

# SHORT-TERM OUTLOOK

FOR EU AGRICULTURAL MARKETS  
IN 2020

SPRING 2020

Edition N°26



# MACRO- ECONOMIC OUTLOOK

## Macroeconomic background

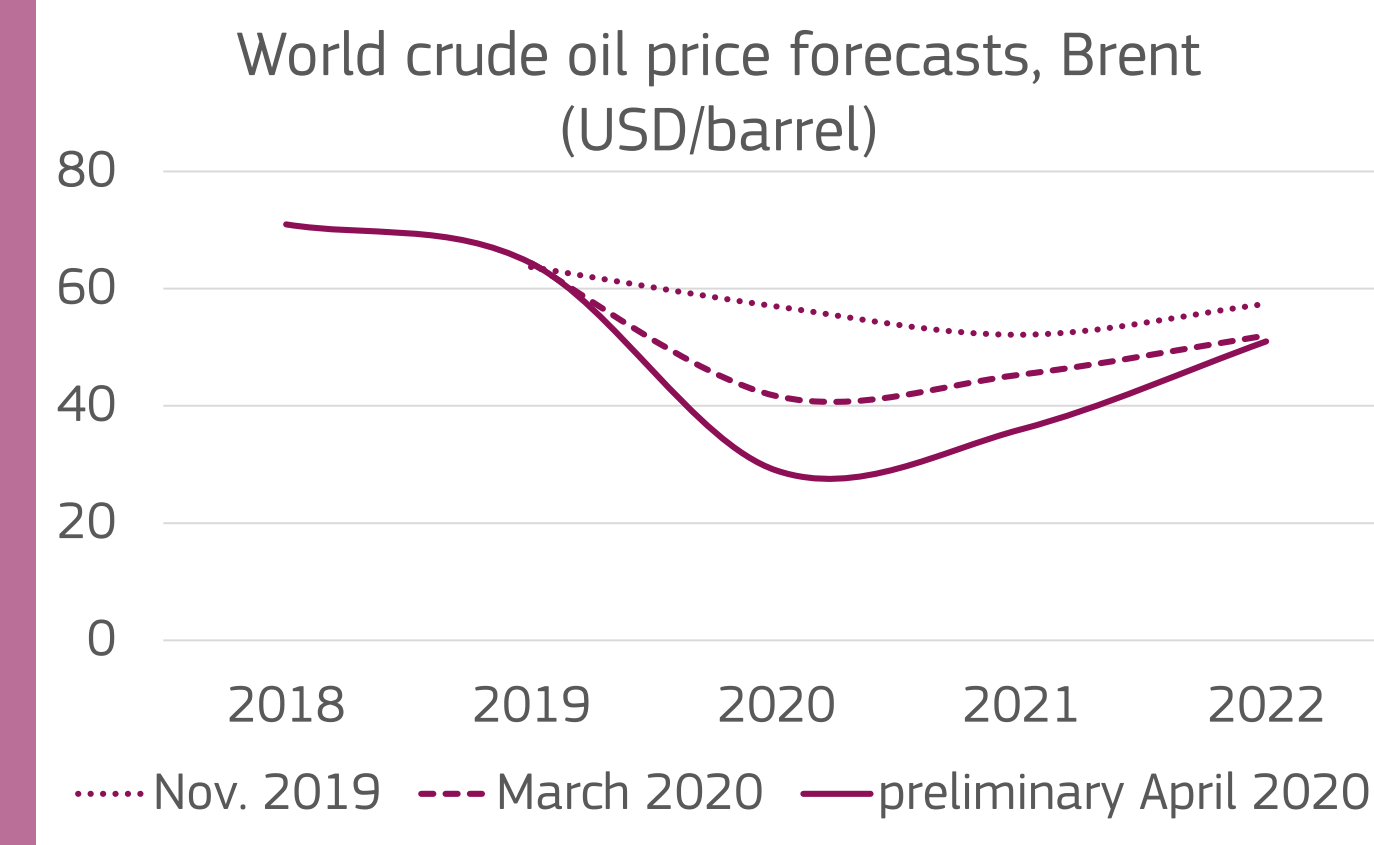
### Uncertainties around Covid-19

- € The unprecedented situation amidst Covid-19 crisis gives signals for a **major multi-faceted economic shock**, which is expected to last at least until mid-2021.
- € However, it is still early to say how deep the shock will be, and to predict the speed and shape of the recovery, especially as **the crisis affects regions at different times**.
- € The macroeconomic situation will very much depend on the **effectiveness of economic stimulus measures undertaken** or being considered by governments across the world.

### Confinement measures to reduce economic activities

- € As the virus spreads, countries aim at **limiting physical contact between people** by imposing confinement measures.
- € Early April, IHS Markit estimates that about **half of global private consumption expenditures are at risk**, especially in transport services, recreation, hotels and restaurants. The impact is due to hit economies differently, as the share of reliance on tourism differs.

- € Demand for transportation fuel plummets due to confinement measures. Some airline companies have completely suspended all flights for several weeks. Overall transport fuel use could decrease by up to 50% during the confinement period.
- € On the supply side, the breakdown of oil price discipline early March brings an additional shock. With producers falling short of storage capacity, the Brent **crude oil price hit a lowest point** in the second half of March at USD 25/barrel. Early April, OPEC producers agreed to cut supply to keep prices under control, however it is still unclear how that move will succeed.

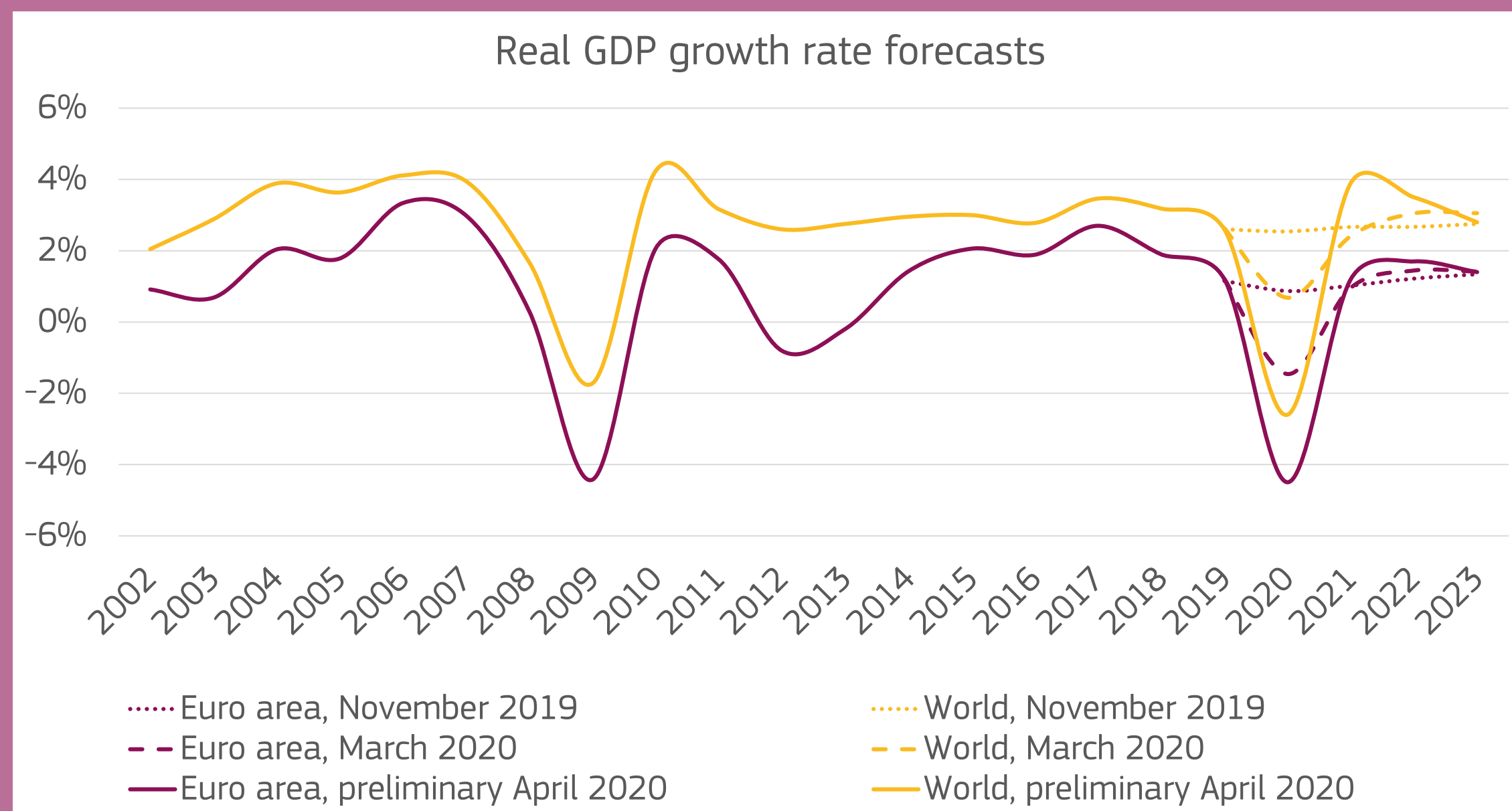


Source: IHS Markit.



