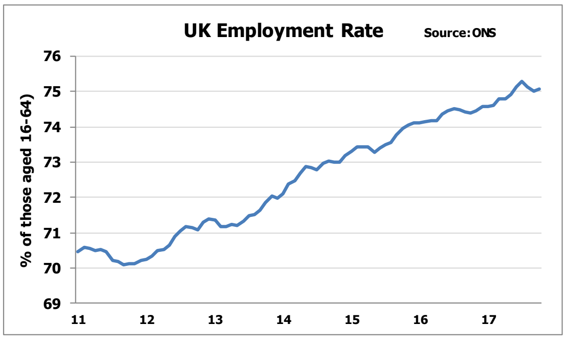
Service sector price inflation has been running at approximately 2.5% for a prolonged period and remained well anchored in 2017, showing no signs of following goods price inflation higher. In November, services inflation averaged 2.4%. Areas of the service sector to see above average increases included restaurants & cafes (3.1%); child care (3.5%); accommodation (3.8%); nursing homes (4.8%); and bus travel (13.9%). In addition, increased taxes helped push up the cost of insurance by 7.7%. However, financial services were 3.1% cheaper than a year earlier, electricians were a fraction cheaper, and recreation & culture was only 0.7% higher. According to the December PMI survey, output price inflation cooled following a lift in November. Services price inflation is a good barometer of domestic demand so its relative stability points to continued steady growth.

Summary

Despite competition between retailers remaining strong, previous increases in the price of raw materials and other inputs were passed on to customers at an increasing rate during 2017. Food prices showed a notable upturn. Both the headline CPIH inflation rate and core inflation continue to exceed the BoE's 2% target, but they have stabilised during the autumn. A steady rate of services inflation at around 2.5% suggests healthy domestic demand growth but no further uplift in domestically generated inflation.

Labour Market:

Employment



According to the ONS Labour Force Survey, UK employment was 0.2% lower in the August to October 2017 period than in the previous three months with the UK economy losing 56,000 more jobs than it created. Although this was the first decline since Q2 2015, employment was still up by 1% on the year at nearly 32.1m. The employment to population ratio slipped back from its 43-year high of 60.9% in the May to July quarter to 60.7%; though it was still up slightly on the year. Meanwhile, the headline employment rate, for those aged 16-64, slipped back by 0.2 percentage points on the quarter from May to July's record high of 75.3%, but remained 0.7 percentage points higher than a year earlier with numbers at 30.9m. Part of the reason behind the drop in employment was a fall in labour supply as economic inactivity increased, particularly amongst those of working age, which is perhaps surprising given the squeeze on household incomes. In addition, the growth of the population aged 16-64 has eased slightly with inward migration slowing.

In contrast to the recent fall in employment, the number of vacancies outstanding in the UK economy has shown a strong increase in 2017. They rose by 1.8% on the quarter and by 6% year-on-year in the three months to November. The contrast between employment and vacancies may suggest that firms are finding it harder to recruit suitably skilled workers.

The December PMI surveys indicated that job growth had continued across the UK private sector. Manufacturers and construction firms took on new staff in response to rising order levels. While service sector firms also continued to expand their workforce, the rate of increase slipped to a 9-month low. This was linked to recruitment difficulties as well as an attempt to control costs.

Underemployment

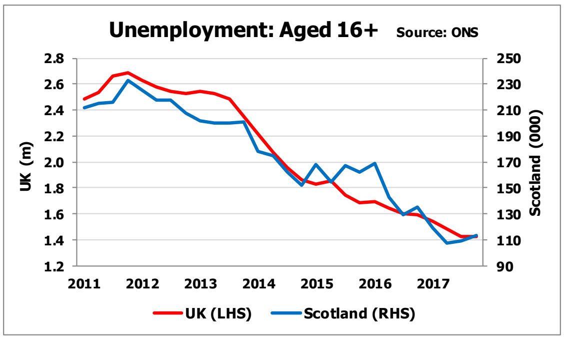
In Q3 2017, the ONS estimates that underemployment rose 5% on the quarter but remained 4% lower than in Q3 2016. Compared to Q2, more workers reported that they would like to have been able to work longer hours, either through their current job or a new job with longer hours, but fewer wished to take on a second job. However, it should be noted that the total number of workers with a second job rose to its highest level since Q4 2016 in the August to October period.

Other proxy indicators for underemployment include the level of part-time and temporary work. In August to October 2017, at 23.5m, there were 0.2% less people working full time than in the previous quarter but 1.5% more than a year earlier, while those in part-time roles were flat on the quarter and down marginally on the year, at 8.54m. The proportion of part-time workers that could not find full-time work slipped under the 1m mark for the first time in eight years with the rate dipping below 12% for the first time since Q1 2009. Meanwhile, the number of people in temporary employment remained below 2016 levels, with an 8.5% annual fall in those reporting that they could not find a permanent position; though this did pick up on the quarter. It should also be noted that self-employment has stabilised at around 15% of workers over the past year, having trended steadily higher from it low point of 12% in 2003. Labour market data is clearly signalling a reduction in insecure working and this is likely to have helped underpin consumer spending.

Unemployment

Despite employment numbers beginning to ease back, UK unemployment continued to fall in the August to October 2017 quarter. At 1.429m, unemployment was down by 2% on the quarter and by

11% on the year[4]. At 4.3%[5] of the labour force, the unemployment rate held at its lowest since the spring of 1975, having previously bottomed out at 4.7% in the early 2000's. At this level, unemployment is closing in on the level the BoE estimates to be its long-term equilibrium rate[6]. The year-on-year decline in UK unemployment of 182,300 was driven by the net increase in employment of 325,200 exceeding growth in the economically active population of 142,900. Unemployment has continued to fall despite the recent drop in employment due to rising economic inactivity, particularly amongst those of working age, which is perhaps surprising given the squeeze on household incomes.



2016 saw the Scottish economy recover from the heavy job losses in the oil and gas sector supply chain of 2015, and unemployment had fallen to 107,000 in Q2 2017 from 169,000 in Q1 2016. However, unemployment crept up again by August to October 2017, reaching 113,500. This meat that, at 4.1%, the Scottish unemployment rate was slightly below the UK average of 4.3%. On the downside, employment fell significantly while there was a considerable increase in economic inactivity.

In August to October 2017, there were 1.8 unemployed UK residents for each vacancy. This was a record low for the series which has been published since 2001. This indicates greater competition for workers, potentially raising bargaining power in negotiations over pay and conditions.

One labour market indicator that has been less optimistic is the Claimant Count[7]. Back in February 2016 it slipped to its lowest level and rate since the mid-1970s (736,200 and 2.1%). Since then, it has trended higher, reaching 817,500 and 2.3% in November 2017. This was up 3.7% year-on-year. Nevertheless, the Claimant Count rate remained well below its 2002-2007 average of 2.8%.

Earnings

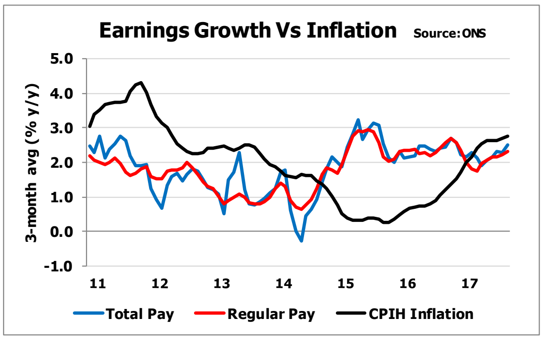
	UK average weekly earnings growth		Source: ONS
	Aug to Oct 2017 (y/y)	May 2016 to Jul 2017 (y/y)	2016
Whole economy total pay	2.5%	2.2%	2.4%
Whole economy ex. bonus pay	2.3%	2.2%	2.4%

Having slipped back in early 2017, UK earnings growth made some recovery moving into the autumn. At £510 (£26,500 per annum), average weekly pay exceeded year earlier levels by 2.5% in the August to October period, up from 2.1% six months before and up slightly on the 2016 average. Meanwhile, regular pay, which excludes bonus payments, averaged £478 and also recovered from a spring low of 1.8%, reaching 2.3% in the August to October quarter.

The recovery in pay growth in the three months to October was common across much of the economy. However, for the lowest earning sector – wholesaling, retailing, hotels & restaurants – the opposite was true with regular earnings growth continuing to slide, dipping to 1.5% compared with 1.7% in the three months to July, 2.4% six months before and from 4% in August to October 2016. This was despite a further minimum wage increase for workers aged over 25 in April 2017.

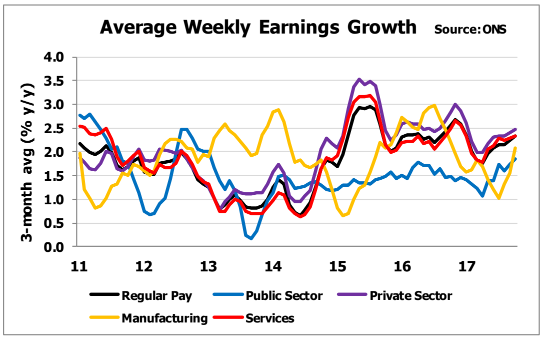
---

[4] Number of unemployed people aged 16+ that are part of the economically active population (able to and actively seeking work) plus the number of out-of-work claimants of Universal Credit.
[5] Proportion of the economically active population that is unemployed
[6] In theory, the rate where a balanced labour market produces earnings growth consistent with the 2% inflation target; any lower and recruitment difficulties become more widespread, pushing up wages and in turn prices.
[7] Those aged 18+ claiming Jobseeker's allowance and out-of-work Universal Credit



Although pay growth showed some signs of recovering in the autumn of 2017, it remained lower than the UK inflation rate. With the CPIH inflation rate averaging 2.8% in the three months to October, inflation-adjusted earnings contracted by 0.3%, extending the run of falling real terms pay which began in the three months to April. However, the squeeze on real earnings has remained relatively small, so it does not point towards households reigning in spending to any significant extent. Indeed, consumer surveys still point to a balanced position between optimism and pessimism on personal finances. It should be noted that the BoE estimates that compositional effects have been acting as a drag on earnings growth recently, with the average wage facing downwards pressure from a relative increase in lower paid roles. Therefore, individual pay increases may be running at above the UK average.

Market incomes have continued to grow much more slowly than the 4% average during the 5 years to Q2 2008. In economic theory, one would expect an unemployment rate at around its equilibrium level to underpin earnings growth as firms compete for staff through higher wages. The lack of a significant pick-up in wage growth therefore suggests that this competition has yet to deliver a substantial increase in workers' bargaining power and it does not yet point to widespread skill shortages. However, the historically modest level of pay growth may well reflect sluggish productivity growth and a prolonged period of low inflation in the wider economy.



As can be seen in the average weekly earnings chart, service sector and private sector pay are linked closely to the overall average due to their high share of UK employment. Regular pay growth in the private sector reached 2.5% in the three months to October, with service sector pay growth running at 2.3%. Manufacturing earnings growth has been volatile in recent years, dropping to 1% in the three months to July 2017 before climbing to 2.1% in the August to October period. Meanwhile, tight control of public finances has continued to hold public sector pay growth below average, but it has seen a significant lift since the spring of 2017, averaging 1.9% - its highest rate since the three months to January 2013.

UK earnings August to October 2017 (Annualised weekly earnings)				Source: ONS
	Regular Pay	% of average	Total Pay	% of average
Whole economy	24,880	100	26,520	100
Private sector	24,490	98.4	26,450	99.8
Public sector ex. finance	26,550	106.7	26,620	100.4
Services	24,020	96.5	25,720	97
Manufacturing	29,520	118.6	30,940	116.7
Construction	29,880	120.1	31,780	119.8
Finance & business services	29,780	119.7	33,860	127.7
Wholesaling, retailing, hotels & restaurants	16,890	67.9	18,130	68.4

Summary

UK employment edged lower in the autumn with people leaving the labour force while a slowdown in migration reduced the growth rate of labour supply. With rising vacancies signalling that labour demand has held firm, earnings growth has recovered from a spring blip, though it has continued to disappoint, running below the inflation rate, eroding the real earnings of the UK workforce.

Money & Credit:

Money Holdings

According to BoE data, the aggregate level of money and credit in the UK economy (M4) stood at a fraction above £2.36 trillion in October. This was up by 4.1% on a year earlier, but its growth rate did slow from 6-8% in early 2017. Rising M4 means that more money is sitting in bank accounts.

Breaking this down, the money holdings of households (includes sole traders and the non-profit sector) continued to grow at a below average rate, easing to 2.8%, while although money holdings growth cooled at private non-financial corporations (PNFCs) - non-financial companies and partnerships - it remained at a significant 7.8%. Holdings rose by 6.2% at financial institutions.

BoE statistics show that the overall increase in money holdings was supported by an increase in net lending by UK banks and building societies to both households and the private sector - M4 lending was up by 5.6% on the year. Within this total, lending to the household sector was up nearly 5% on a year earlier, while there was a smaller increase in lending to PNFCs of 3.6%. Meanwhile, lending to financial services firms rose by more than 7%.

Business - Credit Availability and Demand

The BoE Agents' summary of business conditions report for November indicated that credit availability remained strong on the whole, with large companies taking the opportunity to refinance at lower interest rates. However, while firms were making productivity-enhancing investments, uncertainty over future trade conditions was holding back some projects. According to the BoE November Inflation Report, PNFCs moved away from bank loans, equity and commercial paper towards bonds and in Q3 2017, with the overall level of finance raised edging down but remaining above 2016 levels. The Inflation Report noted that credit has become more expensive since the summer, likely reflecting an anticipated autumn rise in interest rates. BoE figures for October show that the outstanding value of loans to the agriculture, hunting, forestry and fishing sector was up by 2.2% year-on-year at £18.8bn, with loans to the manufacturing sector surging by 14.1% to £43.2bn.

Consumer Credit

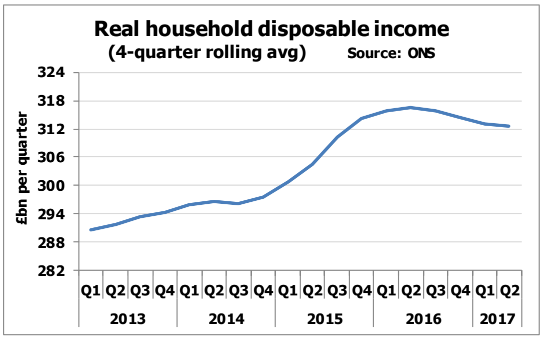
Overall lending to households grew more quickly than money holdings (4% v 2.8%) compared to a year earlier in October. This was despite the outstanding stock of mortgages, which accounted for 87% of all lending to individuals, increasing at a slower 3.2% annual rate. In turn, this occurred despite new mortgage approvals for house purchases slipping by 5.2% on last year to a 13-month low; though remortgaging did rise by more than 17%. Consumer credit continued to grow rapidly in October, up 9.6% year-on-year at £205.3bn. Credit card lending accounted for 34% of this total, and it rose by 8.7% year-on-year. Meanwhile, other loans to consumers increased at an annual rate of 10.1%, supported by historically low interest rates and demand for new cars. Although growth rates remain firm, they have generally softened since early 2017. In its November Inflation Report, the BoE commented that survey evidence suggested that households with above average incomes and high levels of saving have underpinned consumer credit growth since 2015. Debt-servicing payments are estimated to have held at around 8% of tax-adjusted household income.

Summary

Total credit provision continued to grow strongly in the autumn of 2017, supported by willingness to lend. Low interest rates have proved attractive to businesses requiring access to cheap credit. On the consumer side, house purchases have fallen back, but low interest rates have continued to support considerable growth in consumer credit, suggesting that households remain secure enough in their personal financial situation to borrow money for large purchases.

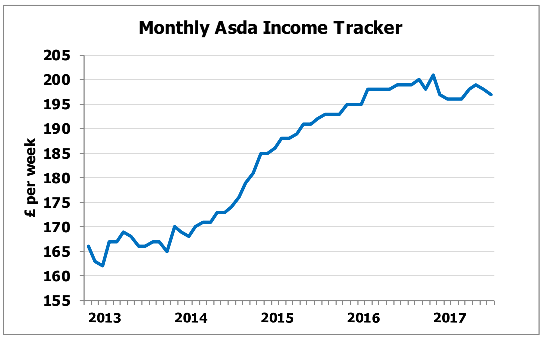
Consumer Indicators

Household Incomes

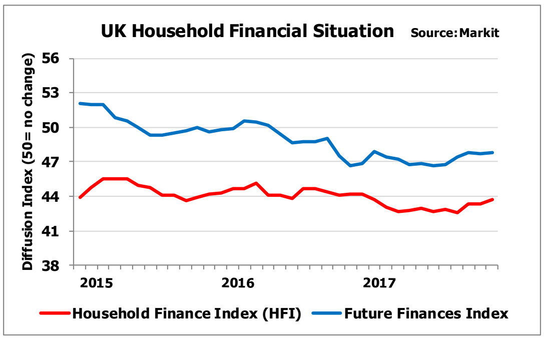


UK real household disposable income has fallen back since reaching a peak in late 2015. At £619.8bn in H1 2017, inflation-adjusted income was down 0.9% from H2 2016 and 1.2% below year earlier levels. Nevertheless, it was 7% ahead of its 2010-2014 average.

