MEAT & LIVESTOCK AUSTRALIA MARKET INFORMATION

Australian cattle

Industry projections 2017 April update

KEY POINTS

- Cattle slaughter estimate remains 7.1 million head
- Offset by record carcase weights
- Only 1% decline in beef production
- Cattle prices likely to remain strong

KEY 2017 NUMBERS

Slaughter	Production	Beef Exports	Live exports
7.1 (million head)	2.1 (million tonnes cwt)	992,000 (tonnes swt)	800,000 (head)

* Graphic illustrates year-on-year change

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Summary

Low female cattle slaughter and high carcase weights have set the scene for 2017, with these two components filtering through to influence the 2017 April Cattle Industry Projections. While the January estimate of 7.1 million head cattle slaughter remains, much heavier carcases will go a long way to alleviating the constrained supply pressure, with the result being only a slight (1%) year-on-year decline in beef and veal production.

Recent rainfall has rejuvenated the cattle market, with the higher year-on-year prices likely to carry through for the next quarter. Thereafter, and in line with the usual seasonal decline, the Australian cattle market will probably start to feel the pressure of what will be the beginning of the slow increase in the national herd, and ongoing softer global market conditions.

Seasonal conditions

Despite the vast majority of Queensland being drought declared, the volume of rain received for the first three months of 2017 (figure 1) across most of the state has actually been 'average' (yet patchy), according to the Bureau of Meteorology (BOM). Indeed, for the central and the southeast cattle regions, the bulk of this rain came from ex-tropical cyclone Debbie during March, but considering some of the northern pasture growing season remains, there should be reprieve for many producers. This may act to restrict cattle supplies in northern Australia slightly further than initially forecast for 2017, but confirms the herd rebuilding wheels are in motion.

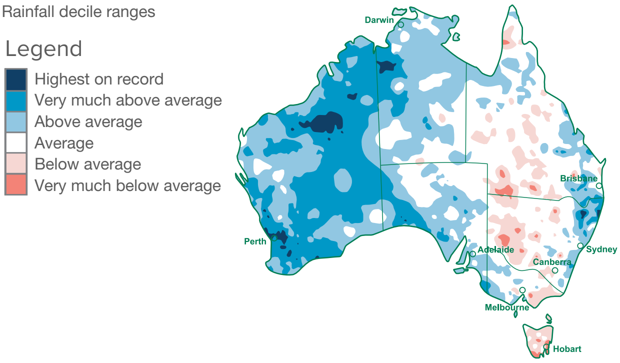
Elsewhere, most of NSW and Victoria also received 'average' rainfall during the first quarter, while for WA it was a remarkably wet period.

Seasonal conditions continued...

Looking ahead, while the BOM are predicting less than 40% chance of above average rainfall for the April to June period in most of southern Australia and the interior (figure 2), there are also some large cattle producing regions in northern NSW and southern Queensland that have a better chance of receiving 'average' falls. These are the areas where most of the rain fell during March, and if the outlook does come to fruition in those regions, could continue to stymie the already subdued flow of cattle. Meanwhile, Southern WA looks set for a drier-than-normal autumn and start to winter after a good start to the year, while southern NSW, Victoria and Tasmania are forecast to remain dry.

