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Report Highlights:

Australia's beef production and exports are forecast to drop sharply in 2020 as the industry enters a period of herd rebuilding. Although significant rainfall in some key cattle areas in January and February were a positive sign for farmers, further precipitation will be key to determining the extent of rebuilding. FAS/Canberra forecasts Australia's beef exports to fall by 20 percent in 2020. Australia's pork production is forecast to remain largely the same in 2020, although higher expected swine numbers due to rising prices could result in a recovery in pork production later in the year.

Executive Summary:
Australia's beef production and exports are forecast to drop sharply in 2020 due to the impact of the multi-year drought in key production areas. This fall in production is expected because of two key factors. First, the lack of pasture and high feed prices as a result of the drought, coupled with strong export demand, resulted in very high cattle turnoff in 2019. This included a record number of cows slaughtered. This has reduced the overall herd size to the lowest in decades, reducing the availability of cattle in 2020. Secondly, herd rebuilding is expected to take place in 2020, and this will curtail the number sent to slaughter, especially of female cattle. The timing and extend of herd rebuilding, however, will be highly dependent on further rains boosting farmer's confidence in sufficient availability of feed for their cattle. Strong rains in some drought-hit areas in early 2020 were a positive sign for some producers, but further precipitation will be key.

Because of reduced slaughter and beef production, beef exports are also forecast to fall from last year's high level. However, due of strong international demand, grain-fed beef exports are forecast to take a larger percentage of total exports.

Australian pork production is overall forecast to remain steady in 2020, although a recovery is expected during the second half of the year. Despite still high feed costs, rapidly rising pork prices have benefited farmers' bottom line, and swine numbers have been recovering. This is expected to boost pork production in the latter half of 2020.

Conversion Rates:
As a result of continuous efforts to improve data reliability, the "New Post" trade forecasts in this report reflect new conversion rates. Historical data revisions (from 2005 onward) will be published on April 9th in the PSD database (http://www.fas.usda.gov/psdonline).

Beef and Veal Conversion Factors		
Code	Description	Conversion Rate*
020110	Bovine carcasses and half carcasses, fresh or chilled	1.0
020120	Bovine cuts bone in, fresh or chilled	1.0
020130	Bovine cuts boneless, fresh or chilled	1.36
020210	Bovine carcasses and half carcasses, frozen	1.0
020220	Bovine cuts bone in, frozen	1.0
020230	Bovine cuts boneless, frozen	1.36
021020	Bovine meat salted, dried or smoked	1.74
160250	Bovine meat, offal nes, not livers, prepared/preserve	1.79
* Exception		
Argentina - Exports of HS 160250 are excluded.		

Pork Conversion Factors		Conversion factor
HS Code	Description	(T to CWE)
020311	Carcasses/half-carcasses, fr/ch	1.00
020312	Bone-In hams, shoulders and cuts thereof, fr/ch	1.00
020319	Other pork cuts, fr/ch	1.30
020321	Carcasses/half-carcasses, frozen	1.00
020322	Bone-In hams, shoulders and cuts thereof, frozen	1.00
020329	Other pork cuts, frozen	1.30
021011	Bone-In hams, shoulders and cuts thereof, processed	1.10
021012	Bellies (streaky) and cuts thereof, processed	1.20
021019	Other meat of swine, processed	1.16
160241	Hams and cuts thereof, prep/pres	1.30
160242	Shoulders and cuts thereof, prep/pres	1.30
160249	Other meat of swine including mixtures, prep/pres	1.30

Technical Note

The definition of Carcass Weight Equivalent/Product Weight Equivalent remains the same. All quantities (beef and pork) noted are in Carcass Weight Equivalent (CWE) unless otherwise noted as Product Weight Equivalent (PWE). CWE is the weight of an animal after slaughter and removal of internal organs, head, and skin. PWE is the actual weight of the meat product exported.