During H1, household incomes were underpinned by a 2.7% annual increase in primary income plus a 6.4% increase in insurance pay-outs. However, social benefits receipts edged lower while tax and national insurance contributions rose by 6.5% and 2.5%, respectively, pushing up their combined proportion of household resources by 0.5 percentage points to 27.9%. As a result, disposable income was 1.1% higher in cash terms. After accounting for a 2.4% higher price level, disposable income contracted by 1.2% from a year earlier.



Asda, in conjunction with the Centre for Economic & Business Research (CEBR), produces a monthly indicator of disposable incomes. Since reaching a peak in January 2017, the spending power of the average UK household has trended slightly lower, but has generally flat-lined relative to a year earlier, showing a year-on-year rate of change of between -1% and +1% in 2017. During Q3 2017, disposable income was a fraction higher on the quarter, but marginally lower than last year. This suggests that any average consumer spending growth this year will have relied on reduced savings. Earnings growth has been static in 2017 whereas the cost of essential items such as food, housing and fuel has picked up. However, necessities have risen less than the general level of inflation, meaning that disposable income has been more stable than a simple comparison of earnings and inflation would suggest.

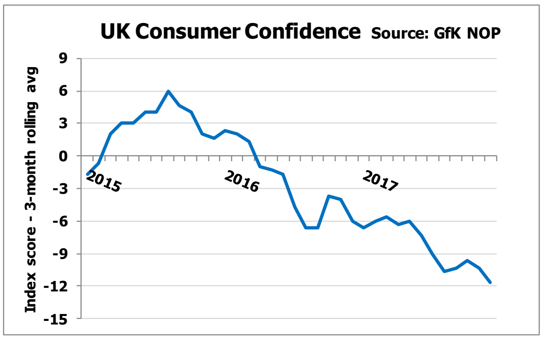


Markit's monthly UK household finances survey shows that during December there was a greater degree of pessimism than optimism[8]. Although a score of less than 50 indicates net pessimism, the index did reach its highest level of 2017 in December and averaged 43.7 in Q4, up from 42.7 in Q3. This compares with readings of 44-45 in 2015 and 2016, but remained above the levels of 2010-14. In December, finances were supported by labour market participation and rising wages, but these gains were more than offset by a higher cost of living as inflation perceptions reached a ten-month high. In response to the squeeze on household budgets, demand for consumer credit picked up.

Looking forward, household expectations of their future financial prospects have also become less pessimistic as 2017 has progressed, despite inflation expectations for the year ahead firming to their highest since early 2014. This may partially reflect a change in expectations of the future path for monetary policy as fewer households were anticipating another increase in Bank Rate in the next three, six or twelve months; though 71% were still expecting one in the coming year.

[8] The HFI has been running since 2009. The chart shows a three-month rolling average for each index.

Consumer Confidence



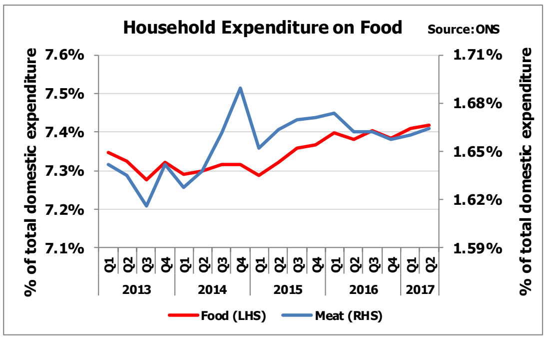
UK consumer confidence[9] has been pessimistic since April 2016. After a sharp fall immediately after the Eu referendum, confidence was stable until mid-2017 when it took another downwards turn. This negativity then extended further in Q4 2017 and the December reading of -13 was a four-year low.

In the December survey, two of the five indicators weakened (personal financial conditions to -3 and major purchases to -4), two steadied (personal finances over the next year at +2 and general economic situation of the UK over the next year at -28) while one edged higher (general UK economy over the past year to -31). While the additional index for intention to save edged lower it remained above zero at 4. On balance, consumers still feel better about their own financial conditions than those of the wider economy, which they are considerably pessimistic about. This relatively better position of personal finances means that consumers are balanced between those that have the funds available for large purchases and to save, and those that do not.

Consumer Spending

ONS data shows that, in real terms, seasonally adjusted UK household spending was 0.7% higher in H1 2017 than it had been during H2 2016 and was up 1.9% year-on-year. However, this level of spending growth was only sustained through lower savings. According to the ONS, the seasonally adjusted UK household savings rate fell to a record low of 4.6% in H1 2017. This was significantly below the H2 2016 level of 6.2% and compared with 7.7% a year earlier and 9.3% in H1 2015.

The data for H1 reveals that net tourism spending fell sharply, with spending in the domestic economy therefore growing at a faster rate than overall consumer spending, up 0.9% from H2 2016 and by 2.2% on the year. The fastest growing category was household goods & services, rising 5.7% year-on-year. There was also firm growth in clothing & footwear (3.4%), health (3.6%) and miscellaneous (7.7%), while restaurants & hotels, food & drink and communications all rose at a slightly above average pace (2.4-2.7%). Meanwhile, real terms spending on housing and transport edged a fraction higher, but there were declines of 2.3% for education and 6.3% for alcohol, tobacco & narcotics.



Within food, fish performed best in H1 2017, as spending grew by 8% on a year earlier. Fruit and vegetables also exceeded the 2.5% average increase, rising 5.4% and 3.2%, respectively, while other food rose 5%. Consumption of milk, cheese & eggs followed the average, but there was a slower 1.8% increase for meat. Sugar, confectionary & ice cream and bread & cereals rose by closer to 1%, but real terms spending on oils & fats contracted by 1.5%.

The share of food in total domestic spending has stabilised at around 7.4%, having edged up in 2015. Real terms spending on meat has also steadied as a share of domestic spending. Real terms spending on meat as a proportion of spending on food was fractionally lower in H1 2017 than in H2 2016 at 22.4% and has been edging down from a peak of 22.9% in H2 2014, but remained above its 2009-11 low, where it had averaged 22.1%.

[9] The overall index is the average score for each of the five survey questions. Respondents are asked to give a score of 1 if there has been a large improvement; 0.5 for a small improvement; 0 for no change; -0.5 for a slight worsening; or -1 for a considerable deterioration.

Seasonally adjusted UK retail sales: September to November 2017				Source: ONS
	q/q change		y/y change	
	Value	Chained volume	Value	Chained volume
Total	**1.6%**	**0.8%**	**4.2%**	**1.0%**
Excluding automotive fuel	1.3%	0.9%	4.2%	1.1%
Predominantly food stores	1.1%	0.5%	2.5%	-0.8%
Predominantly non-food stores	0.5%	0.1%	3.1%	0.3%
Non-store retailing	5.5%	5.7%	16.6%	13.1%

2017 has seen UK retail sales volumes growth slow significantly. In the September to November period, sales volumes, excluding fuel, rose by only 1% year-on-year, compared with growth rates of 3.5-5.5% for most of 2014, 2015 and 2016. However, the quarter-on-quarter data does suggest that retail performance began to recover in the autumn.

This changing retail environment reflects the resurgence of inflation. While a prolonged period of deflation meant that consumers could buy significantly more for the same amount of money for much of the 2014 to 2016 period, this has now reversed. Indeed, the deflator used by the ONS to convert retail sales values into volumes picked up strongly in Q1 2017 and stood at 3.1% in November, having been below zero in all but one month between March 2015 and October 2016. Consequently, 3.1% more money was required to buy the same volume of goods and services as in November 2016.

In food stores, where intense competition between retailers had kept prices in check between 2014 and 2016, prices have moved even further than the overall trend, exceeding year earlier levels by 3.6% in November. This was the highest rate of food store price inflation since August 2013. As a result, significantly increased spending on food was required to purchase the same volume and sales volumes had fallen behind year earlier levels by July, having grown at a 3-4% rate throughout 2016.

Non-food stores have also experienced a sharp slowdown in sales volume growth in 2017. September to November saw volume growth cool to only 0.3% year-on-year as cash spending and prices rose by a similar rate of around 3%. By contrast, the autumn of 2016 had seen a 4% rise in cash spending translate into a 4.5% rise in volumes. Within the non-food category, sales in textile, clothing & footwear stores held up best, advancing by 2.6%. However, sales rose by less than 0.5% in household goods stores and declined by 0.7% in other stores and by more than 1% in non-specialised stores. Following an extremely buoyant end to 2016 and opening of 2017, the non-store sector (mostly online retailing) grew at a slower pace in the autumn of 2017. Nevertheless, growth remained strong at more than 13%, despite prices rising at a similar rate to the overall average.

The BRC and CBI also publish monthly retail sales updates and like the ONS data, point to a slowdown in growth. During the autumn, the BRC reported an overall sales increase of 1.4% year-on-year. This headline masked a sharp divergence between food and non-food with the former up 4% but the latter cooling by 0.6%. Meanwhile, in December's CBI distributive trades survey, sales volumes exceeded year earlier levels at 37% of the surveyed businesses, while they fell for 17% of firms, with grocery stores and online retailers performing notably well. Half of wholesalers reported a year-on-year increase against 21% experiencing a contraction.

Summary

A lift in inflation over the past year has seen household incomes come under some pressure. However, most measures of household and consumer finances suggest that incomes remain in a superior position to the pre-2016 period, supported by high employment. Although cash spending has held up well on the UK high street, rising prices have had an offsetting impact on sales volumes.

What has been happening to economic policy in the UK?

Monetary policy:

At the November meeting of the BoE's Monetary Policy Committee (MPC), there was a 7:2 vote in favour of raising Bank Rate from 0.25% back to its pre-EU referendum level of 0.5%. However, its other monetary stimulus packages were unanimously left in place. These were the £435bn stock of asset purchases (Quantitative Easing/ QE), which had been expanded by £60bn in July 2016, plus the £10bn stock of corporate bonds that has been built up since the EU referendum. The December 2017 MPC meeting saw no further change.

While inflation remains above target and is forecast to continue to do so, the MPC believes that this has largely been a feature of the depreciation in the value of sterling passing through supply chains and into retail prices. Nevertheless, with unemployment being at its lowest since the mid-1970s, other labour market indicators suggesting limited spare capacity, continued consumer spending growth at a time of squeezed real incomes, and weak productivity growth suggesting that the UK economy's sustainable economic growth rate has fallen, a small increase in interest rates was judged appropriate in order to limit any further lift in inflation above target.

Fiscal Policy:

The Office for Budget Responsibility (OBR) forecasts that the UK government will run a budget deficit of 2.4% of GDP in 2017/18, up slightly from 2.3% in 2016/17, but well below 2015/16's 3.5%. Revenues are forecast to rise by 2.6% in 2017/18, due to the impact of a healthy labour market on income taxes and national insurance, while household spending growth should boost VAT and environmental levy receipts pick up. Meanwhile, spending is anticipated to rise by 3% as falling government departmental budgets are more than offset by the costs of an ageing population, such as rising pensions and health and social care costs, while infrastructure investment is to increase.

Despite a change of attitude towards public spending in the UK Government, departmental budgets will continue to face expenditure cuts. This includes Defra, which is already short-staffed given the significant effort required to negotiate market access for red meat into third countries and to form a new agricultural policy system. However, the International Trade and Brexit departments may help reduce some of these pressures. The Defra budget is due to fall by around £100m in the current and next financial years, lowering it to £1.5bn in 2019/20 from £1.7bn in 2016/17.

The beginning of the 2017/18 financial year saw the minimum wage for workers aged 25 and over rise by 4.2%. In addition, the income tax threshold increased further, adding around £2 a week to post-tax incomes, while pensions rose by 2.5%. However, at the lower end of the household income scale, analysis from the Institute for Fiscal Studies shows that welfare reforms will potentially have a considerable negative impact due to real-terms cuts to benefit payments, lower child tax credit payments and the move towards universal credit. These reforms have been slowly implemented up to now, so the impact will build over time.

Summary

The Bank of England has reversed the interest rate cut it implemented to ward off recession following the EU referendum of 2016. Nevertheless, monetary policy remains highly accommodative, supporting the flow of credit to firms and households at affordable interest rates. On the fiscal side, a change in Government attitude has slowed the anticipated pace of budget deficit reduction, and provided extra funding for public investment. Changes in taxation and pensions are likely to support incomes in the top-half of the income scale, but welfare reform is likely to reduce household incomes in the bottom half of the distribution.

What has been happening in the European economy?

Economic Activity:

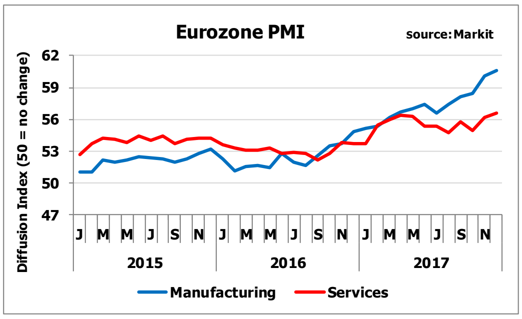
	Economic Activity in Prominent Scottish red meat markets			
	GDP Growth (%Q/Q)		GDP Growth (%Y/Y)	
	Q3 2017	Q2 2017	Q3 2017	2016
Bel	+0.3	+0.5	+1.7	+1.5
Fra	+0.5	+0.6	+2.2	+1.2
Ger	+0.8	+0.6	+2.8	+1.9
Hol	+0.4	+1.5	+3.3	+2.2
It	+0.4	+0.3	+1.7	+0.9
Spa	+0.8	+0.9	+3.1	+3.3
Euro Area	**+0.6**	**+0.7**	**+2.6**	**+1.8**
Den	-0.6	+0.6	+1.3	+2.0
Swe	+0.8	+1.2	+2.9	+3.2
UK	+0.4	+0.3	+1.5	+1.8
EU28	**+0.6**	**+0.7**	**+2.6**	**+1.9**
Nor*	+0.6	+0.6	+1.9	+1.0
Swi	+0.6	+0.4	+1.1	+1.4

Sources: Eurostat; Statistics Norway

*Mainland GDP (excluding oil & gas)

Euro area economic growth slowed marginally in 2016, but, at 1.8%, remained well above the 2011-15 average of 0.7%. Activity growth picked up to 0.6% in the final quarter of 2016 and it has held at this level in 2017, posting 0.6% in Q1 and Q3 plus a 0.7% expansion in Q2. Prior to late 2016, this pace had only been achieved in one single quarter since Q1 2011. By Q3 the annual rate of output growth had risen to 2.6% - its highest since Q1 2011. Economic expansion was underpinned by consumption and investment, with a small increase in net exports providing a marginal boost.

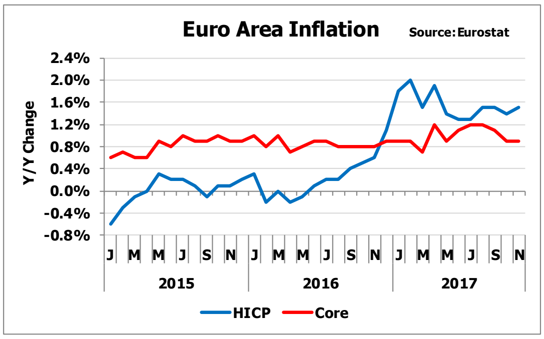
Across the most important countries for Scottish red meat exports, GDP tended to grow more slowly than the euro area average in Q3. However, on a year-on-year basis, growth picked up in many countries compared to their 2016 rate. In Spain and Sweden, growth remained strong. The lift in activity in France, Italy and Germany this year is of particular note. However, Belgium has seen a smaller boost while the Danish economy experienced a challenging Q3. In the wealthy non-EU European economies of Switzerland and Norway, the relatively sluggish economic performance of 2015 and 2016 has been improved upon, particularly in Norway.