# Macroeconomic background

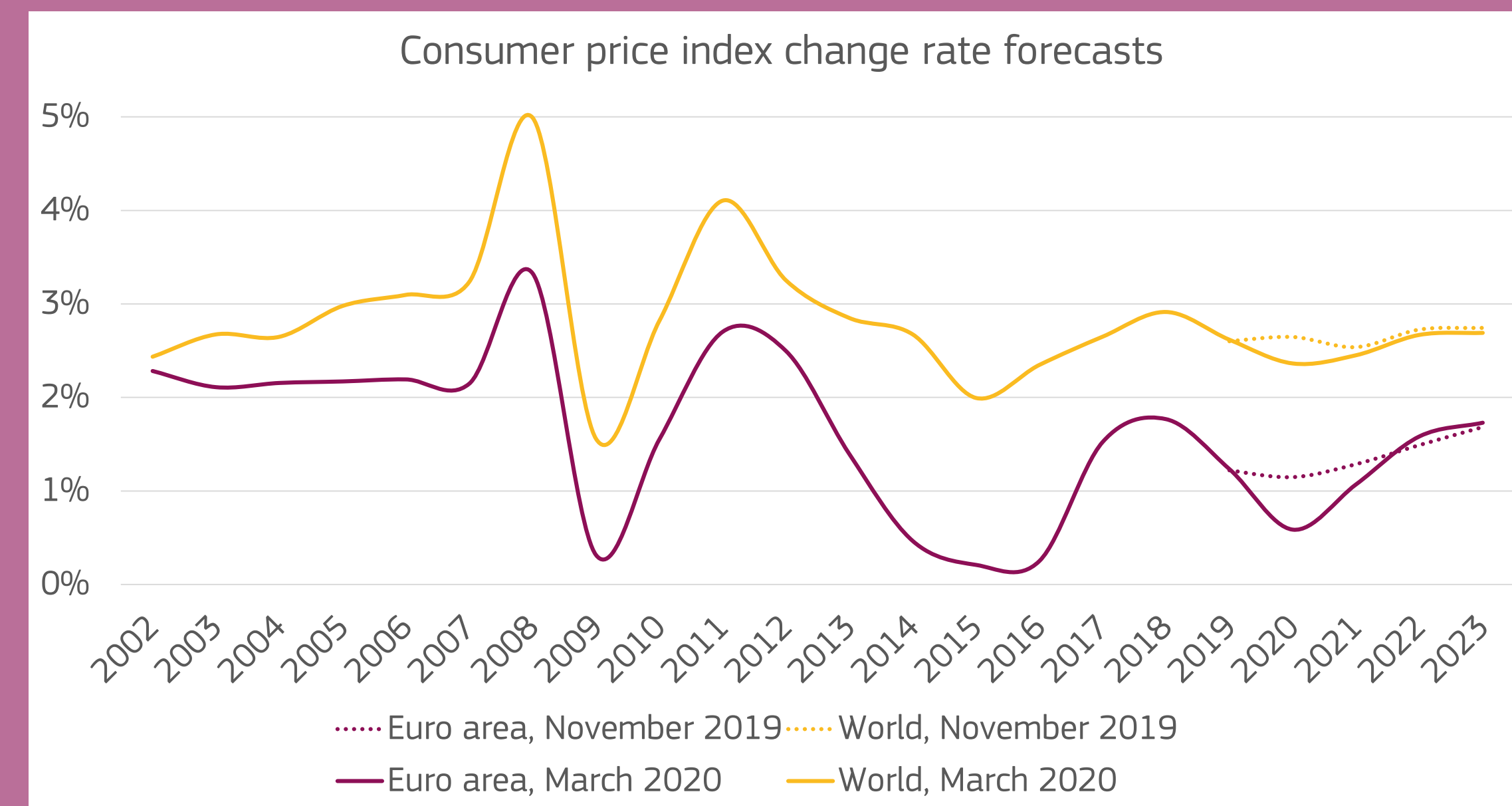
## Global recession expected



Source: IHS Markit.

- € According to the IMF, **the magnitude of the crisis could be far worse than that of 2008-2009**: the world economy could contract by 3% year-on-year in 2020, and by 7.5% in the euro area. It could rebound in 2021 to 5.8%, and to 4.7% in the euro area.
- € Over 2020 and 2021, the IMF estimates that **the cumulative loss to global GDP could amount to USD 9 trillion**, which is almost half of EU's GDP.

## Consumer price index to drop



Source: IHS Markit.










- € With a possible stagnation of economic growth and a likely recession, **unemployment rates across the EU are likely to increase**. This would set pressure on overall consumption in value terms, and particularly value chains targeted to export markets, as well as tourism and foodservice. As a result, agricultural income will remain under pressure in this economic environment.












# MEAT PRODUCTS












## Market developments in the EU

BEEF 	2019		2020	
Production		-0.9%		-0.6%
Exports		-3.0%		+1.0%
Imports		+3.9%		+0.0%
Consumption		-0.5%		-0.7%

PIGMEAT	2019		2020	
Production		-0.6%		+0.7%
Exports		+17%		+12%
Consumption		-3.7%		-1.8%

POULTRY 	2019		2020	
Production		+1.6%		+1.2%
Exports		+6.7%		+1.0%
Imports		+1.8%		-0.5%
Consumption		+0.6%		+1.1%

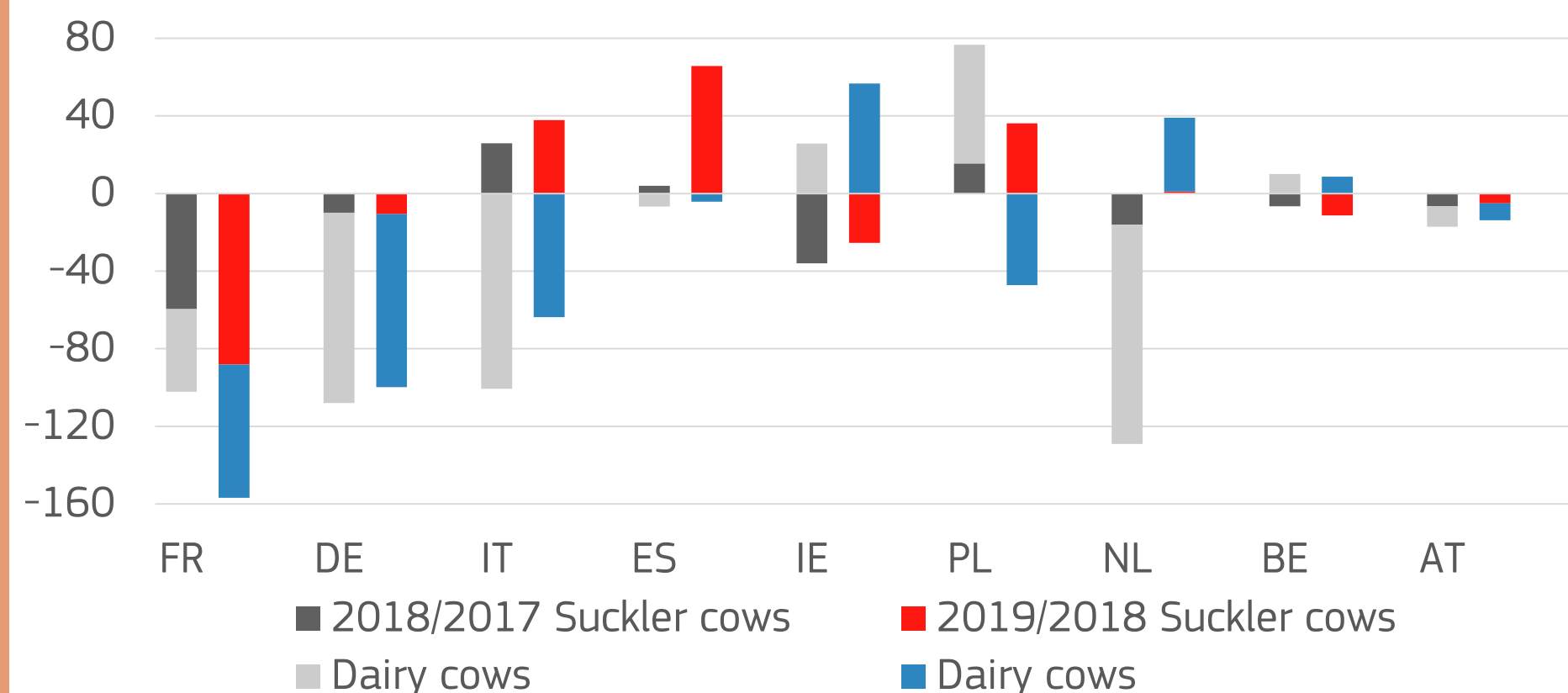
SHEEP & GOAT 	2019		2020	
Production		+5.5%		+0.0%
Exports		+12%		+2.0%
Imports		-6.1%		-1.0%
Consumption		+2.2%		-0.4%

