

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 9/6/2019

**GAIN Report Number:** AS1914

## Australia

### Livestock and Products Annual

## Continued Drought to Reduce Australian Beef Production and Exports in 2020

**Approved By:**

Levin Flake, Agricultural Counselor

**Prepared By:**

Levin Flake, Agricultural Counselor

**Report Highlights:**

Australia's cattle and beef production continues to be impacted by the drought in key production areas. The subsequent lack of feed has resulted in high cattle turnoff and destocking in 2019, and subsequently higher slaughter rates. Because of reduced cattle numbers, FAS/Canberra forecasts Australian beef production in 2020 to decline by 11 percent from 2019 and exports to decline 15 percent. The outlook is still highly dependent on spring rains, as a break in the drought could accelerate herd rebuilding, and continued drought could result in continued destocking.

## **Executive Summary**

Australia's cattle and beef production continues to be impacted by the drought in key production areas. Dry weather has continued throughout northern New South Wales and Southern Queensland, and both of these States combine to account for two-thirds of cattle numbers. The subsequent lack of feed has resulted in high cattle turnoff and destocking in 2019, and subsequently higher slaughter rates. In addition, the lack of pasture (and high foreign demand for grain-fed beef) has also resulted in the number of cows in feedlots reaching record levels in 2019. The increase in slaughter has also boosted beef exports in 2019, especially to China – with export levels in July reaching a four-year high. These slaughter and export levels, however, are unsustainable and are expected to decline during the end of 2019 and also resulting significant decline in beef production and exports in 2020. The timing and extent of this reduction, however, will largely depend on spring rains. If rains begin to fall over a wide production area this could cause more cattle producers to begin to restock, greatly reducing the availability of animals for beef processors. If the drought does not break, or if sufficient rains fall in some areas but not others, then there could be a continuation of destocking in some areas and restocking in other parts of Australia. The very high female slaughter rates in 2019 (reaching a record 58 percent of slaughter being females for four months in March-June) will likely slow down the restocking processing.

FAS/Canberra forecasts cattle slaughter to drop one million head in 2020, down 12 percent from 2019, primarily as a result of lower female slaughter. Even with expected higher carcass weights in 2020, this reduced slaughter is forecast to lower beef production by 250,000 metric tons (MT) carcass weight equivalent (CWE), down 11 percent, and to the lowest level since 2003. This reduction in production is expected to entirely come out of exports (forecast down 15 percent).

For pork, because of the drought 2018 and 2019 saw rising feed prices and also falling pork prices, which squeezed producers and resulted in reduced production in 2019 and an increase in imports. FAS/Canberra forecasts Australia's pork production to recover slightly in 2020, at 410,000 MT (up 3 percent). As pork prices have now risen and feed costs fallen (although still relatively high) and this has helped improve profitability for producers.

*Note: the Marketing Year (MY) is the calendar year; the MY2019 marketing year is shown as 2019.*

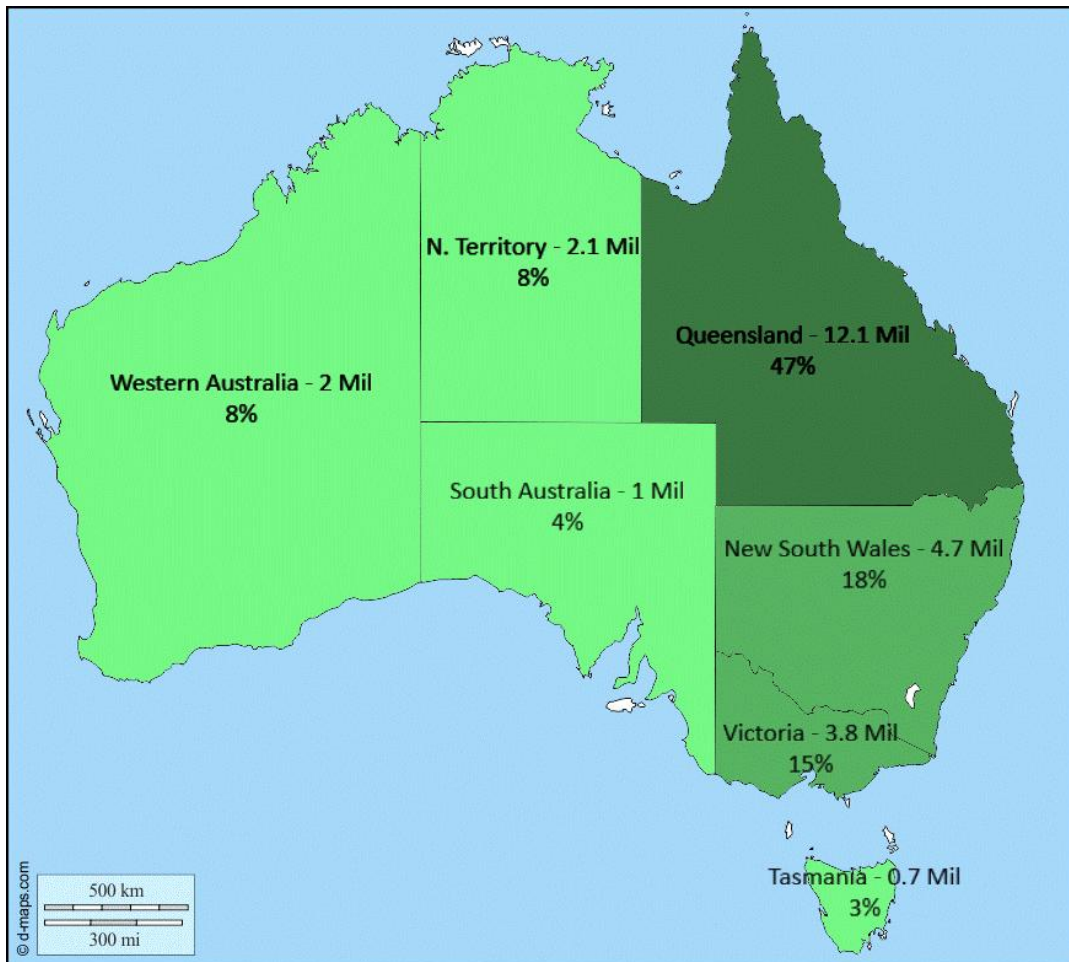
*Data included in this report is not official USDA data. Official USDA data is available at:*

*<https://apps.fas.usda.gov/psdonline>*

## Cattle Numbers 2020

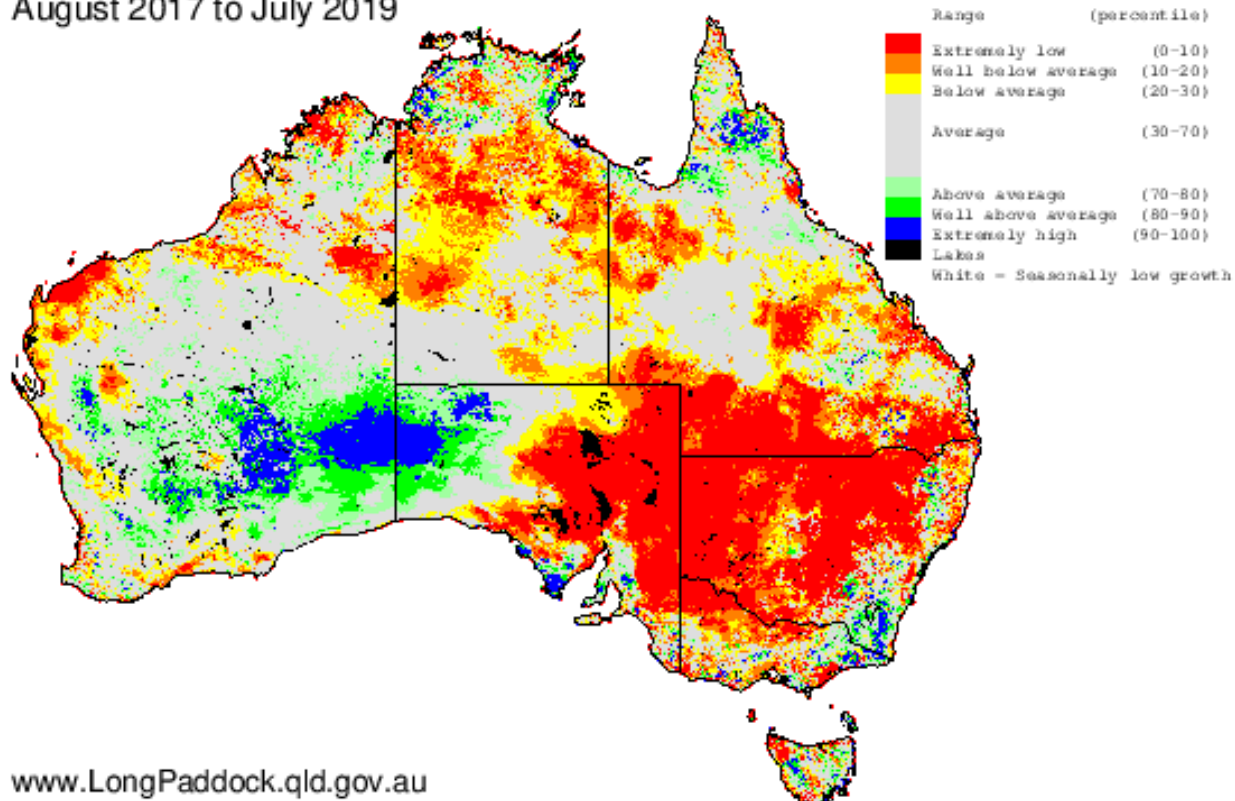
Cattle numbers in 2020 are expected to be relatively stable at 24.4 million head by the end of 2020, similar to the numbers to begin the year. This follows a large decline in cattle numbers in 2019. Although producers are expected to begin restocking following high drought-impacted turnoff in 2018 and 2019, this will be slowed by the high female slaughter in 2019 and subsequent lower calf production. This forecast, however, is highly dependent on spring rainfall. If the drought breaks in some areas it could accelerate herd rebuilding, however if the drought continues it could delay restocking in those areas. Currently, the Australian Bureau of Meteorology (BOM) forecasts are still pessimistic for rainfall from September to November in key areas. Two-thirds of cattle production in Australia occurs in the States of Queensland and New South Wales, however large areas in both of these States have been (and continue to be) hardest hit by the drought, resulting in subsequent reduction of available pasture (please see maps below).

