

Industry projections 2021

Australian cattle

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KEY POINTS

- The national cattle herd is forecast to commence a rebuild phase in 2021
- Slaughter numbers to fall as producers retain more cattle on the back of improved conditions in northern Australia
- Exports to bounce back as global economies recover from COVID-19



KEY 2021 NUMBERS

-  **Slaughter:**
6.9 million head
-  **Carcase weights:**
301.3 kg/head
-  **Production:**
2.1 million tonnes cwt
-  **Beef exports:**
1.1 million tonnes swt

* Graphic illustrates year-on-year change

Summary

After contracting for two years, the national cattle herd is expected to increase by 2% to 25.2 million head in 2021 as it enters a rebuild phase. This rebuild comes after Australian cattle numbers fell to their lowest level in two decades in 2020 following prolonged severe drought.

Improved seasonal conditions in southern Australia throughout 2020, and above-average summer rain in northern Australia during the 2020–21 wet season, are expected to produce an abundance of pasture in all major cattle producing regions, with the exception of parts of WA.

Cattle supply is expected to tighten in 2021, as producers retain more breeding stock to rebuild their herds. The increase in heifers being retained for breeding purposes will cause the female slaughter percentage to drop in the second half of 2021, this is expected to fall below 47%, signalling a technical rebuild.

Producer intentions to retain more cattle will also see slaughter levels fall further. In 2021, cattle slaughter is expected to fall 3% to 6.9 million head, with calf slaughter expected to drop by 7%, demonstrating producer preferences to hold onto young cattle rather than turn them off into the vealer market. During the first few weeks of 2021 this dynamic has already been evident, with yardings and slaughter numbers down on year-ago levels.

Unlike during previous rebuilds, prices are at record highs, which may motivate some producers to take advantage of these prices and offload cattle. However, the biggest impact will be on carcass weights, as both high prices and the availability of feed will incentivise producers to feed for longer to achieve higher weights and greater returns. The growing size of the feedlot sector, with over 1 million head currently on feed, will also contribute to rising carcass weights, in 2021 these are predicted to rise by 9.3kg/head to a record 301.3kg/head.

Beef production is forecast to be 2.1 million tonnes in 2021, similar to levels recorded in 2020 and 2017 (the year of the last herd rebuild). This would also be well below production during 2018 and 2019, reflecting increasing stock retention after years of elevated turn-off and large-scale destocking.

Export levels are expected to lift 2% in 2021 to 1.1 million tonnes shipped weight (swt), growing to 1.2 million tonnes swt in 2023. In 2020, COVID-19 affected demand for beef in key markets due to the global drop in foodservice activity and market access issues. Global GDP growth of 5% is forecast in 2021, which should see global demand for beef rebound.

Australian beef exports are forecast to grow 10% over the next three years. During these years, it is expected that China's domestic pork production will recover from the recent African Swine Fever (ASF) induced trough, reducing the current global protein deficit. Meanwhile, beef from South America currently being exported to China to meet the nation's protein shortage may subsequently flow to other markets where Australia has considerable market share. As a result, Australia will need to invest in growing and consolidating new and existing markets.

This year represents uncharted territory for Australian beef producers. The herd rebuild is likely to be more gradual than previous ones, owing to a smaller breeding base and one of the worst droughts on record. The herd is also reduced, prices are high and although the COVID-19 recovery is beginning, its impacts will still be felt for years to come. All of these factors represent opportunities for the Australian beef industry to improve its domestic and global standpoint, and challenges that will require adaptation to overcome.

Assumptions

Climate

The cattle projections have been prepared on the assumption that the La Niña will bring above-average rainfall to Queensland and northern Australia during the 2020–21 summer period, and above-average rainfall to the eastern mainland over the first quarter of 2021. The Bureau of Meteorology's (BOM) latest three-month outlook forecasts a 60% chance that all NSW, southern Queensland and south-west WA will experience a wetter-than-average February to April period.

At the release of the projections, Queensland had received widespread rainfall in key cattle producing regions through late December and early January. Some Queensland agricultural regions received 300mm in December 2020, with most weather stations in the state recording rainfall above the long-term median for the month, resulting in minor flooding.

The recent wet summer in northern Australia follows a wet 2020 for the southern states. As a result, it is expected that there will be widespread pasture availability into 2021.

The Indian Ocean Dipole (IOD), the main driver of southern Australia's weather, is expected to have an impact on Australia's rainfall from May. The negative IOD forecast by BOM is expected to bring above-average winter rainfall to southern Australia. When a negative IOD and a Pacific Ocean La Niña have coincided in previous years, Australia has experienced some of its wettest years.

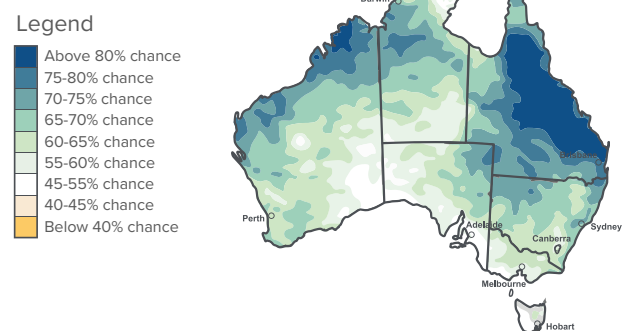
COVID-19

Throughout 2020, COVID-19 had a significant impact on supply chains and economies. The cattle projections have been drafted on the assumption that a global COVID-19 recovery will begin in 2021, aligning with forecasts made by the International Monetary Fund (IMF) and supported by the initial rollout of vaccines in the USA, Europe and Asia.

In 2020, COVID-19 initiated Australia's first recession in nearly 30 years as national gross domestic product (GDP) fell 7% over the first two quarters. However, government support packages and a general containment of the virus helped the economy grow 4% in the September quarter. The Reserve Bank of Australia (RBA) forecasts the Australian economy will experience year-on-year growth in 2021 and 2022 of 5% and 4%, respectively.

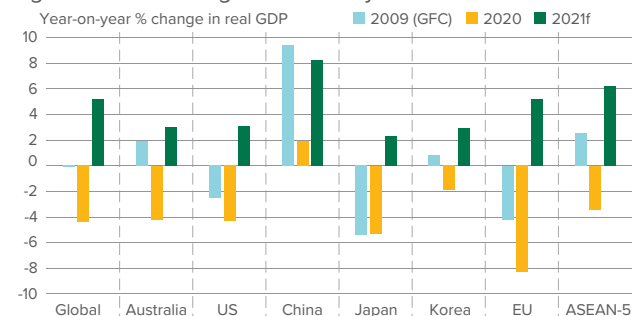
For the Australian beef industry, the biggest impact of COVID-19 has been the fall in foodservice demand for beef, both domestically and internationally, due to restrictions and social distancing laws. Conversely, retail sales of beef increased as consumers turned to home cooking.

Figure 1: Australian rainfall outlook – February to April 2021
Chance of exceeding the median rainfall



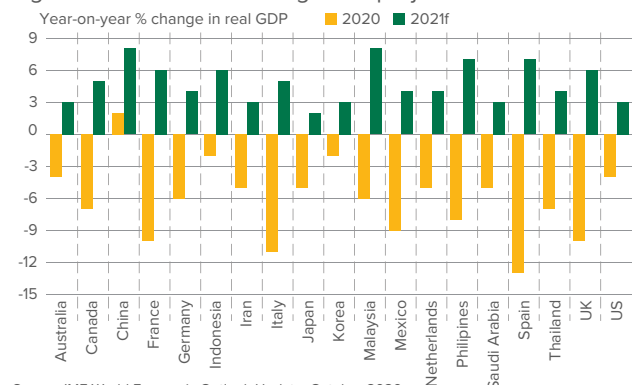
Source: Bureau of Meteorology

Figure 2: GDP changes across key Australian markets



Source: IMF World Economic Outlook Update, October 2020

Figure 3: Global economic growth projections



Source: IMF World Economic Outlook Update, October 2020

The IMF World Economic Outlook from October 2020 estimated that the global economy contracted by 4.4% in 2020, with China the only major economy not to enter recession last year. The economies of South American countries such as Argentina and Brazil, key competitors of the Australian beef industry, have been particularly affected by COVID-19. Going into 2021, the IMF forecasts global growth of 5.2%, with both global foodservice spending and global GDP expected to recover to 2019 levels.

The global COVID-19 recovery will depend on a range of different factors, including the effectiveness of vaccines, the ability of countries to contain the spread of the virus and how fast it mutates. While it is hoped that global recovery will be swift once widespread vaccination programs are implemented, the impact of the pandemic could be felt for years to come.

Exchange rate

The Australian dollar appreciated to 76US¢ in December 2020, last reached in June 2018. At this level cattle exports become more expensive than those of key competitors. In 2021, the major banks anticipate the AUD will remain strong, with some reports suggesting it could reach 80US¢ by December, while most have it pegged between 75US¢ and 78US¢ at the end of the year.

The price of key Australian exports, such as iron ore and other minerals, will continue to be a driver of the AUD/USD exchange rate in 2021 – as at 31 December 2020, iron-ore was at a historic record price of \$158 USD/tonne.

Grain prices

In 2020, Australia recorded its second biggest grain harvest on record, resulting in an abundance of cheap grain and reducing input costs for lot feeders. It also provides assurance that if 2021 seasonal conditions deteriorate, there will be surplus grain available for producers to supplement feed their cattle.

Cattle herd and slaughter

Herd

On the back of prolonged drought between 2017 and 2019, the national cattle herd fell to 24.6 million head as at 30 June 2020, the lowest level since the early 1990s. However, as a result of improved seasonal conditions, a rebuild phase is expected to commence, with the national herd expected to grow 2.3% to 25.2 million head by 30 June 2021.

The La Niña produced widespread heavy rain during December for much of northern Australia. Subsequent coastal lows and cyclones in early 2021 brought further significant falls to Queensland, the NT and WA. This followed a wet 2020 for most of south-east Australia. As a result of increased rainfall in 2020 and positive forecasts for early 2021, abundant pasture is expected in many of Australia's key cattle producing regions this year.

The greater availability of feed across both northern and southern Australia will see many producers retain more females to rebuild their herds, despite current high cattle prices incentivising turn-off. Heifers, especially those younger, will be in high demand as producers look to increase their breeding stocks, something that has already been apparent in the first few weeks of 2021.

Female slaughter is a key indicator as to whether the national herd is in a rebuilding phase. Historically, female slaughter as a percentage of total slaughter needs to drop below 47% for the herd to enter a rebuild.

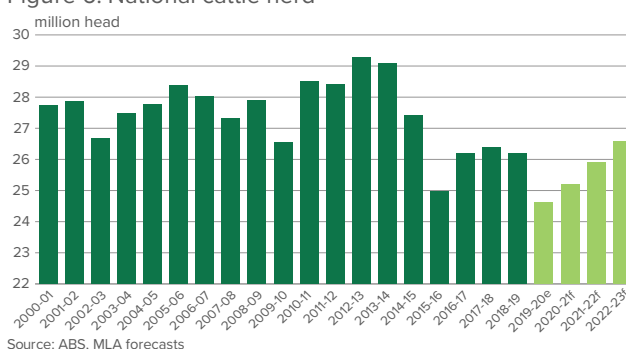
Figure 4: US/AU exchange rate



Figure 5: Darling Downs Feed Wheat Price



Figure 6: National cattle herd



Based on the latest Australian Bureau of Statistics' (ABS's) data for September 2020, the national female slaughter percentage is 53%, 4% down on year-ago levels, but well above the 47% needed to be confident that rebuilding has started. This demonstrates that despite improved conditions in southern states across 2020, the Australian herd rebuild hadn't yet commenced as of September 2020. High turnoff of dairy cattle in Victoria, as well as elevated medium cow prices throughout 2020, motivated producers to continue selling female stock. The limited availability of steers last year, following on from excessive turnoff in 2018–19, exacerbated the lift in the female portion of slaughter.

The 2021 rebuild will likely be slower than in previous La Niña years, such as 2010, due to the severity of the recent drought that has left a lower herd base and disrupted the pregnancy cycles of some of the breeding herd. Offsetting this are the improved genetics of many breeding herds, given that some producers used the drought to eliminate less fertile cattle.

Slaughter

Total adult cattle slaughter in 2020 was reported at 7.1 million head, down 13.1% on the 8.2 million head processed in 2019. The reduction in slaughter was largely driven by improved seasons and lower herd size, with disruptions to processing capacity a minor factor.

As the rebuild gains momentum on the assumption of above-median rainfall for the start of 2021, slaughter volumes are expected to decline further. Cattle slaughter in 2021 is forecast to fall 3% on 2020 levels to 6.9 million head – the lowest level in 25 years.

The national cattle herd contracted 7%, or 1.8 million head, between June 2018 and June 2020 as producers destocked, initially turning off steers and then eventually core breeders. This significant reduction in cattle numbers has diminished the pool of cattle available for slaughter. In 2019, the turn-off ratio was high, at 36%, but in 2021 is forecast to be lower, at 31.3%.

Improved conditions will likely lead northern producers to retain more cattle in 2021, as southern producers did in 2020, exacerbating the supply squeeze for processors. This has already been apparent in the first few weeks of January with slaughter numbers down and over-the-hooks (OTH) prices pushing higher.

In 2020, a number of non-supply issues (specifically processor capacity) affected slaughter numbers. Further more, market access issues led several processors to lose access to the Chinese export market. On top of this, high cattle prices and the high Australian dollar have put further stress on processors margins. Some processors have announced capacity reductions or extended closures due to margin squeezes or difficulties in sourcing cattle.

The forecast fall in calf slaughter for 2021 is 7%, reinforcing that the herd is entering a rebuild phase, and indicating producers will hold onto calves that otherwise would've been turn off as vealers.

In WA, slaughter may increase if the dry conditions continue and producers are forced to destock. A change in the season and an early winter break may prevent this, and would likely bring the state's slaughter trends in line with eastern Australia.

Feedlots

Over the last 20 years, the number of cattle on feed has trended upwards. Cattle within the feedlot sector reached record levels in 2019, at 1.24 million head, as the drought and lack of pasture saw more animals move into the grainfed production system for finishing. In 2020, cattle on feed remained above 1 million head, but were down 10% on the 2019 highs.

While the total number of cattle on feed was slightly down in 2020, national feedlot capacity increased. In the September 2020 quarter, capacity reached 1.4 million head, demonstrating long-term confidence in the industry.

Going forward, the numbers of cattle in feedlots is expected to continue an upwards trajectory and grain-fed cattle will account for a growing portion of national herd and slaughter numbers. During 2020, around 5% of adult cattle in the Australian herd were in feedlots at any time, and grain-fed cattle accounted for an estimated 37% of all cattle slaughtered in Australia.

Figure 7: National adult cattle slaughter

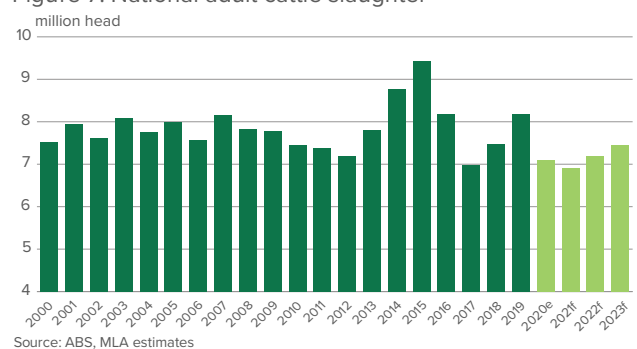
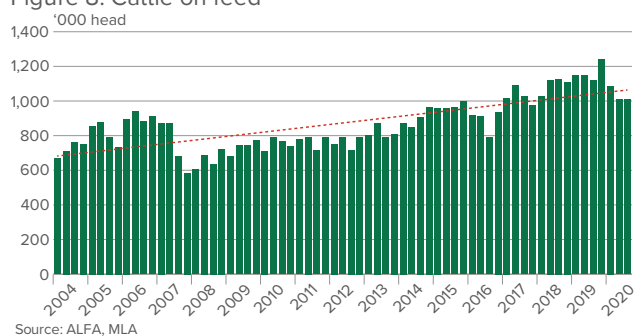


Figure 8: Cattle on feed



A structural change is occurring in the feedlot sector, with the time cattle spend on feed increasing. Long-fed Wagyu cattle are making up an increasing proportion of cattle on feed, a trend expected to continue, particularly if grain prices remain low.

The high price for feeder cattle is putting pressure on lot feeder margins, even with the strong price for finished cattle. Feeder steer prices closed 2020 at 439¢/kg. Low grain prices are somewhat offsetting the increase in feeder cattle prices, though not entirely.

Carcase weight and production

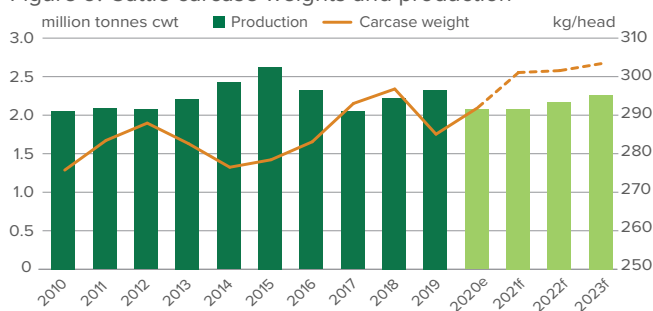
Carcase weight

Carcase weights have trended steadily upwards for 20 years, with slight variations due to seasonal conditions. Following a La Niña weather event, carcase weights tend to spike for two consecutive years before stabilising. This trend also depends on the strength of the La Niña and price dynamics between young and finished cattle.

In 2021, national adult carcase weights are forecast to lift 3.2% (9kg) on 2020 levels, to average 301.3kg/head. The lift will largely be driven by an increase in the male portion of slaughter, coinciding with a fall in the number of females turned-off during the year. Greater pasture availability, higher grain and hay supplies, lower grain costs and strong finished cattle prices will incentivise producers to feed for longer and to heavier weights.

American steers are recording carcase weights of around 375kg, indicating there is significant opportunity for Australian carcase weights, especially of steers, to grow. This is provided processors can accommodate bigger carcasses and assuming no large discounts in the ¢/kg price for heavy cattle. A further movement towards feedlot production systems would help facilitate increased carcasses weights.

Figure 9: Cattle carcase weights and production



Source: ABS, MLA forecasts

Production

Despite the expectation that slaughter will fall in 2021, national beef and veal production is forecast to remain unchanged, at 2.1 million tonnes cwt, underpinned by the increase in carcase weights and the higher percentage of male slaughter.

Beef production is expected to lift 8% between 2021 and 2023, returning to 2018 production levels of 2.3 million tonnes within three years. This will reflect the rebuild reaching maturity, with a larger herd and higher turn-off rates. In contrast, Australian veal production will not reach 2019 levels for the foreseeable future.

If the La Niña fails to bring follow-up rain in February and March, then pasture growth may not be as widespread as anticipated and Queensland producers may be forced to turn-off more animals, in turn increasing production volumes.

Domestic demand

COVID-19 dominated the domestic beef market in 2020, severely cutting foodservice sales due to the decline in tourism, lockdowns and restrictions, and social distancing. However, the fall in foodservice demand was partially offset by boosts in retail, takeaway, and online sales and home deliveries.

Despite COVID-19 disruptions, including a fall in GDP, there is evidence that the domestic beef market remained solid in 2020, with Australia remaining one of the largest per capita consumers of beef in the world and the domestic market continuing to be the single largest buyer of Australian beef.

Retail beef prices rose in 2020 due to tighter cattle supply. However, beef was not alone, as all of the major proteins experienced a rise in retail prices in the 12 months to September 2020, according to ABS CPI data. Beef remains four times the price of chicken. Despite the price pressure, beef sales increased through the retail channel last year.

Due to the outbreak of COVID-19, consumers have cooked at home more, accelerating retail sales growth, especially in butcher shops. Demand has been particularly strong in premium areas such as prime steak and pre-prepared beef products, highlighting its value for consumers despite the price differential to other proteins. In 2020, beef maintained its market leading position on Australian retail shelves, with a 36% market share of fresh meat retail sales – more than three times the size of fresh pork (Nielsen Homescan).

Australian retail shelves are increasingly competitive each year, as population demographics shift amid growing migration (30% of Australians are born overseas) and the exposure to new cuisines expands. Maintaining per capita beef consumption will be a challenge as forecast supply constraints in the coming years place further pressure on beef prices and exacerbate the expanding price differential to chicken and pork. However, there are still plenty of opportunity areas for sales growth, particularly when focusing on rising consumer demand for better quality, more nutritious, versatile and convenient food offerings.

International markets

Last year was unprecedented, full of challenges and unique circumstances, the majority of which were driven by the outbreak and rapid spread of COVID-19 around the world. The global environment is expected to enter a period of recovery in 2021, as vaccines are rolled out and nations address the economic impact of the pandemic.

COVID-19 has been multi-faceted and far-reaching, including on the logistics of global trade, the downturn of the foodservice industry and causing an overall slowdown in economic activity. These challenges have required flexibility, and while the majority of global industries have grappled with the effects of COVID-19, the Australian agriculture sector has adapted and performed well, highlighting the resilience of the sector.

In 2020, Australian beef exports reached 1.04 million tonnes swt, a decline of 15% on 2019 levels when dry conditions drove elevated stock turn-off the entire year. While COVID-19 has certainly created obstacles right through the supply chain, beef continues to play a pivotal role in consumer diets around the world. The global ‘mega-trends’ of growth in population and middle-class incomes, combined with the continuing impact of African Swine Fever (ASF) on Chinese pork supply, underpin the strong appetite for Australian protein. While the presence of competitors in global markets is certainly rising, Australia maintains a premium status as a supplier of high quality protein.

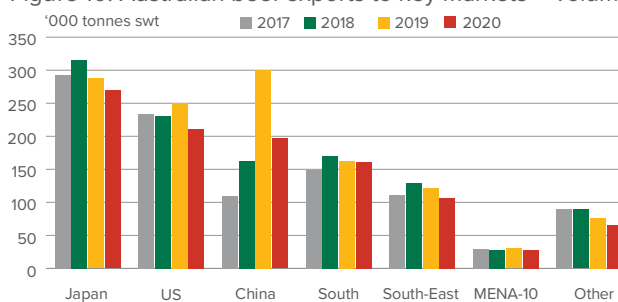
With tighter supply throughout 2020, Australian export unit prices averaged 7% higher to November, weighing on demand, particularly in price-sensitive markets. In other markets, COVID-19 related supply disruptions and market access challenges also played their part. In the coming year, Australian beef exports are expected to lift 2% on 2020 levels to reach 1.06 million tonnes swt, with some resurgent demand across international markets likely. A slight lift in average carcass weights is expected to flow through to improved beef production for exports.

Global foodservice and retail

Global beef sales through foodservice channels saw unprecedented downturns during 2020 due to COVID-19 lockdowns, even more acutely in markets with a higher dependence on tourism. This resulted in an oversupply of high value cuts, typically popular in high-end full service restaurants that have been more disrupted by COVID-19 than quick service restaurants. With the rollout of COVID-19 vaccines to occur in many countries throughout 2021, a widespread recovery in foodservice demand is expected to be gradual and more apparent during the latter half of the year.

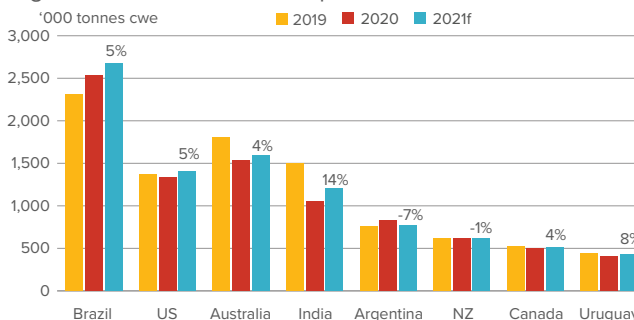
Despite a recovery in foodservice demand in markets such as China and Taiwan, where a high proportion of Australian beef goes through foodservice channels, competition from US and South American suppliers has intensified. In MENA markets, where competitive pressure has been weaker, demand for Australian beef has been soft due to lower foodservice demand.

Figure 10: Australian beef exports to key markets – volume



Source: DAWE

Figure 11: Global beef/veal exports



Source: USDA, MLA (Australia)
% reflects 2021 year-on-year growth

While an estimated 58% of exported Australian beef is typically utilised in global foodservice channels, reduced foodservice sales have been partly offset by an increase in retail sales. In particular, this has occurred in markets where Australian beef already had a strong market presence such as Japan, South Korea and some South-East Asian countries.

COVID-19 has heightened shopper concerns around meat. Strong awareness of Australian beef’s advantages regarding these attributes saw 2020 record growth in demand for chilled Australian beef in numerous export markets, including the US, China, South Korea, Taiwan, the UAE and some South-East Asian markets.

Early indications suggest some of these new red meat shopping and dining habits may be permanent, presenting growth opportunities for Australian beef, particularly in retail. There is likely to be a sustained increase in demand for better quality, ready-to-eat and ready-to-cook beef products. Many consumers tried online meat shopping for the first time during the pandemic, and will likely consider continuing to do so in some capacity after the pandemic has subsided. Local mini-marts have become more popular as a convenient source of fresh produce, including meat, with many also serving as click-and-collect pick-up points for online purchasing. A proportion of consumers in some markets say they have been shopping less at wet markets, in part due to temporary shutdowns (Source: MLA Global Consumer Tracker 2020).

Looking ahead, the foodservice sector is forecast to begin recovering over the course of 2021 as diners resume eating out locally and travelling domestically. As a consequence, retail food spending will decelerate but is not expected to reach pre-pandemic levels until 2022. Australian beef is well positioned to offer a compelling value proposition and inspiration to consumers in times of uncertainty for easy, healthy and delicious beef meals.

Japan

Japan was the top destination for Australian beef in 2020, taking 269,000 tonnes swt, down 6% on 2019 levels. Relative to the decline in production (down 11% from 2019), and falls in other markets, a drop of just 6% in volume and only 2% in value (Year-to-November), this shows the resilience of this long-term, stable buyer of Australian beef, amid the supply and demand challenges presented through 2020. Australia remains the largest supplier to the Japanese market in volume, however, the US has closed the gap in recent years. For the 2020 year-to-November, Australia accounted for 43% of Japanese beef imports, while the US accounted for 42%.

Manufacturing cuts accounted for 43% of Australian beef traded with Japan, supported by strong demand from hamburger chains and casual dining restaurants. Japan remained the largest export destination for Australian grainfed beef (45%) and chilled beef (38%) in 2020. During the pandemic, retailers absorbed more products that were commonly used in the foodservice channels prior to the virus.

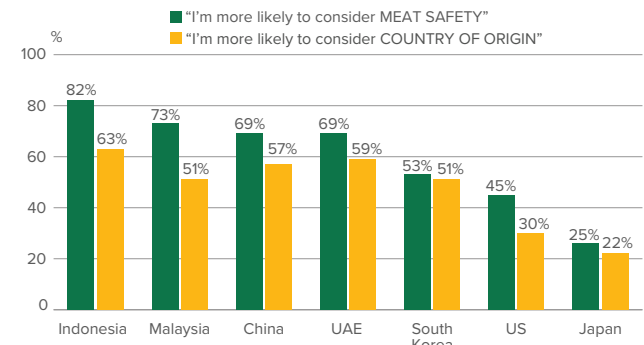
United States

After being surpassed by China in 2019 as Australia’s second biggest export destination, the US narrowly regained the title in 2020, taking 211,000 tonnes swt for the year. Beef export volume to the US was back 16% on 2019 levels, but value only fell 3% (to November), indicating a solid market under the circumstances. High Australian cattle prices, recovering US supplies and an appreciating Australian dollar subdued importer demand in the second half of the year.

The COVID-19 outbreak impacted the US foodservice industry, with restrictive dine-in measures and consumers’ rising health concerns becoming a challenge for the sector. Dining-in will remain a concern in the near future, however, the fast food industry has managed the impact slightly better. While Australian frozen manufacturing trim remains the largest category of beef sent to the US, exports of this were down 19% on 2019 levels at 123,000 tonnes swt.

Although grassfed beef is still a relatively niche protein, it is a category with strong potential within the US retail market. After several years of consecutive growth, in 2020 Australian exports of chilled grassfed beef remained even with 2019 levels at 63,000 tonnes swt. While ground grassfed beef is now quite common, demand for higher value chilled grassfed beef is expected to continue growing. However, the trend towards localism may also continue to grow in the advent of COVID-19, which could affect sales of Australian beef in some segments.

Figure 12: Shift in red meat purchase considerations since COVID-19 (selected export markets)



Source: MLA Global Consumer Tracker, 2020

% Agree Scores "I am more likely to consider... when buying red meat now compared to before the COVID-19 outbreak"

China

Over the past decade, China has emerged from a minor importer, to the world's largest market for imported beef. Rising demand has been driven by a growing affluent consumer class discovering a taste for quality beef, and the huge meat deficit resulting from ASF.

The Australian beef trade with China faced difficulties in 2020, mainly related to temporary suspensions placed on several Australian export plants due to a range of technical issues. China has also implemented increased screening measures at their ports and throughout distribution channels, to test for COVID-19 on imported frozen food packaging, slowing market entry and creating supply chain bottlenecks. Recent cases of COVID-19 transmission in some provinces, notably Hebei, have also tempered importer appetite to build up inventories ahead of the Lunar New Year.

China was the third largest market for Australian beef in 2020, taking 197,000 tonnes swt, with volumes down a staggering 34% and value down 24% (to November) on 2019 levels (albeit off a very high base). Market access issues, heightened levels of competition from South American nations and tight Australian supplies, are the significant factors behind this decline. For the 2020 year-to-November, Brazil, Argentina and Uruguay combined to account for 73% of Chinese beef imports, up from 63% in 2019.

South Korea

Considering the tight levels of Australian cattle slaughter in 2020, beef exports to South Korea performed relatively well, reaching 161,000 tonnes swt, just 1% behind 2019 levels. Chilled beef exports grew by 12%, with a significant lift in purchases of forequarter and hindquarter cuts.

While the US will likely increase competitive pressure in the market, Koreans' preference for Australian beef is expected to remain unchanged. Country of origin remains extremely important for consumers in the market, with Australian beef the most favoured among all imported beef and regarded as superior, among the safest to eat and a family favourite.

South-East Asia

South-East Asia has been significantly impacted by COVID-19. Tourism, a significant contributor to South-East Asia's economy, has been among the most affected industries. Other COVID-19 disruptions such as travel restrictions, logistics and supply of raw materials have all also negatively affected the economies across the region.

Beef exports to the South-East Asia region declined 12% on 2019 levels, reaching 108,000 tonnes swt in 2020. This was marked by decreased volumes to the major markets in the region, with Indonesia, the Philippines and Vietnam contracting by 17%, 20% and 10%, respectively. The continued spread of COVID-19, weakened purchasing power and increasing costs resulted in the sharp drop in exports. However, beef trade to Singapore was a positive, with volumes up 55% on 2019 levels, reaching 10,000 tonnes for the year.

Frozen grassfed beef remains the largest category shipped to South-East Asia, with 82,000 tonnes swt exported in 2020. However, sensitive to price movements, frozen manufacturing shipments to Indonesia, the Philippines and Vietnam all declined as the price of Australian cattle climbed through 2020. Subsequently, cheaper Brazilian beef filled the gap in the Philippines. Despite COVID-19 challenges, this region has solid fundamentals for consistent growth in the next five years, primarily driven by increasing household incomes.

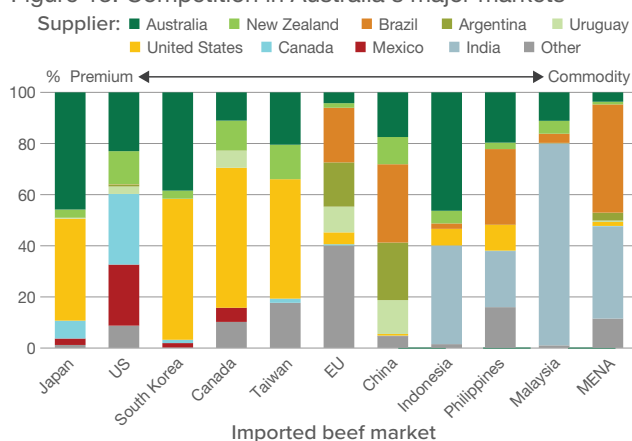
Global competitors

Despite the impact of COVID-19, Brazil reached a new global record for beef exports in 2020, largely attributed to rising production, a weak domestic market, a much lower exchange rate and strong demand in China. Last year, Brazilian beef exports reached 1.72 million tonnes swt, up 10% on 2019 levels, with 869,000 tonnes swt being sent to China, up a remarkable 75%.

