

Industry projections 2021

Australian cattle – April update





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KEY POINTS

- Australian cattle herd to grow substantially in 2021 on the back of improved seasonal conditions
- Slaughter numbers to fall significantly as producers retain a greater number of cattle to rebuild their herds
- Exports to fall as supply tightens



KEY 2021 NUMBERS

-  **Slaughter:**
6.4 million head
-  **Carcass weights:**
301.3 kg/head
-  **Production:**
1.95 million tonnes cwt
-  **Beef exports:**
918 thousand tonnes swt

* Graphic illustrates year-on-year change

Summary

In 2021, the cattle herd is expected to grow 5% to 25.9 million head, close to its size in 2019 before the final year of the drought induced liquidation. This rise follows the herd dropping to its lowest number in 25 years in 2020 when it hit 24.6 million. The increase of 5% that is forecast for 2021 has been revised up from MLA's January projections. The revision is due to the significant reduction in slaughter volumes experienced in the first quarter of this year on the back on significant rainfall events across northern Australia in the summer.

Despite weather predictions forecasting average to below-average rainfall for eastern Australia in the coming months, restocker confidence remains high. Northern Australia, where over half of the Australian herd is located, received substantial summer rainfall, leading to sufficient pasture germination for the upcoming northern dry season.

The strong availability of pasture has buoyed producer confidence, which has translated into record high prices. The Eastern Young Cattle Indicator (EYCI) broke the 900¢/kg barrier for the first time in history in April, as Queensland producers looking to restock drove the market higher.

Throughout 2021 and 2022 both slaughter and live exports are expected to be depressed. This lower turn-off will accelerate the current rebuild, with the herd to grow to 28 million head in 2023.

Slaughter is expected to fall in 2021 as producers retain cattle, especially productive females, in order to rebuild their herds. While slaughter is expected to recover slightly this year, it is not expected to break 7 million head until 2023, when the current rebuild matures. The low slaughter numbers forecast for the next two years are also the result of the recent drought and the associated liquidation of cattle that substantially reduced the available pool.

In 2021, live export figures are estimated to be 750,000 head, as the high A\$ and cattle prices put pressure on exporter and importer margins. These factors, combined with weaker economies in South-East Asia who are recovering from COVID-19, are impacting the number of animals exported. Live export numbers are expected to increase through to 2023 as supply improves.

Carcass weights are expected to jump 3% this year, as the abundance of pasture and cheap feed translates into heavier weights. The record prices are also current incentives for producers and feedlots to add additional weight to animals. Carcass weights are expected to drop in 2023, as the price incentive to achieve heavier weights dissipates.

Given the significant reduction in slaughter in 2021 to-date, MLA has revised production down, falling 8% to 1,950,000 tonnes carcase weight (cwt). The rise in carcase weights forecast for this year will cushion some of the fall in slaughter volumes. Production is tipped to reach 2.2 million tonnes cwt by 2023 as slaughter increases. This will reflect 2017 production levels, prior to the most recent drought.

The forecast fall in slaughter production will flow on to export volumes, which are expected to fall 12% to 1,350,000 tonnes cwt – a revision down on the export volumes in January’s projections. Encouragingly, the reduction in exports is a result of cattle supply shrinking and is not driven by subdued demand – this remains high, as demonstrated by the rising price being paid for Australian beef on a per kilogram basis.

Assumptions

MLA’s April 2021 cattle projections are based on the most recent Bureau of Meteorology (BOM) three-month forecast, last updated on 8 April 2021.

In BOM’s three-month outlook from May to July, it is forecast that most of the key cattle producing regions in eastern Australia, other than north Queensland and Victoria, will experience an average to just below-average season. In Western Australia, the south-west and northern pastoral regions are expected to experience average rainfall across the May to August period, following two years of below-average winters. Drier-than-average conditions are expected for Victoria and northern Tasmania across winter, which may see these regions turn-off more cattle than usual, although it is unlikely to have a material impact on national slaughter figures.

To date, 2021 has brought above-average rainfall to much of eastern, northern and Western Australia. In northern cattle producing regions this summer, rainfall has germinated high quality and abundant pasture. This has ensured these pastoral regions are well placed for the dry season ahead, with adequate feed and water. However, some parts of central Queensland continue to experience drought conditions.

The floods that affected NSW and the cyclonic activity in WA’s mid-west have not had a material impact on the herd or production levels. However, they did cause short-term logistical issues that distorted market prices and yardings for a week.

Looking ahead to key macro weather influences, the La Niña has ended, and the El Niño Southern Oscillation Index (ENSO) is forecast to be neutral, bringing average to below-average seasonal conditions across southern Australia until at least August. The BOM three-month outlook also predicts warmer minimum and maximum temperatures across winter, which could reduce soil moisture but facilitate pasture growth when rain occurs.

Overall, the seasonal conditions are not as favorable as those from January. However, good rains in northern Australia across summer have placed Queensland and the NT in a good position going into the northern dry season. From a national perspective, 2021 is predicted to be an average year in terms of rainfall and pasture availability.

COVID-19

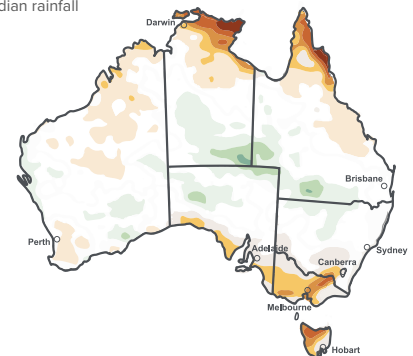
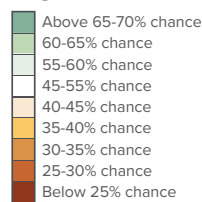
In 2020, the world grappled with its first global pandemic since the Spanish Flu over 100 years ago. Over a year has passed since the first outbreak, and COVID-19 continues to disrupt economic growth, logistics and trade.