*Note: % compared to previous year  
Net production and meat trade*



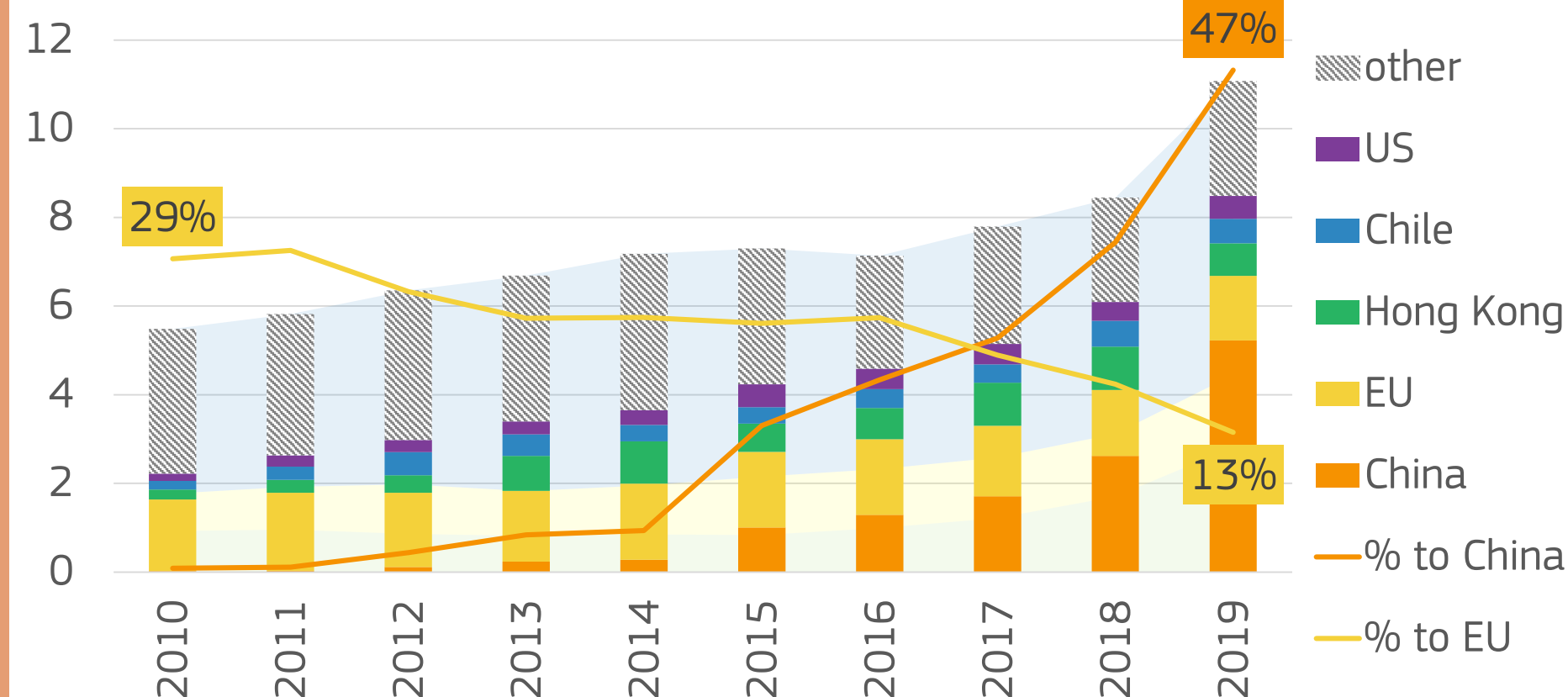
# Beef and veal

Change in number of cows, main producing EU Member States (1 000 heads)



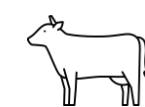
Source: DG Agriculture and Rural Development, based on Eurostat.

Argentina, Uruguay, Brazil – beef exports (million t product weight, share to China and EU)



Source: DG Agriculture and Rural Development, based on IHS Markit/GTA.

## EU beef production down in 2020



**EU beef production declined** in 2019 (-0.9%), in a context of lower prices and reflecting prior herd reductions in key producing countries (FR, IT, NL), while the contraction in PL stemmed from reduced exports. By contrast, DE increased its output, through additional culling of heifers not needed for replacement, while IE's slaughterings rose in anticipation of Brexit.

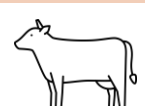


In 2019, **the total EU cow herd contracted further by 0.8%**, with different developments for dairy and suckler cow herds. Higher milk yields contributed to the downsizing of dairy herds in key producing countries (FR, DE, IT, PL), while the expansion in ES, PL and IT (thanks to export opportunities) halted the reduction of the EU suckler cow herd.



**EU beef production should decline further** in 2020 in key producing countries, by 0.6% in the EU, as herds are smaller and the **EU reference price is declining**. Meanwhile, ES and IE should benefit from trade opportunities and increase their meat output. **Covid-19 will affect markets for specific products**, such as high-value cuts due to the closure of foodservice and butchery departments in supermarkets.

## Lower meat availability and stable imports in 2020



EU imports increased in 2019, due to more supply from Argentina. In 2020, **imports should remain stable**, as other EU suppliers (of high-quality meat) are diverting their exports to Asia (China, Japan and South Korea).



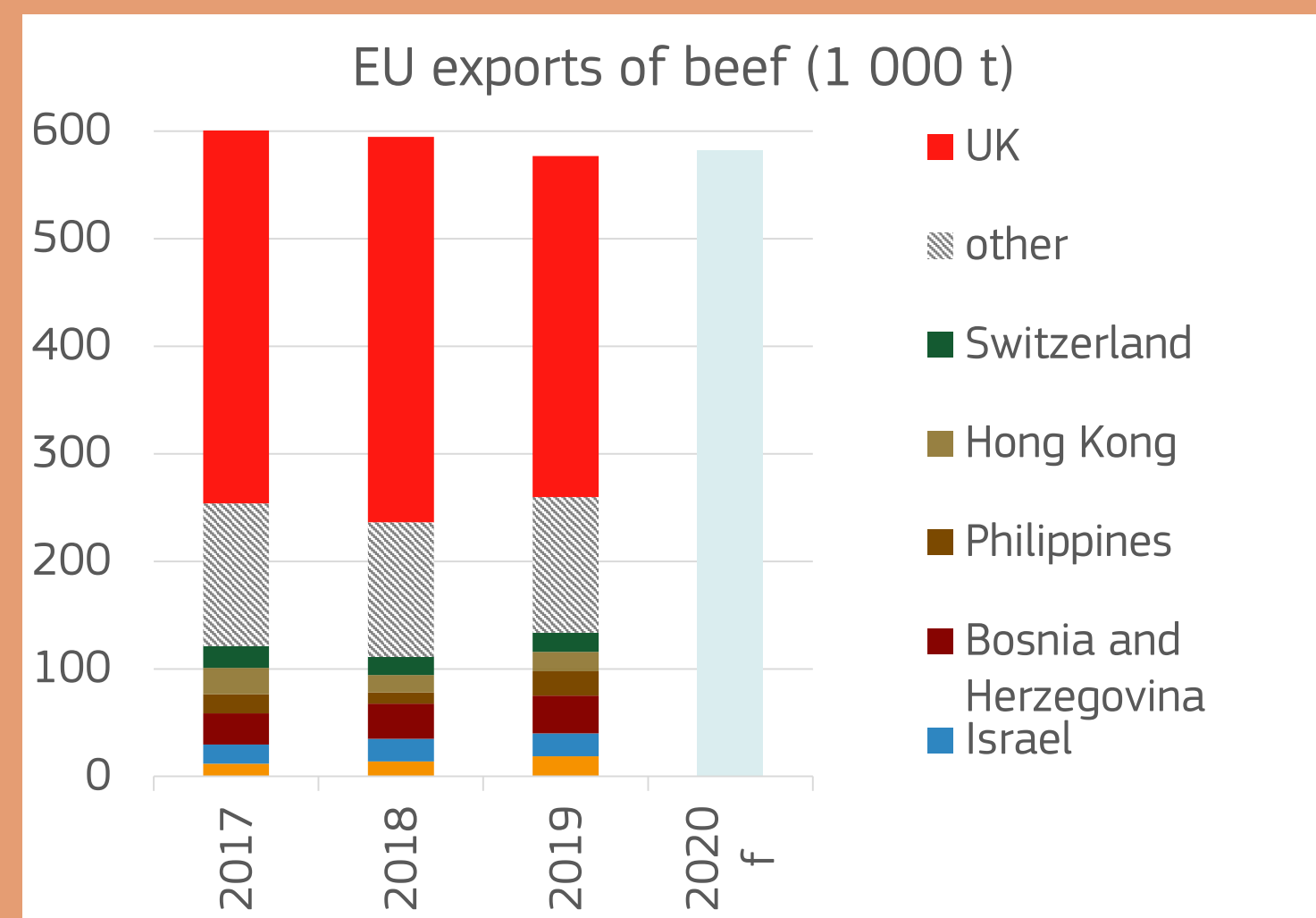
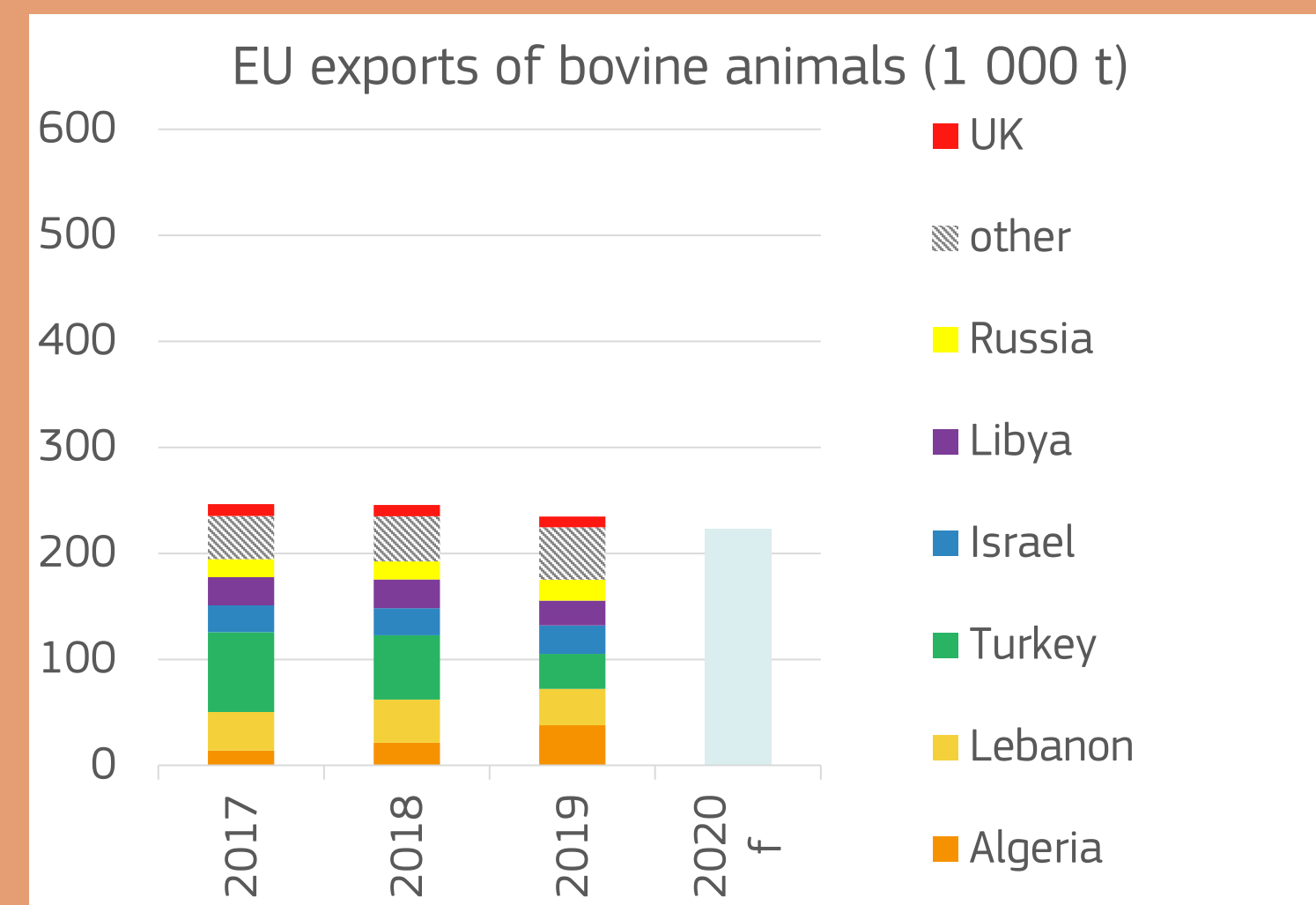
Strikingly, **southern American** countries now ship nearly half of their exports to China, while the EU share dropped to 13%. Covid-19 may **undermine their exports to the EU further**, as foodservice demand for high-value cuts breaks and pulls EU prices down. Meanwhile, production and export disruptions in South America are not excluded.



