mla market INFORMATION

Red Meat Market Report

Domestic

Retail and Foodservice 2008 update

Hanh Hoang – February 2009
hhoang@mla.com.au
02 9463 9309

Abstract

The budget squeeze that gripped Australia households during 2008 will continue into 2009. A weaker domestic economy and falling consumer confidence has reduced expenditure on eating out, with consumers opting for lower-value meat cuts and cooking at home.

At retail, sales of meat were particularly strong during the first half of 2008, but started leveling off into the second half of the year, as increasing economic uncertainty saw more consumers tighten their household spending.

The foodservice industry experienced negative growth in 2008, although fast food chains appeared to have out-performed restaurants, hotels/motels and pubs/clubs.

The pressures upon the Australian retail and foodservice sectors are likely to increase into 2009, with both foodservice operators and households seeking ways to relieve margin pressure and reduce cost.

Australian beef and lamb consumption are both expected to fall in 2009, with a deteriorating economic outlook and lower A$ increasing exports.

Key findings

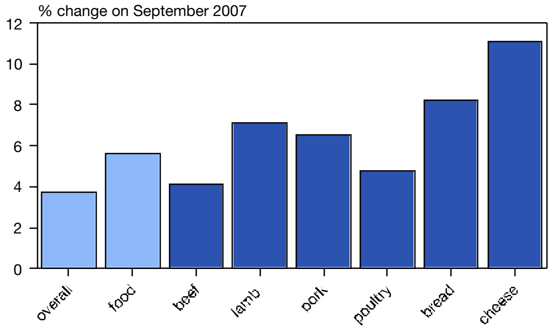
- High grain prices continued to pressure retail meat prices during 2008, particularly for pork and poultry and, to a lesser extent, beef and lamb prices.
- During 2008, retail chicken and pork price increased 8.9% and 5.5% respectively. Tighter supplies helped retail lamb prices rise 5.2% during the same period, while beef prices climbed 3%. Increased grassfed beef production largely offset the impact of the higher cost of production on grainfed beef.
- Results from Meat & Livestock Australia's (MLA) monthly butcher survey suggest that retail sales of all meats improved for most of 2008. Retail sales started leveling off in November, in the face of the global economic slowdown and falling consumer confidence.
- The Roy Morgan Consumer Confidence Rating, as at the first week of January 2009, registered 104.1 points - up 16.8 points from the 17-year low of 87.3 registered in late October 2008. However, confidence remained 14.5 points below January 2008 levels.
- In November 2008, most commercial foodservice outlets described themselves as 'doing OK', followed by a surprising high number of respondents 'thriving' (22%) and 15% 'slow or struggling'. The result was positive, with more respondents 'thriving' than 'slow or struggling'. Overall, fast food chains appeared to have been performing better compared with restaurants and fast food independents (Penfold Research).
- The economic slowdown has forced almost all foodservice outlets to respond, with the vast majority of respondents (83%) reportedly implementing at least one action to remain in operation. The most common actions taken were 'more specials' (47%), 'increased local marketing' (46%) and 'reduced staff costs' (45%).
- Results from foodservice tracking also indicated that beef usage in this segment had fallen, despite results suggesting beef usage remaining on a long term growth trend since 2004. Weekly beef usage in November 2008 fell to 66.2kg/outlet – down 16% on the same period last year and 7% below May 2008 results.
- Domestic expenditure on red meat during 2008 is estimated to have decreased 1% to nearly $9 billion. The fall was the result of a 1% decline in beef value and a 9% drop in mutton expenditure, despite a slight increase in lamb value.

Domestic retail segment

This section of the report outlines retail price changes, the key results from MLA's monthly butcher survey carried out by Millward Brown's National Field Services and key trends identified from serving data provided by Roy Morgan Research.

Figure 1

Consumer price index December quarter 2008



Source: ABS

Retail meat prices continue to increase

(Data source: Australian Bureau Statistics)

The Australian Consumer Price Index (CPI) for the December quarter 2008 increased 3.7% compared with the same period in 2007. However, compared to the previous September quarter, the CPI rate actually declined 0.3 percentage points, representing the largest quarterly fall since September quarter 1997.

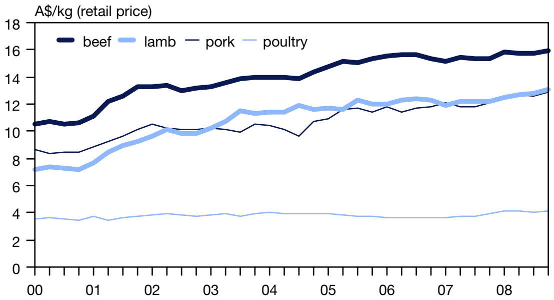
Contributing to the decline in inflation during the final quarter of 2008 was lower fuel, pharmaceuticals, motor vehicles and finance costs, while the most significant price increases continued to be driven by rents and food, particularly fruits, and take away and fast foods (Australian Bureau Statistics).

In comparison to the overall inflation rate of 3.7% for 2008, food prices increased 5.6%, with the ripple effect from high grain prices over the first half of 2008 the main contributor. Prices of most food items that use grain as key ingredient continued increasing above the general 5.6% inflation rate for food, including bread and cereal products (8.9%). The higher cost of grain for feed also contributed to price jumps for cheese (11.1%), ice cream and other dairy products (7.2%).

Retail beef prices during 2008 increased 3%, averaging $15.79/kg - below the annual CPI (3.7%) and food group inflation rate (5.6%). Contributing to the relatively small increase for the year was a 2% rise in average grassfed cattle prices, while higher feed grain prices increased production costs for grainfed beef.

Figure 2

Australian retail meat prices



Source: ABS

Retail lamb prices increased 5.2% during 2008 ($12.77/kg), with the higher price largely due to falling supplies and strong local and overseas demand.

Pork prices increased 5.5% during 2008 ($12.61/kg), attributed to the rising cost of imported product and sharp reduction in the domestic pig herd during the year. Meanwhile, chicken prices jumped 8.9% year-on-year, to $4.10/kg.

Butcher sales of meat slow down in December quarter 2008

(Data source: Millward Brown's National Field Services)

During the December quarter 2008, Australian butchers reported decreased sales of most meats, compared with the same time last year, as the gloomy economic conditions saw consumers reduce expenditure on high value meat cuts.

Over the December quarter 2008, 62% of butchers noted that beef sales were 'very good to excellent', and a further 26% reported 'good' sales.

This was lower than the December quarter 2007 results, when 65% of butchers indicated 'very good to excellent sales', while 25% recorded 'good' sales.

For lamb, 52% of respondents reported 'very good to excellent' sales, and 35% reported 'good' trading, compared with 58% and 30%, respectively, during the same time in 2007.

Butchers also noted weaker sales for pork during the December quarter 2008, with the proportion of butchers reporting 'very good to excellent' results falling to 37%, down from 42% in 2007. In contrast, sales of chicken increased during the period, with 55% of respondents reporting 'very good to excellent' sales, up from 46% 12 months ago.

The price of all meats also increased during the December quarter 2008. According to the MLA's butcher survey results, average pork and chicken prices surged 10% and 7%, respectively, on year-ago levels, while beef and lamb prices increased 6% and 4%, respectively. Large price jumps were noted particularly for beef silverside steak (up 15%), beef mince (up 15%) and beef sausages (up 10%), partly reflecting stronger demand for cheaper items compared with the same quarter in 2007.

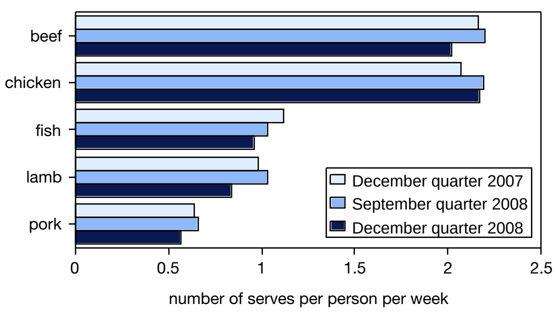
Weekly servings of fresh meat

(Data source: Millward Brown)

Millward Brown conducts weekly interviews to 100 people between 18 and 64 years of age living in the metro areas of Sydney, Melbourne, Brisbane, Adelaide and Perth. Latest results from the retail tracking survey based on mums with kids aged 5-17 years old has revealed an early sign of a slow down in red meat consumption at home, with the overall weekly serves of beef taking a dive in the December quarter after three strong quarters.

