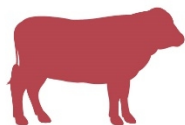


Beef and veal

Tim Whitnall

↓3%
to 430 Ac/kg^a
in 2019–20



^a Australian weighted average saleyard price of beef cattle.

Beef and veal

Australian cattle prices to fall due to higher global production and export market competition.

Saleyard prices to fall due to high global supplies

The weighted average saleyard price for cattle is projected to fall over the medium term. A build-up of the cattle herd and rising slaughter rates in the United States mean that the world beef supply is expected to increase for several years. This will intensify competition in export markets and affect Australian saleyard cattle prices.

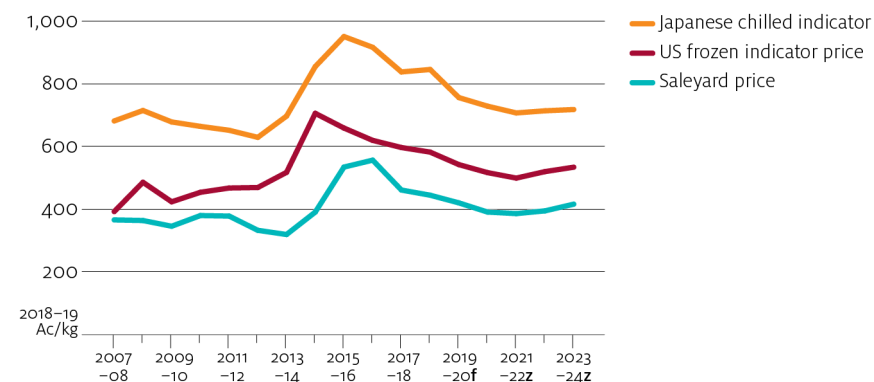
Herd rebuilding to occur over the outlook period

Drought conditions across much of New South Wales and Queensland in 2018 led to increased turn-off of cattle and halted herd rebuilding efforts. Assuming seasonal conditions improve in 2019, herd rebuilding is expected to resume. Saleyard prices for young cattle are relatively low compared with finished cattle, and restocker purchases of breeding stock were at above average levels in the last 6 months of 2018. This indicates that producers with available pasture or feed are preparing for post-drought herd expansion by taking advantage of the favourable margin between young and finished cattle.

Over the medium term, herd rebuilding is expected to continue. Saleyard prices are expected to remain relatively high in historical

terms despite falling from recent highs. This will encourage herd rebuilding, assuming seasonal conditions are conducive.

Weighted average saleyard price and export indicators, 2007–08 to 2023–24



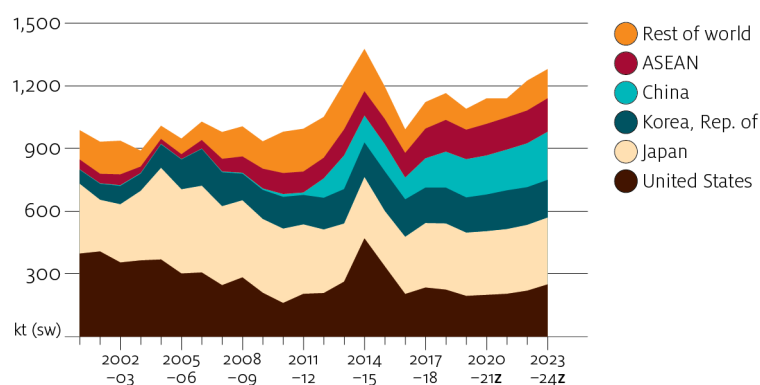
^f ABARES forecast. ^z ABARES projection.

Sources: ABARES; Australian Bureau of Statistics; Meat and Livestock Australia

Australian beef exports to rise

An expansion of the domestic herd is projected to drive increased beef production over the medium term. This will flow through to a higher quantity of Australian beef exports. However, changes in global demand are expected to cause exports to Australia's less established beef markets, such as China and the ASEAN region, to grow faster than exports to traditional markets.

Beef exports, by destination, 2000–01 to 2023–24



z ABARES projection.

Sources: ABARES; Australian Bureau of Statistics

Demand for beef imports is expected to fall in some of Australia's major markets over the medium term. High domestic supplies in the United States will limit US demand for lean beef imports in the short term, but this is expected to rise later in the projection period. In Japan, slowing population and economic growth are expected to limit import demand growth for Australian beef.

Demand growth is expected to be strong in China over the outlook period. Rising incomes have enabled people to consume more meat. Over the medium term, this trend is expected to continue because [economic growth is assumed to remain high](#), albeit at a slower pace.