While COVID-19 plunged the Australian economy into its first recession in over 29 years on the back of surges in unemployment, since September the local economy has been gathering momentum – growing by 3.4% and 3.1% in the September and December quarters, respectively. With respect to other industries, Australian agriculture performed extremely well during COVID-19 – outperforming sectors such as accommodation and foodservice.

Figure 1: Australian rainfall outlook – May to July 2021

Chance of exceeding the median rainfall

Legend

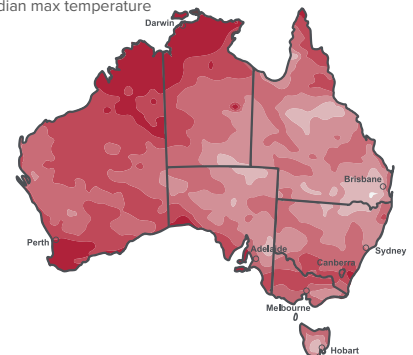
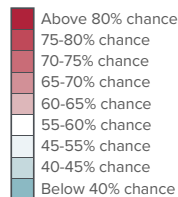


Source: Bureau of Meteorology

Figure 2: Australian temperature outlook – May to July 2021

Chance of exceeding the median max temperature

Legend



Source: Bureau of Meteorology

The government's \$17.6 billion response to COVID-19, including the JobKeeper program, are credited with helping fuel Australia's economic recovery. Australia has also benefited from its ability to suppress the virus through government policies such as border closures, social distancing and world-class contact-tracing, and high public compliance.

The world is expected to begin a COVID-19 recovery in 2021, to varying degrees. The global roll-out of vaccine programs is already underway, demonstrating relative success. Countries such as the UK have lifted their lockdowns, and the Australia NZ travel bubble has signified the return of some international travel.

In 2021, the IMF is predicting global GDP to grow significantly by 6%. This growth will be generated by economies opening back up after months of lockdowns and social distancing. From an Australian red meat perspective, this global growth will lead to increased consumer incomes and a return of foodservice patronage, cumulating in increased demand for Australian beef.

Despite encouraging signs, globally the COVID-19 recovery could still take years to be fully realised. As of April 2021, some countries such as India are reporting record infection numbers. Locally, Australia is also still experiencing sporadic and local outbreaks. The pace of the global COVID-19 recovery will be dependent on the efficacy and pace of vaccine rollouts and the ability of countries to prevent the spread, especially of new variations.

Exchange rate

In February 2021 the Australian dollar reached 79.7US¢, its highest level in three years. However, since then it has eased back to 77.5US¢, close to its value at the start of the year. This is a 39% appreciation on March 2020 prices when it bottomed out at 55US¢.

By December 2021, the big four banks anticipate that the A\$ will range from 75US¢ to 80US¢. These predictions are within the range that the A\$ has operated this year.

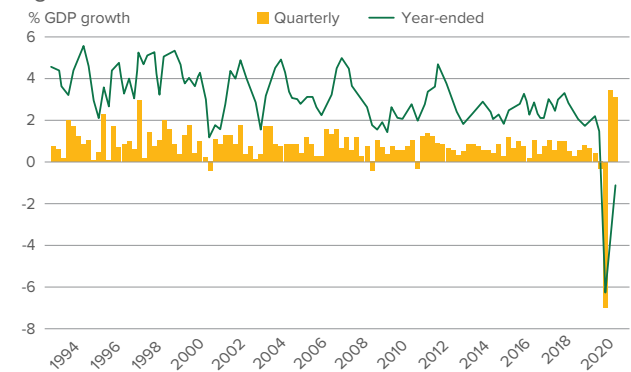
For exporters and processors, the high A\$ is compacting high cattle prices and squeezing their margins. With commodity prices, especially iron ore remaining high (at a record of \$185USD/tonne) many commentators have the A\$ remaining high for the rest of 2021.

Grain prices

Australian feed grain prices remain low on the back of the second biggest national harvest on record in 2020. With an average season predicted for 2021, grain prices should remain low, provided the winter harvest doesn't fail. There are grain stocks remaining from the previous year if 2021 turns and more stock require grain feeding.

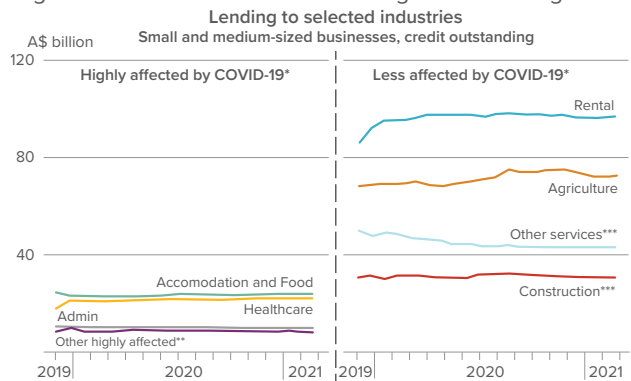
Australian domestic feed prices are following a different trajectory to the international feed market. Corn futures, the major global feed grain, hit \$610 USD this April. Globally, political tensions in the Black Sea region are putting upwards pressure on grain prices as concerns grow around whether a conflict in the region could limit supply.

Figure 3: Australian GDP



Source: RBA & RBA

Figure 4: Performance of Australian agriculture during COVID



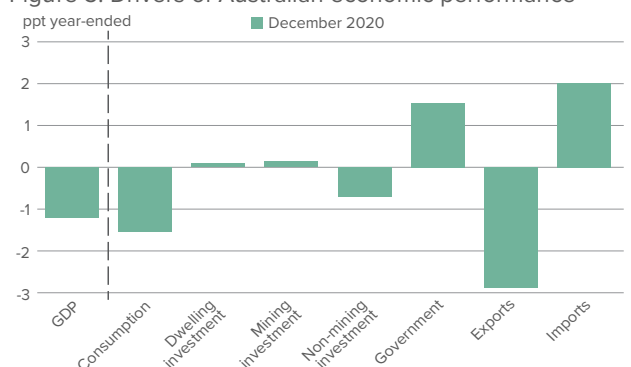
* Highly affected industries had the highest share of businesses report a fall in revenue of greater than 50% in a June 2020 ABS survey; less affected industries are the top four by value of SME lending

** Education and training; arts and recreation; information media and telecoms

*** Other services includes a broad range of personal services, selected repair and maintenance activities and households employing staff

Source: APRA and RBA

Figure 5: Drivers of Australian economic performance



Source: ABS & RBA

Figure 6: US/AU exchange rate



Source: RBA, NAB, ANZ, CBA, Westpac

Cattle herd and slaughter

Herd

The national herd has been revised up in the April quarter. By the end of 2021, the national herd is expected to lift 6% from 2020 levels to 26 million. This revision is a 4% increase on MLA's February predictions.

