



MI Prospects



A Clearer Picture

The uncertainty associated with the quantity and quality of the UK's 2013 crop is on the verge of being replaced with fact, as harvest draws to a close. **Despite the late start, favourable weather over the summer, and especially the generally dry conditions during the past couple of weeks, has allowed harvest progress to catch up with that of previous years.** Yields have generally been better than expected, with spring crops performing particularly well.

In terms of supply, even before the final numbers are counted, lower wheat plantings (due to challenging weather conditions last autumn) mean that the 2013 crop will be lower than last year's. For barley, however, an increase in plantings is expected to yield a larger crop. **Lower wheat production but higher quality grain should add value for the UK, but as part of a global market, favourable crop prospects in the rest of the world are contributing to a bearish outlook.**

Quality was widely anticipated to improve from last year, and the provisional results of AHDB/HGCA's Cereal Quality Survey have demonstrated just that. Insufficient high quality samples last year meant that millers had to turn to imports to satisfy demand. **This year, the domestic crop quality should be enough to meet all but the highest specifications;** although import levels will be subject to the speed at which sourcing strategies can be changed.

The combination of the good quality results for wheat and barley crops means that **milling and malting premiums are lower this year, compounding the lower feed base price.** If this trickles down to

consumers, it may serve to support the ease in consumer pessimism surrounding food prices which has been recently observed and is discussed in this issue.

The fifth instalment of the AHDB/HGCA pricing strategy update reveals that the **farmers who adopt the "nerves of steel" or "do nothing" approach have been challenged most as, despite the higher quality crop, they were heavily exposed to the falling world market.** Those who priced forward when prices were higher may have limited their losses. This again highlights the importance of risk management in a largely uncertain business. This year's Grain Market Outlook conference will deliver the latest 2013/14 market insights – click below to register.

Amandeep Kaur Purewal

The AHDB/HGCA Grain Market Outlook Conference will be held on **15 October** this year, titled 'Redefining resilience: How equipped is the industry to manage future change?'
To book your place, please [click here](#).

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Introduction - Why quality matters

The analysis of crop quality continues to be vital as it has a direct influence on relative prices, with better quality produce, expected to command a higher premium. If the required quality specifications by processors are not available then, depending on the supply/demand balance, and relative prices, processors may have to turn to imports to meet requirements. Thus, it is evident that the quality of a crop, not just the amount that is available, can have far reaching consequences, with the effect of the poor quality 2012 crop fresh in mind.

The AHDB/HGCA Cereal Quality Survey (CQS), conducted on an annual basis, collects data from laboratories around the UK, which have analysed wheat and barley samples for key quality parameters. **Provisional results are released in late August/early September, with an update in late September/October followed by the final results in November.**

This year's results were generally anticipated to improve on 2012's crop quality, which due to challenging growing conditions, was one of the poorest on record. **So the main question this year was, not if the quality would improve, but by how much it would improve and how it would compare to the levels seen pre-2012.**

The first set of provisional results from the CQS, released 9 September, confirm that quality has improved from last year, and is generally on par with results prior to 2012, although there are some exceptions. The results collated thus far are discussed in more detail below.

Wheat

The provisional results for wheat, displayed in Figure 1, consist of 17,720 samples analysed up until 30 August, 2013.

As at 27 August, **only 40% of GB wheat area had been harvested, so the wheat samples are biased towards the higher quality, nabim group 1 and 2 varieties**, which are usually harvested first and comprise 63% of the sample size. It is, therefore, expected that as more nabim group 3 and 4 variety samples are tested, the results will change. There is also a **regional bias** present in these results, with **Eastern England**, the area where the most harvest progress was made, contributing to 44% of the total sample size.

