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Report Highlights:

The Australian beef cattle herd is expected to begin rebuilding in 2017, following record years of slaughter in response to high overseas prices and poor pasture conditions. This turnaround reflects the sharp break in drought conditions from mid-2016, especially in Queensland and NSW. The beef cattle herd size dropped to an estimated 26 million in 2016 but is expected by Post to gradually recover from late 2017 as cow and calf slaughter declines. Beef and veal production is estimated by Post to have declined to 2.2 million MT over 2016 and to reach 2.0 million MT in 2017. Australian exports of beef and veal are therefore forecast to decline to 1.4 million MT despite continued strong international demand. Pork production is stable and focused on fresh pork products while imports supply most of the market for processed pork products.

EXECUTIVE SUMMARY:

Due to a severe drought from 2011, poor pastures and rising international prices, the size of the Australian beef cattle herd fell to a 20-year low of 26 million in 2016. Seasonal conditions turned around sharply in mid-2016 with above average rainfall which is expected to continue for the rest of the year. As a result, pastures are recovering across the country and slaughter rates are forecast to decline to more levels in 2017 and beyond. Continuing strong international demand for beef and live cattle has pushed livestock prices to new highs and slowed the rate of restocking due to competition for breeding stock. High domestic prices for beef in recent years has increased consumption of pork and chicken, reinforcing a long-term trend.

Australian beef and veal production is forecast to decline significantly to two million MT in 2017 due to supply constraints and the beginning of the herd rebuild as farmers retain breeding stock. The retention of cattle in feedlots due to low grain prices and a shortage of feeder cattle means that higher average carcass weights will offset lower slaughter numbers. Beef cattle processors are rationalizing their operations in response to lower supplies. Beef and veal exports are forecast due to lower production with international demand still strong. Australia is expected to remain the major beef exporter to the US market, but volumes will fall.

High beef prices have provided support for the domestic pork industry, especially for fresh meat which cannot be directly imported but must be processed locally. Swine numbers are relatively stable although the number of sows has been slightly revised upwards. Imports supply most of the market for processed pork products. Post has sought to expand market access, with U.S. microwave bacon exports approved in 2016. Negotiations have continued over biosecurity controls which currently prevent imports of fresh pork from the United States and other countries.

Commodities:

Animal Numbers, Cattle

Animal Numbers, Swine

Meat, Beef and Veal

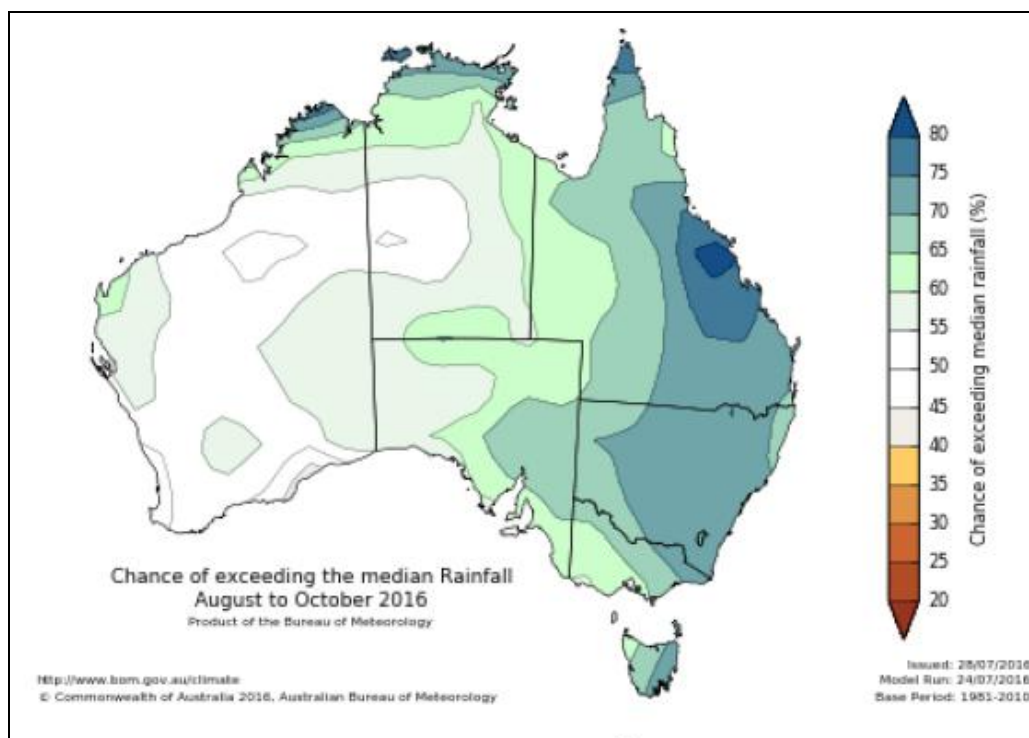
Meat, Swine

SEASONAL OUTLOOK

In Australia, cattle are predominantly grass-fed and the availability of pasture is critical to carrying capacity. Over the three years to mid-2016, drought conditions affected around one third of beef cattle farms across Australia. This contributed to high cattle turn-off (slaughter and live cattle exports) as farmers faced feed shortages while export markets offered high prices. Over this period, the number of grain-fed cattle in feedlots increased due to adverse seasonal conditions and the need to finish cattle before market.

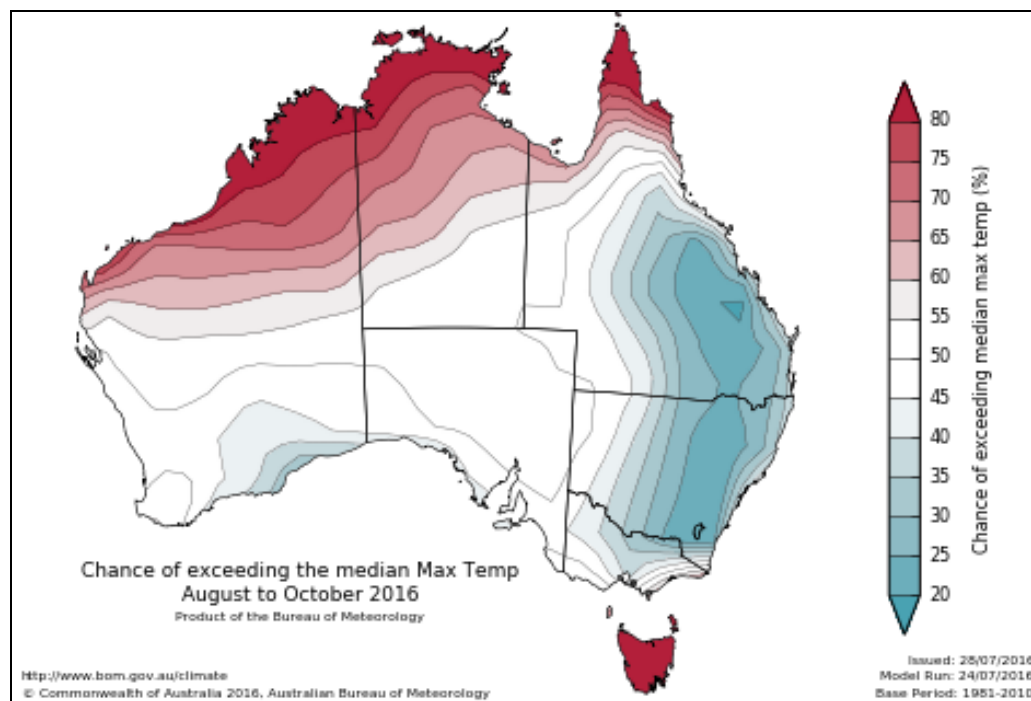
Adverse seasonal conditions appear to have ended in mid-2016 due to heavy and continued rainfall. Since June 2016, few regions have received below average rainfall and many received record falls and lower average temperatures. The seasonal outlook for August to October is for higher than average rainfall, especially in Queensland and NSW, which are the States most affected by the previous drought (see Chart 1). Current climate conditions in Australia are being influenced by a strong negative Indian Ocean Dipole, continued cooling of tropical Pacific Ocean waters, and very warm sea surface temperatures surrounding northern and eastern Australia: see www.bom.gov.au. Temperature across eastern Australia will be much more benign than in recent years (Chart 2). Extensive rainfall in most regions has removed virtually all short-term rainfall deficiencies and significantly improved soil moisture conditions for the pasture and feed grain industries. Improved pasture growth and rainfall in Queensland and NSW is shown in Charts 3 and 4 below. Improved seasonal conditions and grass cover in most beef producing regions will support lower slaughter rates and encourage gradual herd rebuilding.