The monthly Markit PMI surveys of private sector activity fit with the rise in the GDP growth rate since late 2016 and suggests that it may have strengthened further in Q4 2017. The combined indicator for manufacturing and services reached 58 in December, a level last seen in the spring of 2011. The growth rate of the manufacturing sector has risen steadily since mid-2016, while services output growth picked up in late 2017 having steadied for most of the year. A PMI of around 56 implies that the service sector is growing at a quarterly rate of around 0.7%, while a PMI of above 60 signals manufacturing growth of 1.1-1.2%. Order levels are reported to have strengthened significantly in both services and manufacturing, reaching their highest levels since the 2008/09 financial crisis, leading to rising backlogs of work. In manufacturing, there were rising orders from both domestic and export markets, and optimism was at its highest recorded level. Consumer goods producers saw weaker growth than those producing capital goods.

At the country level, manufacturing sector activity growth reached a new record high in Germany in December while the Netherlands remained very strong at a score of over 62. French manufacturing also picked up strongly, while the rate of expansion in Italy and Spain dipped back but remained firm. Service sector activity growth has continued to trend higher in France, Germany and Italy, but has eased slightly in Spain. Looking out-with the euro area, the latest PMIs for Sweden pointed to high growth rates of 1-1.5% in manufacturing and services. The Swiss manufacturing sector has also been growing above 1% in H2 2017 while Norway's manufacturing PMI reached 57.8 in December.

Inflation:



Euro area inflation picked up strongly at the end of 2016, with the HICP exceeding the 1% level in December after three years below this level[10]. By February 2017 it had reached a 49-month high of 2%, returning to this level again in April. However, inflation then slowed to 1.4% in May and 1.3% in June, before edging higher in the autumn, running at 1.5% in November. This meant that it remained at the lower end of the ECB's target of 'close to but below 2%'.

The headline inflation rate followed energy and food prices higher at the end of 2016, but these pressures quickly eased back and this saw overall inflation slip back in the summer of 2017. However, energy and unprocessed food placed some renewed upwards pressure on the HICP in the autumn of 2017, with the former lifting from 1.9% in June up to 4.7% in November, while the latter climbed from 1% in June to 2.4% in November. PMI surveys for the euro area suggest that the upwards pressure on input costs that dissipated in the summer returned again in the autumn.

Measures of underlying inflation have remained subdued throughout 2017. Core inflation, which excludes the more volatile commodity-linked categories, did eventually pick up in the spring, reaching a 49-month high of 1.2% in April, and then again in July and August, before slipping back to 0.9% in October and November. This suggests that past rises in business input costs failed to pass through the supply chain to any significant extent, despite economic indicators signalling a firming euro area economy.

Reflecting this lack of pass-through, non-energy industrial goods inflation has remained stable at a very low level in 2017, opening at 0.5% before easing to 0.2% - 0.3% between February and May, then running at 0.4% or 0.5% between June and November. This suggests that firms have hedged their input buying and/or have struggled to charge higher prices to their customers. Inflation in the service sector did show some upwards pressure in the summer, reaching 1.6% in June after a prolonged period at around the 1% level. However, it did slip back to 1.2% in October and November, suggesting that service providers have sensed little room for significant price increases despite rising consumer and business confidence.

In the main markets for Scottish red meat exports, inflation rates have risen well above their 2015 and 2016 lows, but have remained relatively weak. In November, inflation rates were at their lowest in Switzerland and Norway, at 0.8% and 1%, respectively, while they were 1.1-1.3% in Italy, France and Denmark. Dutch inflation was in line with the euro area average. Exceeding this level were Germany, Spain and Sweden, at 1.8-1.9%, while the Belgian rate reached 2.1%.

[10] HICP: Harmonised Index of Consumer Prices – allows international comparison of inflation rates within the EU

With most countries' inflation rates now running around the ECB target, it may support changes in expectations that boost wage increases. Inflation also erodes the real value of debts, potentially making it easier for households and businesses to repay loans, supporting economic confidence. Nevertheless, the continuing sluggishness of core inflation does suggest that consumer demand has yet to pick up. Furthermore, similar rates of inflation across Europe make it harder for those countries still recovering from the financial crisis to improve their competitive position in the global economy.

Labour market:

Labour market in prominent Scottish red meat export destinations				
	Total Unemployment Rate		Youth Unemployment Rate Nov 2017 (%)	Labour Cost Index[11] Q3 2017 (% Change y/y)
	Nov 2017 (%)	y/y change (percentage points)		
Bel	6.7	-0.5	18.2 (Sep)	1.9
Fra	9.2	-0.8	21.8	2.0
Ger	3.6	-0.3	6.6	2.5
Hol	4.4	-1.2	7.8	1.9
It	11.0	-0.9	32.7	1.0
Spa	16.7	-2.0	37.9	0.5
Euro Area	**8.7**	**-1.1**	**18.2**	**2.0**
Den	5.6	-0.8	9.6	1.7
Swe	6.6	-0.2	17.3	1.8
UK	4.3 (Oct)	-0.5	12.0 (Oct)	3.0
EU28	**7.3**	**-1.0**	**16.2**	**2.4**
Nor	4.0 (Oct)	-0.8	10.4 (Oct)	2.2
Swi	5.0 (Q3)	-0.1	10.5 (Q3)	n/a

Sources: Eurostat; Statistics Norway; Swiss Federal Statistics Office; ONS

The latest Eurostat figures indicate that during November nearly 14.3m people were unemployed in the euro area. This was 0.1% lower than in the previous month and 10% below the November 2016 total of 15.8m. 8.7% of the labour force were unemployed, compared with 8.8% in the previous month, 9.8% a year earlier and a 2013 peak of 12.1%. Furthermore, this was the lowest rate since December 2008. At the EU28 level, 18.1m people, or 7.3% of the labour force, were unemployed in November, down from 20.2m and 8.3% a year earlier. The continuing strength of the upturn in the European economy has maintained considerable downwards pressure on unemployment. Every single Member State had a lower unemployment rate in the autumn of 2017 than twelve months before. In addition, the number of countries where it stood at 5% or below rose from five to nine.

Unemployment rates have fallen across Scotland's main red meat export markets. The situation has been improving considerably in France with unemployment numbers sliding at an annual rate of 3-5% for much of the time since the spring of 2016 and then accelerating to an 8% fall in November 2017. Over the year French unemployment fell by 240,000 to 2.713m and was 0.8 percentage points lower at 9.2% - its lowest since June 2011. Meanwhile, the rapid improvements continued in Spain with unemployment down 10% on the year to 3.8m and two percentage points lower at 16.7%. There was an even more significant decline in Dutch unemployment, which was a fifth lower on the

[11] Wages & salaries in the business economy (private sector excluding primary industries)

year, while Danish unemployment was down by 13%. Despite being close to 'full employment', German unemployment has continued to fall, down 7% on the year, while Swedish and Belgian unemployment numbers were 5% and 6% lower, respectively. After a prolonged period of stagnation, the Italian economy has required additional workers in 2017, and its unemployment declined by 8% on a year earlier in November.

Headline unemployment rates can however mask some considerable differences within a country and this is reflected in Eurostat's regional unemployment figures for 2016. This is particularly true in Belgium, Spain and Italy; and to a lesser extent in France, Germany and Holland. For example, in Italy, it can be as low as 3.7% in Bolzano in the Alps, but as high as 23% in Calabria on the southern tip of the mainland. By contrast, unemployment rates in Sweden ranged from 5.8% to 8.4% and Denmark's regions were all between 5.5% and 6.6%.

In addition to the official Eurostat data, the monthly Euro Zone PMI surveys provide a source of information on labour market trends. In Q4 2017, the reports remained optimistic in both the manufacturing and services sectors, indicating that expanding order books required additional staff. It is reported that the pace of employment growth reached a 17-year high.

As 2017 has progressed there has been some welcome signs of a lift in wage growth in the euro area. Eurostat estimates place wages and salaries in the private sector 2% above year earlier levels in Q2 and Q3 2017. For the wider EU28, increases were 2.6% and 2.4%, respectively, for Q2 and Q3. This meant that wage growth recovered to a two-year high in the euro area, picking up from a period at 1-1.5%. This may indicate that economic activity has now picked up to the extent that firms are willing to, and arguably having to, raise pay to keep existing and attract new staff. As well as a tightening labour market due to growing economic activity, it is possible that rising headline inflation has begun to be reflected in wages and salaries.

Divergence in salary increases across the EU remains with wage pressures proving considerable across much of Eastern Europe but more muted in the wealthier economies during Q3 2017. On the upside, Belgian private sector workers saw their best quarter since Q3 2013, while wage pressures were at their highest for two years in the Netherlands and more than three years in France. Italy posted three consecutive quarters at 1% or above for the first time since 2013. In Germany, wage growth rebounded in Q2 from a dip at the beginning of the year. However, Spanish wage growth remained sluggish despite the country's strong economic growth in recent years, potentially due to the continuing high unemployment rate, while earnings growth dipped back below 2% in Denmark. In Sweden wage growth has cooled over the past year and posted two consecutive quarters at below 2% for the first time since the series began in 2003. Outside the EU, Norwegian earnings growth firmed to its highest level since late 2014.

Summary

Following the promising signs of economic recovery in 2015 and 2016, the European economy has made further progress in 2017. Economic activity has gathered pace in many of Scotland's main EU export markets. The previously stagnant French and Italian economies are showing signs of progress, leading to falling unemployment, and wage growth has now firmed after a lag. However, core inflation remains below target. Past increases to commodity prices had a short-lived impact on inflation, with little pass-through to output prices for manufactured goods, suggesting weak demand-side pressures.

Consumer Trends:

Selected statistics - prominent Scottish red meat markets				
	Retail Sales Volumes Nov 2017 (% change y/y)	Retail Sales Volumes – food, beverages & tobacco Nov 2017 (% change y/y)	Consumer Sentiment (% balance)	
			Nov 2017	May 2017
Bel	+0.7	-1.3	+3.0	+0.1
Fra	+1.8	+1.6	-3.4	-7.0
Ger	+3.9	+3.5	+5.3	+3.1
Hol	+4.0	+0.9	+16.7	+13.6
It	1.9	+0.7	-7.8	-15.7
Spa	+2.9	+0.1	-1.7	+1.9
Euro Area	**+2.8**	**+1.6**	**+0.1**	**-3.3**
Den	+2.3	-1.6	+16.4	+13.4
Swe	+2.9	+0.5	+17.2	+17.4
UK	+0.8	-0.7	-5.2	-6.1
EU28	**+2.7**	**+1.4**	**-0.7**	**-3.3**
Nor	+3.7	+1.7	+17.3 (Q4 17)	+12.8 (Q2 17)
Swi	-2.9	-1.4	-2 (Q4 17)	-18 (Q2 17)

Sources: Eurostat; European Commission; Finans Norge; SECO

Inflation-adjusted household disposable income per person rose by 0.7% in Q2 2017 in the euro area. This was a notable uplift from an average of 0.1% in the preceding four quarters, but meant that real incomes were still only around 1% higher than a year earlier. Rising wages continued to support incomes, growing by 0.3% for the sixth quarter in seven, while property income and social benefits receipts edged up. Meanwhile, taxes slipped back for the first time in seven quarters and inflation eased. Increased real incomes in Q2 fed into rising consumption, which rose by 0.6% - its strongest since Q1 2015 – leaving it up by nearly 1.5% year-on-year. Although the euro area household savings rate edged up for a second quarter, reaching 12.1%, it was still one of the lowest of the past decade.

Moving on to consumer confidence, the EU Commission's monthly survey has shown further progress in H2 2017. The overall balance was only marginally pessimistic for the EU and turned positive for the euro area for the first time since January 2001. In terms of Scotland's main red meat export markets, most have seen improvements in 2017, with Italy and France becoming significantly less pessimistic while there were 2-3 point uplifts in Belgium, Denmark, Germany and the Netherlands. Elsewhere, confidence remained high in Sweden, but there was a small deterioration in Spain. Norwegian and Swiss indicators improved significantly.

Euro area retail sales, in real terms, have been on a steady upwards trend since 2013. After an extremely weak October, sales rebounded in November and were up by 2.8% year-on-year – similar to Q2 and Q3. For the wider EU28, volumes were up 2.7%. Non-food stores performed better than average, growing by 4% in November, but food, drinks & tobacco stores reported sales growth of around 1.5%. Of Scotland's main red meat export markets, Germany led the way on overall retail sales and food stores with growth rates of close to 4% during November. Meanwhile, Spain, Sweden, Norway and Denmark also showed firm increases. Though overall Belgian retail sales grew slowly, weak food stores partially offset a 2.2% increase for non-food. Markit's monthly Eurozone Retail PMI survey has also shown a lift in Q4 after a summer of slow growth. This improvement was led by Germany, with French sales also growing. However, Italian retailers still faced headwinds.

What has been happening to economic policy in the EU?

Monetary Policy:

Following the December meeting of the Governing Council of the European Central Bank (ECB), its three main interest rates remain on hold: the main deposit rate at -0.4%, the refinancing rate at 0%, and the marginal lending facility at 0.25%.[12] The monthly programme of asset purchases (QE), which had been due to expire at the end of this year, was extended by at least nine months, but was halved to €30bn (£26.5bn) per month. Returns on this stock of assets will be reinvested.

It has been judged that although the euro area economy has firmed and GDP growth forecasts have been revised higher, inflation expectations remain anchored and there is a continuing need for loose monetary policy to help return inflation to the target range. The Governing Council did still state its willingness to expand and/or lengthen its asset purchase scheme should the outlook for the economy and inflation turn down again.

ECB monetary data for October showed that euro area broad money growth remained relatively stable at around 5% year-on-year. Within this, deposits by households rose marginally slower than the overall rate while deposits in bank accounts by non-financial corporations grew by over 8%. Meanwhile, lending to households and non-financial companies grew at annual rates of 2.5-3%. In the household sector, growth in consumer credit held firm at over 6.5% in October while mortgages continued to grow by nearly 3.5%. However, small business loans contracted by 1.5%. Lending to non-financial corporations grew strongest for medium-term loans of up to five years, up 4.5%, whereas short-term lending for less than a year contracted by 1%. Long-term lending grew 2%.

Outside the euro area, Sweden's central bank has judged it necessary to hold its main interest rate at -0.5% and continue making monthly asset purchases in order to keep inflation at its targeted rate. The Swiss target range for interest rates has also remained below zero. Both Swedish and Swiss central banks cited the favourable impact of continuing a loose monetary stance on their currencies, ensuring currency weakness supports inflation. Norway's main interest rate remains at 0.5%.

Fiscal Policy:

In addition to loose monetary policy from the ECB, there has been a change in attitudes towards fiscal policy in the European Commission. Governments have been given leeway to raise spending on investment and to meet the cost of the refugee crisis. With the economics profession generally concluding that attempts to cut budget deficits at too fast a pace in the early part of this decade had a considerable long-lasting negative impact on economic growth across the euro area, a 'positive fiscal stance' has been recommended for 2017 given that the European economy remains relatively sluggish[13].

This positive fiscal stance involves both expansion and a change in the balance of policy measures, both within and between countries. This means that those Member States running budget surpluses, and hence with the greatest room for flexibility, have been advised to raise public investment to offset the downwards impact from those countries implementing spending controls and returning their budgets towards the constraints of the Stability and Growth Pact[14]. It has also been recognised that

[12] The ECB has three main interest rates. The deposit rate is the interest rate a bank receives on the money it holds overnight at the ECB; the refinancing rate is the interest rate charged to a bank for lending from the ECB for one week; and the marginal lending facility is the interest rate on overnight loans from the ECB.
[13] https://ec.europa.eu/info/publications/2017-european-semester-communication-fiscal-stance_en
[14] Governments are committed to run a maximum budget deficit of 3% of GDP, and 0.5% of GDP once the economic cycle has been adjusted for.

if all countries meet these constraints then the aggregate fiscal stance across them all may be too tight, leading to sub-optimal economic activity.

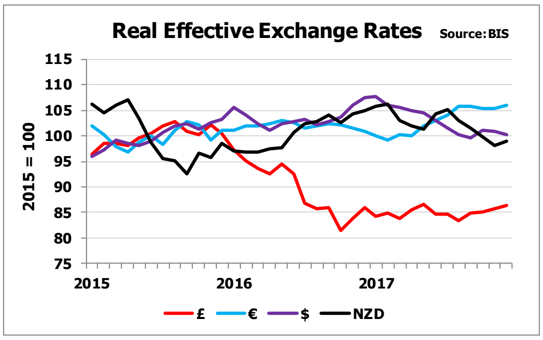
In line with an expansionary fiscal stance, the EU Commission estimated that euro area government spending rose by 1.8% in 2016 and has forecast a 2.3% expansion for 2017 and then 2.8% in 2018[15]. Public investment is expected to grow faster than the euro area economy in 2017 (5.5%) before slowing to 1.7% in 2018. Public investment is expected to be equivalent to 2.6% of euro area GDP.