Figure 1 CQS Wheat Results

	Specific Weight (kg/hl)	HFN (s)	Protein (%)	Moisture (%)
2009	76.9	262.8	11.7	15.0
2010	77.0	270.0	11.9	15.5
2011	78.7	269.3	12.0	15.0
2012	69.6	237.3	12.5	15.0
Avg (2009-2011)	77.5	267.4	11.8	15.2
Avg (2010-2012)	75.1	258.9	12.1	15.2
2013*	77.8	334.0	12.4	14.8
2013 Range	71.3-83.9	220-443	10.0-14.7	12.0-18.0

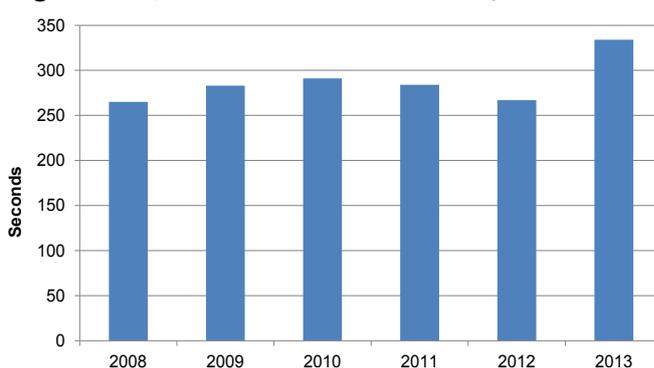
*Provisional results

Source: AHDB/HGCA

Wheat's **average specific weight**, at 77.8 kg/hl, is similar to the values recorded in 2009 and 2010, and a marked improvement on the final result of 69.6 kg/hl obtained last year. The 3-year average between 2010 and 2012 is distorted by the results from 2012, and so comparing this year's provisional result with the 2009-2011 average provides a better indication of whether or not specific weight has recovered, and as Figure 1 shows, the current result is slightly below this average. **The improved specific weight implies that more flour will be extracted from a given amount of wheat compared to last year. Thus potentially leading to reduced demand from millers, assuming flour demand remains static.**

The **Hagberg Falling Number (HFN)**, at 334s has made a vast improvement from last year, as it is almost 100s higher. Furthermore, **this provisional result is considerably superior to the final results obtained in recent years and is the highest value obtained since 1990.** Some caution has to be exercised, however, as this is only a provisional estimate and as more nabim 3 and 4 varieties are analysed the HFN is expected to deteriorate. Nevertheless, if the HFN provisional result is compared to provisional results from the past five years, as illustrated in Figure 2, then it **seems likely that even if the HFN falls when the final results are processed, it may still rank as one of the highest recorded. Relatively dry weather during the harvest period has been the main factor behind the high HFN obtained this year.**

Figure 2: CQS Provisional Results for HFN, 2008-2013



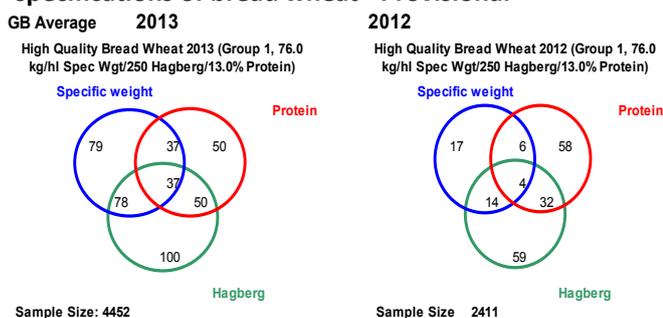
Source: AHDB/HGCA

Cereal Quality Survey (CQS) Provisional Results

The **protein content** of the wheat samples analysed was slightly lower than both the provisional estimate and final result from 2012, but higher than both the 3 year averages of 2009-2011 and 2010-12. Although lower in terms of quantity, the functionality of the protein content this year is expected to be higher than last year due to the more favourable growing conditions towards the end of the growing season. The provisional estimates also showed that there was less variability in wheat protein levels compared to last year, as the range of values reported (10.0-14.7%) was narrower than that at the corresponding time last year (9.9-15.4%).

Figure 3 depicts that 37% of the wheat samples analysed, meet typical specifications of high quality bread wheat (76kg/hl, 250s and 13%). This is a vast improvement on the 4% obtained at the same point last year and comparable to the 30% and 40% of samples meeting this criterion in 2010 and 2011 respectively.

Figure 3 Percentage of samples meeting full specifications of bread wheat - Provisional



Barley

Provisional results for barley, comprising 12,884 samples analysed up to 30 August, are displayed in Figure 4. Approximately, 53% of the barley samples are of the spring variety and this proportion is likely to increase as results are updated. This is due to the fact that winter barley 2013 harvest was all but complete as at 27 August with the spring barley harvest only 30% complete. Similar to wheat, the region which provided the most samples (36%) was Eastern England.