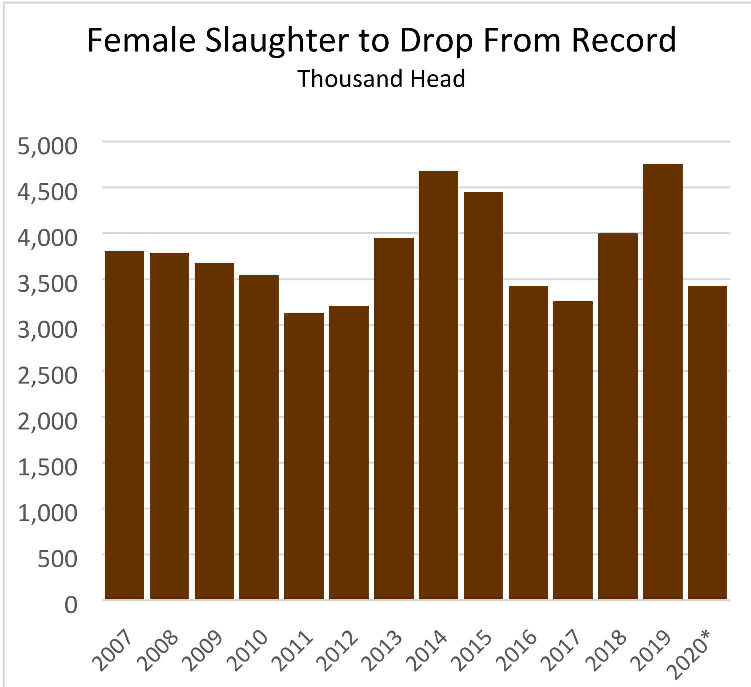
Cattle

Production

2020

Australia's cattle numbers have already reached the lowest level in more than three decades, and cattle inventories are forecast to continue to decline in 2020, albeit at a much slower rate due to expected herd rebuilding. Although cattle turnoff and slaughter were extremely high in 2019 and even in the beginning months of 2020, assuming more normal rainfall patterns farmers are expected to hold back cattle and try to rebuild their herds. Plentiful rainfall in January and February in some areas (after years of dryness), has already boosted some farmer confidence and caused a sharp rise in cattle prices. However, because of the severity of the drought, more rain is likely to be needed before many farmers will have confidence in having sufficient feed to start to restock. As a result, there is expected to be a strong correlation in coming months between rainfall and the extent of the fall in the number of cattle sent to slaughter.

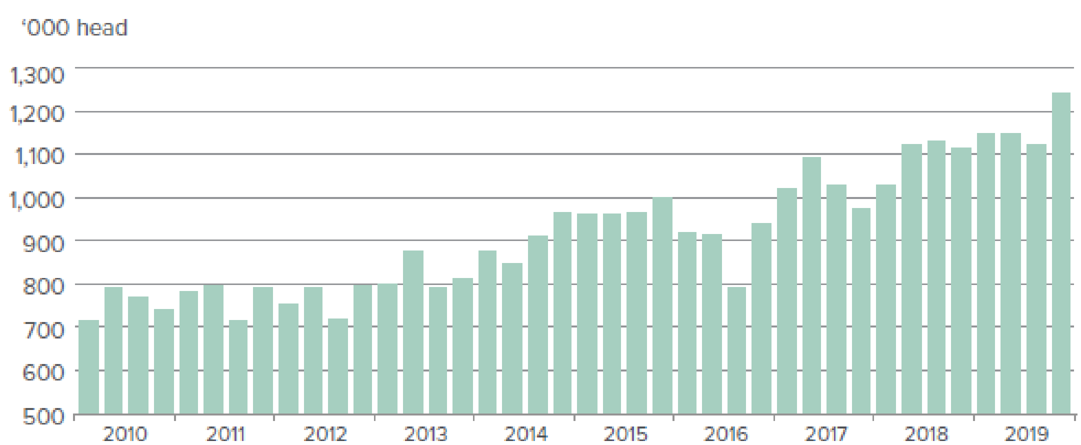
With expectations for at least some herd rebuilding to take place, FAS/Canberra forecasts 2020 cattle slaughter to fall 16 percent to 7.625 million head, from 9.047 million in 2019. The vast majority of this decline is expected to be female slaughter, which is forecast to decline 28 percent in 2020 from the record level of 2019.



Source: PSD Online *FAS/Canberra Forecast

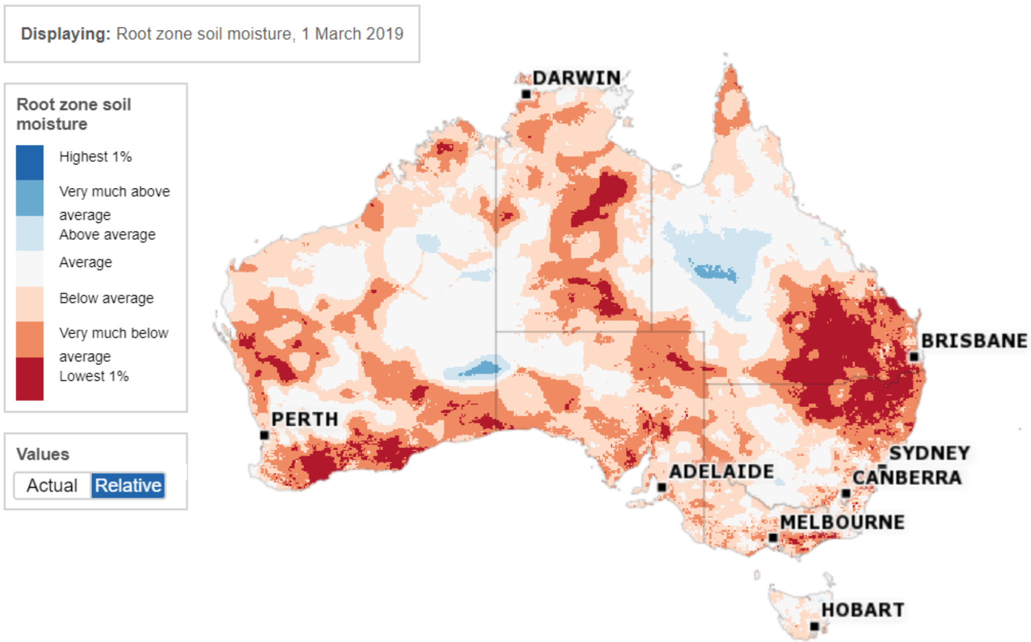
Slaughter rates for early 2020 are expected to remain high, especially as cattle on feed reached record levels of 1.24 million during the 4th quarter of 2019. However, slaughter rates are expected to fall as the year progresses. Higher cattle on feed numbers have been driven both by demand factors (strong export demand for grain-fed beef), as well as supply factors (farmers selling due to lack of on-farm feed). Although export demand will remain strong, if rains continue and pastures improve the desire for restocking and greater on-farm feed will likely begin to reduce cattle on feed numbers.