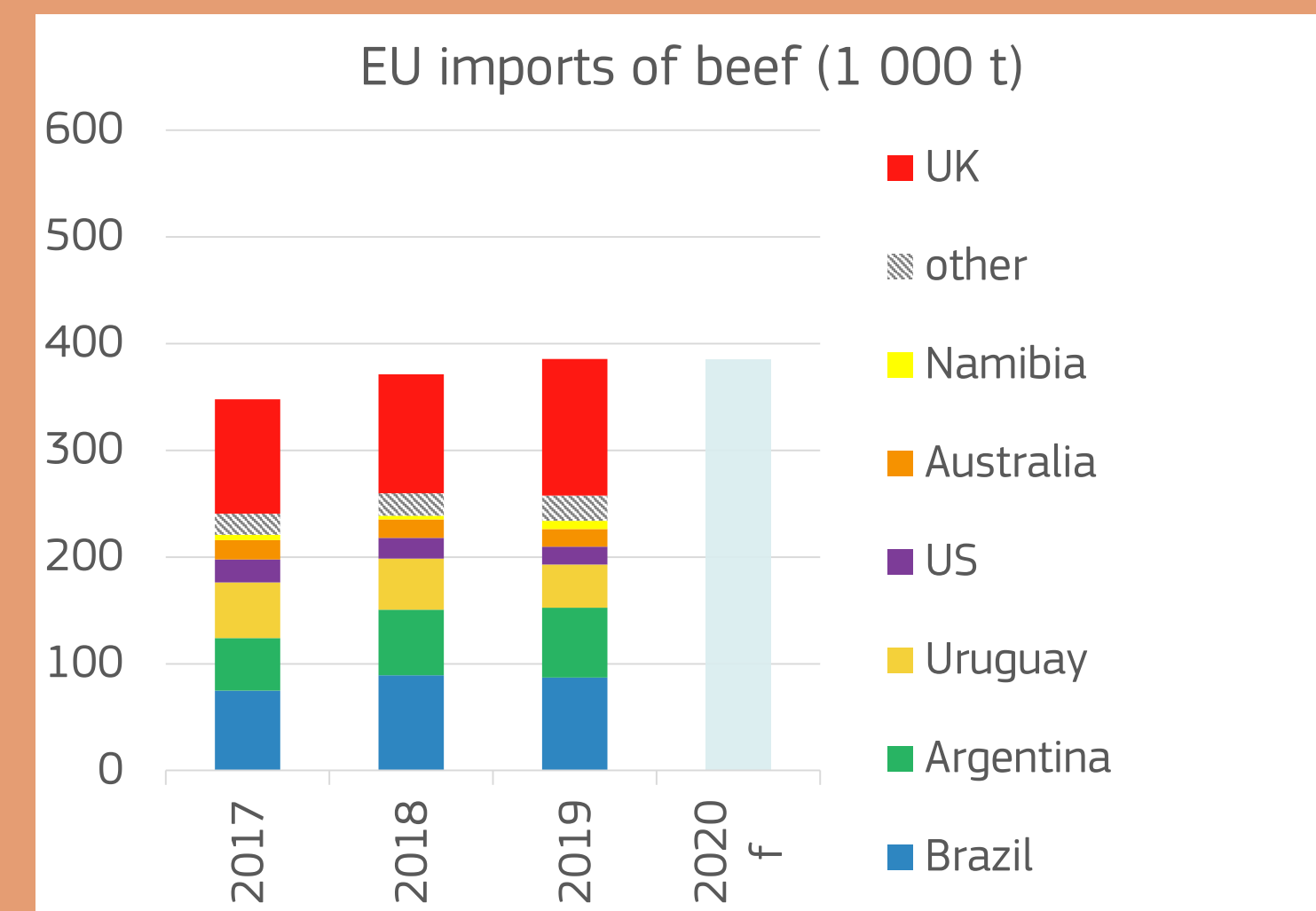
Lower demand and lower meat availability will result in a further **reduction in EU apparent consumption** (to 10.6 kg per capita).

# Beef and veal

## Slight export recovery in 2020



## Pressure on Prices



Source: DG Agriculture and Rural Development, based on Eurostat.



**EU exports of live animals declined** in 2019, driven by lower demand from Turkey. The EU, led by FR, diverted significant volumes to Algeria, which favours live imports to imports of meat. **A further decrease is expected** in 2020, with lower demand from Turkey, price competition from Brazil and Uruguay, and suppressed demand from Algeria and Libya (impact of low oil prices).



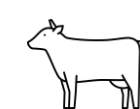
**EU beef exports declined** by 3% in 2019, solely because exports to the UK fell by 10%. In 2020, **exports could slightly recover** depending mainly on expanding opportunities in Asia (Japan, Hong Kong, China and the Philippines).



**Covid-19 has not yet affected EU exports**, including live animals. However, possible transport disruptions (i.e. a shortage of truck drivers) are a risk factor.