Australian Cattle Herd as of June 2018



Source: Australia Bureau of Statistics, Percentages may not equal 100% because of rounding

# Pasture Growth Percentile Relative to Historical Records from 1957 August 2017 to July 2019

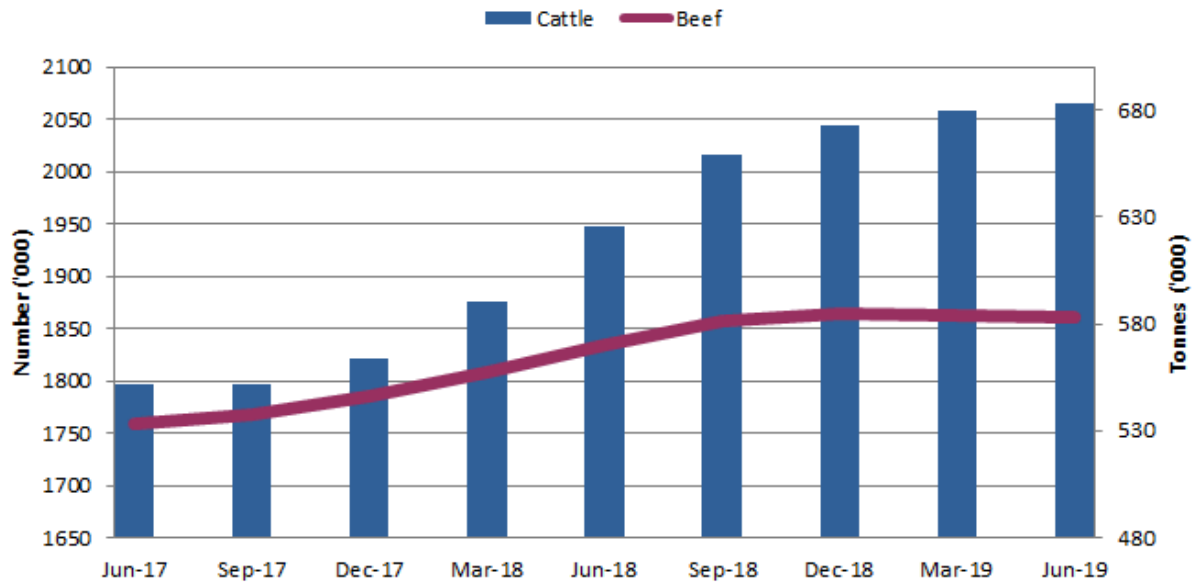


Some expected restocking, as well as the overall reduction in beginning cow numbers and calf production, are expected to reduce the availability of cattle for slaughter. Overall slaughter is forecast to decline by 1 million head (12 percent) in 2020. The majority of this decline is expected to be in cow slaughter, as 2019 slaughter was extremely high, and with a desire to rebuild, it is expected that more cows will be retained. Cow slaughter is forecast to fall 800,000 head (19 percent). In addition, lower cattle numbers are expected to impact live exports, which are forecast to fall 250,000 head to 900,000 head in 2020.

