Industry projections 2022

Australian cattle

MLA's Market Intelligence – globalindustryinsights@mla.com.au

KEY POINTS

- National herd forecast to grow by 1.1m in 2022 as two paced rebuild becomes pronounced
- Slaughter numbers forecast to rise by 11% in 2022, driven by increased supply
- Production volumes expected to reach 2.08m tonnes, a positive for the export markets

KEY 2022 NUMBERS

Slaughter:
6.7 million head

Carcase weights:
311 kg/head

Production:
2.08 million tonnes cwt

Beef exports:
1.06 million tonnes swt

*Graphic illustrates year-on-year change

Summary

In 2022, the national beef herd rebuild is set to continue at different paces across the states and territories.

Southern:

- Herds in the southern states of NSW and Victoria will mature quickly, driving the herd to forecast growth of 1.1 million head or 4.2% year-on-year.

Northern:

- Queensland will begin its rebuild, aided by excellent spring and summer rainfall events in central and southern parts of the state.
- The northern pastoral system requires a positive end to the 2022 wet season before its rebuild can begin into 2023.

At the international level, there are promising signs that Australia's key export markets will continue to show strong interest in Australian beef products. Australian beef will also enter a significant high-value export market when the UK-Australia Free Trade Agreement (FTA) comes into effect later this year. With economies recovering from the pandemic and the world reopening, demand for Australian beef is expected to grow in line with improving supply of processor ready cattle from the second half of 2022.

However, headwinds remain for the industry in 2022 across several fronts. The labour shortage across the entire beef supply chain may impact the productivity of the herd, while transportation and staff shortages within processing plants also remain significant issues for industry to manage.

There is the potential for the Australian dollar to appreciate, placing upward pressure on the export prices and industry's potential to absorb margins. Meanwhile, freight and shipping challenges are affecting the industry's ability to move product through the global supply chain and ensuring product reaches market without spoiling remains a key concern, supply change problems are also causing difficulties in accessing on farm inputs.

However, while challenges remain, the beef industry is experiencing market conditions and confidence never seen before at a producer level. Overall, the industry is in a positive position to continue growing and capture opportunities that deliver high value, high quality Australian red meat to both emerging and established global markets.

Table 1: Situation and outlook for the Australian cattle industry

	2016	2017	2018	2019	2020	2021^e	% change 2021^e on 2020	2022^f	2023^f	2024^f	% change 2024^f on 2021
Cattle numbers ('000 head)*											
As at 30 June	26,845	27,965	28,052	26,187	24,621	*26,111*	*6%*	*27,209*	*27,934*	*28,258*	*8%*
Percentage change	-2.0%	4.2%	0.3%	-6.6%	-6.0%	*6.1%*		*4.2%*	*2.7%*	*1.2%*	
Slaughterings ('000 head)											
cattle	7,288	7,158	7,873	8,482	7,145	*6,000*	*-16%*	*6,700*	*7,270*	*7,850*	*31%*
calves	542	413	468	565	414	*375*	*-9%*	*422*	*440*	*445*	*19%*
total	7,830	7,571	8,341	9,047	7,559	*6,375*	*-16%*	*7,122*	*7,710*	*8,295*	*30%*
Avg carcase weight (kg)											
cattle	288.2	297.6	290.8	283.4	*294.3*	*308.8*	*5%*	*311*	*310.2*	*311.9*	*1%*
calves	44.7	45.7	41.3	49.3	*48.5*	*50.9*	*5%*	*49.5*	*51.0*	*51.3*	*1%*
Production ('000 tonnes carcase weight)											
beef	2,100	2,130	2,289	2,404	2,103	*1,848*	*-12%*	*2,084*	*2,255*	*2,448*	*32%*
veal	24	19	19	28	20	*19*	*-5%*	*21*	*22*	*23*	*20%*
total beef and veal	2,124	2,149	2,308	2,432	2,123	*1,867*	*-12%*	*2,105*	*2,278*	*2,471*	*32%*
Cattle exports ('000 head)											
	1,142	867	1,126	1,304	1,010	*771*	*-24%*	*750*	*830*	*880*	*14%*
Beef exports ('000 tonnes)**											
total shipped weight	1,018	1,015	1,126	1,229	1,039	*918*	*-12%*	*1,060*	*1,140*	*1,243*	*35%*
carcase weight	1,497	1,492	1,655	1,807	1,528	*1,350*	*-12%*	*1,558*	*1,676*	*1,827*	*35%*
Domestic utilisation ('000 tonnes carcase weight)***											
total carcase weight	614	643	639	616	586	*585*	*0%*	*580*	*590*	*622*	*6%*
kg/head***	25.2	26.0	25.6	24.3	22.8	*22.7*	*0%*	*22.3*	*22.3*	*22.3*	*-2%*

Source: ABS, DAWR, MLA forecasts

f = forecast
e = estimate

* From 2017 is an MLA estimate based on ABS Data - Figures as of 30th June. Please note, the flock estimates are based off the new EVAO cut off used by the ABS.Previously this was $5,000 EVAO, but was changed upwards to $40,000 EVAO. For more information, please visit www.abs.gov.au

** excl. canned/misc, shipped weight

*** Domestic meat consumption is measured by removing the portion of exports (DAWR data) from total production (ABS data) and assuming the difference is consumed (or at least disappears) domestically. Imports are also added to domestic consumption when present. Per capita consumption is calculated by dividing domestic consumption by ABS population data. Please note that domestic per capita consumption is entirely a supply statistic and does not take account of waste or non-food uses of livestock meat products.

Assumptions

Weather

The Bureau of Meteorology's (BOM) three-month outlook is forecasting above-average rainfall for key cattle regions throughout NSW and Queensland.

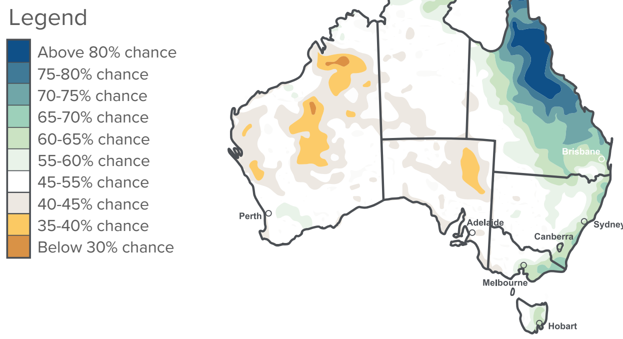
Meanwhile, the Gulf of Carpentaria and the Barkly Tablelands are expecting average rainfall, dampening the potential for a strong finish to the wet season for the northern pastoral calf-producing regions. Average rainfall is forecast for other parts of NSW, Victoria and SA . However, these regions experienced favorable conditions in 2020 and 2021 providing sufficient pastures. In the west, the Great Southern region is the only area of the state expecting above-average conditions, while again the key northern production areas of the Kimberley and the Pilbara are expecting average conditions.