Chart 1: Rainfall forecast for the three months to October 2016



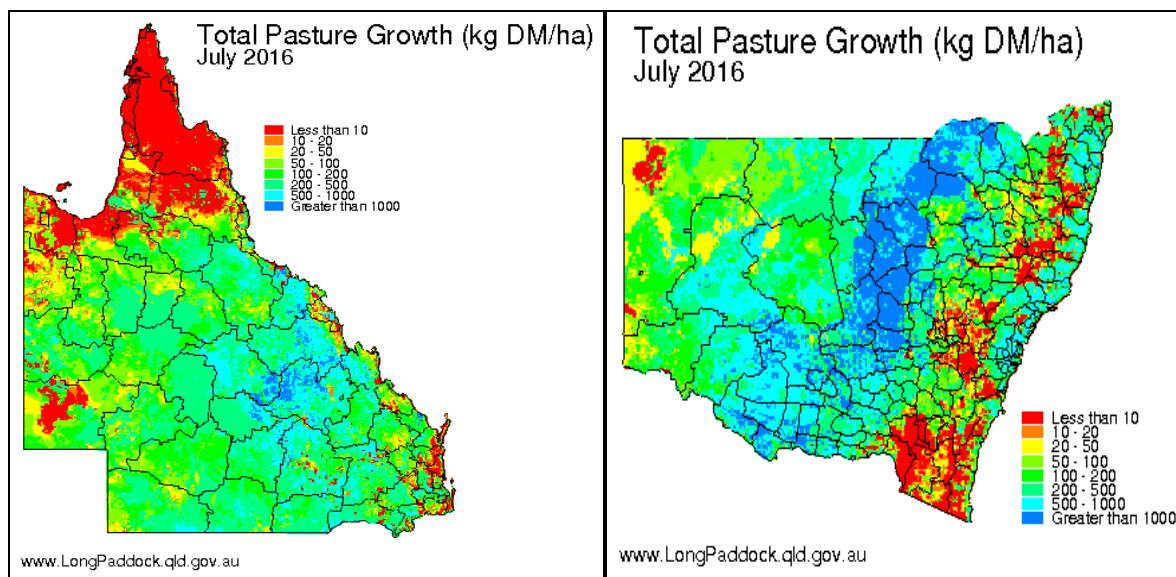
Source: Australian Bureau of Meteorology

Chart 2: Temperature outlook for the three months to October



Source: Australian Bureau of Meteorology

Charts 3-4: Pasture growth in Queensland and NSW to July 2016



Source: Queensland and NSW State Governments (Long Paddock website).

CATTLE

Cattle Numbers

In 2016, the size of the Australian beef cattle herd fell to a two decade low of 26 million head. The decline in the national herd is expected by Post to be stopped because of lower cow and calf slaughter numbers and the considerable improvement in seasonal conditions and pasture. The turnaround in the female slaughter is a clear indicator of the intention of producers to restock but high livestock prices has inhibited this intention despite improving pasture conditions and low grain prices.

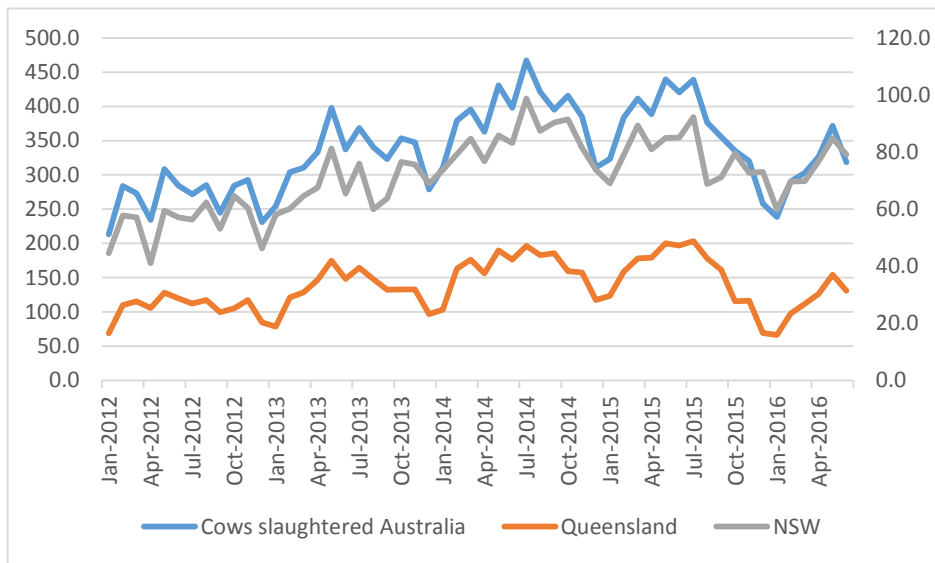
Increasing cattle and beef prices and a feed shortage in northern Australia contributed to the high slaughter rate over the three years to 2015. Mixed beef and grain farms in Queensland and northern NSW were especially affected by the drought and accounted for over 40 percent of total cattle turn-off in northern Australia. More recently, this region has benefited especially from improved rainfall and significant pasture growth, providing an opportunity for stock retention. High stock prices still provide an incentive to some producers for turn-off, but also encourage others to retain livestock for weight gain and breeding purposes. A continuing improvement in seasonal conditions is needed for herd rebuilding to gain momentum.

Currently, cattle supplies to processing facilities have tightened due to the smaller national herd and the trend towards stock retention. Competition between beef processors and live exporters for stock has increased significantly. In August 2016, the Eastern Young Cattle Indicator (EYCI) reached a new record of over A\$7.006 cents per kilogram reflecting competition for livestock, especially by re-stockers.

Cattle Slaughter

In 2016, Australian cattle slaughter is expected to decline from historic highs in previous years to be 8.15 million head, around the same as the official forecast (Chart 5). Slaughter is forecast to decline to 7.4 million in 2017 due to improving seasonal conditions and a greater preference for stock retention in pursuit of herd rebuilding. Post estimates that cow slaughter in 2016 will slow to 3.55 million head (44 percent of total slaughter) as female stock is increasingly retained. This is a revision to the official forecast of 3.9 million because of the sudden turnaround in seasonal conditions and the rapidly falling female slaughter rate, which is forecast to continue. In 2017, Post has forecast female slaughter to fall to 3.4 million as stock is retained for herd rebuilding.

Chart 5: Cow and heifer slaughter by major State (RHS) and for Australia (LHS), 2014-16



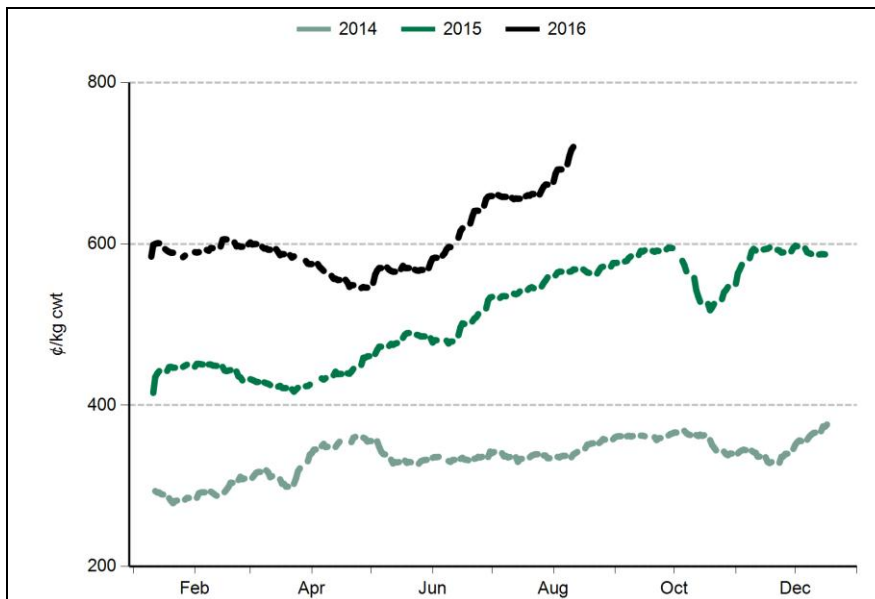
Source: Australian Bureau of Statistics (2016).

For the same reasons, calf slaughter is expected to decline to 0.55 million, down from the official estimate of 0.6 million. Post has forecast calf slaughter to decline further in 2017 to 0.5 million as producers retain stock to take advantage of much better pasture conditions. Other slaughter (mostly steers) is expected become more significant at 4.05 million head, matching the official estimate. Post has forecast other slaughter to decline to 3.5 million in 2017 due to declining supplies of cattle which will further support higher livestock prices in Australia (Chart 6).

Beef and Veal Production

Beef and veal production is estimated by Post at 2.2 million MT in 2016, around the same as the official estimate. This decline reflects the continued fall in slaughter numbers and diminished size of the national herd. An increase in average carcass weights is expected because of the improvement in pasture conditions, low grain prices and a decline in female cattle being processed. Post forecast that beef and veal production in 2017 will decline further to 1.4 million MT as a result of the continuation of these trends.

Chart 6: Eastern Cattle Indicator, 2014-August 2016 (Australian cents/kilogram cwt)



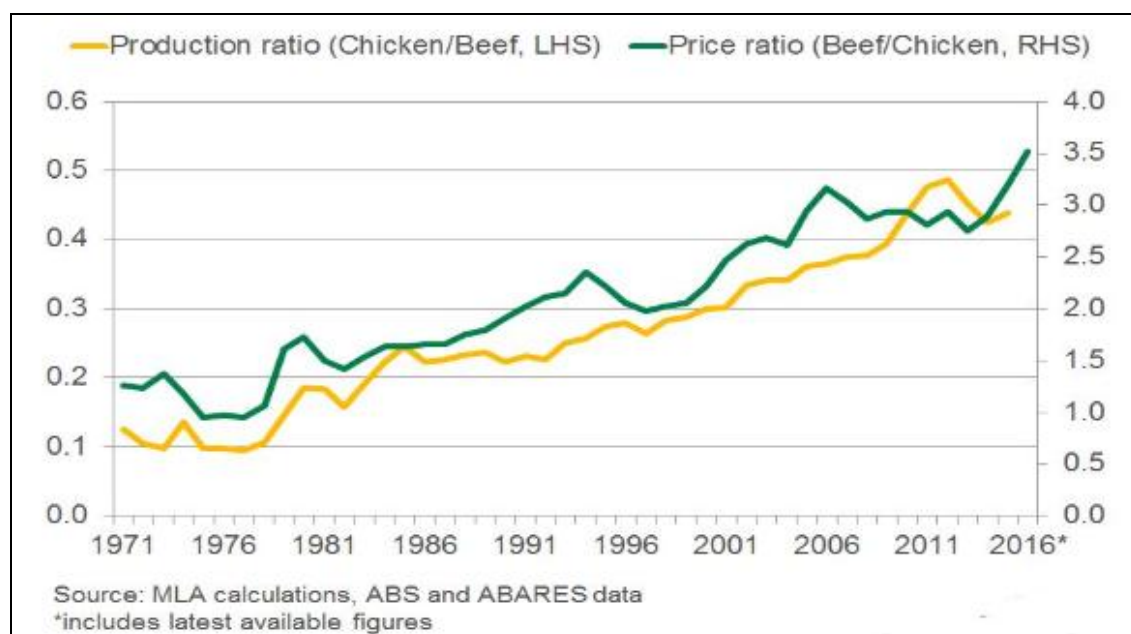
Note: The Eastern Young Cattle Indicator (EYCI) is the general benchmark of Australian cattle prices. The indicator is a seven-day rolling average produced daily by MLA's National Livestock Reporting Service (NLRS). The EYCI includes vealer and yearling heifers and steers, grade score C2 or C3, 200kg+ liveweight from saleyards in NSW, QLD and VIC. The results include cattle purchased for slaughter, restocking or lotfeeding and are expressed in cents per kilogram carcass (dressed) weight (c/kg cwt).

Source: Meat and Livestock Australia (2016).

Consumption

In 2016, beef consumption is expected to fall slightly due to supply shortages and higher retail prices in Australia. Retail beef prices rose by an estimated ten percent during 2015 due to higher global beef prices, leading to a significant fall in domestic beef consumption. In 2016, higher red meat prices mean that domestic per capita consumption of alternative meats such as chicken and pork is likely to increase further, continuing a long-term trend. The ratio of retail beef prices to chicken in mid-2016 was the highest on record since 1970 (see Chart 7 below).

Chart 7: Comparative production and retail prices for beef and chicken in Australia



Trade

In 2016, Post estimates that beef exports will fall to 1.5 million MT, in line with official forecast. In 2017, beef exports are forecast to decline further to 1.4 million MT due to a shortage of supplies and herd re-building rather than lower international demand. In recent years, Australian exports have been focused on markets in the United States, Japan and Korea, but exports to China could increase in the future. Exports by country are shown in Table 1.

The US Beef Market

Australia is the largest supplier of imported beef into the United States, which is the major beef export market for Australian producers. Around 70 percent of Australian beef exports to the US market are manufacturing beef, which is used in ground beef products or for further processing. In 2016 and beyond, US demand for Australian beef exports are expected to decline as domestic production increases, while supply constraints also inhibit exports from Australia.

The Japanese Beef Market

Australia is a major supplier to the Japanese beef market; with over a 50 percent share in 2016 although this is declining. Japan accounted for one fifth of Australian beef exports in 2015 and was its major market for grain-fed beef. In 2016, Post expects Australian exporters to face more competition from US exporters although tariffs on exports of fresh beef from Australia to Japan have fallen from 38.5 percent to 30.5 percent under the bilateral FTA.

The Korean Beef Market

Australia's beef exports to Korea grew by 30 percent in 2015 but Australian exporters face greater competition from U.S. beef exporters which retain a five percentage point advantage over Australian exporters into the Korean beef market due to the earlier implementation of the US-Korea FTA.

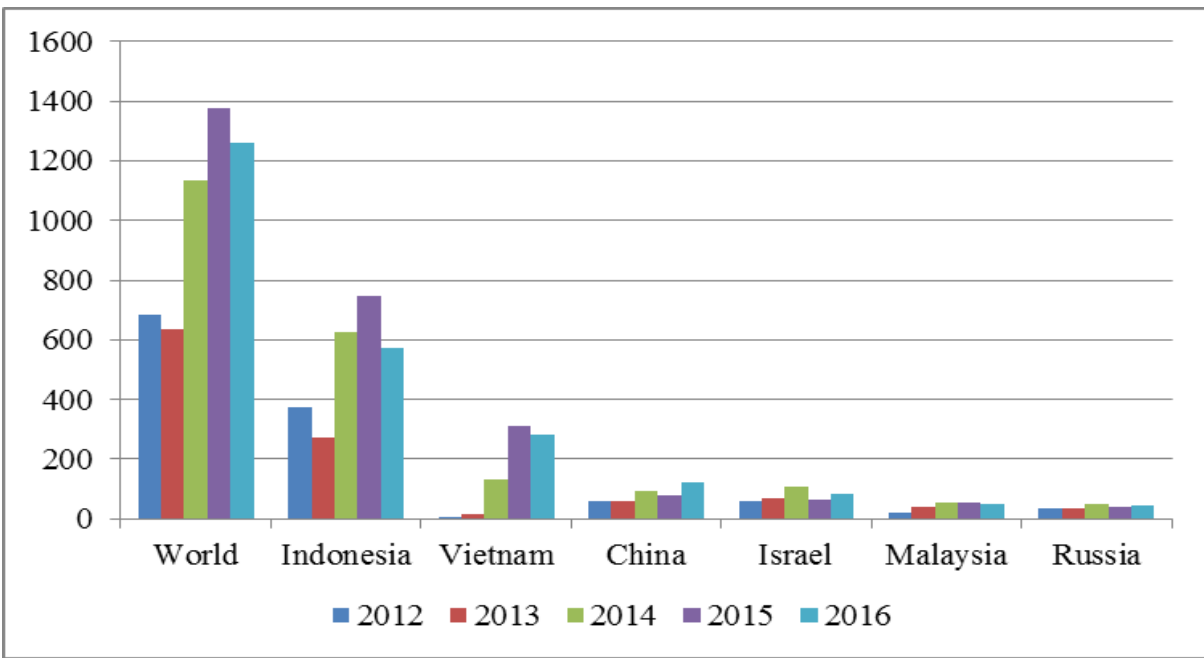
The Chinese Beef Market

Post expects Australian beef and veal exports to China to increase by around ten percent in 2016 as market access is expanded under the bilateral FTA. Australia's beef exports into the Chinese market have focused on supplying high-value restaurants and the food services industry.

Exports of Live Cattle

In 2016, Australian live cattle exports are expected to be stable at 1.1 million head despite ongoing supply constraints because of the smaller Australian cattle herd. In recent years, live cattle exports have become more significant and accounted for 12 percent of total turn-off in 2015. Indonesia has always been the major market for live cattle exporters because of its proximity and its preference for lower weight feeder cattle which can be finished in that country. Exports of live cattle by country are given in table 2 below.

Chart 6: Australian live cattle exports, year to June, 2012-16 ('000 head)



Source: World Trade Atlas (2016).

Table 1: Australian beef exports by country, 2009-2015 ('000 MT)

	2009	2010	2011	2012	2013	2014	2015
United States	253	186	170	227	212	396	420
Japan	366	366	352	313	294	289	283
South Korea	129	141	162	142	155	157	182
China	7	10	14	35	153	128	152
Indonesia	53	50	43	27	40	58	40
Other	167	224	266	261	284	294	249
World	975	977	1,007	1,005	1,138	1,322	1,326

Source: World Trade Atlas.

Table 2: Australian live cattle exports by country, 2009-2015 ('000)

	2009	2010	2011	2012	2013	2014	2015
Indonesia	773	521	414	279	452	728	619
Vietnam	0	1	1	3	67	185	313
China	33	57	54	56	67	118	82
Israel	37	43	54	50	98	78	79
Malaysia	14	17	12	33	48	53	55
Russia	2	13	31	39	35	48	42
Other	95	223	129	160	84	87	146
World	954	875	695	620	851	1,297	1,336

Source: World Trade Atlas

Production, Supply and Distribution Statistics:

Animal Numbers, Cattle	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	29102	29102	27682	27682	0	27582
Dairy Cows Beg. Stocks	1710	1710	1710	1710	0	1710
Beef Cows Beg. Stocks	13200	13200	13100	1310	0	13100
Production (Calf Crop)	9664	9664	9200	9200	0	9200
Total Imports	0	0	0	0	0	0
Total Supply	38766	38766	36882	36882	0	36782
Total Exports	1336	1336	1100	1100	0	1100
Cow Slaughter	4450	4450	3450	3550	0	3400
Calf Slaughter	667	667	625	550	0	500
Other Slaughter	4558	4558	4050	4050	0	3500
Total Slaughter	9675	9675	8125	8150	0	7400
Loss	73	73	50	50	0	50
Ending Inventories	27682	27682	27607	27582	0	28232
Total Distribution	38766	38766	36882	36882	0	36782

(1000 HEAD)

Meat, Beef and Veal	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	9696	9675	8125	8150	0	7400
Beginning Stocks	55	55	26	26	0	32
Production	2547	2547	2180	2200	0	2000
Total Imports	13	13	16	16	0	16
Total Supply	2615	2615	2222	2242	0	2048
Total Exports	1854	1854	1525	1525	0	1400
Human Dom. Consumption	735	735	685	685	0	645
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	735	735	685	685	0	645
Ending Stocks	26	26	12	32	0	3

Total Distribution	2615	2615	2222	2242	0	2048
(1000 HEAD) ,(1000 MT CWE)						

SWINE AND PORK

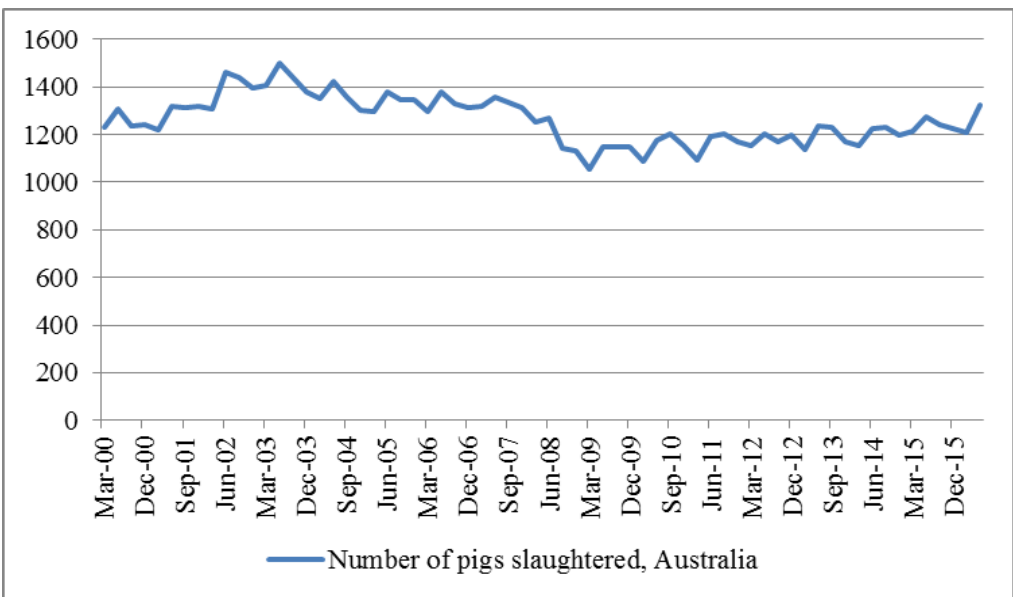
Post expects the size of the Australian pig crop to be stable at 5.25 million in 2017, the same as the official estimate for 2016. Post expects pig slaughter to be 5.1 million head, the same as the official estimate for 2016. In 2017, Post expects pork production to be unchanged compared to the previous year, at 385,000 MT.