Brazilian beef remains very price competitive and poses a significant competitive threat, given its large production capability and heavily depressed economy and currency. Forecasts from the USDA indicate that Brazilian beef exports could grow by a further 5% in 2021, which will challenge Australia's market share further, particularly within China and South-East Asian markets.

The US is also expected to have a growing presence within international markets this year, particularly given their expanding production base and improved market access. Similar to Australia, the US can supply large volumes of high quality chilled beef to key markets, namely Japan and South Korea.

Figure 13: Competition in Australia's major markets



Source: IHS Markit. Note: data is for FY2019-20

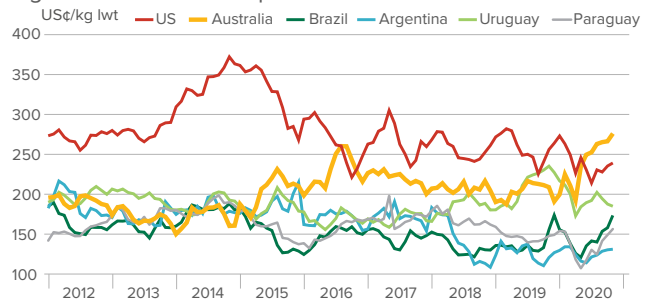
Additionally, off the back of the US-China Phase-One trade agreement, US beef exports to China have grown rapidly, with expansions to their trade into China in 2021 likely.

For the 2020 year-to-November, the US exported 852,000 tonnes swt, a 4% decline on 2019 levels. This decrease in export volumes can partly be attributed to the disruptions caused to the US processing industry when COVID-19 outbreaks constrained slaughter levels. However, this year US exports are forecast to grow 5% year-on-year, which will challenge Australia's market position in key regions.

2020 was a tough year for India, with exports of Indian buffalo meat (IBM) contracting 16% for the year-to-October. The Indian processing industry was heavily impacted by the spread of COVID-19, but in the latter half of the year, capacity and export volumes recovered. Assuming that India is able to maintain IBM production in the coming year, it is likely export volumes to key markets such as Indonesia, Vietnam and Malaysia could perform well.

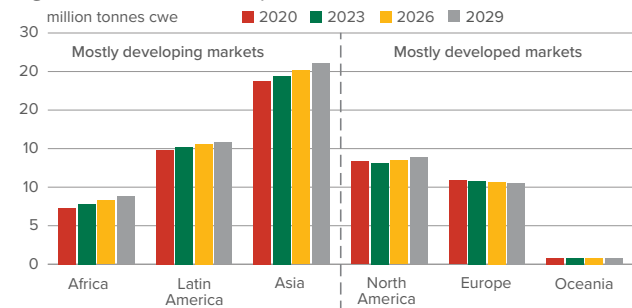
Similar to Brazil, Argentinian exports performed well through 2020, with volumes for the year-to-November reaching 561,000 tonnes swt, up 13% on 2019 levels. Over the past two years, Argentina has become increasingly geared towards supplying China, with 76% of all Argentinian beef exports being sent to the market in 2020, up from 32% just five years ago. Argentinian beef exports have almost tripled since 2017, as beef is redirected from the domestic market off the back of a weak economy and an undervalued peso. The USDA has estimated that Argentinian beef exports could ease by 7% in 2021.

Figure 14: Global cattle prices



Source: IPCVA (Argentina); MLA's NLRs (Australia); Esalq/Cepea (Brazil); INAC (Uruguay); USDA/Steiner Consulting Group (US). Finished cattle (steer) specifications vary between indicators. Note: data current to the week ending 17 November.

Figure 15: Beef consumption forecasts



Source: OECD-FAO 2020 Agricultural Outlook
Note: Middle East and North Africa (MENA) split across Africa and Asia

Live cattle exports

In 2020 Australian live cattle exports were valued at over A\$1.64 billion, down 8% on the year prior.

Australian live cattle exports had a challenging year in 2020, with high cattle prices, a rising Australian dollar during the second half of the year and weakened consumer purchasing power in Indonesia, the largest export market. Consequently, total live cattle exports fell 19% to 1.06 million cattle, with a 26% fall in feeder exports, a 17% fall in breeder exports and a slight rise in exports of slaughter cattle.

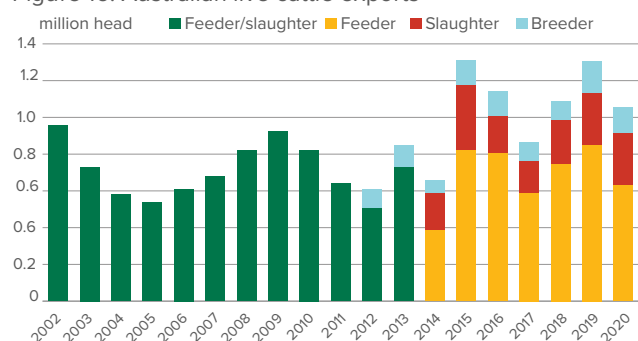
For 2020, live exports to Indonesia declined 28%. Exports to Israel, Australia's largest cattle market in the MENA region, also fell by 52%. These declines were partly offset by notable growth in cattle exports to Vietnam (up 11%) and Malaysia (up 27%).

Global demand for live cattle in 2021 is currently forecast to be similar to the reduced levels of 2020. However, demand in Australia's key export region of South-East Asia is expected to see growth of around 10%. Cattle imports into the MENA region are forecast to grow around 4%, with increases in 2021 in all countries except for Turkey and Saudi Arabia (Source: GIRA).

Demand for Australian live cattle in South-East Asia is expected to see some recovery during the second half of 2021, as consumer confidence rebounds on the back of COVID-19 vaccine roll outs.

