



Red Meat Market Report

Australia



Retail and Foodservice 2011 update

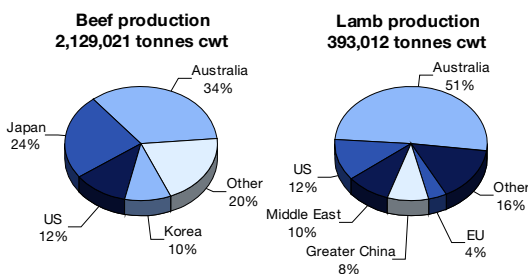
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Market overview

Beef

- The Australian beef market was at the mercy of a number of factors that meant overall utilisation fell during 2011. While events such as the ongoing strength of the A\$ and the Japanese earthquake and tsunami would traditionally have resulted in lower beef exports (thus, more beef on the domestic market), 2011 was very different. Smaller beef export markets, such as Korea, Russia and the Middle East, outbid the domestic market, taking additional product, which restricted the available supply for Australian consumption.
- Total beef and veal production during 2011 was virtually steady compared with the previous year, at 2.1 million tonnes cwt. Of this total production, 34%, or 731,000 tonnes cwt, was available for the Australian market – down from 750,000 tonnes, or 35% of production, in 2010.

Figure 1
Australia's market share for beef and lamb 2011



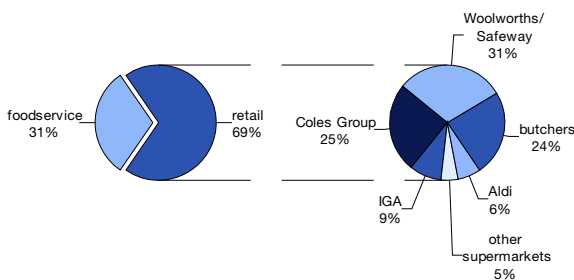
Source: ABS, DAFF, MLA

- Approximately 69% of beef in Australia is sold at the retail level, with the remaining 31% at foodservice.

Lamb

- Lamb consumption in Australia was lower in 2011 than the previous year, influenced mainly by lower production and associated higher prices, with approximately 200,000 tonnes cwt available for Australian utilisation. Lamb export demand, prices and volumes remained strong, particularly to the largest markets of the Middle East, the US and Greater China. Approximately 49% of production was exported, the highest proportion on record.

Figure 2
Domestic beef segment shares 2011



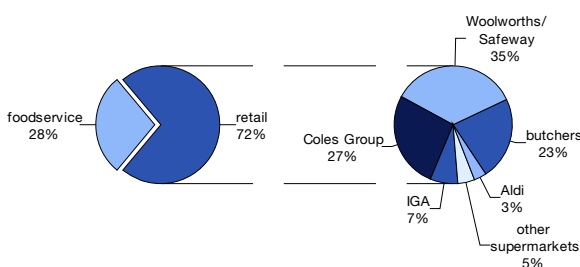
Source: Foodmap, Nielsen Homescan, MLA estimates

- Lower supply and strong overseas demand contributed to higher lamb prices throughout the supply chain, including record saleyard prices in February and March 2011. Combined with weak consumer spending, this meant that profit margins at retail and foodservice levels were eroded.

- There was evidence of lamb being taken off some restaurant menus due to the high prices, which is undesirable for the industry, as menu changes are generally not made regularly.

- Around 72% of Australian lamb on the domestic market is sold at the retail level, with foodservice accounting for the remaining 28%.

Figure 3
Domestic lamb segment shares 2011



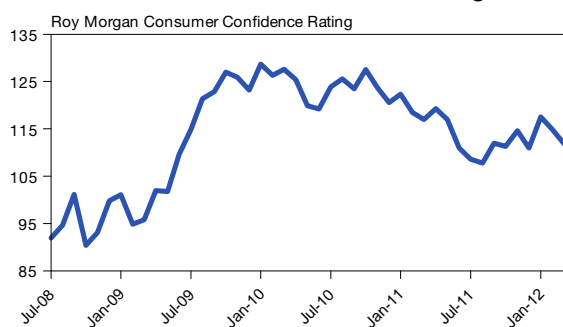
Source: Foodmap, Nielsen Homescan, MLA estimates

The economy

- Confidence was not as strong in 2011 (114.2 points) as the previous year (124.3 points), but remained above the low levels of 2008 and early 2009 (Roy Morgan Consumer Confidence surveys).

- After entering 2011 in a relatively strong position, weaker share and house asset values and the debt crisis in Europe started to have an impact on confidence relatively early in the year. Conflicting reports of how this situation was being handled, and its impact on China and the US, resulted in fluctuating confidence levels throughout the year, although by the end of 2011 confidence was somewhat restored.
- Australia's economic growth has shown signs of weakening again early in 2012, on the back of falling commodity prices and the high A\$. Unemployment is up, while building approvals, consumer finance, motor vehicle sales and retail sales are all down, except in the two resource-rich states (WA and Queensland).

Figure 4
Australian Consumer Confidence Rating



Source: Roy Morgan

- In addition, the banks have raised interest rates slightly and petrol prices are also high, both having a disproportionate impact on consumer confidence and spending.

- A tightening of fiscal policies at both state and federal levels are also not helping the downturn. Australia may fall short of the 3.25% GDP growth forecast by the Treasury for 2011-12 and 2012-13.

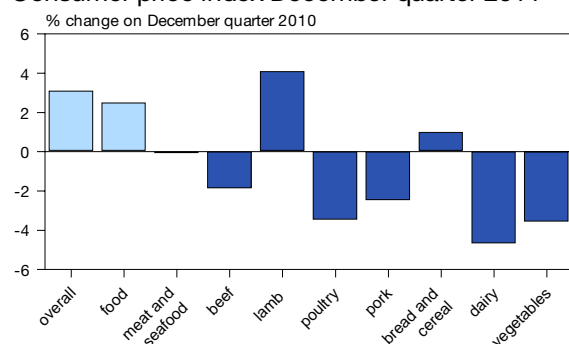
- Hence, it is not surprising that more Australians are expecting 'bad times' financially in the next 12 months than 'good times', although the feeling is better for the next five years (Roy Morgan Consumer Confidence). Australian consumer confidence has weakened early in 2012, with interest rates a sensitive factor.

Retail

Retail prices

- The Australian consumer price index lifted 3.1% during 2011, compared with 2010, according to the Australian Bureau of Statistics, outpacing the food component of the index, which grew just 2.5%. This food segment of the index included a wide variety of changes between 2010 and 2011, with categories such as fruit (up 24.4%) offsetting others such as vegetables and dairy (down 3.6% and 4.7%, respectively).

Figure 5
Consumer price index December quarter 2011



Source: ABS

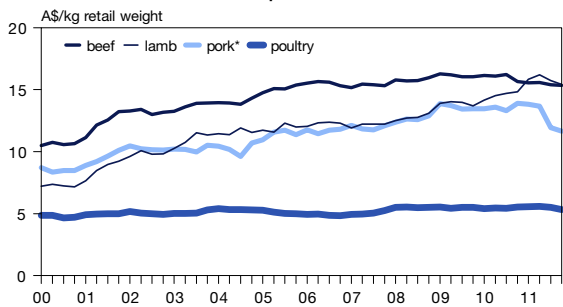
- Retail beef prices averaged 3.4% lower during 2011, compared with 2010, at \$15.47/kg – the second consecutive year of falling beef prices. The ongoing beef price war between the two major supermarkets was the key driver behind this price decline, though it should be noted that the retail fall did not prevent a significant rise in average saleyard cattle prices. Relative to most other proteins, this also meant that beef was more price competitive at retail during 2011.

- Lamb experienced its fourth year in a row of significant retail price growth in 2011, lifting a further 8.6%, to \$15.79/kg. A point to note is that 2011 was the first year that retail lamb prices averaged higher than beef.

In a competitive trading environment, with Australian lamb production at its lowest since 2005, a combination of firm domestic demand and strong overseas demand pushed lamb prices to these record levels.

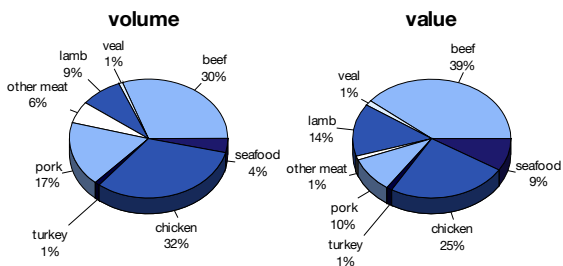
- Chicken prices at the retail level increased slightly, by 0.7% year-on-year, to \$5.49/kg, while the pork retail price fell 5.9% (although the measurement for pork includes bacon and ham as of September 2011, distorting the change).

Figure 6
Australian retail meat prices



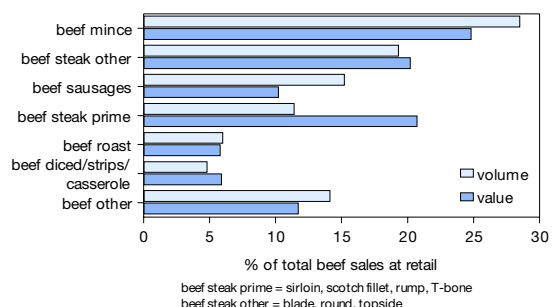
Source: ABS *NB: from Sep 2011, pork includes bacon and ham

Figure 7
Fresh meat retail category share 2011



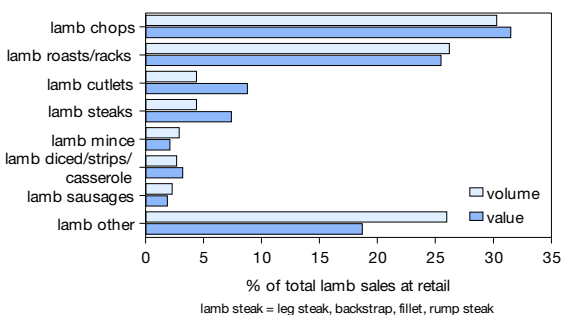
Source: Nielsen Homescan

Figure 8
Beef cut trends at retail 2011



Source: Nielsen Homescan

Figure 9
Lamb cut trends at retail 2011



Source: Nielsen Homescan

Retail sales

Beef sales generated the greatest value of all fresh meat at the retail level during 2011, accounting for 39% of all fresh meat receipts (41% including veal), well ahead of chicken (25%), lamb (14%), pork (10%) and seafood (9%). These proportions were almost unchanged on the previous year, with the exception of beef's increase from 38% and chicken's decline from 26%.

In volume terms, however, chicken was the highest selling fresh meat at retail, accounting for 32% of fresh meat sales, up from 30% in 2010. This increase was at the expense of beef (30%, down from 31%) and lamb (9%, down from 10%). Other fresh meats maintained their volume shares during 2011, including pork (17%) and seafood (4%).

Retail beef sales during 2011 were led by Woolworths/Safeway, with 31% of volume, ahead of the Coles group, with 25%, and butchers and specialty stores, with 24%. Beef sales at IGA accounted for 9% of the retail volume, and Aldi a further 6%. The remaining 5% was sold by other supermarkets.

Woolworths/Safeway was the largest sales point for lamb, making up 35% of retail volume. The Coles Group made up 27% of retail sales of lamb, followed by butchers and specialty stores, with 23%. IGA stores sold 7% of lamb at retail, with Aldi 3% and other supermarkets 5%.

For both beef and lamb, butchers and specialty stores accounted for a higher proportion of value than volume, making up 26% of beef retail value and 25% of lamb retail value.

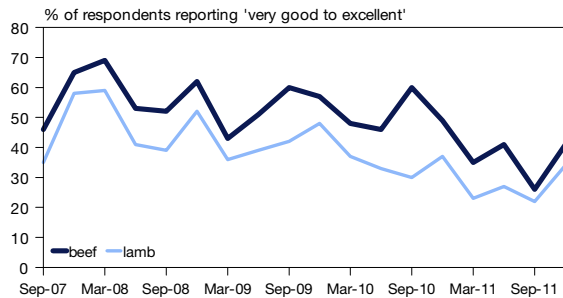
Beef's most popular form at retail during 2011 was mince, accounting for around 29% of all beef sales. Non-prime steaks were the second most popular category, with 19%, followed by sausages, with 15%. It should be noted though, that only steaks (both prime and non-prime), and value-added beef, such as diced or strips, accounted for a greater proportion of retail value than volume. This is reflective of the convenience of the value-added cuts and the status that steak holds in Australian shoppers' minds as a premium beef style.