Figure 1: Australian rainfall - January to March 2017

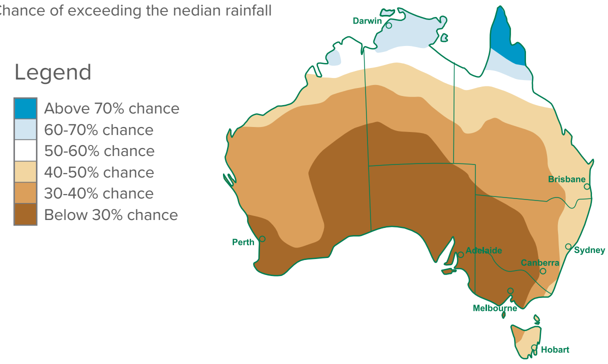
Rainfall decile ranges



Source: BOM

Figure 2: Australian rainfall outlook April to June 2017

Chance of exceeding the nedian rainfall



Source: BOM

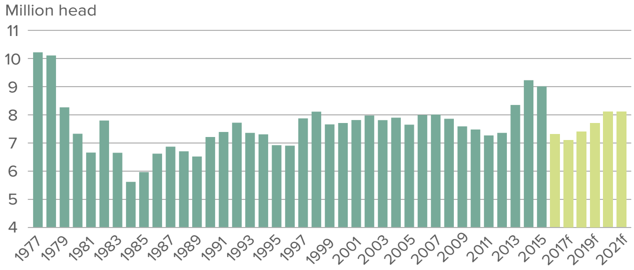
Cattle slaughter

As a result of flooding in Queensland and NSW, expectations are for April slaughter to be much lower than expected. However, those numbers will probably be recovered in May and June, when mustering cattle becomes more accessible.

Because of the autumn break in some larger cattle producing regions, expectations are for more stock to be withheld, while the dry conditions in southern Australia will result in slightly higher than expected turn-off than previously anticipated. On balance though, forecasts for 2017 adult cattle slaughter remain on track with January predictions, at 7.1 million head, down 200,000 head (3%) year-on-year (figure 3), with availability slowly building from May onwards.

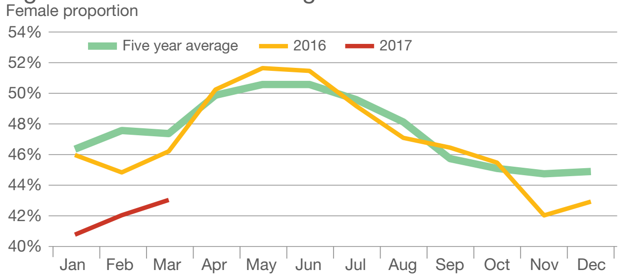
Female cattle slaughter over the November 2016 to January 2017 period (figure 4) was the lowest proportion of the adult cattle kill ever (at 42%) - highlighting strong producer intentions to retain females and replenish liquidated herds. Even though the rainfall outlook isn't very optimistic for some regions, taking into account just how low female slaughter is, it is evident that the national herd rebuild is underway, with many producers likely to take advantage of the currently low fodder and grain prices to carry stock through.

Figure 3: Annual adult cattle slaughter



Source: ABS, MLA estimates

Figure 4: Female cattle slaughter



Source: ABS, February and March 2017 are MLA estimates

Beef production and carcase weights

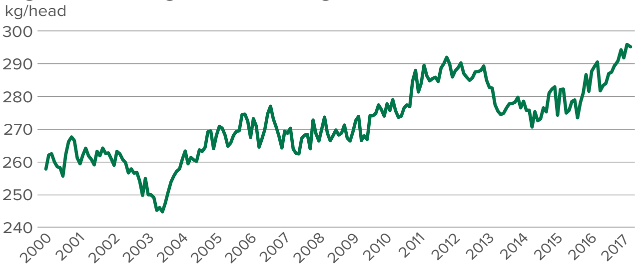
The average carcase weight for Australian cattle was the highest ever during the summer months – the result of a higher proportion of cattle on feed for longer regimes, heavier grassfed cattle coming through the system, and a significant drop in female slaughter.

In fact, the most recent Australian Bureau of Statistics (ABS) data has average adult cattle carcase weights averaging over 290kg for the October to January period (figure 5). There have been brief stages in the past, namely 2011, when the average weight edged above 290kg, but never for four consecutive months.

Considering female cattle slaughter is expected to remain relatively low for the duration of 2017, and despite the potentially poor feed conditions for southern Australia during autumn and winter, the average adult carcase weight has been revised slightly higher (1%), to 291kg for 2017. As the female component is expected to rise from 2018 onwards, average weights are likely to dip back to 288kg in 2018.

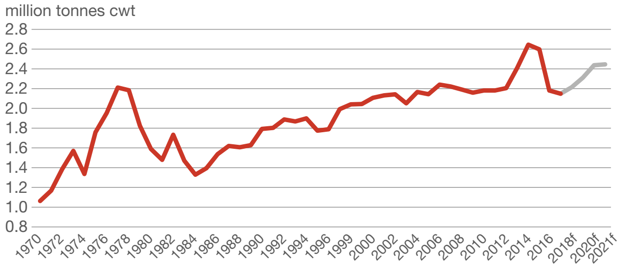
The short-term impact is that beef and veal production is now estimated to be 2.1 million tonnes cwt for 2017 (figure 6), down just 1% year-on-year, rather than down 3% as originally forecast.

Figure 5: Average carcase weights



Source: ABS

Figure 6: National beef production (beef and veal)



Source: ABS, MLA estimates

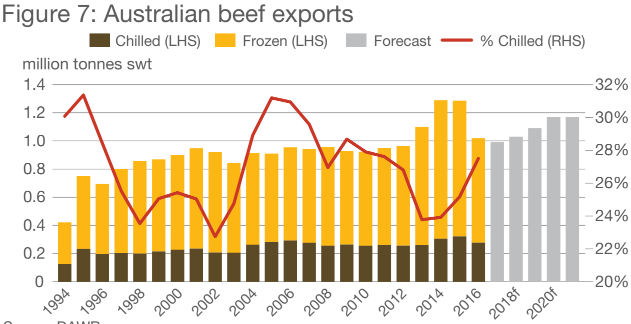
Export / consumption trends

With beef and veal production revised slightly higher, the net drop in Australian beef exports is unlikely to be as great as previously forecast, and is now estimated to ease 3% year-on-year, to 992,000 tonnes swt – remaining the fifth largest Australian beef export year on record (figure 7).

After the first quarter of 2017, shipments to the major markets have been mixed and largely reflect Australian production, competition and varying sentiment in each. Japan has maintained its position as the largest market during the first quarter, with a 22% year-on-year rise in shipments, to 65,381 tonnes swt, while the US has eased 27%, to 50,878 tonnes swt on the back of replenished domestic production. Volumes to Korea have also reduced significantly (21%), to 32,675 tonnes swt, with US competition an increasing challenge. Exports to China have edged 4% higher, to 24,374 tonnes swt.

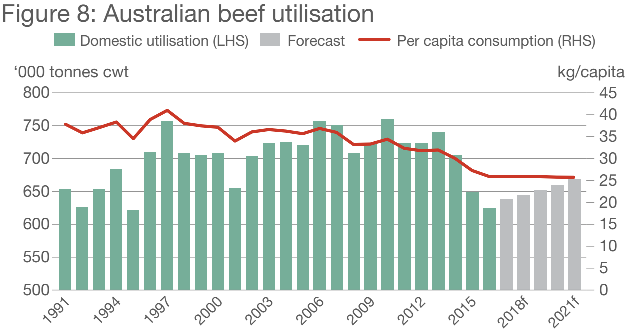
On the domestic market, expectations are for overall utilisation to rise 1%, to 631,860 tonnes cwt in 2017, meaning Australian per capita consumption will remain fairly flat at 25.7kg cwt per person (figure 8). Australian consumers demonstrated resilience in 2016, when per capita consumption stabilised at a time of continually rising average retail prices.

Figure 7: Australian beef exports



Source: DAWR

Figure 8: Australian beef utilisation

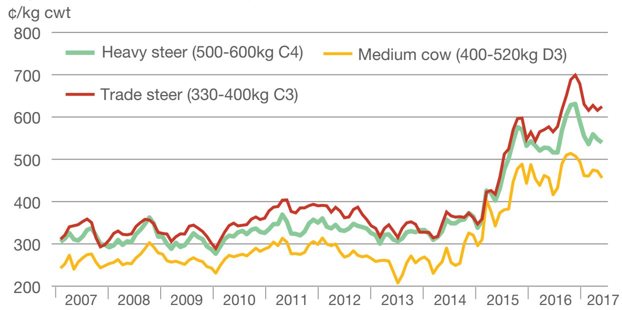


Source: ABS, MLA estimates

Cattle prices

After trending downwards from November 2016 to early March 2017, cattle prices received an injection of life from the widespread March rainfall, causing a significant rise across all categories (figure 9). National saleyard prices responded with heavy steers averaged 549¢/kg cwt for the first quarter, up 24¢ or 5% higher than last year. Similarly, medium cows averaged 16¢ (3%) higher, at 468¢/kg cwt, while trade steers were 622¢/kg cwt, up 52¢ (9%) year-on-year.