The first quarter of 2021 delivered rainfall across a vast section of northern Australia. In some cattle areas this rainfall exceeded historical records for monthly totals, including parts of Queensland, providing much needed relief for regions that had missed substantial falls in eastern Australia in 2020 and early 2021.

Lower slaughter numbers and reduced supply of cattle through saleyards demonstrate that the herd rebuild is gathering momentum. In March, slaughter figures for the eastern states declined 50% on March 2020 levels, equivalent to 46,980 head, while cattle yardings in 2021 are also well below 2020 levels on a year-to-March basis, down 30%. This is directly linked to the significant rainfall events experienced by key supply areas, particularly in Queensland.

Considering the herd rebuild on a regional basis, NSW and southern Australia are a year ahead of Queensland and northern Australia, given they received above-average rainfall for much of 2020. The record price of the EYCI in early April, largely driven by Queensland, indicates that northern producers are confident a rebuild is underway.

Calving rates are a key factor in the pace of a herd rebuild. Therefore, it is important to note that it remains to be seen how the prolonged northern Australian drought will impact pregnancy rates.

Slaughter

As producers look to retain cattle and take advantage of improved seasonal conditions, cattle slaughter has been revised down from 6.9 million head to 6.4 million head, a fall of 11% on 2020 levels.

The exceptional seasonal conditions have delivered an abundance of feed for producers to utilise throughout the critical autumn-winter period when pasture growth is minimal across parts of NSW and Queensland. This feed bank should see lower slaughter rates continue throughout 2021, tracking well below historical trends into 2022.

Historically, cattle slaughter in Australia sits between 7 and 7.9 million head during years of average rainfall. MLA's forecasts predict that Australian cattle slaughter will not exceed 7 million head until 2023, when it will reach 7.2 million head, at which point the current rebuild will have matured.

The forecast cattle slaughter of 6.4 million head is the lowest in 36 years. Despite current cattle prices being at record highs, these prices are not expected to incentivise producers to turn cattle off in large quantities. This is partly due to the fact that the national herd, and in particular the Queensland component, is the lowest it has been in 30 years.

Eastern states' yardings have fallen by 178,055 head, or 30%, on 2020 levels (year-to-date), with slaughter back by 30%. These figures demonstrate the impact improved seasonal conditions have created for the processing sector – not only have slaughter numbers fallen, but in saleyards they have to compete with feedlots and restockers for a reduced pool of available cattle.

Furthermore, over-the-hooks (OTH) prices are up across the board in 2021, highlighting the difficulty processors are having in sourcing cattle. As a result of the high prices processors are paying, their profit margins have been squeezed, which has only been exacerbated by the appreciating A\$.

The need to rebuild the national herd following drought, and current and forecast growth in demand for Australian beef internationally, has intensified the rebuild. Now, many producers are focused on the longer-term outlook of their beef operations by rebuilding herd numbers.

Figure 7: National cattle herd

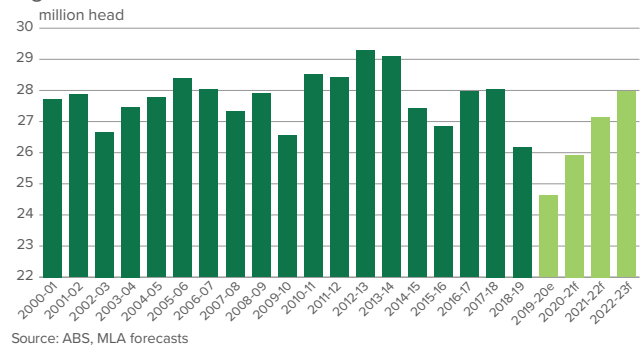
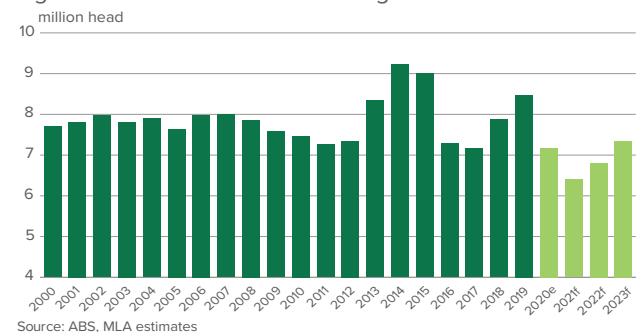


Figure 8: National adult cattle slaughter



Feedlots

Grainfed cattle are making up an increasing percentage of cattle turn-off. This is despite the total turn-off of cattle from feedlots reducing slightly between 2019 and 2020, from 3.03 million head to 2.88 million head, respectively.

During the December quarter of 2020, cattle from feedlots accounted for 41% of all cattle slaughtered. This was a significant increase in the proportion of lot fed cattle being processed when compared to the corresponding quarter in 2019, when only 33% of cattle slaughtered were lot fed.

The wetter season has driven up the proportion of grainfed cattle being processed. Producers are retaining more cattle to take advantage of improved seasonal conditions. As a result, processors are being forced to source a greater percentage of animals from feedlots.

The feedlot sector’s ability to provide processors with certainty regarding supply and consistency of cattle has played a part in its rise in recent years. Increasingly, supply chains are fully integrating, with processors relying more and more on the feedlot sector to deliver finished animals. Domestically consumed beef will increasingly come from grain-finished cattle.