Figure 1: Cattle on feed

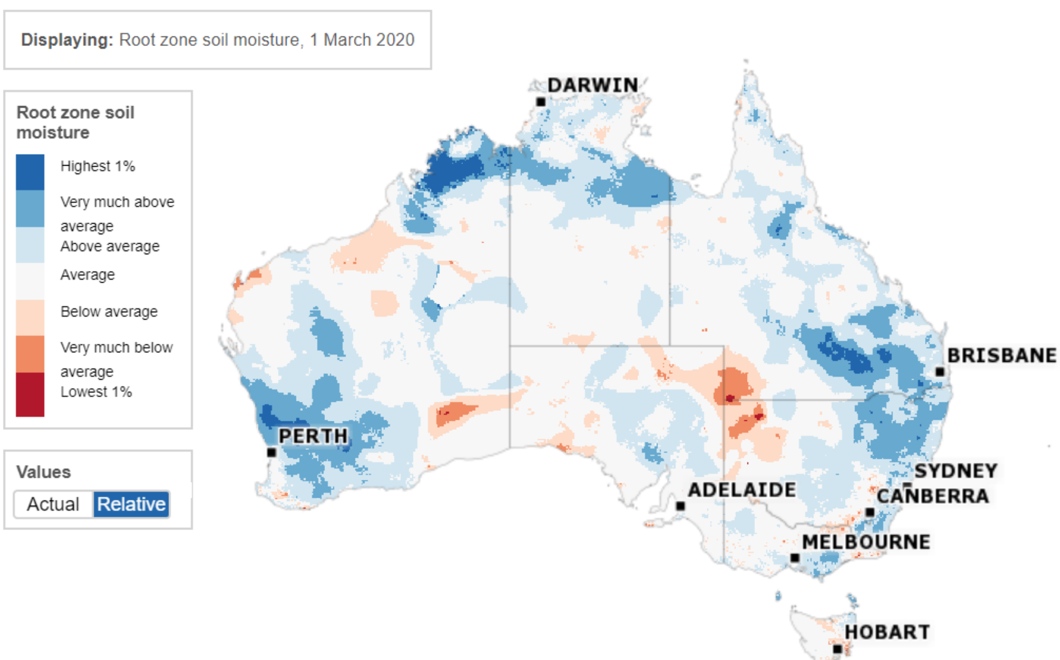


Source: MLA/ALFA

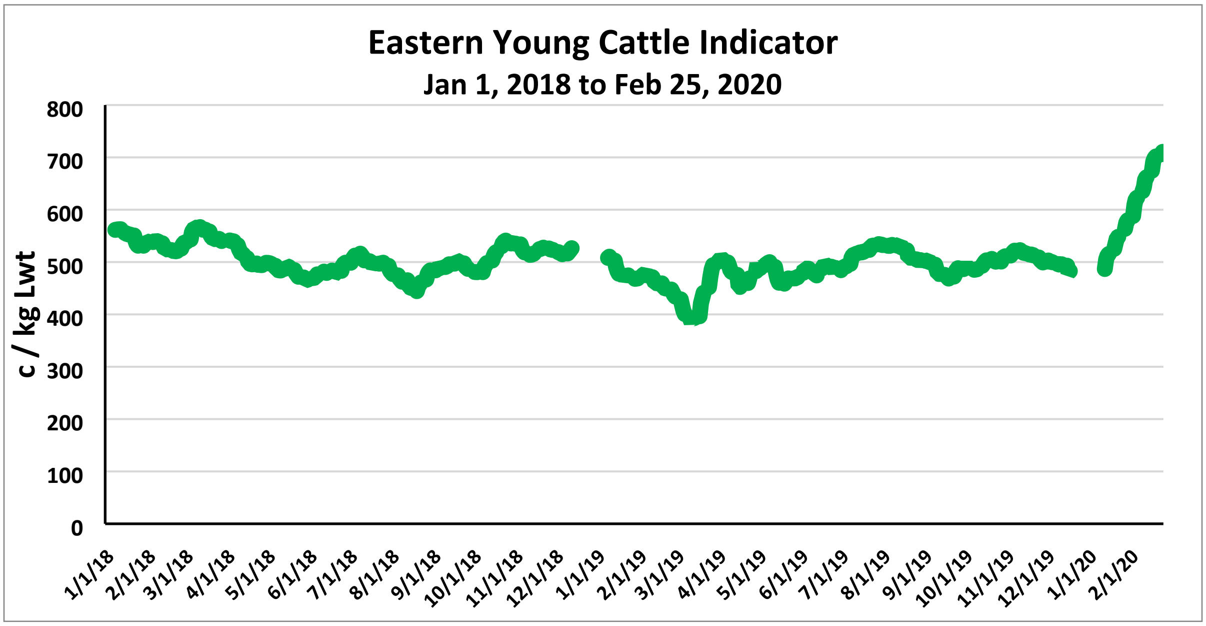
Strong rains in January and February in key drought areas have been a promising sign for farmers with much higher soil moisture than this time last year (see maps below). This rain gave increased confidence to some farmers for restocking and resulted in a sharp increase in cattle prices.



