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Report Highlights:

The Australian beef industry has entered into a phase of major herd rebuilding after being decimated by the severe impacts of a two-year drought in 2018 and 2019 across much of the beef producing region. This rebuild is expected to be in full force in 2021. Widespread rains in Australia since the start of 2020, and forecasts for above-average rainfall in coming months, have triggered strong re-stocker demand and raised cattle prices in Australia to record levels. Because of this situation, FAS/Canberra forecasts lower cattle slaughter, cattle exports, beef production, and beef exports in 2021.

Executive Summary

The Australia beef industry is entering a phase of dramatic herd rebuilding, which is expected to be in full force during the second half of 2020, continuing into 2021 and beyond. This follows the severe impacts of a two-year drought in 2018 and 2019 across much of the beef producing region in Australia which resulted in cattle producers reducing stocking rates or destocking their properties. Early 2020, however, saw the beginning of much needed widespread rains in key cattle producing areas, helping pastures recover. These rains, and forecasts for above-average rainfall in the September to November 2020 period, have given producers confidence and triggered strong re-stocker demand and raised cattle prices in Australia to record levels.

Because of this herd rebuilding, FAS/Canberra forecasts lower cattle slaughter, cattle exports, beef production, and beef exports again in 2021, although these declines will be much smaller than the drop in 2020. Cattle slaughter is expected to fall as a result of lower cow slaughter as more females will be retained for breeding. Even with expected higher carcass weights, reduced slaughter is forecast to lower beef production by 35,000 metric tons (MT) carcass weight equivalent (CWE) in 2021 to 2.05 million MT (CWE), down 2 percent from 2020 and the lowest level since 2003. This is expected to lead to another year of smaller Australian exports in 2021, down four percent from 2020 to 1.375 MMT (CWE).

FAS/Canberra forecasts Australia's pork production to remain steady in 2021 at 410,000 MT (CWE). Although feed costs have fallen considerably as a result of the end of the drought and positive prospects for the next grain harvest, this has been partially offset by falling pig prices due to the impact of COVID-19 on demand.

CATTLE

Production

2021

FAS/Canberra forecasts cattle slaughter in 2021 to decline to 7.4 million head, from an estimated 7.625 million head in 2020, as herd rebuilding is expected to continue throughout 2021 and beyond. If realized, this slaughter number will be the lowest in 36 years. The key reason for the decline is a sharp decrease in expected female slaughter due to herd restocking. Cow slaughter is forecast at 3.15 million head in 2021, down 12 percent from 2020 and 34 percent below 2019.

Rains in early 2020 helped break the two-year drought in some of the hardest hit cattle producing regions in eastern Australia. This resulted in a stark recovery in pastures, which is particularly evident in the most drought affected state of New South Wales – the second largest cattle producing state in Australia (see figure 1). Better rains and pastures have also improved the situation in other key beef producing states.

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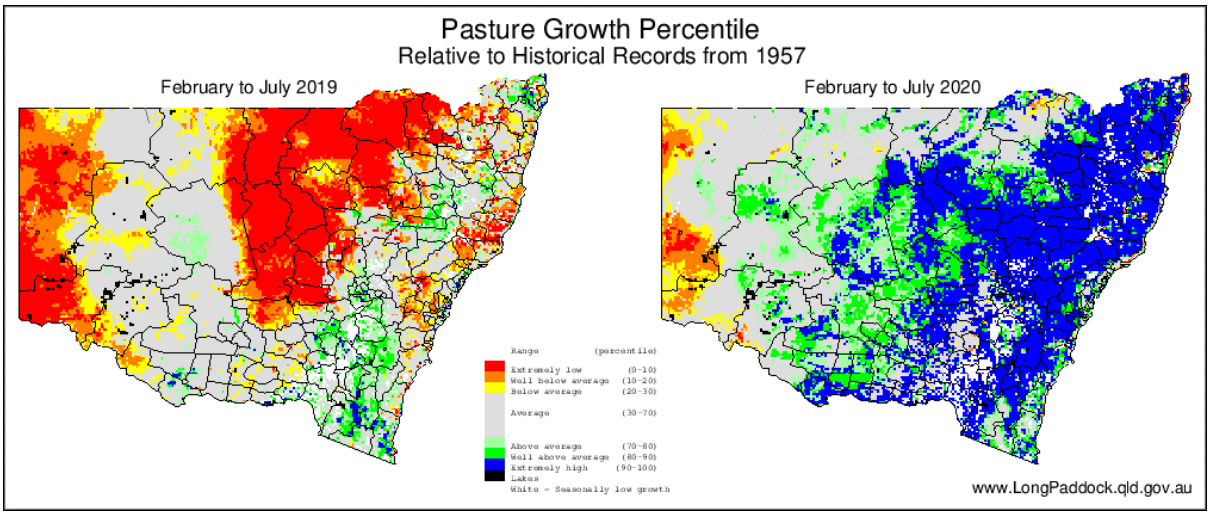
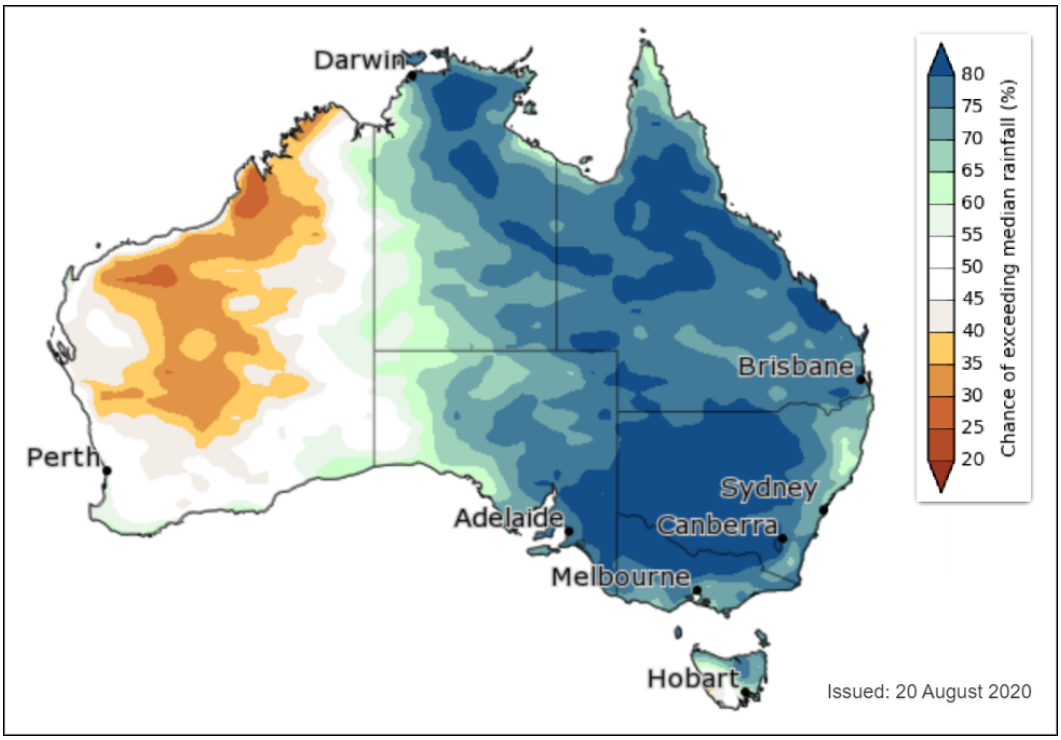
Figure 1 – New South Wales Pasture Growth Change February to July, 2019 v 2020