The barley **specific weight**, at 67.9 kg/hl, is not only a good improvement from 2012's final figure, but is also one of the **highest recorded since 1999**. However, as has been previously explained, this figure is prone to change as results are updated.

Despite a higher specific weight, grain size, although larger than in 2012, is smaller than that indicated by screening results pre-2012. Only 92.7% of grain was retained by a 2.5mm sieve, compared to the 2009-2011 average of 95%, with 2.0% passing through a 2.25 mm sieve.

Nitrogen content is higher than that in 2012, and at 1.66%, is higher than the 3 year average for both 2009-2011 and 2010-2012. **Specifications for nitrogen can vary depending on the end-product, but for brewing in**

the UK, 1.60-1.75% is generally required. Distilling nitrogen content is expected to be lower as more samples from the north of England and Scotland are tested as these will come from areas where farmers will be targeting the distilling markets which require lower nitrogen barley.

Figure 4 CQS Barley Results

	Specific Weight (kg/hl)	Nitrogen (%)	Screenings 1	Screenings 2	Moisture (%)
2009	66.3	1.58	2.2	95.0	16.0
2010	67.0	1.61	1.5	94.1	15.6
2011	66.4	1.64	1.9	95.8	15.9
2012	62.9	1.71	1.4	89.8	15.6
Avg. (2009-2011)	66.6	1.65	1.6	95.0	15.9
Avg. (2010-2012)	65.4	1.65	2.3	93.2	15.7
2013*	67.9	1.66	2.0	92.7	14.6
2013 Range	62.0-73.5	1.2-2.1	77-99	0-8	11.9-17.7

* Provisional results

Source: AHDB/HGCA

Screenings 1: % Grain passing through 2.25mm sieve
Screenings 2: % Grain retained through 2.50mm sieve

Closing comments

AHDB/HGCA's CQS provisional results indicate improved quality for both UK wheat and barley compared to 2012, and in most cases are comparable to, or even better than, results obtained prior to 2012. The high HFN recorded thus far for wheat is a prime example of this. Although, results will change as more samples are analysed, it is unlikely that they will be radically altered.

The higher proportion of bread milling quality wheat infers that UK millers may be less reliant on imports this year and utilise more domestic crop. Another implication of a higher proportion of milling quality wheat is that the proportion of feed grade wheat will be relatively lower, which will provide support to prices. This has already started to impact on the premium of milling wheat over feed wheat.

The updated CQS results will be released in October. For detailed tables of this year's provisional results, [click here](#).

Key Points

- Wheat specific weight recovers to pre-2012 levels.
- Hagberg Falling Number currently matches the highest level recorded since 1990.
- The proportion of wheat meeting full bread milling specifications is 33% points higher than at the same point in 2012.
- Barley specific weight is one of the highest in recent years.

The Impact of Protein on Oilseed Prices

Since individual oilseeds supply vegetable oil and protein meal, price is determined by the value of these two components. There are also a number of new influences on the component prices. Vegetable oil is now valued for biodiesel as well as food. Protein meal is increasingly in demand to supply animal feed (for the exponential growth in meat consumption) but increasingly competing with the distillers grains (DDGS) by-product from the bio-ethanol industry.

Simon Ward, Increment

Introduction

This article reviews the relationship between oilseeds, protein meal and vegetable oil with the objective of improving insight for marketing strategies.

Key considerations for oilseeds:

- Oilseeds supply both protein and oil markets and these two markets are largely independent of each other.
- Trade in vegetable oil and protein meal is as great as the trade in the oilseed itself.
- There are fewer significant exporters and importers of oilseeds than cereals (Figure 1).
- In contrast to cereals, the main exporters of oilseeds harvest at different times in the year – production is more evenly balanced between northern and southern hemispheres.
- Due to the above, supply responses following high prices can happen quicker e.g. a poor US crop will support prices at a time when South American planting decisions are being made, resulting in a possible increased output.
- A large proportion of the vegetable oil exports is provided by palm oil, a perennial crop that can be harvested throughout the year.
- Different oilseeds contain radically different proportions of vegetable oil and protein meal and the quality of each component also varies between oilseed crops.