## 2019

2019 ending cattle numbers are forecast to fall sharply by 1.25 million head as a result of the drought-impacted high turnoff. The lack of pasture have resulted in a high-level of destocking. Estimated 2019 cattle slaughter is revised upward 600,000 head, to 8.5 million head, as the continued drought has resulted in a very high slaughter in the first half of 2019. During this period, according to ABS statistics, slaughter reached 4.37 million head, up 9 percent from the same period the previous year. A large driver of this has been increased cow slaughter (up 21 percent compared to the first half of last year). This, coupled with the general scarcity of feed, has resulted in lower carcass weights. Female slaughter weight surpassed a record 58 percent for 4 straight months (Mar-Jun).

## Cattle slaughter and beef produced



Source: Australian Bureau of Statistics

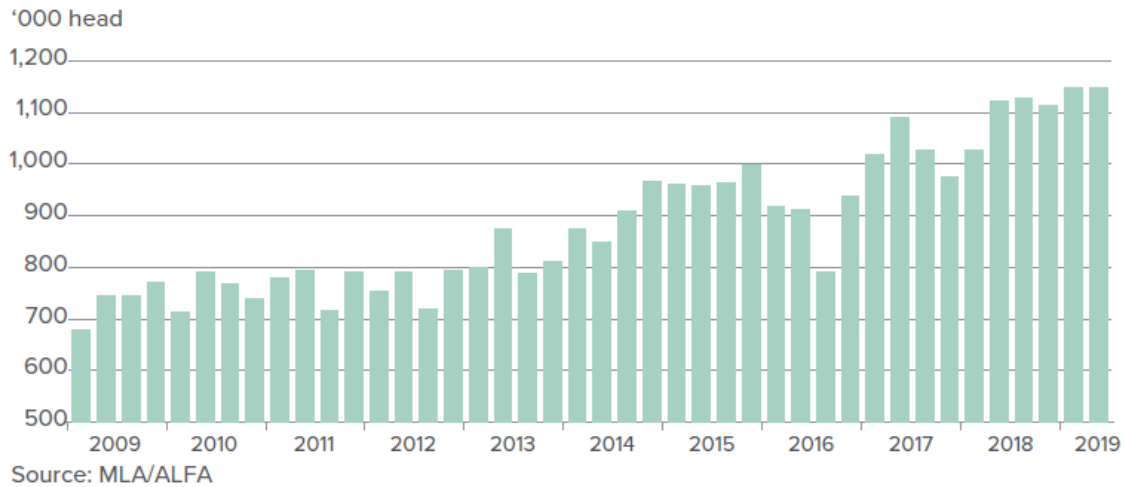
## Female Slaughter as % of Total Adult Cattle Slaughter

Jan-Jun 2015	51%
Jan-Jun 2016	48%
Jan-Jun 2017	45%
Jan-Jun 2018	50%
Jan-Jun 2019	56%

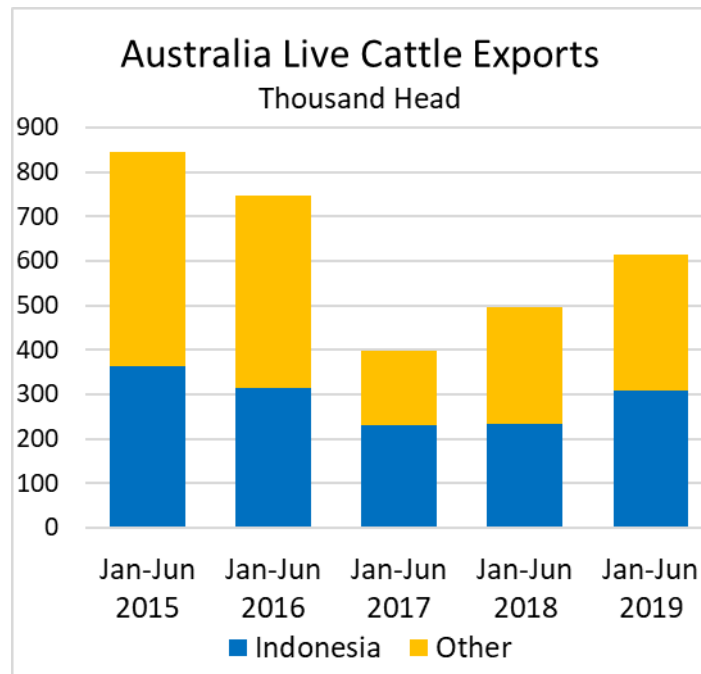
Source: Australian Bureau of Statistics

Although the slaughter rate is expected to begin to decline somewhat during the second half of the year, 2019 slaughter is still expected to be higher than 2018. Cattle on feed has continued to rise, and according to the Australian Lot Feeders' Association, the number of cattle in June 2019 reached a new record of 1.15 million head. Industry sources report that the increase in cattle at feed lots is due to two major factors. First, is that the absence of pasture and on-farm feed has resulted in farmers having to sell cattle to feedlots. Second is that there is continued strong foreign demand for grain-fed beef from Australia. Typically about 30 percent of Australian cattle are finished in feedlots.

**Figure 1: Cattle on feed**



Estimated live cattle exports are also revised upward 250,000 head for 2019 as the continued lack of rain in key areas, and strong import demand, have resulted in higher exports in the first half of 2019. Total 2019 live cattle exports are now estimated at 1.15 million head, the same as 2018. Shipments in the first half of 2019 have reached 615,000 head, up a quarter from the same period last year, with about half of exports going to Indonesia. The next largest markets are Vietnam and China.



Source: Australian Bureau of Statistics

Animal Numbers, Cattle Market Begin Year Australia	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	26176	26176	26000	25734	0	24484
Dairy Cows Beg. Stocks	1561	1561	1500	1500	0	1475
Beef Cows Beg. Stocks	11250	11250	11000	11000	0	10500
Production (Calf Crop)	9100	9100	8700	8700	0	8400
Total Imports	0	0	0	0	0	0
Total Supply	35276	35276	34700	34434	0	32884
Total Exports	1151	1151	900	1150	0	900
Cow Slaughter	3987	3998	3500	4200	0	3400
Calf Slaughter	468	468	450	500	0	500
Other Slaughter	3609	3875	3950	3800	0	3600
Total Slaughter	8064	8341	7900	8500	0	7500
Loss and Residual	61	50	300	300	0	50
Ending Inventories	26000	25734	25600	24484	0	24434
Total Distribution	35276	35276	34700	34434	0	32884

(1000 HEAD)

*Not Official USDA Data*

## Beef Production

### 2020

With reduced expected slaughter rates as a result of the smaller herd size and expected restocking, Australian beef production in 2020 is forecast to decline by 250,000 MT (CWE) to 2.05 million metric tons (MMT), an 11 percent decline from 2019. If realized this would be the lowest level of beef production since 2003. This forecast could change significantly depending on spring rainfall which could dramatically impact whether producers in some areas are able to restock or will need to continue to destock.

### 2019

FAS/Canberra's beef production estimate for 2019 is revised upward 100,000 MT (CWE) to 2.3 MMT, steady with 2018 production. As mentioned, slaughter rates and beef production has been very strong as the lack of pasture and high feed prices have increased the turnoff. Beef production during the first half of 2019 rose to 1.18 MMT (CWE), up 4 percent compared to last year. This beef production increase was less than the slaughter increase (up 8 percent) because of lower carcass weights due to higher female slaughter and due to the poor pasture and feed situation in much of Australia.

## Beef Exports

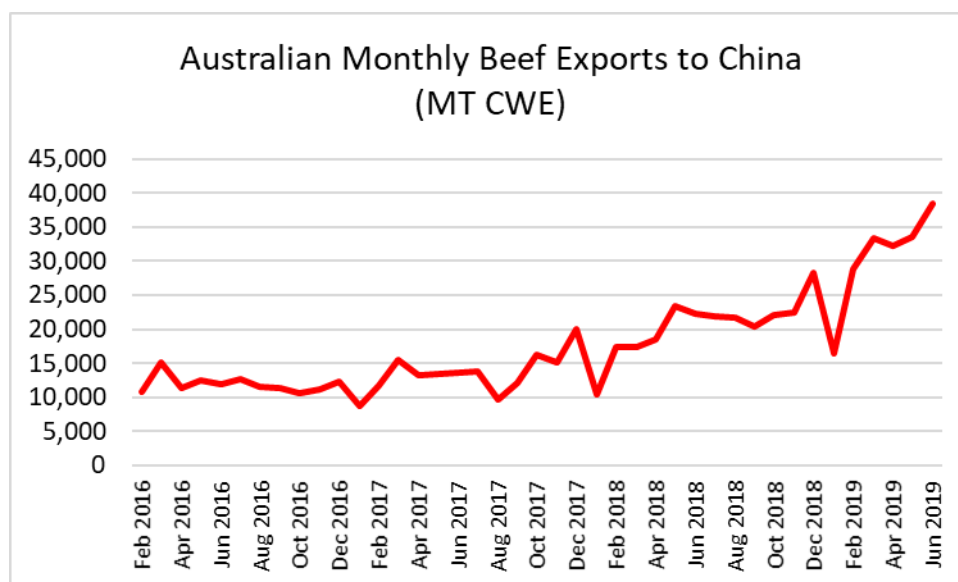
### 2020

Typically about 70 percent of beef produced in Australia is exported, and with domestic consumption relatively steady, the decline in beef production in 2020 is forecast to entirely come from reduced exports. Total beef exports are forecast to decline 250,000 MT (CWE) to 1.4 MMT (down 15 percent), which if realized would be the lowest export amount in nearly a decade. Despite expected continued demand from markets such as China, the reduced availability of cattle for slaughter is the major driver in the expected drop in exports.

### 2019



FAS/Canberra's 2019 beef export estimate is revised up because of very strong exports in the first half of the year, especially to China. 2019 beef exports are now estimated at 1.65 MMT (CWE), similar to the level in 2018. Exports in the first half of the year reached 843,000 MT (CWE), an increase of 8 percent compared to the same period last year. Exports in July 2019 are reported to be even larger than previous months, and the highest monthly exports in four years. The weak Australian dollar has also benefited exports. Exports to China have seen by far the greatest growth this year, up 68 percent during the first half of the year. During this time, China surpassed the United States as the second largest market for Australian beef, after Japan. Although exports had been increasing already because of rising Chinese demand, the impact of African Swine Fever and need for additional animal protein has been a major factor boosting trade. According to the China-Australia Free Trade Agreement, for 2019 once 174,454 tons of Australian beef is exported to China, the tariff increases from 6 percent to 12 percent. This level was reached in mid-August and the higher rate will be applied for the remainder of the year. Although this could impact sales, many industry analysts expect the strong Chinese demand will result in continued robust shipments despite the higher tariffs.



Meat, Beef and Veal Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	8064	8341	7900	8500	0	7500
Beginning Stocks	0	0	0	0	0	0
Production	2306	2306	2200	2300	0	2050
Total Imports	12	12	12	12	0	12
Total Supply	2318	2318	2212	2312	0	2062
Total Exports	1662	1662	1575	1650	0	1400
Human Dom. Consumption	656	656	637	662	0	662
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	656	656	637	662	0	662
Ending Stocks	0	0	0	0	0	0
Total Distribution	2318	2318	2212	2312	0	2062

(1000 HEAD) ,(1000 MT CWE)