Currently, the pork processing sector reportedly consists of 45 abattoirs, of which the largest seven accounts for over 80 percent of pigs processed in Australia. Larger pig farms in Australia have tended to expand capacity due to higher prices for beef and a switch to other meats including pork. At the same time, smaller pig producers have been leaving the industry.

Larger pig farms tend to be vertically integrated, w also contracting out pig production in order to specialize in processing activities. The impact of this change is likely to be to increase the efficiency of the industry, especially as pig farms become larger in scale. In late 2014 JBS acquired the largest domestic producer of ham, bacon and other processed pork products for US\$1.25 billion.

Overall, there are around 1,500 pork farmers in Australia which are focused on the fresh pork market. This faces less competition from imports than frozen meat because of biosecurity barriers on the importation of fresh pork from the United States and other countries. Post has actively sought a review of these barriers.

Chart 5: Pigs slaughtered, Australia, March quarter 2000 to June quarter 2016 ('000)



Source: Australian Bureau of Statistics (2016).

The competitiveness of the Australian pork industry is affected by the cost of feed grain which has been significantly lower over 2016 than in recent years. The feed component in use currently consists mainly of wheat, barley and sorghum which account for 60 percent of the total cost of producing pork in Australia. The improvement in seasonal conditions across Australia from 2016 is expected to increase profitability within the industry.

Consumption

Australians consume around 25 kilograms of pork per person annually, made up of ten kilograms of fresh pork and 15 kilograms of processed ham products such as bacon and small goods, which are typically frozen. Pork products account for around ten percent of total fresh meat retail consumption. Fresh pork sold in Australia is domestically produced while around two thirds of processed pork products (ham, bacon and small goods products) are made from frozen boneless pork imported from Denmark, Canada and the United States.

Consumption of pork has benefitted from higher beef prices in recent years. The domestic pork industry has heavily promoted pork consumption through marketing campaigns such as 'bacon week' and the 'get some pork on your fork'. Consumption generally peaks during Christmas but is stable over the rest of the year.

Trade

Post expects exports of pork products in 2017 to be stable at 40,000 MT. Australia exports pork to a range of countries including Singapore, Japan and New Zealand. Around half of these exports are made on an intra-company basis; from subsidiary to parent company. The largest Australian pig farm exports around one third of its production, mainly to Singapore and Japan. Pork imports into Australia in 2017 are forecast to be stable at 240,000 MT, the same as the official forecast.

The Australian market is not currently open to direct imports of fresh, chilled or bone-in pork products on biosecurity grounds. Over 70 percent of ham, bacon and other processed pork products consumed in Australia are made from imported frozen pork which is heat-treated in government accredited facilities and used to make ham and bacon products. Post has actively sought a review of Australian biosecurity barriers on pork which currently prevent the importation of U.S. fresh, chilled and bone-in pork products.

Production, Supply and Distribution Statistics:

Animal Numbers, Swine	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	2271	2271	2164	2164	0	2314
Sow Beginning Stocks	255	255	265	265	0	270
Production (Pig Crop)	4850	4850	5250	5250	0	5250
Total Imports	0	0	0	0	0	0
Total Supply	7121	7121	7414	7414	0	7564
Total Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	4957	4957	5100	5100	0	5100
Total Slaughter	4957	4957	5100	5100	0	5100
Loss	0	0	0	0	0	0
Ending Inventories	2164	2164	2314	2314	0	2464
Total Distribution	7121	7121	7414	7414	0	7564
(1000 HEAD)						

Meat, Swine	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	4957	4957	5100	5100	0	5100
Beginning Stocks	25	25	21	21	0	26
Production	374	374	385	385	0	385
Total Imports	220	220	240	240	0	240
Total Supply	619	619	646	646	0	651
Total Exports	36	36	40	40	0	40
Human Dom. Consumption	562	562	580	580	0	590
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	562	562	580	580	0	590
Ending Stocks	21	21	26	26	0	21
Total Distribution	619	619	646	646	0	651

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