Figure 1 Top Oilseed and Exporting Countries

Country	Major commodity*	Exported tonnage (Mt)	Harvest period	% global traded quantity
Brazil	Soyabean (100%)	35.27	Jan – May	32%
US	Soyabean (98%)	38.84	Sep – Oct	35%
Argentina	Soyabean (91%)	8.69	Apr – Jun	8%
Indonesia	Palm oil (67%)	20.49	Year round. Peak in Sep-Nov	32%
Malaysia	Palm oil (100%)	17.88	Year round. Peak in Sep-Nov	28%
Argentina	Soyaoil (91%)	5.04	Apr – Jun	8%
Argentina	Soyameal(91%)	26.46	Apr – Jun	34%
Brazil	Soyameal (100%)	13.92	Jan – May	18%
US	Soyameal(98%)	9.28	Sep – Oct	12%

*Based on total production of underlying oilseed

Source: USDA

While the top exporters of meal and oilseeds are the same and dominated by soyabean, the vegetable oil market is dominated by palm oil production in Indonesia and Malaysia.

Since soyabean production is more erratic than palm oil, and soyabean meal is the world's dominant protein meal, the meal is more likely to affect short-term oilseed price than changes in vegetable oil price. This was demonstrated in 2012 when South American drought early in the year was followed by the US drought, which limited soyabean and thus meal availability. Meal prices subsequently rose whilst soya oil prices were relatively stable as alternative supplies in the form of palm were available.

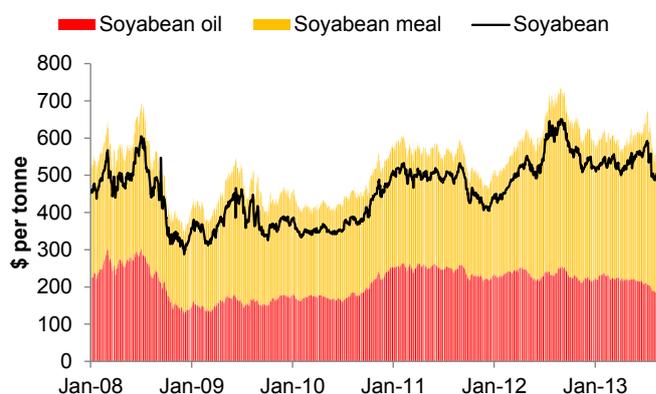
The increasing importance of South American production is a relatively recent phenomenon. Brazil alone exports as much soyabean as the US.

The contribution of vegetable oil and meal price to the oilseed price

Soyabeans, soya oil and soya meal are traded separately on the Chicago futures market. Using the daily nearby (spot) prices for the period from January 2008 to August 2013 the relationship between these two components and the soyabean price can be illustrated (Figure 2). The oil content used in the calculation is 20% and the remaining 80% is soya meal.

Since the consecutive droughts in the Americas in 2012, it is clear that the meal has supported the oilseed price. In 2013, with the prospect of increased supplies of soyabeans and thus meal, prices are expected to be lower. Looking forward, longer term demand growth for protein meal is supportive of price. However, also important to UK are oilseed rape crush margins and the increased presence of bio-ethanol co-products (DDGS).

Figure 2 Price of Soyabean and Value of Component Parts



Source : AHDB/HGCA

The above analysis is not perfect since the closing months for the three markets are not identical so the nearby position does not always reflect the same month. The margin from crushing the crop is the difference in price between the purchase of soyabean (the black line) and the value of the oil plus meal (red and yellow blocks). **The margin is remarkably consistent, averaging about \$66/t of soyabean.** Circumstantial evidence

The Impact of Protein on Oilseed Prices

suggests that the rapeseed crushing margin is similar. For more on vegetable oils and crush margins, [click here](#) to see the previous issue of Prospects.

Some are more equal than others

Oil meal prices are approximately comparable based on their protein contents and flexibility in livestock rations. Thus, the more versatile soyameal tends to trade at a premium over the other meals.

Overall, it is the relative oil and meal content that has the most influence on relative rapeseed and soyabean price. Thus, a rise in meal price will have a bigger impact on soyabean price (80% meal) than oilseed rape price (60% meal). The oil price has twice as much impact on oilseed rape price as soyabean price.