Source: www.LongPaddock.qld.gov.au

This positive feed outlook is expected to continue as the Australian Bureau of Meteorology forecasts well-above-average rainfall for the September to November period (see figure 2) across the eastern and central states, where the majority of cattle are produced.

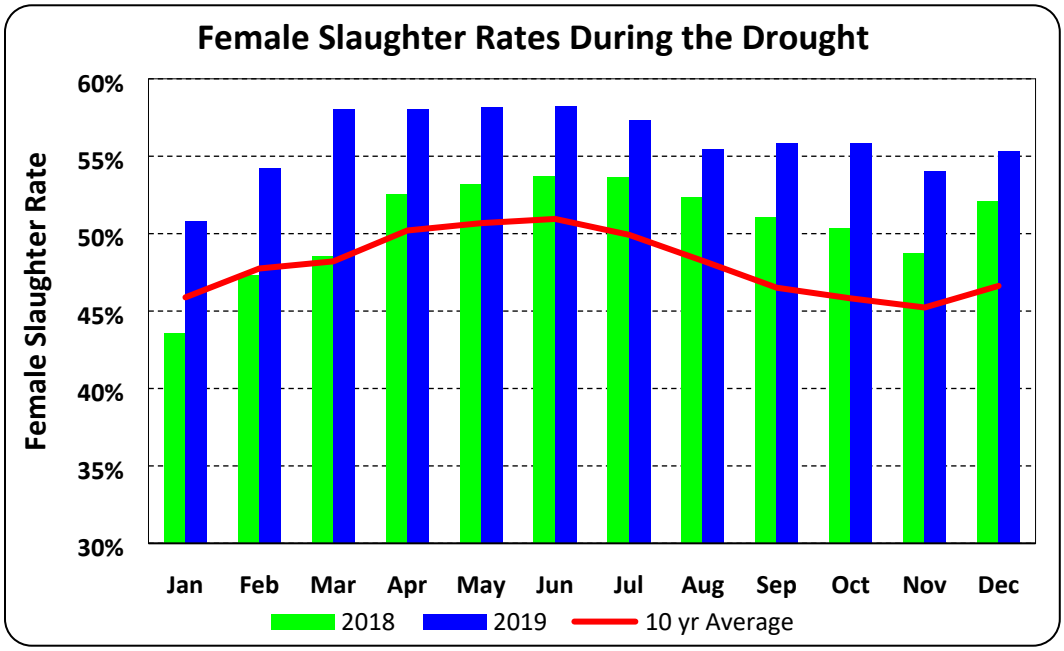
Figure 2 – Sep-Nov 2020 - Chance of Above Median Rainfall Forecast



Source: Bureau of Meteorology

As a result of the turnaround in rainfall and improved pasture prospects, female slaughter rates are forecast to fall in 2021, with a higher proportion of females being retained for breeding purposes after heavy female culling programs in 2018 and 2019. Nationally the female slaughter rate (as a percentage of total adult cattle slaughter) was at an average 51 percent in 2018 and dramatically escalated to 56 percent in the second year of drought in 2019 (see figure 3). This level vastly exceeded the 10-year average of 48 percent. Even during the first half of 2020 this rate remained elevated at 54 percent, indicating that herd rebuilding had not yet commenced during the first half of 2020. Broad consensus is that the annual average female slaughter rate needs to be at 47 percent or lower for the national herd size to rebuild.

Figure 3 – Female Slaughter Rates During Drought Impacted 2018 and 2019



Source: Australian Bureau of Statistics

Lower cow slaughter in 2021 is forecast to be only partially offset by higher male cattle slaughter, which is forecast at 3.8 million head, up 6 percent from 2020. The favorable seasonal conditions in 2020 have resulted in ample pasture production. This in turn has led cattle producers to retain more feeder cattle (which are predominantly males) on farm and grow them out on pasture, rather than send them to feedlots. Retaining these cattle on pasture extends the time it takes them to reach market weight by around three-fold (when compared to finishing them at feedlots), thereby delaying the slaughter of some of these cattle into 2021 rather than in 2020.

2020

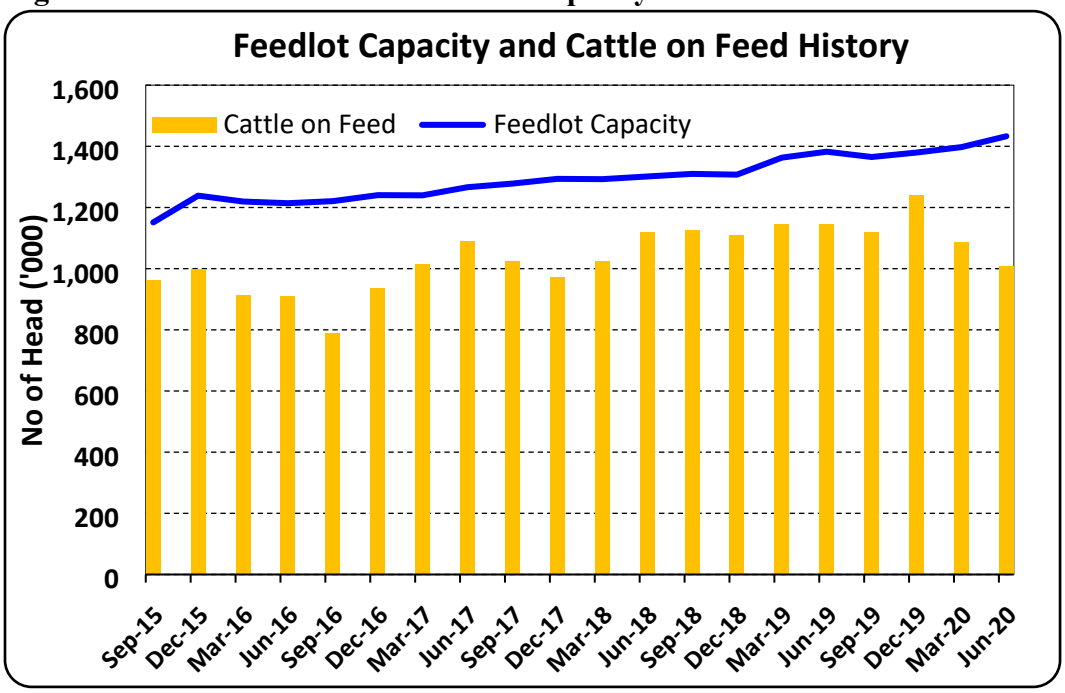
FAS/Canberra's estimate for cattle slaughter in 2020 is unchanged at 7.625 million head. The estimate for cow slaughter, however, is raised as a result of continued high female slaughter rates during the first half of 2020. This is offset by lower adult male slaughter and calf slaughter.