Source: Bureau of Meteorology



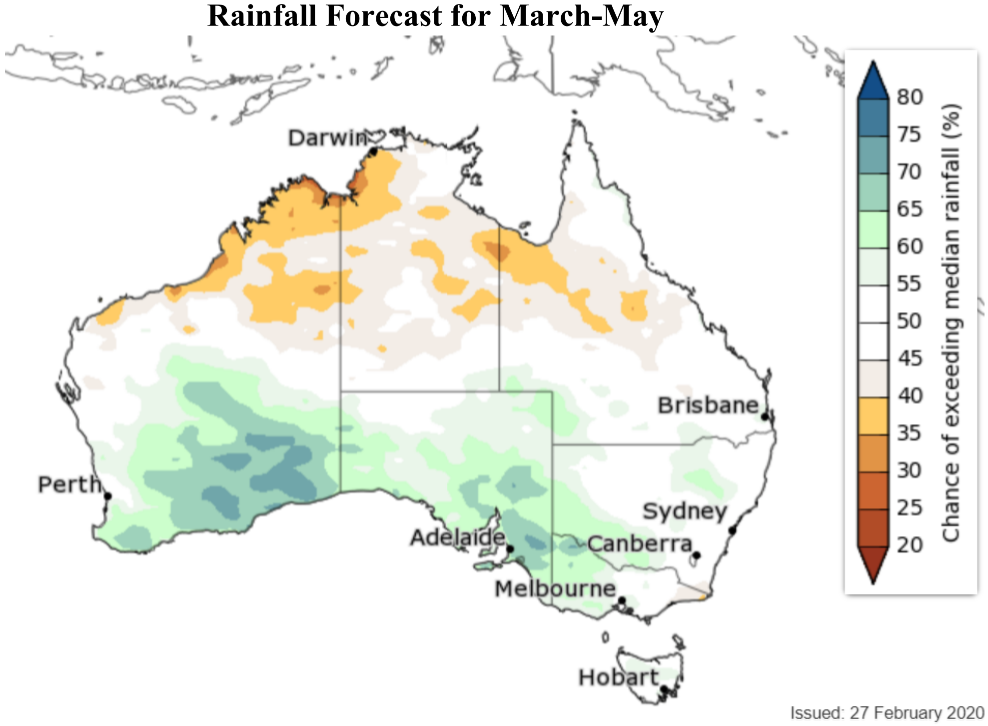
Source: Bureau of Meteorology



Source: MLA

The January and February rains have been welcome but, as mentioned, the extent of herd rebuilding in 2020 will largely be determined by rains in coming months and pasture growth. The Bureau of Meteorology's March-May outlook is fairy neutral in terms of rain in much of the key cattle producing areas, although this is an improvement from last year where much of the forecast was for dryness because of the impact of the Indian Ocean Dipole.

Rainfall Forecast for March-May



Source: Bureau of Meteorology

Recent bushfires in Australia caused widespread damage but did not have a large impact on cattle production areas and are expected to only have very minimal effect on cattle numbers.

Even with rains, the herd rebuilding process is expected to take a number of years as a result of the reduction in breeding stock. Also, many breeding cattle are likely to be in poorer than normal condition, which could also slow the rebuilding efforts.

2019
Final cattle slaughter in 2019 reached 9.047 million head, the highest level since 2015.

<u>Trade</u>
2020
FAS/Canberra forecasts live cattle exports to fall in 2020 to 900,000 head, from a record of 1.4 million in 2019, as a result of reduced cattle numbers. Also, higher Australian cattle prices are reportedly reducing import demand in markets such as Indonesia. The vast majority of live cattle are shipped out of ports in North Australia (Darwin and Townsville).

Indonesia is traditionally the largest market for Australian live cattle. Indonesia on February 6, 2020 ratified the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), and this followed ratification by Australia in mid-December. This trade agreement eliminates the five percent tariff on live male feeder cattle and live female breeder cattle. It also guarantees access for 575,000 live male feeder cattle each year, rising to 700,000 in year six of the agreement.