In good news, large parts of Queensland are forecast for a favourable three months through to April. This is set to further support the maturation of the state's rebuild, given the pace of the rebuild has been slower than the southern states due to less favourable conditions over the past two years.

Above-average maximum temperatures for Queensland will promote pasture growth, although for some regions these high temperatures may diminish pasture quality, impacting growth rates and performance potential for breeding females.

Figure 1: Australian rainfall outlook – Feb to April 2022

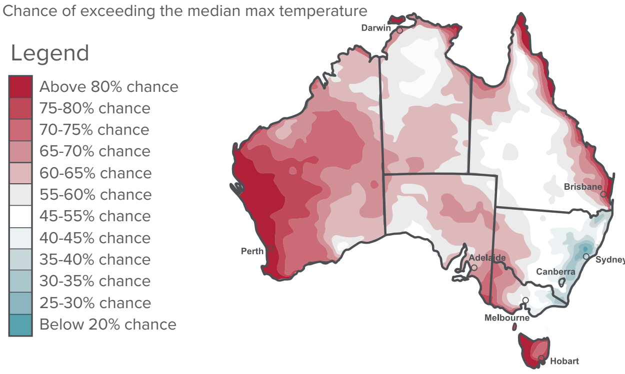
Chance of exceeding the median rainfall



Source: Bureau of Meteorology

Figure 2: Australian temperature outlook – Feb to April 2022

Chance of exceeding the median max temperature



Source: Bureau of Meteorology

Going forward, it is statistically unlikely that Australia will experience three consecutive La Niñas. While this did occur in the late 1970s and 1990s, it's not very common. Therefore, 2023 and 2024 are likely to bring drier summers and a return to more normal rainfall patterns.

Fortunately, if the 2022 season was to turn, there's an abundance of grain following two record harvests and most groundwater stores are full, so producers are unlikely to have to turn off cattle with the urgency and in the quantity they did during the 2019 drought.

Feedlots

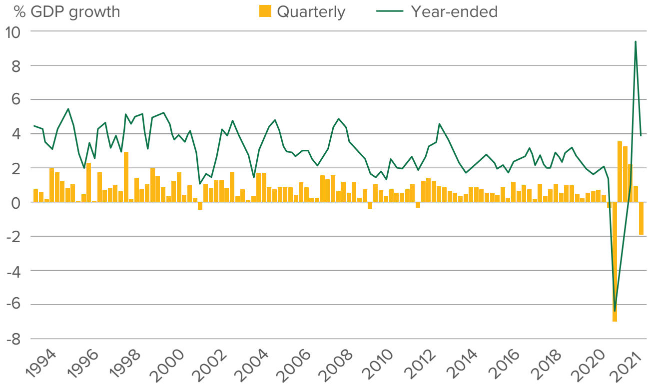
The feedlot sector provided continuity of supply in 2021. For the first time ever, 50% of Australian beef was grainfed. Furthermore, 50% of domestically consumed beef was from lot fed cattle, as domestic consumers develop a taste for grainfed product. This trend was driven by both supply and demand, with lot fed cattle comprising a large proportion of cattle being slaughtered and domestic consumers having more discretionary funds to purchase premium grainfed products.

The high cost of purchasing cattle was offset by the abundance and relative price of grain. The cost of cattle also contributed to a structural trend which saw cattle feed for longer periods and to heavier weights. In 2021, Waygu cattle made up around 15% of all grainfed cattle slaughtered.

Going into 2022, the feedlot sector will continue to be a prominent component of the Australian beef industry. This has been demonstrated with feedlot capacity remaining at record levels of 1.4 million head.

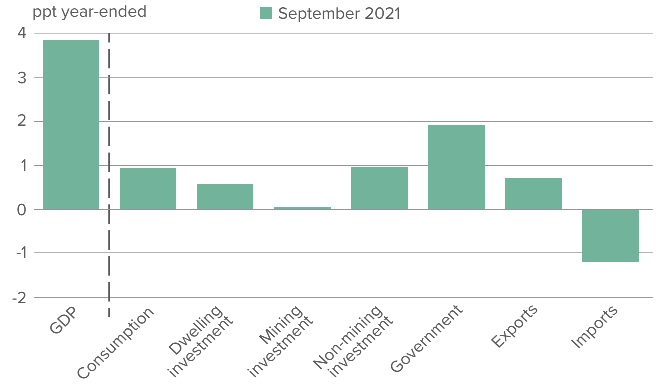
There will be more grassfed cattle turned off in 2022 as the herd rebuild matures and pastures become abundant. This will see the proportion of grainfed beef produced fall, however there won't be a significant fall in the absolute number of grainfed turn-off.

Figure 3: Australian GDP



Source: ABS and RBA

Figure 4: Drivers of Australian economic performance



Source: ABS and RBA

Figure 5: US/AU exchange rate

Source: RBA, NAB, ANZ, CBA, Westpac

Supply

2022 national herd rebuild landscape

In 2022, the national herd rebuild will continue at two different paces. The southern system will enter its third year of favourable seasonal conditions.

Large numbers of high quality young breeding females and heifers will be joined to deliver a large cohort of calves for the 2022 spring. Females will be well nourished from abundant and good quality pastures promoting favourable growing conditions, which will provide a positive reproductive foundation for strong branding rates.

Meanwhile, in the northern production system, average to below average rainfall in some key calf-producing regions such as the Barkly and the Gulf of Carpentaria over the last two years has not been sufficient to break the ongoing drought. The northern system's rebuild is currently reliant upon successive favourable wet seasons occurring in 2022 and 2023 to deliver the core breeding herd an opportunity to increase joining percentages and branding rates.

These current seasonal conditions are driving the two-paced nature of the rebuild. For the national herd's overall rebuild and herd numbers returning to the 10-year average, the northern production systems are critical to seeing this occur.

Herd

As southern cattle producers enter a third year of strong seasonal conditions and a regional herd rebuild continues in this production system, the national herd is expected to grow by 4% to reach 27.2 million head in 2022.

The herd is expected to grow by 7% by the end of 2024 to reach 28.2 million head – its highest level since 2014. Above-average joining and branding percentages are driving this national increase as seasonal conditions see producers continue to rebuild herd numbers across vast areas of the nation's cattle regions. Although the age of the national breeding herd is expected to be young due to the turnoff of cows during the drought, favourable reproductive conditions for young females are expected to negate the challenge of joining first and second calving females.

Branding rates in the northern system will be below that of southern Australia, in part due to impact the drought has had on reproductive rates and the naturally lower percentages seen in Bos indicus cattle.

The southern production systems will drive the increase in the national herd in 2022 as the northern system continues to recover from drought and dry conditions, with the impact of the northern rebuild not expected to be felt until 2023.

Slaughter

In 2022, the national slaughter numbers are expected to rise by 11% to reach 6.7 million head. As spring calves from 2020 and autumn calves from 2021 reach processor weights, supply is expected to increase and hit the market in the second half of 2022. A period of dry conditions without rain may see cattle turned off earlier than expected, and in larger numbers.

By 2024, slaughter volumes are forecast to be 31% higher than 2021 levels, reaching 7.85 million head. As the national herd rebuild matures and supply increases significantly – with more cattle being turned off – supply is expected to markedly improve from 2023 onwards. However, despite rising 31% in three years, at 7.85 million head, slaughter volumes will still remain below of the 10-year average.

Hopefully, COVID-19 related impacts on processor capacity will be minimised by the end of quarter one 2022. Prolonged impacts of COVID-19 on processing may see slaughter numbers revised in MLA's next Beef industry projections. As at January 2022, national cattle slaughter is 29% down on 2020 levels.

Throughout 2022, labour and international freight and logistics are likely to have a significant impact on cattle slaughter numbers and cattle supply.

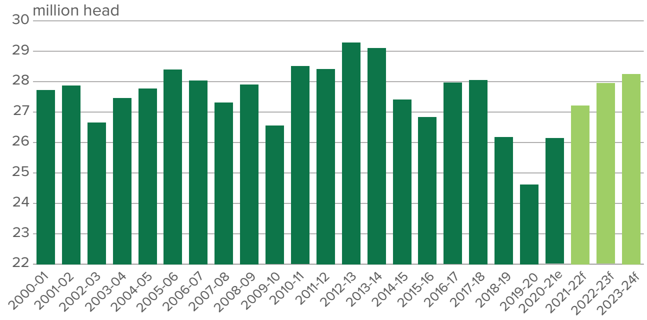
Click here to access the MLA's NLRS Weekly Slaughter Report

Carcase weights

Driven by large volumes of quality grazing pastures over the last two years, carcase weights are forecast to reach record levels in 2022 at 311kg/head. This would be a 9% increase on the 283kg/head levels which were recorded in 2019 at the height of the drought – an improvement of 28kg/head in the space of three years.

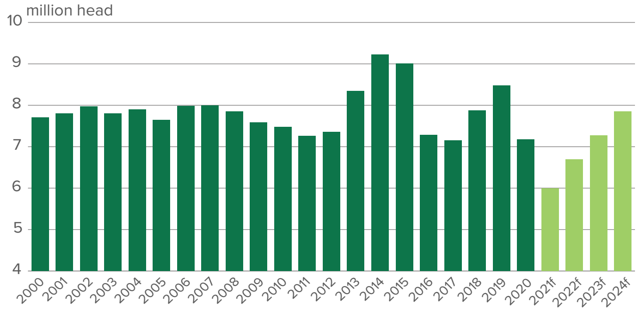
In 2024, carcase weights are forecast to remain at 311kg/head. The use of lot fed programs is leading to higher carcase weights. Current high prices for cattle are leading to heavier weights as producers have an economic incentive to add additional weight to their animals, especially when feed is abundant and cheap. If finished cattle prices ease, the recent carcase weight gains will stabilise.

Figure 6: National cattle herd



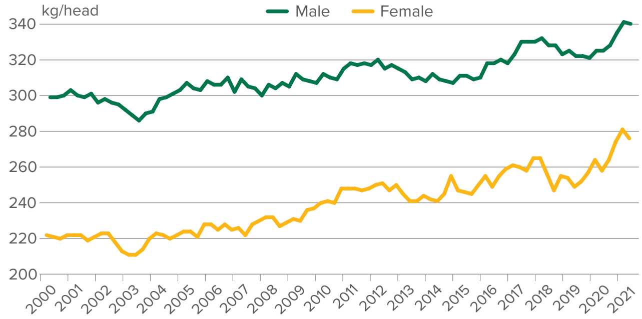
Source: ABS, MLA forecasts

Figure 7: National adult cattle slaughter



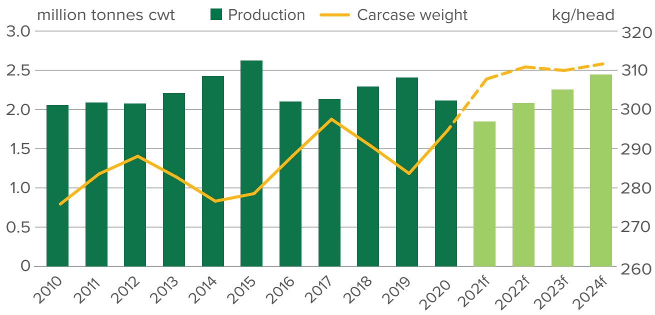
Source: ABS, MLA estimates

Figure 8: Adult carcase weights



Source: ABS

Figure 9: Cattle carcase weights and production



Source: ABS, MLA forecasts

Production

As slaughter volumes continue to lift from its 2021 lows and carcase weights remain stable, production is expected to reach 2.08 million tonnes in 2022, a 12% increase on 2021 levels. By 2024, the rise in slaughter volumes and high carcase weights will see production reach 2.44 million tonnes, a 32% improvement on 2021 levels.

This increase in production provides a positive outlook for the export market, especially as it continues to recover from the pandemic and the demand for Australian beef remains strong.

The production of 2.44 million tonnes will be a new record, exceeding the current record set in 2019 when slaughter was high due to drought induced turn-offs.

Live export

2021 was an extremely challenging year for Australia's live cattle export industry and many of the challenges are expected to continue throughout much of 2022. A total of 771,931 cattle were exported in 2021 – 26% less on 2020, but somewhat higher than the previous forecast following a stronger than expected December.

Tight supply and record high cattle prices in Australia have been the main factors behind reduced import demand for Australian live cattle in virtually all export markets during 2021. Pandemic-related challenges have also continued to weigh on affordability and demand and in places, some supply chain disruptions. The herd rebuild in southern areas of Australia has been at the expense of northern herds to some extent. Live exporters are expected to continue to face tough competition for cattle from restockers, including processors and lot feeders. Other factors such as a rising Australian dollar and oil prices have added to live export trade pressures.

On the positive side, exports to Indonesia have been remarkably resilient despite high prices, being driven by strong demand. Australia exported 406,781 head of feeder cattle to the market in 2021, down only 12% on 2021. The surge in December exports was largely driven by strong feeder demand in Indonesia. As Ramadan falls on 2 April and Eid al-Fitri on 2 May this year, importers needed to purchase feeders in December and January in preparation for the religious festival period. As the Islamic calendar shifts forward each year, the earlier timing has added further price pressure, with purchasing falling in a tighter supply period during the northern Australia wet season. Indications are that in 2022, Indonesia will import less Indian buffalo meat and Brazilian beef than in 2021, further encouraging imports of live Australian cattle.

Australian slaughter cattle exports to Vietnam have seen a dramatic fall of 48% in 2021 after a strong growth trend since 2014. Demand has been weak due to cattle oversupply and the impacts of COVID-19 on purchasing power and restrictions which have reduced dining out, particularly impacting what is usually a seasonal consumption peak around the Tết holiday. Australia has also faced new competition from a shipment of Brazilian cattle which entered Vietnam in late September 2021 at a notably lower price point. Australian exports to Vietnam in 2022 will depend to an extent on Brazilian imports and it remains unclear whether Vietnam will accept more shipments from Brazil in 2022. Brazil's supply is expected to be solid in 2022, having begun a liquidation phase during 2021. Total Brazilian live exports are forecast to increase at 2.4% in 2022 on 2021 *(Source: GIRA)*.

In India, Indian buffalo meat is expected to maintain competitive price pressure on locally slaughtered Australian live cattle, with India's herd, production and exports forecast to further expand in the next couple of years *(Source: GIRA)*.

Meanwhile, Chinese demand for Australian breeder cattle fell 20% in 2021 on 2020. This was largely the result of high Australian cattle prices, with China increasing its total cattle imports 32% year-on-year up to October 2021. China was sourcing higher numbers from Uruguay and New Zealand in 2021 *(Source: BTC)*.

In the Middle East, Australian cattle exports to Israel were significantly lower again in 2021 year-on-year, dropping by 34%. Europe (Portugal) and Sub-Saharan Africa (Ethiopia) continue to fill some of this gap, taking advantage of the lower prices, proximity and lower export regulation requirements. Developments in Israeli legislative preparations for a potential ban on all live animal imports have made significant progress in 2021, with an increasingly high likelihood of a phased ban being implemented.

Back home, seasonal conditions in the northern parts of Australia have been good with the La Niña weather pattern providing above-average rainfall in many areas, potentially leading to a longer wet season for 2021–22 that will bear fruit after 2023. If cattle prices begin to ease in the latter half of 2022 as supply improves, live export trade should begin to trend up again quickly to meet demand.

▶ Click here to visit MLA's LiveLink interactive Dashboard for export statistics

Demand

Domestic market demand

Beef remains a primary protein source for Australians, but with continuing cattle pricing pressures impacting retail price, consumption has fallen. In the third quarter of 2021, beef price growth continued to outpace other major proteins. The quarter-on-quarter beef retail price increased by 11%, compared to only a 1% increase for lamb while chicken and pork prices dropped by 0.4%. Subsequently, quarter-on-quarter beef consumption reduced by 11%, compared to a 6% decline for lamb. Chicken and pork volumes grew by 9% and 23% respectively. However, the ongoing beef price increase offsets the decline in volume and continues to drive value growth.

The Delta and Omicron COVID-19 variants have dramatically disrupted the recovery of foodservice. Grocery stores benefited from the demand shift to retail that was previously met by foodservice companies.

Major supermarkets including Woolworths, Coles and Aldi are the cornerstone in the fresh meat market, holding 69.9% and 70.7% of total value and volume sales *(Source: Nielsen Homescan)*. The stable performance of major supermarkets is associated with households consolidating their purchasing behaviours, with -1.0 fewer trips recorded and an additional $2 spent on each occasion in the third quarter of 2021.

The butcher sales channel has not fared as well, with beef sales value and volume down by 6.2% and 14.1% quarter-on-quarter *(Source: Nielsen Homescan)*. E-commerce has also bridged the gap of declining foot traffic in the retail market, but challenges such as labour shortages and last-minute delivery have greatly limited their margin growth.

ABS data indicates that Australians are spending about $13 billion/month on food purchases. The data also indicates that Australians are still spending less on foodservice than they were in March 2019. With each lockdown, it appears the return to foodservice spending when the lockdown ends is getting less and less. Therefore, the increase in retail spending for food seems to be a structural trend that will continue post COVID-19. Each month, Australians are also spending nearly $1 billion AUD on online food – another structural change in domestic spending habits that are expected to continue post-pandemic.

Future population increase, along with income and macroeconomic growth, will continue to support firm demand for beef in the long term. However, current market dynamics – with increases in beef prices or reduced consumer incomes as a result of the pandemic – are seeing some shifts in the beef products consumers buy and the sales channels they use. Beef mince, beef sausage, rump steak, pre-prepared and sirloin (porterhouse) steak are the top five fastest growing cuts for online retailers, while beef stirfry/diced/strip/casserole cuts, mince and rump steak are the most popular cuts in brick and mortar stores *(Source: Nielsen Homescan)*.

International market summary

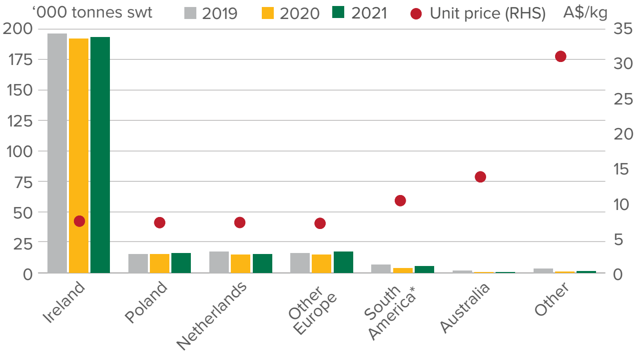
The United Kingdom (UK)

The UK was Australia's very first beef export destination in 1879 and among our largest export markets until the UK joined the European Communities in 1973. The UK officially left the European Union on 31 January 2020 and the Australia-UK Free Trade Agreement (A-UK FTA) was signed on 17 December 2021. Once the A-UK FTA enters into force – likely later in 2022 – Australia will benefit from much-enhanced access to the market: in particular, a tariff-free volume of 35,000 tonnes of beef in year one increasing to 170,000 tonnes by year 15, beyond which no quotas or safeguards will apply.

