

2012



Australian cattle **Industry projections**

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2012

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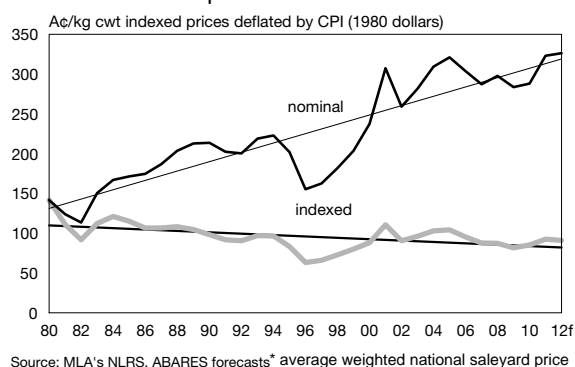
Section 1 – Beef and veal



1. Overview¹

It is often instructive to look for clues to near term prospects in the most recent past, and this appears particularly pertinent for Australian cattle and beef prices. In 2011, cattle prices rose significantly (6-12% above the previous year) for the second successive year, despite a record A\$, demand downturn in Japan, global economic turmoil, increased competition from US beef in export markets and disruptions to live exports.

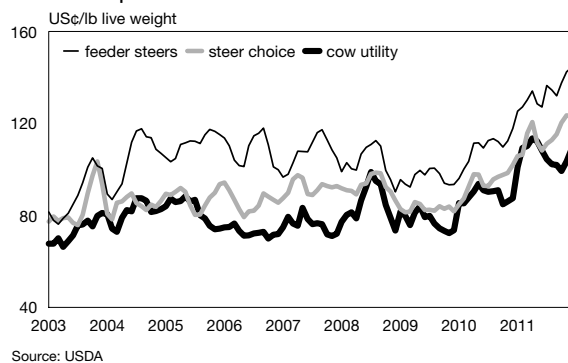
Figure 1
Australian cattle* prices



These significant negative demand shifts were more than offset by the supply side factors of a global contraction in beef supplies, a second successive favourable season for Australian cattle producers, and growing demand for Australian beef from a coalition of smaller export markets.

The fall in global supplies led to around a 20% rise in both US and South American cattle prices (in US\$ terms) in 2011 – which goes a long way towards explaining the jump in Australian prices.

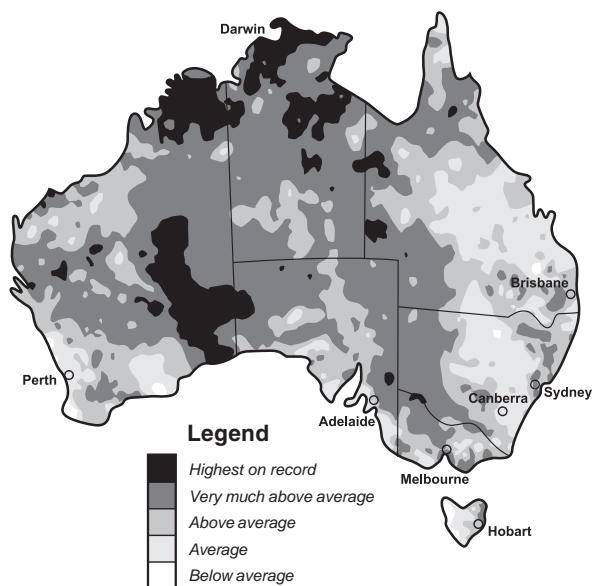
Figure 2
US cattle prices



For 2012, all of the above factors will continue to influence the market. The overall balance is anticipated to favour the Australian industry and producers (with US prices tipped to rise again), but with several caution signs posted along the way.

With the run of favourable seasons across key cattle producing regions in Australia forecast to continue into a third consecutive year, there remains significant momentum behind a rebuilding of the national herd. Joined by southern WA during the second half of 2011, the retention of breeding stock and demand for young cattle has been pronounced. The Australian cattle herd enters 2012 at its highest level in over 30 years. The influence of higher marking rates since 2010 will be reflected in cattle turnoff and beef production in coming years.

Figure 3
Australian rainfall Jan 2011 - Dec 2011



Supply is expected to increase in 2012, but still remain relatively tight compared to drought years throughout the past decade, with total adult cattle slaughter forecast to increase 3.1%, to 7.55 million head. Another favourable year (assumed) for feed is expected to see herd rebuilding continue to constrain female turnoff, while producers compete keenly for young cattle for finishing.

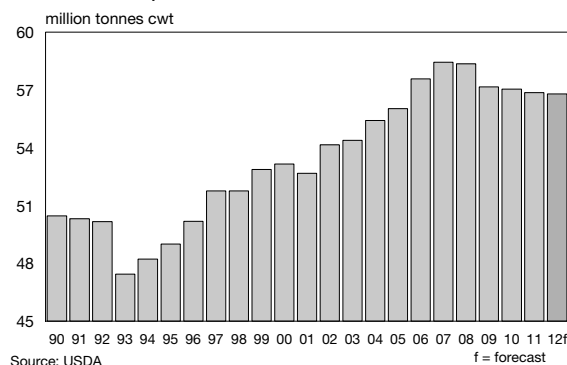
¹ Except where otherwise stated, this report refers to forecasts for calendar years 2012 to 2016.

Beef and veal

With the increased turnoff of cattle, total Australian beef and veal production for 2012 is forecast to reach a record 2.197 million tonnes cwt, up 2.3%. Assisting the growth in Australian beef production will be continued heavier average carcase weights – one tangible factor from the run of better seasonal conditions.

While the forecast for additional Australian cattle and beef to be produced in 2012 may start to ring warning bells in regards to cattle prices, demand for beef is expected to be maintained, if not strengthen over the short to medium term. Indeed, Australia is among only a handful of major beef producing countries forecast to expand its beef production in 2012. This comes at a time when global demand for beef is expected to grow (principally in Asia, South America and the Middle East), with global beef prices tracking at historically high levels.

Figure 4
Global beef production



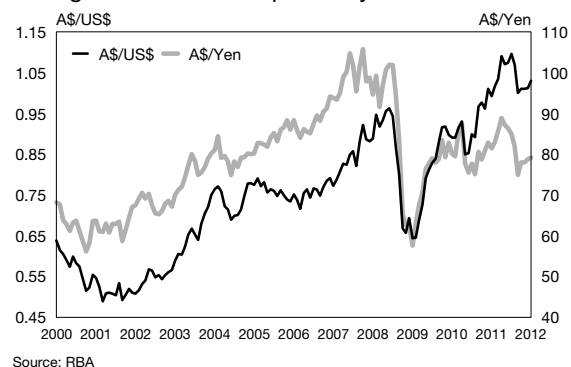
On the back of higher Australian beef production and reduced global supplies, Australian beef and veal exports for 2012 are forecast to reach a record 975,000 tonnes swt. This 2.8% growth is anticipated to be underpinned by a recovery in exports to the US, which faces a year of lower production and higher beef prices – helping to attract additional Australian product.

Exports are also forecast to expand to Russia, the Middle East and most southern Asian markets – continuing the diversion of Australian beef exports away from the larger traditional markets.

However, any year in which beef exports to the first (Japan), third (Korea) and fifth (Indonesia) largest beef exports markets decline should also be highlighted and watched very closely. Australian beef exports to Japan and Korea are expected to decline in 2012, largely due to an increased US presence, as the US takes advantage of improved market access conditions in both markets. For Indonesia, Australia's fifth largest beef export market in 2011, shipments in 2012 will be constrained by the reduced allocation of import permits for boxed beef.

Weighing negatively upon these forecasts to export markets in 2012 is the influence of the A\$. Assumed to remain at historically high levels during 2012 and possibly beyond, it will continue to act as a major headwind for Australian exporters. This is accentuated by the flip-side of the currency equation, with the US expected to continue to make the most of their weak currency when trading into Japan and Korea.

Figure 5
A\$ against US\$ and Japanese yen



However, 2011 did demonstrate that provided competition for Australian beef in the global market is healthy, the influence of the higher A\$ for Australian exporters can be offset. That said, even with the improvement in global beef prices, the high A\$ continues to be one of the major impediments to improved financial viability for the entire industry.

The ongoing economic and financial uncertainty across key advanced economies will continue to influence beef demand, both through consumer reactions in individual markets and its impact on currency markets. While the main concerns are focussed upon the EU and the US, it is possible for these markets to drag other economies down.

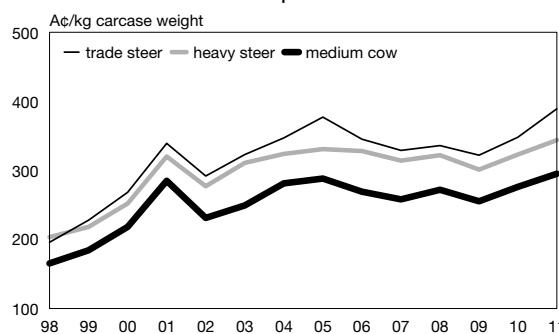
After a tumultuous 2011, the prospects for Australia's live cattle industry will continue to be framed by the trading environment with Indonesia. With the Indonesian Government announcing that it will limit the allocation of live cattle import permits in 2012 to 283,000 head, Australian producers may again face the challenge of finding other markets for cattle that do not make the Indonesian trade. While some Middle Eastern markets may be able to take some additional cattle in 2012, there is no live export market that will be able to accommodate the additional cattle that would have otherwise have gone to Indonesia.

The most likely outcome, as occurred in 2011, is for the additional cattle that do not make the livestock export trade to migrate slowly towards beef processors. Given the very high transport costs of moving cattle from northern Australia to eastern and southern feeder and slaughter markets, the displacement of 'previous live export' cattle will impact on the viability of northern cattle producers in 2012.

Given all of the factors, both positive and negative, expected to influence Australian and global beef and cattle markets in 2012, cattle prices for the year ahead are expected to consolidate the gains of the past two years, averaging stable to a little higher, provided seasonal conditions remain favourable.

Average saleyard cattle prices increased 13-20% over the past two years, and to average higher again in 2012 could be seen as an optimistic outlook. However, it reflects the expectation of further contraction in global beef supplies, price rises in the US (USDA predicts 4-7%) and South America, a further rise in demand from smaller markets and some improvement in Australian beef demand.

Figure 6
Australian annual cattle prices



Source: MLA's NLRS

These factors will be at least partially offset by a continued high A\$, increased US presence in Japan and Korea and a 2.3% rise in Australian beef production.

The consolidation of prices is expected to translate to another improvement in farm incomes in 2012, with high prices, additional cattle sales and lower operating costs all contributing. However, this equation is much more clouded for northern Australian producers solely dependent upon the live cattle trade.

In summary, 2012 should see most cattle producers (with the possible exception of those focussed on livestock exports) take a step forward financially, and make further inroads into the increased debts that most producers were forced to incur through the run of drought years prior to 2010. However, for sectors of the industry that rely upon purchasing cattle, including the lotfeeding and processing sectors, 2012 is shaping up as another difficult year.

As was evident in 2011, unexpected events can always occur. For 2012, maybe it's a case of hoping that 2011 used up more than its fair share of "events" and there will be less volatility in the coming year?

Key Assumptions

As part of MLA's annual projections, a series of "key assumptions" need to be outlined. While many of these assumptions are outside the immediate expertise of MLA, they are key factors that **must be** considered in the delivery of the 2012 Industry Projections. Assumptions are compiled from a range of sources; each recognised experts in their respective area.

- Seasonal conditions in 2012 to remain favourable across the majority of Australia's cattle producing regions, with the potential for wetter than average conditions during the first three months of the year for large areas of northern Australia. For 2013 and beyond, average seasonal conditions have been assumed.
- The A\$ for 2012 to trade between 95-110US¢. For 2011, the A\$ averaged 103US¢, and traded between 95US¢ and 110.5US¢. Given volatility in global currency markets since the Global Financial Crisis (GFC) in 2008, it has proved very difficult to assess and predict what the A\$ will do. However, it should be noted that, in many instances, a volatile A\$ can be just as destructive to Australia's export beef trade as a high A\$.
- The trade restrictions facing US beef into both Japan and Korea to ease in 2012, accentuating the impact of the weak US currency. Japanese imports of US beef for 2012 have been assumed at 150,000 tonnes swt, up 25% on 2011. For Korea, factoring in the influence of the US/Korea FTA, along with the weak US\$, Korean imports for 2012 are assumed to reach 140,000 tonnes swt – up 22% on the previous year.

2. Beef farm incomes

The most recent results for the financial performance of beef cattle producing farms were released by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) in June 2011². While 2010-11 had much better seasonal conditions, in financial terms it was only a slight improvement, as the higher cattle prices on offer were offset by reduced turnoff and increased expenditure.

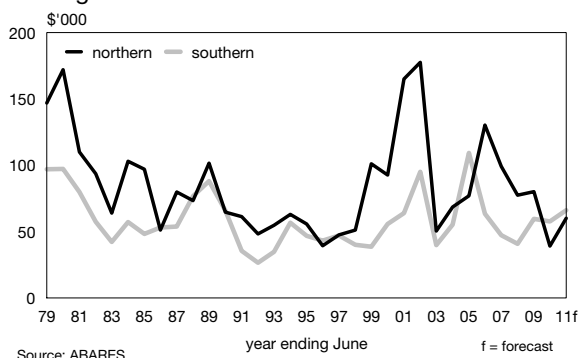
For southern Australian beef producers in 2010-11, average farm incomes increased 15% year-on-year, to A\$66,200. This was partly assisted by increased returns from other enterprises, namely cropping and lamb production. The main change to the balance sheet for southern Australian producers was a decline in fodder costs, dropping 45% on the previous year, as a result of the better season.

For 2010-11, the average northern Australian beef farm recorded a farm cash income of A\$60,100, an increase of 54% on the previous year, with average farm business profits returning to positive territory (A\$5,500).

Again the main change to the balance sheet for northern Australian producers was a decline in fodder costs, down 41% on the previous year.

Figure 7

Average beef farm cash income

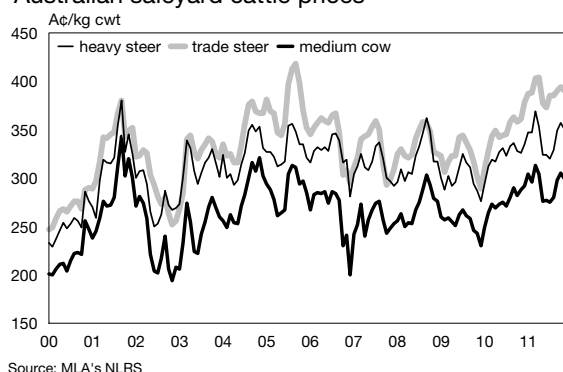


For the current 2011-12 financial year, the farm cash income for Australian beef producers is anticipated to improve again. While the favourable season will again restrain operating costs, such as additional fodder and grain purchases, the higher cattle prices will also assist incomes. However, it should also be noted that the higher cattle prices do influence operating costs for those producers looking to purchase stock for further finishing or herd rebuilding.

² For full financial details, please see Australian beef: Financial performance of beef cattle producing farms 2008-09 to 2010-11.

For the first half of the 2011-12 fiscal year, Australian indicative saleyard cattle prices have averaged 3-9% higher compared to the corresponding period in 2010-11. Not surprisingly, the highest increase in prices has been for young cattle which, when combined with improved branding rates, should translate into improved returns for cow-calf producers. Despite continued herd rebuilding, the sale of additional stock and sustained higher cattle prices should be reflected in higher beef farm incomes.

Figure 8
Australian saleyard cattle prices



Looking at income prospects for Queensland producers for 2011-12, the influence of higher direct-to-works cattle prices, along with additional cattle entering the markets in 2012, should also be reflected in additional income. According to MLA's NLRS indicative direct to works quotes for July to December 2011, prices for heavy steers (300-420kg cwt) averaged 5% above the corresponding period in 2010, while rates for cows and trade steers averaged 17% and 7% higher, respectively.

However, the most significant financial challenge in 2011-12 will be for northern cattle producers who traditionally target the live cattle export trade. Several conflicting indicators make it very difficult to accurately assess the income profile for 2011-12, given the massive impact on incomes from the temporary trade suspension to Indonesia, combined with the limited import permits for cattle and regulated supply chain arrangements in operation for 2012.

In contrast, live cattle prices for those with eligible cattle were high throughout the final four months of 2012, but are likely to be checked with import permits limited in 2012. Many producers who are geographically situated to send cattle to either slaughter or live export trade have reportedly retained cattle to push them through to higher weights for the slaughter market. The income benefit of this is most likely to fall into the final quarter of the 2011-12 fiscal year, or early in 2012-13.

However, regardless of the eventual final market for these northern Australia cattle, the series of events that hit the live cattle export industry in 2011 will have flow-on financial effects for producers for many years. While this will vary for each enterprise, it could include restricted cash flow, lowered property values, disrupted on-farm productivity and higher transport costs.

Overall, the financial situation for many of Australia's beef and cattle producers should take another step forwards in 2011-12, underpinned by the influence of another good season on reducing operating costs and higher cattle prices. However, for northern Australia's cattle producers, uncertainty will continue to plague the industry, especially with the restricted import permits to Indonesia.

For 2012-13 and beyond, additional cattle sales and historically above average prices (assisted by rising global beef prices and possibly a falling A\$) should continue to assist farm cash incomes, hopefully easing the financial damage caused by so many years of drought prior to 2010. However, as every producer knows, a return to drier conditions could significantly and rapidly alter this outlook.

Table 1 Situation and outlook for the Australian cattle industry

	2008	2009	2010	2011 ^e	% change	2012 ^f	% change	2013 ^f	2014 ^f	2015 ^f	2016 ^f	% change 2016 ^f on 2011 ^e
Cattle numbers ('000 head)*												
percentage change	27,321	27,907	27,550	28,809		30,000		30,750	31,250	31,500	31,500	9.3%
	-2.6%	2.1%	-1.3%	4.6%		4.1%		2.5%	1.6%	0.8%	0.0%	
Slaughterings ('000 head)												
cattle	7,853	7,583	7,472	7,325	-2.0%	7,550	3.1%	7,850	8,200	8,450	8,600	17.4%
calves	798	828	801	685	-14.5%	750	9.5%	800	825	850	865	26.3%
total	8,651	8,411	8,273	8,010	-3.2%	8,300	3.6%	8,650	9,025	9,300	9,465	18.2%
Avg carcass weight (kg)												
cattle	269.1	272.5	278.5	287.3	3.2%	285.0	-0.8%	283.0	283.0	282.0	282.0	-1.8%
calves	31.0	48.3	59.5	62.8	5.6%	60.0	-4.5%	60.0	60.0	60.0	60.0	-4.5%
Production ('000 tonnes carcass weight)												
beef	2,114	2,066	2,081	2,104	1.1%	2,152	2.2%	2,222	2,321	2,383	2,425	15.2%
veal	24.7	40.0	47.6	43.0	-9.7%	45.0	4.7%	48.0	49.5	51.0	51.9	20.7%
total beef and veal	2,138	2,106	2,133	2,147	0.7%	2,197	2.3%	2,270	2,370	2,434	2,477	15.3%
Cattle exports ('000 head)	869	954	875	682	-22.1%	570	-16.4%	625	700	750	800	17.3%
Beef exports** ('000 tonnes)												
total, carcass weight	1,414	1,370	1,363	1,400	2.7%	1,438	2.7%	1,490	1,565	1,620	1,650	17.9%
total, shipped weight	957	927	923	949	2.8%	975	2.7%	1,010	1,060	1,100	1,120	18.0%
Domestic utilisation ('000 tonnes c/c weight)***												
imports	2.9	3.0	3	3	0.0%	3	0.0%	3	3	3	3	0.0%
total, carcass weight	703	713	750	728	-3.0%	740	1.7%	760	785	800	815	12.0%
kg/head	32.7	32.5	33.5	32.0	-4.5%	32.0	0.0%	32.4	32.3	32.9	33.0	3.1%

Source: ABS, DAFF, MLA forecasts

* As at 30 June

** excl. canned/misc, shipped weight

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

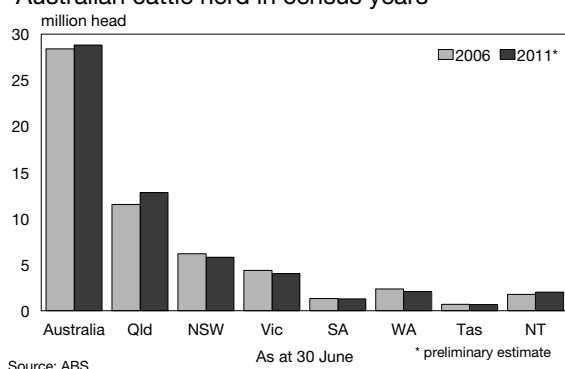
f = forecast (in italics)
e = estimates

3. Australian cattle herd

On the back of two very wet years (2010 and 2011) across key cattle breeding regions, Australian cattle producers are firmly entrenched in rebuilding mode. With 2012 assumed to be another positive year for pasture and water supplies, this rebuilding momentum is expected to continue, driving the Australian cattle herd to its highest level since the mid-1970s.

2011 was a year in which the Australian Bureau of Statistics (ABS) undertook its five-yearly national census, with a preliminary estimate for the Australian cattle herd (including dairy cattle) of 28.809 million head as at 30 June 2011 – an increase of 9% from the previous year's survey estimate. Comparing like with like, the previous census year in 2006 registered a similar national herd of 28.393 million head.

Figure 9
Australian cattle herd in census years



While the methodology behind the 2011 census figure cannot be faulted, the percentage increase from the previous year's survey estimate, at 9%, is of concern. This indicates that the final ABS herd estimate for 2010, at 26.550 million head, is probably lower than actual due largely to the erosion of the survey base since the last census in 2006.

In correlating previous annual herd numbers, annual turnoff and seasonal conditions, the increase between 2010 and 2011 of 9% is very high, and given industry consultation, it is most unlikely. In light of this we have revised up by 3.7% the ABS herd estimate for 30 June 2010 to 27.55 million head.

This takes the annual increase as at 30 June 2011, to 4.6% – an annual percentage increase that is more in line with the seasonal conditions, turnoff rates and historical growth rates.

Such growth in the Australian cattle herd would be difficult to dispute, given the sustained reduction in female cattle slaughter for the past two years, above average seasons and anecdotal evidence of rebuilding from all states (with the exception of southern WA in 2010 and the first half of 2011). The 2011 census result showed that most of the herd growth for the year ending 30 June 2011 was in Queensland, SA and NSW (assumed to be northern NSW).

The growth in Queensland through to 30 June 2011 has been underpinned by two very wet years, with the state's herd standing at a record 12.8 million head. While there have been some cattle losses due to flooding over this period, this has been more than offset by the improved breeding conditions. Comparing five-year census figures (like with like), the Queensland cattle herd has increased 11% since the June 2006 census. During this period, Queensland producers experienced the full breadth of seasonal conditions, from severe droughts in 2008 and 2009, to record flooding in 2010 and 2011 – so an 11% increase should be seen as a good result.

The only other state to record an increase in herd numbers between the census years of 2006 and 2011 was the NT, at 12% – further emphasising the steady migration of the Australian cattle herd north. In 2006, Queensland and the NT accounted for 47% of Australia's total cattle herd, or 13.33 million head. In 2011 this had grown to 52% of the national herd, or 14.85 million head.

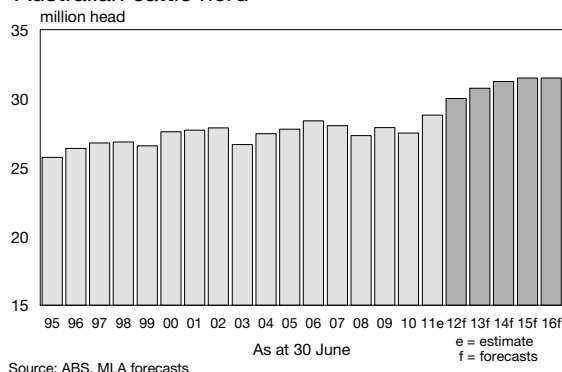
In contrast, NSW and Victorian cattle numbers have fallen 6% and 8%, respectively, since 2006, with SA and WA down 3% and 12%, respectively. Tasmania's herd declined 2% during the five year period. While like Queensland and the NT, the southern states have faced variable seasonal conditions, with droughts and flooding throughout the five year period, the competition from other farming enterprises has also contributed to the

Beef and veal

decline in herd numbers. For southern producers, the better per hectare returns from sheep meat production or cropping has seen the financial attraction of cattle production eroded, especially for mixed producers.

Given the wet second half of 2011 and forecasts for conditions to remain favourable into 2012, the Australian cattle herd is forecast to increase 4.1% in the year to 30 June 2012, to 30 million head. This would be the first time since 1976 that the herd had reached this signpost. The growth in 2011-12 should be across all states, even including southern WA, but focussed upon northern NSW, Queensland and the NT.

Figure 10
Australian cattle herd



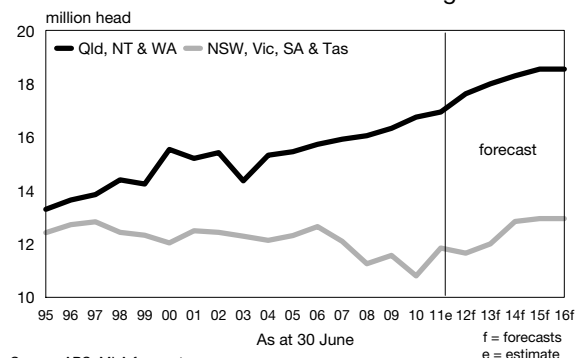
Source: ABS, MLA forecasts

For 2013 and beyond, the herd expansion is expected to continue, albeit at a diminishing rate, levelling off at 31.5 million head in 2015 and 2016. Again, herd growth figures are very dependent upon seasonal conditions, which for these projections are assumed to be average through to 2016. The mildly positive income outlook for 2012 onwards will assist the growth throughout this period.

However, there are some major factors that could constrain, or even reverse, the forecast herd growth for the coming years. The most obvious is a return to widespread drought conditions, especially for the major cattle regions of northern NSW, Queensland and NT. A sustained decline in cattle prices, while not anticipated, could also force more cattle onto the market, slowing growth. Any prolonged doubt about the financial viability of Australia's live cattle export trade could influence the herd prospects for northern Australia.

Overall, the Australian cattle herd's expansion for the medium term is underpinned by the recent run of seasonal conditions, which has enabled producers across Australia to confidently retain and expand breeding numbers.

Figure 11
Australian cattle herd continues moving north



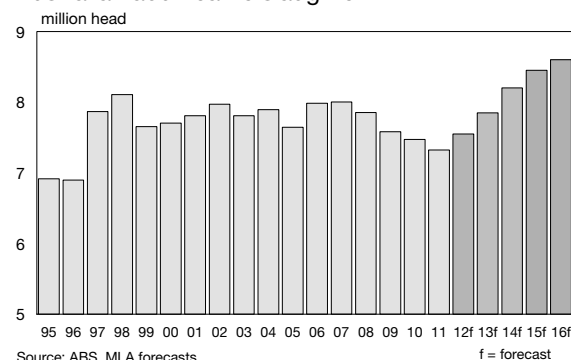
Source: ABS, MLA forecasts

4. Cattle slaughter and beef production

A feature of the Australian cattle markets in recent years has been the consistently tight supply of slaughter ready cattle. While the reasons for this tight supply have been different between 2009, 2010 and 2011, the overall impact is very much the same. For 2012, the available supply of cattle will again be dictated by seasonal conditions, albeit with the prospect for numbers to increase significantly if conditions deteriorate quickly.

For 2012, Australian adult cattle slaughter is forecast to total 7.55 million head - an increase of 3.1% on the estimated 7.325 million head in 2011. While this would be the highest adult slaughter number for the past three years, it is still well below 2007 and 2008 volumes, when drought conditions forced additional stock onto the market.

Figure 12
Australian adult cattle slaughter



Source: ABS, MLA forecasts

Based upon the assumption of seasonal conditions remaining positive for 2012 and producers sustaining rebuilding efforts, the 3.1% increase in throughput will be largely acquired by an increase in heavier cattle entering the market. As experienced in the previous two very wet years, rebuilding efforts will constrain female cattle throughput, while producers will be keen to make the most of the better feed conditions and finish young cattle through to heavier weights.

As mentioned above, adult cattle throughput has been constrained for the past three years, but due to different reasons. In 2009, the drought across eastern Australia was at its worst, with the lack of water and pasture fuelling turnoff rates, but low branding rates in previous drought years (2007 and 2008) had shrunk the available pool of slaughter ready cattle. In effect, the numbers of cattle “entering the supply chain” had been slashed in previous years, impacting slaughter rates in 2009 and beyond. In 2009, Australian adult cattle slaughter totalled 7.583 million head – 3.5% below 2008’s 7.853 million head.

While this lack of cattle “entering the supply chain” also influenced the available supply of slaughter cattle in 2010, it was also accentuated by the breaking of the drought in eastern Australia. As such, producers held back breeding stock and retained young cattle for finishing. In 2010, adult cattle slaughter declined 1.5% on the previous year and totalled 7.472 million head. One factor which assisted cattle turnoff in 2010 was producers’ need for cash flow, following years of drought, further encouraged by rising cattle prices throughout the year.

In 2011, while the influence of the poor brandings of previous drought years was being slowly removed from the cattle supply chain, its impact was still being felt in reduced productivity of the younger breeding herd (females that were born throughout 2008 and 2009).

Additionally, the increased number of calves that entered the supply chain during 2010 (especially later in the year) only started to surface in turnoff

rates during the final few months of 2011. These 2010 drop calves are expected to enter the market in exceptional quality, with the bulk of them to be accounted for in the 2012 slaughter year.

In the much disrupted 2011 year, total adult cattle slaughter is estimated to have been 7.325 million head – 2% below 2010 and the lowest annual total since 1996. While lower than initial forecasts, 2011 was a very unusual supply year, hindered by flooding disruptions in the first quarter of the year, temporary processor closures in July and concerns surrounding the impact of the live cattle export ban to Indonesia in the second half of the year.

However, by far the biggest influence upon cattle turnoff in 2011 was the flexibility provided to producers by the sustained better season. Indeed, when prices turned down in winter, producers had the feed and water supplies available to hold off selling stock – something that hadn’t been experienced for many years. Additionally, the ample feed supplies sustained demand for young cattle, with many producers either keen to retain their own stock to take through to heavier weight, or buying cattle in to further finish.

For 2012, many of the features that underpinned cattle throughput in 2011 are expected to remain – especially the better season, ample feed and rebuilding intentions. However, throughput for the year is forecast to increase 3.1%, due to the influence of better marking rates in 2010 and 2011, accentuated by the continued growth in the breeding herd.

While recent years has shown that forecasting the flow of cattle throughout any one year can be challenging, there are several factors that may help to shed some light for the outlook for 2012. One of the key factors for 2012 is the rejuvenated supply of supplementary feed being carried by most cattle producers. After two very productive years, reportedly almost all hay sheds are full to overflowing; silos are packed with feed grain and most paddocks are still carrying good grass cover.

Beef and veal

This should allow additional flexibility for producers to manage turnoff, especially for breeding stock, if seasonal conditions deteriorate as 2012 progresses or cattle prices suffer an unexpected fall.

With the wet finish to 2011 and forecast for La Niña conditions to continue into early 2012, the available supply of cattle in January, February and March may again be heavily dependent upon the ability of producers to muster and transport stock. However, offsetting this may be the desire for producers to get stock to market to capture some of the higher prices likely to be on offer.

If we do see a return to drier seasonal conditions into autumn, this could be the first real supply test for the market, given the traditional higher turnoff rates throughout May and June, in preparation for winter. If there is a drier autumn and start to winter in 2012, producers will most likely increase turnoff rates.

At the same time, many of the “previous livestock export” cattle that were unable to go on to boats during June and early July 2011 may start to enter the Queensland market, with almost all expected to be in very good condition. These “previous livestock export” cattle are expected to add 5-10% to the national adult cattle turnoff if sold during this quarter and 2-3% for the entire 2012 production year. It is to be noted that, if wet conditions prevail throughout the second quarter, these cattle may be much sought after to boost processor throughput.

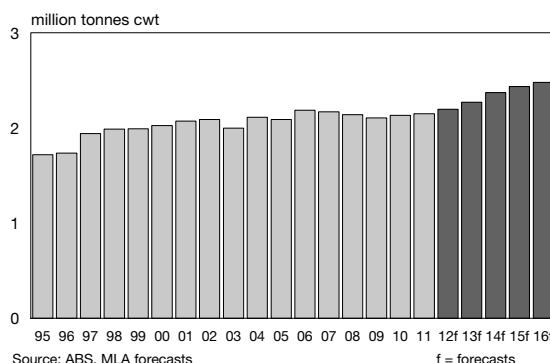
Cattle throughput should peak in October and November of 2012, as is the seasonal trend – accentuated if seasonal conditions turn dry.

For 2013 onwards, adult cattle slaughter is predicted to increase steadily, as the influence of the higher herd, improved seasons and increased calf numbers filter through the supply chain. Adult cattle slaughter in 2013 is forecast to reach 7.85 million head, and exceed 8 million from 2014.

With a 3.1% increase in adult cattle in 2012, and an associated small increase in calf slaughter, total beef and veal production for 2012 is forecast to reach a record 2.197 million tonnes cwt. The previous record annual beef and veal production

was set in 2006, at 2.188 million tonnes cwt, from 7.985 million adult cattle, compared to only 7.55 million slaughter forecast for 2012.

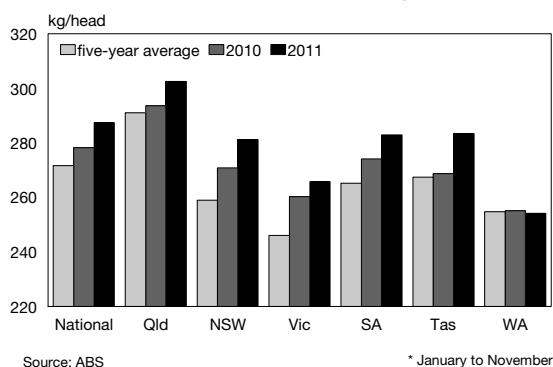
Figure 13
Australian beef and veal production



Contributing to the higher beef and veal production will be a consolidation of the higher carcase weights witnessed in 2011 – with carcase weights in 2012 expected to average 285kg/head cwt. Again, this high average weight for 2012 is due to the good seasonal conditions (and lower cow slaughter percentage), with some influence of additional on farm supplementary feeding, given the abundance of feed grain and lower prices.

Demonstrating the influence of the season on cattle weights, average weights for 2011 were estimated to average 287.3kg/head, up 3.2% year-on-year and over 5% higher than in 2009. Queensland set consecutive record monthly averages throughout the year, peaking at 305kg/head. Even though an estimated 147,000 head less adult cattle (down 2% year-on-year) were processed in 2011, total beef and veal production increased 14,000 tonnes cwt (or 0.7% year-on-year) – to an estimated 2.147 million tonnes cwt in 2011.

Figure 14
Australian adult cattle carcase weights*



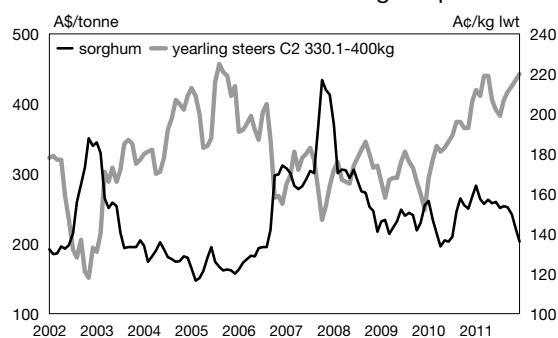
With cattle turnoff rising steadily over the medium term, beef and veal production is forecast to approach 2.5 million tonnes cwt by 2016, up 15% on 2011, with average carcase weights remaining above 280kg/head.

5. Feedlot activity

The outlook for the Australian lot feeding sector remains tough heading into 2012. On the input side of the equation, the historically high cost of suitable cattle, with competition fierce between all buying sectors for young cattle, provides an ongoing restraint to throughput. In 2011, producers were able to outbid lot feeders for suitable lines, most with additional feed – a situation that could be replicated in 2012.

In 2011, feeder cattle prices averaged 6-13% higher than in 2010, with some categories registering their highest calendar year average on record. In contrast, fed (or finished) cattle prices (100 days) averaged 5.5% higher for the year, while grain prices were largely steady on a calendar year basis.

Figure 15
Australian feeder cattle and feed grain prices



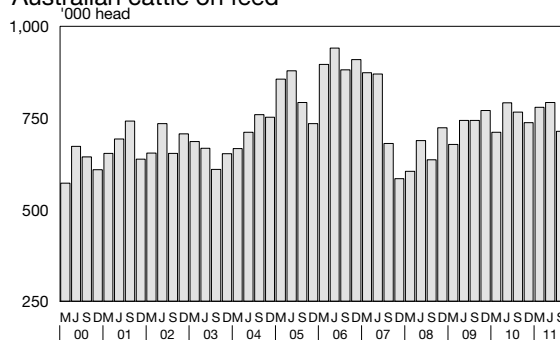
Source: The Land, MLA's NLRS

However, some welcome news for lot feeders is the forecast abundant supply of feed grain heading into 2012, with prices finishing 2011 below the corresponding period in 2010. With two consecutive harvests delivering higher than expected feed grain volumes (mostly due to rain close to harvest), prices have contracted, which should help to partially offset the higher cattle costs.

Additionally, the trend towards shorter feeding regimes is expected to continue, as trading conditions remain tough to the traditional North Asian markets. Indeed, one of the major constraints upon the grain feeding sector has been the poor trading conditions for grainfed beef to export markets, accentuated by a rising volume of very good quality grass-fed beef being produced. As such, while costs of producing grainfed beef have risen; the returns have been subdued from markets that traditionally attract high quality product.

There were 713,728 cattle on feed at the end of September 2011, according to the latest quarterly data from the Australian Lot Feeders Association (ALFA) and MLA survey, down 7% on a year earlier and 24% below the peak in June 2006. Given the anticipated tough prospects for the Australian lot feeding sector in 2012, numbers on feed could be expected to remain below 800,000 head.

Figure 16
Australian cattle on feed



Source: ALFA, MLA

For any substantial increase in numbers on feed in 2012, the sector would either need to see a decline in cattle prices, assuming feed grain prices stay lower, or an improvement in returns for high quality grainfed beef, especially to Japan. Unfortunately for lot feeders, both of these scenarios seem unlikely, with demand and prices for young cattle set to remain high, as the outlook to Japan and Korea is expected to be tough in 2012.

6. Global beef demand

One of the major negatives to loom over the Australian beef industry in 2012, if not the largest, is the continued economic malaise which has plagued advanced economies in recent years. With expenditure on beef closely tied to income and consumer sentiment in advanced markets, the massive uncertainty will again have a major role to play in the global protein and beef markets for 2012.

With this negative comes the possibility of a volatile A\$, which can also cause major issues for beef demand. The rise of the A\$ throughout 2011, up 12% on 2010 to average 103US¢, acted as a major handbrake upon the viability of Australia's beef exports.

There is the added concern that, with the continued uncertainty in financial markets, credit may once again dry up, dragging major global economies back into recession. In 2008, a lack of credit was one of the major reasons behind the decline in beef prices (and eventually cattle prices in 2009) in the wake of the Global Financial Crisis, with many major beef buyers unable to access full credit to purchase product. A similar situation in 2012 would again constrain demand for beef, and most likely be felt right through to cattle prices – both in Australia and globally.

With the very difficult economic situation in advanced economies, particularly Japan, the US, and Europe, the ability to achieve higher prices for high quality beef globally has been compromised. Consumers in these comparatively wealthy regions are favouring a shift towards lower priced beef and other proteins.

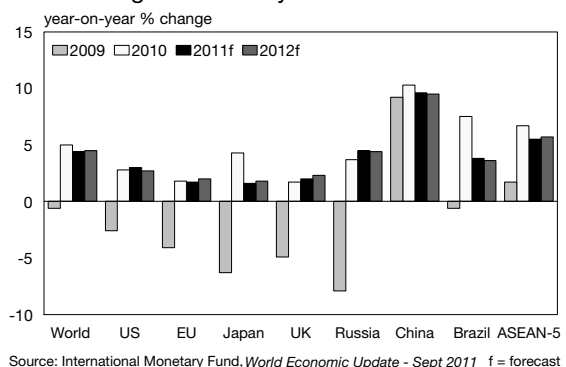
As such, one of the results of the past three years of economic uncertainty has been a significant shift in demand (and prices) globally towards lower quality frozen beef. Chilled beef, normally higher priced and favoured in advanced economies, has been more difficult to move.

With the global market putting a “premium” on lower quality frozen beef (mainly sold through fast food and foodservice outlets), competition has increased substantially between advanced economies and developing or emerging markets for this product. Manufacturing beef has been a very sought after commodity to almost all major imported beef markets since 2008, including Japan, the US, Russia and the Middle East. As a result, price increases have been occurring for manufacturing beef at a much faster rate than for other beef products, especially higher quality cuts.

With many global economic forecasting agencies predicting another tough and volatile year in 2012, the demand for manufacturing beef is forecast to remain strong across all markets. The ability to pay more for product, and thus attract the commodity, will largely hinge upon the economic conditions within each market, their own protein requirements and relative currency movements.

According to the latest *World Economic Outlook* from the International Monetary Fund (IMF) in September 2011, the economic growth prospects for 2012 are skewed towards developing and emerging markets, such as China, India, the Middle East and Brazil. Globally, the IMF forecast world economic output to expand at 4% in 2012, steady with 2011, but down from the 5.1% recorded in 2010. In the wake of the GFC, output in 2009 fell 0.7% globally, with advanced economies retreating 3.7%.

Figure 17
Economic growth for key countries



For the major advanced economies in 2012, the outlook is positive, but certainly not strongly so. Marred by high unemployment, massive debts and consumer uncertainty, growth in the US for 2012 is tipped to reach 1.8%, up from 1.5% in 2011.

For Japan, economic growth is forecast at 2.3% in 2012, up from -0.5% in 2011. However, it should be remembered that the negative growth in Japan for 2011 was largely due to the natural disaster that hit the country in March and the subsequent impact of the nuclear disaster.

One of the largest drags on the global economy for 2012 is expected to be the ongoing debt issues in the European Union (EU), with many countries implementing austerity measures. The situation in Europe has the potential to significantly impact growth prospects in other economies, even dragging them back into recession. In 2012, the IMF has forecast the EU to register economic growth at 1.1% – the worst economic performance since the recession of 2009 (-4.3%).

For many Asian nations, including Korea, Taiwan and South East Asia, growth prospects are positive for 2012. Korea is tipped to expand at 4.4% in 2012, and Taiwan at 5%. As a region, the ASEAN-5 nations (Indonesia, Thailand, Malaysia, Philippines and Vietnam) are forecast to expand at 5.6% in 2012, up from 5.3% in 2011. The key driver of this growth will be Indonesia at 6.3%, with Malaysia at 5.1% for 2012.

As has been the case for the past decade, China's growth has been outpacing almost all other nations, with 2012 set to continue the trend. For 2012, China's economic output growth is forecast to be 9%, down from 9.5% in 2011, but still well above any other major economy. The only other nation to come close to China in 2012 is India, forecast to expand at 7.5% in 2012.

With the relatively positive outlook for China and South East Asia, the Australian economy is forecast to expand at 3.3% in 2012, up from 1.8% in 2011.

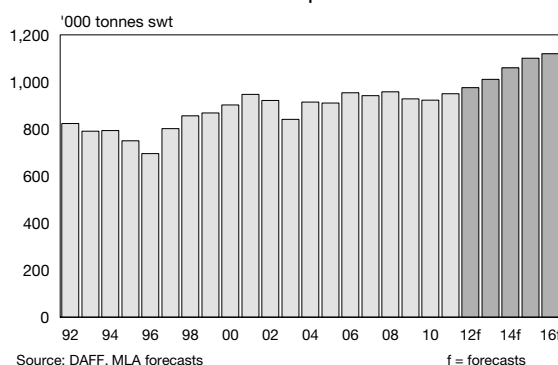
For other major global economies, growth in 2012 is expected to remain positive, with Brazil predicted to record growth of 3.6%, the Middle East also 3.6% and the Commonwealth of Independent States (which includes Russia) 4.4%.

7. Australian beef exports

An increase in beef production, combined with a continued growth in import demand in the US and non-traditional markets, should contribute to a 2.7% increase in Australian beef and veal exports for 2012, to 975,000 tonnes swt – a record calendar year total. The fastest growing markets for the period are anticipated to be the US and Russia, which will help to offset expected declines to Japan and Korea.

The proposed 2.7% increase in shipments for 2012 follows 2.8% growth in 2011 – which was achieved through some very tough trading conditions. Some of these conditions may ease in 2012, particularly the tight Australian supply and appreciation in the A\$. The 2.7% rise is predicated upon growing demand in developing markets and a shortage of beef in key exporting nations, which will push global beef prices higher.

Figure 18
Australian beef and veal exports



However, there are some major competitive trade issues set to impact Australia's beef trade in 2012, namely the increased influence of US beef in Japan and Korea and continued high A\$. In Japan, possible changes to the import protocol for US beef

Beef and veal

in the second half of 2012, from less than 21 months of age to less than 30 months, may increase available supplies from the US and make the going tougher for Australian beef in Japan.

The recent signing of the US and Korea Free Trade Agreement (FTA) will deliver US beef a competitive advantage over Australian beef into Korea. This is expected to accentuate the existing competitive pressure from the US, stemming from their weak currency and ability to ship large volumes of short ribs. Countering this, however, is continued unease by some consumers with US product.

Australian beef and veal exports finished 2011 at 949,192 tonnes swt, up 2.8%. This was a commendable result given the series of unprecedented events that occurred through the year. Flooding throughout Queensland disrupted shipments early in the year, while the Japanese market was hit extremely hard by the series of disasters which commenced with the massive earthquake in early March. Global economic uncertainty continued to add volatility to global commodity markets, with very low consumer demand in Australia's two largest markets – Japan and the US.

Added to these “big picture” external shocks was the run of the A\$, which saw it hit a post-float high of 110.5US¢ in late March. Averaging 103US¢, the A\$ acted as a major handbrake upon the export industry between April and August, when the global beef trade hit a flat spot. Accentuating the impact of the high A\$ was the very weak US currency, which enabled US beef to gain competitive leverage in most markets, especially Japan and Korea.

In previous years, the thought of the A\$ not only surpassing parity, but averaging 3¢ above it for the year would have brought huge concerns for the beef industry and export volumes. However, the global shortage of beef, along with burgeoning

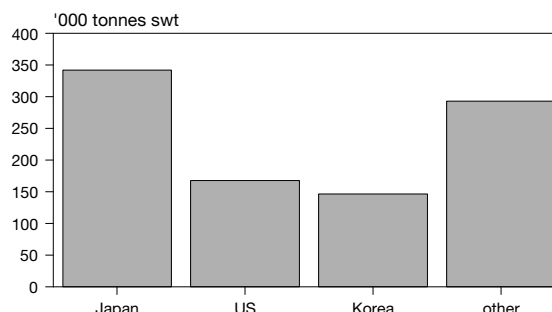
demand in non-traditional export markets, helped to offset much of its impact, especially for cheaper frozen manufacturing beef.

However, it must be noted that the high A\$ has made it very difficult to shift higher priced loin cuts into traditional markets – especially when combined with the sluggish demand in key export markets, most notably in Japan.

Clarifying the influence of non-traditional markets in 2011, Australia's beef and veal exports to the two largest markets of Japan and the US totalled 510,005 tonnes swt - a decline of 6% on the previous year and 53.7% of total exports. This was the lowest annual percentage since 1977.

Shipments to all other markets in 2011 increased 15% year-on-year to 439,187 tonnes swt, including an 18% increase in beef exports to Korea. In contrast, 81.3% of total Australian beef and veal exports went to Japan and the US in 2004.

Figure 19
Beef exports to major destinations - 2011



Source: DAFF

With Australia's cattle herd and beef production increasing beyond 2012, Australian exports seem set to reach one million tonnes swt by 2013. Exports will continue to absorb the majority of the increase in production through to 2016, as a result of a lower A\$, improved economic conditions in traditional markets, a continued global beef shortage and, hopefully improved access to a number of markets.

Table 2 Australian exports of beef and veal ('000 tonnes swt)

To:	2007	2008	2009	2010	2011	% change	2012 ^f	% change ^f
Japan	377.9	364.3	356.6	356.2	342.2	-4%	330	-4%
US	295.9	234.8	251.5	185.0	167.8	-9%	215	28%
Korea	148.9	127.2	115.5	124.2	146.3	18%	125	-15%
Canada	12.3	8.5	12.3	6.9	10.1	46%	11	8%
Taiwan	29.1	27.1	31.3	30.8	36.7	19%	35	-5%
South-East Asia	40.6	62.8	85.9	88.8	87.2	-2%	79.0	-9%
- Indonesia	26.8	33.0	51.8	48.4	39.6	-18%	30.0	-24%
- Philippines	3.4	14.1	17.0	19.2	21.0	9%	23.0	10%
- Singapore	5.5	8.1	7.5	7.6	9.7	27%	9.0	-7%
- Malaysia	3.3	6.2	8.0	11.7	14.4	23%	14.5	0%
- Thailand	1.5	1.4	1.6	1.8	2.5	36%	2.5	0%
Other Asia	4.5	5.9	12.8	12.6	16.6	32%	20.0	20%
- Hong Kong	2.4	3.2	7.5	7.0	8.9	26%	10.0	13%
- China	2.1	2.7	5.3	5.6	7.8	38%	10.0	29%
E Europe & CIS	5.1	73.0	15.2	57.1	55.9	-2%	70.0	25%
EU	6.0	11.9	9.2	9.8	12.8	30%	15.0	17%
Middle East	4.3	13.0	15.8	24.3	31.9	31%	35.0	10%
Other	16.8	29.0	21.3	27.0	41.6	54%	40.0	-4%
Total	941.4	957.5	927.3	922.8	949.2	3%	975.0	3%

Source: DAFF, MLA forecasts

f = forecast (in italics)

Main countries in other = PNG, South Africa, Central and South America

Eastern Europe & CIS includes Poland

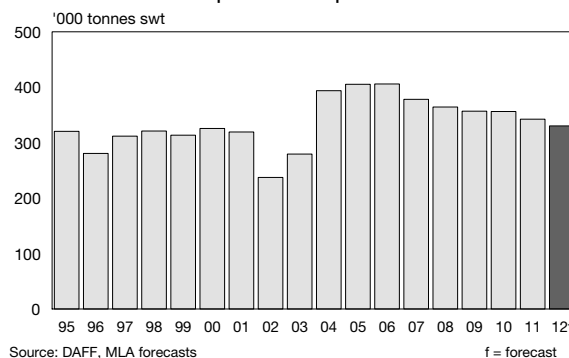
7.1 Japan

As Australia's largest beef export market, taking almost 36% of all beef shipped in 2011, the condition of the Japanese beef market has a very large influence upon the health of the Australian beef industry. With decades of Japanese influence evident right through the beef industry, from breed preferences, production techniques and feeding regimes, a sustained downturn in this market would be felt right through all sectors.

Given all the issues that faced the Australian export beef trade to Japan in 2011, for total exports to fall only 4% to 342,200 tonnes swt for the year was a better than anticipated result – especially given the state of the market throughout the middle of the year. While exports for the year were the lowest since 2003, some of the decline in 2011 must also be attributed to constrained Australian beef production and increased competition from other markets.

Figure 20

Australian beef exports to Japan



Source: DAFF, MLA forecasts

f = forecast

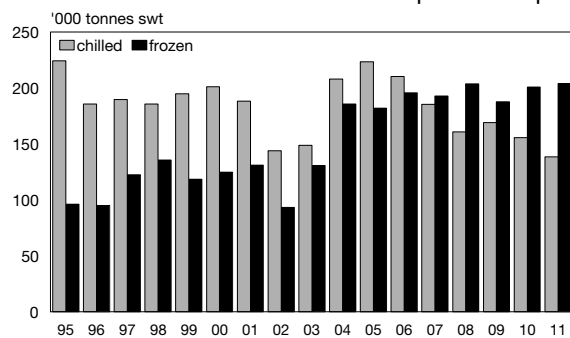
Reflecting the very weak economic conditions and consumer sentiments throughout 2011, Japan overtook the US to become Australia's largest export market for manufacturing beef. With Japanese consumers deploying cautious buying patterns, the demand for beef from lower priced fast food outlets increased (which favours manufacturing beef), largely at the expense of the higher valued food service restaurants. Australian manufacturing beef exports to Japan in 2011 made up 33.9% of all shipments to the market, compared to 31.5% in 2010.

Beef and veal

Further illustrating Japan's increased demand for lower priced beef in 2011, Australian frozen beef shipments actually increased 2% for the year, to a calendar year record of 203,778 tonnes swt. This just surpassed the previous high of 203,654 tonnes swt sent in 2008. Grassfed beef made up 76% of the total – up 3% year-on-year.

Figure 21

Australian chilled and frozen beef exports to Japan



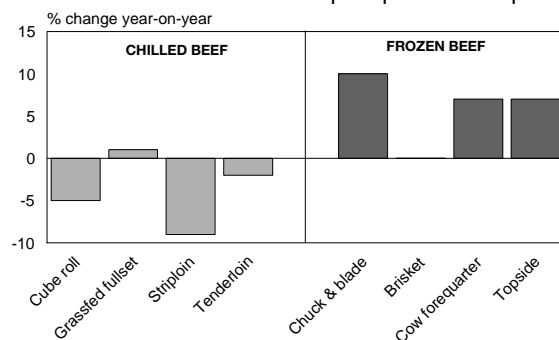
Source: DAFF

The majority of Australia's frozen beef exports to Japan in 2011 were made up of manufacturing beef (57%), with the only other major frozen cut being brisket (19.7%).

Reflecting the rising demand for the lower priced frozen beef, average Australian beef export indicator prices to Japan for 2011 increased across most reported frozen categories, with only frozen full briskets declining, down -0.3% on the previous year. Frozen beef prices for topsides, thick flank and chuck and blade increased 6%, 8% and 9%, respectively, on the previous year, with all three categories registering calendar year highs.

Figure 22

Indicative 2011 Australian export prices to Japan



Source: MLA trade

In contrast to the record high volume of frozen beef in 2011, the market sentiment for chilled beef was much more subdued, with total Australian chilled beef exports for the year contracting 11% to 138,408 tonnes swt. This was the lowest calendar year total since 1991 and almost 85,000 tonnes swt (or 38%) below the record volume sent in 2005. Chilled grainfed exports declined 12% year-on-year, to 45,558 tonnes swt, while chilled grassfed shipments contracted 11% to 92,850 tonnes swt.

Adding to the reduced demand for Australian chilled beef was an increase in available chilled beef supplies from the US, largely at cheaper prices (assisted by the weak US dollar). For January to November, imports of US chilled beef had increased 38% on the previous year, to 55,949 tonnes swt.

The 11% decline in Australian chilled beef exports for the year was in the cuts that make up the bulk of the trade, with the exception of brisket. The most popular Australian chilled beef cut to Japan in 2011 was brisket, which made up 18.3% of the trade, with total volumes increasing 4% for the year. However, 2011 shipments of blade (12.7% of the trade), chuck roll (11.7%), fullsets (11.2%), silverside/outside (10.1%) and topsides/insides (7.5%) all declined in volume from 2010. The largest decline for the year was in fullsets, down 43% year-on-year, to 14,366 tonnes swt, while blade and topside/insides declined 12% and 7%, respectively.

In line with the decline in chilled beef volumes was a fall in most average indicative chilled beef prices for the year. Despite a 3% increase in average chilled shortfed fullset prices for the year, indicative chilled export prices for striploin, cube roll and tenderloin declined by 11%, 8% and 3%, respectively on 2010 averages.

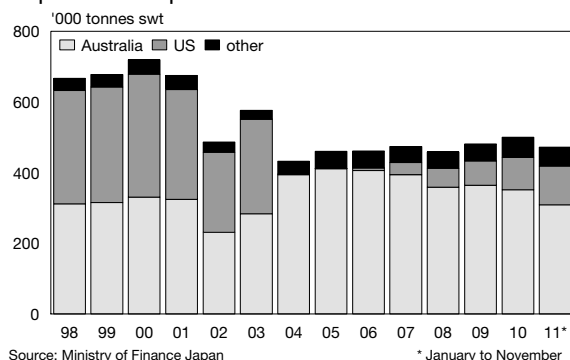
Indeed, it has been the lower returns for premium beef cuts that have hurt both Australian exporter margins and processor returns in 2011. This has been a trend in the market since late 2008, and has been evident across most key importing markets – not just in Japan.

For 2012, Australian beef exports to Japan are expected to again face several challenges and issues, especially the increasing competition from the US and high A\$. These factors are likely to offset some recovery in consumer demand for beef from the 2011 shocks, with Australian beef and veal exports for 2012 forecast to total 330,000 tonnes swt, down 4% on 2010.

The increased presence of US beef is likely to be the main factor impacting trade to Japan in 2012 – possibly assisted by the change in age requirements. Many are expecting an easing in the age requirements applying to US beef to occur sometime between April and September 2012.

With this in mind, US exports to Japan in 2012 are forecast to reach 150,000 tonnes swt, up 25%. Again, the exact volume of beef that will come through will depend upon the date and conditions of the change from beef being sourced from cattle less than 21 month, to less than 30 months.

Figure 23
Japan beef imports*



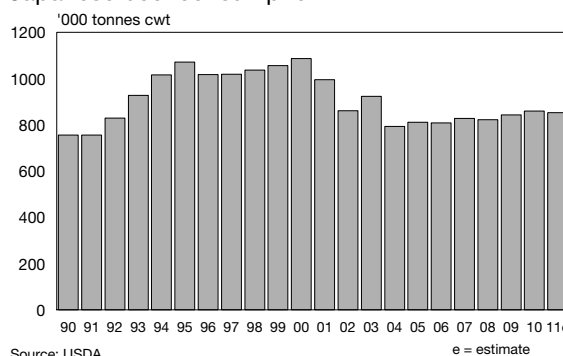
Accentuating the impact of a possible change to the US beef age requirements will be the continued weak US currency, aiding the price competitiveness of US beef in the Japanese market. In 2011, the US dollar depreciated 9% against the Japanese yen, while over the same period the A\$ appreciated 2%. Additionally, US beef exporters have been actively striving to capture a higher profile for their product throughout the past 12 months.

According to Japanese import figures for January to November 2011, total beef imports increased 4% to 471,630 tonnes swt, solely due to a rise in product from the US. For the same period, while Japanese

imports of Australian beef contracted 4%, New Zealand declined 6% and Canada 21%, the importation of US beef increased 35%, to 109,812 tonnes swt.

Given the slight rise in imported beef volumes during 2011, an estimated decline in Japanese beef production and increased beef stocks (to the highest level since 2001), total Japanese beef consumption for 2011 is estimated to have declined 1% on the previous year, to 854,500 tonnes swt – not surprising given the consumer impact of the earthquake and its aftermath.

Figure 24
Japanese beef consumption



For 2012, Japanese consumer demand is expected to recover from the 2011 shocks, and with the assumed increase in availability of US beef and fall in stocks, consumption for 2012 is tipped to rise 4.2%, to 890,500 tonnes swt – its highest level since 2003, before the import ban on US beef.

Undoubtedly one of the key factors needed to improve the outlook for Australian beef to Japan is for a sustained economic recovery and an increase in consumer confidence. After improving post GFC through to early 2011, the unprecedented disasters of early March put the Japanese economy onto the back foot for the remainder of the year, with consumer spending and confidence declining. The earthquake, tsunami and nuclear disaster all brought follow on complications, such as power rationing, that hindered the economic recovery throughout the remainder of 2011.

Beef and veal

With economic conditions expected to improve in 2012 (according to the IMF), albeit slowly, some positive impact on demand for beef is anticipated. For Australian exporters, this will most likely be more than offset by the additional US product expected in the market. The longer term prospects for Australian beef to Japan, especially for the higher valued chilled product, will depend on Japanese consumers regaining confidence, and returning to spending their disposable income at all levels of food service and retail outlets – not just fast food chains.

Overall, while the short term outlook for Australia's beef trade to Japan remains tough, largely due to the increased presence of the US, there is still the potential for some demand growth over the medium and longer term.

Regardless of the tough year forecast in 2012, Japan will continue to be Australia's largest offshore beef customer and thus, have a big influence upon returns to Australian beef producers.

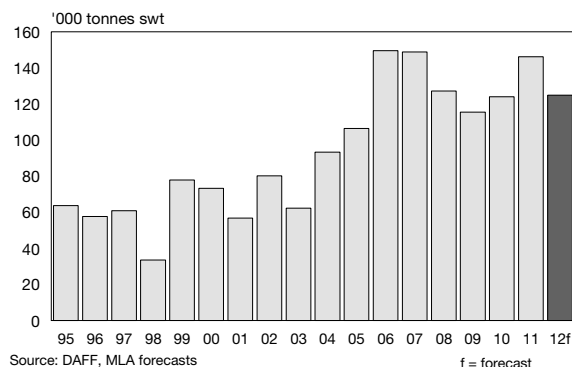
7.2 Korea

The situation facing Australian beef into Korea in 2012 is expected to become more difficult, as local production rises, the high stocks are cleared and the US ramps up its efforts to recapture market share – buoyed by a Free Trade Agreement (FTA), weak currency and an ability to deliver the product most sought after by Korean importers, short ribs. Hence, Australia's competitive position in Korea is set to be further challenged in 2012.

Australian beef and veal exports to Korea greatly exceeded expectations for 2011, increasing 18% on the previous year, to 146,347 tonnes swt – falling just short of the record 149,663 tonnes swt in 2006. This growth reflected strong Korean consumer demand and weaker competition from Japan for suitable cuts. Korean consumption of local, US and Australian beef all grew significantly in 2011.

Figure 25

Australian beef exports to Korea



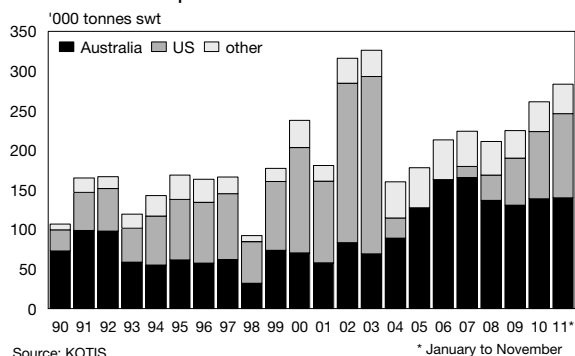
Of the 146,347 tonnes swt of Australian beef exported in 2011, 75% was frozen beef. Frozen chuck roll was the most popular cut, making up 17% of total exports, followed by frozen blade (11%), manufacturing beef (11%) and short ribs (8%). Of the chilled beef exports, the main cuts were chuck roll (5%), blade (4%) and short ribs (4%).

The imported beef volumes for 2011 shed more light on the influence of the US in the market, and potential impact in 2012. For the first 11 months of 2011, total Korean imports of US beef increased 42%, to 106,458 tonnes swt. Of this increase, short ribs dominated, increasing 10% in volume and making up 57% of total imports. Additionally, striploin imports jumped 44%, to make up 9% of total imports, while chuck roll and brisket made up 21% and 9% of total imports, respectively.

Contributing to the increase in imports from the US was the relatively low US currency, which averaged 4% lower against the Korean won. In comparison, the A\$ appreciated 7.5% during 2011.

Figure 26

Korean beef imports



Driven by the increase in product from the US (up 42%), along with Australia (up 12%), total Korean beef imports for January to November increased 20% year-on-year.

With the increased beef imports for 2011, and higher domestic production, total beef consumption in Korea was estimated to have increased 8% in 2011, to 484,000 tonnes swt. Assisting the demand for beef in Korea was the comparatively healthy economy, and higher pork prices throughout the year, largely in response to the fallout from the Foot and Mouth Disease outbreak and the forced destruction of infected pigs. Due to the shortage of pork, the Korean Government took the extraordinary step of reducing tariffs to allow in additional pork imports during 2011.

Another important event that took place in the Korean beef market during late 2011 was the signing of the Korean-US FTA that will eliminate the 40% tariffs on US beef over 15 years. While the lower tariff on pork will have an influence on consumer demand for proteins, it is the changed tariff rates on US beef that may most influence future buying patterns.

The tariff rate for US beef will decrease by 2.7% each year, commencing in 2012, eventually giving the US a major competitive advantage if not quickly matched through an Australia-Korea FTA.

The Korean economic situation and consumer demand for beef are expected to remain comparatively healthy in 2012 – with beef consumption expected to increase a further 5%, to total consumption to a record 509,500 tonnes swt. This increase will come from local beef, US product and a rundown in the current high imported beef stocks, with imports from both Australia and New Zealand expected to decline. The rising production of Korean beef is mainly the result of the historically high Hanwoo cattle herd.

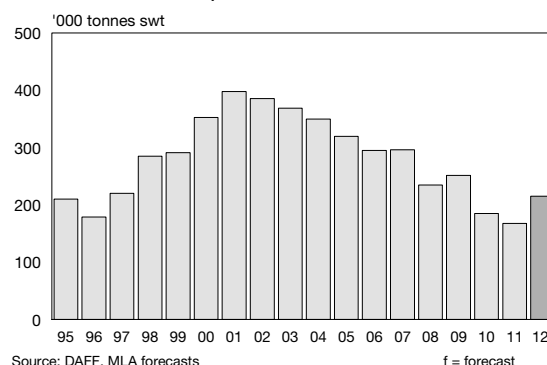
Given the anticipated increased competition from US beef (FTA, weak currency and ample availability of short ribs), higher domestic beef production and high stocks, total Australian beef

exports in 2012 are expected to decline 15% on 2011, to 125,000 tonnes swt. Given the assumption for the importation of US beef in 2012, this would leave Australia with a 42% share of the imported beef market – well below the 73% registered in 2005, but still double the 21% share Australian held in the market prior to the US BSE ban in late 2003.

7.3 US

After a decade of declining shipments, Australian beef and veal exports to the US are forecast to increase in 2012. Attracted by historically high prices for manufacturing beef and on the foundation of a very tight supply of beef in the US, Australian shipments are anticipated to increase 28% on 2011, to 215,000 tonnes swt.

Figure 27
Australian beef exports to US



There are also some major hurdles for Australian exports to the US in 2012, including the tentative state of the US economy and consumer spending, the high A\$ and increased E.coli testing requirements.

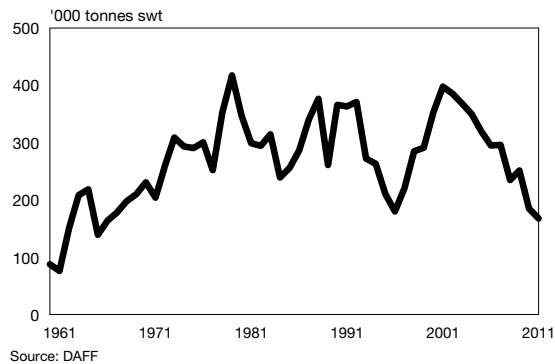
Despite finishing the year on a positive note, Australian beef and veal exports to the US in 2011 totalled 167,800 tonnes swt – a decline of 9% on the previous year and the lowest annual total since the late 1960s.

While the decline in shipments throughout the past decade has been due to many factors, most notably the A\$, the fall in the past 12 months has been assisted by burgeoning demand for manufacturing beef in other markets.

Beef and veal

Figure 28

Australian beef exports to US - 1960 to 2011



While the US had always been the market leader for manufacturing beef, recent years have seen this influence diminish. Competition for manufacturing beef has increased from many markets, ranging from the major importing markets of Japan and Russia, to a collection of smaller (but growing) markets, such as those in the Middle East, the Philippines and Indonesia.

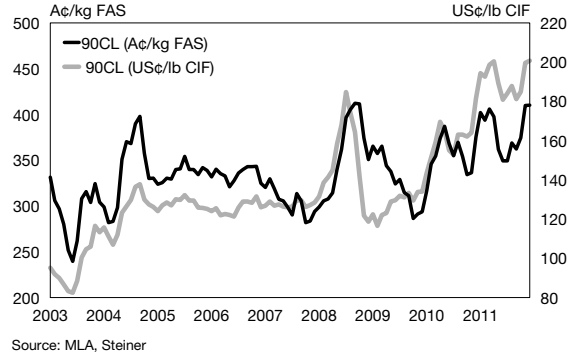
Manufacturing beef shipments made up 62% of Australian beef exports to the US in 2011, similar to the proportion in 2010. The majority of other exports for the year were thin flank (12%), topside/insides (8%), shin/shank (5%) and silverside/outside (4%). Frozen beef made up 83% of total exports for the year.

When the volume of beef sent to the US in 2011 is matched with the prices being offered, a question could be raised as to why more product wasn't shipped to the US.

In US\$ terms, indicative imported beef prices for 2011 exceeded previous records, averaging 18% higher for 90CL Australian cow beef and between 16-26% higher for a range of other cuts. Putting the price rise in context, 90CL beef averaged 191.4US\$/lb FAS for the year – 18% above the previous calendar year high set in 2010, of 161.3¢/lb FAS, and 36% above the five year average.

Figure 29

Australian beef export prices to the US



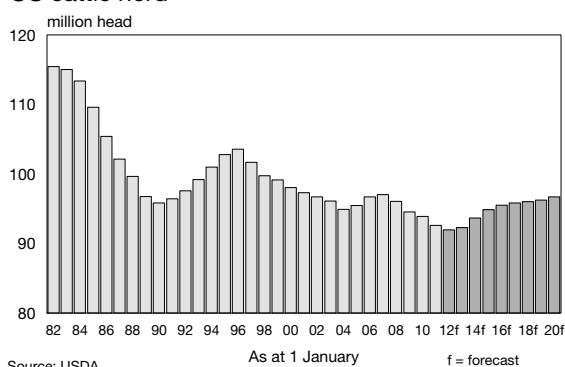
Once the record run of the A\$ is taken into account, 2011 beef prices into the US increased 7% on the previous year, at 381.5A\$/kg FAS. This was the second highest calendar year average on record, pipped by 2001, at 381.9A\$/kg FAS – when the A\$ averaged close to 50US¢ and shipments totalled 397,000 tonnes swt.

While the higher prices in the US would have been welcomed by Australian exporters, the higher A\$ significantly eroded the benefit delivered by the record US prices on offer. Adding to this was the price differential with other markets for manufacturing beef, which made it more attractive to ship product to markets other than the US. Exporting to the US has been made more difficult and costly by additional production and testing requirements, resulting from safety issues with locally produced US beef over recent years.

Driving the higher prices in the US for some period has been a declining US cattle herd and beef production. A severe drought across the southern states contributed to some additional cattle being slaughtered in 2011, with the US cattle herd falling to its lowest level in over 50 years.

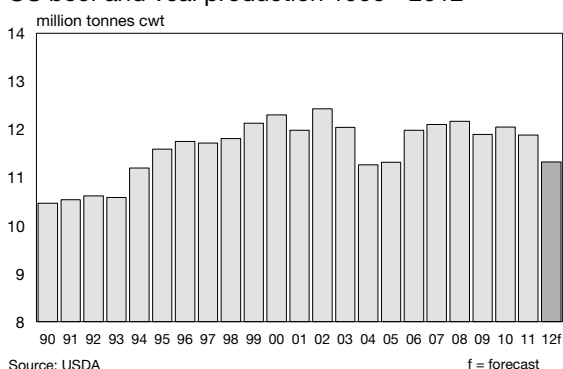
In 2012, the US cattle herd is forecast to fall to 91.45 million head – down 1.3% on the previous year and five million head less than five years earlier (USDA). Adding to the decline in the cattle population is the expectation that the calf crop will also hit a 50 year low, at 34.7 million head (USDA).

Figure 30
US cattle herd



Given the expected lower cattle throughput for 2012, the USDA has forecast total beef and veal production for the US will decline 5% on the previous year, to 11.322 million tonnes cwt. To put this in context, the decline of 560,000 tonnes cwt is more than one-quarter of Australia's annual beef production.

Figure 31
US beef and veal production 1990 - 2012



This tight supply of cattle pushed US cattle and beef prices higher in 2011, even during a period when the consumer was increasingly price conscious. Feeder cattle prices during 2011 average of 22% higher, at 134US\$/lb liveweight. Similarly, cow prices averaged 21% higher for 2011, while choice steer (finished cattle) prices averaged 20% higher on the previous year. Prices for all categories were calendar year records.

With the anticipated tight supply of beef, US cattle and beef prices are forecast to increase again in 2012. This will help make the US market a little more attractive to Australian exporters. Australian exports to the US increased substantially in the final few months of 2011, the result of both a stable A\$ and sustained higher export prices being offered.

The USDA anticipates total beef imports for 2012 to increase 2%, to 948,000 tonnes cwt.

Figure 32
US wholesale beef prices

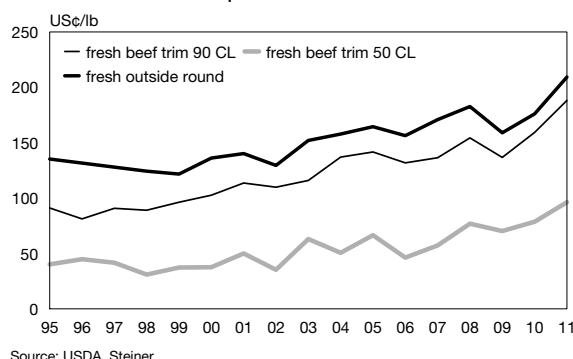
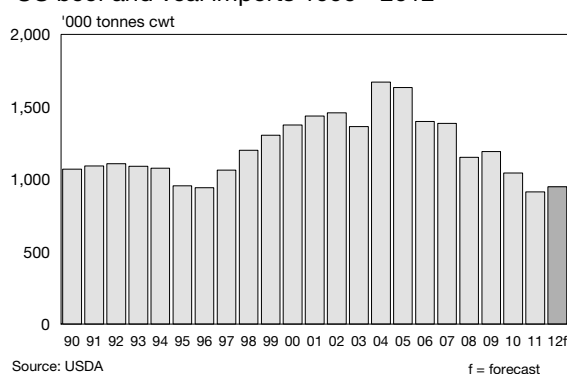


Figure 33
US beef and veal imports 1990 - 2012



Contributing to the tighter supply of beef on the US market in 2012 and forecast higher prices, is the expectation that US beef exports will sustain the record levels reached in 2011 – at 1.26 million tonnes cwt – fuelled by the very weak US dollar and possible market access improvements to Japan (likely change to age restriction) and Korea (FTA).

One of the huge questions that hangs over the US beef market in 2012 is how will consumers react to the prospect of having to pay higher beef prices, given the state of the US economy and tentative demand? The USDA expects the US consumer to react by eating less beef, with total consumption expected to fall 5% in 2012.

The influence the US beef industry has on the functioning of global beef markets will again be significant throughout 2012. As the world largest producer of beef, second largest exporter (behind Australia in 2011), and second largest importer,

Beef and veal

what occurs in the US influences all markets. For Australia, this is amplified by the fact that not only is the US our second largest export market for beef, it is also our main competitor in Japan and Korea.

With the US cattle herd expected to stabilise in coming years, and eventually start slowly rebuilding, US demand for Australian beef is anticipated to improve over the medium term. The forecast 28% increase in shipments in 2012 will make the US one of Australia's fastest growing beef markets, but the forecast 215,000 tonnes swt is still a historically low volume – leaving plenty of scope for further increases in subsequent years. But as seen in 2011, the level of the A\$, testing requirements for Australian beef, competition from other markets and the state of the US consumer will all weigh heavily on shipments into the future.

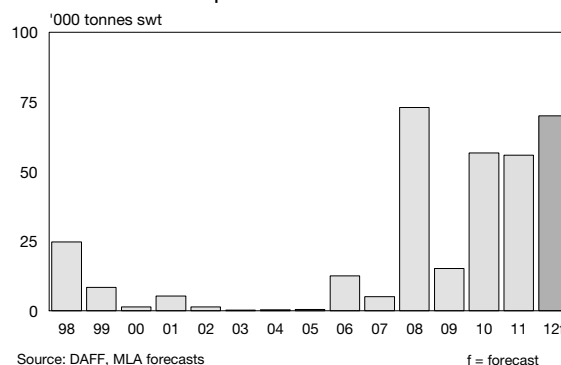
7.4 Commonwealth of Independent States (CIS) - Russia

The world's second largest imported beef market (behind the US). Russia has developed into Australia's fourth largest beef export market, behind Korea and ahead of Indonesia and Taiwan. Russia's influence upon the Australian beef trade in recent years has been considerable and has come largely through increased competition for lower valued manufacturing beef cuts.

This trade has also been timely, given the weak demand for quality beef cuts, helping to fuel a significant shift in the composition and destination of Australia's beef trade in recent years.

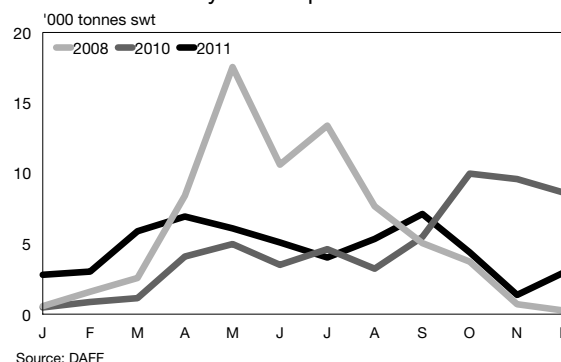
Australia's beef and veal exports to the Commonwealth of Independent States (CIS), but predominately Russia, totalled 55,900 tonnes swt in 2011. Combined with very limited exports to other smaller Eastern European markets, exports for the past year were back just 2% on 2010 (57,100 tonnes swt). It should also be noted that the consolidation of the Russian market demand through 2011 contributed to the lower shipments to the US.

Figure 34
Australian beef exports to Russia



However, one feature of 2011 was that exports were more stable throughout the year, with a monthly high of 7,000 tonnes swt in September. This contrasts with the two previous higher years of 2010 (9,995 tonnes swt) and 2008 (17,557 tonnes swt), when exports hit considerably higher monthly peaks, but also registered months of very low shipments. Hopefully, this is evidence that the Russian beef market is becoming a more stable and consistent one for Australian exporters – a factor that will help to underpin beef trade into 2012.

Figure 35
Australian monthly beef exports to Russia



In consolidating its growth in 2011, manufacturing beef that the main item demanded by Russian importers in contrast to silversides/outside in 2010. In 2011, 97% of Australian beef exports to Russia was frozen grassfed beef and 38% was manufacturing beef, compared to 27% in 2010. The recent emergence of Russian demand for Australian manufacturing beef has added another large buyer to this market, competing against Japan, the US and Korea for lower priced frozen beef.

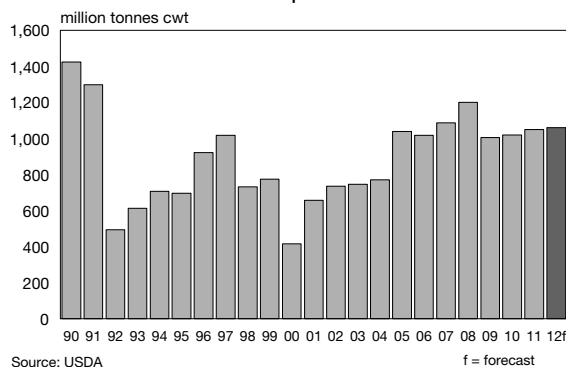
Other cuts to leave Australia for Russia in significant volumes in 2011 included silverside/outside (23% of total exports), chuck and blade (10%), blade (9%) and thick flank/knuckle (9%).

After a volatile trading relationship in the wake of the Global Financial Crisis in 2008, Australian exporters in late 2010 and throughout 2011 have become more comfortable in trading with Russia. While any currency and economic upheaval could erode some of this confidence in 2012, the outlook for Australia's trade with Russia remains positive. Indeed, with very tight beef supplies from traditional South American suppliers, Brazil and Argentina, Russia continues to look towards Australia as a reliable supplier of quality frozen grassfed beef.

Underpinned by continued tight supplies from South American producers, sustained economic growth and provided there are no access issues associated with the allocation of import permits, Australian beef and veal exports to Russia in 2012 are forecast to increase 25%, to 70,000 tonnes swt.

With the USDA forecasting Russia to import in excess of one million tonnes cwt of beef in 2012 (up from 728,000 tonnes in 2010), the opportunity for Australia to consolidate its presence in the Russian market is considerable – especially with the outlook for additional Australian beef to be produced from 2012 and beyond.

Figure 36
Russian beef and veal imports



The prices of manufacturing beef to the US and even Japan will be the main determinant of trade flows in 2012. Given the positive price outlook for the US, Russian importers are likely to face fierce competition for suitable product.

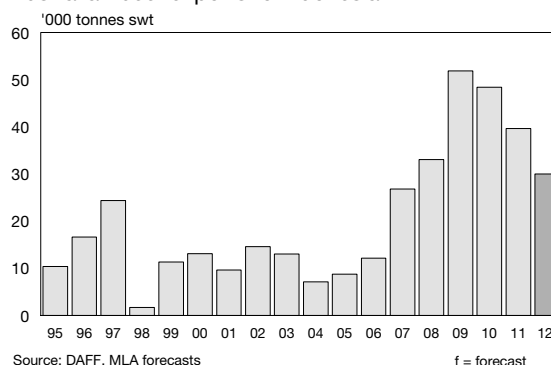
The performance and demand for manufacturing beef in Russia throughout 2012 will have a large influence upon the volume of product that flows to the US and vice versa.

7.5 Indonesia

The recent announcements by the Indonesian Government regarding the allocation of import permits for beef in 2012 will limit Australian shipments to the market. Exports are projected at 30,000 tonnes swt, down 24% on 2011 volumes – despite continued growth in underlying demand for imported beef.

In 2011, Australian beef and veal exports to Indonesia totalled 39,590 tonnes swt – a decline of 18% on the previous year, but still the third highest year on record behind 2010 and 2009. Just over 38% of exports for the year was manufacturing beef, with the other major cuts including blade (13%) and thick flank/knuckle (10%).

Figure 37
Australian beef exports to Indonesia



Looking at market fundamentals for 2012, the Indonesian market continues to provide a positive outlook for Australian beef exporters. This outlook is constrained by restrictions in issuing import permits. Indonesia has one of the highest projected economic growth rates for 2012, at 6.3% according to the IMF, which should continue to deliver improved incomes to consumers. This bright economic outlook, coupled with an expanding 240 million population, should continue to see demand for protein products increase.

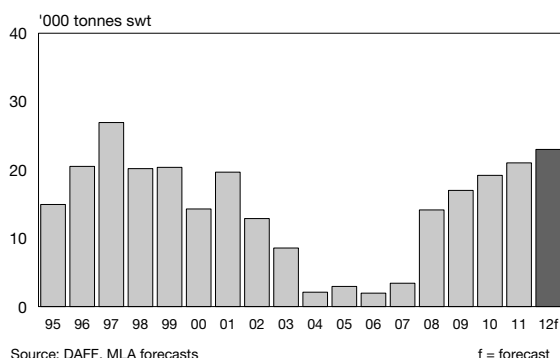
7.6 Other South East Asia

Many of the markets that make up South East Asia (excluding Indonesia) took a record, or near to record, volume of Australian beef in 2011. Exports for the past year increased to the Philippines, Singapore, Malaysia and Thailand, with total exports to the four markets reaching 47,600 tonnes swt, an increase of 18% from the previous year.

While each market has its own particular features and drivers, the overall increase to the region is based upon growing incomes and populations and a tight supply of product from other countries (mostly at higher prices).

The largest market in South East Asia after Indonesia is the Philippines. For 2011, Australian beef and veal exports totalled 20,998 tonnes swt – the largest calendar year volume since 1997 (26,543 tonnes swt). According to import figures for January to October, while imports of Australian beef increased 2%, it was offset by large falls from South America (down 40%) and India (down 11%), while volumes of US beef declined 9%. Total imports for the ten month period were back 6% at 82,228 tonnes swt.

Figure 38
Australian beef exports to Philippines



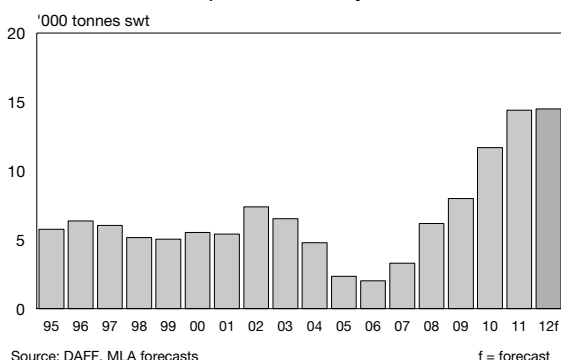
Imports for January to October 2011 from New Zealand also increased considerably, up 15%, to 11,684 tonnes swt, while volumes from the EU rose from only 537 tonnes swt in 2010, to just below 2,000 tonnes swt for the first 10 months of 2011.

With the supply of South American, US and New Zealand beef anticipated to be tight again in 2012 and associated prices higher, competition from these producers in the Philippines is expected to remain weak throughout 2012. However, the competitive position of Indian beef is an unknown, and does have the potential to make up any decline in volumes from other markets.

The tighter volumes from traditional suppliers, coupled with a relatively positive outlook for the Philippines market is expected to assist demand for Australian product in 2012. Australian beef and veal exports for 2012 are forecast to increase 10%, to 23,000 tonnes swt.

After considerable growth in 2011, exports to Malaysia are expected to be steady in 2012. Shipments to Malaysia increased 23% in 2011, to 14,436 tonnes swt, with 2012's forecast to remain at 14,500 tonnes swt.

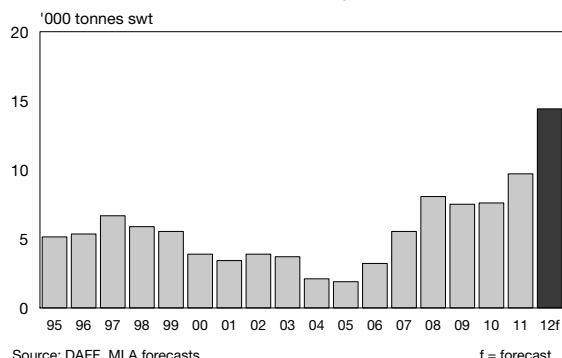
Figure 39
Australian beef exports to Malaysia



Competition from Indian beef, whose exports are anticipated to increase in 2012, is expected to limit further growth in Australia's shipments to Malaysia. For the first 10 months of 2011, Malaysian imports of Indian beef totalled 81,494 tonnes swt – an increase of 13% on the previous year. This continues a four-year trend of rising Indian beef imports, which has impacted shipments from all other suppliers, with the exception of Australia. In contrast, imports of Australian beef for the same period totalled 11,933 tonnes swt – up 28% on the corresponding period in 2010.

For Singapore, exports in 2011 increased 27%, to a calendar year record 9,659 tonnes swt. This was largely made up of manufacturing beef (16% of total shipments), neck (14%), thick flank/knuckle (12%), striploin (11%) and cube roll (6%).

Figure 40
Australian beef exports to Singapore



A very competitive market, albeit small in terms of total import volumes, 2011 saw imported volumes increase from Australia, the US and Brazil, while New Zealand slipped slightly and Uruguay declined. Imports for January to October in 2011 totalled a historically high 22,127 tonnes swt. Australia captured 39% market share, ahead of New Zealand (24%), Brazil (21%) and the US (6%).

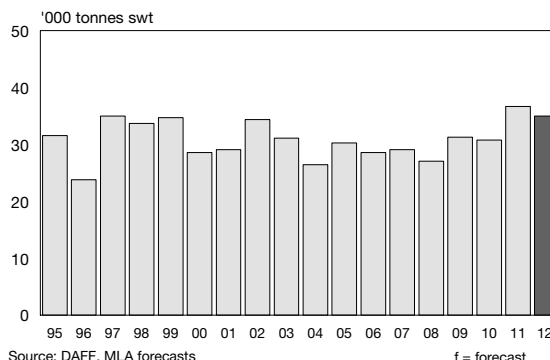
For 2012, some of this growth to Singapore is expected to be consolidated, but unlikely to stay at the record highs of 2011. Shipments in 2012 are forecast to contract 7% year-on-year, to 9,000 tonnes swt – but still the second highest calendar year volume on record.

A comparatively small market for Australian beef, exports to Thailand in 2012 are forecast to be steady at 2,500 tonnes swt, following a 36% increase in 2011.

7.7 Taiwan

2011 was a record year for Australian beef exports to Taiwan, increasing 19% on the previous year, to 36,748 tonnes swt. Assisted by a decline in competition from the US, due largely to an ongoing food safety issue, shipments for the year surpassed the previous calendar year record of 36,500 tonnes swt set 19 years prior, in 1992.

Figure 41
Australian beef exports to Taiwan



According to Taiwanese import statistics for the first nine months of 2011, imports of Australian beef increased 10% year-on-year. In contrast, lower import volumes were registered from the US (down 10%), New Zealand (down 1%) and Canada (down 65%). With the US and New Zealand accounting for the bulk of the competition into the market, total Taiwanese beef imports for the first nine months of 2011 declined 1%, to 65,663 tonnes swt.

Reflecting on Australia's export performance in 2011, the 19% growth in shipments was in chilled beef, which increased 204% on the previous year, to 4,326 tonnes swt. This is a market which traditionally accepts mainly shin shank, which made up 34% of total exports in 2011. However, shipments for 2011 also contained large volumes of blade (17%), manufacturing beef (14%) and intercostals (12%).

As a traditional and very stable market for Australian beef exports, volumes in 2012 are anticipated to reach 35,000 tonnes swt – slipping back 5% on 2011's volumes. However, the decline in 2012 is much more a reflection of the unexpected record volume in 2011, and 35,000 tonnes swt should still be considered a very good export performance.

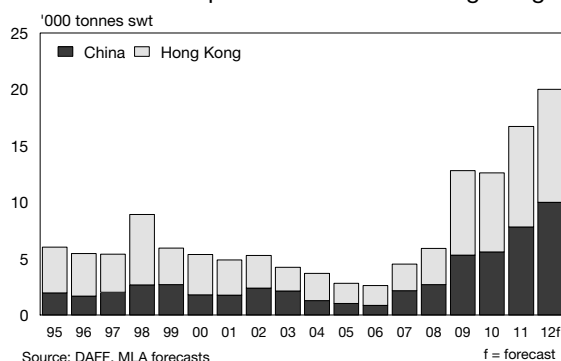
7.8 China and Hong Kong

Australian beef and veal exports to China and Hong Kong during 2011 increased 32% on the previous year, to a combined total of 16,623 tonnes swt. Both markets registered calendar year records, with China up 38% year-on-year, to 7,754 tonnes swt, while volumes to Hong Kong jumped 26%, to 8,869 tonnes swt.

Beef and veal

Figure 42

Australian beef exports to China and Hong Kong



With 11 months of import data for 2011, total Chinese beef imports contracted 18%, with a 19% fall in chilled volumes – which make up almost 98% of total imports. The main reason behind the decline was an 80% (6,000 tonnes swt) decline in imports from Brazil, reportedly due to the tighter supplies of beef from Brazil and associated higher prices. For the same period, Chinese imports of Australian beef and veal increased 35%, to 6,883 tonnes swt.

Manufacturing beef made up 36% of all exports to China in 2011, with shin/shank the second highest cut at 24%. The next major cut shipped was striploin and brisket, at 8% and 6%, respectively.

For Hong Kong, it was a surge in frozen product that provided the impetus for the 26% rise in Australian beef and veal exports for 2011, with chilled beef shipments only increasing marginally. Shipments for the year were dominated by three main cuts – shin shank (32%), striploins (17%) and thick flank/knuckle (18%).

In 2012, Australian beef and veal exports to China are forecast to increase 29% year-on-year, to 10,000 tonnes swt. For Hong Kong, growth is expected to be a more moderate 13%, also at 10,000 tonnes swt.

7.9 European Union

The potential for Australian beef and veal exports to the EU for 2012 is somewhat mixed. On the supply side of the ledger, Australian exporters have increased access to the market through the expanded EU grainfed quota, with accredited

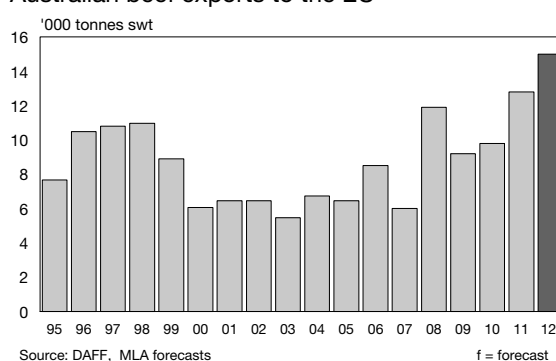
Australian production also reportedly increasing steadily. The very weak economic situation and poor consumer sentiment across the EU, combined with the currency weakness, is expected to weigh upon EU demand (and prices) for all imported beef products.

In early January 2012, the euro currency fell to its lowest level on record against the A\$, in the wake of the economic and debt issues across the region. Given the economic outlook for 2012, the historically low value of the euro is anticipated to continue. It could even weaken further, depending upon developments throughout the year, especially in financial markets.

Reflecting the weakness of the EU market throughout the past year, and accentuated by the currency, the EU has returned to being a net exporter of beef – even though total beef production has fallen considerably since the subsidy-driven highs of the 1990s. Amazingly, the available returns for many cuts of beef in markets outside of the EU were greater than inside – with a surge in beef exports to Turkey, Russia and surrounding countries, while Europe's live cattle shipments to the Middle East also rose.

Figure 43

Australian beef exports to the EU



Even with the economic turmoil throughout the EU in 2011, Australian beef and veal exports increased 30% year-on-year, to 12,836 tonnes swt – the highest annual volume since 1998. Interestingly, there was a very similar volume growth for both grainfed (assisted by the increased quota) and

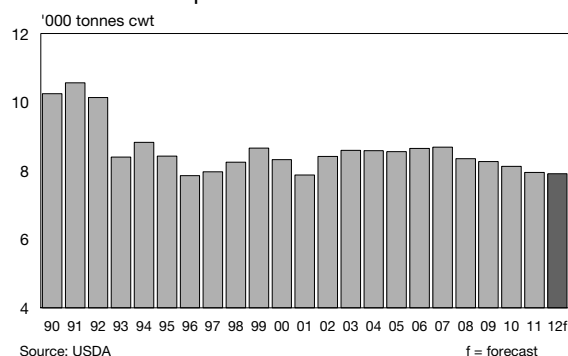
grassfed beef in 2011. According to DAFF statistics for 2011, Australian grainfed beef exports increased by 1,679 tonnes swt on the previous year, while grassfed shipments increased by 1,274 tonnes swt.

As a percentage of Australian exports for the year, grainfed beef increased to 33% in 2011, compared to 22% in 2010 – highlighting the benefit from the expanded grainfed beef quota. Of the major Australian beef cuts sent to the EU in 2011, 22% of total shipments were topside/insides, while sirloins, rump and silverside/outside made up 16%, 14% and 14%, respectively.

In 2012, Australian beef and veal exports to the EU are forecast to increase a further 17% on 2011, to 15,000 tonnes swt. The increase for the year is largely attributed to the increased access for Australian grainfed beef, along with continued tight supply and high prices of product from South American suppliers. Additionally, EU beef production is expected to contract 2.8% in 2012 (GIRA), with increased operating costs and higher prices in 2011 pulling many cattle forward that would have otherwise been processed in 2012.

Even at 15,000 tonnes swt (or 22,125 tonnes cwt), Australian beef makes up an extremely small portion of the total EU beef market. According to the United States Department of Agriculture (USDA) total EU-27 beef consumption in 2012 is forecast to be 7.91 million tonnes cwt – giving Australia an estimated market share of 0.3%.

Figure 44
EU beef consumption

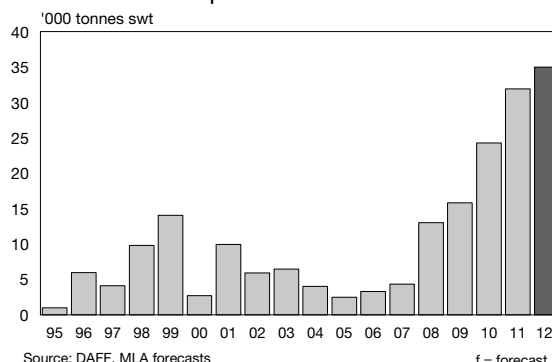


Over the longer term, the potential for Australia to increase its shipments to the EU remains, but is difficult to assess fully given the current economic and currency turmoil in the EU. It is expected that the number of Australian grassfed and grainfed cattle available to be slaughtered for this market will continue to expand – helping to relax the supply issues of previous years.

7.10 Middle East

Australia's beef and veal trade with the Middle East continued its rapid growth throughout 2011, with exports for the year increasing 31% on the previous year, to a record 31,862 tonnes swt. This is double the volume that the market took in 2009 (15,800 tonnes swt) and 260% above the decade average (8,921 tonnes swt) for 2001-2010.

Figure 45
Australian beef exports to Middle East



The growth in exports for 2011 was widely spread, even between chilled and frozen beef. Australian chilled beef exports to the Middle East were up 31% on the previous year, while frozen shipments kicked 30%, to 17,292 tonnes swt. With this spread of chilled and frozen beef, Australian beef services a range of market segments, from lower priced manufacturing product for fast food outlets and catering businesses, to the very top end of the food service and exclusive luxury hotel trade.

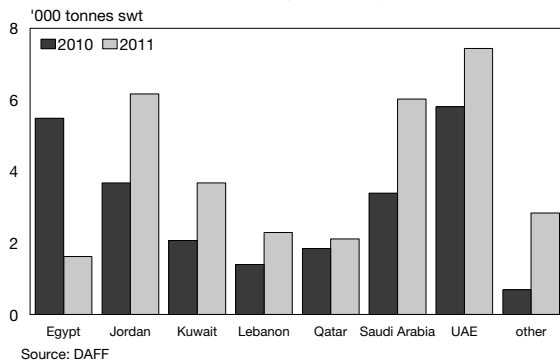
While for the purpose of MLA's beef and cattle projections the Middle East is treated as a collective region, in reality it is made up of a diverse range of markets for both chilled and frozen beef.

Beef and veal

The largest markets for Australian product within the Middle East in 2011 included the United Arab Emirates (UAE) (7,367 tonnes swt), Jordan (6,160 tonnes swt), Saudi Arabia (6,017 tonnes swt) and Kuwait (3,541 tonnes swt).

Figure 46

Australian beef exports by country - Middle East



While almost 45% of Australian beef that goes to the UAE is chilled, and 26% of that to Jordan, very little chilled product enters either Saudi Arabia or Kuwait, which prefer cheaper frozen beef.

Of the frozen product shipped to the region during 2011, manufacturing beef made up 53% of total exports, with the main markets for this including Saudi Arabia, the UAE, Kuwait and Jordan. Following manufacturing beef, the second and third most popular frozen beef cuts were carcasses (11%) and topside/insides (11%). For the frozen carcass trade, Saudi Arabia was the main market, with substantial volumes also distributed to Jordan, Kuwait and the UAE.

Of the higher priced chilled trade to the Middle East in 2012, the major cut shipped was topside/insides (38%) – that were destined for Jordan, Lebanon and the UAE. The second most popular cut was thick flank and knuckle (21%), with the majority of shipments to Lebanon.

With robust economic growth and expanding populations, combined with a very limited ability to produce their own product, the Middle East beef markets have grown considerably in recent years. While Australia has been able to capture some of this growth, Brazil has increased shipments to the region the fastest, pulling product away from many of their traditional markets.

Demand for imported beef across the region is anticipated to continue to expand impressively in coming years. Even with an increase focus from Brazil, all of the world's major beef exporters will be looking towards further expansion in trade to this region.

In 2012, Australia's beef and veal exports to the Middle East are forecast to increase 10%, to 35,000 tonnes swt. Most Middle Eastern markets are comparatively well placed to be able to absorb the anticipated higher global beef prices in 2012 and sustain beef import growth – both from Australia and other suppliers.

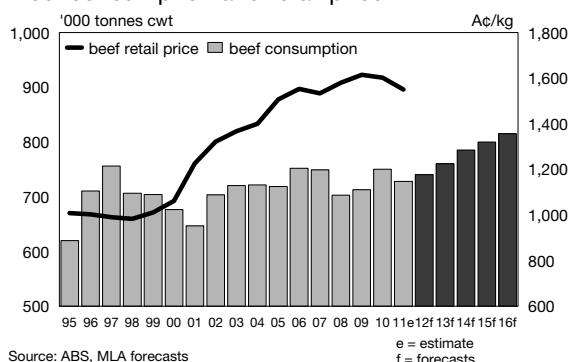
8. The Australian beef market

2011 was a unique year for the Australian beef market, marked by sluggish retail demand particularly in the second half of the year, tighter cattle supplies and stronger beef price competition between the two largest supermarket chains. Given the series of unprecedented events that hit exports markets in 2011, with the record A\$ and downturn in volumes to Japan and the US, previous years would have seen much more beef remain in the Australian market, boosting consumption and impacting cattle prices.

However, in 2011 Australian beef consumption declined, with smaller export markets outbidding and absorbing additional product. Also, the favourable season throughout 2011 maintained the demand and prices for young cattle, leaving Australian focussed processors competing with producers and feeders for the relatively tight supply of suitable cattle.

With total beef and veal production for 2011 estimated to have been up 0.7% on 2010, at 2.15 million tonnes swt, and a 2.8% increase in exports for the year, total Australian market utilisation is estimated to have been 728,000 tonnes swt – down 3% on 2010 levels, but above both 2009 and 2008 utilisation.