Summary

With underlying inflation and inflation expectations remaining stable in the euro area the ECB has left its monetary policy unchanged in 2017. However, improved economic growth prospects mean that it has announced a reduction in asset purchases from the beginning of 2018. A welcome change in the EU Commission's view on the fiscal stance means that governments with room to increase spending have been advised to invest in infrastructure and innovation to support sustainable economic growth.

[15] European Commission. *European Economic Forecast – Autumn 2017*

A focus on exchange rate movements

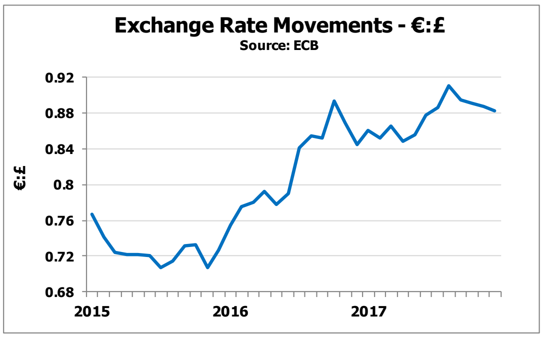


On a trade-weighted basis, sterling has been relatively stable since a short time after the EU referendum of June 2016. Although its November 2017 average was up 2% on the year, it was still down by more than 9% on 18 months before.

The euro weakened slightly in early 2017, in part down to an increased probability of populist electoral victories in Holland and France. However, their failure combined with a shift towards tighter monetary policy saw this trend reverse. After stabilising during the autumn, the euro averaged 4% higher year-on-year in November.

The US dollar drifted lower until the autumn of 2017, when it became apparent that potentially economy-boosting tax reform measures could end up in law. In addition, the Federal Reserve indicated that it would begin to sell assets it had purchased under quantitative easing programmes. During November, the dollar averaged 1% weaker than twelve months before.

What factors have been influencing the €:£ exchange rate?



The UK's vote to leave the EU resulted in a rebalancing of the value of sterling, with financial market participants lowering their expectations for future UK economic growth and future returns on investment in the UK due to the prospect of increased barriers to trade. Under a scenario of increased trade friction, a weaker exchange rate would be required for the UK to remain price competitive.

Political risk has remained a factor behind exchange rate movements in 2017. During H1 2017, elections in Holland and France were won by pro-EU parties, underpinning the euro. In the UK, the announcement of a General Election in mid-April initially boosted sterling, pushing the value of a euro below 84p. This was based on an expectation of an increased Government majority making it less reliant on the staunchest Brexit advocates in Parliament to pass legislation, raising the likelihood of a future trading and investment relationship between the UK and EU as close as possible to the current terms. However, a shift in support away from the Conservative Party during the campaign lowered the probability of an increased majority, and the euro rose to buy 87p at the end of May. After the Government lost its majority on June 8, sterling weakened further.

August saw a further brief dip in sterling's value against the euro. In part this was down to Brexit, with considerable differences between UK and EU position papers suggesting a delay in the start of trade negotiations from the initially hoped October to at least December. In addition, monetary policy, which has historically had a major influence on exchange rates, returned as a key driver. Updated BoE economic forecasts pointed to a delay in tightening of monetary policy while business surveys signalled that the European economy was recovering to the extent that could warrant a tightening of ECB monetary policy. During August, a euro reached 91p from 88-89p in July.

September saw these exchange rate movements quickly reverse. On the monetary side, the BoE Governor and other members of the MPC provided guidance that interest rates were likely to rise in November, while on the Brexit side, the UK Government won a key vote on its EU (Withdrawal) Bill in the House of Commons and the Prime Minister made a speech seen as accommodative to a more trade-friendly Brexit. There was also an uncertain election result in Germany.

Through the final quarter of 2017, sterling's value against the euro was been more stable, with events such as the ECB announcing a reduction in its monthly asset purchases, a UK interest rate rise, and an agreement between the UK and EU to move on to trade talks all failing to cause an exchange rate rebalancing.

Given the fall in sterling in October 2016, it was actually slightly stronger against the euro in October 2017 than a year earlier, before returning to weakness in November, trading 2% lower. During December, this widened to a fall of 4-5%, before beginning 2018 4% weaker. Although the Brexit negotiations are set to progress to their second stage, the prospect remains that greater trade friction will be the eventual outcome of the UK's exit from the EU.

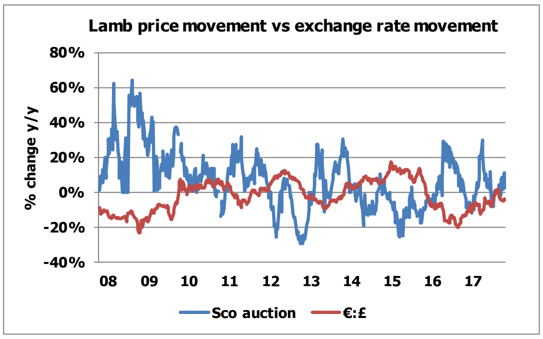
<u>What influence does movement in the €:£ have on the red meat industry?</u>

During 2016, 86.5% of UK red meat exports by value were sold within the EU while 83% of imports came from Member States. A weaker sterling relative to the euro pushed up the sterling prices of red meat imports and exports and therefore provided a significant tailwind to the UK red meat market. The volume of UK red meat exports to the EU rose by 2% in 2016, helped by a 5% lower average price in euro. However, they averaged 7.5% dearer when converted back into sterling, raising export revenues by nearly 10%.

With the value of sterling averaging 4% lower than a year earlier in H2 2017, this has provided some further support to the competitiveness of domestic red meat products both at home and overseas, most notably in price sensitive markets. In addition, domestic products have remained significantly more competitive than prior to the EU referendum. With the impact of an exchange rate movement able to be shielded by hedging of exchange rates and fixed price contracts in the short-term, over time the beneficial competitive boost from the weaker sterling becomes more evident. However, the responsiveness of trade to exchange rate movements may be limited by the presence of multinational red meat processing companies operating cross-border supply chains.

Starting with imports, a fall in the value of sterling means that each pound can buy fewer goods for the same euro price. Holding everything else constant, the likely consequence for UK producers is to raise the price processors are willing to pay for their livestock, given that the alternative has become more expensive. Exchange rate movements are likely to have the greatest impact where price sensitivity is strongest and a fall in sterling tends to provide a shield to the price of home produced red meat destined for the food manufacturing trade. On the supply side, if higher import prices encourage a smaller quantity of imports, then more home produced meat will be required, supporting its price in the short-term.

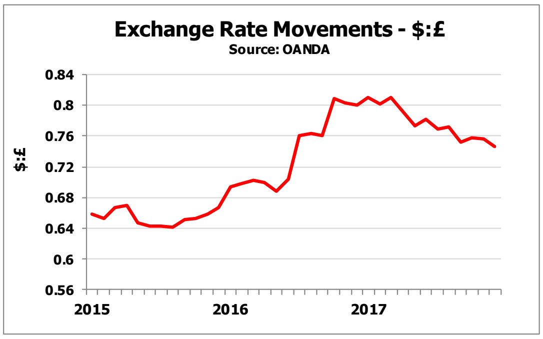
On the export side, a weaker sterling requires fewer euros for the same sterling price. Therefore, a British exporter could reduce their charge in euros while holding their sterling price constant. In a price sensitive market, the subsequent increase in sales volumes would boost sterling revenues. The alternative strategy of holding their euro price would also boost sterling revenues assuming the same volume of sales. If UK export quantities were to rise, then a smaller volume of meat will remain on the home market, supporting its price, unless domestic demand were to decline.



An illustration of the impact of exchange rates on domestic prices comes from the lamb market. Indeed, over an extended period, when sterling has been weaker than 12 months before, the auction price for lambs in Scotland has tended to be higher than a year earlier and vice versa.

The exchange rate with the euro also has an impact on the value of CAP support payments as subsidies are paid out from the EU budget in euros. In 2017, the conversion rate was the average exchange rate in September. Since the euro rose to £0.8947 compared with £0.85228 in 2016, an average Pillar I support payment of around €30,000 would have been worth £26,840 in 2017 compared to £25,570 in 2016; an increase of 5%[16].

What has been happening to the $:£ exchange rate and why does it matter?



In 2016, the value of sterling rebalanced against the US dollar following the EU referendum, weakening significantly. Further downwards pressure followed at the end of the year as the election of Donald Trump as US President led to expectations of a boost to the US economy from increased spending on public infrastructure and a reduction in taxes.

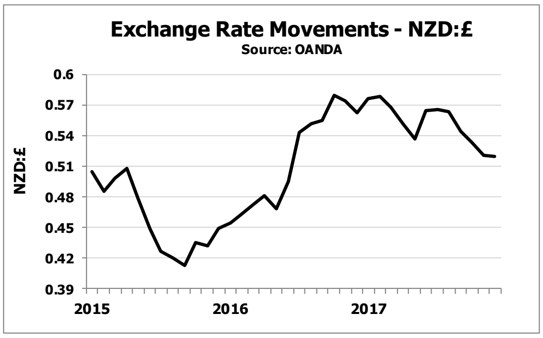
Moving into 2017, the exchange rate was broadly stable until the announcement of a UK General Election in mid-April. This gave sterling a lift, pushing the value of a dollar from around 80p to 77-78p. Whereas sterling weakened against the euro in the run up to and then in the aftermath of the UK General Election, it steadied against the dollar, reflecting some of the challenges the US President faced in passing legislation during the early months of his administration, lowering the prospect of fiscal stimulus in the US. It may also have been a reflection of a US path towards monetary tightening already been priced into the dollar, whereas the prospect for monetary tightening in the euro area had only begun to develop around this time.

During September, sterling moved slightly higher against the dollar as it became apparent that the BoE was highly likely to raise interest rates at its November meeting. Since then, sterling has been relatively stable, with a dollar buying 75-76p. On the one hand, there has been some upwards pressure from favourable developments regarding the UK's future trading relationship with the EU, but on the other hand, the US dollar saw some strength after legislation proposing tax cuts gained approval in both houses of the US Congress. Moving into 2018 and the US dollar fell back, buying 72.5p in mid-January, meaning that sterling was valued around 12% stronger versus the dollar than twelve months before. This significant shift in the dollar occurred against a range of currencies, reflecting financial markets adjusting to expectations that other central banks would begin to tighten monetary policy in 2018, while Germany's central bank announced plans to add Chinese currency to its reserves, which would have consequences for its holdings of US dollars.

Exchange rate movements against the dollar have implications for the cost of energy and imported raw materials. Commodities such as wheat and soyabeans, that are imported for animal feed, and oil, which affects fuel, energy and fertiliser costs, generally have their price quoted in dollars. The stronger the dollar, the more expensive they are in sterling terms and the higher the cost of production is for UK businesses. Therefore, a stronger sterling against the US dollar than twelve months ago has helped place downwards pressure on input costs. For example, the price of Chicago soyameal futures in US dollars in mid-January was 7.5% cheaper than a year earlier, but when converted into sterling it was 17% lower.

[16] Scottish Government Agricultural Subsidy Payment Information indicates that 18,435 businesses received Pillar I funds totalling £405.5m in the October 2015 to October 2016 CAP year. At the 2015 conversion rate, this would be €554.6m, averaging €30,000 per business.

What has been happening to the NZ$:£ exchange rate and why does it matter?



With 75% of UK lamb imports coming from New Zealand, the value of the pound against the New Zealand dollar (NZD) is important in determining import volumes and prices.

After the rebalancing of sterling in 2016, it settled over the winter months with an NZ dollar worth around 57p. In 2017, the announcement of the UK General Election resulted in some sterling strength in April and by May the NZD fell to 53p. However, post-election uncertainty saw the NZD firm again in June, reaching 57p. This position continued until September, when the change in UK monetary policy outlook pushed up the value of sterling.

Towards the end of September, it was then the turn of NZ elections to have an impact on exchange rates. The centre-right government lost its majority, leading to some pressure on the NZ dollar. In mid-October, there was then a surprise announcement that the centre-left opposition would take over and lead a new coalition government. With this potentially leading to a significant change in economic and trade policy, the NZD fell considerably and, by November, it was worth around 52p.

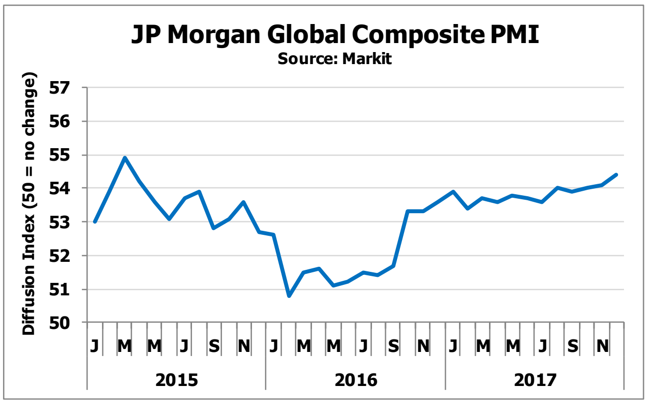
With the NZD trading 9% weaker against sterling in mid-January than a year earlier, it is likely to have given some support to the competitiveness of the country's lamb exports to the UK. However, this is within a context of it rising significantly in price over the past 18 months. The NZ Farmers Weekly quotes an export price for a leg of lamb for the UK market and, in NZD, it was 22% dearer in the second week of 2018 than twelve months before. After converting into sterling, it was still up by 16% year-on-year at £4.81/kg.

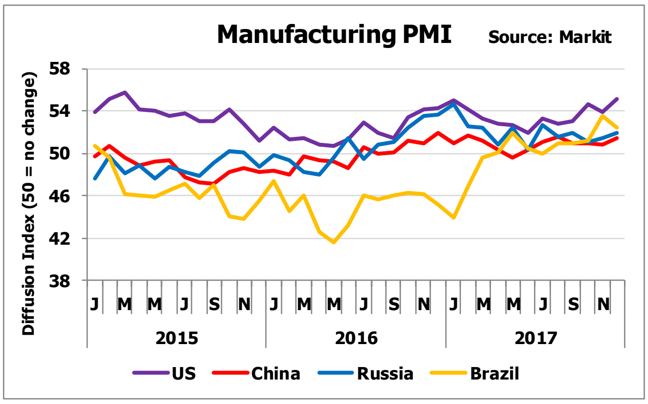
Price inflation in NZ lamb that had been seen in UK import data since the beginning of 2017 initially passed through to UK retail prices for imported lamb in February/March 2017. There was then a further step change in the autumn, as the RPI for imported lamb jumped by 10% between August and November to be 12.5% dearer than a year earlier.

Economic Outlook

UK

General Economic Climate:
With higher inflation continuing to eat into disposable incomes, consumer spending is likely to act as a drag on UK economic activity. Meanwhile, political and economic uncertainty is not conducive to business investment and Brexit talks in early 2018 are unlikely to provide any firm conclusions for the future UK-EU relationship. More positively, a weak currency will continue to aid the competitiveness of UK service providers and manufacturers, underpinning business investment in export-facing sectors. It should also make the UK an attractive destination for both foreign and domestic tourists.





During H1 2018, a weak sterling and continuing growth in the EU and US should help underpin export demand from the UK's largest markets, while emerging markets are expected to build on the recovery in growth rates seen during 2017. The IMF has forecast global economic growth forecast of 3.7% in 2018, comparing favourably with 3.6% in 2017 and 3.2% in 2016.

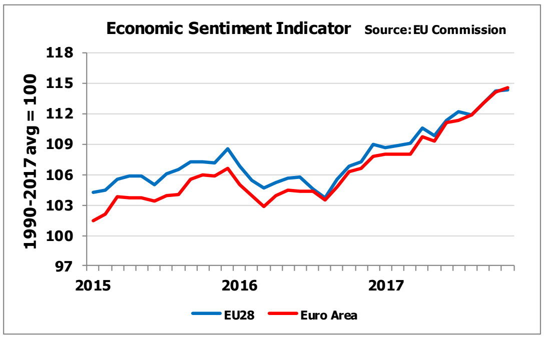
Economic Activity:
The BoE expects the slowdown in UK economic growth to persist due to the country's productivity challenge, weak business investment due to Brexit-related uncertainty, and a slowdown in labour force growth. In addition, the recent real income squeeze will limit consumption growth. The level of GDP growth that can be sustained without generating above-target inflationary pressures is estimated to have fallen to around 0.4% per quarter. GDP is projected to increase by 1.6% in 2018.

Inflation:
The BoE expects the past rise in commodity and import prices to continue underpinning retail prices in 2018, though to a lesser degree than this year. However, these pressures are projected to ease gradually as 2018 progresses, with CPI averaging 2.4% in Q4.