For lamb, the most popular cuts were overwhelmingly chops (30%) and roasts/racks (26%). In terms of the best ratio of value generated per unit sold, cutlets, steaks and chops were the best performing lamb cuts at retail in Australia during 2011.

Butcher trends

Butchers reported weaker sales across all meats during 2011, according to MLA’s butcher survey carried out by Millward Brown. In general, fewer butchers reported ‘very good’ to ‘excellent’ sales across beef, lamb, pork and chicken, while more reported ‘poor’ to ‘fair’ sales.

Figure 10
Australian butcher sales performance



Source: Millward Brown

The sales performance of beef at butchers during 2011 was reportedly not as strong as 2010, with 36% of respondents indicating ‘very good’ to ‘excellent’ sales, down from 51%. The best period for beef sales was the December quarter, both in terms of high levels of good performance and low levels of poor performance. During this period national retail beef prices were relatively low compared with other meats (and the lowest since December 2007), which indirectly assisted demand.

Similarly, lamb sales at butchers were not as strong during 2011 as in the previous year, as the reported proportion of ‘very good’ to ‘excellent’ sales declined from 34% to 27%. This was especially noticeable in the March and September quarters, while the December quarter was the best for the year. Much of this pattern was attributed to higher price points, particularly early in the year, when saleyard prices were peaking and butcher sales were reportedly at their worst.

A good sign for producers of both beef and lamb was that the reported satisfaction of butchers with the quality of produce was higher in 2011 than in 2010.

Foodservice

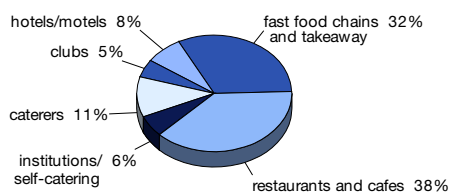
This section of the report summarises the key findings from the most recent foodservice tracking survey, commissioned by Meat & Livestock Australia and carried out in May and November each year by Penfold Research.

The November 2011 survey was the 21st in a series of studies tracking the consumption of, and preference for, beef, veal, lamb, mutton, pork and poultry in the Australian foodservice sector. The main objectives of the study are to examine weekly foodservice purchases of the various meat types, in volume and value terms, to compare with previous survey periods and to identify the most popular lamb and beef cuts.

There were 433 foodservice operators interviewed by telephone for the survey in Brisbane/Gold Coast, Melbourne and Sydney. The majority of operations were either restaurants (35%) or fast-food independents (23%), while hotels/motels and pubs/clubs (both 12%) also made-up a significant proportion. Other groups included fast-food chains, aged care/retirement homes, and institutions, such as prisons, mining, schools, etc.

Figure 11
Foodservice market

Estimated total expenditure 2010 = \$42.1 billion



Projected total expenditure 2011 = \$42.5 billion

Source: ABS/Penfold Research

Market size and growth

Total foodservice expenditure for 2011 was projected by Penfold Research at \$42.5 billion, an increase of 1% on 2010, the same proportion as ABS figures for the calendar year for cafes, restaurants and takeaways.

Figure 12
Australian cafe, restaurants and takeaway foodservice

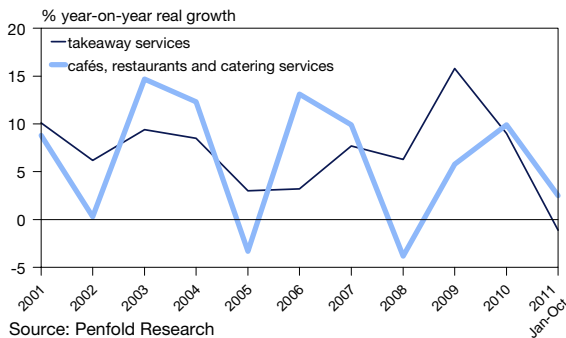
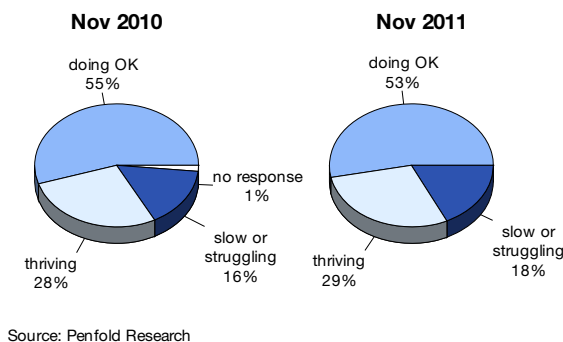


Figure 13
State of commercial foodservice sector



■ The foodservice industry was not a particularly strong performer during 2011, especially relative to the good growth of 2010. The main reason behind this was relatively pessimistic consumer sentiment, particularly for the short term, which was compounded by increasing prices. This reduced the incentive for spending on non-essential items, including eating out.

State of the foodservice sector

■ The foodservice industry has been performing relatively steadily since late 2009, when there was a sharp improvement following the Global Financial Crisis (GFC). The majority of foodservice operators surveyed regarded themselves as ‘doing OK’ (53%), slightly down on both November 2010 and May 2011. This decline was taken up by operators at both ends of the performance spectrum, with more enterprises described as ‘thriving’ (29%) and ‘slow or struggling’ (18%). This was the largest proportion for both categories since May 2009, when 18% described themselves as ‘slow or struggling’ compared with just 24% ‘thriving’.

■ The best performing channels were institutions, fast food chains and aged care outlets. The institutional and aged care segments are expected to remain relatively strong regardless of overall conditions, with a ‘fixed’ consumer segment, while fast food chains are in a strong competitive position, due to strong buying power.

■ The worst performing channels were fast food independents and restaurants, with fine dining and high bill outlets relatively strong within the restaurant segment.

Foodservice trends

■ Consumers appear to be more budget-conscious when making purchasing decisions, and look to be resisting further increases in price. This has the potential to increase differentiation in the foodservice market, with operators looking to attract customers with more economical choices. Alternative cuts and dishes are likely to become more attractive to suppliers and consumers, respectively.

■ Fast food chains have improved their competitive position against traditional restaurants. The buying power of some chains means they are able to purchase inputs for their meals at a better price than many independents, and they have added relatively cheap ‘premium’ or healthy options to their menus. This has placed some fast food chains in a strong competitive position to attract the budget-conscious consumer.

■ Consumers have increased their awareness about the background of the food they eat, including the sustainability and environmental credentials of production, and health benefits of what they are eating. Some factors in working with these trends will involve greater costs, whether it be through certification for different systems or greater training at key points in supply chains.

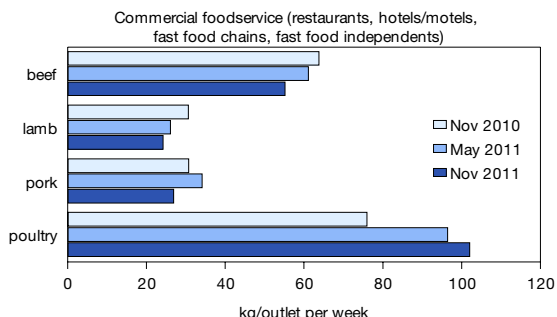
■ However, the potential for improving the health credentials of certain meals remains strong. The ‘green’ movement is key in this, as indications point to this sector of the industry continuing to expand, albeit at a relatively slow rate.

Protein consumption

Results from the foodservice tracking survey indicated that average weekly consumption (in the core channels of restaurants, hotels/motels, fast food chains and fast food independents) of beef/veal, lamb and pork declined from the previous year,

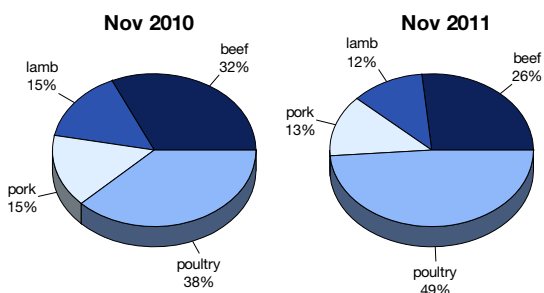
while poultry consumption grew significantly in that time. One of the main reasons behind this was the relative price, with poultry at around \$5.60/kg compared with \$12.92/kg for beef and \$15.02/kg for lamb.