The UK imports around 20% of the beef it needs, averaging an annual total of 260,000 tonnes shipped weight of boxed product over the past five years. Ireland is the dominant supplier, contributing around 75%.

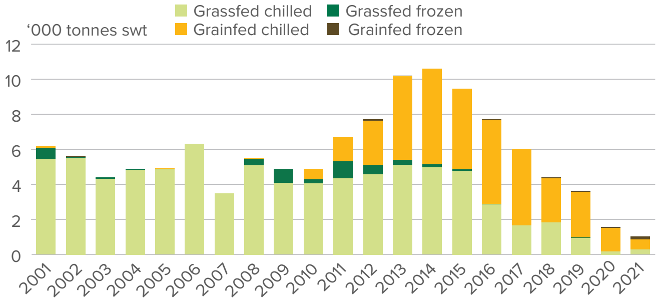
The UK has been a small but high value export market for Australian beef, with the vast majority of product being chilled. A notable shift from grassfed to grainfed product has occurred over the past decade. The bulk of this product was utilised by the higher end of the foodservice sector, which continues to experience ongoing COVID-19 related impacts causing reduced domestic and tourist demand.

Figure 10: UK beef imports by key suppliers



Source: IHS Markit. Annual figures are for the 12 months ending October. Not including offal.
Note: *South America: Brazil, Uruguay, Chile, Paraguay

Figure 11: Australian beef exports to the UK



Source: DAWE

In 2021, tourist visitor numbers fell 81% compared to 2019 levels of 41 million *(Source: Fitch Solutions)*. In addition, structural changes to the grainfed beef quota in 2018 further reduced Australia's (and other global suppliers) tariff-free access to the European market and post-Brexit, the grainfed quota remains with the EU. Consequently, in 2021 Australia exported just 1,027 tonnes of beef to the UK – notably less than the pre-pandemic annual average of around 6,000 tonnes between 2015 and 2019.

Beef consumption, beef sales and restaurant spending growth in the UK are forecast to slow in the next few years *(Source: Fitch Solutions)*. Heightened concerns about the health and environmental impacts of red meat have gained prominence in recent years. Rising inflation, which was at a 10 year high at the end of 2021, plus ongoing elevated shipping and air freight costs are all expected to weigh on demand for premium beef in 2022.

On the other hand, beef production in the UK and the EU is forecast to be tight with a 2020-2025f CAGR of -1.0% and -0.7% respectively *(Source: GIRA)*. On the positive side, tourist visitors to the UK are currently forecast to recover fairly quickly to pre-pandemic levels some time during 2023 *(Source: Fitch Solutions)*.

Into the future, the Australian beef industry is looking forward to developing new long-term beef export opportunities in the UK market.

Click here for MLA's UK snapshot to learn more about its beef market and the A-UK FTA market access conditions

China

Chinese beef imports are projected to grow by around 10% over 2022 to around 200,000 tonnes. Australian exports to China are forecast to increase around 3% over the year but most of the increase is likely to come from Brazil and Argentina, who are forecast to increase exports by 16% and 26% respectively. Despite this increase being marginal from an Australian perspective, the huge increase in export demand is likely to drive price increases globally.

An important variable in Chinese import demand over the next quarter is the impact of China's COVID-19 response. China is currently pursuing a 'COVID-Zero' response that has led to the lockdown of several cities. If the policy is expanded further, then Chinese New Year celebrations are likely to be either cancelled or muted.

In addition, port authorities have encouraged citizens in China to avoid buying products from overseas after health authorities in Beijing traced a COVID-19 case to an imported product. If sustained, COVID-19 policy settings in China are likely to dampen both retail consumption of beef and in-home purchasing of higher end produce, making clearing shipments out of ports difficult.

The Chinese economy is also performing at a subdued level compared to recent years. The recent Chinese economic growth figures indicated that quarterly growth in the country was 4%, well below the countries benchmark growth figure of 6%. The performance of the Chinese economy was also highlighted by the credit default by multiple Chinese property developers in recent months. If Chinese economic growth stalls in 2022, this may translate to reduced beef consumption in the country.

Click here to read MLA's latest Greater China Market snapshot

The United States (US)

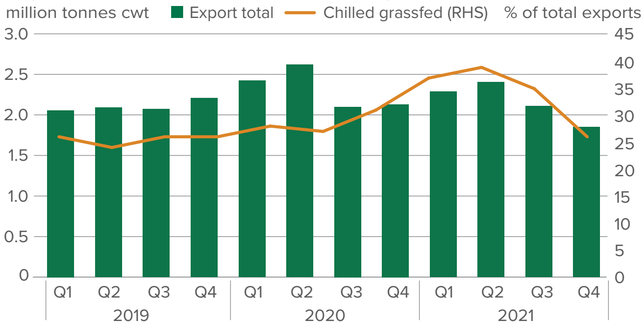
The US remains the dominant consumer economy, with the world's largest number of high income households and consistently high levels of consumer spending. As a nation with high levels of meat consumption and affinity for red meat already, the market is close to maturity. However, opportunities exist for Australian producers and exporters to take advantage of shifting consumer trends.

Interest in healthier, 'grass-finished' beef has gained momentum in the US, with the grassfed beef market projected to grow from $11.6 billion in 2021 to $17.9 billion in 2031[1], presenting an opportunity for Australian producers in a premium section of the market.

In addition, American beef production is projected to fall by 2.8% over 2022, while the number of American processing plants certified to export into China has continued to rise – leading to sustained domestic price pressure that creates an opportunity for Australian exporters.

It's unlikely that the recent Canadian BSE case will have any impact on the Canada–USA cattle and beef trade. Of more concern is the increase in Brazilian beef exports to the USA.

Figure 12: Exports to US – chilled grassfed and total



Source: ABS

In 2022, freight and shipping logistics will be a large factor in the amount of beef that Australia exports to the USA. The USA is facing logistical issues on the ground that are affecting the road transport of beef from the port to end consumers, including California's new truck emissions legislation that limits the ability of older non-compliant trucks entering California or the ports.

In the water, there are significant bottlenecks into ports on the west coast of the USA. Some estimates suggest there is a back log of close to 100 cargo ships docked off southern California trying to berth at either Los Angeles or Long Beach port. There are also indications that cargo boxes are waiting at the port for six days before being handled – creating issues for red meat imports which have expiration date and are perishable.