Opportunities and challenges

Scenarios exist where the herd continues to decline

Domestic herd expansion is highly dependent on seasonal conditions because of Australia's pasture-based grazing system. Prices are projected to provide incentives for producers to expand herds, but

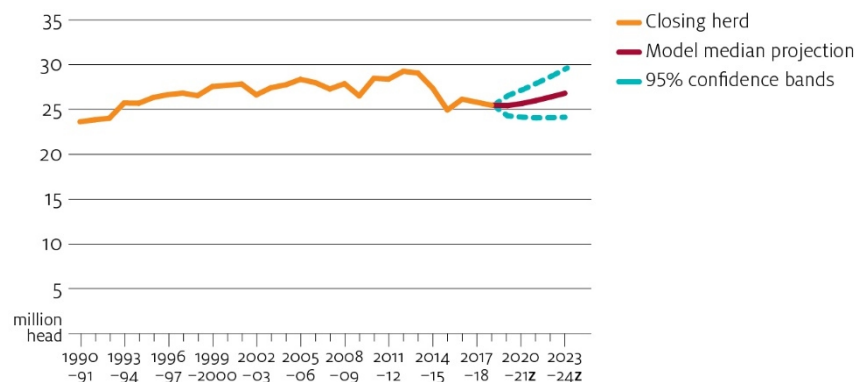
another season of adverse conditions would cause herd contraction to continue. Low supplies of feed grains would limit the ability of producers to manage poor pasture growth and cause slaughter rates to remain high.

ABARES projections assume average seasonal conditions will be realised. However, because of the inherent uncertainty surrounding seasonal conditions, a probability simulation of possible herd closing sizes has been used to illustrate the range of potential outcomes.

Based on observations of the drivers of herd population growth over the past 30 years, there is a 95% probability that in 2023–24 the herd will be between 24.2 million head and 30 million head. This corresponds to a range between 6% lower and 15% higher than the 2017–18 estimated herd size of 25.8 million head. These results assume population drivers continue to remain within the bounds of historical observations. These drivers include slaughter, death, mating, branding and calf promotion rates.

Scenarios in which herd expansion is not achieved in simulations typically result from periods of above average slaughter rates and below average mating rates. These outcomes would typically occur in periods of poor seasonal conditions or low prices for finished cattle.

Actual and modelled closing herd size, Australia, 1990–91 to 2023–24



z ABARES projection.

Notes: Based on 10,000 simulations of population drivers. 95% confidence bands show herd levels that 95% of simulations fall between.

Source: ABARES

Increasing South American competition in China

Increasing demand for imported beef in China over the decade to 2017–18 has caused the Chinese Government to grant access to Australia's competitors, such as Argentina and Brazil. Competitors from South America produce beef at a lower cost than Australia because of lower processing costs. The Brazilian herd has undergone a significant expansion over the past 2 decades and the industry is expected to become more productive through initiatives such as crossbreeding of European breeds with the common Nellore cattle.

In contrast, in Australia's traditional export markets, such as Japan and Korea, Australia is one of only a few exporters that has market access. These markets put a premium on Australia's clean, disease-free status.

Over the projection period, China is expected to increase its imports of beef from Australia and other markets. However, we are expected to continue to lose market share to our competitors. As the proportion of Australia's exports to China increase, Australia's total exports will become more exposed to price pressures from low-cost producers.

Floods have affected the northern Queensland herd

Severe floods in late January and early February 2019 have adversely affected herds in north-western Queensland. As of 28 February 2019, the full impact of the floods is uncertain, but cattle losses are estimated in the hundreds of thousands. A loss of 300,000 cattle would be equivalent to around 1% of the national herd. Cattle losses are expected to have an adverse impact on both live export cattle from breeder enterprises and slaughter cattle from backgrounding enterprises.

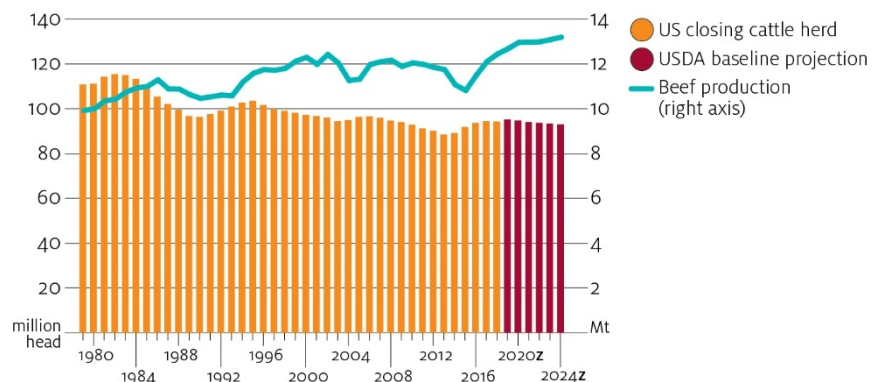
The widespread rainfall events that led to the flooding is expected to have a beneficial impact on vegetation growth in coming months, which will make the land in these areas more productive for grazing. Once farm and transport infrastructure is back in place businesses are expected to seek restocking opportunities from elsewhere in northern Australia where conditions have been less favourable for grazing.