During the December quarter 2008, the average number of beef serves decreased to 2.02 serves per person per week, a fall from a weekly serve of 2.2 serves per person during the previous quarter and a weekly serve of 2.16 serves per person during the same period in 2007.

Figure 3
Weekly servings of fresh meat



Source: Miilward Brown

Beef is not alone in witnessing a fall in the average number of serves per week, as the number of fish, lamb and pork servings show similar trend. The average number of weekly lamb serves declined during the December quarter 2008 to 0.84 serves per person per week, a dip from the previous quarter and the December quarter 2007.

Average weekly pork serves also declined to 0.57 serves per person during October to December 2008, down from the December quarter 2007.

Consumers consider these meats more expensive compared to chicken, which has increased number of serves over time to finish 2008 above beef for the first time. The average weekly chicken serves registered 2.17 serves per person during October to December 2008.

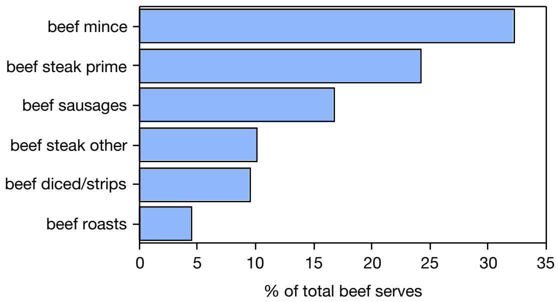
Despite an early sign of a slowdown in red meat consumption at home at the end of 2008 – which was mainly attributed to the weakened economy conditions and the collapse in overall consumer confident, consumers' core attitude towards red meat remained relatively strong.

Household servings of fresh meat

(Data source: Roy Morgan November 2008)

Results from the latest Roy Morgan's retail survey during the three months to December 2008 indicated that total household servings of fresh meat remained stable at 125 million serves per week. This was mainly because the retail sector has been bolstered by the reduction in out-of-home dinning during this period and the data tends to have a lag effect. Beef and veal during the three months to December 2008 registered 44.6 million serves per week, with the number of lamb serves averaging 22 million. Chicken registered 35.2 million serves per week while pork serves averaged 15.3 million.

Figure 4
Beef cut trends - October to December 2008



Source: Roy Morgan

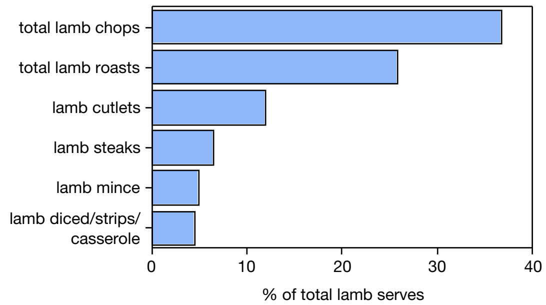
steak prime cuts = sirloin, scotch fillet, rump, T-bone
steak other cuts = blade, round and topside

Fresh meat cuts

During the three months to December 2008, beef mince continued to be the dominant beef item purchased at retail. On average, about 14.3 million serves of beef mince were purchased each week during October to December 2008, accounting for 32% of all beef cuts purchased. Beef prime steak ranked as the second most purchased item, with 10.8 million serves per week during the three months to December 2008, representing 24% of total beef purchased.

Lamb chops and roasts remained the most popular lamb cuts purchased by consumers during October to December 2008. Lamb chops averaged 8.1 million serves per week during the period (37% of total lamb cuts purchased at retails), while lamb roast registered 5.7 million serves per week – 26% of total lamb cut purchased by consumers.