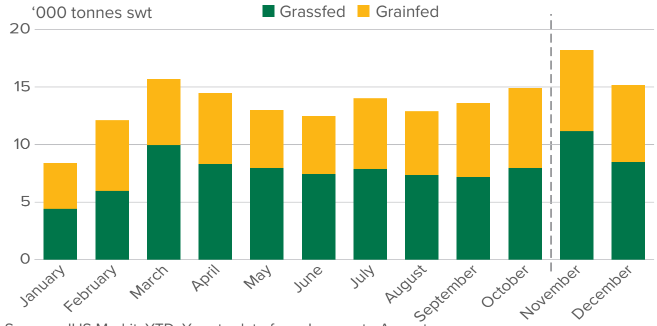
Click here to access MLA's latest North America market snapshot

South Korea

In contrast to other major markets in 2021, South Korean beef imports increased in volume and value, with a substantial increase in frozen, grainfed products. This reflects the value of Australia's diverse production base, as these products allowed sales to continue through the restocking phase and at a premium price.

Increasing supply constraints from the US will maintain the trend of increased grainfed exports, also tariffs on beef products fell to 16% at the start of 2022 in line with the Korea-Australia Free Trade Agreement. Given the stability of beef exports to beef exports through 2022, these positive indicators bode well for 2022.

Figure 13: South Korean grainfed and grassfed imports



Source: : IHS Markit, YTD: Year to date from January to August

Click here to access MLA's latest Korea market snapshot

[1] https://www.futuremarketinsights.com/reports/grass-fed-beef-market

Middle East and North Africa

As a large region that spans two continents, the Middle East and North Africa (MENA) region is a promising emerging market as the middle-class consumer base grows and beef products become available as a consistent part of consumers' protein intake.

Large increases in grainfed export volume to richer countries in the region accounted for much of the total increased trading volume throughout 2021, while there was a slight softening in exports to price-sensitive, developing nations.

As airlines restart flights in and out of Australia, air-freight capacity is likely to grow and air-freight prices are projected to drop substantially from their 2021 peaks, boosting export capacity in light of strict expiry date requirements in many MENA markets.

Projected increases in crude oil prices throughout the year will also underpin an increase in consumer spending in the Gulf region and with Ramadan beginning in April, there is likely to be an increase in consumption of higher-end beef products which Australia is well-positioned to capitalise on.

▶ Click here to access MLA's latest MENA market snapshot

Indonesia

Indonesia's economy has bounced back to enjoy GDP growth of 3.7% in 2021, following a contraction of 2.1% in 2020. Even as the pandemic continues, current forecasts have GDP growth accelerating at 5.2% in 2022, recovering to pre-pandemic levels and stronger than the average for both developed markets (3.8%) and emerging markets (4.6%) *(Source: World Bank)*.

Indonesian import demand has proven remarkably resilient despite pandemic challenges and high cattle prices in Australia. In 2021, Australia exported 45,178 tonnes swt of boxed beef, only 5.4% below 2020 volumes. Tight supply had a somewhat bigger impact on demand for Australian live cattle, with a total of 409,040 head exported to Indonesia in 2021 – numbers that were 12% below 2020.

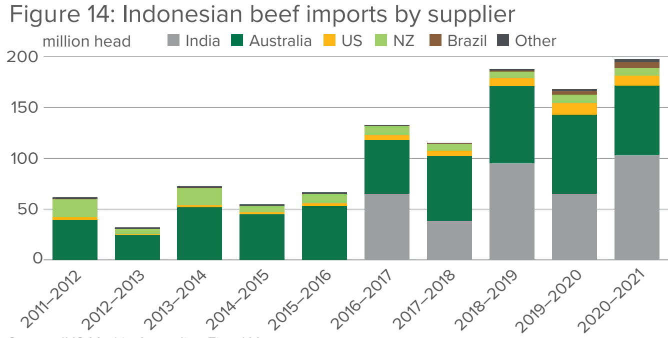
At 3.1kg per person in 2021, Indonesian per capita beef consumption is somewhat lower than some other countries in the region but is forecast to increase by 2.2% from 2022 to 2026, significantly faster than the regional average of 1.7%. While Indonesian government efforts to improve domestic beef production have achieved an average annual growth rate of 0.4% since 2017, increased imports will be required to keep pace with demand *(Source: Fitch Solutions)*.

In 2021, an estimated 39% of beef consumed in Indonesia is derived from imports of both boxed beef and live cattle. India is the largest beef supplier and forecast to increase its production volume 3.7% in 2022 on 2021, maintaining competitive pressure on Australian beef and cattle.

As Indonesia's second largest boxed beef supplier and dominant supplier of live cattle, Australia is well-placed to meet growing consumption and import demand in the nation. Australia is considered among the most well-regarded suppliers, fulfilling market requirements in terms of consistency, quality and food safety.

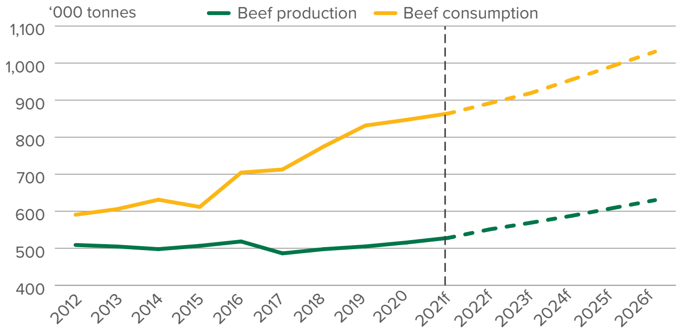
Australian red meat and cattle also enjoys preferential tariff advantages under AANZFTA and IA-CEPA. The forecast for Indonesia's beef sales value growth of CAGR 11.6% from 2022 to 2026 will be significantly stronger than consumption volume at CAGR 2.9%, indicating a trend towards premium meat in the market *(Source: Fitch Solutions)*. These all point to a positive medium- and long-term outlook for Australian exports.

Figure 14: Indonesian beef imports by supplier



Source: IHS Markit. Australian Fiscal Year

Figure 15: Indonesian beef production and consumption



Source: Fitch Solutions

▶ Click here for more detail on the Indonesian beef market in MLA's Indonesia snapshot.

Key macro issues

Labour shortages

In 2022, labour shortages are expected to be an area of significant concern for the red meat industry right across the entire supply chain. The shortages that industry will face will encompass everything from the farm gate and station hands, through to boning room staff in processing plants as well as truck drivers.

The impacts of a labour shortage on the processing sector are difficult to forecast or quantify. However, securing more staff through skilled and non-skilled visa programs will be critical to ensure and deliver consistent and reliable supply to both the domestic and international markets.

The government's new 482 TSS visa is a welcome development and should provide red meat businesses with access to a larger employee pool. However, it is imperative that migrants sign up to the program and to date, it's too early to assess whether it has been a success.