Figure 9: National saleyard cattle prices



Source: MLA

This start to the year sets up positive expectations for the remainder of 2017, especially considering the first quarter of 2016 was in fact the previous record high for the period – which has now been exceeded. However, while the market outlook for the next six months remains positive for producers with cattle to sell, largely underpinned by the ongoing very tight cattle supply situation, it's a scenario that will not last forever. Constrained female cattle slaughter is likely to reflect herd recovery, with the infant stages of that being realised in the second half of 2017. Once numbers do start flowing through the system, it is highly likely that Australian cattle prices – from heavy steers through to young cattle – will feel the weight of the additional supplies, coupled with the generally softer global beef market conditions observed for most of 2016 and so far in 2017. Nevertheless, 2017 cattle prices will probably end up averaging very similar to the record levels of 2016, before trending downwards in 2018 and 2019.

Situation and outlook for the Australian cattle industry

	2013	2014	2015	2016	*2017*[f]	*% change*	*2018*[f]	*2019*[f]	*2020*[f]	*2021*[f]	*% change 2021*[f] *on 2017*
Cattle numbers ('000 head)*	29,291	29,100	27,413	26,142	*26,746*	*2%*	*27,577*	*28,201*	*28,394*	*28,573*	*7%*
percentage change	2.8%	-0.7%	-6.4%	-4.6%	*-2.4%*		*3.1%*	*2.3%*	*0.7%*	*0.6%*	
Slaughterings ('000 head)											
cattle	8,344	9,226	9,007	7,288	*7,100*	*-3%*	*7,400*	*7,700*	*8,100*	*8,100*	*14%*
calves	690	688	667	542	*625*	*15%*	*640*	*680*	*700*	*710*	*14%*
total	9,034	9,914	9,674	7,830	*7,725*	*-1%*	*8,040*	*8,380*	*8,800*	*8,810*	*14%*
Avg carcase weight (kg)											
cattle	278.0	276.8	279.1	288.2	*291.0*	*1%*	*288.0*	*289.0*	*290.0*	*291.0*	*0%*
calves	58.5	60.1	49.1	44.7	*60.0*	*34%*	*60.0*	*60.0*	*60.0*	*60.0*	*0%*
Production ('000 tonnes carcase weight)											
beef	2,320	2,554	2,514	2,100	*2,066*	*-2%*	*2,131*	*2,225*	*2,349*	*2,357*	*14%*
veal	40.4	41.3	32.9	24.2	*37.5*	*55%*	*38.4*	*40.8*	*42.0*	*42.6*	*14%*
total beef and veal	2,360	2,595	2,547	2,124	*2,104*	*-1%*	*2,170*	*2,266*	*2,391*	*2,400*	*14%*
Cattle exports ('000 head)	850	1,292	1,332	1,126	*800*	*-29%*	*850*	*900*	*950*	*1000*	*25%*
Beef exports** ('000 tonnes)											
total, carcase weight	1,611	1,881	1,889	1,497	*1,458*	*-3%*	*1,514*	*1,602*	*1,720*	*1,720*	*18%*
total, shipped weight	1,099.8	1,287	1,285	1,018	*992*	*-3%*	*1,030*	*1,090*	*1,170*	*1,170*	*18%*
Domestic utilisation ('000 tonnes c/c weight)***											
imports	3.6	4.4	3.0	3.5	*3.5*	*0%*	*3.5*	*3.5*	*3.5*	*3.5*	*0%*
total, carcase weight	736	702	646	614	*632*	*3%*	*642*	*650*	*658*	*666*	*5%*
kg/head****	31.8	29.9	27.1	25.4	*25.7*	*1%*	*25.8*	*25.7*	*25.6*	*25.6*	*-1%*

Source: ABS, DAWR, MLA forecasts

f = forecast (in italics)

* As at 30 June, 2016 is an MLA estimate
** excl. canned/misc, shipped weight
*** Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcase weight
**** kg/head consumption calculated from total carcase weight divided by Australian population