The outlook for the feedlot sector is bright. Feedlot capacity in December 2020 remained close to record levels, at 1,445,136 head. This near record capacity demonstrates that feedlot construction and expansion is occurring – underpinned by confidence in the sector.

Grain prices continue to decline on the back of the second biggest winter harvest on record. With a solid winter harvest tipped for 2021, this is likely to drive grain prices lower. However, political uncertainty in the Black Sea region may push global grain prices higher.

In 2021, the abundance of pasture available has seen cattle entering the feedlot system at high weights. For the year-to-date, feeder steers have entered feedlots at an average weight of 424kg, 33kg heavier than last year. This increase is due to producers feeding cattle on grass for longer, in order to maximise weights and \$/head returns.

The sector is increasing its share of beef production, with 44% of all beef coming from lot fed animals – a trend MLA expects to continue. Going forward, the number of cattle on feed each quarter is expected to remain elevated for some time.

Figure 9: Cattle on feed

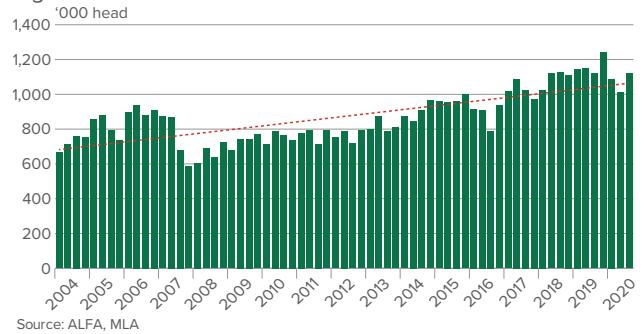
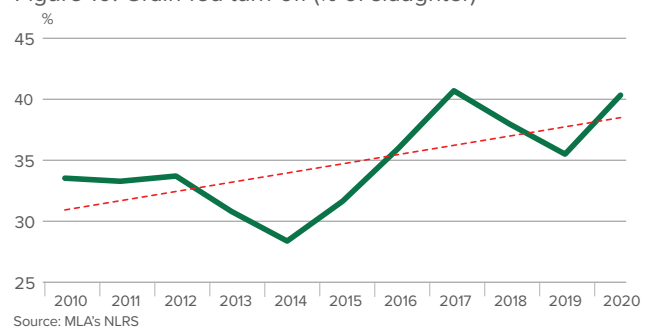


Figure 10: Grain-fed turn-off (% of slaughter)



Carcase weight and production

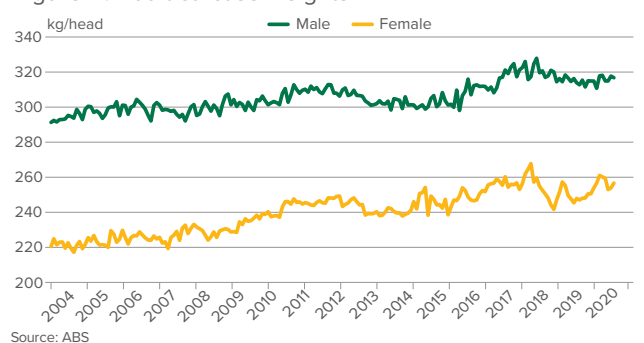
Carcase weight

Over the last 20 years, carcase weights have increased steadily at an average of 1.8kg a year. However, fluctuations in carcase weights reflecting seasonal conditions have occurred – increasing in wetter years and falling in droughts.

In 2021, national adult carcase weights are forecast to lift 2%, or 6.5kg, on 2020 levels, reaching 301.3kg/head. The increase in forecast carcase weights reflects the greater availability of feed, both pasture and grain. Producers and feedlots are utilising this abundance of cheap feed to achieve higher weights, with the current record prices making adding additional kilograms to an animal economically attractive.

The increase in the male slaughter percentage is also driving carcase weights. The male proportion of slaughter is rising as producers retain more females to rebuild their herd, and as the proportion of turn-off from feedlots, dominated by steers, increases.

Figure 11: Adult carcase weights



As prices ease and seasonal conditions normalise, carcass weights will fall. In 2023, carcass weights are expected to fall slightly to average 297kg. However, continued above-average seasonal conditions and a growing reliance on the grain-fed sector limit the predicted drop in carcass weights.

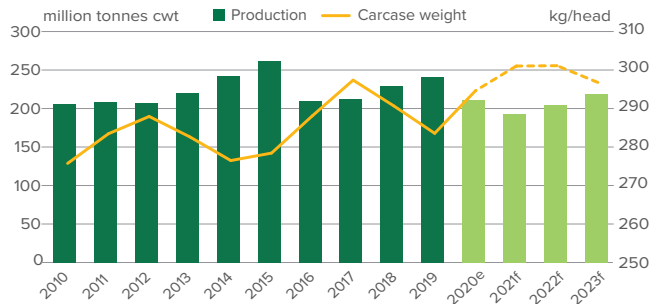
Production

Forecast beef and veal production has been revised since January. Beef production is expected to fall 9% in 2021, on the back of significantly reduced slaughter numbers. This is not as severe as the forecast 11% drop in slaughter throughput. An expected 2% increase in carcass weights will partly offset the fall in slaughter.

Increased slaughter and production in 2023 will reflect the herd rebuild reaching maturity. It is also expected that producers will have culled animals with poor genetics during the last drought. Therefore, the remaining herd should have better genetics than previously, which will translate to better growth rates and carcass utilisation.

In 2022, an increase in slaughter is expected to push production up above 2.0 million tonnes cwt, similar to levels recorded in 2016. Overall beef and veal production is expected to be up 13% by 2023, which will allow Australia to grow its export volumes.

Figure 12: Cattle carcass weights and production



Source: ABS, MLA forecasts

Domestic demand

Australia is one of the largest per capita consumers of beef in the world, ranking among the top 25 top beef consuming countries globally. The domestic market remains the largest single market for Australian beef.