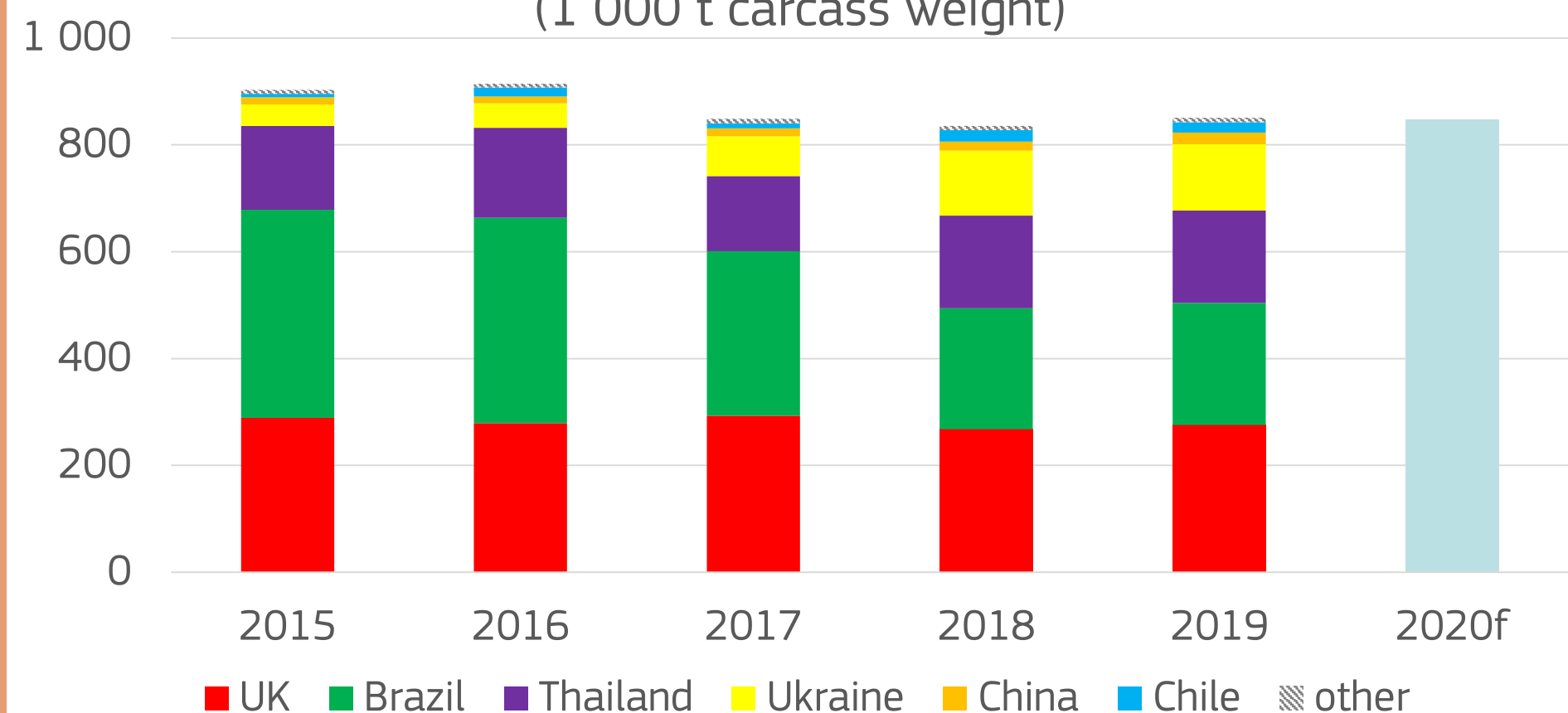


**Covid-19 affects the beef meat market through prices.** So far, specific products for foodservice (e.g. burgers for fast food and high-value cuts for restaurants) are partly redirected to retail, but at lower prices.



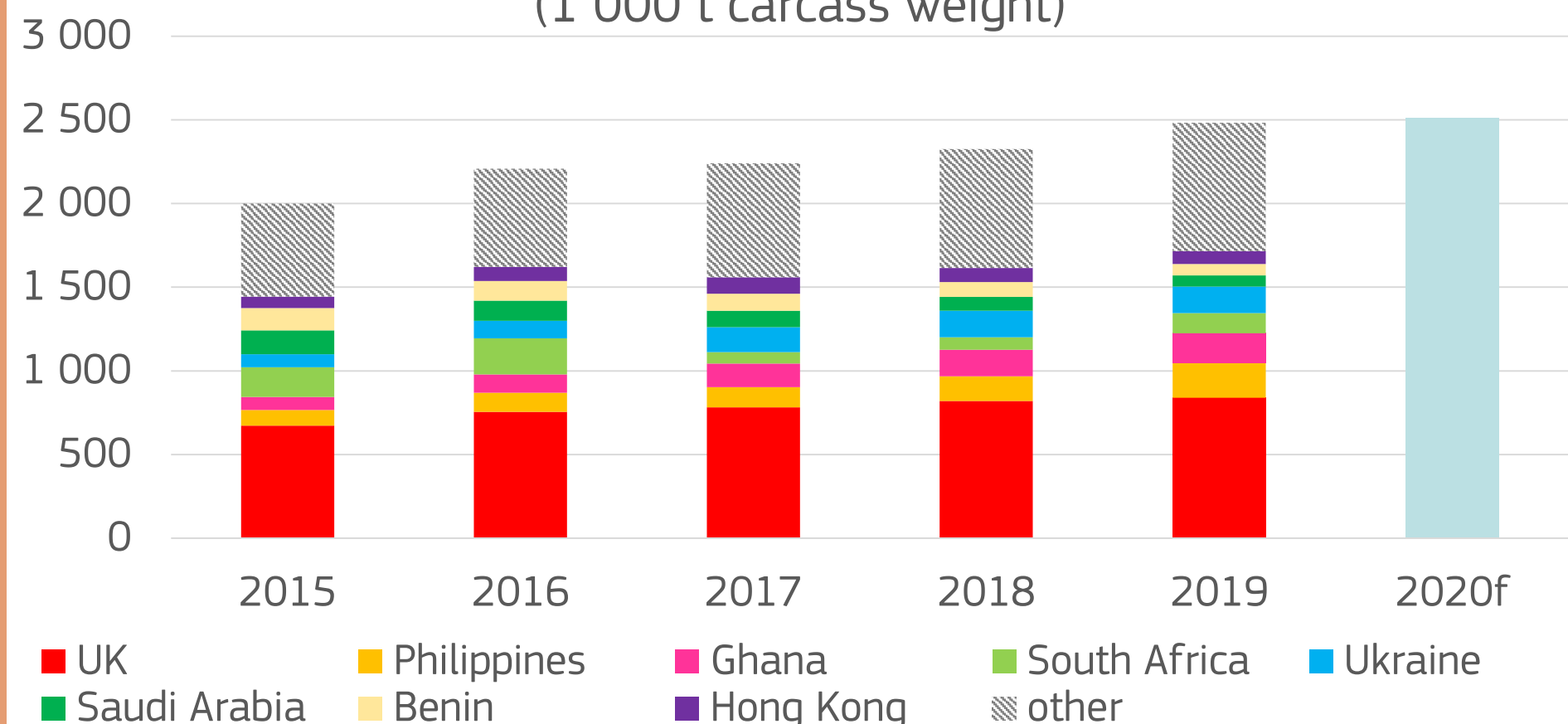
**Beef prices**, already lower at the beginning of 2020, are **under increased pressure** this year, including for cows

Poultry meat imports by destination  
(1 000 t carcass weight)



Source: DG Agriculture and Rural Development, based on Eurostat.

Poultry meat exports by destination  
(1 000 t carcass weight)



Source: DG Agriculture and Rural Development, based on Eurostat.

## EU poultry production to continue rising in 2020



EU poultry meat production continued its growing trend in 2019 thanks to increasing demand, albeit at a moderate pace (+1.6%). In 2020, **growth should continue** (+1.2%) as consumers replace more expensive meats with poultry. However, the closing of foodservice should impact varieties more difficult to sell in retail (ducks, guinea fowls, pigeons and quails).



In 2019, broiler prices stayed close to the 5-year average. Since the beginning of 2020 prices have been above last year's level due to tight supply, and were pushed further up by Covid-19 related stockpiling mid-March. However, they fell quickly after that below the 5-year average mainly due to a steep drop of PL prices.



Per capita consumption is expected to **continue on its rising trend** in 2020, up to 23.6 kg (+0.2 kg).

## EU poultry imports could be affected by foodservice closures



EU poultry meat **imports grew moderately** by 1.8% in 2019 (+2.9% to UK, +1.3% to other countries). Imports from the UK are mostly low value cuts and legs. By contrast, imports from other countries are mostly breasts and processed products of higher value largely addressed to foodservice, thus likely affected by Covid-19. As a result, imports **will probably fall slightly** in 2020.