*Not Official USDA Data*



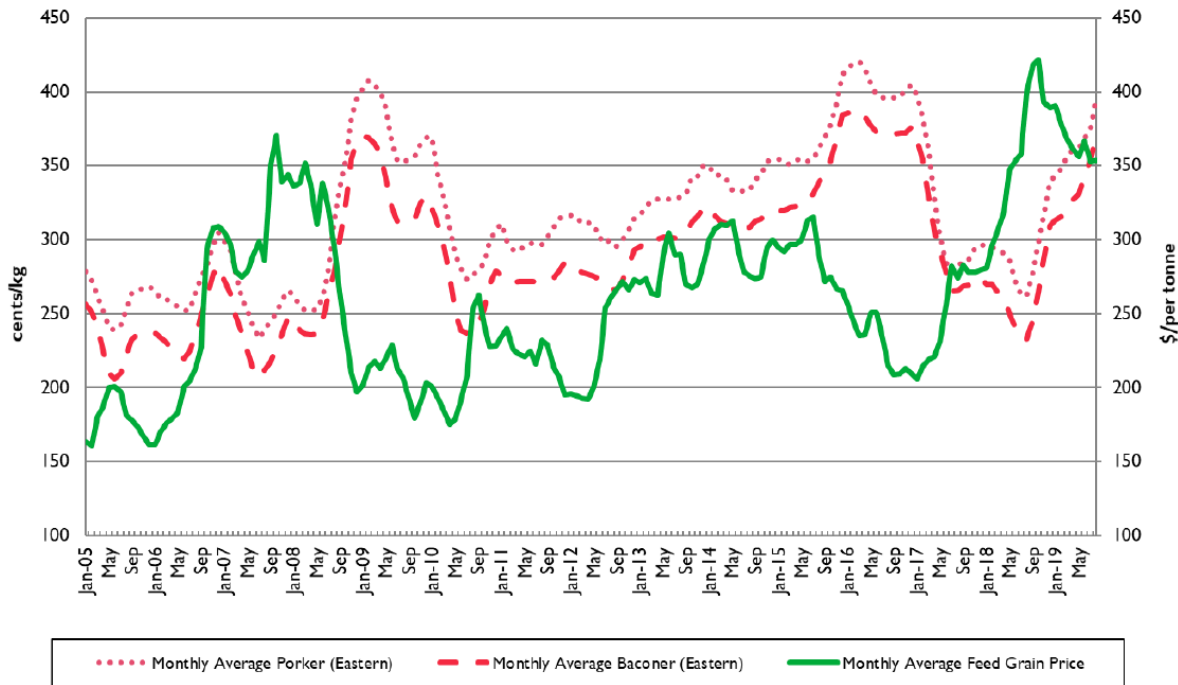
## Pork Production 2020

FAS/Canberra forecasts Australia’s pork production to recover slightly in 2020, rising 10,000 MT (CWE) from the revised 2019 estimate to 410,000 MT. The combination of higher hog and pork prices, along with lower (although still elevated) feed prices during early 2019 has increased farmer profitability and increased restocking. As a result, pork production is expected to begin to recover in 2020.

## 2019

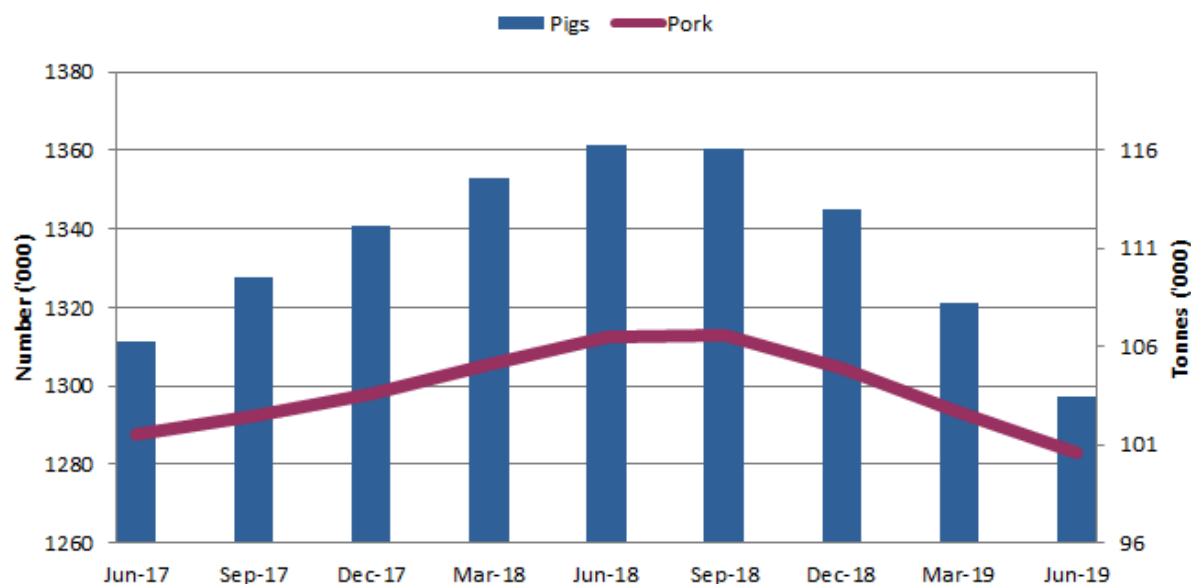
FAS/Canberra’s estimate for 2019 pork production is revised down 20,000 MT (CWE) to 400,000 MT. Pork production in the 1<sup>st</sup> half of 2019 was almost 10,000 MT lower than the same period in 2018 (five percent). High slaughter rates in 2018 (including sow slaughter) reduced pig numbers, and this combined with expected restocking in some areas is limiting the availability of pigs for slaughter. These high slaughter rates in 2018 were driven largely by rising feed prices, which nearly doubled between mid-2017 and mid-2018 as a result of the drought in much of Australia. In addition, due to biosecurity regulations very little grain or feed is imported into Australia, and as a result pork producers do not have access to many feed options other than domestic grain. As a result, some pork producers had to exit the market. Pig slaughter peaked in mid-2018, resulting in hog prices reaching a low point. Since this period, however, hog prices have been rising (see chart below).