The FAS/Canberra estimate for cattle slaughter in 2020 is 18 percent below 2020, but actual slaughter during the first half of 2020 was only 8 percent behind the same period in 2019. Slaughter numbers, especially for cows, are forecast to begin to drop sharply during the second half of the year. The key reasons for this expected drop off are:

1) Although herd rebuilding had not begun in the first half of 2020 it has begun in earnest in the second half of 2020. This is expected to result in an even steeper drop in female slaughter rates due to an increase in the number of cows retained as breeders.
2) Cattle numbers in feedlots have been declining partly as a result of producers retaining cattle to be grown out on pasture, rather than feedlots, because of the drought-breaking rains. An indication of this is the decline in cattle on feed at feedlots in the March and June quarters in 2020 (see figure 4). Growing out cattle on pasture extends the time it takes to reach market weight, and as stated some cattle that were expected to be slaughtered in 2020 will likely shift to be slaughtered in 2021.

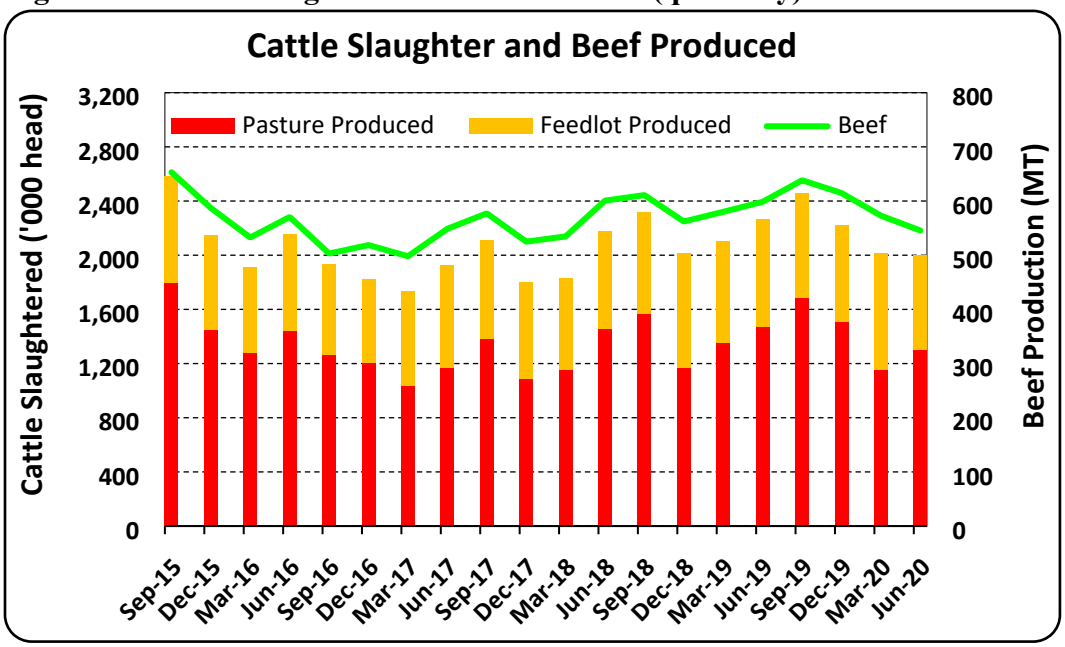
Despite the recent declining number of cattle at feedlots, the capacity of feedlots in Australia has continued to increase (see figure 4). The feedlot industry represents around one-third of beef produced (see figure 5) and is an important contributor to beef production in Australia via diversifying the product offering to include higher quality grain-fed beef and supporting production in times of drought. Industry sources indicate that there is substantial further expansion in construction and in the planning phase that will be completed over the next two years. Many in the industry expect that world demand for grain-fed beef will continue to grow, and as a result the industry is increasing capacity in advance of this growth.

Figure 4 – Cattle on Feed and Feedlot Capacity



Source: Meat & Livestock Australia / Aus-Meat

Figure 5 – Cattle Slaughter and Beef Produced (quarterly)



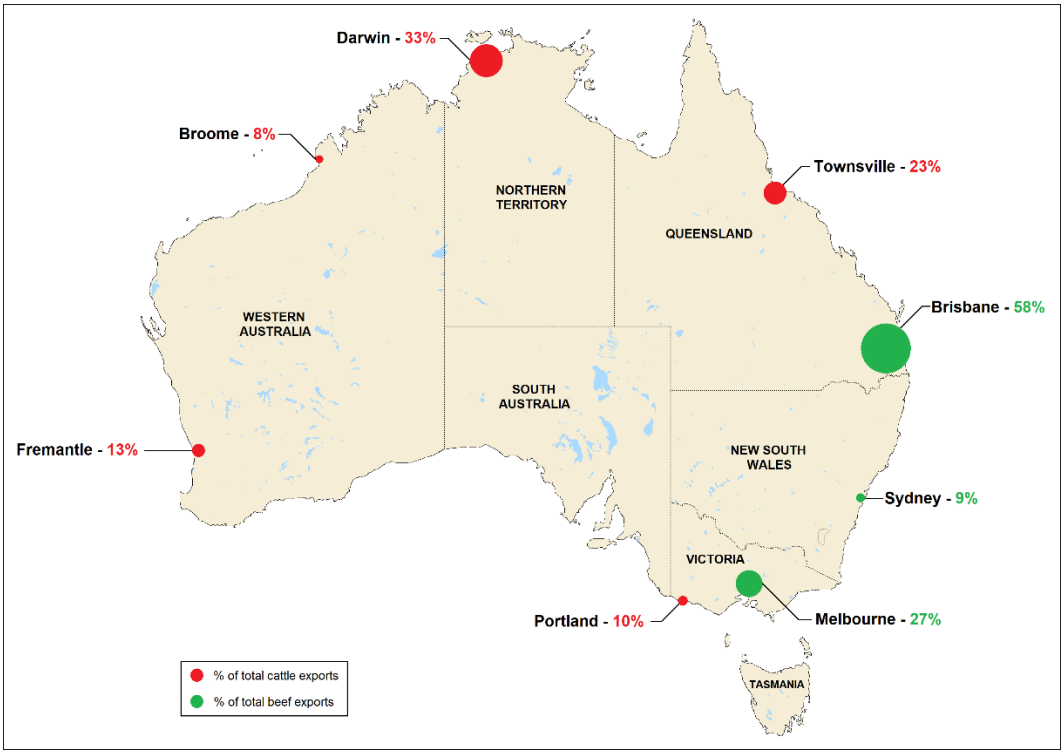
Source: Australian Bureau of Statistics / Meat & Livestock Australia