2019
Live cattle exports reached a record of 1.4 million head in 2019. Indonesia remained the largest market, accounting for nearly half of shipments, followed by Vietnam, both of which import primarily feeder cattle. China was the third largest market, with exports of primarily breeding cattle there doubling in number in the past two years.

Animal Numbers, Cattle	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	26176	26176	25734	25734	23934	23690
Dairy Cows Beg. Stocks	1561	1561	1475	1475	1450	1450
Beef Cows Beg. Stocks	11250	11250	11000	11000	10400	10300
Production (Calf Crop)	9100	9100	8700	8700	8300	8300
Total Imports	0	0	0	0	0	0
Total Supply	35276	35276	34434	34434	32234	31990
Total Exports	1151	1151	1300	1397	900	900
Cow Slaughter	3998	3998	4600	4753	3425	3425
Calf Slaughter	468	468	550	565	500	500
Other Slaughter	3875	3875	3750	3729	3700	3700
Total Slaughter	8341	8341	8900	9047	7625	7625
Loss and Residual	50	50	300	300	100	100
Ending Inventories	25734	25734	23934	23690	23609	23365
Total Distribution	35276	35276	34434	34434	32234	31990
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Beef

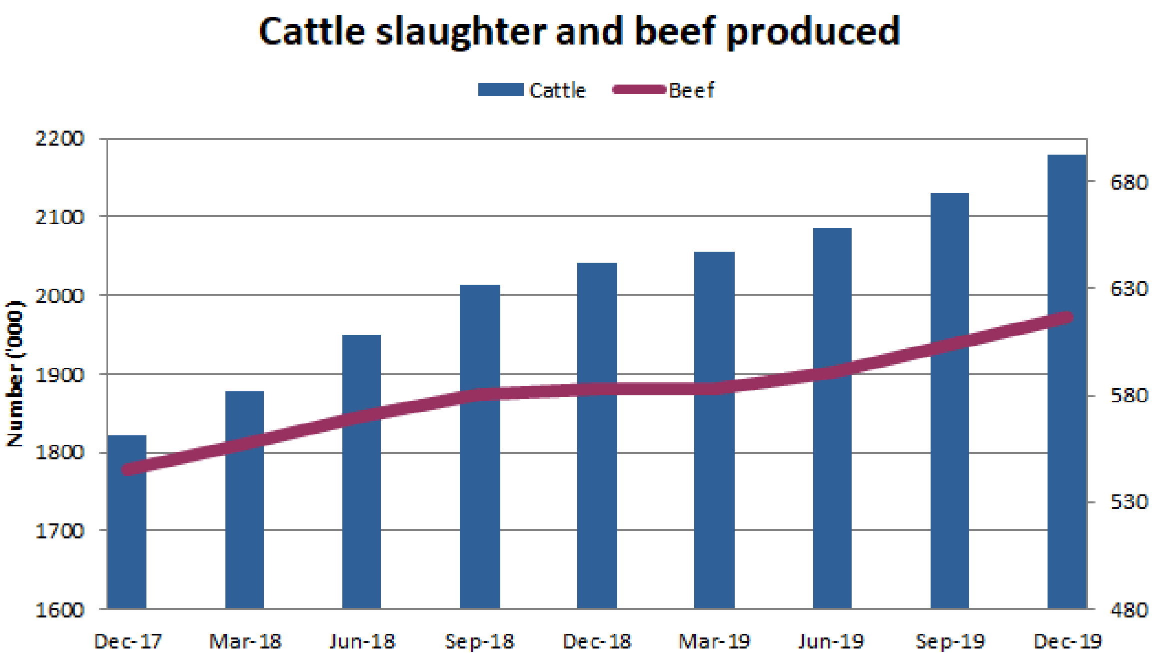
Production

2020

FAS/Canberra forecasts Australia's beef production to fall 14 percent in 2020, to 2.085 million tons (CWE). This decline is because of reduced slaughter as the industry is expected to enter a period of stock rebuilding. The fall in beef production is expected to be less than the fall in slaughtering as a result of higher carcass weights due to a combination of anticipated better feed availability as well as reduced female slaughter. As mentioned, beef production is expected to continue to be high in early 2020 (as evidenced by record feedlot numbers at the end of 2019), but expected to fall throughout the year, with the severity of the fall likely determined by rainfall patterns in coming months. Due to continued strong demand from key export markets such as China, competition between beef processors in Australia for reduced cattle will intensify.

2019

Beef production in Australia in 2019 reached 2.432 million tons (CWE), the highest since 2015, and beef production levels continued to increase throughout the year (see chart below).