Figure 14
Average weekly meat and poultry usage



Source: Penfold Research

Figure 15
Share of meat usage in commercial foodservice outlets - by volume



Source: Penfold Research

Over the last five years, overall meat consumption (in kg/week/outlet) has followed a downward trend of -2.8% per year, whereas expenditure increased over this time by 3.3% per year. An average price increase of 6% per year was the reason behind this expenditure growth. Pork was the only meat to record a positive volume growth trend over this time, increasing 1.9% per year. This is in contrast to poultry (-0.5% per year), lamb (-4.8% per year) and beef/veal (-5.4% per year).

Beef consumption per outlet in the core channels averaged 55.5kg/week for the November 2011 survey, 19% below the five-year average of 69kg. Survey results pointed to prices being an issue for budget conscious consumers. Beef prices were 24% higher than the previous survey (May 2011), at \$12.92/kg (the highest since the survey began in 2000), driven by hotels/motels.

Lamb consumption was also lower during the November survey period, at 24.5kg/outlet/week. Compared with the five-year average of 29kg, it was down 16%. In contrast to beef, however, lamb prices

were relatively steady compared with the previous survey, at \$15.02/kg (but, like beef, this was the highest since the survey began). The key point to note for the lamb price is the increase from \$7.26/kg in May 2007, an average of 17.5% per year.

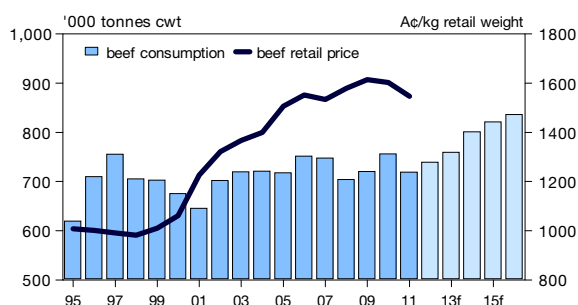
Outlook

The 2012 projections presented below are from MLA's *Cattle Industry Projections 2012* and *Sheep Industry Projections 2012*, released in January and February, respectively.

With global economic uncertainty/fear dominating the psyche of Australian consumers, any return to normal growth is being held hostage by international events – principally in Europe, 2012 is expected to continue in a similar manner to 2011, at least for the first half of the year. If this results in GDP growth falling well short of the 3-4% underpinning the Projections or a fall in real consumer expenditures, beef and lamb consumption outcomes could be below the current forecast.

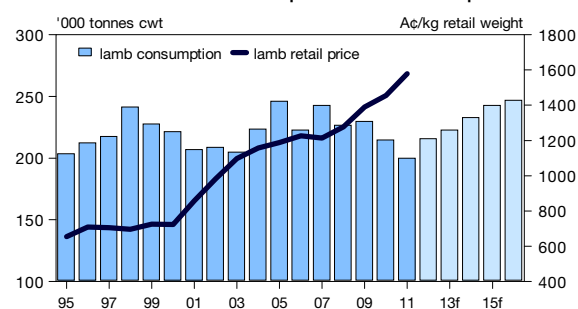
For 2012, beef utilisation is forecast to increase 1.7%, to 740,000 tonnes swt, with some improvement in economic conditions and consumer sentiment assisting demand.

Figure 16
Australian beef consumption and retail price



Source: ABS, ABARES, DAFF and MLA forecasts

Figure 17
Australian lamb consumption and retail price



Source: ABS, ABARES, DAFF and MLA forecasts

■ The volume of beef available for utilisation on the Australian market is forecast to remain constrained, with export markets expected to take 76% of the 2.3% increase in beef and veal production.