Labour Market:
BoE projections point towards a slowdown in labour supply growth in 2018 as the population ages and net migration slows. With employment growth also projected to ease in 2018, unemployment is expected to stabilise around current levels of 4.3%. However, the slowdown in labour supply growth at a time when the UK economy is at or close to full employment may give a small boost to average earnings growth through retention pay awards and greater competition for staff, lifting it to 3%.

Monetary Policy:
Following its December MPC meeting, the BoE stated that the UK economic performance forecast in its November Inflation Report would require further increases in Bank Rate in order to return the inflation rate to the 2% target in the medium-term, and to keep it there thereafter. However, it also stated that this would likely mean a slow rise in interest rates and that they would remain low when looked at in an historical context. In the November Inflation Report, Bank Rate is projected to rise to 0.75% either in late 2018 or early 2019 and not reach 1% until Q3 2020.

EUROPE



In its autumn forecasts, the European Commission upwardly revised its 2017 and 2018 economic growth estimates for the euro area and wider EU28 significantly higher. 2017 has been revised up to 2.2% from 1.7% for the euro area with 2018 up by 0.3 percentage points to 2.1%. This reflects better-than-expected growth so far this year plus continuing signs of rising activity and confidence in private sector surveys, many of which are at their strongest levels for many years.

Although consumer spending growth has also been revised higher in the autumn forecasts, it is set to continue lagging the overall economy due to unemployment rates remaining elevated and wage growth only just beginning to pick up. High stocks of public debt built up in the aftermath of the financial crisis and the favouring of tight fiscal policy in some countries, including Germany, will limit any increase in public spending, also weighing on GDP growth. However, on the other hand, it is anticipated that given continuing low interest rates, the strengthening economic environment will generate business investment, while a lift in global GDP growth will boost exports, providing further stimulus to investment spending.

The strength of economic activity in the euro area is expected to result in further progress in the labour market recovery, supporting the labour market participation of previously discouraged workers. Total employment is anticipated to rise by 1.2% in 2018, more than offsetting a rise in the labour force, helping lower the euro area unemployment rate from an annual average of 9.1% this year to 8.5% in 2018, bringing it back below its 2003-2007 average.

Following three years of near-zero inflation in the euro area, the average rate of consumer price inflation in the euro area has picked up to around 1.5% in 2017 and has been forecast to dip by a fraction to 1.4% in 2018. Despite rising economic activity, this expectation of a stabilisation of inflation reflects sluggish consumer demand and wage growth.

At a country level, while Italy, France and Belgium are expected to expand at a below average rate again this year and next, prospects are brighter than in the spring and growth rates are expected to be well above those seen in recent years. Meanwhile, the Danish and German economies are forecast to grow by more than 2% after three years at slightly below this level. Forecasts for Spain, Holland and Sweden have been revised higher to over 3% for 2017 before easing back to a still strong 2.5-2.7% in 2018. This strengthening of activity is expected to feed into job growth across the EU with employment rising by 1-1.5% in 2018. However, unemployment rates would still remain well above 2003-2007 levels in Spain and Italy, and by nearly a percentage point in Denmark and France.

Although there is some prospect of a tightening in monetary policy in 2018 as European economies continue to recover strongly, particularly in Sweden, Norway and Switzerland, monetary policy should remain relatively expansionary in H1 2018, keeping interest rates low enough to incentivise investment and consumer spending. Meanwhile, the fiscal stance will be neutral at worst and public investment should help boost future productivity growth.

In summary, the self-fulfilling upturn in the domestic European economy is likely to continue into 2018. Growth rates are likely to stay close to 2017 levels, which have generally been the strongest for many years. However, consumer spending is likely to remain relatively subdued with business investment remaining the principal tailwind for the economic recovery, supported by low interest rates and export demand. Unemployment is likely to fall further throughout Scotland's main red meat export markets and core inflation is likely to hold steady.

GDP Growth Forecasts for Prominent Scottish red meat markets					
	Q4 17	Q1 18	Q2 18	2017	2018
	% change q/q	% change q/q	% change q/q	% change y/y	% change y/y
Bel	0.5	0.5	0.5	1.7	1.8
Fra	0.5	0.4	0.4	1.6	1.7
Ger	0.6	0.5	0.5	2.2	2.1
Hol	0.4	0.7	0.7	3.2	2.7
It	0.3	0.2	0.3	1.5	1.3
Spa	0.6	0.6	0.6	3.1	2.5
Euro Area	**0.5**	**0.5**	**0.5**	**2.2**	**2.1**
Den	0.5	0.5	0.5	2.3	2.0
Swe	0.8	0.6	0.4	3.2	2.7
UK	0.3	0.3	0.3	1.5	1.3
EU28	**0.5**	**0.5**	**0.5**	**2.3**	**2.1**

Source: EU Commission (European Economic Forecast, Autumn 2017)

Other Economic Forecasts for Prominent Scottish red meat markets in 2018				
	Unemployment Rate	Inflation (HICP)	Domestic Demand	Investment
	%	% y/y	% change y/y	% change y/y
Bel	7.0	1.4	1.9	3.2
Fra	9.3	1.2	1.8	3.6
Ger	3.5	1.5	2.4	3.6
Hol	4.0	1.5	3.0	4.5
It	10.9	1.2	1.5	3.8
Spa	15.6	1.4	2.3	4.0
Euro Area	**8.5**	**1.4**	**2.1**	**3.9**
Den	5.6	1.4	2.2	3.2
Swe	6.4	1.6	2.5	3.8
UK	4.7	2.6	1.0	0.7
EU28	**7.3**	**1.7**	**2.1**	**3.7**

Source: EU Commission (European Economic Forecast, Autumn 2017)

Exchange Rate Movements

€:£

The rebalancing of sterling following the vote to leave the EU seems highly likely to persist. However, developments in the Brexit negotiations and speeches made by key participants from both sides are likely to result in short-term fluctuations in the value of sterling against the euro.

The degree of closeness to the current trading relationship between the UK and the EU is likely to be a significant factor in determining the sterling exchange rate. The direction of travel in the negotiating positions appears to be one of an initial implementation period of up to two years where the current trade relationship will continue to apply, followed by a free trade agreement with as few trade frictions relative to now as possible. With this scenario resulting in an exchange rate in the high 80s, signals of a close future relationship may give some support to sterling, pushing it towards the low 80s. However, if the outcome of stage two talks points towards a scenario without a free trade agreement and relying on WTO rules, then the exchange rate could slip back into the 90s.

Developments in the monetary policy stance held by the BoE and ECB are also likely to have an impact on exchange rates. The value of sterling will gain support from BoE communications signalling a further lift in interest rates and vice versa. Meanwhile, ECB communications pointing towards a further reduction, or outright end to, its asset purchase scheme will support the euro and vice versa.

The weaker the sterling exchange rate, the more expensive imports look and the more attractive exporting appears. Given the likelihood of the exchange rate remaining around its range since the EU referendum, it is likely to continue to underpin farmgate prices for cattle, sheep and pigs.

$:£

The step-change in the sterling dollar exchange rate of mid-2016 is likely to persist. Like with the euro, the outlook will be affected by the UK's Brexit stance and developments in monetary policy. The closer the likely future trading relationship between the UK and EU, and the higher the probability of a further UK interest rate increase, the stronger sterling is likely to be.

An improving global economy and the resulting potential for central banks to begin tightening monetary policy at a similar pace to the US Federal Reserve is likely to place some downwards pressure on the US dollar. However, this may be offset if US tax cuts stimulate consumer spending to the degree that US inflation expectations pick up, requiring a faster pace of US interest rate hikes.

A relatively weak sterling against the dollar is likely to maintain the recent boost to the UK's competitiveness in the price sensitive global market for red meat. However, on the other side of the equation, a weaker currency continues to underpin import prices for energy, fertiliser and feed prices, but the recent partial dollar reversal will ease some of the pressure on livestock production costs.

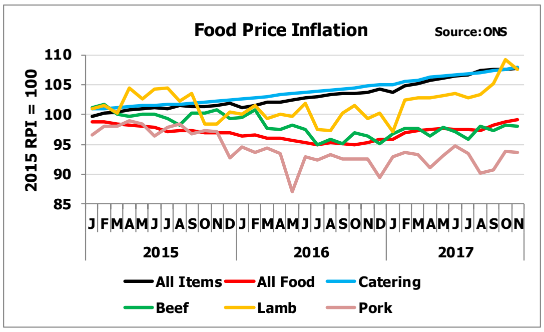
NZ$:£

The Reserve Bank of New Zealand (RBNZ) seems likely to leave its monetary policy on hold as inflation expectations are stable while a weakening of its currency in the autumn of 2017 has boosted the country's export competitiveness and given some upside to inflation. There is also some uncertainty around the impact on economic policy and the economy from the change in government.

Given this context, if the BoE signals a further tightening the NZD could ease against sterling. As a result, a weaker NZD against sterling than in 2017 is likely to partially offset a higher lamb price in NZ; though Brexit-developments could limit this potential rise in sterling against the NZD. Nevertheless, NZ lamb is set to continue to look expensive to UK importers.

What has been happening in the red meat sector?

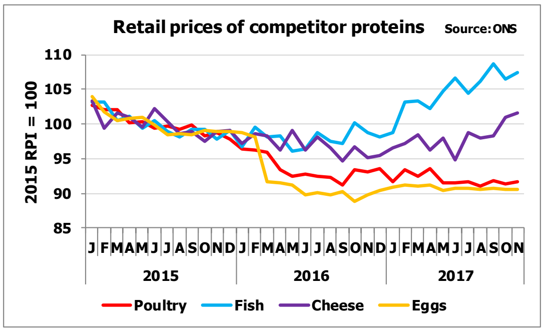
Food Price Inflation:



Following a prolonged period of deflation, food prices began to trend higher in the autumn of 2016 and moved above year earlier levels in February 2017. By November, the ONS RPI inflation rate for food had climbed to 4%.

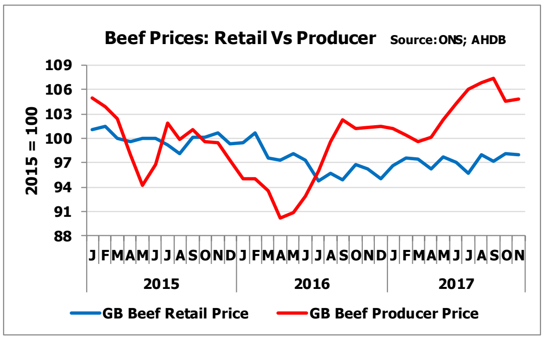
In the catering sector, prices are less reflective of raw material costs and have a higher basis in factors like the cost of labour and the willingness of consumers to spend money eating out. Catering prices rose steadily through 2015 and 2016 when food prices declined, and have continued along this trend in 2017, leaving them 3% above year earlier levels in November.

Meat retail prices saw some upwards pressure in late 2016 before steadying for much of 2017 and then lifting again in the autumn. This left most meat prices slightly ahead of year earlier levels in November: beef 1.8%; home-killed lamb 3.2%; pork 1.4% and bacon 0.5%. However, poultry was 1.4% cheaper. Given firm farmgate prices relative to 2016 for much of this year, the lack of significant retail price increases points to continuing strong competition between retailers, and may suggest that lower margins on meat sales are being used in attempt at raising spending on other products.



Retail prices for competing proteins have shown significant divergence in 2017 with cheese and fish trending significantly higher whereas eggs and poultry have been more stable. In November, fish prices were at their highest on record and up 8.7% year-on-year while cheese was at its dearest since June 2015 and up 6.7%, reflecting an upturn in the global dairy market. Relatively stable egg and poultry prices left them 0.8% higher and 1.4% lower than last year, respectively.

Beef:



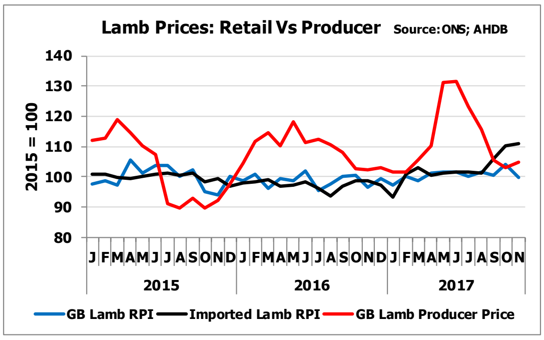
Since dropping by around 5% in H1 2016, beef retail prices have trended slowly higher again, recovering more than half of this lost ground. After nineteen months running lower than twelve months before, the beef RPI returned to year-on-year inflation in July 2017 and was 1-2% above year earlier levels between July and November. Meanwhile, GB producer prices have been averaging higher than a year earlier since September 2016, peaking at 12-13% in May and June, and, in November 2017, were up by 3.5% at 364p/kg dwt for a steer.

Over a prolonged period, the average beef retail price tends to stabilise. Given the context of a sustained year-on-year increase in farmgate prices, it will therefore be interesting to observe how long retail prices can be held on their current trend of increasing at a marginal rate. Perhaps the supply chain could absorb current farmgate values, but further momentum at the farmgate in 2018 could lead to a squeeze in margins significant enough for wholesalers and retailers to need to raise prices.

Within the ONS retail prices sample, mince was 0.4% dearer than a year earlier in November at £7.37/kg. By contrast, rump steak was 1.1% cheaper than last year at £15.80/kg while there was a fall of over 4% in the price of topside to £11.36/kg. Given the average year-on-year increase in the farmgate price of 3.5%, this suggests that the supply chain continued to face narrower margins on a range of beef products.

AHDB provides a monthly comparison of GB producer and retail prices. This retail price is estimated by breaking down an average carcase into its different retail components. During December, the producer price averaged 51.5% of the average retail price. This was 0.7 percentage points lower than twelve months before but up fractionally from October and relative to the 2017 average. The average retail price was estimated to have risen by 4.5% year-on-year to £7.04/kg.

Lamb:



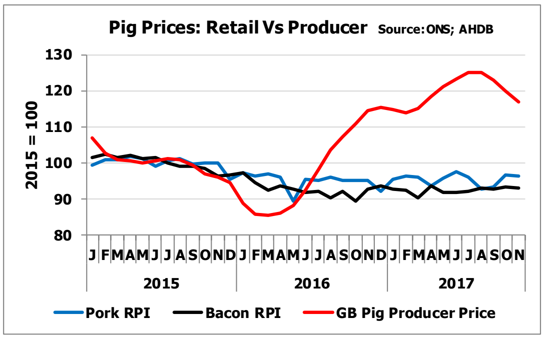
Lamb retail prices have been on a broadly stable trend since 2011. Although eight of the first eleven months of 2017 saw a higher average retail price of home killed lamb than a year earlier, this trend of stable retail prices has continued with the November RPI still in line with its 2015 annual average. However, there has been a notable shift higher in retail prices for imported lamb in the autumn of 2017 with the November average 10% above August levels. This suggests that a sustained rise in the cost of imported lamb has now been passed through to the retail level. Farmgate prices in GB averaged 2.5% higher than last year in November, while NZ prices were around 20% higher in sterling terms.

The seasonality of GB producer prices means that the wholesale and processing chain tends to bear a sharp squeeze on their margins at the beginning of the new season, and a more limited squeeze in the early part of the calendar year. However, the opposite can be true in the autumn. After a prolonged period of stable retail prices, there perhaps is some room for increases in retail prices for home killed lamb, particularly if the cost of competing proteins, including imported lamb, has begun to pick up.

The ONS retail price dataset indicates that both loin chop/steak and bone-in shoulder were dearer than a year earlier in November, up by 3.7% and 2%, respectively, at £13.41/kg and £7.58/kg. Meanwhile imported frozen legs were priced 13.5% higher at £8.16/kg.

According to AHDB, the lamb producer price reached 48.9% of the average lamb retail price in December. Due to the seasonal pattern of farmgate prices, this was a four-month high. Compared to December 2016 it was up by 0.6 percentage points. AHDB's estimate of the average retail price was up by 2.2% year-on-year at £8.19/kg.

Pigmeat:



Following declines in late 2015 and early 2016, the retail price of pork has lacked direction since the summer of 2016. In November 2017, it was up 1.4% on a year earlier, but this was still by far its second lowest November level since 2011. Despite prices settling at a lower level, consumption of fresh pork has struggled, with consumers substituting it with processed pork and poultry. The resurgence in farmgate prices between March 2016 and August 2017, at a time when retail prices stabilised, will have squeezed margins in the wholesale and retail chain. However, this followed a period of margin widening as the price of prime pigs fell sharply from late 2013 through to early 2016. Furthermore, pig prices followed their traditional seasonal profile in 2017, falling back towards the year-end, easing some of the pressure on processors and retailers. This suggests that the supply chain may have the capacity to prolong the trend of stable pricing, particularly as farmgate prices tend to face further weakness in the first quarter of the year.