Australian live cattle exports will face continued competition from both European (including Portugal) and South America, (particularly Brazil and Uruguay) live cattle suppliers in key export markets.

Figure 16: Australian live cattle exports



Source: ABS (pre-2015), DAWR, MLA forecasts

Indian Buffalo Meat will continue to be a key competitor for Australian live cattle, particularly in South-East Asia. Current forecasts indicate India will increase exports by around 20% year-on-year in 2021, following a notable collapse in exports from April to June 2020 due to COVID-19 lockdowns. Indian live cattle exports are estimated to account for around 32% of global live cattle exports in 2021 (Source: GIRA).

The available supply of Australian northern feeder cattle for live exports in 2021 will depend in large part on rainfall in the northern producing areas over the summer months.

Prices

In 2020, Australian cattle prices proved resilient, with domestic and offshore demand holding firm for much of the year. A turnaround in pasture conditions, predominantly in the southern states, saw a surge in restocker demand. This, combined with tighter supplies, saw cattle prices across all major categories and all states at record levels throughout the year, easily breaking the previous highs set in 2016.

The Eastern Young Cattle Indicator (EYCI) lifted 52% year-on-year to average 742¢/kg carcass weight (cwt) in 2020, the highest on record. During November, the EYCI reached a new weekly record of 827¢/kg cwt, surpassing the previous record achieved in October. Greater feed availability and water stores saw heightened retention of young cattle, with producers better positioned to rebuild and capitalise on grass availability.

Parts of Queensland and WA that did not receive the necessary follow-up rainfall continued to destock or looked to feeder programs to finish cattle. This provided greater opportunity for southern buyers to increase young cattle inventories and overcome the lack of available cattle in southern states. Subsequently, a spike in interstate demand saw the Western Young Cattle Indicator (WYCI) average 711¢/kg cwt for the year, the highest on record, with the indicator peaking at 833¢/kg cwt in November.

Heavy steer prices tracked below the EYCI for much of 2020, albeit also maintaining historically high levels. For the year, the Eastern States Heavy Steer Indicator averaged 347¢/kg live weight (lwt), up 19% on year-ago levels and the highest annual average ever recorded for the indicator. Demand for finished cattle held firm throughout 2020, despite the compounding effects of COVID-19 on market access to key offshore markets. This, along with fewer available cattle, kept finished prices elevated for much of the year.

The La Niña conditions, which have recently delivered increased summer rainfall to northern Australia, are already having an impact on cattle supplies, with throughput in Queensland saleyards down on 2020 levels. NSW OTH prices during early January 2021 have also spiked, jumping 37¢/kg for the week ending 15 January, highlighting the difficulty processors are facing in sourcing cattle as producers look towards a rebuild.

For the remainder of 2021, domestic cattle prices are expected to continue to be driven by seasonal conditions, and to a lesser degree by international markets that continue to move through different stages of COVID-19 recoveries. Good summer rainfall could see the store market continue to track at historically high levels, with renewed confidence in the market driving the herd rebuild. For heavier categories, supplies could ramp up throughout the year, with heightened numbers turned off from both the grassfed and grainfed sectors. If a lift in supplies coincides with a lift in offshore demand, heavy steer prices could remain strong.

Beyond 2021, Australian cattle prices can be expected to retreat from the current record levels, as the national herd and beef supply expands, and the intense local restocker demand eases. How substantial that decline is will largely depend on the strength of beef demand and prices in our key overseas and domestic markets at the time.

Figure 17: EYCI prices



Source: MLA's NLRs

Situation and outlook for the Australian cattle industry

	2015	2016	2017	2018	2019	2020 ^e	2021 ^f	% change 2021 ^f on	2022 ^f	2023 ^f	% change 2023 ^f on 2021 ^f
Cattle numbers ('000 head)*											
cattle	27,413	24,971	26,176	26,396	26,187	24,621	25,191	2%	25,896	26,573	5%
percentage change	-6%	-9%	5%	1%	-1%	-6%	2.3%		2.8%	2.6%	
Slaughterings ('000 head)											
cattle	9,420	8,189	6,981	7,479	8,170	7,100	6,914	-3%	7,182	7,438	8%
calves	667	542	413	468	565	450	419	-7%	375	422	1%
total	10,087	8,731	7,394	7,947	8,735	7,550	7,333	-3%	7,557	7,859	7%
Average carcase weight (kg)											
cattle	278.4	283.1	293.2	297.0	285.1	292.0	301.3	3%	301.8	303.7	1%
calves	55.6	53.9	55.9	50.0	58.5	55.4	59.3	7%	61.3	61.8	4%
Production ('000 tonnes carcase weight)											
beef	2,622	2,319	2,047	2,221	2,330	2,073	2,085	1%	2,168	2,259	8%
veal	37.1	29.2	23.1	23.4	33.1	24.9	25.0	0%	23.0	26.1	5%
total beef and veal	2,660	2,348	2,070	2,245	2,363	2,098	2,110	1%	2,192	2,286	8%
Cattle exports ('000 head)											
cattle	1,313	1,142	867	1,126	1,304	1,060	962	-9%	1,000	1,030	7%
Beef exports** ('000 tonnes)											
total, carcase weight	1,889	1,497	1,492	1,655	1,807	1,528	1,560	2%	1,606	1,718	10%
total, shipped weight	1,285	1,018	1,015	1,126	1,229	1,039	1,062	2%	1,092	1,169	10%
Domestic utilisation ('000 tonnes carcase weight)***											
total, carcase weight	770	851	578	590	556	570	550	-4%	586	568	3%
kg/head****	32.3	34.9	23.3	23.6	21.9	22.1	21.0	-5%	22.1	21.1	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

*** Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcase 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