■ Australian lamb utilisation is forecast to increase around 5%, to 216,000 tonnes cwt in 2012, as a result of greater lamb slaughter and production. This means the domestic market retains just over half of the total lamb produced. Lamb prices in 2012 have started lower than the previous year, and with greater supply expected throughout the year, prices are likely to remain lower. This should be a positive factor for lamb in the Australian market, particularly after retail and foodservice prices started to level-out in late 2011.

Table 1
Domestic demand indicators

	Unit	Source	2011 calendar year	2010 calendar year	% change year
Demand watch - Beef					
usage ¹	'000 tonnes carcass weight	MLA estimate	720.25	756.72	-4.8%
expenditure ²	A\$ million retail	MLA estimate	6,351	6,910	-8.1%
demand index beef	index (base 1998 = 100)	MLA estimate	87	99	-12.1%
retail price	\$/kg retail weight	ABS	15.47	16.02	-3.4%
NSW wholesale price (180-200kg C3)	c/kg carcass weight	MLA's NLRS	404	361	11.9%
saleyard price (trade steer 330-400 cwt C3)	c/kg carcass weight	MLA's NLRS	389	348	11.8%
Retail					
Beef/veal retail share - volume	%	Nielsen Homescan	31.1	32.0	-2.8%
Beef/veal retail share - value	%	Nielsen Homescan	40.6	39.8	2.0%
Demand watch - Sheepmeat					
usage ¹	'000 tonnes carcass weight	MLA estimate			
lamb			199.88	215.42	-7.2%
mutton			5.88	12.90	-54.4%
expenditure ²	A\$ million retail	MLA estimate			
lamb			2,209	2,194	0.7%
mutton			40	82	-50.5%
demand index lamb	index (base 1998 = 100)	MLA estimate	121	124	-2.7%
retail price	\$/kg retail weight	ABS			
lamb			15.79	14.55	8.5%
mutton			9.81	9.03	8.6%
NSW wholesale price lamb (18-20kg FS3)	c/kg carcass weight	MLA's NLRS	720	618	16.5%
saleyard price	c/kg carcass weight	MLA's NLRS			
lamb (18-22 kg)			549	502	9.4%
mutton			413	372	11.0%
Retail					
Lamb retail share - volume	%	Nielsen Homescan	8.7	9.9	-12.1%
Lamb retail share - value	%	Nielsen Homescan	14.2	13.5	5.2%
Competitor meats					
retail price	\$/kg retail weight	ABS			
pork			12.76	13.56	-5.9%
chicken			5.49	5.46	0.5%
wholesale price pork (DF pork 45-60kg)	c/kg carcass weight	MLA's NLRS	423	426	-0.5%
Retail					
Pork retail share - volume	%	Nielsen Homescan	17.5	17.3	1.2%
Pork retail share - value	%	Nielsen Homescan	9.7	10.1	-4.0%
Chicken retail share - volume	%	Nielsen Homescan	31.9	30.0	6.3%
Chicken retail share - value	%	Nielsen Homescan	24.5	25.6	-4.3%

Notes:

1 - The formula used by MLA to estimate consumption is: production - carcass weight exports (including processed exports) + carcass 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.

Meat Standards Australia (MSA) POS refresh

The Meat Standards Australia (MSA) symbol has recently been refreshed and repositioned as an independent endorsement of eating quality for graded Australian beef. This means that the MSA logo is now positioned as a 'quality symbol' indicating that commercial brands have been graded to MSA standards.

MSA licenced retailers can identify graded beef with the MSA symbol to communicate to customers that the beef has been graded against an independent standard for tenderness, juiciness and flavour that ensures consumer satisfaction when prepared by the recommended cooking method.

In a recent study the new MSA 'graded' logo was embraced by consumers. They considered it to be a useful and trustworthy symbol that would give them confidence to select the right cut of beef for a specific cooking method.

As part of the refresh, industry have developed a range of POS materials to assist independent butchers promote MSA beef to consumers. Elements include; a life size promotional butcher, consumer educational brochures, door/cabinet decals, ticket toppers, posters and fridge magnets outlining how to cook the perfect steak.

This material is designed to help communicate the importance of MSA to customers while also endorsing the quality of the beef.



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Free to MLA members

For further information

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