Trade
2021
FAS/Canberra forecasts cattle exports in 2021 to decline to 900,000 head from a revised estimate of 1.1 million head in 2020. The two key reasons for the decline are:

1) A contraction in breeder stock in recent years has reduced the calf crop that will be available for export.
2) Increased price spreads between feedlot feeder cattle and live export trade cattle are making it economic to shift some cattle from live export.

Most of the beef cattle sourced for the live export trade are from the northern part of the Northern Territory, north Queensland and Western Australia. These regions represent over three-quarters of all live cattle exports from Australia (see figure 6). The other key live export port is Portland in Victoria which is more focused on the live dairy cattle trade due to its proximity to a major dairy farming region.

Figure 6 – Livestock and Beef Export Ports

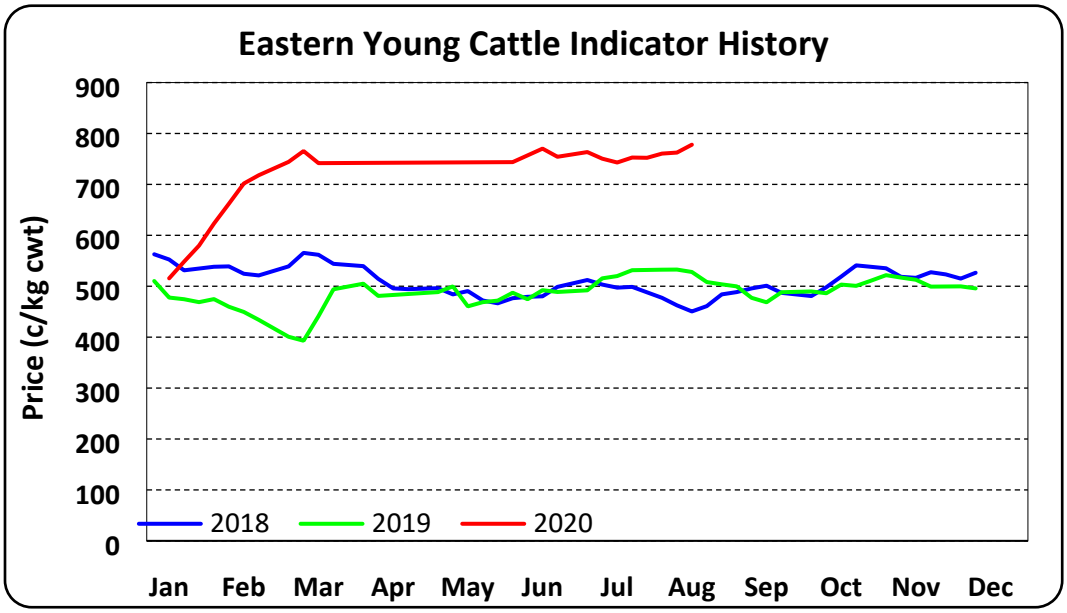


Source: Australian Bureau of Statistics

These regions were not immune to the drought in 2018 and 2019 and industry sources indicate that the female breeder numbers have declined, reducing cattle numbers available for live export. In addition, because of extremely high domestic cattle prices (see figure 7), some cattle which typically would be exported may move south into other cattle producing areas or feedlots. The major live export destinations are Indonesia and Vietnam, which have a preference for Bos Indicus (tropical breed) cattle to suit their conditions. Northern Territory and northern West Australian cattle producers, due to their

proximity to these markets and lack of feedlots or beef processing plants in their regions, largely only have the option to sell cattle into the live cattle export market. However, cattle producers in north Queensland have more options due to their relative proximity to other producing areas and feed lots in central and southern Queensland, and can sell either for export or to domestic cattle buyers.

Figure 7 – Eastern Young Cattle Indicator



Source: Meat and Livestock Australia
Note: There is no data from end of March to May 2020 due to COVID-19 restrictions

2020

The estimate for 2020 live cattle exports has been raised to 1.1 million head as a result of a strong first half shipping pace. Shipments for the first six months of 2020 are at 667,000 head, nine percent higher than the same period in 2019 (see figure 8). However, shipments are expected to drop during the second half of the year, with overall exports still expected to be down 18 percent from the 2019 peak of 1.3 million head.

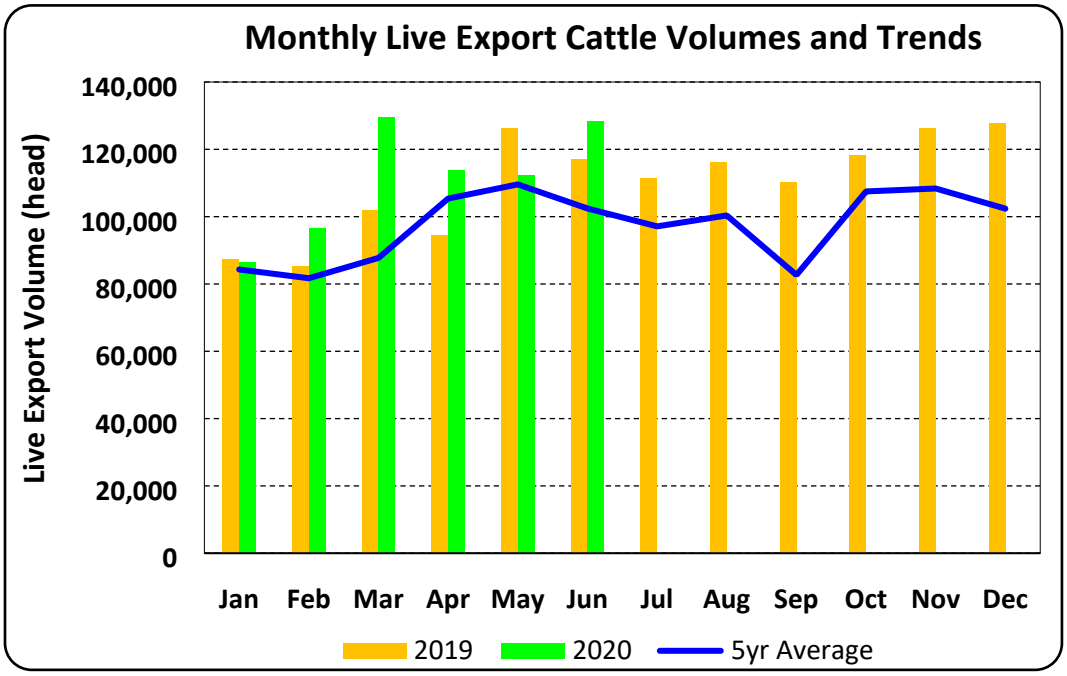
The major reasons for the estimated decline in live export trade during the second half of the year, as explained above, are reduced cattle available for export and some cattle that normally would be exported are instead moving south to feedlots or other production areas.