Figure 5
Lamb cut trends - October to December 2008



Source: Roy Morgan

lamb steak = leg steak, backstrap, fillet or sirloin

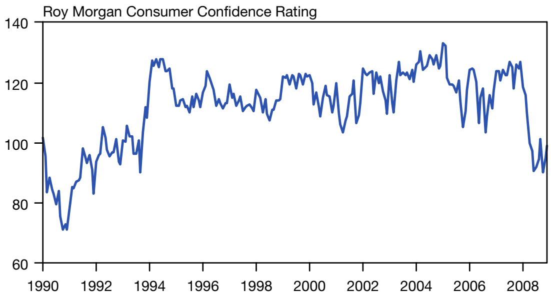
Consumer confidence - Roy Morgan

October 2008 saw Australian Consumers Confidence Rating dip to its lowest level in 17-years, to 87.3 points, as the global economic and financial crisis created uncertainty for consumers (Roy Morgan Research).

Roy Morgan's consumer confidence index started recovering from mid November through to mid December, as the larger than expected interest rate cuts by the Reserve Bank of Australia and the government's stimulus packages began to be delivered to Australian families and pensioners.

The first Roy Morgan's consumer confidence rating for 2009 (for the week ending 4 January) revealed that Australian consumer confidence was on the increase. The confidence rating increased for six-consecutive week, reaching 104.1 points in the first week of January – the highest level since March 2008. The index, however, remained 14.5 points January 2008 levels.

Figure 6
Australian Consumer Confidence Rating



Source: Roy Morgan

Foodservice segment

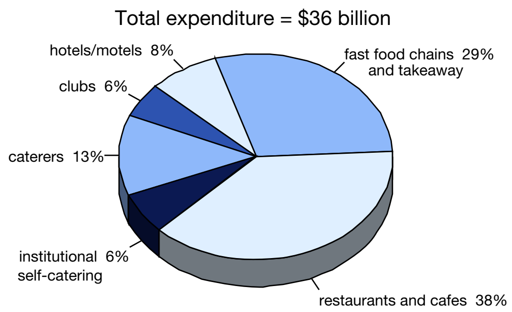
This section of the report summarises the key findings of most of the recent Penfold Research tracking survey, commissioned by MLA and carried out in November 2008.

The November 2008 survey is the fifteenth in a series of studies tracking the consumption of, and preferences for, beef, veal, lamb, mutton, pork and poultry within the Australian foodservice sector. The main objectives of the study are to examine weekly quantities purchased with previous survey periods and to identify the most popular beef and lamb cuts.

The survey involved 435 telephone interviews during November 2008 across Sydney, Melbourne and Brisbane/Gold Coast. The majority of respondents were owners/managers (59%), followed by chefs (35%), of restaurants, hotels/motels, fast food chain outlets, pubs and clubs, and independent fast food outlets.

Figure 7

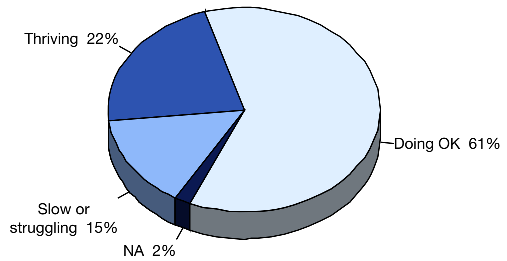
Foodservice market 2008



Source: ABS/Penfold Research

Figure 8

State of commercial foodservice outlets 2008



Source: Penfold Research

Market size and growth overview

The Australian foodservice market was valued at $36 billion in 2008, according to the Australian Bureau Statistics data (ABS) utilised by Penfold Research. This equates to 0.6% growth in the market during 2008, below the 6.5% growth in the market during 2007.

During 2008, prices in the Australian foodservice industry were estimated to increase by around 5.5%, which equates to a 4.9% fall in real growth for the industry - well below the average historical real growth rate of around 3% per annum. The outlook for the sector in 2009 remains poor, given the extent of the economic slowdown, although the second half of the year may see the beginnings of an improvement.

Current state of the foodservice sector

For the first time as part of the survey, foodservice outlets were asked whether their business was 'thriving', 'doing OK' or 'slow or struggling' compared with a year ago.

While most outlets described themselves as 'doing OK' (61%), a surprising high number responded as 'thriving' (22%) and around 15% were 'slow or struggling'. Given the apparent weakness in the general economy, the result was quite positive, with more respondents 'thriving' than 'slow or struggling'.

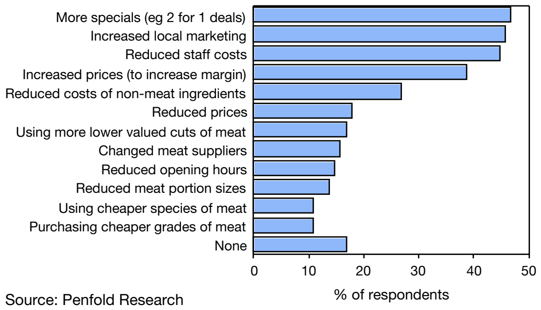
When taking the proportion of outlets reporting 'doing OK' minus the percentage of respondents noting 'slow or struggling', fast food chains (+37%) appeared to have been performing the best. On the other hand, restaurants (-6%) were performing relatively poorly, as were fast food independents (-4%).

Action taken to cope with economic conditions

Also for the first time as part of the survey, foodservice outlets were asked whether they had implemented changes in order to respond to the deteriorating economic conditions.

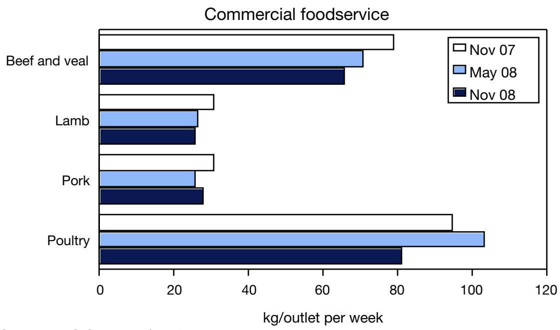
Given prompted responses, this question was designed to estimate how, and to what degree, foodservice outlets had been required to make changes, and which types of actions are most popular.

Figure 9
Actions taken to cope with economic slowdown
November 2008



Source: Penfold Research

Figure 10
Average weekly meat and poultry usage



Source: BIS Shrapnel/Penfold Research

The vast majority of respondents (83%) were taking at least one of the listed actions, indicating the economic slowdown has forced almost all foodservice outlets to make changes. The most common actions taken were 'more specials (e.g. 2 for 1 deal, free glass of wine etc)' (47%), 'increased local marketing' (46%) and 'reduced staff costs' (45%).

Actions associated with meat included; using lower-valued meat cuts, changing meat suppliers, and reducing meal portion sizes.

In terms of action by outlet types, pubs and clubs implemented the most actions (an average of 4/outlet), with only 4% of respondents stating that they had done nothing. The most common action amongst pubs and clubs was to 'reduce staff costs' (62%) as well as provide 'more specials' (62%).

Restaurants and hotels/motels also implemented more than the average actions to cope with the economic downturn, with changes such as 'increased local marketing', 'reduced staff costs' and 'more specials' employed the most.

Fast food chains and fast food independents had a higher proportion of respondents doing nothing compared with restaurants and hotels/motels– both at 20%, yet those responding to the weakening economic conditions mainly implemented 'more specials', 'increased local marketing', 'increase prices (to increase margin' or 'reduced staff costs'.

On the other hand, aged care outlets and institutional outlets were the least active.

Fresh meat and poultry consumption at foodservice

The November 2008 tracking survey revealed a 17% fall in total meat consumption compared with November 2007 results, to 214.8kg/outlet. Weekly usage was the lowest since May 2004 and this is the third consecutive survey decline since May 2007.

Beef and veal

Current foodservice trends in the Australian market suggest that consumers are increasingly selecting cheaper menu items and are attracted to lower cost outlets. Foodservice operators are also more receptive to ways to ease margin pressure, whether through using lower priced products, new menu items and generally more efficient ways of operating.

Beef used by foodservice outlets was on a long term growth trend that began in 2004 and continued to 2007. Weekly usage fell 16% in November 2008 compared with the same time last year, to 66.2kg/outlet – 7% below May 2008.

Lamb

Total lamb consumption fell compared with November 2007 and May 2008, to 26kg/outlet – the lowest volume since May 2004. Contributing to the decline was a fall in lamb usage in restaurants and hotels/motels, despite a significant increase in volumes consumed at fast food chains (typically the small users of lamb) and fast food independents.

Due to relatively low usage/response for this meat type (40% did not purchase this meat), results by outlet type are less reliable than the overall total and, therefore, are not presented in this report.

Pork

Pork consumption in November 2008 eased 9% for all outlets compared with a year ago, to 28kg/outlet, while remaining 9% above the May 2008 results.

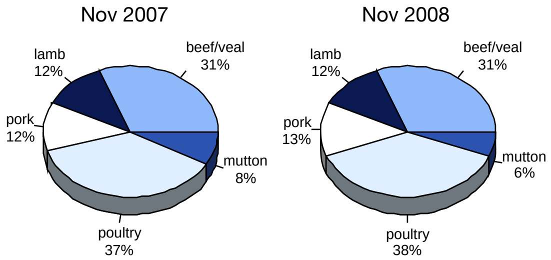
Pork usage fell across all commercial outlets compared with November 2007, except for hotels/motels.

Poultry

Poultry usage dropped 14% compared with a year ago and 21% on May 2008, to 81.4kg/outlet – the lowest volume since the tracking survey began in 2000.

The fall in poultry consumption was mainly attributed to lower usage in all commercial foodservice outlets, except for fast food independents. The volume of chicken used in restaurants, fast food chains and fast food independents also declined compared with six months earlier.

Figure 11
Share of meat usage in commercial foodservice outlets - by volume



Source: Penfold Research

Meat market share in the commercial foodservice sector

Beef and veal

Beef and veal's share of the commercial foodservice sector in the November survey increased to 31% of total meat usage, up from 30% in May 2008 and steady with November 2007.

In value terms, beef and veal continued to represent the greatest proportion of foodservice expenditure out of all the meat types in November 2008, accounting for 36% of the total meat expenditure per week, per outlet (slight fall from the 38% registered in November 2007).

Lamb

In November 2008, lamb accounted for 12% of all meat used in the commercial foodservice sector, up from 11% 6-months earlier and unchanged with November 2007.

Expenditure on lamb accounted for 15% of total meat expenditure per outlet during November 2008, up from t4% in November 2007.

Pork

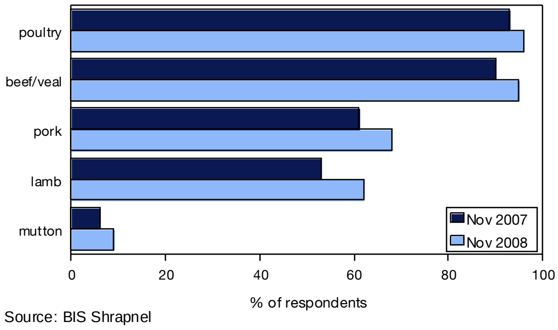
Pork's share of total meat volume used in foodservice outlets increased slightly in November 2008, to 13%, compared with 11% in May 2008 and12% in November 2007. In terms of value, pork's share eased to 11%, down from 12% in May 2008 and steady with November 2007 levels.

Poultry

In November 2008, poultry continued to account for the largest share of meat usage in the commercial sector in terms of volume, at 38%. This was below the 43% registered in May 2008, although slightly above the 37% registered in November 2007.

Poultry's share of the average foodservice outlet budget in the November 2008 survey equaled 29%, down from 30% in November 2007.

Figure 12
Incidence of purchase in the week of survey



Source: BIS Shrapnel

Relative popularity of meat

Beef and veal and poultry continued to have a high incidence of purchase across the sample base in the week of the survey, with beef and veal and poultry being purchased by 95% and 96% of outlets, respectively.

Compared with the same period in 2007, the incidence of purchases for both beef and veal and poultry increased from 90% and 93%, respectively. Lamb purchases registered a rise from 53% in November 2007 to 62% in November 2008. The incidence of pork purchases also improved 7 percentage points over the 12 months to November 2008, at 68%.