Figure 3 Physical Characteristics of Soyabeans, Rapeseed associated products and of different Grain Ethanol co-products

	Soya bean	OSR		
Oil content	20%	40%		
	Soya meal	OSR meal	Distillers grains maize	Distillers grains wheat
Dry matter %	87.9	88.8	89.0	90.3
Crude protein (% DM)	51.8	38.3	29.4	37.2
Gross energy (MJ/kg DM)	19.7	19.4	20.4	20.5
	Soya oil	OSR oil		
Saturated fat %	15.7	7.4		
Mono unsaturated %	22.8	63.3		
Poly unsaturated %	57.8	28.1		

Source: FAO/INRA/CIRAD/USDA, Ewing (1998) The Feeds Directory

Sources vary on the appropriate inclusion rate in rations for pigs and poultry with some papers suggesting significantly lower inclusion rates for rape meal than soya meal for pigs and poultry.

Biofuel manufacturers boost protein supply?

It is looking likely that two UK ethanol plants will be in production this year. Each is expected to take about 1Mt of grain and in doing so produce around 600Kt of protein meal. Put in perspective, the UK imports around 800Kt of soyabean per year (FAO).

The additional cereal demand is likely to increase cereal prices, relative to global/EU levels, to either stimulate additional imports or regulate export activity.

Conversely, the additional supply of a high protein meal is likely to substitute for some imported soyabean and soyameal, reducing the price for buyers with little or no impact on the price of peas or beans. Most importantly, the additional supply will change relative pricing between regions.

However, the gain in each case is trivial compared with overall price volatility.

EU policy - Protein the new green?

Two aspects of the on-going CAP reform might yet encourage the production of protein crops. The first is that Member States will be permitted to couple a

proportion (2% of the Basic Payment Scheme) of the subsidy to protein. Secondly, and more speculatively, the most recent draft legislative proposals include an option for Member States to include the production of nitrogen fixing crops as part of the 5% Ecological Focus Area within the Greening requirement. At present it is unclear how Defra, and the devolved administrations, will implement these aspects of the reform in the UK. To an extent, the crop diversification component of the Greening measures may also encourage production of legumes.

There are several reasons for the policy. Most significant is the reduction in greenhouse gas as a result of replacing the manufacture of nitrogen fertiliser. However, there is also a desire to reduce the EU reliance on imported animal feed protein.

The potential increase in production is unlikely to be sufficient to remove the import of soya and unlikely to be sufficiently significant to affect the global protein price, although it may be enough to reduce premiums in speciality markets.

Conclusion

The oilseeds market is far more complex than the cereal market and subject to newer influences. For example, oilseed meal directly competes with the by-products of the ethanol industry, a major new factor for the UK market which is subsidy driven.

The increasing proportion of production from South America, relative to the USA, means that prices are more likely to change direction mid-marketing season than they did in the past and more likely to change than cereal prices.

Indications are that protein meal is becoming an increasingly important component of the oilseed crop relative to oil content, although this may change, as it has in the past.

CAP reform proposals may increase production of peas and beans in the UK and Europe but is likely to have a negligible impact on the global protein market.

Key Points

- Global oilseed production is becoming more evenly spread between north and south hemispheres – making prices less seasonal and enabling faster production responses to high prices
- Supply and demand for oilseed meal and vegetable oil seems to act largely independently of each other with meal the main price driver of recent times
- The production of distillers grains from ethanol manufacture is likely to have regional impacts on oilseed meal price
- CAP reform, including the possibility that Member States will choose to provide coupled support for protein crops and include nitrogen fixing crops within the Ecological Focus Area, is unlikely to significantly reduce the value of oilseed meal.

Wheat Pricing Strategies for 2013 (Part 5)

For the 2013 harvest, falling profit margins across all strategies emphasises the importance of developing an appropriate risk management strategy and the risk of waiting until harvest before making decisions.

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Introduction

AHDB/HGCA launched an evolving demonstration of Price Risk Management in October 2012, monitoring a series of strategies from planting through to final sale of the 2013 harvest. This article provides an update on how each strategy is progressing and how the downturn is affecting returns. Previous issues can be found via the following links:

[Farm Assumptions & strategy descriptions](#), [Part 2, First progress report, January 2013](#),

[Part 3 \(Update\), March 2013](#), [Part 4 \(Update\), June 2013](#)

The importance of a risk management strategy

Risk management minimises the level of exposure a business faces as a result of unpredictable events. An effective risk management strategy can help minimise losses when the market moves in an unfavourable direction or vice-versa. However, **there is no 'right' or 'one size fits all' approach**. An appropriate strategy will reflect a business's appetite for risk, the nature of the risk and the potential impact on the business. Thus, it should be designed to meet individual needs and/or business objectives.