Figure 47
Beef consumption and retail price

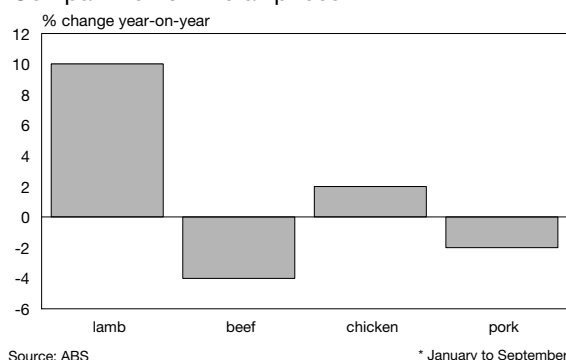


While the supply factor only tells part of the story for the past year, it was the demand factors within the market that created much more intrigue throughout the year. The two main features for the Australian market in 2011 were stronger price competition between the two largest supermarket outlets and the general weakening in consumer confidence and spending as the year progressed.

The well-publicised beef price competition between the two major supermarkets throughout 2011 had several impacts, but mostly on the average retail prices of beef in the Australian market. According to figures collected and released by the Australian Bureau of Statistics (ABS), average retail beef prices for January to September declined 4% year-on-year, to average A\$15.51/kg/head (national average beef price taken over a series of cuts, capital cities and outlets). For the September quarter 2011, at A\$15.40/kg, retail beef prices were the cheapest since December 2007, and had declined for the previous five consecutive quarters.

Beef's price competitiveness improved against the other major protein options in the Australian market, namely chicken, but also lamb and pork. While retail beef prices for January to September averaged 4% lower year-on-year, chicken (A\$4.12/kg) prices increased 2%, while lamb (A\$15.91/kg) jumped 10% and pork (A\$13.13/kg) contracted 2%.

Figure 48
Comparative 2011 retail prices*



While retail beef prices finished 2011 at their lowest level in almost four years, and actually increased in price competitiveness against lamb, pork and chicken, there was no demand response from Australian consumers – suggesting a significant demand decline, as consumers tightened spending.

The other major feature within the Australian market for 2011 was a steady, but noticeable, decline in consumer sentiment, felt across almost all sectors of the economy. Linked to a combination of increased living costs (energy, petrol), carbon tax fears and uncertainty surrounding the state of the global economy and financial market volatility, Australian consumers became increasingly frugal.

Successive interest rate cuts in November and December highlighted the slowdown in the economy, but were too late in the year to spark any great improvement in consumer sentiment for 2011. While the influence of these cuts may start to affect spending during the first half of 2012, it has done little to offset the issues of higher living costs and the concerns around global financial markets.

Indeed, one of the flow-on effects of consumers' frugality may have been a shift towards the cheaper meat items, especially chicken. While chicken prices did rise throughout 2011, it was still far cheaper than beef.

Beef and veal

Beef remains expensive against chicken and pork, and as such, demand suffers as price becomes more important in purchasing decisions. Reinforcing this is the results from the latest Penfold Food Tracking Survey, which showed a significant increase in poultry purchases in 2011 at foodservice - by 6% between May and November 2012.

For 2012, beef utilisation is forecast to increase 1.7%, to 740,000 tonne swt, with some improvement in economic conditions and consumer sentiment assisting demand – implying a roughly stable per person consumption of 32kg/head. 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.

Section 2 – Live cattle exports

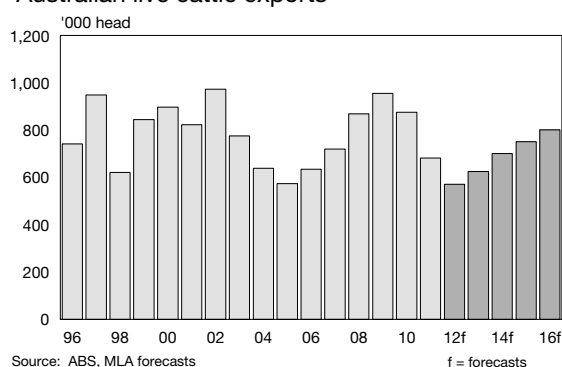


1. Live Cattle

After one of the most tumultuous years in the history of the Australian livestock export industry in 2011, the outlook for the live cattle trade heading into 2012 continues to be dominated by prospects to Indonesia. The Indonesian Government has declared that import permits for live cattle in 2012 will be capped at 283,000 head. The prospect for markets in the Middle East, South East Asia or Russia to absorb additionally cattle is expected to be limited.

With final December export figures (as collected by the ABS) not expected until early February, total live cattle exports for 2011 are estimated to come in at around 682,000 head – 22% below the previous year. Dominated by Indonesia, at an estimated 410,000 head for the past year (60% of the total), the next largest markets were Turkey (56,500 head), China (43,000 head), Israel (54,000 head) and Russia (30,500 head). The longer term traditional markets of Malaysia (12,700 head) and the Philippines (22,000 head) continued to diminish in volume, as the boxed trade from several suppliers

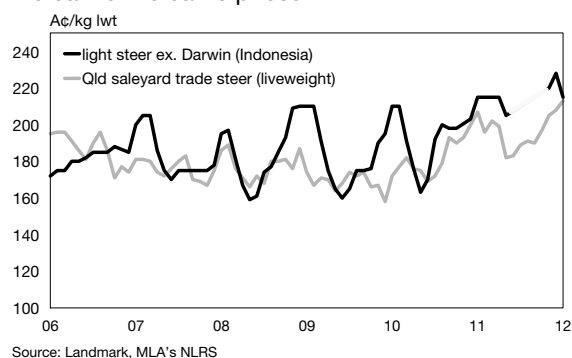
Figure 49
Australian live cattle exports



Given the disruption to the trade, not just as a result of the ban, but the subsequent restriction to the approved supply chain, the 21% reduction in exports to Indonesia for the year could be seen as a better than expected outcome. At 410,000 head for the 2011 calendar year, exports to the market were the lowest since 2006, and some 360,000 head below the record shipments in 2009 (772,868 head).

However, one unexpected occurrence during the final four months of 2011 was the historically high cattle prices being offered across the north for cattle to Indonesia – prices reportedly peaked at 220¢/kg lwt, due to a shortage of suitable cattle for this market (below 350kg liveweight).

Figure 50
Indicative live cattle prices



Contributing to the shortage of available cattle later in 2011 was the very favourable season across almost all of northern Australia, which has seen many young cattle much heavier than in the previous year. This pushed weights above the requirements for Indonesia, and given the seasonal conditions, had producers deciding to retain cattle or sending them east or south for further finishing.

As previously mentioned, the northern cattle that were either unable to be shipped to Indonesia during the second half of the year, or sold for eventual slaughter markets are anticipated to start to be processed by the second quarter of 2012. Given the seasonal conditions, they are expected to be in above average condition, with the overwhelming majority processed in Queensland plants, with the beef most likely exported.

With total exports for 2011 estimated to have fallen 22% year-on-year, there were markets other than Indonesia that contributed to the decline. In many instances, shipments to more price sensitive markets in South East Asia and the Middle East were constrained by the higher prices for Australian cattle, along with supply constraints.

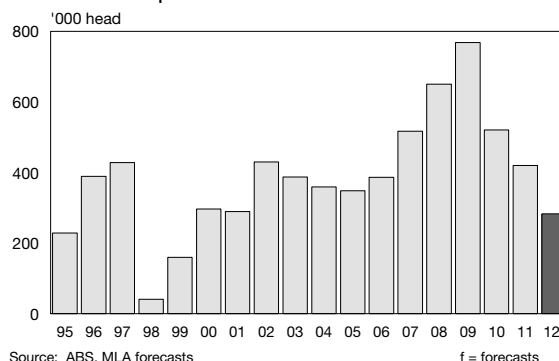
Live cattle

In 2011, exports to the Middle East and Africa (including Turkey), came in below initial expectations, estimated at 134,000 head – some 40% below the previous year. Exports to most of the major markets in the region were somewhat volatile, with the political upheaval and higher Australian cattle prices impacting shipments to Egypt.

Exports to China at 43,000 head decreased 25% – predominately dairy cattle. Russia continued to be interested in Australian genetics and feeder cattle, primarily out of southern Australia, with exports for 2011 estimated to total 30,500 head, with one very large shipment in November of 14,208 head.

As previously mentioned, the prospect for Australia's live cattle trade in 2012 is heavily hitched to the outlook for Indonesia. Despite pressures from an underlying growing shortage of beef (and rising beef prices), and a recently expanded feedlot industry (now grossly underutilised), the Indonesian Government has notified that import permits for live cattle will be limited to 283,000 head in 2012 – to promote beef self-sufficiency targets. This is the forecast export total to Indonesia for the year – a 31% fall in total exports to Indonesia in 2012, and almost 500,000 head less than the record year in 2009.

Figure 51
Live cattle exports to Indonesia



The projected 31% decline to Indonesia essentially explains the forecast 16% fall in total live cattle exports, with some improvement in exports to the Middle East and Africa (155,000 head), along with a small lift to Japan (15,000 head). China is forecast to take 45,000 head for the year – but again, the majority of this will be dairy cattle.

Figure 52
Live cattle exports to other destinations

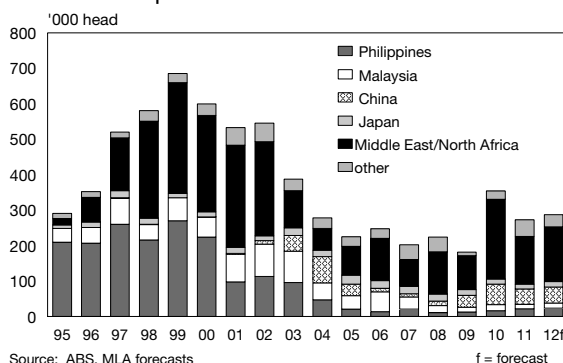


Table 3 Australian live cattle exports (head)

To:	2007	2008	2009	2010	2011 ^e	% change ^f	2012 ^f	% change ^f
Indonesia	516,992	650,161	772,868	521,002	410,000	-21%	283,000	-31%
China	8,785	12,767	32,798	57,418	43,000	-25%	45,000	5%
Philippines	20,354	10,791	12,860	16,244	22,000	35%	23,000	5%
Malaysia	35,018	20,263	13,651	17,084	12,250	-28%	15,000	22%
Japan	21,083	19,770	16,039	15,041	14,200	-6%	15,000	6%
Middle East/Africa*	72,270	112,788	96,738	224,693	134,000	-40%	155,000	16%
Others	44,980	41,970	9,189	23,434	46,550	99%	34,000	-27%
Total	719,482	868,510	954,143	874,916	682,000	-22%	570,000	-16%

Source: ABS, MLA forecasts

Main countries in other = Brunei, Mexico & Russia

* Includes Turkey

f = forecasts (indicated in italics)

e = estimate based on 11 months data

Provided the season across northern Australia (and especially western Queensland) stays favourable, the additional cattle for 2012 that would have possibly gone into live export markets should again be accommodated for further finishing. However, this will be dependent upon the finish to the 2011-12 wet season.

For cattle across northern WA and through the vast expanses of the Pilbara and Gascoyne regions of WA, the season will be crucial to determining both the turnoff of cattle and financial returns. While the break in the drought in southern WA will help to keep southern turnoff tight in 2012, increasing the demand for northern cattle, the cost of transporting cattle south may again erode any possible improvement in market prices.

Beyond 2012, Australia's live cattle trade will be framed by the access to import permits to Indonesia, season conditions, the feasibility of exports to price sensitive markets and competition from slaughter markets for suitable young cattle.

Given the clouded outlook ahead, to forecast volumes to selected markets beyond 2012 is not possible. Total exports are expected to increase significantly, rising from 570,000 head in 2012, to 800,000 by 2016 – assisted by expanding cattle supplies through northern Australia and underlying strong demand and prices through South East Asia and the Middle East/Africa.

Sources and acknowledgements

This document was produced and compiled by Meat & Livestock Australia (MLA), with the help of industry participants in the annual cattle projections workshops.

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The sources listed below are also duly acknowledged for the provision of statistical, analytical and forecast information used in this document.

Agriculture and Livestock Industry Corporation (ALIC), Japan

Australian Bureau of Agricultural and Resource Economics (ABARE)

Australian Bureau of Meteorology (BOM)

Australian Bureau of Statistics (ABS)

Australian Lot Feeders' Association (ALFA)

Beef + Lamb New Zealand
(formerly Meat & Wool New Zealand)

CattleFax (US)

Centre for International Economics (CIE)

Australian Government Bureau of Meteorology (BOM)

Department of Agriculture, Fisheries and Forestry (DAFF), Australia

Food and Agriculture Organisation (FAO) – United Nations

Global Trade Atlas (Australia)

International Monetary Fund (IMF)

Korean Trade Information Service (KOTIS) – the Korea International Trade Association

Landmark

Ministry of Agriculture, Fisheries and Forestry, Japan

Ministry of Agriculture and Fisheries, South Korea

Ministry of Finance, Japan

Reserve Bank of Australia (RBA)

Steiner Consulting Group, USA

The Economic Service – Beef + Lamb New Zealand

The Land newspaper

United States Department of Agriculture (USDA)

United States Department of Commerce

Acronyms

ABARE	– Australian Bureau of Agricultural and Resource Economics
ABS	– Australian Bureau of Statistics
ALFA	– Australian Lot Feeders' Association
ALIC	– Agriculture and Livestock Industry Corporation – Japan
BSE	– Bovine spongiform encephalopathy (mad cow disease)
CIF	– Cost insurance and freight (export price at destination)
CIS	– Commonwealth of Independent States
cwt	– Carcase weight
DAFF	– Department of Agriculture, Forestry and Fisheries – Australia
EYCI	– Eastern Young Cattle Indicator (price)
EU	– European Union
FAS	– Free alongside ship (export price before departure)
FAO	– Food and Agriculture Organisation (United Nations)
FOB	– Free on board ship (export price loaded on ship before departure)
FMD	– Foot and mouth disease
GFC	– Global Financial Crisis (mid 2008)
IMF	– International Monetary Fund
JFY	– Japanese fiscal year (April to March)
KORUS	– Korea–US Free Trade Agreement
KOTIS	– Korean Trade Information Service – the Korea International Trade Association
lb	– Pounds weight
lwt	– Liveweight
MLA	– Meat & Livestock Australia
NLRS	– National Livestock Reporting Service (Meat & Livestock Australia)
NZ	– New Zealand
OIE	– Office International Des Epizooties (world animal health organisation)
RBS	– Reserve Bank of Australia
swt	– Shipped weight
TRQ	– Tariff rate quota
UAE	– United Arab Emirates
UK	– United Kingdom
US	– United States
USDA	– United States Department of Agriculture
WTO	– World Trade Organization

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