Also impacting the volume of live exports in 2020 was a major flood event in February 2019 in the plains of the Gulf of Carpentaria in the northwest of Queensland. Over 500,000 head of cattle are estimated to have perished, a portion of which were targeted for the live export market in 2020.

Northern cattle producers typically gather their herds and draft out cattle suitable for the live export trade twice per year. The first draft of 2020 has been completed and has produced the strong early

export shipment pace. However, the remaining numbers for the second draft to be sold in the second half of the year are estimated to be far lower, significantly diverging from the five-year average seasonality trend (see figure 8).

Figure 8 – Live Export Monthly Trend



Source: Australian Bureau of Statistics

Live Export Policy

In June 2020 the Australian federal court ruled against the federal government, stating that the government had been unlawful in banning live cattle exports to Indonesia in 2011 after video footage emerged of animal cruelty in some small-scale processors in Indonesia. Cattle producers involved in the class action were awarded compensation for the live export of animals that would have happened during the period of the ban. The federal government chose not to appeal the decision, and industry analysts believe that this has now set a precedent and provides for greater trade certainty in the future.

Animal Numbers, Cattle	2019	2020	2021

Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks (1000 HEAD)	25734	25734	23690	23690	0	23165
Dairy Cows Beg. Stocks (1000 HEAD)	1475	1475	1450	1450	0	1450
Beef Cows Beg. Stocks (1000 HEAD)	11000	11000	10300	10300	0	10000
Production (Calf Crop) (1000 HEAD)	8700	8700	8300	8300	0	8100
Total Imports (1000 HEAD)	0	0	0	0	0	0
Total Supply (1000 HEAD)	34434	34434	31990	31990	0	31265
Total Exports (1000 HEAD)	1344	1344	1000	1100	0	900
Cow Slaughter (1000 HEAD)	4753	4753	3425	3575	0	3150
Calf Slaughter (1000 HEAD)	565	565	500	450	0	450
Other Slaughter (1000 HEAD)	3729	3729	3700	3600	0	3800
Total Slaughter (1000 HEAD)	9047	9047	7625	7625	0	7400
Loss and Residual (1000 HEAD)	353	353	100	100	0	100
Ending Inventories (1000 HEAD)	23690	23690	23265	23165	0	22865
Total Distribution (1000 HEAD)	34434	34434	31990	31990	0	31265
(1000 HEAD)						

BEEF

Production

2021

FAS/Canberra forecasts beef production in 2021 to fall again to 2.05 million metric tons (MMT) (CWE), from the 2020 estimate of 2.085 MMT (CWE). If realized this would be Australia's lowest beef production since 2003. This fall is due to lower expected slaughter as cattle are held back to rebuild the Australian herd.

The forecast decline in beef production (down 1.6 percent), however, is smaller than the forecast fall in slaughter numbers (down 3.0 percent) as a result of anticipated higher slaughter weights in 2021. These higher expected weights are due to:

1) A smaller national herd size resulting in lower on farm stocking rates relative to pre-drought levels.
2) Greater pasture availability following widespread rainfalls in 2020, as well as forecasts for continued above-average rainfall.
3) A higher percentage of animals for slaughter being adult male cattle.

2020

The FAS/Canberra estimate for 2020 beef production is unchanged at 2.085 MMT (CWE), a 14-percent reduction from the 2019 outcome of 2.432 MMT (CWE). This decline is a result of lower cattle slaughter, although this is partially offset by higher carcass weights due to the recovery in pastures.

Total beef production for the January to June 2020 period was 1.12 MMT (CWE), compared to 1.18 MMT (CWE) during the first half of 2019. Beef production during the second half of 2020, however, is expected to fall more sharply primarily due to slowing cow slaughter. Some processing facilities in Australia have already announced temporary closures for certain periods due to insufficient animals for slaughter.

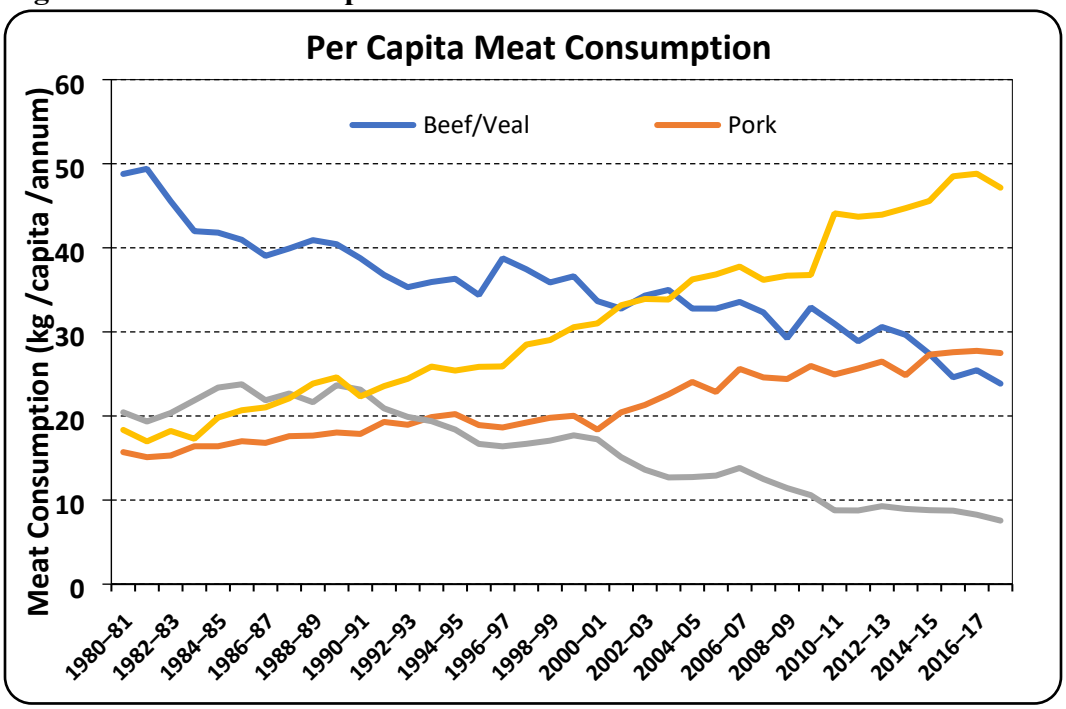
The beef processing sector also had some short-term closure impacts caused by COVID-19, however they have only impacted smaller facilities. Overall beef processing has largely been unaffected by the pandemic and there has also been very little impact on supplies for the domestic market.