Since bacon goes through a higher degree of processing than pork, in theory, its retail price may be less reflective of the price a processor pays for the raw material. However, bacon prices have shown a similar trend to pork prices in the past couple of years, falling until the summer of 2016 and then steadying. The bacon RPI was up 0.5% year-on-year in November.

Bone-in pork loin averaged £6.16/kg in November; an annual decrease of 0.5%. Meanwhile, back bacon was up by 1.7% at £7.34/kg, with gammon 1.2% dearer at £6.60/kg. Ham prices rose sharply in H1 2017 and, despite matching May levels, the cost of a 100-125g pack was, at £1.84, 11.5% above its year earlier level in November.

Review and Outlook for Meat Supplies

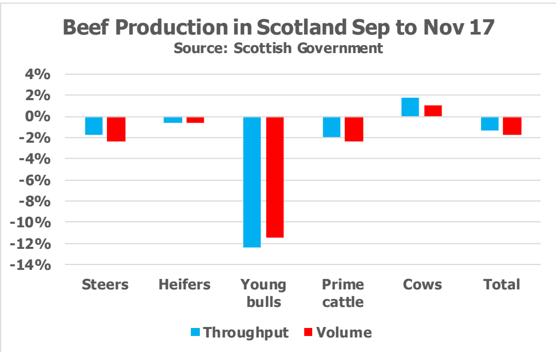
Beef:

UK beef supply: Q3 2017 (t)			Source: Defra	Totals may not sum due to rounding
	2017	2016	Change 2017/2016 (t)	% change 2017/2016
Home Production	210,400	220,950	-10,550	-4.8
+ Imports	85,850	79,250	+6,600	+8.4
- Exports	33,000	33,650	-650	-1.9
= Net Supply	**263,300**	**266,550**	**-3,250**	**-1.2**

Home Production

Provisional Defra estimates of UK red meat supplies for Q3 2017 indicate that UK beef production fell by nearly 5% to 210,400t. There were declines in slaughterings of prime and mature cattle, while the average carcase weight fell slightly for prime cattle but increased for cows.

In Scotland, abattoir production fell by nearly 2% in Q3. A 2.5% fall in prime production, down to lower throughput and carcase weights, was partially offset by increased cow beef production.



Looking at the most recently reported three months, September to November 2017, prime cattle slaughterings fell by 2% at Scottish abattoirs. The steer kill fell by 1.5%, heifers by 0.5% and young bulls by 12.5%. The heavier fall in young bull slaughterings reflects a fall in dairy sired calf registrations in the summer of 2016, while greater use of beef bulls in the dairy herd may have led to some substitution towards steers. Meanwhile, although the cow kill continued to increase, the growth rate has slowed significantly.

Carcase weights continued to place downwards pressure on beef production in 2017 as producers responded to abattoir pricing structures which provide a disincentive to exceed a certain carcase weight. As a consequence, the average prime cattle carcase weight at Scottish abattoirs was 0.7kg (0.4%) lighter than a year earlier in the three months to November, at 357kg. This turned a 2% shortfall in numbers into a 2.5% decline in prime beef volumes. With steers most likely to be facing weight-related penalties, their average carcase weight declined by 2.5kg (0.7%) to 373kg. This was a significantly smaller reduction than had been seen earlier in 2017 as a seasonal slide in weights in the autumn means that fewer carcases exceeded the target range for multiple retailer contracts at this time of year. Meanwhile, the average cow carcase weight fell by 2.5kg (0.8%) to 329.5kg.

Trade

Imports add to domestic beef supplies and during Q3 2017 Defra estimates that UK beef imports rose by a significant annual rate of 8.5% to 85,850t. There was a change in the balance of imports with fresh deliveries rising 6% to 60,150t, while frozen shipments rose by 14.5% to 25,750t. This pushed up the share of fresh beef in import volumes by 1.5 percentage points to 71.5%. Meanwhile, total imports accounted for 32.5% of UK beef supply in Q3, up 3 percentage points on the year. HMRC trade data indicates that Irish Republic delivered 10.5% more beef to the UK than a year earlier, with fresh up 5% and frozen by 28%. Consequently, the Irish share of UK imports rose by 1.5 percentage points to 71.5%. Imports from Poland rose sharply and there was also an increase from Germany, but Holland delivered less beef. Imports from non-EU countries fell by 28%.

Exports deduct beef supplies from the UK market. Despite a favourable exchange rate, Defra estimates that total volumes, including processed products, contracted by 2% to 33,000t in Q3. However, this shortfall reflected lower UK beef production as the share of domestic production exported actually rose by 0.5 percentage points to 15.5%. HMRC data shows that deliveries of fresh and frozen beef to Ireland, the largest export customer for the UK (reflecting cross-border supply chains within the British Isles), increased slightly but there was a significant fall in deliveries to Holland. Outside the EU, Hong Kong provided a growing outlet for low value cuts.

Outlook

GB cattle population: 1 October 2017			Source: BCMS	
	Still alive Oct 2016	Still alive Oct 2017	y/y Change	
Calves registered:			head	%
<6 months ago	1,446,750	1,459,500	+12,750	0.9
6-12 months ago	1,055,900	1,037,550	- 18,350	-1.7
12-18 months ago	1,269,150	1,269,150	0	0
18-24 months ago	813,050	820,750	7,700	0.9
24 to 30 months ago	618,300	628,500	10,250	1.7
30 to 36 months ago	339,500	364,800	25,300	7.5
Total pool	5,542,600	5,580,250	37,650	0.7

Looking forward into H1 2018, prime cattle supply is likely to be marginally tighter than twelve months before. This is based on taking the population aged between 6 and 24 months of age at October 1 2017 and comparing with a year earlier - numbers were down by 0.3%. Driving this decline is likely to be spring 2017-born young bulls from the dairy herd, with steer and heifer supplies more stable, and perhaps edging higher. Indeed, calf registrations in H1 2016 were 1% higher than a year earlier, so there are likely to be slightly more cattle reaching two years of age in H1 2018.

However, given that the number of prime cattle available for processing are likely to be relatively flat compared to H1 2017, the rate of change in prime beef production volumes will depend on the evolution of carcase weights. Enforcement of carcase weight penalties has seen weights fall back over the past couple of years, and if there is further adjustment to come, particularly as weights tend to be at their highest in the first half of the year, then this could place some additional downwards pressure on prime beef production. Given firm farmgate prices, a further potential limiting factor to prime supplies in H1 2018 could be an increased heifer retention rate.

Cow beef production inevitably declined in 2017 following sharp increases in 2015 and 2016. Given the small decline reported in the UK beef herd last June and an improved dairy market, tight supplies of cow beef may well reduce overall beef supply further in H1 2018.

Looking at trade, the Irish Republic is likely to be slightly better supplied in 2018, with the June 2017 census reporting an increase of 3.5% for cattle aged 12 to 24 months and a marginal lift in numbers under a year old. Meanwhile, a tight UK beef market is likely to constrain exports.

To summarise, UK beef production is likely to fall in H1 2018 with prime cattle availability potentially easing a little, lower carcase weights and a reduction in cows. As a consequence, import demand may increase while less beef is likely to be available for export.

Sheepmeat:

UK sheepmeat supply: Q3 2017 (t)			Totals may not sum due to rounding	
	2017	2016	Change 2017/2016 (t)	% change 2017/2016
Home Production	73,400	82,550	-9,150	-11.1
+ Imports	19,750	21,800	-2,050	-9.4
- Exports	25,050	23,900	+1,150	+4.8
= Net Supply	**68,100**	**80,400**	**-12,300**	**-15.3**

Home Production

Despite an increased lamb crop, Defra estimates that UK sheepmeat production fell sharply during Q3 2017. Most of the reported decline was down to reduced numbers of lambs reaching abattoirs, as carcase weights were unchanged at 19kg. Mutton production is also estimated to have contracted heavily, as higher carcase weights were more than offset by a decline in numbers.

At Scottish abattoirs, prime sheep production continued to fall in Q3 2017, down 2.5% year-on-year. Moving forward to the most recently reported three months, September to November, production fell by 4% to 6,800t. Prime slaughter contracted by 5% and carcase weights fell slightly, lowering prime production by 5.5%. However, this was partially offset by a substantial increase in mutton processing.

Defra estimates that across the UK as a whole, 60,400 more prime sheep were processed compared to 2016 between September and November, with numbers up by 1.5% at 3.748m head. Carcase weights were, on average, unchanged. Overall sheepmeat production was flat, however, since mutton output fell by 9.5%. Given that June census data pointed to a 3% increase in the UK lamb crop, a small increase in prime slaughter seen during the autumn was to be expected.

Trade

Since imports add to the volume of sheepmeat on the UK market, a 9.5% year-on-year decline subtracted over 2,000t from the home market in Q3 2017. However, due to tight domestic supplies, imports accounted for a higher share of UK market supply, up two percentage points at 29%. HMRC figures indicate that imports from NZ declined by almost a quarter, but that this was partially offset by increased deliveries from Australia and Ireland. In addition to reduced availability, sheepmeat was brought in at a significantly higher average price than in the autumn of 2017.

Moving to the export side, Defra estimates that volumes firmed by 4.5% year-on-year to 22,650t in Q3 despite tight domestic production. This was added to by an 8% increase in live sheep exports, resulting in an overall export increase of 5% to 25,050t[17]. With exports subtracting from domestic supply, this expansion in trade removed a further 1,150t from the home market compared to Q3 2016. HMRC export data indicates that trade with the UK's main customer, France, faced headwinds, but that this was more than offset by expansion into Belgium, Germany, Italy and Ireland, assisted by a favourable exchange rate. Outside the EU, like for beef, Hong Kong has provided opportunities for UK processors to sell lower value cuts, thereby supporting carcase balance.

Outlook

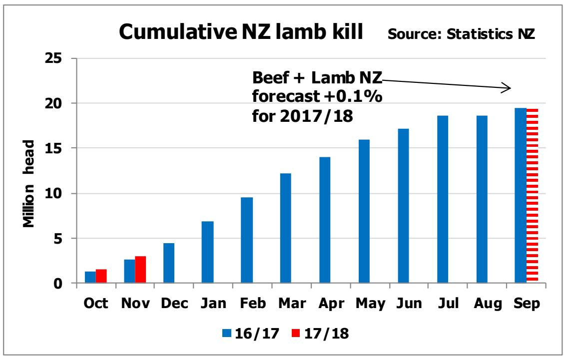
To assess potential prime sheep supplies in H1 2018 the June 2017 lamb crop can be set against the change in slaughter volumes between June and December 2017. From the census, the overall 3% increase in June lambs across Scotland, England and Wales amounted to 486,500 head. Meanwhile,

[17] Most of the UK live sheep trade is exports from Northern Ireland to the Irish Republic for slaughter.

a provisional estimate of June to December prime sheep slaughterings puts them 145,200 head (2%) above year earlier levels at GB abattoirs. Therefore, the comparison suggests that an increased number of hoggs have been carried over into 2018, with a basic starting point of 340,000 head. If all of these additional hoggs were to reach the market between January and May, it could boost supplies by 5-10% compared to 2017.

However, eighteen months of firm farmgate prices for finished lambs may result in an increased proportion of hoggs being retained for future breeding, limiting the number of hoggs reaching the market. A second factor potentially limiting the increase in domestic hogg production in early 2018 could be carcase weights. While weights were little different to twelve months ago in the autumn of 2017, if wet weather conditions result in reduced forage availability over the winter then hoggs may be processed at younger ages and lighter weights. Recent auction data does offer some supporting evidence here as the proportion of prime sheep falling out-with the 25.5-45.5kg weight range was lower than twelve months before in the four weeks to January 10 at GB auctions, slipping from 28% to 25%.

On the demand-side, the sheep market is likely to reach its peak in the second half of March with Easter Sunday falling on April 1st this year, two weeks earlier than in 2017.



Moving on to trade, on the import side, New Zealand had a good lambing, producing 2% more lambs despite 2% fewer ewes being put to the tup. Beef + Lamb NZ have forecast a stable supply of export lambs on to the market as strong prices, which opened 2018 a third higher year-on-year in local currency, encourage flock rebuilding. Then again, a late-2017 drought may have resulted in a short-term rush of lambs on to the market, just in time to meet demand for the upcoming Chinese New Year celebrations, plus Easter in Europe. Indeed, slaughter numbers rose 15% year-on-year in October and November.

However, elevated farmgate lamb prices in NZ – up 25% in sterling - mean that NZ lamb is significantly less price competitive in early 2018, potentially limiting imports. Meanwhile, a smaller NZ ewe flock may place downwards pressure on import volumes; though drought-induced culling may push up supplies in the short-run. Australia is expected to have slightly more lambs in 2018, though prices have begun 2018 10% dearer than twelve months ago and the country's relatively small quota for the EU (19,600t) places a natural barrier on export shipments to the UK. In contrast to GB, the Irish Republic may have a smaller hogg carryover to work with as slaughterings rose sharply in H2 2017, out-stripping the reported increase in the lamb crop.

In terms of UK export prospects, a weak sterling will continue to underpin the price competitiveness of UK sheepmeat on the continent, helping processors manage the anticipated expansion of domestic supply. Furthermore, firm economic growth, falling unemployment and rising consumer confidence in Scotland's key EU export markets should support demand. However, the key French market was challenging in 2017 despite favourable economics, and this may continue into 2018. Outside of the EU, a weak sterling may present some opportunities for further growth in low value shipments.

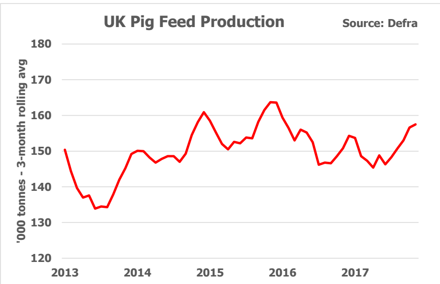
In summary, a smaller increase in slaughterings in the autumn than had been indicated by a larger lamb crop is likely to push up the carryover of hoggs into 2018; though an increased retention rate may have some offsetting impact. The timing of Easter means that processor requirements are likely to spike in mid-to-late March, two weeks earlier than in 2017. Meanwhile, the significantly higher cost of NZ lamb is likely to see a further contraction in imports in the spring of 2018 and demand for UK exports is likely to hold firm. Combining these factors points to supply remaining tight in H1 2018, as the trade volumes more than offset the potential increase in home production.

Pigmeat:

UK pigmeat supply: Q1 2017 (t)				Totals may not sum due to rounding
	2017	2016	Change 2017/2016 (t)	% change 2017/2016
Home Production	214,250	218,300	-4,050	-1.9
+ Imports	193,800	209,300	-15,500	-7.4
- Exports	61,500	55,650	+5,850	+10.5
= Net Supply	**346,550**	**372,000**	**-25,450**	**-6.8**

Home Production

Although Defra estimates that 2016 was the seventh year of growth in UK pigmeat production, volumes did slip behind year earlier levels in the autumn. This trend continued into 2017 and production fell by nearly 2% on a year earlier in Q3. This decline was been the lagged impact of the sharp downturn in pig prices of autumn 2014 to spring 2016, with the fall in production materialising once the market had begun to recover. Slaughter statistics for Q3 indicate that prime slaughter fell by 3.5% to 2.58m head while the sow kill contracted by just under 3%. However, carcase weights for prime pigs averaged 2kg heavier than in Q3 2016, at 83.0kg, limiting the prime production decline to -1%, but sow carcases were lighter, pushing sow meat production down 4%.



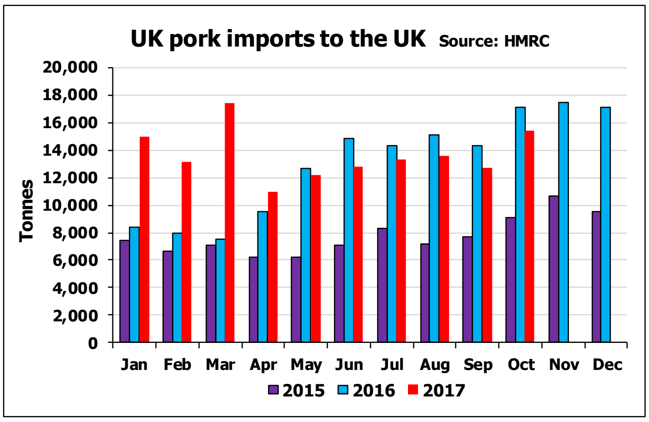
Neither June nor December census results picked up a fall in UK pig numbers in 2016, with both reporting further growth; and the June 2017 census indicated a further marginal uplift. One proxy for the pig population is pig feed production in the UK. Following years of sustained growth, it fell back in 2016 and trailed year earlier levels in 13 of the 14 months between May 2016 and June 2017, before beginning to lift again. If the pig herd had continued to grow then the fall in pigmeat production would signal a sharp decline in productivity, following many years of improvement towards European levels. Given strong levels of investment in herd health made by producers in recent years, this would seem unlikely.