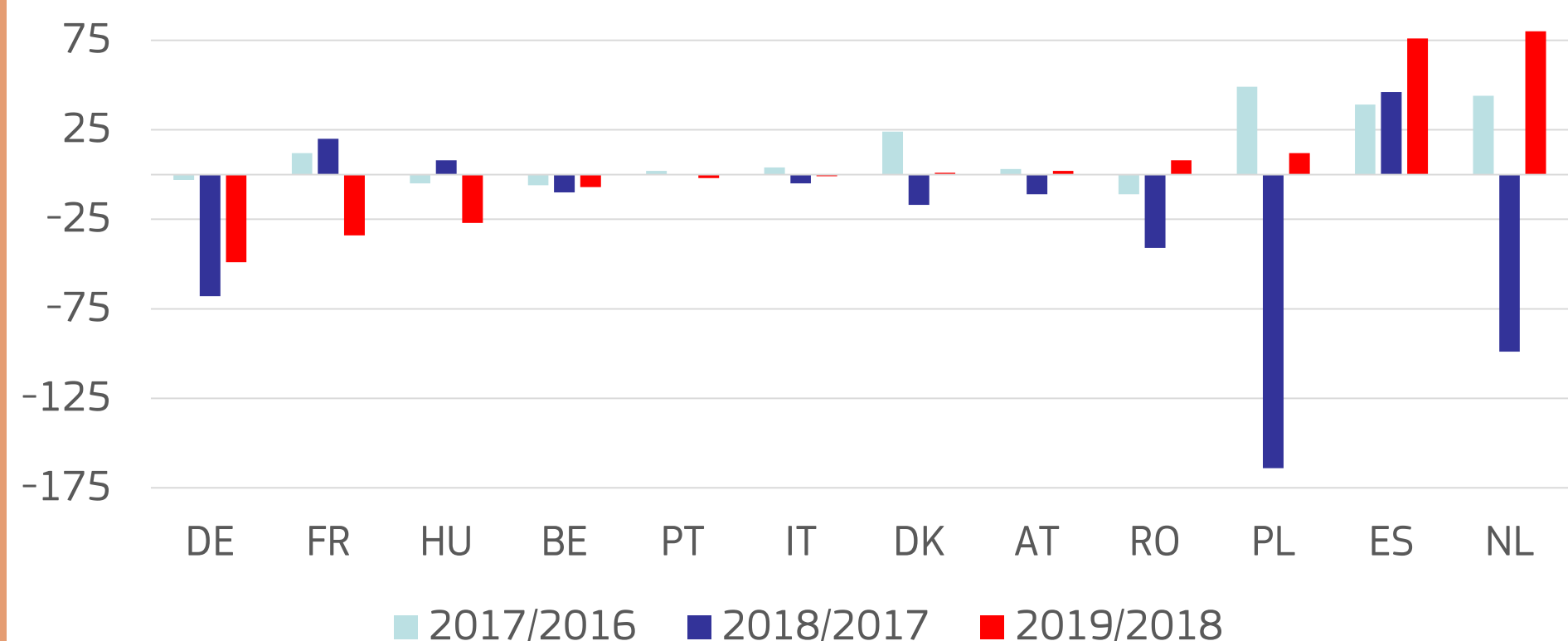


In 2019, **EU poultry meat exports grew** by 6.7% thanks to strong world demand (+2.3% to UK, +9% to other countries). Shipments increased to most of the main destinations, particularly to South Africa (+62%), the Philippines (+40%), Vietnam (+34%) and China (quadrupled). In 2020, **exports should keep growing while demand remains high**, but at a moderate pace as bird flu outbreaks in a few of the main EU producers (e.g. PL) have resulted into country bans by some trade partners, including the four above. This will put pressure on EU exports, and will probably result in a switch of trade flows, except probably to China where PL is the only EU country exporting significant volumes at the moment.



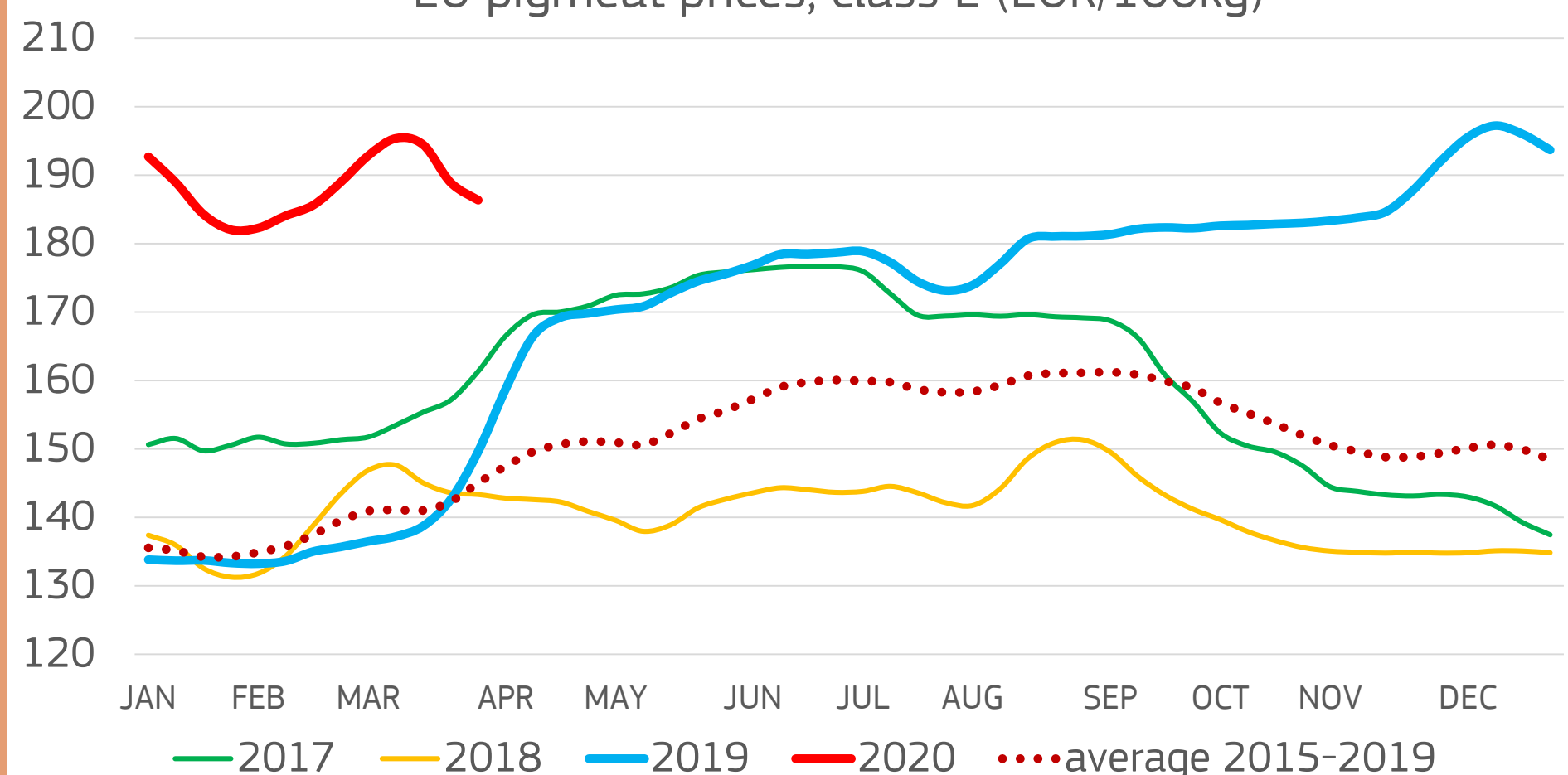
# Pigmeat

Change in number of breeding sows, main producing EU Member States (1 000 heads)



Source: DG Agriculture and Rural Development, based on Eurostat.

EU pigmeat prices, class E (EUR/100kg)



Source: DG Agriculture and Rural Development.

## Small EU production growth expected in 2020, despite high prices



The **EU breeding herd contracted by 3%** in 2018 due to low prices, African Swine Fever (ASF) risk and/or environmental restrictions. High prices from April 2019 have contained the trend and **stabilised** the size of the EU herd in 2019 (+0.4 % year-on-year), thanks to expansion in ES (+3%) and NL (+8%), and despite reductions in DE (-3%), FR (-3%) and HU (-11%).



In 2020, **EU pigmeat production should grow slightly** as continuing export demand from Asia, particularly China, keeps prices high and favours higher slaughter weights. Growth will be driven by ES that is taking advantage of the opportunity in China. ES pork exports to China doubled in 2019, and now represent 28% of total EU exports to China. In 2020, ES will become the first EU producer in number of slaughtered animals, although not in volume due to a lighter slaughter weight than DE. **Covid-19 should not significantly affect the pigmeat market** except for some specific products for foodservice (e.g. suckling pigs for roasting in ES, PT).

## EU prices should remain high in 2020, thanks to strong world demand



The surge of Chinese imports in 2019 drove **EU pigmeat prices** to close to EUR 200/100kg in December (+45% year-on-year). Since then prices have fluctuated above EUR 180/100kg. Carcass prices reacted slightly to Covid-19 but should continue **at high levels** while Chinese demand continues, despite the reduction in foodservice demand. The main risk remains the spread of ASF in the EU.



**Piglet prices also surged** in 2019, only declining in March 2020 following the carcass price, after reaching EUR 75/head (+59% year-on-year).



ASF is still contained in the EU, but **continues to spread slowly**. In February 2020, EL confirmed its first outbreak. Currently ten Member States are affected by the disease: EL, BG, EE, HU, IT (Sardinia), LV, LT, PL, RO and SK.