With this in mind, AHDB/HGCA developed several strategies that might be used on an arable farm. The strategies include a range of both forward and post-harvest sales, as well as the use of risk management tools available to the industry such as options.

Market movements since planting

The UK wheat price climbed by nearly £30/t during the first three months from September 2012, peaking in early December at almost £200/t. Since then, prices have declined, and dropped below the farm's budgeted costs of production of £168/t (click on [Farm Assumptions & strategy descriptions](#), for more) which includes rent and a value for unpaid labour. Despite some strengthening in the market over August, by September 2013, LIFFE Nov-13 wheat futures were £10/t less than the budgeted production costs.

The impact of the change in market direction since the beginning of this year has resulted in falling profit margins – or increasing losses – for all of the strategies. However, the extent of this impact has varied considerably according to the level of exposure of each strategy to market influences.

Figure 1: Summary of returns and risks based on market values as at 03 September 2013

Strategy	Current Average Price (£/t)	Current Average Profit/Loss (£/t)	Current ranking	Proportion of crop		
				Sold	Exposed to upside	Exposed to downside
"Nerves of Steel"	151.6	-16.3	6	70%	30%	30%
"Steady"	164.2	-3.7	4	63%	37%	37%
"Average Joe's"	167.1	-0.8	2	75%	25%	25%
"Full metal jacket"	149.5	-18.4	7	100%*	100%	0%
"The city boy"	159.4	-8.5	5	75%**	75%	25%
"Simplicity"	164.3	-3.6	3	67%	33%	33%
"Trigger happy"	173.0	5.1	1	67%	33%	33%

*Covered by Option. ** 50% of forecasted production sold forward in September 2012 and covered by Option. 25% sold forward in March 2013. Source: AHDB/HGCA

"Nerves of Steel"

It is only due to the strengthening in the market in the second half of August that this strategy is not ranked last. **With no forward sales, "Nerves of steel" was the most heavily exposed to market volatility.** When the market peaked in December, it was one of the highest ranked strategies, taking advantage of its 'do nothing' approach. However, **the price decline since then, coupled with no protection from further market weakening, has resulted in the fastest fall in profit margins of all the strategies.**

On 1 September 2013, 70% of the harvest was sold at an ex-farm price of £150/t; a loss of £18/t. The remaining 30% will be kept in storage and sold between January and March 2014, thus remaining exposed to market influences. With such a large proportion of the crop sold well below the break-even price, it seems unlikely at this stage that the 2013 harvest will yield positive returns for this strategy.

"Steady" & "Average Joe's"

These two strategies, based on spreading sales over a marketing period, have followed similar trends since planting.

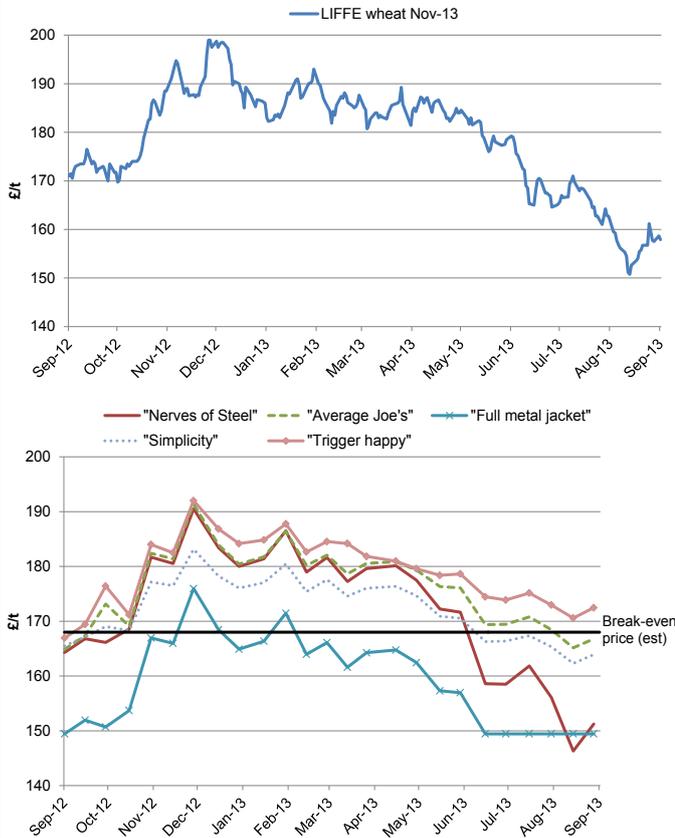
The decline in market prices since December has negatively impacted profit margins, but these averaging strategies have shown some resilience to the downward pressure as a result of regular sales.