US cattle cycle projected to peak

The US cattle cycle is nearing its peak following 5 years of herd accumulation. Expected falling steer prices and [relatively flat corn prices](#) over the next few years will reduce the profitability of raising cattle. This indicates that slaughter rates are likely to rise. As a result, beef supply in the United States is expected to be high for several years.

The US beef cattle herd exhibits distinct periods of accumulation followed by periods of liquidation. These cycles arise because of the time required for producers' responses to changing market conditions to be realised. Such lags are inherent to livestock operations.

Cattle herd, United States, 1979 to 2024

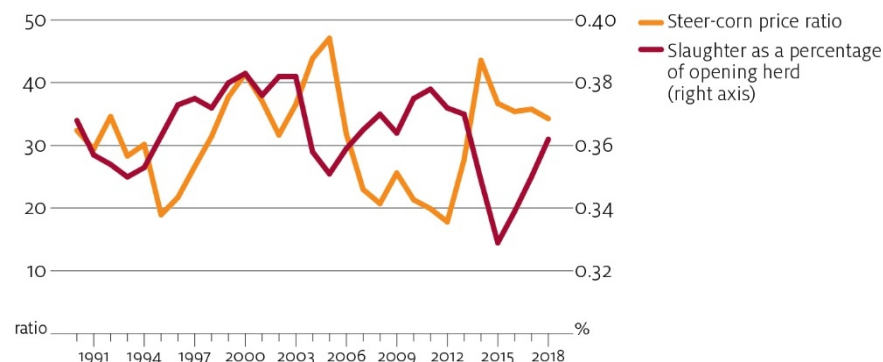


z USDA projection.

Sources: US Department of Agriculture

Each year US beef cattle producers make decisions about their stocking rates that will ultimately determine the national slaughter rate. These decisions are driven by the costs of raising cattle and prices received for finished cattle. Changes in these underlying drivers move the cattle cycle through three phases: an accumulation phase, a cycle peak and a liquidation phase. In comparison, these phases are much less pronounced in Australia because of its pasture-based grazing system. Australian producer decisions are typically affected more by seasonal conditions than feed grain prices. This makes producer decisions less cyclical.

Steer-corn price ratio and slaughter rates, United States, 1990 to 2018



Source: US Department of Agriculture

Accumulation phase

The profitability of raising cattle is relatively high because of high steer prices and/or low input costs. Slaughter rates are low as producers hold back breeding stock to expand their herds. The national herd expands each year because slaughter is low. Beef production increases each year as herd numbers rise.

Cycle peak

A reduction in profitability causes the cycle to peak. Typically, large supplies of cattle from years of accumulation cause steer prices to fall. However, upward shocks to grain prices can also trigger a cycle peak. Slaughter rates rise because the incentive to retain breeding stock is reduced. Beef production is very high because of the large number of cattle and high slaughter rates.

Liquidation phase

High slaughter rates continue for as long as profitability remains low. This causes the herd to contract each year. Beef production remains

high at the start of the liquidation phase but falls each year as a contracting herd yields less beef from the same slaughter rate.



Outlook for beef and veal

	unit	2016–17	2017–18 s	2018–19 f	2019–20 f	2020–21 z	2021–22 z	2022–23 z	2023–24 z
Saleyard price									
nominal	c/kg (cw)	535	452	445	430	410	415	435	470
real a	c/kg (cw)	557	461	445	421	391	386	395	416
Cattle numbers bc									
beef cattle	million	26.2	25.8	25.5	25.5	25.7	26.0	26.4	26.9
Slaughterings	'000	7,423	7,913	8,375	7,650	7,950	8,050	8,300	8,400
Production	kt (cw)	2,069	2,238	2,306	2,206	2,274	2,273	2,396	2,477
Consumption per person	kg (cw)	25.4	23.8	23.7	23.7	23.2	22.7	22.3	21.8
Export volume									
	kt (sw)	991	1,122	1,165	1,090	1,140	1,140	1,225	1,280
to China	kt (sw)	104	140	172	183	187	195	210	230
to Japan	kt (sw)	274	309	317	303	305	310	315	320
to Korea, Rep. of	kt (sw)	179	169	171	168	175	185	180	180
to United States	kt (sw)	204	235	225	195	200	205	220	250
Export value									
nominal	\$m	7,115	7,963	8,376	7,470	7,758	7,678	8,643	9,344
real a	\$m	7,404	8,130	8,376	7,306	7,403	7,147	7,849	8,279
Live feeder/slaughter cattle exports									
	'000	817	885	955	875	900	950	1,000	1,025
nominal	\$m	1,031	1,101	1,135	1,017	1,038	1,085	1,196	1,269
real a	\$m	1,073	1,124	1,135	994	991	1,010	1,086	1,124

a In 2018–19 Australian dollars. b At 30 June. c Includes dairy cattle. f ABARES forecast. s ABARES estimate. z ABARES projection.

Sources: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia