

# Industry projections 2019

## Australian cattle – April update

MLA's Market Intelligence – [globalindustryinsights@mla.com.au](mailto:globalindustryinsights@mla.com.au)

### KEY POINTS

- Herd revised significantly lower due to drought and floods
- Slaughter expected to slow in back half of 2019
- Strong demand from North Asia and US supporting finished cattle prices



### KEY 2019 NUMBERS

- ➔ **Slaughter:** 7.7 million head
- ➔ **Carcase weights:** 290 kg/head
- ➔ **Production:** 2.2 million tonnes cwt
- ➔ **Beef exports:** 1.09 million tonnes swt

\* Graphic illustrates year-on-year change

## Summary

It has been a tumultuous start to the year for the cattle industry, with drought and flooding heavily impacting slaughter and herd levels. Dry conditions during summer have driven a continuation of the herd liquidation and combined with stock losses from the floods in north-west Queensland (estimated between 500,000 to 700,000 head), will result in the largest drop in the national herd in decades.

Much-needed rainfall in many drought-stricken parts of Queensland through March provided some reprieve, but many producers destocked heavily throughout summer, as feed costs and lack of stock water left them with few alternatives. Forecast adult slaughter for 2019 has been revised slightly higher, but is still expected to be below 2018 levels at 7.7 million head. The revision is largely driven by harsher-than-expected seasonal conditions during the first quarter and subsequent accelerated slaughter. The Queensland floods will have reduced the pool of available slaughter and export cattle. However, this is being masked by the current elevated drought-induced turnoff with the poor conditions set to persist across many parts of the country and the latest Bureau of Meteorology (BOM) forecast showing no strong indication of significant immediate relief.

Feedlots have remained near capacity, but lower entry weights and the high cost of feed has impacted feeding margins. Elevated female slaughter and lighter sale weights, due to poor pasture conditions, have led to lower carcass weights so far this year. This trend in carcass weights is forecast to continue, which combined with slaughter figures, will underpin a 3% decline in production this year, to an estimated 2.2 million tonnes carcass weight (cwt).

International demand for Australian beef has held strong, supported by a depreciating Australian dollar and double-digit export growth to both China and the US in the first quarter of the year.

Finished cattle prices have remained steady but young cattle and cows have experienced significant fluctuations in recent months. As always, weather will be a key determinant of future prices, with recent support indicative of the strong restocker intent. However widespread follow-up rainfall is needed. The longer the herd remains in liquidation, the sharper the expected price correction when it re-enters rebuild territory.

Looking ahead, the significant depletion of the herd will result in lower slaughter rates and fierce rebuilding competition once there is a widespread break in the weather. Even if there is a consistent string of reasonable seasons, it is expected to take a number of years before the national herd is back to its longer-term average of 28 million head.

# Seasonal conditions

In January, the BOM's three-month climate outlook favoured a less-than-50% chance of exceeding median rainfall in many cattle producing regions. This prediction largely held true for most regions, with prevailing conditions even more severe than expected. Large swathes of the country experienced an extended dry period combined with moisture-sapping heat.

There were stark exceptions, however, with areas in north-west Queensland experiencing an unprecedented flooding event in late summer and much of central and southern Queensland receiving rains in March. This has left parts of Queensland and eastern NT with improved pasture, ground and surface water prospects for the coming winter and spring.

Turning to the outlook for the May-to-July period, much of eastern Queensland and north-eastern NSW has been given less than a 50% chance of exceeding median rainfall. However, the prospects for western NSW and western Queensland look slightly more favourable with a 55-60% chance of exceeding median rainfall. Parts of central WA also face a slightly better outlook. For the purpose of these projections, average seasonal conditions are assumed beyond this period.