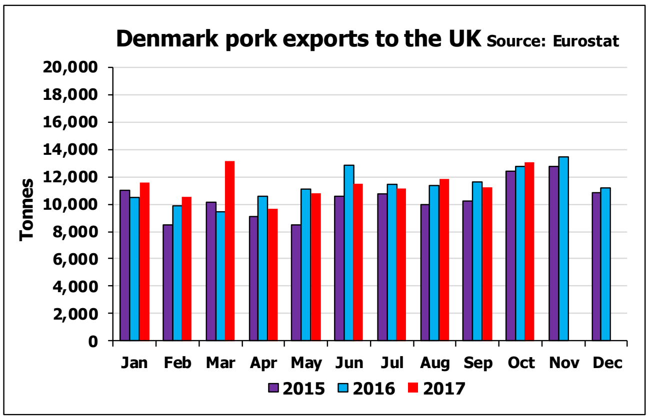
In Scotland, the temporary closure of an abattoir for most of Q3 had a considerable impact on slaughter, with many more pigs crossing the border for processing at English abattoirs. This suspension of processing continued until mid-November, after which it quickly returned to 'normal'.

At the UK level, September-to-November prime pig throughput showed the early signs of recovery, rising 1.5%. This may suggest that, at a short lag to the turn in pig feed production, pig supplies had begun to move towards recovery in the autumn. Significantly higher weights meant that prime production volumes showed a 4.5% expansion. Sow slaughterings continued to slide significantly, down 10.5%, with a fall in carcase weights leading to a 12% reduction in sow meat.

Trade

Imports add to UK supplies and Defra estimates that imports rose considerably in 2016 with this growth continuing for the first half of 2017, before slipping back in Q3. As a share of the UK pigmeat market, imports fell slightly on the year from around 56.5% to 56%. However, like the pig census, there is some scepticism amongst industry analysts around import data. UK trade statistics pointed to a substantial increase in imports from Denmark in 2016, but Eurostat figures pointed to a much smaller increase, though from a higher base. The UK statistics then pointed to a significant year-on-year fall in Q3 2017, whereas Eurostat indicated a further small uplift. According to HMRC, Denmark still accounted for 38% of UK imports in Q3, falling back from a 41.5% share in the same period of





2016. Deliveries from France and Spain are also reported to have declined, while Belgium sent a similar volume. By contrast, more pork arrived from Germany, Ireland and Holland.

UK pigmeat exports are estimated to have grown year-on-year for a second quarter in Q3 2017, up 10.5%. With production sliding, the share of production exported increased by three percentage points to 28.5%, suggesting firm overseas demand. According to HMRC, rising exports to Denmark and Germany underpinned shipments to the EU, with these gains partially offset by declines to Ireland and Holland. Looking further afield, China continued to offer a growing opportunity to balance the carcase through sales of lower value cuts of frozen pork.

Outlook

The industry consensus is for UK prime pig slaughterings to rise by 1-2% throughout 2018 as the previous period of herd consolidation has come to an end. A 1.3% increase in slaughter has been forecast for Q1 and then 2.3% in Q2. That the sector has moved from consolidation to expansion is also suggested by the continued heavy decline in sow slaughterings into the autumn of 2017; though the expansion in prime slaughter may be dampened by a greater gilt retention rate. Clearly, given that rising carcase weights turned a small increase in kill into a significant production volume increase in the autumn, the evolution of carcase weights will be an important variable in 2018. A well supplied global market for cereals and oilseeds is likely to keep input costs in check in 2018 and so it is possible for farmers to add further weight. Carcase weights did slip back closer to their 2016 average in late 2017, but have opened 2018 0.5-1% higher.

On the trade side, imports may stabilise in 2018 after slipping back last year. Although, on the one hand, the renewed gap between the UK farmgate prices are likely to support the use of imported product in the UK market, this may be offset by the continuing exchange rate weakness plus the anticipated lift in domestic production.

For exports, the price competitiveness of UK pigmeat should help underpin overseas sales. In addition, if domestic production does grow, the need for processors to achieve carcase balance may lead to an increased surplus of pigmeat cuts which are less popular in the home market. However, a slowdown in Chinese imports may result in drop in shipments to China. In addition, the same change in the pig production cycle that has been seen in the UK is taking place on the continent, potentially constraining import requirements in a number of EU countries.

The signals point towards a well-supplied UK pigmeat market during the first half of 2018. Domestic production is likely to remain above year earlier levels having recovered in the autumn of 2017. Meanwhile, exports could stabilise as although UK pigmeat is likely to remain competitively priced, Chinese and EU import requirements may begin to ease back. Nevertheless, the combined increase in supply from home production and lower export volumes may well be partially offset by a contraction in imports.

Red Meat Sector Outlook

- The UK economy appears to have entered a slower-growth phase, although there were some more promising signs as 2017 drew to a close. Inflation remains above wage growth, squeezing household incomes, but there is more available spare cash than at the early years of this decade. Strong export sales have encouraged production capacity-expansion in export-facing industries, and business investment is growing faster than the economy as a whole. Nevertheless, it is lower than might have been expected given the strengthening global economy, reflecting uncertainty about the UK's future trade and investment arrangements. The European economy has been growing at its fastest pace for many years, reducing spare capacity, but consumer spending growth has continued to lag.

- The rebalancing in global commodity markets and exchange rate depreciation that took place in H2 2016 has passed through supply chains, pushing up the cost of food in the UK. Although competition amongst retailers is expected to remain intense, higher import and farmgate prices relative to 2017 indicate that there is some potential for higher red meat retail prices.

- UK beef production is likely to fall in H1 2018, as a stable availability of prime cattle is offset by a continuing downwards rebalancing of carcase weights and falling cow beef production. This fall in supply is likely to support imports, particularly as the main supplier, Ireland, has more cattle to process. Despite being competitively priced abroad, UK exports will be constrained by tight supply.

- A smaller increase in slaughterings in H2 2017 than had been indicated by an increased 2017 lamb crop signals an increased carryover of hoggs for sale in the first third of 2018; though the retention of an increased proportion of females for future breeding may have some offsetting impact. The decline in imports seen in late 2016 and through much of 2017 may continue as NZ lamb has lost its competitive edge, although NZ supplies may see some short-term recovery following a drought. A weak sterling and healthy European economy indicates that UK export demand is likely to hold firm.

- UK pigmeat production is expected to rise in H1 2018. However, imports may struggle to match H1 2017 levels and export growth looks challenging given the expectation that production will also recover on the continent while Chinese import demand cools further from its highs of 2016.

- Demand for beef, lamb and pork with UK national or regional identification is likely to remain firm at the higher end of the market as consumers continue to seek traceability, provenance and quality. However, there is some potential for the renewed squeeze on household incomes to shift the focus back towards price rather than quality as the main factor behind protein choice.

- A structural shift in food consumption is likely to continue. This includes faster growth in out-of-home consumption; meat being used as an ingredient rather than as the centrepiece of a dish; and meat being bought more often but in smaller volumes. Changing social attitudes towards health and food waste may also have implications for red meat sales.

- The prospect of a less open future trade relationship between the UK and EU is likely to continue weighing on sterling in H1 2018. This is likely to keep exchange rates close to recent levels, but monetary policy developments may result in fluctuations. In the short-term, domestic produce is likely to benefit from the ability to compete well in price sensitive markets both at home and abroad.

- High-end EU markets continue to offer potential growth for Scottish produce due to a relatively small current base. Economic data points towards Belgium, Sweden, Holland and Germany offering the most promise for expansion, but the French economy also looks to have brightened.

- Although a weak sterling will assist price competitiveness, politics and logistics will continue to heavily restrict trade with third countries, making it hard for processors to balance the carcase.

Sources

AHDB
Bank of England
Bank for International Settlements
BCMS
Beef + Lamb New Zealand
Bloomberg
British Retail Consortium
Confederation of British Industry
Central Statistics Office (RoI)
DEFRA
Eurostat
European Central Bank
European Commission Economic and Financial Affairs
European Commission Agriculture and Rural Development
Farmers Weekly Interactive
Farmers Weekly (NZ)
Financial Times
Finans Norge
GfK NOP
HM Revenue & Customs
IGD
IMF
Institute for Fiscal Studies
Markit Economics
OANDA
Office for National Statistics
Scottish Government
SECO
Statistics Norway
Swiss Federal Statistics Office

Statistical Appendix

UK Economic Indicators

Sources: ECB; Eurostat; ONS

		Unemployment: Claimant Count		Whole Economy Average Earnings		Retail Sales Index Total	Retail Sales Index Food	UK Inflation: All Items RPI		UK Inflation: All items CPIH		EU28 Inflation: HICP	Exchange Rate
		000	%	£/week	% change y/y	2015 = 100		Jan 87 = 100	% Change Y/Y	2015 = 100	% Change Y/Y	% Change Y/Y	€:£
	2007	864.5	2.4	420	4.7	91.8	101.0	206.6	4.3	83.3	2.4	2.4	0.68434
	2008	906.1	2.5	435	3.6	91.9	100.2	214.8	4.0	86.2	3.5	3.7	0.79628
	2009	1527.7	4.3	435	0.0	92.0	100.9	213.7	-0.5	87.9	2.0	1.0	0.89094
	2010	1496.4	4.2	444	2.1	91.3	99.2	223.6	4.6	90.1	2.5	2.1	0.85784
	2011	1534.4	4.3	455	2.5	91.2	97.9	235.2	5.2	93.6	3.8	3.1	0.86788
	2012	1585.6	4.5	461	1.3	91.7	97.7	242.7	3.2	96.0	2.6	2.6	0.81087
	2013	1421.3	4.0	466	1.1	92.8	97.4	250.1	3.0	98.2	2.3	1.5	0.84926
	2014	1036.2	3.0	471	1.1	96.1	98.2	256.0	2.4	99.6	1.5	0.5	0.80612
	2015	798.0	2.3	483	2.5	100.0	100.0	258.5	1.0	100.0	0.4	0.0	0.72584
	2016	775.1	2.2	495	2.5	104.7	103.4	263.1	1.8	101.0	1.0	0.3	0.81948
					3 month rolling avg								
2016	Jan	762.3	2.2	490	2.3	102.7	101.8	258.8	1.3	99.9	0.6	0.3	0.7546
	Feb	756.4	2.1	486	2.1	102.7	102.7	260.0	1.3	100.1	0.6	-0.1	0.7756
	Mar	769.2	2.2	491	2.2	102.7	103.2	261.1	1.6	100.4	0.8	0.0	0.7802
	Apr	768.9	2.2	497	2.2	103	102	261.4	1.3	100.6	0.7	-0.2	0.7923
	May	772.6	2.2	494	2.5	105.2	103.5	262.1	1.4	100.8	0.7	-0.1	0.7778
	Jun	775.7	2.2	492	2.5	103.5	103	263.1	1.6	101.0	0.8	0.1	0.7905
	Jul	774.2	2.2	498	2.4	105.5	103.5	263.4	1.9	100.9	0.9	0.2	0.8411
	Aug	777.1	2.2	496	2.3	105.4	104.1	264.4	1.8	101.2	1.0	0.3	0.8552
	Sep	778.4	2.2	496	2.4	105.7	104.4	264.9	2.0	101.5	1.3	0.4	0.8523
	Oct	782.3	2.2	498	2.4	107.7	105.1	264.8	2.0	101.6	1.3	0.5	0.8939
	Nov	788.5	2.2	500	2.7	107.3	104.4	265.5	2.2	101.8	1.5	0.6	0.8689
	Dec	783.1	2.2	499	2.6	105.1	103	267.1	2.5	102.2	1.8	1.2	0.8444
2017	Jan	764.8	2.2	499	2.2	104.8	103.2	265.5	2.6	101.8	1.9	1.7	0.8610
	Feb	761.7	2.2	499	2.2	106	103.9	268.4	3.2	102.4	2.3	2.0	0.8527
	Mar	784.3	2.2	502	2.3	104.9	103.7	269.3	3.1	102.7	2.3	1.6	0.8656
	Apr	795.5	2.3	504	2.1	106.9	103.8	270.6	3.5	103.2	2.6	2.0	0.8482
	May	800.6	2.3	504	1.9	106.2	103.5	271.7	3.7	103.5	2.7	1.6	0.8555
	Jun	806.3	2.3	506	2.1	106.3	102.3	272.3	3.5	103.5	2.6	1.5	0.8772
	Jul	802.6	2.3	506	2.2	106.9	103.9	272.9	3.6	103.5	2.6	1.5	0.8862
	Aug	802.4	2.3	508	2.3	108	103.9	274.7	3.9	104	2.7	1.7	0.9112
	Sep	805	2.3	510	2.3	107.2	103.4	275.1	3.9	104.3	2.8	1.8	0.8947
	Oct	811.5	2.3	510	2.5	107.7	103.6	275.3	4	104.4	2.8	1.7	0.8907
	Nov	817.5	2.3	490	2.3	109	104.3	275.8	3.9	104.7	2.8	1.8	0.8880
	Dec							278.1	4.1	105	2.7	1.7	0.8827

Retail Price Index: meat & other food items Jan 1987 = 100 Source: ONS

		Beef	Lamb Home Killed	Lamb imported	Pork	Bacon	Poultry	Fish	Cheese	Eggs	All Food	Catering	All Items
	2010	174.6	259.3	218.9	203.2	210.8	130.9	208.8	220.1	264.1	195.0	279.8	223.6
	2011	181.8	291.3	284.1	213.8	215.3	138.4	228.0	232.7	266.7	206.6	291.2	235.2
	2012	201.7	306.0	280.2	228.6	216.6	139.8	237.7	240.9	262.6	213.3	300.2	242.7
	2013	213.4	307.9	261.5	240.6	228.6	145.2	246.8	241.9	259.1	221.2	308.4	250.1
	2014	219.1	313.4	262.3	237.7	227.7	144.6	254.1	251.7	252.0	221.3	315.5	256.0
	2015	219.3	318.2	267.4	231.1	217.8	136.2	246.5	244.1	230.9	216.2	320.6	258.5
	2016	212.7	314.3	260.6	219.7	202	127.5	241.5	236.4	211.7	211.5	327.4	263.1
	2017												
	% Change YoY												
	2010	-0.5	8.2	2.3	3.6	-1.4	0.0	6.1	1.9	3.5	3.1	3.1	4.6
	2011	4.1	12.3	29.8	5.2	2.1	5.7	9.2	5.7	1.0	5.9	4.1	5.2
	2012	10.9	5.0	-1.4	6.9	0.6	1.0	4.3	3.5	-1.5	3.2	3.1	3.2
	2013	5.8	0.6	-6.7	5.2	5.5	3.9	3.8	0.4	-1.3	3.7	2.7	3.0
	2014	2.7	1.8	0.3	-1.2	-0.4	-0.4	3.0	4.1	-2.7	0.0	2.3	2.4
	2015	0.1	1.5	1.9	-2.8	-4.3	-5.8	-3.0	-3.0	-8.4	-2.3	1.6	1.0
	2016	-3.0	-1.2	-2.5	-4.9	-7.3	-6.4	-2.0	-3.2	-8.3	-2.2	2.1	1.8
	2017												
2016	Jan	218	313.7	262.2	224.9	211.7	131.2	238.2	237.2	228.0	213.2	323.7	258.8
	Feb	220.7	321	263.4	222.7	205.8	131	245.4	240.7	226.5	213.6	324.3	260.0
	Mar	214	305.7	264.8	224.2	201.2	130.6	241.9	239.7	211.8	212.7	325.1	261.1
	Apr	213.4	316.8	258.9	222.2	203.8	127.2	242.2	234.7	211.4	212.4	325.9	261.4
	May	215.3	313.9	260.1	206.8	202.1	125.9	236.7	241.9	210.4	211.5	326.6	262.1
	Jun	213.4	324.1	263.3	220.9	200	126.3	237.6	235	207.4	210.8	327.1	263.1
	Jul	207.8	303.4	256.8	219.7	201	125.9	243.5	239.6	208.0	209.9	327.6	263.4
	Aug	210	310.4	250.8	221.8	196.5	125.8	240.4	235.7	207.1	211	328.2	264.4
	Sep	208.2	318.3	259.5	220.2	201	124.3	239.7	231.2	208.5	210.6	328.7	264.9
	Oct	212.2	320.1	263.9	220.2	194.8	127.2	247.0	236.1	205.0	209.9	329.3	264.8
	Nov	211.2	307.7	263.5	219.8	201.9	126.7	243.4	232.2	207.4	210.8	330.5	265.5
	Dec	208.3	316.5	260.3	212.8	203.7	127.5	241.9	233	208.8	212.1	331.3	267.1
2017	Jan	211.9	309.7	249.8	220.7	202.3	124.8	243.5	235.7	209.7	212.3	331.5	265.5
	Feb	214	318.7	270	222.5	201.2	127.3	254.2	237.2	210.6	214.7	332.7	268.4
	Mar	213.8	313.8	275.5	221.8	196.8	126	254.5	240.1	210.1	215.2	333.6	269.3
	Apr	211	322.2	268.8	216.4	204.1	127.4	251.9	234.8	210.5	215.6	335	270.6
	May	214.2	322.9	270.4	221.5	200.2	124.7	258.2	239.1	208.9	216	335.9	271.7
	Jun	212.9	323.6	271.6	225.2	200.2	124.7	263.0	231.3	209.5	215.6	336.4	272.3
	Jul	209.9	319.1	271.2	222.0	200.5	124.8	257.3	241.1	209.6	215.7	337	272.9
	Aug	214.8	323.6	270.6	214.4	202.9	124	261.6	239	209.0	215.5	337.5	274.7
	Sep	213	320.2	283.2	215.5	201.8	125	267.7	240	209.4	217.4	338.7	275.1
	Oct	215.1	331.2	294.5	223.1	203.6	124.4	262.5	246.5	209.0	218.5	339.4	275.3
	Nov	214.9	317.6	296.9	222.8	203	124.9	264.6	247.8	209.1	219.3	340.4	275.8
	Dec	213.4	314.1	299.2	226.4	204.6	125.4	265.2	245.6	209.5	220.6	341.3	278.1
	% Change YoY												
	Dec	2.4	-0.8	14.9	6.4	0.4	-1.6	9.6	5.4	0.3	4	3	4.1