Total consumption of beef rebounded in 2020 following a dip in 2019. In 2020, the COVID-19 pandemic impacted the whole grocery segment, as consumers cooked more on the back of foodservice options being limited by lockdowns and social distancing restrictions. Fresh meat experienced the largest growth in retail value during the pandemic period.

Beef was the biggest contributor to retail sales in 2020 (excluding tobacco). For the first quarter of 2021, retailers are seeing the volume of fresh meat sales decline, including for beef. However, comparing meat sales between Q1 2020 and Q1 2021 is not accurate, as the national lockdown in March 2020 triggered panic buying that saw retail meat sales skyrocket.

Most of the major proteins, except lamb, experienced a rise in retail prices in the last quarter of 2020 compared to Q4 2019 levels¹. In Q4, the average retail price of beef climbed to \$23.02/kg, up 8% on last year. The prices for other proteins didn't increase significantly over this period.

At this price, beef is more than four times more expensive than chicken. With the price differential between beef and other proteins only growing, now more than ever, beef must justify and deliver value to end-consumers.

Due to the increasing price differential compared to other proteins, and the panic buying of March 2020, beef sales have decreased the most of any fresh meat. In contrast, lamb, pork and seafood continue to see increased sales and are growing their share in the protein market.

Despite experiencing a fall in sales, in Q1 2021 beef maintained its market-leading position on Australian retail shelves, accounting for 33% of the fresh meat market, which on a value basis is over three times that of fresh pork.

Demand for both high-value products like steak, and low value products like mince, has been strong throughout 2020 and 2021. This highlights the value consumers place on beef irrespective of its price. From March 2020, when Australia experienced its first COVID-19 outbreak, research has found that consumers are visiting retailers less often, but are buying more².

Australian retail shelves remain competitive each year as its population demographics shift, with the percentage of migrants growing (30% of Australians are born overseas) and as exposure to new cuisines increases. Maintaining beef consumption levels will be a challenge, as supply constraints are forecast in the coming years. Reduced slaughter and production will place further upwards pressure on beef prices, possibly increasing the price differential between beef, chicken and pork. However, supply should progressively improve as the herd rebuilds, eventually bringing some relief for record prices. Furthermore, there are still plenty of opportunities, particularly with regards to consumer demand for better quality, more nutritious, versatile and convenient food offerings.

¹ ABS and Neilsen data

² Nielsen Homescan

International markets COVID

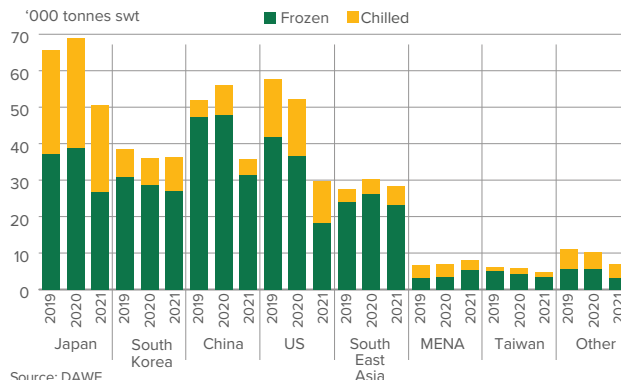
The global outbreak of COVID-19 has been a once-in-a-century event, bringing a raft of new challenges and unique circumstances – shutting entire countries down and stopping international air travel. However, in 2021 the global environment is expected to recover, with vaccines being rolled out, countries leaving lockdowns and international travel beginning to open.

For the year so far, Australian export volumes remain constrained on the back of tight cattle availability and reduced slaughter levels. Australian beef exports in 2021 are forecast to decline 8% on 2020 levels to sit at 950,000 tonnes shipped weight (swt), predominantly due to a reduced availability of exportable beef. However, resurgent demand across international markets is likely, particularly as foodservice and tourism industries are expected to regain momentum towards the latter half of the year.

For the year-to-March, beef exports were 200,000 tonnes shipped weight (swt), a decline of 25% on 2020 levels. Consequently, Australia's top beef markets have all experienced large year-on-year declines, with beef exports to Japan down 27%, volume to China down by 36% and the US back 44%. South Korea continues to be a steady performer, while exports to the Middle East and North Africa (MENA) are also doing well, up 15% for the year-to-March.

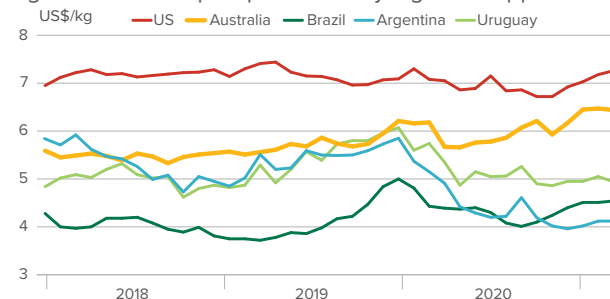
Regardless of the reduction in export volumes, high Australian cattle prices and encouraging demand from international markets are buoying the value of beef trade. The average export price for beef (US\$) is 5% above year-ago levels for the year-to-February.

Figure 13: Australian beef exports by destination



Source: DAWE
Data is for the year-to-March

Figure 14: Beef export prices of major global suppliers



Source: IHS Markit
Note: Data current through to February 2021

Global foodservice and retail

COVID-19 lockdowns and social distancing measures caused global meat sales through foodservice channels to plummet. Economies that depend on tourism and transit hubs were especially affected, demonstrated by the fall in meat exports to MENA dropping 8% in 2020.

This year, the size of the reduction in beef exports has reflected the reduction in slaughter throughput – a direct consequence of lower cattle supply. It also indicates that beef is not flooding onto the domestic market.

A significant impact of COVID-19 has been the change in international demand for different cuts. There has been a slight over-supply of high value cuts such as striploin, cube roll and tenderloin, popular in high-end full-service restaurants (the foodservice venues most disrupted by COVID-19). In contrast, exports of lower value cuts such as manufacturing beef have performed well in export markets with large fast food sectors, such as Japan and the US.