**Average Porker, Baconer vs Feed Grain Prices  
(Eastern Seaboard)**



Data Source Pro Farmer  
Produced by APL

## Pig slaughter and pork produced



### Pork Trade 2020

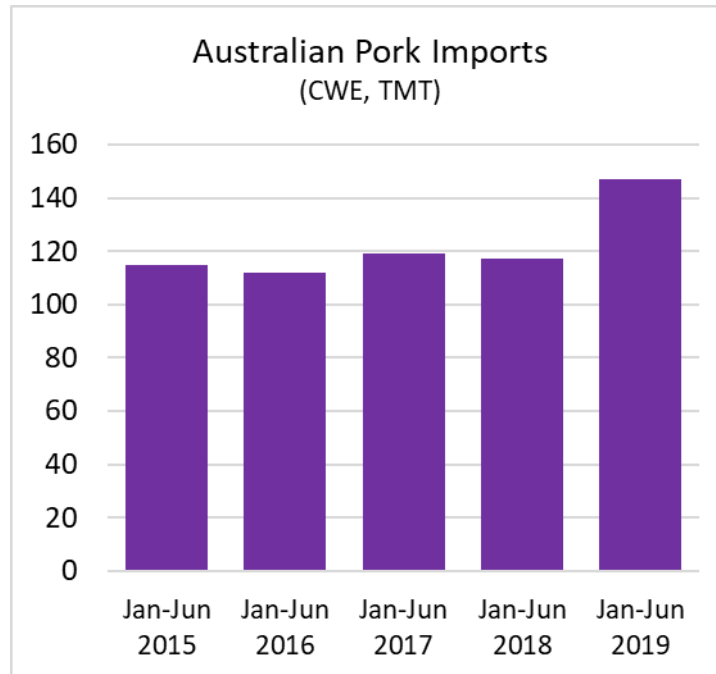
FAS/Canberra forecasts Australia's pork imports to fall 20,000 MT (CWE) in 2020 from the revised 2019 estimate to 230,000 MT due to increased domestic production. The fresh pork market is supplied by local producers as biosecurity regulations prevent imports of fresh and chilled pork. Processed pork, which includes ham, bacon and small goods, is mainly supplied from processed frozen pork imports.

Pork exports are forecast to remain steady at 45,000 MT (CWE). Australia typically exports pork to Singapore, Hong Kong, and New Zealand. Pig meat exports are primarily used for processing. Around 50 percent of exports are made on an intra-company basis; from subsidiary to parent company. The largest integrated Australian pig farm exports around one third of its production, mainly to Singapore and Japan.

### 2019

FAS/Canberra's estimate for Australia's pork imports in 2019 is revised up 20,000 MT (CWE) to 250,000 MT as a result of very strong shipment pace-to-date. Imports in the first half of 2019 reached 147,000 MT (CWE), up 25 percent compared to the same period last year. The combination of reduced domestic production and attractive pork prices have meant an even greater share of processed pork is being supplied through imports. About half of Australia's pork imports so far in 2019 have been from the United States, with other major suppliers including Denmark, the Netherlands, and Canada.

The 2019 pork export estimate is unchanged at 45,000 MT (CWE) as export pace-to-date has only fallen slightly from 2018.



Source: Australian Bureau of Statistics

Meat, Swine Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	5423	5423	5300	5150	0	5250
Beginning Stocks	0	0	0	0	0	0
Production	424	424	420	400	0	410
Total Imports	216	216	230	250	0	230
Total Supply	640	640	650	650	0	640
Total Exports	47	47	45	45	0	45
Human Dom. Consumption	593	593	605	605	0	595
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	593	593	605	605	0	595
Ending Stocks	0	0	0	0	0	0
Total Distribution	640	640	650	650	0	640

(1000 HEAD) ,(1000 MT CWE)

*Not Official USDA Data*