Costs

The current labour market is putting pressure on wage costs for red meat businesses. The current shortage of workers means that agricultural businesses are competing heavily with the major and much larger construction and mining industries to secure staff.

Training

Industry is also faced with training challenges in 2022. Investing in the training of processing plant employees is a costly and timely process. It takes at least eight months to one year to train new staff to the appropriate level in order to process higher volumes of cattle.

Australian dollar

In 2022, the Australian dollar will be a key focus area for the countries beef exporters, with its potential appreciation placing downward pressure on margins and Australia's competitive advantage in key export markets. The possibility of a higher Australian dollar in the face of a challenging labour market and difficult freight and shipping logistics adds another layer of complexity to moving and delivering product to market.

Despite reassurances from the RBA that they will not lift interest rates until 2024 at the earliest, analysts and the banking sector are all tipping interest rates to rise by at least one basis point this year to soften any inflationary pressures. This rise would typically lead to an appreciation in the Australian dollar. However, if the interest rate rise in Australia is less than the interest rate movements in our key competitors, the Australian dollar may in fact fall, despite interest rates going up. The USA is expected to increase interest rates this year, appreciating the US dollar substantially.

Inflation

Recent US inflation data indicated that inflation in the US had increased 6.8% in the last quarter of 2021. This was the highest jump in inflation in over 40 years. New Zealand also recorded high inflation in the September quarter of 2021. These international inflationary pressures are likely to see central banks around the globe increase their interest rates in 2022 to ease inflationary pressures. In 2021, Argentina stopped beef exports to help ease inflationary pressures on domestic food prices – but we are unlikely to see this used in other countries in 2022 to combat inflation.

Australia's inflation data from December showed that inflation was up 3.5% for the year, slightly above the government's benchmark. If inflation continues in 2022, then the RBA is likely to increase interest rates, despite its continual assurances otherwise.

Domestically the retail price of beef rose 10.9% in 2021 (to September), well above the inflation of food more generally which rose 1.9%. The price of fruit and vegetables fell by 9% in 2021 due to improved seasonal growing conditions. This drop in other grocery prices has exacerbated the price rise in beef.

The inflation pressures affect the cost of key inputs for the entire beef supply chain. Processors will have to pay more for PPE and equipment, while producers will have to pay more capital such as fencing and infrastructure and supplements. Someone along the supply chain, from the producer to the consumer, will need to absorb some of the additional costs.

Global supply chain disruption

Supply chains and logistics are the biggest hurdle for the beef industry in 2022 and 2023. The issue covers both the difficulty in getting product to the desired market and the cost of freight.

Ongoing disruption, initially stemming from COVID-19, has seen continued delays and large price increases in shipping routes globally. Shipping costs worldwide have increased by 434% in 2021[2], with many ships initially earmarked for smaller routes redirected to larger ones, while shipping companies rapidly raise prices and change schedules to meet market conditions.

Locally, this has been felt through higher prices, greater uncertainty and delivery delays. Compounding the situation, between 2018–19 and 2020–21 there was a 39% increase in average on-berth hours at Australian ports and a 46% increase in average idle hours. This has led to delays in shipping and increases in costs, both from the shipping companies themselves and road freight companies.

The USA to China shipping route has become the dominant shipping route over the last two years. As ships prioritise this route, it's difficult to secure ships and alternative routes.

Background

Difficulties in the shipping industry began in early 2020, during the initial spread of COVID-19. Several ports were shut down in China, while consumer spending spiked across wealthy countries due to stimulus policies and reduced service spending. This spike increased demand for Chinese produced goods, while Chinese ports were shutting down.

Subsequently, shipping companies began increasing prices, redirecting ships away from smaller routes and emphasising speed to meet demand. This gradually created an accumulation of shipping containers in western ports, as ships would be directed to leave port without carrying empty containers in the event of a delay. As a result, port productivity was impacted, slowing the rate of movement.

This revealed issues in the shipping industry that had been masked over the past decade. After the 2008 global recession, the largest eight shipping companies consolidated into three alliances to improve productivity and much larger ships were commissioned to improve efficiency. These two changes negatively impacted the viability of smaller shipping routes and decreased the amount of choice exporters had.

The process of building a new container ship takes several years. While anecdotal evidence suggests ship orders have increased to address the current global shipping and logistic issues, these new boats will not be on the water until 2023 or 2024.

Australia

Beyond this, there are unique difficulties facing Australian exporters unrelated to wider disruption. Productivity challenges, high docking times and discord between port owners and workers in major Australian ports has impacted costs and reduced the attractiveness of Australian shipping lines to shipping companies. This is particularly so for larger shipping vessels, where margins per shipping unit are usually lower and extra costs are especially problematic.

Additionally, it's difficult to secure empty refrigerated containers into Australia, a key requirement for sending meat overseas. Shipping companies are not shipping 'empties' into Australia as it is more economical to send full containers to Australia. Therefore, the Australian beef industry is struggling to access enough empty refrigerated containers to fill.

Overall impact

These freight developments have had two main effects: the price of shipping has increased dramatically and certainty around scheduling has collapsed.

The spot contract price of shipping from Sydney to Shanghai has increased by approximately $4,000 per standard shipping unit between January 2020 and January 2021[3], adding roughly $140 to the cost per tonne of frozen exports. The price of insurance has increased as uncertainty around arrival and departure times can negatively affect product value, and the potential for delays adds the risk of contract failure, triggering fines that can further increase costs.

The relative focus on the busiest sea lanes over smaller ports has put producers near smaller ports at a particular disadvantage. Low frequency limits their flexibility and impedes ability to ship refrigerated goods.

Impact on chilled exports

The shipping delays and shipment frequency reduction have been especially difficult for exporters who export chilled produce. In addition to the widespread delays, cost increases and uncertainty faced by exporters generally, delays can substantially cut the value of produce and impact relationships with buyers.

This uncertainty has driven up insurance costs for exporters and has made airfreight more attractive for high grade products. However, Australian air-freight capacity fell by 91% in 2020 due to travel restrictions put in place over the course of the pandemic, which has contributed to a 170% price increase on major routes since November 2019.

[2] Global container freight rate index from July 2019 to December 2021

[3] Shanghai Containerized Freight Index

Medium-term prospects

While capacity is currently beneath that needed to meet exporter demand globally, it is anticipated that large vessels initially commissioned in 2020 will begin coming online in late 2022 and 2023.

At the same time, the number of vessels at anchor or drifting around the Port of Los Angeles has declined from 89 to 67 between November and December 2021, suggesting the supply backlog is slowly resolving.