Historically, the majority of Australian beef exports are consumed through foodservice channels (approximately 60%). However, during COVID-19 there was a rise in retail sales of Australian beef in global markets. This helped offset the impact of reduced foodservice sales, especially in well-established markets.

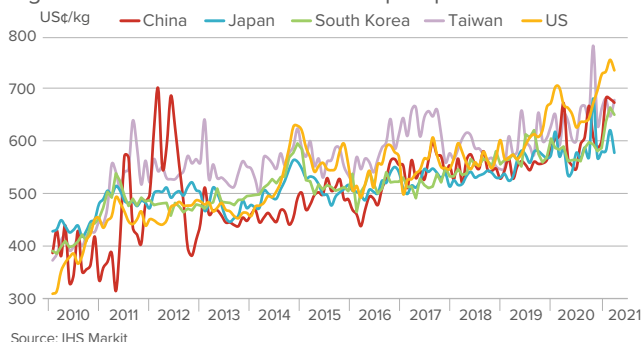
In 2021, the global foodservice sector is set to recover, although it is expected to be gradual and more apparent during the latter half of the year. Therefore, retail sales of Australian beef are expected to fall, while foodservice sales will lift, normalising and reflecting pre-COVID patterns.

Emerging consumer trends

Due to COVID-19, meat safety, quality, nutrition, immunity and country of origin are at the forefront of consumer purchasing decisions. Australian beef has a recognised reputation in satisfying these criteria. Therefore, demand for Australian chilled beef increased in numerous export markets, including the US, China, South Korea, Taiwan, the UAE and some South-East Asian markets throughout 2020.

Going forward, it is expected that shopping and dining habits adopted during COVID-19 may be permanent, including the purchasing of meat online and from local mini-marts. Australian beef will need to adapt to these changes in purchasing behaviour to remain competitive in these international markets.

Figure 15: Australian chilled beef export prices



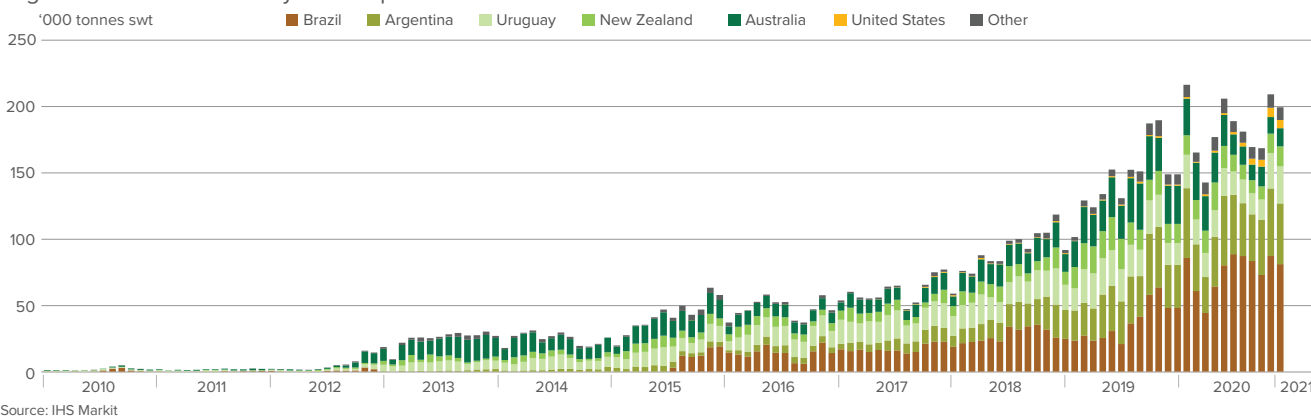
Key import markets

China

While Chinese pork production this year is expected to lift 11% on 2020 volumes, it will remain well below pre-African Swine Fever (ASF) levels. Hog inventories grew rapidly last year, however, possible new strains of ASF and a recent rise in cases highlight the ongoing uncertainty surrounding China’s pork production recovery. As a result, import demand for a range of meat categories, including beef and sheepmeat, is likely to remain upbeat. This will be supported by economic and foodservice recovery as the impact of COVID-19 continues to ease.

For the year-to-February, pork imports are up 24%, poultry is up 45% and beef imports have risen 30% year-on-year. Beef and sheepmeat retail prices reached all-time highs in February 2021 during the peak consumption period around Chinese New Year, but have eased somewhat since then. Brazil and Argentina continue to be the principal suppliers of the Chinese market, however, cattle slaughter in these countries has eased in recent months. This could see China look to other suppliers to supplement demand. Despite overall Brazilian beef exports falling, exports to China continue to grow, up 31% for the year-to-March and demonstrating the strength of demand.

Figure 16: Chinese monthly beef imports



Japan

USDA forecasts indicate that Japanese beef imports should remain steady on 2020 levels. Beef demand and imports are likely to be underpinned by an improving economy (IMF forecasting 3.3% GDP growth) and foodservice sector activity, the Olympic Games and further scheduled falls in beef import tariffs.

Despite a positive outlook for Japan, total Japanese beef imports for the first two months of 2021 declined 9% year-on-year, totaling 81,000 tonnes swt. Japanese imports of Australian beef have retracted slightly already this year, down 2% for the year-to-February.

Competition for market share is ramping up, with the US growing its share in the Japanese market over recent years. For the 12 months ending February, Australia accounted for 44% of all imported beef in Japan, while the US accounted for 40%, with this gap narrowing in recent years. In 2021, the competitive presence of the US will be exacerbated as the processing sector works through the backlog of cattle that built up through April and May last year, when US abattoirs had to reduce their capacities to combat the spread of the virus.