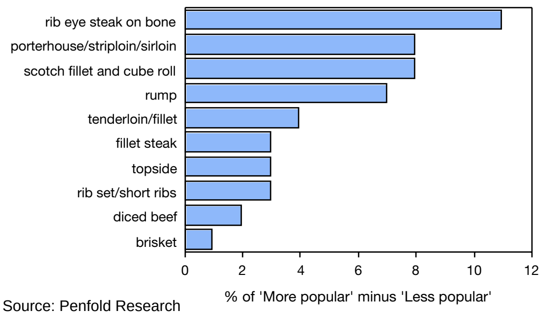
Changes in amounts paid and charged

The majority of foodservice outlets surveyed stated they were paying more now compared with 12 months ago. The largest net increase (i.e. more minus less) was for lamb (+7.3%), followed by pork (+6.9%), beef and veal (+6.6%) and poultry (+6.6%).

Most foodservice outlets were also charging more to consumers. This ranged from 3.8% more for pork to 3.5% more for beef and lamb. Generally, the percentage increase charged by foodservice outlets was around half the increase they were paying.

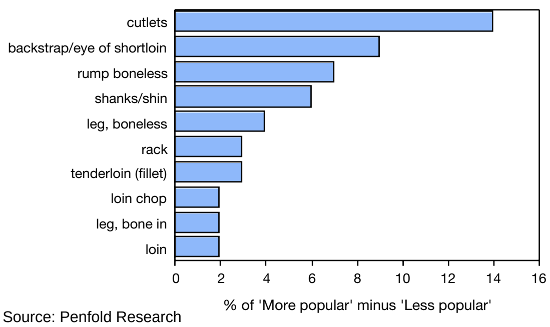
Poultry had the highest average number of dishes on dinner menus (7.2), followed by beef (6.6) and fish and seafood (6.0). Poultry dishes noticeably increased over the past two surveys, from 6.3 dishes in May 2008, to 7.2 dishes in November 2008.

Figure 13
Beef cuts that are more popular in commercial foodservice outlets - November 2008



Source: Penfold Research

Figure 14
Lamb cuts that are more popular in commercial foodservice outlets - November 2008



Source: Penfold Research

Popular meat cuts

Beef

Respondents were also asked to name which cuts of beef were becoming more and less popular during the time the survey was conducted. The largest net popularity (i.e. more minus less) was for 'rib eye on bone' (+11%), reflecting the successfulness of MLA's marketing program in replacing 'fillet steak' for 'rib eye on bone' on foodservice menus. This was followed equally by 'porterhouse/striploin/sirloin' (+8%) and 'scotch fillet/ cube roll' (+8%).

The only two cuts with negative net popularity scores were 'chuck' (-2%) and 'T-bone' (-4%).

Lamb

For lamb, 'cutlets' had the highest net popularity (+20%), following the reduced net popularity of 'rack'. Lamb 'backstrap/eye of shortloin' (+13%) and 'shanks/ shin' (+10%) were also of increased popularity in November 2008 survey.