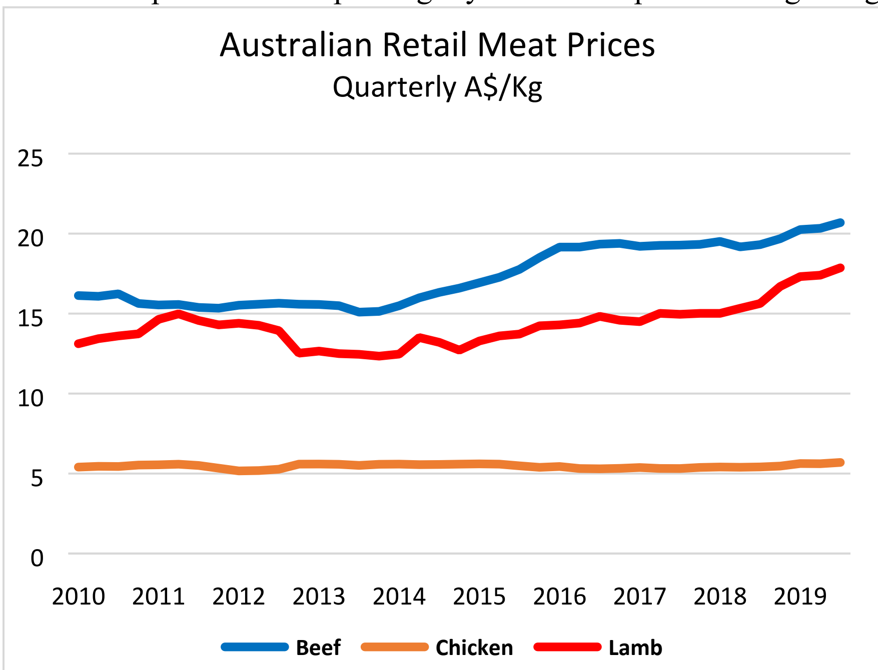
Source: Australia Bureau of Statistics

Consumption

As a result of expectations for continued strong retail beef prices, FAS/Canberra forecasts beef consumption in Australia to continue to decline slightly in 2020. This follows a long-term trend of falling beef and lamb consumption in Australia and rising consumption of chicken.

In 2019 beef consumption is also estimated to have fallen, as retail beef prices in Australia increased by 6 percent in 2019, compared to 12 percent for lamb and 4 percent from chicken. In the last decade chicken prices have largely remained stable while beef prices have continued to rise. As the majority of beef and lamb in Australia is exported, strong global prices have also impacted the domestic market and supported prices. Although total beef retail volume fell in 2019, because of the higher prices overall value of sales actually increased.

In Australia there also continues to be a trend in where beef is purchased, with supermarkets taking a larger share at the expense of local butchers. Some industry surveys show the butcher share falling from nearly 30 percent to about 21 percent in the past eight years with supermarkets gaining the same amount.



Source: Meat and Livestock Australia

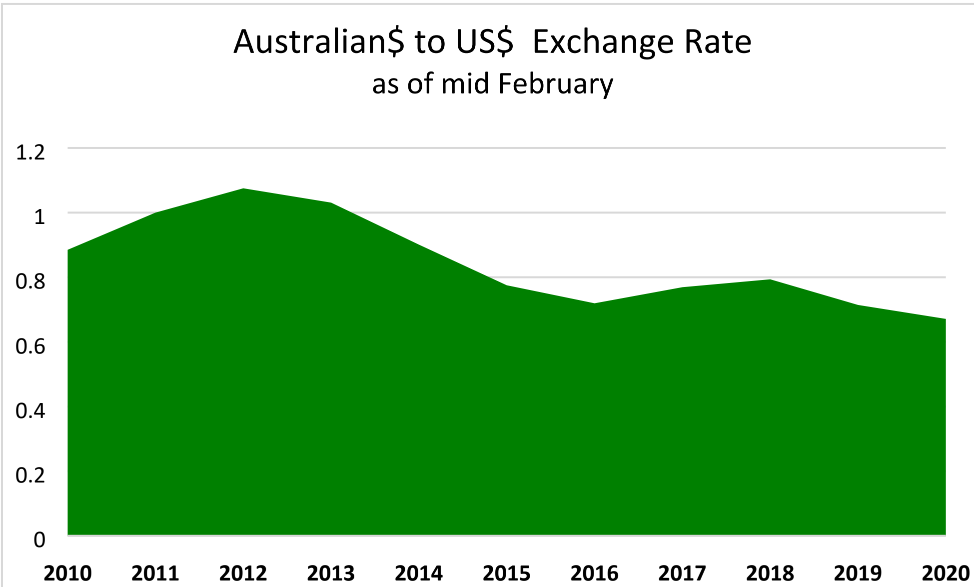
Trade

2020

Exports typically account for nearly two-thirds of Australia's beef production, and as a result the anticipated fall in production will result in a substantial tightening of exports. Total beef exports are forecast to fall 20 percent from 2019, to 1.4 million tons (CWE). Early season exports will likely remain strong (with January exports reportedly up 17 percent year to year), due to high beef production in late 2019 and into early 2020, but this is expected to wane as the year progresses, although again this will likely depend on rainfall and how much herd rebuilding occurs in coming months. Exports to China are also expected to remain strong due to robust demand there as a result of the impacts of African Swine Fever on domestic animal protein availability. Reports are that trade has temporarily slowed, however, because of the virus outbreak there.