Korea

Korean beef imports for the year-to-February remain steady on 2020 levels, with volumes from the US and Australia remaining relatively stable relative to historical levels, despite a modest rise in export prices. Growth within the online delivery and e-commerce channels has fuelled demand from this market through much of the COVID-19 period. The ongoing stability of Korea remains particularly important for Australian exporters, as USDA forecasts indicate that Korean imports of beef could rise 2% in 2021, to total 560,000 tonnes carcass weight equivalent (cwe).

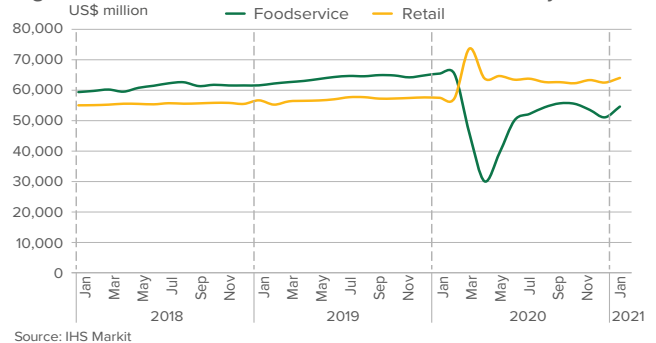
US

While the US foodservice industry has been hit particularly hard by the fallout from COVID-19, businesses remain optimistic, with expectation of a rebound in consumer activity in the second half of 2021. Subsidised incomes, elevated hopes from the vaccine rollout and an expected improvement in foodservice demand underpin these positive expectations, creating potential for an increase in consumer activity later in the year if restrictions ease.

Regardless of expectations, there are still many challenges. Rules regarding capacity and social distancing continue to inhibit the foodservice industry, and the way consumers dine out has changed, with takeaway and delivery options more widely adopted.

High Australian cattle prices and the strong Australian dollar remain as two factors challenging US importers, underpinned by tight Australian cattle supplies. US imports are off to a slow start this year, with a combination of high demand from China and limited supplies from Australia and New Zealand limiting purchases. Cattle supply in the US remains adequate, however, high retail prices may soon subdue some consumer demand.

Figure 17: US foodservice and retail sales – monthly

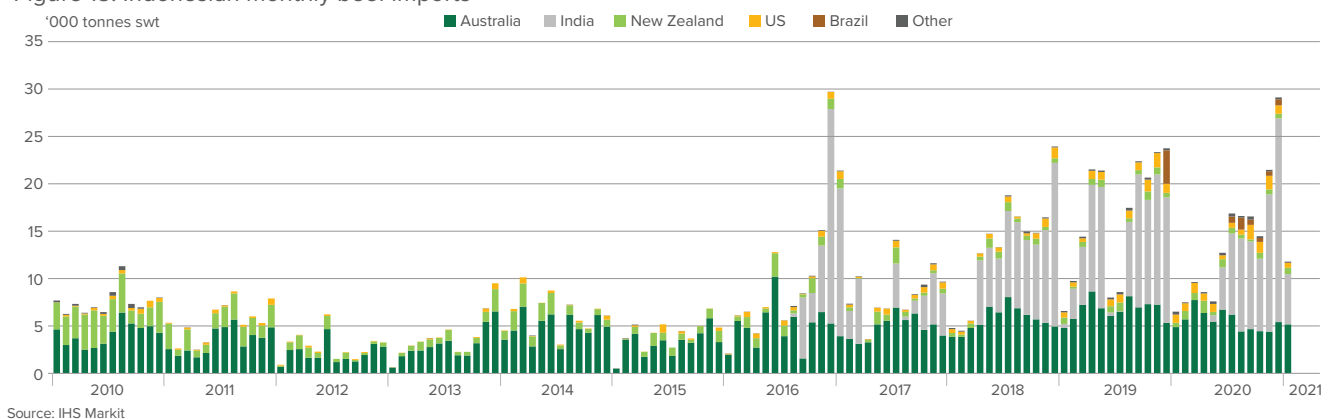


South-East Asia

South-East Asian cattle and beef imports eased in the first two months of the year – particularly in Indonesia and Vietnam. This is largely a reflection of high northern Australian cattle prices, a strong A\$ and gradual COVID-19 recoveries.

In end markets, higher retail prices for Australian beef have softened demand as consumers are becoming more sensitive to protein prices. Cheaper alternatives such as Indian buffalo meat continue to compete with Australian products, offering a high protein red meat alternative that can be sourced in large volumes.

Figure 18: Indonesian monthly beef imports



Live exports

Australian live exports are forecast to fall 26% this calendar year to 750,000 head, before rebuilding in 2022 and 2023.

Record-high prices are partly behind the fall in export numbers, as current prices squeeze the margins of overseas importers. Another factor impacting live export numbers is the fall in cattle supply following years of destocking in northern Australia due to prolonged drought. The impact of COVID-19 on some South-East Asian economies has also dampened demand for live cattle in some markets.

While the number of cattle on boats is expected to fall in 2021, the average weight of each animal is expected to rise, especially following a wetter-than-usual summer for northern Australia. Given this, the total kilograms shipped should not decline by as significant a rate as total animals shipped.

These heavier animals require less time on feed and are slightly cheaper on a per kilogram basis, making them more attractive to exporters. Therefore, when dry season mustering begins, MLA expects to see more heavy animals shipped than previously. However, it is important to note that Indonesian regulation requires the average weight of cattle on any one consignment must not exceed 450kg.

It is expected that Vietnam will become more prominent in the cattle trade in the second half of 2021. However, it remains to be seen whether Vietnam is looking to source more cattle from low cost South American suppliers or Indian buffalo meat.

Going forward, Australia will face less competitive pressures in the breeder market, with the NZ Government committing to ban all live exports, including breeders, from 1 January 2023. At present, NZ export 110,000 breeders worth \$200 million per annum.

By 2023, live exports are tipped to increase 27% from 2020 levels, to 950,000 head a year on the back of increased supply, easing prices and the economic recovery of key trading partners post COVID-19.

Price

The Australian cattle market currently remains in a peak post-drought state – kept at record levels by highly constrained supply and intense restocker demand, assisted also by continued solid local and export demand (despite COVID-19).