Figures 2a and 2b illustrate the average price achieved for wheat sold (ex-farm) compared to Nov-13 wheat futures for selected strategies. For "Average Joe's", negative profit margins have only been recorded since August in spite of prices being below break-even costs for almost two months prior.

Wheat Pricing Strategies for 2013 (Part 5)

This is comparable to “Nerves of steel” which has seen profit margins fall at the same rate as the market. **As at the beginning of September, the price difference between “Average Joe’s” and “Nerves of steel” was more than £15/t.**

Figure 2 a) Nov-13 LIFFE wheat futures b) Average ex-farm price of selected strategies



Source: AHDB/HGCA

“Full metal jacket” & “The city boy”

These strategies incorporate the use of options. Both are currently ranked low, due to forward sales in September and option premiums.

For most of the demonstration, “Full metal jacket” has tended to record the lowest average price per tonne. However, with 100% of the expected harvest sold and covered with an option, this strategy has been able to establish a floor to the market of £148.7/t (£171/t less £6/t basis and £16.3/t option premium). This protects the strategy from any further fall in market value.

“The city boy” could still see a further reduction in average returns if the market falls, as 25% of the crop remains unsold. However, with 50% of the harvest covered by options and an additional 25% sold forward in March, this strategy is less vulnerable to falling prices. It could also take advantage of any possible market strengthening.

“Simplicity”

A third of the harvest remains to be sold in this strategy, and hence exposed to any changes in the market. **In June’s update, this strategy had only just**

over-taken “Nerves of steel” as forward sales relieved some of the downside pressure in the market. The continued price decline since then has resulted in a growing gap in average returns between these two strategies. As at early September, “Simplicity” had a price differential over “Nerves of steel” of almost £13/t.

“Trigger happy”

The floating stop-loss strategy has consistently ranked as the highest performing, and at the time of writing was the last strategy to still record positive margins. All sales for the second period (February to end-September) were made by mid-May as the strategy sought to protect profit margins from price declines. As such, **this strategy is currently tracking the market price at a £7/t discount. The third and final selling period will commence in October.**

When this strategy was developed, a key risk was that a sharp fall in the market in the short-term could mean several quick sales, thereby preventing the ability to take advantage of any possible resurgence in the market before the end of the period. This remains a risk in this strategy, though “trigger happy” has clearly suited movements in the market for the 2013 harvest so far.

Due to the profit-saving nature of this strategy, it has been able to manage the fall in the market since December better than most. **“Trigger happy” is currently higher than “Nerves of steel” by £21.4/t, on average.**

Figure 3 The “Trigger happy” strategy



Source: AHDB/HGCA

Concluding comments

The downward movements in the market over the last 10 months identify the risk of a ‘do nothing’ strategy (“Nerves of steel”) and its failure to mitigate against falling prices. Other strategies have managed to various degrees to reduce the rate of falling profit margins – or the speed of rising losses - through the use of forward sales and/or use of options.

The next update, examining the use of any post-harvest sales, will be published in December 2013. A demonstration for risk management strategies for the 2014 harvest will be published in October.

Consumer Confidence Heats up this Summer

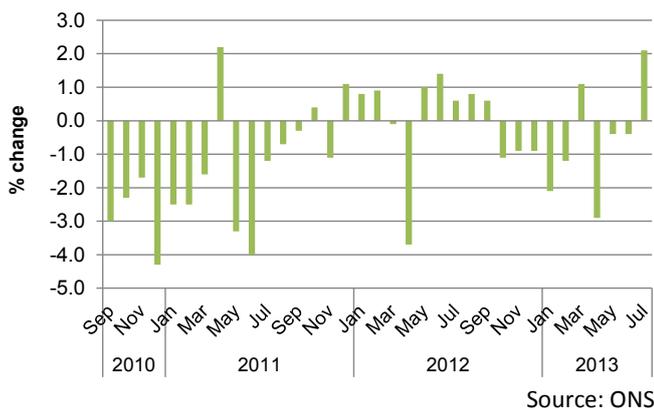
In July 2013, UK consumers experienced a rise in confidence due to the exceptionally warm weather resulting in a more positive outlook and giving the nation a feel good factor.