Although demand remains, Australian exports are expected to face strong competition in Asian markets from the United States, as well as suppliers such as Brazil, which has been expanding trade to the region. However, Australian exports are likely to continue to benefit from a continued weaker Australian dollar (see chart below).

Because of strong grain-fed beef demand, industry expects a greater proportion of total beef exports to be grain-fed. Japan, China, and South Korea are largest markets for Australian grain-fed beef.



2019

Australia’s beef exports reached 1.745 million tons (CWE) in 2019, just slightly below the record levels of 2014 and 2015. Japan remained the largest market, followed by the United States, South Korea, China, and Indonesia. Shipments to China saw the most dramatic increase, nearly doubling from 2018. It is estimated that about a quarter of beef exports to China are grain-fed.

As part of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), tariffs on frozen bone-in beef cuts are reduced to 2.5 percent and will be eliminated by 2023. Tariffs on all other frozen beef will be eliminated this year.

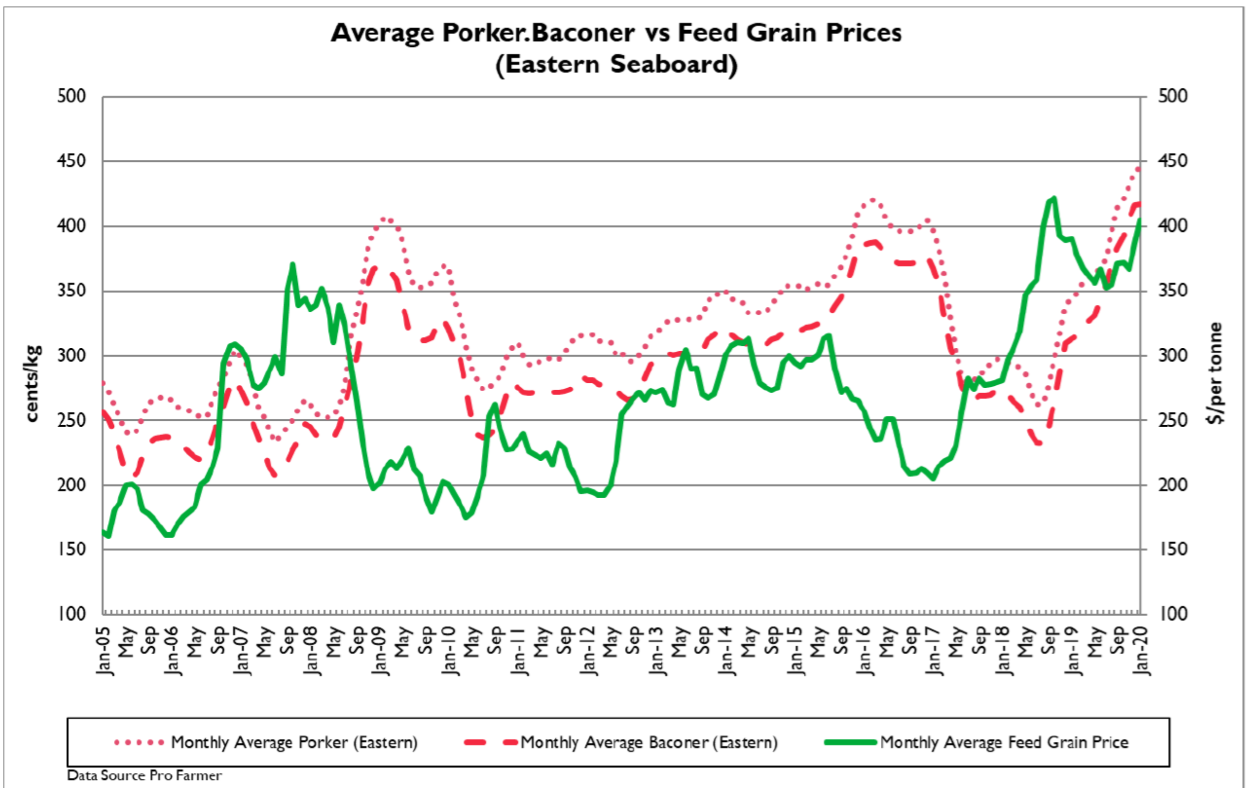
Meat, Beef and Veal	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	8341	8341	8900	9047	7625	7625
Beginning Stocks	0	0	0	0	0	0
Production	2306	2306	2450	2432	2085	2085
Total Imports	12	14	12	15	12	14
Total Supply	2318	2320	2462	2447	2097	2099
Total Exports	1662	1582	1825	1745	1470	1400
Human Dom. Consumption	656	738	637	702	627	699
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	656	738	637	702	627	699
Ending Stocks	0	0	0	0	0	0
Total Distribution	2318	2320	2462	2447	2097	2099
(1000 HEAD) ,(1000 MT CWE)						

Note: Please see explanation of conversion rate change for exports and imports earlier in this report