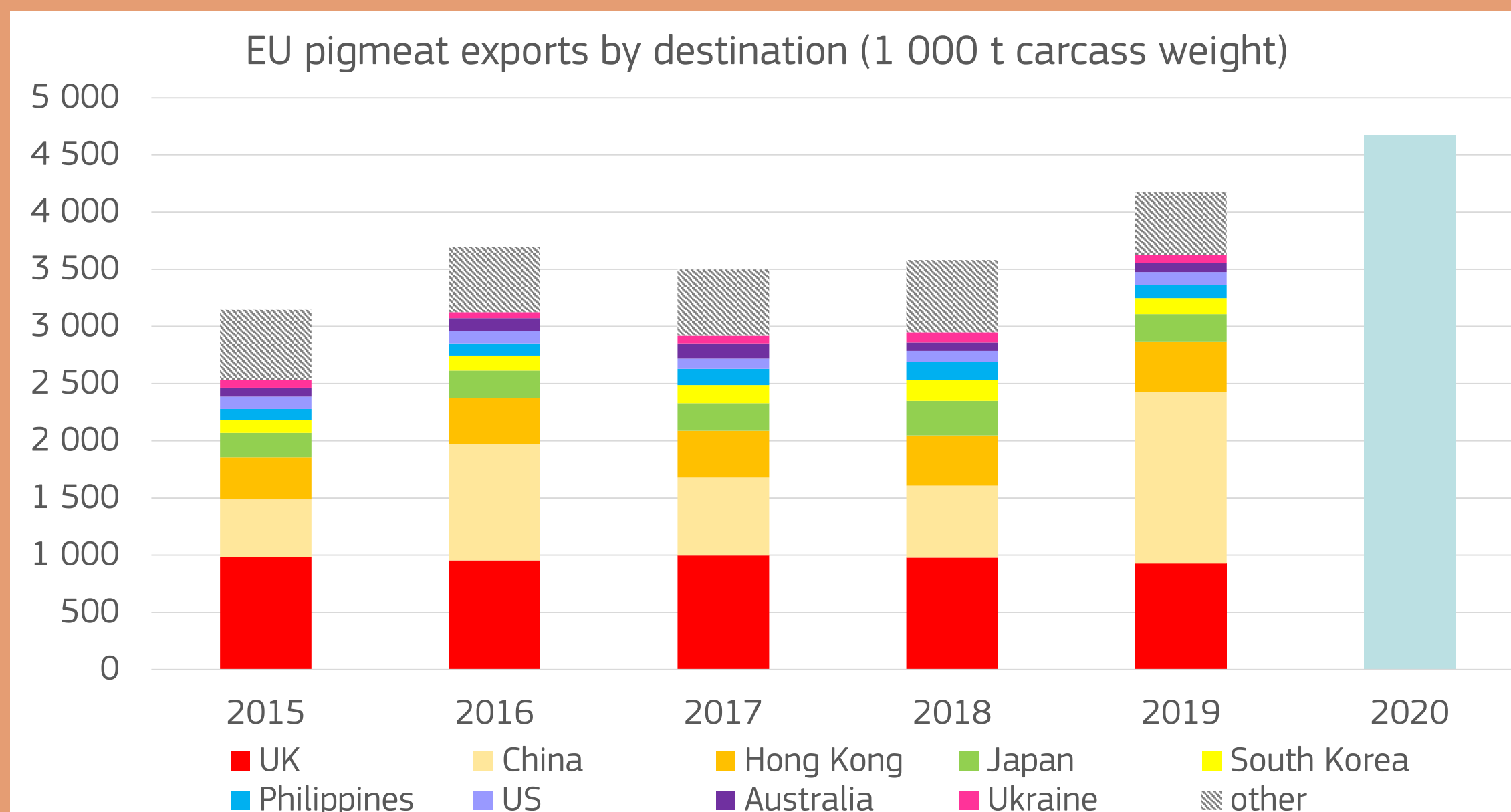


**Apparent consumption per capita is expected to fall** to 32.5 kg in 2020 (0.7 kg less than the previous year) as high prices favour other meats, particularly poultry.



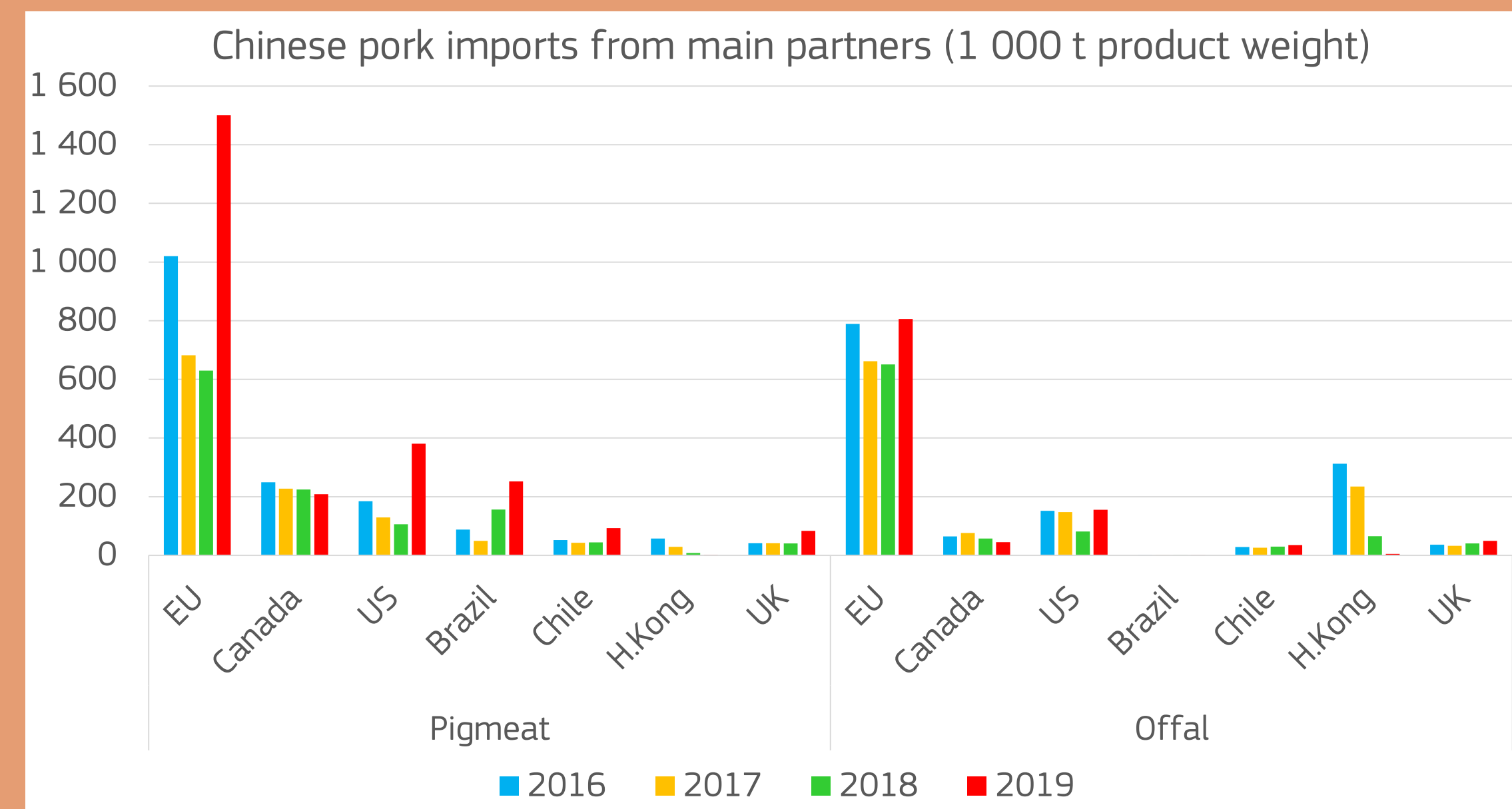
# Pigmeat

## Further growth of EU pigmeat exports expected in 2020




Source: DG Agriculture and Rural Development, based on Eurostat.

## Surge of Chinese pigmeat demand to continue in 2020




Source: DG Agriculture and Rural Development, based on IHS Markit/GTA (export declarations) and Eurostat for EU figures.

 **EU pigmeat exports grew by 17%** in 2019 (-5% to UK, +25% to other countries), driven by Chinese demand, where the share of EU pigmeat exports doubled to 36%. Meanwhile, exports to other main trade partners fell significantly: South Korea (22%), the Philippines (-24%), the US (-24%) and Ukraine (-18%); while small increases were registered to Japan, Australia and Hong Kong. In 2019, the UK is the main export destination of EU pigmeat after China (22% share).

 In 2020, Chinese demand should persist and total **EU exports are expected to grow significantly** (+12%).