Scottish Monthly Average Retail Prices of Selected Cuts

Source: AHDB

	Beef	Topside	Sirloin Steak	Rump Steak	Fillet Steak	Diced Stewing Steak	Braising Steak	Premium Mince	Standard Mince	**Pork**	Leg (boneless)	Fillet End Leg	Shoulder (boneless)	Fillet of Pork	Loin Steaks	Loin Chops	Diced Pork	Minced Pork
2016	Jan	1231	2492	1704	4021	1141	1171	848	627		717	829	675	977	1088	783	767	751
	Feb	1221	2423	1715	4015	1141	1151	848	621		748	829	693	980	1088	770	769	752
	Mar	1147	2519	1720	3995	1141	1185	848	625		730	829	689	978	1096	758	775	746
	Apr	1228	2522	1721	3996	1141	1180	848	621		720	829	687	980	1102	751	727	736
	May	1218	2522	1711	3996	1141	1178	848	621		722	829	689	937	1088	750	727	724
	Jun	1218	2522	1736	3996	1141	1178	841	627		736	805	686	985	1040	749	733	746
	Jul	1187	2522	1734	3996	1141	1184	844	627		712	799	691	985	946	744	733	732
	Aug	1192	2522	1734	3996	1141	1169	848	627		732	805	692	972	946	770	733	736
	Sep	1202	2522	1711	3996	1141	1191	845	617		750	829	695	981	921	762	733	724
	Oct	1215	2489	1664	3997	1130	1171	845	617		725	829	700	969	940	757	733	732
	Nov	1227	2522	1690	4008	1130	1184	845	617		722	829	698	996	920	746	733	702
	Dec	1063	2525	1701	4019	1134	1191	846	625		736	829	703	951	949	762	707	699
2017	Jan	1121	2528	1688	4019	1134	1178	845	626		732	829	703	987	949	762	720	711
	Feb	1212	2527	1684	4019	1106	1178	846	626		708	829	701	1001	934	755	720	715
	Mar	1227	2526	1690	4033	1077	1190	846	633		718	829	697	980	945	762	723	709
	Apr	1163	2526	1681	4037	1077	1184	846	631		720	829	704	990	939	762	733	716
	May	1224	2526	1719	3984	1077	1184	840	610		705	829	690	998	928	754	733	718
	Jun	1243	2526	1667	3998	1077	1191	838	605		702	829	699	998	933	752	733	718
	Jul	1227	2523	1729	4015	1077	1144	838	605		722	829	700	998	946	764	740	714
	Aug	1211	2526	1719	4028	1066	1183	838	605		708	829	700	1001	936	761	746	712
	Sep	1234	2533	1717	4041	1078	1190	838	602		722	829	659	994	928	753	746	718
	Oct	1213	2533	1687	4036	1088	1190	846	598		719	838	667	991	963	764	746	718
	Nov	1225	2533	1691	4041	1088	1198	866	598		719	829	663	1002	972	765	746	726
	Dec	1170	2536	1718	4064	1090	1193	869	605		709	829	655	1007	906	771	747	734

	Lamb	Whole Leg	Fillet End Leg	Shoulder (Bone-in)	Shoulder (Boneless)	Lamb Steaks	Loin Chops	Cutlet Chops	Diced Lamb	Minced Lamb
2016	Jan	1252	1390	739	1269	1760	1519	1659	1548	1445
	Feb	1252	1390	739	1269	1760	1519	1659	1548	1445
	Mar	1216	1345	739	1301	1776	1532	1637	1555	1442
	Apr	1227	1336	752	1273	1736	1524	1644	1539	1464
	May	1242	1380	751	1264	1755	1528	1654	1544	1469
	Jun	1253	1398	761	1325	1790	1571	1679	1579	1445
	Jul	1245	1383	764	1366	1765	1548	1679	1578	1458
	Aug	1248	1401	762	1366	1776	1548	1679	1576	1455
	Sep	1262	1398	773	1366	1782	1548	1679	1576	1463
	Oct	1271	1428	770	1366	1790	1548	1679	1571	1451
	Nov	1275	1435	749	1366	1790	1548	1679	1576	1469
	Dec	1205	1318	762	1366	1790	1548	1679	1570	1477
2017	Jan	1278	1409	771	1366	1790	1548	1679	1582	1462
	Feb	1259	1456	781	1366	1751	1523	1648	1551	1463
	Mar	1245	1449	786	1366	1738	1514	1637	1539	1455
	Apr	1251	1459	789	1366	1738	1514	1637	1539	1460
	May	1249	1457	775	1366	1719	1514	1637	1539	1460
	Jun	1247	1452	781	1366	1719	1514	1637	1539	1460
	Jul	1247	1454	779	1366	1730	1514	1637	1539	1471
	Aug	1253	1459	802	1412	1784	1577	1704	1613	1496
	Sep	1298	1536	824	1481	1849	1673	1804	1726	1503
	Oct	1305	1550	848	1481	1849	1677	1804	1726	1528
	Nov	1265	1441	771	1366	1723	1572	1686	1593	1492
	Dec	1209	1328	794	1366	1723	1561	1686	1593	1493

UK Farm-to-Retail Price Spreads (p/kg) Source: AHDB

	Beef				Lamb				Pork			
	Average Farm Price	Average Retail Price	Price Spread	Producer Share (%)	Average Farm Price	Average Retail Price	Price Spread	Producer Share (%)	Average Farm Price	Average Retail Price	Price Spread	Producer Share (%)
2006	202.8	427.6	224.8	47.4	258.0	550.2	292.3	47.0	104.8	294.3	189.5	35.6
2007	206.0	453.1	247.2	45.5	235.8	576.6	340.8	40.9	108.0	304.0	196.0	35.5
2008	257.6	518.3	260.7	49.7	291.3	627.6	336.4	46.4	126.0	337.2	211.2	37.3
2009	279.0	558.6	279.5	50.0	358.3	679.7	321.3	52.7	146.2	364.7	219.0	39.9
2010	268.3	564.2	295.8	47.6	390.5	698.9	308.5	55.9	141.8	364.0	222.3	38.9
2011	307.0	584.4	277.4	52.5	433.7	751.9	318.2	57.8	141.6	363.6	222.1	39.3
2012	341.6	633.6	292.0	53.9	412.6	777.5	365.0	53.1	150.2	377.1	226.8	39.8
2013	385.8	668.7	283.0	57.7	417.1	790.6	373.6	52.7	165.5	391.6	226.1	42.2
2014	348.3	701.5	353.2	49.7	421.8	818.8	397.0	51.5	159.7	395.1	235.4	40.4
2015	345.9	699.9	354.0	49.5	383.8	799.6	415.8	48.0	135.7	387.6	251.9	35.0
2016	334.5	688.3	353.8	48.6	409.6	804.9	395.4	50.9	131.6	380.9	249.3	34.6
2017	359.4	698.6	339.3	48.6	418.7	824.9	406.2	49.2				
Jan 16	330.0	697.6	367.6	47.3	391.5	797.5	406.0	49.1	121.6	384.0	262.4	31.7
Feb 16	328.7	687.6	359.0	47.8	419.1	809.3	390.2	51.8	116.7	388.3	271.6	30.0
Mar 16	325.2	683.0	357.7	47.6	431.0	796.8	365.8	54.1	116.0	384.0	268.0	30.2
Apr 16	313.3	695.6	382.3	45.0	422.8	796.8	374.0	53.1	116.8	377.9	261.1	30.9
May 16	314.8	688.9	374.2	45.7	430.6	804.1	373.6	53.5	119.5	376.1	256.6	31.8
Jun 16	321.8	691.6	369.8	46.5	419.0	810.0	391.0	51.7	124.4	376.1	251.8	33.1
Jul 16	331.2	688.9	357.7	48.1	419.0	807.1	388.1	51.9	130.7	376.1	245.4	34.7
Aug 16	343.8	688.9	345.2	49.9	417.2	809.3	392.1	51.6	137.9	381.6	243.7	36.1
Sep 16	353.0	685.6	332.6	51.5	406.2	810.0	403.8	50.1	141.9	381.6	239.6	37.2
Oct 16	350.9	685.6	334.7	51.2	388.8	807.1	418.3	48.2	147.3	382.2	234.9	38.5
Nov 16	350.1	692.3	342.2	50.6	382.6	810.0	427.4	47.2	152.1	379.8	227.7	40.0
Dec 16	351.3	673.6	322.3	52.2	386.9	801.2	414.3	48.3	154.5	382.8	228.2	40.4
Jan 17	351.2	683.0	331.7	51.4	380.7	820.3	439.6	46.4	153.9	384.6	230.8	40.0
Feb 17	348.2	692.3	344.1	50.3	383.1	821.0	437.9	46.7	153.2	377.9	224.7	40.5
Mar 17	344.8	702.2	357.5	49.1	399.5	818.8	419.3	48.8	154.6	381.6	227.0	40.5
Apr 17	348.1	693.6	345.5	50.2	419.6	824.0	404.4	50.9	159.0	380.4	221.3	41.8
May 17	355.9	700.2	344.4	50.8	479.5	817.4	337.9	58.7	163.2	377.9	214.7	43.2
Jun 17	362.6	700.2	337.7	51.8	494.0	820.3	326.3	60.2	165.6	377.9	212.3	43.8
Jul 17	368.4	698.3	329.8	47.2	457.7	821.8	364.1	44.3	167.9	381.6	213.7	56.0
Aug 17	371.4	698.3	326.8	46.8	432.9	831.3	398.4	47.9	167.8	382.2	214.4	56.1
Sep 17	372.5	702.9	330.4	47.0	396.3	832.8	436.5	52.4	165.2	381.6	216.3	56.7
Oct 17	361.9	698.9	337.0	48.2	386.0	842.3	456.3	54.2	160.0	382.8	222.8	58.2
Nov 17	364.7	709.6	344.9	48.6	395.0	829.8	434.8	52.4	156.3	381.6	225.3	59.0
Dec 17	362.8	704.2	341.4	48.5	400.3	818.8	418.5	51.1				

EU Economic Indicators

Sources: Eurostat; ONS; Statistics Norway; Swiss Federal Statistical Office

Country	Q3 2017			Q2 2017			Q1 2017			Q4 2016		
	Economic Growth (%)*	Unemployment Rate (%)	Inflation Rate (%)	Economic Growth (%)*	Unemployment Rate (%)	Inflation Rate (%)	Economic Growth (%)*	Unemployment Rate (%)	Inflation Rate (%)	Economic Growth (%)*	Unemployment Rate (%)	Inflation Rate (%)
Bel	0.3	7.1	1.9	0.5	7.3	2.0	0.7	7.6	3.0	0.3	7.2	2.0
Ger	0.8	3.7	1.7	0.6	3.8	1.6	0.9	3.9	1.9	0.4	4.0	1.0
Est	0.3	5.7	4.0	1.3	6.5	3.4	1.0	5.6	3.1	1.5	6.7	1.6
Ire	4.2	6.7	0.1	2.7	6.7	0.0	-3.4	7.2	0.4	6.8	7.6	-0.3
Gre	0.3	20.7	0.8	0.8	21.6	1.3	0.7	22.6	1.5	-0.5	23.3	0.2
Spa	0.8	16.8	1.8	0.9	17.3	2.1	0.8	18.2	2.7	0.7	18.6	0.8
Fra	0.6	9.5	0.9	0.6	9.5	1.0	0.6	9.7	1.5	0.5	10.0	0.7
Ita	0.4	11.2	1.3	0.3	11.2	1.6	0.5	11.6	1.3	0.4	11.8	0.2
Cyp	0.9	10.5	0.2	1.0	11.4	1.3	0.7	12.2	1.2	1.3	13.1	-0.6
Lat	1.5	8.7	2.9	1.4	8.9	3.0	1.7	9.0	3.1	1.4	9.4	1.5
Lit	0.1	6.8	4.5	0.6	7.1	3.4	1.1	7.9	3.0	1.6	7.5	1.2
Lux	1.7	5.7	2.0	0.7	5.7	2.0	-0.5	5.9	2.6	1.3	6.2	1.0
Mal	1.9	3.9	1.2	2.1	4.1	1.1	1.0	4.2	1.3	2.5	4.3	0.8
Hol	0.4	4.7	1.5	1.5	5.0	1.0	0.6	5.2	1.3	0.7	5.5	0.5
Aus	0.8	5.4	2.2	0.8	5.5	2.2	1.3	5.7	2.2	0.6	5.8	1.5
Por	0.5	8.7	1.3	0.3	9.2	1.7	0.9	9.9	1.4	0.8	10.5	0.8
Sln	1.0	6.7	1.3	1.2	6.7	1.4	1.2	7.2	2.0	1.4	8.0	0.7
Slk	0.9	7.9	1.6	0.8	8.3	1.0	0.9	8.6	1.0	0.8	9.0	-0.1
Fin	0.4	8.5	0.7	0.8	8.7	0.9	1.2	8.8	1.1	0.6	8.7	0.8
Euro Area	**0.7**	**9.0**	**1.4**	**0.7**	**9.2**	**1.5**	**0.6**	**9.5**	**1.8**	**0.7**	**9.7**	**0.7**
Bul	0.9	6.2	0.9	1.0	6.2	1.4	0.9	6.5	0.8	1.1	6.8	-0.8
Cze	0.5	2.8	2.4	2.5	3.0	2.3	1.5	3.3	2.5	0.4	3.6	1.5
Den	-0.5	5.8	1.5	0.6	5.7	0.7	0.7	6.0	1.8	0.7	6.3	0.2
Cro	0.9	10.8	1.4	0.9	11.2	1.1	0.8	12.0	1.1	0.6	12.5	0.2
Hun	0.9	4.2	2.5	0.9	4.3	2.1	1.3	4.3	2.6	0.8	4.5	1.3
Pol	1.2	4.8	1.5	0.9	5.1	1.5	1.1	5.2	1.7	1.8	5.6	0.4
Rom	2.6	4.9	1.0	2.0	5.0	0.6	2.0	5.3	0.4	1.7	5.5	-0.1
Swe	0.8	6.8	2.2	1.2	6.6	1.8	0.5	6.7	1.6	0.5	6.9	1.4
UK	0.4	4.2	2.8	0.3	4.4	2.8	0.3	4.5	1.6	0.7	4.7	1.4
EU28	**0.7**	**7.5**	**1.7**	**0.7**	**7.7**	**1.7**	**0.6**	**8.0**	**1.8**	**0.7**	**8.2**	**0.8**
Nor	0.6	4.1	3.9	0.6	4.4	2.7	0.7	4.3	2.2	0.2	4.6	1.5
Swi	0.6	4.8	-0.2	0.4	4.7	0.5	0.1	4.9	0.5	-0.1	4.8	0.6

* % change compared with previous quarter