Consumption

2021

Domestic consumption accounts for typically only about one-third of the beef produced in Australia. FAS/Canberra forecasts beef consumption in 2021 at 690,000 MT (CWE) in 2021, a two percent increase over the 2020 estimated consumption of 674,000 MT (CWE). This increase is due to an expected improvement in food service sector activity in 2021 with the anticipated reduction in restrictions associated with the COVID-19 pandemic in Australia. Although Australian COVID-19 cases have been far below those elsewhere, restrictions have impacted the food service sector. There is an expectation that travel restrictions between states may diminish towards the end of 2020, which is expected to boost domestic tourism and subsequently food service sector activity in 2021. However, any increases in consumption are expected to be limited by the continued high retail price of beef when compared to other proteins.

Figure 9 – Meat Consumption Trend



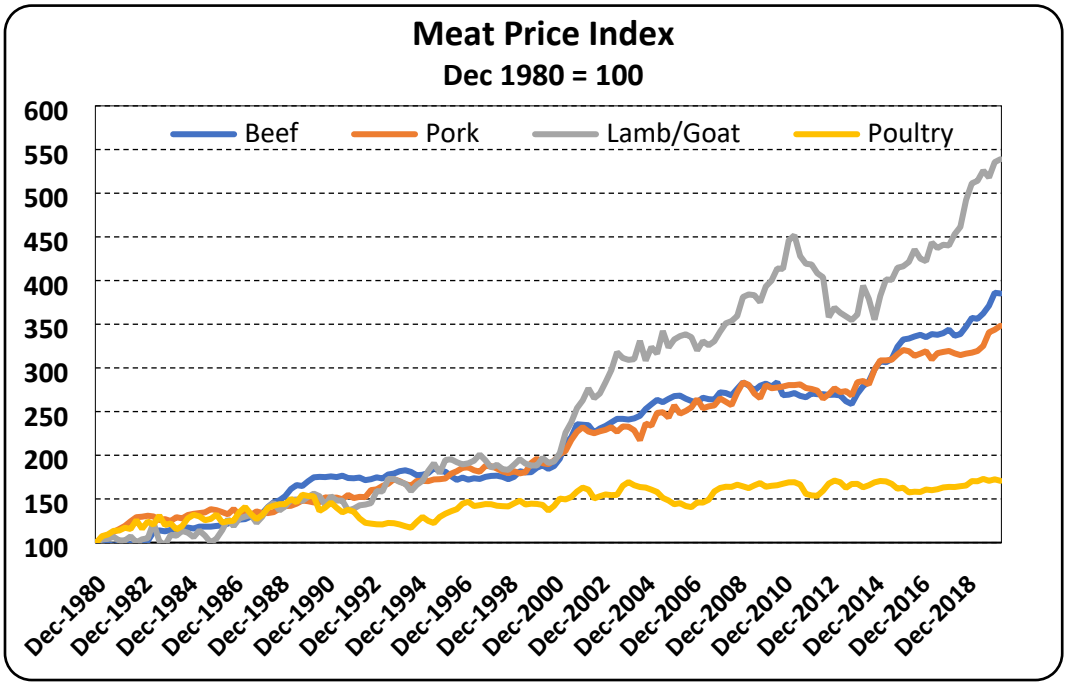
Source: ABARES Commodity Report

There has been a long-term trend in declining beef (and lamb) consumption per capita in Australia over recent decades. Conversely, the per capita consumption of pork and chicken has been rising (see figure

9). While beef consumption 40 years ago was near 50kg per person (110 pounds), it has since declined to under 25kg per person (55 pounds).

The primary cause of this has been rising beef prices, especially vis-a-via chicken. The chart below shows the relative rise of meat prices in Australia over the past 40 years (prices are indexed at 100 at the end of 1980). During this time, beef and lamb prices have increased by around four and five-fold, respectively (see figure 10). Chicken prices on the other hand have increased by far less over the same period. Pork is somewhat of an outlier in that, although retail prices have increased at a rate similar to beef, per capita consumption has also continued to increase. This is likely due to its retail price still remaining significantly below that of beef and lamb.

Figure 10 – Meat Price Index



Source: Australian Bureau of Statistics Consumer Price Index, Sydney

Domestic retail beef prices are likely to remain high due to reduced beef production and strong export demand.

2020

FAS/Canberra estimates beef consumption in 2020 at 674,000 MT (CWE), a five-percent decline from 2019. This estimated decline is primarily as a result of the impact of the COVID-19 pandemic which has significantly decreased the food service sector activity. Sales of beef via the retail channel, however, are reported to not have been negatively impacted.

Trade

2021

Beef exports in 2021 are forecast by FAS/Canberra to be 1.375 MMT (CWE), a decrease of 50,000 MT (CWE) from the 2020 estimate. This is a result of lower expected beef production. Although demand from China and other major trading partners is expected to remain robust, competition from other suppliers is expected to strengthen. In addition, if the trend of a strengthening Australian dollar continues into 2021 this will also impact Australia's export competitiveness.

2020

The beef export estimate for 2020 has been revised up to 1.425 MMT (CWE) as a result of strong exports during the first half of the year. Exports for the January to June 2020 period were 780,00 MT (CWE), only a two percent decline from the same period in 2019. Although exports in the first half year have been very strong, the number of cattle slaughtered during the second half of 2020 is expected to drop significantly and cause a sharp slowdown in the export pace. 2020 exports are estimated to be 18 percent lower than the near-record exports in 2019.

Another negative factor impacting Australian beef exports during the second half of the year is the strengthening Australian dollar. For example, the Australian dollar exchange rate against the U.S. dollar had been trading around a range of AU$1.47 to one U.S. dollar prior to the impacts of COVID-19 globally. The Australian dollar then weakened to as low as AU$1.72 in March 2020 before recovering to pre-COVID-19 levels in June 2020. However, since June 2020 the Australian dollar has steadily continued to strengthen and at the end of August 2020 was at AU$1.35.