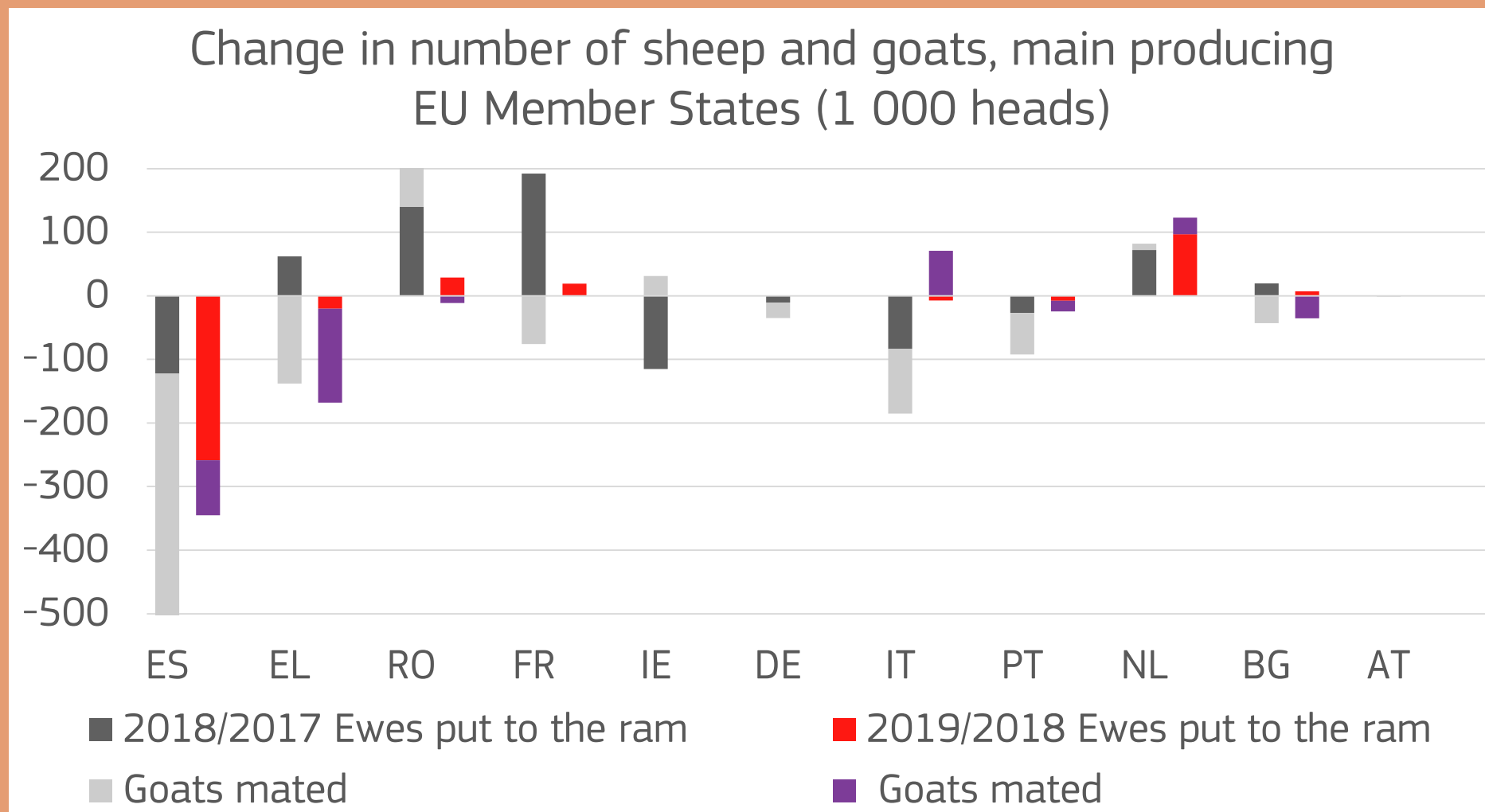
 In 2019, **EU offal exports grew** as well, but less significantly (+7%).

 China continues to struggle to recover from ASF that has decimated its pig herd, and recovery will probably be delayed by Covid-19 related disruptions. In 2020, **Chinese production should fall further** (experts estimate a 15-25% drop year-on-year), maintaining a huge gap that cannot be covered by available world supply.

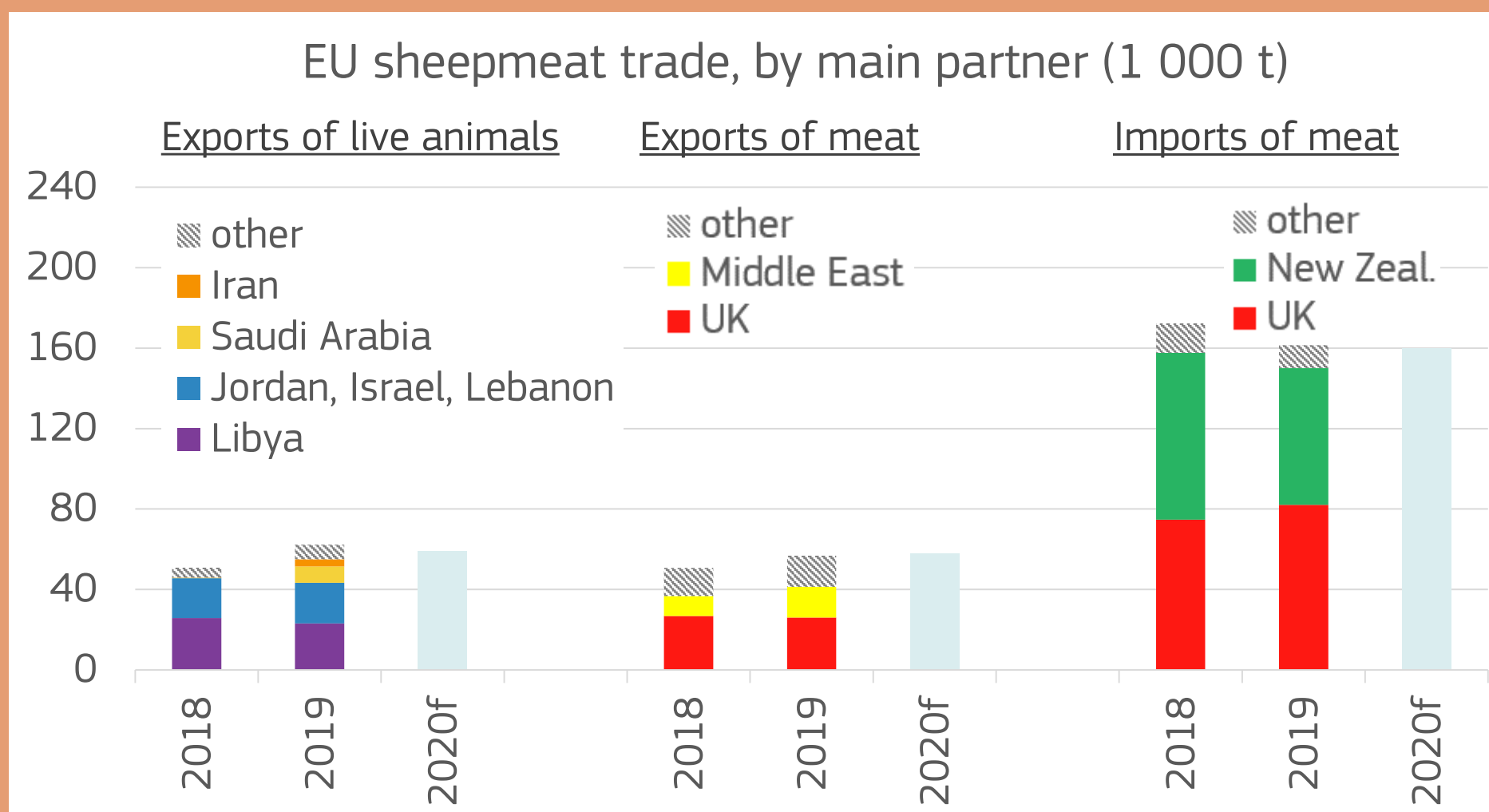
 The EU has clearly benefited the most from Chinese demand, but the US has tripled its exports despite the tariffs in place. Brazil continues to increase its share, while Canada could not due to the suspension of its access for most of the 2nd half of 2019.



# Sheep and goat meat



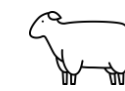
Source: DG Agriculture and Rural Development, based on Eurostat.



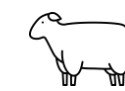
Note: Middle East includes Jordan, Oman, Kuwait, Qatar, UAE, Iran, Bahrain, S. Arabia, Israel, Turkey.

Source: DG Agriculture and Rural Development, based on Eurostat.

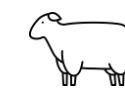
## Sheep and goat meat production to remain stable in 2020



The EU sheep and goat flocks contracted in 2019 (-1.3%), driven by reductions in key producing countries (ES, EL). In addition, the previous substantial increase in RO and FR eased.



EU sheep and goat meat production should remain stable in 2020, after strong growth in 2019 (+6%), due to smaller flocks and a slowdown in production growth in RO. Improved export prospects and if prices remain high should prevent a decrease in EU production.

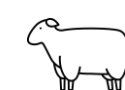


Covid-19 will impact the sheep and goat meat markets. Surplus from foodservice in some countries (ES, EL) will not be absorbed by retail. Also, seasonal demand for Easter and Ramadan will not materialise, and animals ready for slaughter may be frozen and directed to retail and foodservice in the second half of the year. Covid-19 is due to affect the market through downward pressure on prices.

## Meat exports slightly up, imports slightly down in 2020



EU live exports were firmly up in 2019, supported by the demand from emerging destinations (Saudi Arabia and Iran). In 2020, live exports should decline notably, as the negative tendency continues in Libya, Jordan and Israel. Covid-19 may limit the transport and exports of live animals, in particular to Iran.



EU sheepmeat exports rose in 2019 (+12%). In 2020, ES and IE shall benefit from continued export to the Middle East and Hong Kong, and perhaps to the UK.



EU sheepmeat imports declined in 2019 (-6.1%), as New Zealand (that accounts for 40%) diverted its exports to Asia. Unless the UK maintains similar exports to the EU as last year, EU imports should decline in 2020.