Figure 1: Australian rainfall – January to March 2019  
Rainfall decile ranges

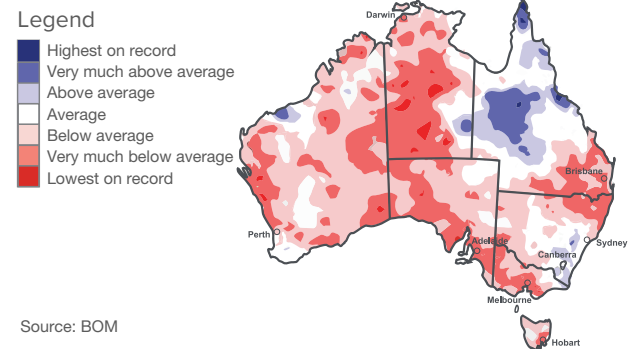
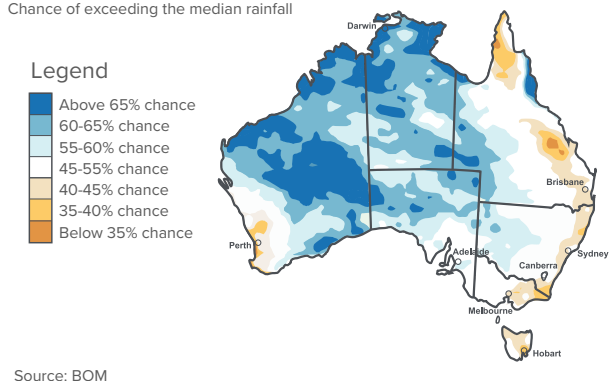


Figure 2: Australian rainfall outlook – May to July 2019  
Chance of exceeding the median rainfall



## Cattle herd and slaughter

On the back of a poor start to the 2019 season, cattle producers took steps to further destock already depleted herds, as a lack of pasture, high feed costs and severe stock water shortages accelerated the rate of turnoff.

The monsoonal rainfall event in north-west Queensland in early February led to widespread flooding and livestock exposure, causing substantial cattle losses in the region. An accurate figure of livestock losses is yet to be fully determined, but will begin to emerge as the mustering season progresses, although the full ramifications may take years to assess. However, industry reports have estimated stock losses of between 500,000 and 700,000 head, which has been factored into these projections.

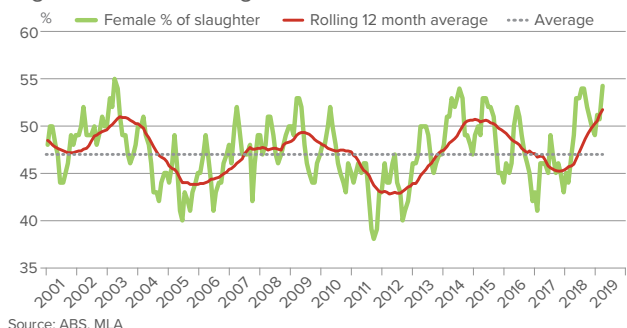
The female portion of total adult cattle slaughter has remained elevated so far in 2019 and reached 54% in February, its highest monthly level since June 2003. On a 12-month rolling basis, the percentage of females in adult slaughter stands at 52% – well above the 47% mark typically indicating a herd in contraction.

The pace and timing of the awaited herd rebuild has undertaken a major setback as a result of the February flooding and ongoing drought, driving a heightened rate of female slaughter.

For the year-to-February, adult cattle slaughter (latest available ABS data) was 1.28 million head, 11% higher than the same period in 2018 and the highest opening kill since 2015. Recent rainfall provided some short-term confidence in the cattle market, in particular for Queensland producers. Despite turnoff remaining elevated so far this year, slaughter numbers during the second half of 2019 are anticipated to run below year-ago-levels.

Australian adult cattle slaughter for 2019 is forecast to fall 2% year-on-year, to 7.7 million head. With an ever-dwindling pool of available slaughter cattle, any widespread autumn and winter falls will be pivotal to how slaughter tracks in the second half of the year.

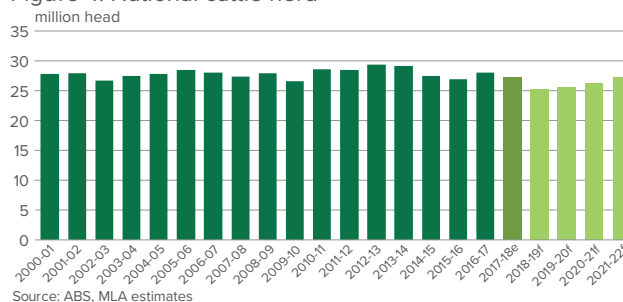
Figure 3: Female slaughter



The national herd is expected to decline 7.7% to 25.2 million head in the year to June 2019, driven by the elevated turn-off, lower branding rates and the north-west Queensland flood event. The recovery of livestock numbers in the flood-affected area will take years, as the reduced breeding herd will see fewer calves on the ground.

While a return to more average seasonal conditions could see rebuilding recommence later in the year, the prolonged dry conditions will restrain the pace of any rebuild. Demand factors provide some incentive for producers to recommence herd rebuilding, should conditions allow. However, the frequency and intensity of recent drought conditions will be front of mind for producers looking to re-enter the cattle market. Furthermore, the run of poor seasons since 2012 is likely to have left farm finances drained. By 2022, the national herd is expected to return back above 27 million head.

Figure 4: National cattle herd



## Carcase weights and production

National adult carcase weights at the start of 2019 have been consistent with expectations. Feedlots continue to play a key role in mitigating the impact of drought, with the ability to turnoff finished cattle regardless of the season. As a result, male carcase weights have remained at historically high levels. The number of cattle on feed at the commencement of 2019 was high, but back slightly (1%) from the September quarter, at 1.11 million head, 14% above where it opened the previous year.

Average male carcase weights are expected to ease slightly on 2018, to 324kg, while female carcasses are likely to average close to 2018 weights, at 256kg. Female carcase weights in January and February were below the same period last year but, under the assumption of average conditions in the second half of 2019, weights may not fall as low as witnessed at the end of winter and early spring last year.

Total beef production has been revised slightly upward on the back of an increase in 2019 slaughter, although the 2019 volume is expected to post a 3% year-on-year decline, to 2.2 million tonnes cwt.

Should above average rainfall occur through the rest of 2019, female carcase weights in particular would likely increase quickly as pasture availability improves, while male cattle would record a smaller recovery. However, a repeat of the dry and hot 2018 conditions would put more pressure on carcase weights, with a reduction in weight likely to be offset by an increased supply of slaughter cattle.

Figure 5: Cattle on feed

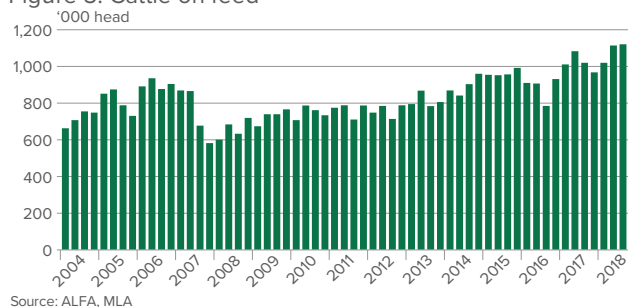
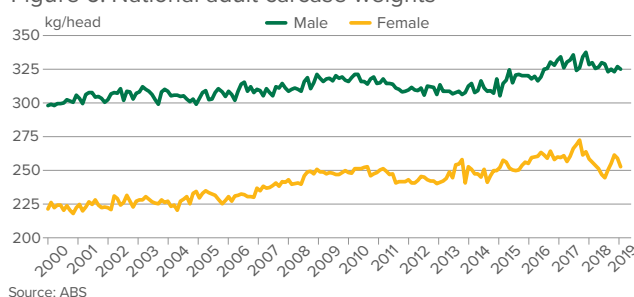


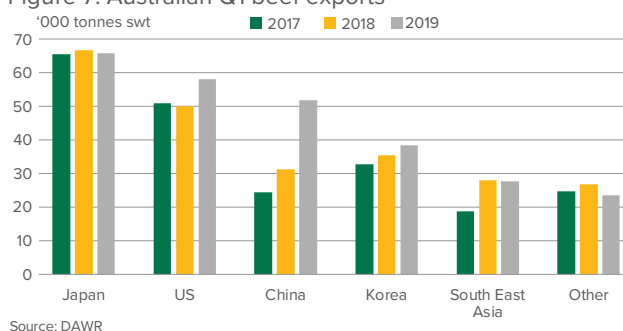
Figure 6: National adult carcase weights



## International markets

At a time of drought-induced elevated cattle slaughter, global demand for Australian beef has been strong, supported by a low A\$ and fresh tariff reductions in the new year. In the first quarter, Australia exported almost 265,000 tonnes shipped weight (swt) of beef, up 11% year-on-year and underpinned by increased grassfed beef production. Export growth has been led by China and the US, with first quarter shipments up 67% and 16% year-on-year, respectively. Demand from other markets has also been robust, with shipments to Korea jumping 8% and exports to Japan and South East Asia steady on last year. Positively, export values have grown ahead of volume in almost all major markets.

Figure 7: Australian Q1 beef exports

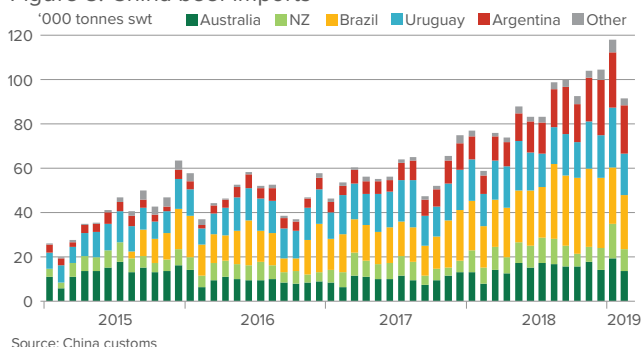


However, competition in global markets continues to ramp up, particularly from the US, Brazil and Argentina. In 2018, exports from Brazil, Argentina and Uruguay were more than 500,000 tonnes swt greater than in 2016 – a lot of which has been directed to China. The US, Canada and New Zealand have increased exports by almost 270,000 tonnes swt over the same period.

Increased competition comes at a time of elevated political and economic global uncertainty. The ongoing US-China trade war continues to cause jitters in global markets and appears to be weighing down the global economy – the International Monetary Fund downgraded its 2019 global growth forecast from 3.5% to 3.3% in April.

China was the stand out market in 2018, absorbing an additional 344,000 tonnes (or 50% year-on-year growth) of direct beef imports, exceeding the 1 million tonne mark and making it easily the largest imported beef market in the world. The expansion has continued into 2019, with imports in the first two months up 55% year-on-year and increased product sourced from South America, New Zealand and Australia. While demand growth for Australian beef precedes the outbreak of African Swine Fever (ASF) in China, attention is now turning to the extent of the pork shortages during the rest of 2019 following the mass pig losses. Current pork production loss estimates range from 20-30% this year, a shortfall near impossible to replace with imported product and destined to have serious implications for global meat markets. While some of this shortfall will be substituted with poultry, and imported pork, and offset by reduced overall meat consumption, ASF will play a supporting role across all protein markets.

Figure 8: China beef imports

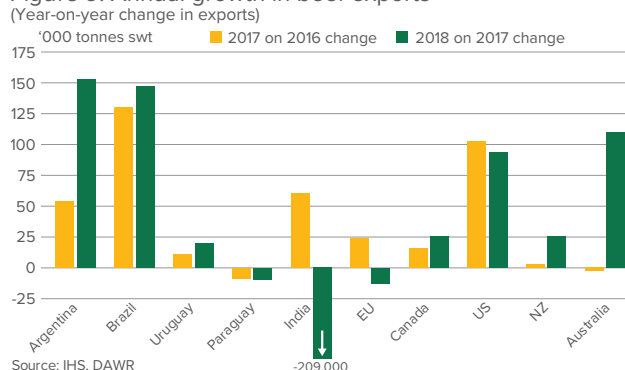


Despite its own production continuing to expand, albeit slower than the last two years, US demand has also been very strong so far this year and will remain robust as the market enters summer grilling season. Manufacturing exports to the market have been supported by elevated cow slaughter in Australia but US buyers have also faced increased competition with Asian markets – 85-95CL manufacturing exports to the US lifted 28% year-on-year in the first quarter and imported 90CL prices are approaching four-year highs in US\$ and A\$ terms. Chilled grassfed primal exports to the US also recorded encouraging growth, up 12% in the first quarter.

With the start of a new safeguard year, beef exports to Korea lifted 8% in the first quarter, with growth centred on forequarter cuts. Exports to Japan were steady, with increased shipments of grassfed hindquarter and forequarter primal exports offset by an 8% decline in grainfed product.

Despite a strong start to the year, exports are expected to shift closer to 2016 and 2017 levels throughout the rest of 2019, as slaughter cattle supplies tighten. 2019 beef exports have been revised marginally higher since the January projections, to 1.09 million tonnes swt – a 3% contraction year-on-year but still above any level recorded prior to 2013.

Figure 9: Annual growth in beef exports



## Prices

The cattle market has displayed heightened volatility in recent months, with weather the driving force. Looking forward, store condition cattle are expected to remain under pressure until seasonal conditions allow restockers to re-enter the market with confidence and producers to hold onto more cattle. On the other hand, strong demand fundamentals and limited supply should see continued support and stability for prices at the finished end.

In early March, high feed costs, limited pasture availability and severe water shortages saw an influx of cattle on the market. Yardings rose substantially in saleyards from central Queensland to southern NSW. The weight of supply had a strong impact on prices, with the Eastern Young Cattle Indicator (EYCI) falling to 385¢/kg carcass weight (cwt) – 26% below the five-year average and the lowest level since 2014. Cow prices saw the largest declines, with the eastern states medium cow indicator falling to 131¢/kg live weight (lwt) – 33% below the five-year average.

Figure 10: Eastern Young Cattle Indicator



Following this, the widespread rainfall across Queensland and a decline in overall yardings saw prices quickly recover much of these losses through late March. With the optimal window for pasture growth now drawing to a close, store condition cattle are unlikely to see strong demand stemming from northern restockers until spring. That said, any autumn rainfall would benefit winter forage crops and have a positive effect on the market.

Incentivised by strong export demand for grainfed beef, feedlot buyers continue to provide a crucial base level of support to the young cattle market. In the absence of decent autumn rain, those in the market for feeder suitable cattle could potentially see supplies tighten during winter. As such, animals of desired specifications will likely receive a continued level of price support.

Despite store market volatility, finished cattle prices have been much more stable during 2019. Supply levels have been hampered by poor pasture and crop growing conditions, while a weak A\$ and robust export demand have provided an added boost. For the year-to-date, the national heavy steer over-the-hook indicator has averaged 500¢/kg cwt, 8% above the five-year average, and alludes to upside potential in the store market if conditions were to improve markedly.

There has been a sustained lift in the US imported 90CL beef indicator since the beginning of the year. However, the indicator has accelerated more rapidly in recent weeks as widespread rainfall in Queensland, lifted competition amongst US buyers, looking to secure grinding beef supplies over the summer grilling season. The current spread between the 90 CL indicator and domestic prices highlights the fact that export markets are generating strong returns and domestic prices are yet to fully react, due to ongoing dry conditions.

Outside seasonal influences, key factors that may place downward pressure on Australian cattle prices include the strength of the US beef market – which is exposed to any US economic downturn and fall in meat demand – or an unexpected strengthening of the A\$. However, global demand for Australian beef remains strong and the spread of ASF in China presents further upside potential for export prices – albeit the full extent this will have remains to be seen.

Figure 11: Australian cattle prices

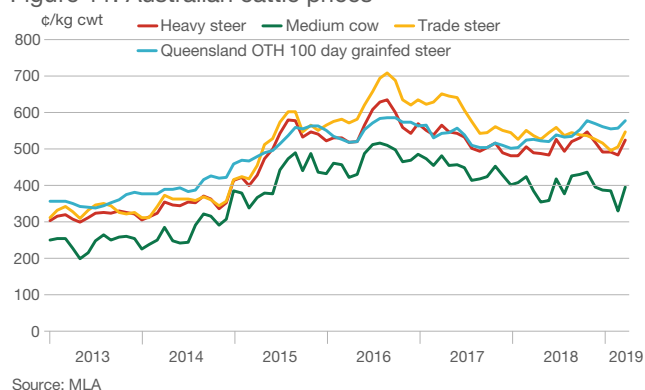
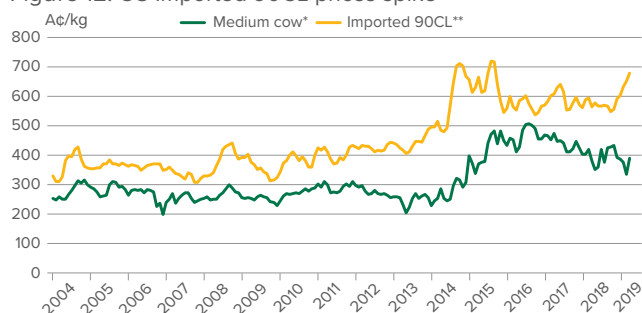