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Introduction

Consumer confidence measures how positive and assured consumers feel about their personal situation and the state of affairs of the national economy. It is often linked to consumer spending, and as the recession peaked in 2008, both confidence and spending reached an all-time low. However, UK consumers have experienced a rise in confidence in July. This improvement has been reflected in strong retail figures, which show a 3% increase in total sales, supported by food purchases showing the largest growth since April 2011 (Figure 1). The combination of these two factors could suggest that things are starting to brighten up, implying some positive news for the food supply chains, amongst others.

Figure 1 Retail Sales Index : Volume Food Stores, % change on the same month a year earlier



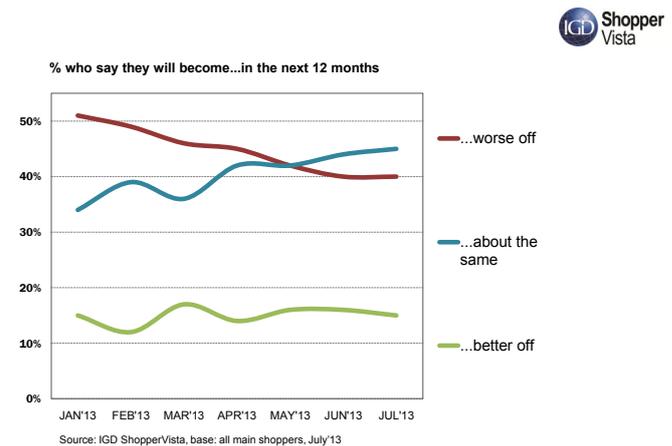
Hottest summer since 2006 had a huge impact

Over the past few years, consumer confidence has been depressed, with many feeling very negative about the UK's economic prospects and their future. However, there was a notable improvement in July 2013, with UK consumer confidence reaching the highest levels since 2010 (European Commission). This was largely driven by a considerable increase in confidence about the general UK economy and about household finances and employment prospects. Furthermore, there seems to be a general feeling that the worst is over, no doubt encouraged by the recent media coverage on revised UK growth forecasts. **The key question remains how long this improvement can be sustained for**, as consumer confidence remains significantly below pre-recession levels, despite the recent increase.

In July 2013, IGD reported that 60% of shoppers expected their personal financial situation to improve

or stay the same, up from less than 50% in January (Figure 2). Over the last six months, consumers have become gradually more positive, with fewer shoppers now thinking that they will actually be worse off. **There has also been some easing pessimism around price rises. In January 2013, 27% of shoppers expected food to become much more expensive. This has now dropped to 17%, with the majority believing food will only get a little more expensive in coming months.**

Figure 2 Consumer Economic Expectations



What does this mean for the food industry?

The rise in confidence was expected to provide a welcome boost to the UK foodservice market, however, the latest figures from NPD Crest do not reflect this. In the second quarter of 2013, the number of visits to out-of-home food outlets declined by 1% compared to the same time last year. **Less promotional activity meant that the average spend increased, resulting in total out-of-home expenditure staying flat.**

Meanwhile, according to Kantar Worldpanel in the 12 weeks to 7 July, food inflation remained at 3.9%. This is ahead of wage growth, meaning incomes are continuing to decline in real terms. This is likely to have contributed to some of the out-of-home decline, with consumers eating out less, particularly mid-week.

In spite of these, a combination of other positive economic indicators, strong confidence and retail figures point to a growing sense of optimism. However, this does not herald a recovery in itself given that consumers are still seen to be worse off compared to the start of the economic crisis, and confidence remains well below pre-recession levels. For the time being, consumer food and grocery budgets will continue to face pressure and prices will remain at the top of shoppers' concerns.

Concluding comments

If consumers' confidence and thus the increase in food purchases continue, there is likely to be an increase in the morale of food producers but it might be challenging to see the quantifiable effect of this.