Table 1
Domestic demand indicators

	Unit	Source	2008 calendar year	2007 calendar year	% change year
Demand watch - Beef					
usage [1]	000 tonnes carcase weight	MLA estimate	733.52	759.51	-3.4%
expenditure [2]	A$ million retail weight	MLA estimate	6,602	6,637	-0.5%
demand index	index (base 1998= 100)	MLA estimate	63	66	-5.0%
retail price	$/kg retail weight	ABS/ABARE	15.79	15.33	3.0%
wholesale price (160-210 FS2)	¢/kg carcase weight	MLA's NLRS	450	397	13.4%
saleyard price (domestic steer 180-220 cwt C3)	¢/kg carcase weight	MLA's NLRS	336	329	2.1%
Retail					
beef serves (purchased weekly)	million	Roy Morgan	45.42	41.45	9.6%
% of total fresh meat serves	%	Roy Morgan	37	37.7	-1.9%
Demand watch - Sheepmeat					
usage [1]	000 tonnes carcase weight	MLA estimate			
lamb			234.32	246.45	-4.9%
mutton			54.28	63.03	-13.9%
expenditure [2]	A$ retail weight	MLA estimate			
lamb			2,095	2,094	0.0%
mutton			301	333	-9.4%
demand index lamb	index (base 1998 = 100)	MLA estimate	76	78	-3.3%
retail price	$/kg retail weight	ABS/ABARE			
lamb			12.77	12.14	5.2%
mutton			7.93	7.54	5.2%
wholesale price lamb (18-20kg FS3)	¢/kg carcase weight	MLA's NLRS	488	414	17.9%
saleyard price	¢/kg carcase weight	MLA's NLRS			
lamb (18-20 kg)			390	325	20.0%
mutton			180	158	13.9%
Retail					
Lamb serves (purchased weekly)	million	Roy Morgan	21.68	20.59	5.3%
% of total fresh meat serves	%	Roy Morgan	17.7	18.7	-5.3%
Competitor meats					
retail price	$/kg retail weight	ABS/ABARE			
pork			12.61	11.95	5.5%
chicken			4.10	3.76	9.0%
wholesale price pork (DF pork 45-60kg)	¢/kg carcase weight	MLA's NLRS	357	380	-6.1%
Retail					
Pork serves (purchased weekly)	million	Roy Morgan	16.95	16.00	5.9%
% of total fresh meat serves	%	Roy Morgan	13.8	14.6	-5.5%
Chicken serves (purchased weekly)	million	Roy Morgan	31.47	26.18	20.2%
% of total fresh meat serves	%	Roy Morgan	25.6	23.8	7.6%

Notes:

1 - The formula used by MLA to estimate consumption is: production - carcase weight exports (including processed exports) + carcase weight imports +/- the change in stocks.

2 - The estimate of domestic expenditure on each red meat has been calculated by multiplying estimated volume consumed (estimated retail weight) in Australia by its average retail price. Countering this, to some extent, would be lower valued manufacturing product into processing and the fast food sector, the price of which is also not considered. Any error in ABS records of production or DAFF estimates of exports can have a disproportionate impact on consumption estimates, especially for beef as only around one third of beef produced is consumed locally. Production figures from ABS can be revised at any time which may affect the overall estimate.

MLA forecasts - beef

Australian beef consumption during 2008 was estimated to have decreased 3.4% compared with 2007, to 734,000 tonnes cwt. The total beef utilization in 2009 is forecast to see another fall, with an expected 2% decline in beef production and the combination of the an A$-led surge in beef exports, a weak domestic economy and higher average young cattle prices impacting domestic demand.

Total beef and veal utilization in the Australian market for 2009 is forecast to register 700,000 tonnes cwt. With the decline in availability and the recent acceleration in Australia's population growth to over 2%, per capita consumption is forecast to drop 3.9% year-on-year, to 31.8kg.

Hence, total consumer expenditure on beef is estimated to fall in 2009, following on the decline in 2008, due to reduced domestic consumption and little change in retail prices.

In the medium term, domestic beef consumption is expected to start increasing with a 4% rise in 2010, to 728,000 tonnes cwt, assisted with a recovery of the Australian economy and a 4.7% rise in production.

Factors influencing Australian beef demand and consumption changed rapidly over the past year. The cost pressures and inflationary fears that shaped the market during the first half of 2008 were replaced by the global economic crisis, plunging A$ and recessionary outlook for the Australian economy by the end of the year.

MLA forecasts - lamb

Domestic lamb consumption is estimated to have declined 4.9% in 2008, to 234,000 tonnes cwt, due to higher production costs and tight product availability, putting upward pressure on retail prices, and a weakening economy.

Total lamb utilisation is expected to fall for the second consecutive year in 2009, as the export-driven rise in lamb prices and declining consumer spending offsets the benefit of increased lamb supplies and any further improvement in the marketing and image of the product.

Behind beef, lamb is the meat most affected by falls in discretionary consumer spending, with total lamb consumption is forecast to slip 1.2% in 2009, to around 234,000 tonnes cwt in 2009, causing per capita consumption to fall 2.7%, to 10.8kg.

Australian lamb consumption is forecast to expand modestly from 2010 through to 2013, supported by growing lamb production and continued improvements in lamb quality, consumer satisfaction and marketing.

Free to MLA members
For further information
please call toll free 1800 023 100 or 02 9463 9163 or fax 02 9954 0752
Also available on www.mla.com.au