Unlike other export-focused commodities, the high A\$ has no effect on the price producers are receiving through saleyards, as Australian cattle prices continue to break records in the first quarter of 2021. In mid-April, the EYCI rose above 900¢/kg for the first time ever, reaching 907.75¢/kg on 19 April. Most other national saleyard indicators also hit new records during the first three months of the year, with the exception of the Medium Cow Indicator and the Heavy Steer Indicator.

The driving factor behind these record prices is smaller yardings. A number of key cattle producing regions, especially Queensland, received much needed rain across summer and early autumn. As a result, producers are choosing to retain more cattle and take advantage of improved seasonal conditions to rebuild their herds. This has reduced the available pool of cattle being transacted through saleyards and caused rather volatile price movements.

The reduction in saleyard throughput has coincided with a period of increased demand. Many producers who destocked during the recent drought are looking to restock on the back of the wetter summer. These restockers are fiercely competing with lot feeders and processors to source cattle from a limited pool, applying upward pressure to already high prices.

The competition between lot feeders and restockers is evident when looking at the breakdown of who is buying young cattle. In the first three months of 2021, restockers and feeders have purchased the majority of young cattle, buying 50% and 40%, respectively, with processors picking up the remaining 10%.

OTH prices have also reached record highs in early 2021, as processors have experienced difficulty sourcing cattle. As a result, processors have had to pay a high price to source the cattle needed to fill their supply contracts.

Another consequence of high prices is heavier cattle right along the supply chain. Producers, backgrounders and lot feeders are all feeding cattle to heavier weights in order to capitalise on the high prices. If prices ease, it is likely that cattle weights across the supply chain will also fall.

In WA, the Western Young Cattle Indicator (WYCI) has outperformed the EYCI in 2021, holding a 46¢ premium on the date of writing. Feeder activity and east coast restockers have been driving this high price, needing to source cattle from the west. Recent rainfall across WA has boosted soil moisture in key agricultural areas, and a favourable winter outlook could see prices remain high, especially if local restockers enter the market after several dry years.

From a weather perspective, the BOM three-month rainfall outlook forecasts a drier-than-average winter for much of the eastern states. If this outlook eventuates, restocker activity may slow. However, with abundant pastures widely available and understocked paddocks heading into cooler months, any impact on restocker confidence is likely to be limited.

Situation and outlook for the Australian cattle industry

	2016	2017	2018	2019	2020	2021 ^e	2021 ^f on 2020 ^e	2022 ^f	2023 ^f	% change 2023 ^f on 2021
Cattle numbers ('000 head)*										
cattle	26,845	27,965	28,052	26,187	24,621	25,916		27,146	27,963	8%
percentage change	-2.0%	4.2%	0.3%	-6.6%	-6.0%	5%		4.7%	3.0%	
Slaughtering ('000 head)										
cattle	7,288	7,158	7,873	8,482	7,171	6,400	-11%	6,800	7,350	15%
calves	542	413	468	565	415	375	-10%	422	440	17%
total	7,830	7,571	8,341	9,047	7,586	6,775	-11%	7,222	7,790	15%
Average carcase weight (kg)										
cattle	288.2	297.6	290.8	283.6	294.8	301.3	2%	301.4	297.0	-1%
calves	53.9	45.7	41.3	43.0	48.7	50.9	5%	49.5	51.0	0%
Production ('000 tonnes carcase weight)										
beef	2,100	2,130	2,289	2,405	2,111	1,928	-9%	2,049	2,183	13%
veal	29.2	18.9	19.3	24.3	20.2	19.1	-5%	20.9	22.4	17%
total beef and veal	2,130	2,149	2,309	2,430	2,131	1,947	-9%	2,070	2,205	13%
Cattle exports ('000 head)										
cattle	1,142	867	1,126	1,304	1,010	750	-26%	840	950	27%
Beef exports** ('000 tonnes)										
total, carcase weight	1,497	1,492	1,655	1,807	1,528	1,349	-12%	1,480	1,580	17%
total, shipped weight	1,018	1,015	1,126	1,229	1,039	918	-12%	1,007	1,075	17%
Domestic utilisation ('000 tonnes carcase weight)***										
total, carcase weight	614	643	639	616	586	582	-1%	580	610	5%
kg/head****	25.2	26.0	25.6	24.3	22.8	22.3	-2%	21.9	22.6	1%

Source: ABS, DAWR, MLA forecasts

* From 2016 is an MLA estimate based on ABS Data - figures as of 30th June

** excl. canned/misc, shipped weight

*** Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcase weight

**** Domestic meat consumption is measured by removing the portion of exports (DAWR data) from total production (ABS data) and assuming the difference is consumed (or at least disappears) domestically. Imports are also added to domestic consumption when present. Per capita consumption is calculated by dividing domestic consumption by ABS population data. Please note that domestic per capita consumption is entirely a supply statistic and does not take account of waste or non-food uses of livestock meat products.

f = forecast

e = estimate

Australian beef producers tested by the severity of the 2019 drought: *agri benchmark*

In 2019, faced with some of the most severe drought and flood conditions ever experienced, Australian cattle producers showed typical resourcefulness – remarkably remaining profitable and efficient. This is the assessment of *agri benchmark*, a farm productivity-focused global network, in its 2019 Australian report commissioned by Meat & Livestock Australia (MLA).

Globally, beef cattle farms generally remained profitable in 2019, as cattle prices remained high (despite COVID) and costs stable-to-lower. However, profits were commonly lower than in 2018, due in large part to the prevalence of severe drought across a number of continents, including Australia.

The eight Australian *agri benchmark* typical farms adapted to these exceptionally challenging conditions in a variety of ways – culling extra stock, including cows, weaning calves early and buying feed to maintain the condition of slaughter animals – to maximise returns from the strong cattle market.

The full 2020 *agri benchmark* report entitled *How are global and Australian beef producers performing?* can be found on the MLA website at: www.mla.com.au/prices-markets/Trends-analysis/agribenchmark/



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