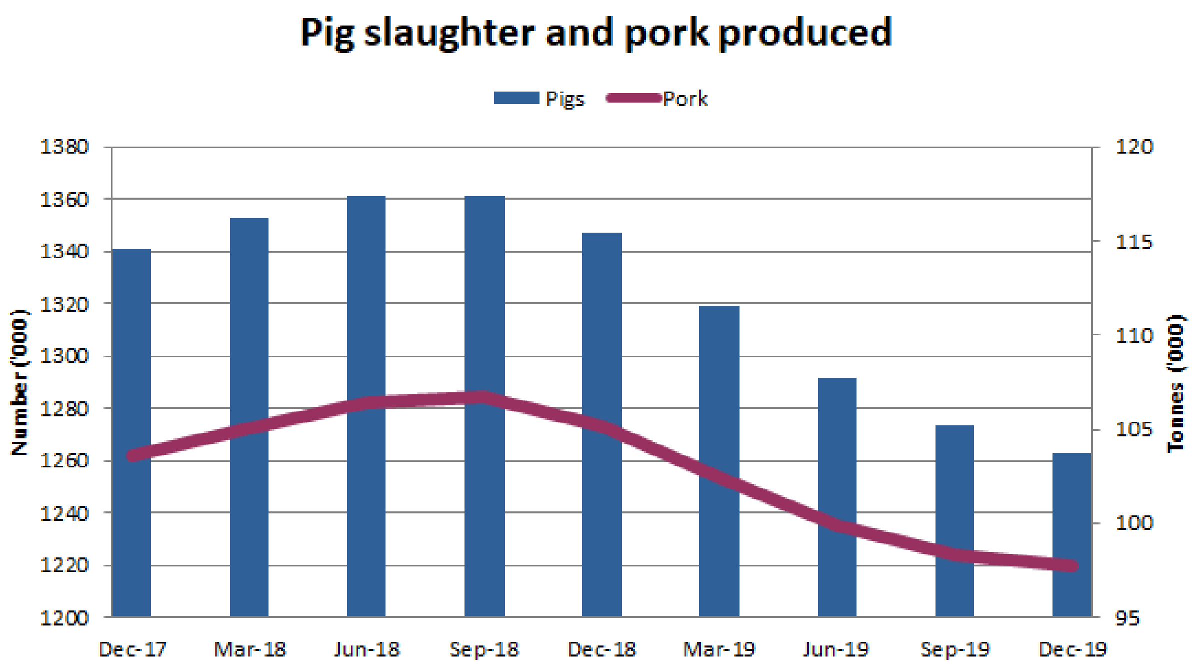
Pork

Production

2020
FAS/Canberra forecasts Australian pork production to be 400,000 tons (CWE), nearly the same as last year's level. The combination of low pork prices and high feed prices last year resulted in a decline in swine numbers and a concomitant decline in pork production. However, although feed prices have remained elevated, there has been a strong rise in swine and pork prices (See chart below). For example, farmgate prices have risen from $2.50/kg a year ago to $4/kg, in part due to rising global prices in light of the African Swine Fever outbreak in China and increased import demand there. This has resulted in a return to profitability for many farmers and as a result, farmers have been rebuilding herds. The increase in swine numbers is expected to lead to a recovery in pork production later in 2020.



2019
Australian pork production in 2019 fell to 398,000 tons (CWE) as high input costs and low swine and pork prices in much of the previous year caused a reduction in animal numbers. This then resulted in lower pork production in 2019, with production falling throughout the year. There are expectations, however, that production has hit a bottom and has started to recover due to rising pork prices and better returns for farmers.



Source: Australia Bureau of Statistics

Consumption

Pork accounts for 10 percent of the value of retail fresh meat. There has been long-term growth in pork consumption in Australia, but pork prices in 2019 rose faster than chicken, likely impacting consumption. However, pork prices did not rise to the extent of beef and lamb.

Trade

2020

FAS/Canberra forecasts Australian pork imports to decline from the record level of 2019, but still remain at a high level at 240,000 tons (CWE). The major reason for this decline is that importers have built up large inventory, and this is expected to reduce import needs in 2020.

The fresh pork market is supplied by local producers as biosecurity regulations prevent imports of fresh and chilled pork. Processed pork, which includes ham, bacon and small goods, is mainly supplied from processed frozen pork imports.

Pork exports are expected to remain largely steady in 2020 at 35,000 tons (CWE).

2019

Australia's pork imports reached a record 269,000 tons (CWE) in 2019. The United States was the largest supplier, followed by Denmark and the Netherlands.

Because of lower pork production, exports fell to 33,000 tons (CWE) in 2019, from 41,000 the previous year. Singapore remained the largest market accounting for about one-third of exports, followed by Papua New guinea and New Zealand.

Meat, Swine	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	5423	5423	5150	5150	5250	5250
Beginning Stocks	0	0	0	0	0	0
Production	424	424	400	398	410	400
Total Imports	216	216	260	269	240	240
Total Supply	640	640	660	667	650	640
Total Exports	47	41	40	33	42	35
Human Dom. Consumption	593	599	620	634	608	605
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	593	599	620	634	608	605
Ending Stocks	0	0	0	0	0	0
Total Distribution	640	640	660	667	650	640
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Attachments:

No Attachments