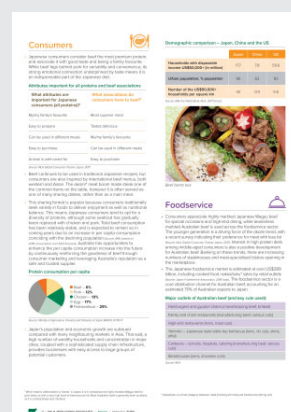
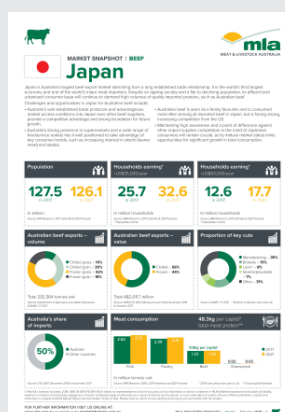
Figure 12: US Imported 90CL prices spike



## Market snapshots

MLA's market snapshots aim to give producers a better understanding of what's driving demand in the main markets where Australian red meat is consumed. These will enable producers to be more informed when having discussions with their supply chain partners and – armed with a better understanding of where their product is going – make more informed business decisions about their own production and on-farm investments.

To view market specific snapshots click here





# Situation and outlook for the Australian cattle industry

	2014	2015	2016	2017	2018 <sup>e</sup>	2019 <sup>f</sup>	% change 2019 <sup>f</sup> on 2018	2020 <sup>f</sup>	2021 <sup>f</sup>	2022 <sup>f</sup>	% change 2022 <sup>f</sup> on 2018
<b>Cattle numbers ('000 head)*</b>											
cattle	29,100	27,413	26,845	27,965	27,300	25,200		25,400	26,200	27,100	-1%
percentage change	-0.7%	-5.8%	-2.1%	4.2%	-2.5%	-7.7%		1.0%	3.0%	3.4%	
<b>Slaughterings ('000 head)</b>											
cattle	9,226	9,007	7,288	7,158	7,873	7,700	-2%	7,000	7,150	7,400	-6%
calves	688	667	542	413	468	470	0%	400	430	460	-2%
total	9,914	9,675	7,830	7,571	8,341	8,170	-2%	7,400	7,580	7,860	-6%
<b>Average carcase weight (kg)</b>											
cattle	276.8	279.1	288.2	297.6	290.8	289.5	0%	297.1	300.1	302.2	4%
calves	64.9	55.6	53.9	45.7	41.3	43.0	4%	45.0	45.0	45.0	9%
<b>Production ('000 tonnes carcase weight)</b>											
beef	2,554	2,514	2,101	2,130	2,289	2,229	-3%	2,079	2,145	2,236	-2%
veal	41.3	32.9	24.2	18.9	19.3	20.2	5%	18.0	19.4	20.7	7%
total beef and veal	2,595	2,547	2,125	2,149	2,309	2,249	-3%	2,097	2,164	2,257	-2%
<b>Cattle exports ('000 head)</b>											
cattle	1,292	1,332	1,126	855	1,089	1,000	-8%	900	925	950	-13%
<b>Beef exports** ('000 tonnes)</b>											
total, carcase weight	1,881	1,888	1,497	1,493	1,655	1,599	-3%	1,453	1,516	1,604	-3%
total, shipped weight	1,287	1,285	1,018	1,015	1,126	1,088	-3%	988	1,031	1,091	-3%
<b>Domestic utilisation ('000 tonnes carcase weight)***</b>											
total, carcase weight	702	646	614	643	639	634	-1%	628	633	637	0%
kg/head***	29.9	27.1	25.2	26.0	25.6	25.0		24.4	24.2	24.0	

Source: ABS, DAWR, MLA forecasts

\* From 2016 is an MLA estimate based on ABS Data - Figures as of 30th June

\*\* 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.

f = forecast  
e = estimate