The four key export destinations for Australian beef are China, Japan, United States and South Korea. These four countries have accounted for 75 to 80 percent of Australian beef exports over the last three years. During the first half of 2020, exports to each of these four destinations remained surprisingly stable despite the differing impacts of the COVID-19 pandemic in these markets.

Although exports to China had been climbing in recent years, further substantial increases are unlikely due to reduced Australian beef production, and exports to this market could slow during the second half of 2020. At the end of June, beef exports to China reached a level that triggered a safeguard, which as part of the China-Australia free trade agreement means that shipments for the rest of the year would have a 12-percent tariff (rather than a 4.8 percent earlier in the year). In addition, China has suspended beef export shipments from a number of Australian plants for various rationale.

Meat, Beef and Veal	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference) (1000 HEAD)	9047	9047	7625	7625	0	7400

Beginning Stocks (1000 MT CWE)	0	0	0	0	0	0
Production (1000 MT CWE)	2432	2432	2085	2085	0	2050
Total Imports (1000 MT CWE)	15	15	14	14	0	15
Total Supply (1000 MT CWE)	2447	2447	2099	2099	0	2065
Total Exports (1000 MT CWE)	1738	1738	1400	1425	0	1375
Human Dom. Consumption (1000 MT CWE)	709	709	699	674	0	690
Other Use, Losses (1000 MT CWE)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT CWE)	709	709	699	674	0	690
Ending Stocks (1000 MT CWE)	0	0	0	0	0	0
Total Distribution (1000 MT CWE)	2447	2447	2099	2099	0	2065
(1000 HEAD) ,(1000 MT CWE)						

PORK

Production

2021

FAS/Canberra forecasts Australia's pork production to remain steady in 2021 at 410,000 MT (CWE), the same as the revised 2020 estimate. Production is expected to be supported by lower feed prices, as well as some expected demand recovery for pork. Eastern Australia has experienced a number of years of drought and poor crop harvests and this has led to elevated grain prices which impacted the profitability of pork production. However, with plentiful rains so far in 2020 prospects are for a rebound in crop production later this year. This has already resulted in feed price declines (see figure 11), which should continue when new grain crop supplies become available in November. Although swine prices have also been declining recently as a result of the impact of COVID-19 on demand, an expected recovery in demand in 2021 could help support prices.

2020

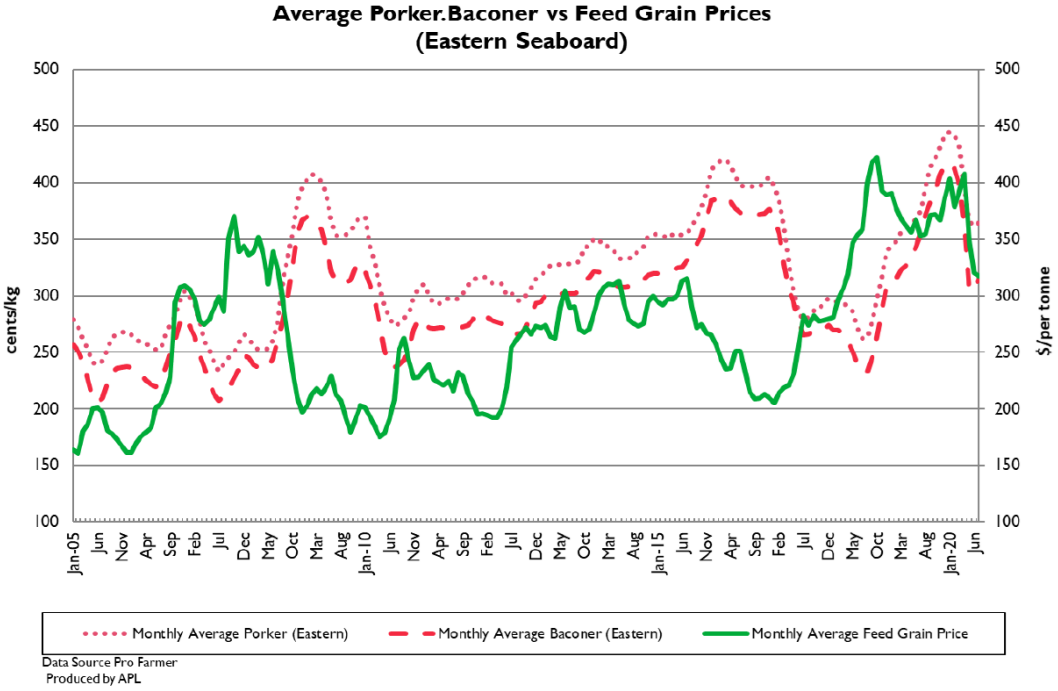
FAS/Canberra's estimate for 2020 pork production is revised up 10,000 MT (CWE) to 410,000 MT. Pork production in the first half of 2020 was up about 3 percent from the same period in 2019 (see figure 12). Pig slaughter during this period was up less than one percent, but cheaper feed resulted in higher slaughter weights which boosted overall production.

Although swine prices were climbing and attractive at the end of 2019, in 2020 they have fallen. This is largely due to the impact of COVID-19 on pork demand, especially from the food service sector.

There have been some localized impacts in the processing sector due to COVID-19, such as in Victoria, but these have not had a major overall impact on pork processing. According to industry sources during these processing disruptions pigs were sent to South Australia and Queensland for processing. Because Australian pork is primarily for domestic consumption, pork processing is more spread throughout Australia than processing of other meats. For example, five Australian States (New South Wales, Victoria, South Australia, Queensland, and Western Australia) each account for between 15-25 percent of total pork processing. This is in sharp contrast to beef and lamb, where around half of the meat is processed in a single state (Queensland for beef and Victoria for lamb).