In the US the Ocean Shipping Reform Act of 2021 passed the US House of Representatives in December 2021 and is expected to become law in 2022. This act will modernise regulation of ports and remove some of the structural inefficiencies in port operation that have become apparent since the onset of the pandemic, recognising the shift in conditions over the past 20 years. Given the large percentage of global trade that passes through the US, any easing of congestion there will have substantial effects globally.

In Australia, there are a number of infrastructure improvements due to be completed over the next two years in major ports, while four of Australia's five port operators have entered into enterprise agreements in the last year, substantially mitigating the risk of increased industrial action.

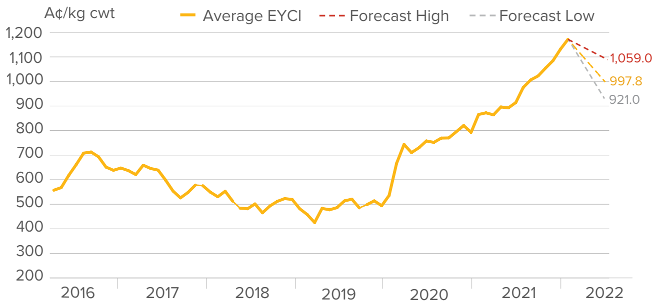
Price

Overview

2022 cattle prices began in an interesting manner, with the Eastern Young Cattle Indicator (EYCI) opening at 1,157¢ before bouncing around to close its second week of trading 18¢/kg cwt softer than where the price finished the 2021 season.

Since then, the indicator has risen 40c or 3.4%, to begin its third week of trading on a new record of 1,191¢/kg cwt, on the back of widespread rainfall seen across two thirds of Australia with the dissipation of Cyclone Tiffany. The average price for young cattle in Roma and Casino was also high, exceeding 1,300¢/kg cwt in mid-January. In nearly identical terms to the 2021 opening, the EYCI rose 30¢ on 19 January 2022, similarly to 2021 where the price rose 23.25¢/kg cwt.

Figure 16: Aggregated industry average EYCI price forecast



Source: MLA, ABARES, Thomas Elder Markets, Mercado, NAB, AuctionsPlus

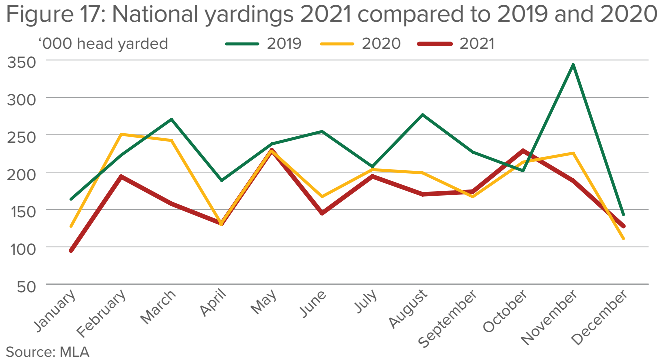
In the west in recent weeks, the Western Young Cattle Indicator (WYCI) has softened in its second week of trading for 2022 to hit 1,060¢/kg cwt – its lowest price point since the middle of October 2021. The indicator then recovered strongly to finish the week 20¢ softer than where it started at 1,109¢/kg cwt.

Supply

After a softer start to the 2022 saleyard selling season in the first week, numbers have rebounded strongly across numerous yards to be only 946 head below 2021 weekly yarding volumes for the corresponding week.

In 2021, national cattle yardings were down 11% or 229,000 head overall in line with the tightened supply as the national herd rebuild in the southern states continued to mature. Victoria's cattle yardings softened the most, falling by 29% or 101,000 head year-on-year. In the key cattle state of Queensland, yardings were softer by 6% or 51,000 head in 2021. NSW's yardings were 9% softer in 2021, falling by 57,000 head to demonstrate the significant rebuilding attitudes NSW and Victorian producers took, tightening supply as excellent seasonal conditions continued. Interestingly, Western Australia's yarding volumes were stronger by 5% or 29,000 head, demonstrating the producer intent to capitalise on an improving market as strong autumn and winter rainfall was recorded in the state.

Figure 17: National yardings 2021 compared to 2019 and 2020



Source: MLA

Buyers and demand

The hallmark of 2021 – a record breaking year for the cattle sector – was the continued competition for similar cattle from restockers and lot feeder buyers. This trend has continued in the early selling weeks of 2022, as restockers are pay premiums over the processor and lot feeding buyers. The restocker premiums are currently averaging 218¢ or 17% above feeders prices and 259¢/kg cwt and 19% higher than what processors are paying. Restockers are purchasing the majority of the EYCI yardings at present, accounting for 49% of the 13,239 yarded, whilst lot fed volumes have softened, accounting for 44%.

Across the Nullabor, feeder buyers are dominating purchases for Western Australia's young cattle, buying 64% of the total yarding.

With increased supply in WA's WYCI, the strength of the lot fed market demonstrates the demand for feeder cattle in the state. At 32 cents, the restocker premium is significantly tighter than the eastern states as the average restocker price for the WYCI sits at 1,130¢ and lot feeder prices at 1,098¢/kg cwt.

Click here to access MLA's Market Report's page for all domestic livestock prices and reports

Looking ahead

With many paddocks throughout NSW having abundant pasture yet remaining empty, restocker demand is expected to continue as its herd rebuild matures. The second half of 2022 is forecast to deliver a significant increase in supply as young cattle reach processor weights. Naturally, more supply will place downward pressure on the market, although in the short term this is not expected.

In Queensland, the herd rebuild is dependent on the continuation of a favourable spring and early summer rains to provide a strong foundation to retain and join breeding females. The northern pastoral system requires successive wet seasons to allow rebuilding to develop into 2023.

In Western Australia, a similar scenario is required for its northern regions such as the Pilbara and the Kimberley to recover from drought. Meanwhile, in the southern regions, another strong winter rainfall period will assist the herd rebuild and drive producer intentions and confidence in retaining stock.

MLA has surveyed six industry analysts for their price forecasts through until the end of the 2022 financial year. The analysts expect the EYCI to hit 998c/kg on 30 June 2022, as demand falls and supply increases. This price represents a 11 % reduction on current prices.

As economies continue to recover from the pandemic and demand from the middle-income earning consumers grow in line with the increased population of these people, the export outlook for Australian beef is promising. Headwinds and challenges will remain, such as the macro issues including labour, shipping and logistics, as well as the potential for the Australian dollar to appreciate. However, overall, there are a multitude of positives for industry, particularly for the producer and the heightened demand for Australian beef in key global and emerging markets.