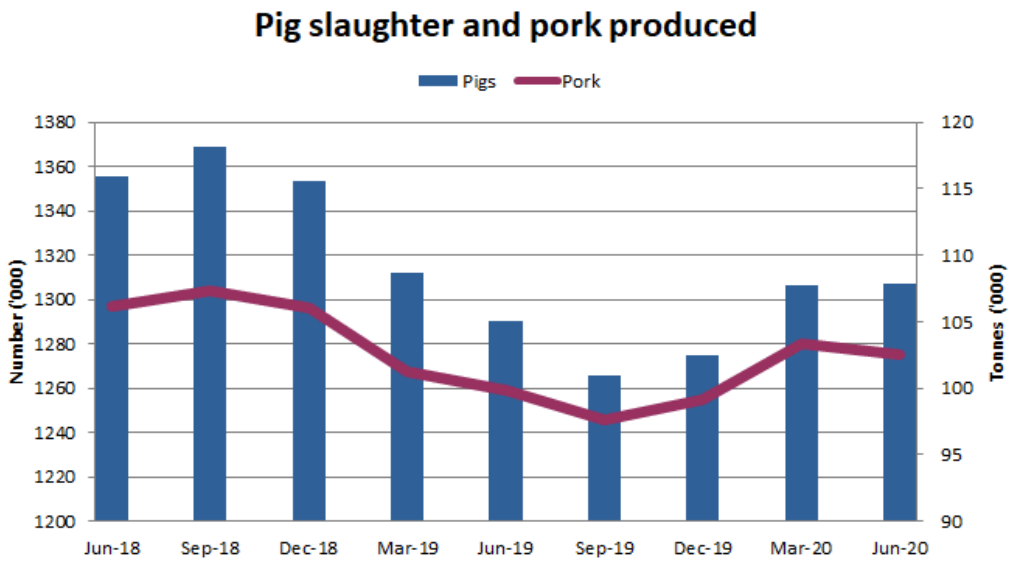
The pork industry continues to be concerned about protecting against African Swine Fever (ASF), especially as there have been outbreaks in nearby Southeast Asian countries. COVID-19 restrictions on international passenger arrivals, however, have reduced concerns about ASF entering Australia through infected meat products.

Figure 11 – Pork/Baconer Prices v's Feed Grain Price Trends



Source: Australian Pork Limited

Figure 12 – Pork Slaughter and Pork Produced Trends



Source: Australia Bureau of Statistics

Consumption

Pork consumption is expected to rise in 2021, assuming a recovery in demand that was impact by COVID-19. Consumption in 2020 declined primarily due to a drop in the demand for pork from the food service sector (which uses a substantial amount of domestically produced pork). Retail demand for pork, however, was not significantly impacted.

In the past two decades there has been strong growth in pork consumption in Australia, and according to the Australian Department of Agriculture statistics, in 2014-2015 pork surpassed beef as the second most consumed meat per capita after poultry. Following this steady growth, however, consumption has been largely stable in recent years.

Trade

2021

FAS/Canberra forecasts Australia's pork imports to rise slightly to 230,000 MT (CWE) in 2021, from the revised estimate of 220,000 MT (CWE) in 2020. This small increase is because some of the factors that have impacted imports in 2020 (such as large stockpiles and processing disruptions in the United States) are not expected to impact 2021. 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 frozen pork imports.

Pork exports are forecast to also remain steady at 35,000 MT (CWE). Australia typically exports pork to Singapore, Hong Kong, and New Zealand. Around 50 percent of exports are made on an intra-company basis - from subsidiary to parent company.

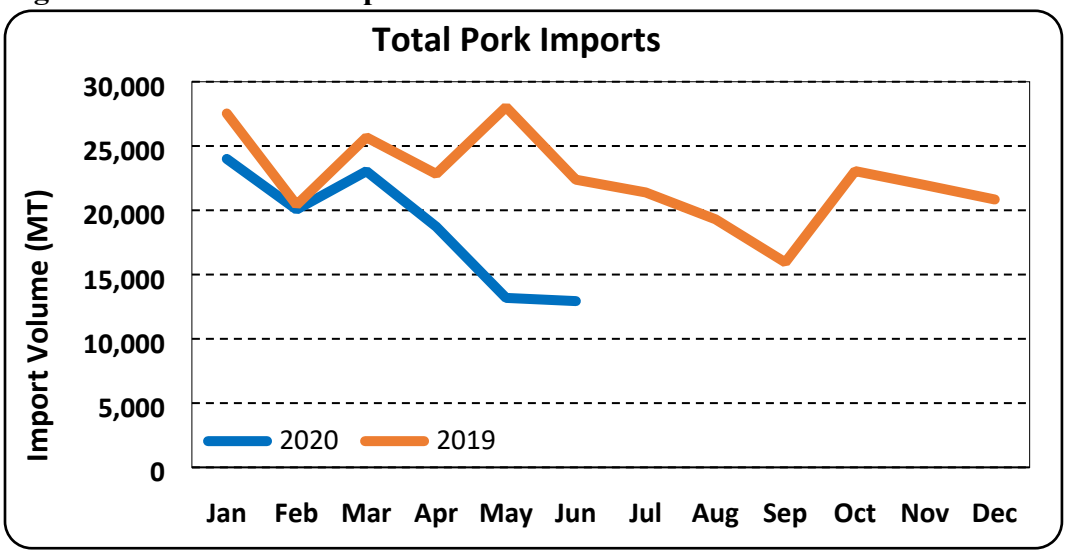
2020

FAS/Canberra's estimate for Australia's pork imports in 2019 is revised down 20,000 MT (CWE) to 220,000 MT as a result of slow shipments during the first half of the year (see figure 13). According to industry sources pork wholesalers had built up large stocks of pork products during 2019 in response to the outbreak of ASF in other areas. The industry expects these stocks to reduce in 2020. In addition, imports for a number of months (May-July) were sharply lower as a result of COVID-19 impacts on processing plants in the United States, the largest supplier of pork to Australia. U.S. pork production, however, quickly returned to more normal levels and this is expected to lead to a recovery in import volumes in subsequent months.

Major suppliers of pork to Australia include the United States, Denmark, the Netherlands, and Canada.

The 2020 pork export estimate is unchanged at 35,000 MT (CWE) as export pace-to-date has been nearly the same as 2019. About 40 percent of pork exports are typically by air, primarily to Singapore. Although air freight routes have been severely restricted because of COVID-19, the federal government's International Freight Assistance Mechanism (IFAM) program has helped ensure freight routes continue and pork exports have returned back to more typical levels.

Figure 13 – Total Pork Imports 2019 and 2020



Source: Australian Bureau of Statistics

Meat, Swine	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference) (1000 HEAD)	5150	5150	5250	5250	0	5250
Beginning Stocks (1000 MT CWE)	0	0	0	0	0	0
Production (1000 MT CWE)	398	398	400	410	0	410
Total Imports (1000 MT CWE)	269	269	240	220	0	230
Total Supply (1000 MT CWE)	667	667	640	630	0	640
Total Exports (1000 MT CWE)	33	33	35	35	0	35
Human Dom. Consumption (1000 MT CWE)	634	634	605	595	0	605
Other Use, Losses (1000 MT CWE)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT CWE)	634	634	605	595	0	605
Ending Stocks (1000 MT CWE)	0	0	0	0	0	0
Total Distribution (1000 MT CWE)	667	667	640	630	0	640
(1000 HEAD) ,(1000 MT CWE)						

Attachments:

No Attachments