



RURAL FINANCE  
Let's talk

# AUSTRALIAN CATTLE & BEEF

DECEMBER 2016



## About the research

The Australian Cattle and Beef Update includes data and outlooks on cattle herd and slaughter levels, beef production in Australia and globally, seasonal conditions, prices, demand and the financial performance of an average Australian cattle farm.

Significant effort has been taken to secure the most recent data available.

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## About Ag Answers

Ag Answers is a specialist insights division of Rural Bank and Rural Finance. Recognising that good information is the key to making good business decisions, Ag Answers provides research and analysis into commodities, farmland values, farm business performance and topical agricultural issues to enable farmers to make informed decisions.

## About Rural Bank and Rural Finance

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010 and is the only Australian-owned and operated dedicated agribusiness bank in the country. From 1 July 2014, Victorian agribusiness lender, Rural Finance joined Rural Bank as a division of Bendigo and Adelaide Bank Limited. As a specialist rural lender, Rural Finance has been fostering the sustainable economic growth of rural and regional Victoria for more than 70 years.

Together, Rural Bank and Rural Finance are supporting farmers and farming communities by providing them with specialist financial tools, industry insights and investment into the future of the Australian agribusiness sector.

## The future for agriculture is bright

We provide exceptional financial services, knowledge and leadership for Australian farmers to grow.

# SUMMARY

Most Australian graziers experienced a positive change in outlook during 2016 due to favourable seasonal conditions over winter. From turning off high numbers of cattle early in 2016, the emphasis has now shifted to retaining stock and rebuilding herds.

The breakdown of El Nino in May was the turning point for improved seasonal conditions as a dry start to the year quickly changed to the second wettest winter on record, which was followed by more rain in early spring. Wet conditions have generally led to abundant feed – a situation that many producers have not seen for a number of years.

Cattle prices had been trending higher and hitting record levels in 2015 and early 2016 as supplies for processors and exporters tightened. With a change in seasonal conditions, restockers have increased demand, driving prices even higher to secure stock to rebuild herds. At the same time, growing global production has seen a lower price trend develop in international markets. This exposes domestic prices and will challenge the Australian industry to remain competitive in export markets.

This report summarises current national and international beef production, seasonal conditions, prices, demand and the financial performance of Australia's cattle farms.

The Australian beef cattle herd was

23.3

million head in June 2016

Global beef production is forecast to be

60.4

million tonnes in 2016

Australian winter rainfall was

82%

higher than average

In 2016, the EYCI price averaged

26%

higher than 2015

The value of Australian cattle exports was

\$11.4

billion in 2015/16

Average income of Australian beef farms was

\$316

thousand in 2015

# PRODUCTION – AUSTRALIA

The Australian beef cattle herd was

# 23.3

million head in June 2016

The national herd has decreased by

# 12%

since its peak in 2013

Australian cattle slaughter decreased by

# 13%

in 2015/16

The size of the Australian beef cattle herd dropped for the third consecutive year in 2016, down to 23.3 million head in June, the lowest level since 1995. This represents a drop of 12% since the herd hit a peak of 26.5 million in 2013.

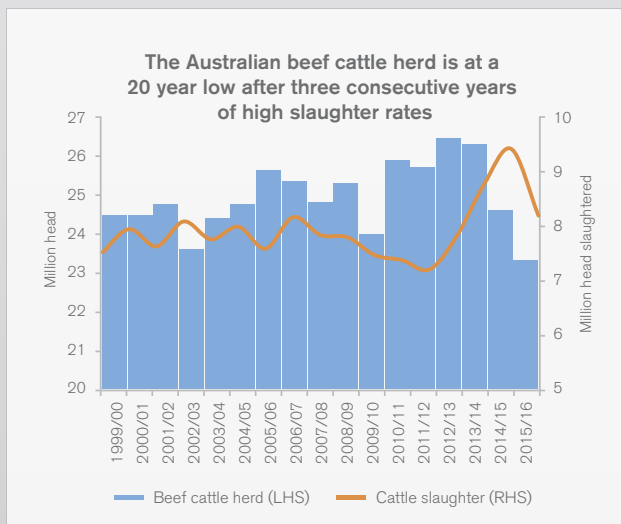
National cattle slaughter has declined 20% so far in 2016 compared to 2015. The contraction in cattle slaughtered has been particularly apparent since June suggesting a real change in producer's intentions to build herd numbers.

Carcass weights in 2016 have averaged 8.5kg (3%) higher than 2015. Heavier carcass weights have been assisted by widespread rainfall which led to improved pasture conditions in most grazing regions, low feed grain prices and a lower proportion of female cattle being processed. Tasmania and

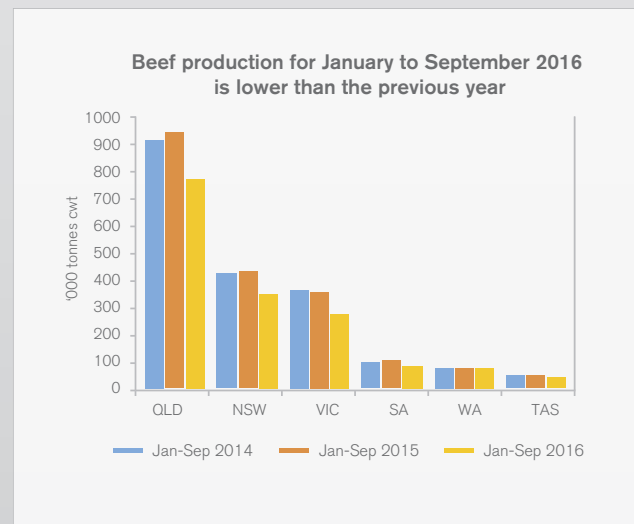
Victoria are the only states with lower average carcass weights. Queensland recorded the greatest increase in carcass weights, up by 17kg (+6%).

Heavier average carcass weights have partially offset the effect of lower slaughter numbers on production, which is 18% lower this year. Lower production is most apparent in Queensland where a dramatic change to favourable seasonal conditions has encouraged producers to restock.

The proportion of female cattle slaughtered has been declining as producers look to retain breeding stock. In 2016, female slaughter has represented 48% of the total slaughter, down from 51% in 2015.



Data: Meat and Livestock Australia (MLA)



Data: MLA

## Outlook

The Australian beef cattle herd is likely to increase next year due to the current sharp decline in slaughter rates. However, the low number of female cattle will limit the ability of producers to rebuild herds quickly.

Slaughter levels are expected to decline further in 2017 due to relatively low herd sizes and producer intentions to retain stock and rebuild herd numbers. Assuming average seasonal conditions, this should mean more cattle ready for slaughter in 2018 when production is expected to start trending upwards again. Until then, tight domestic supply conditions will continue.

# PRODUCTION – WORLD

Global beef production is forecast to be

# 60.4

million tonnes in 2016

USA beef production is forecast to increase by

# 5.3%

in 2016

The world beef cattle herd is estimated to be

# 989

million head in 2016

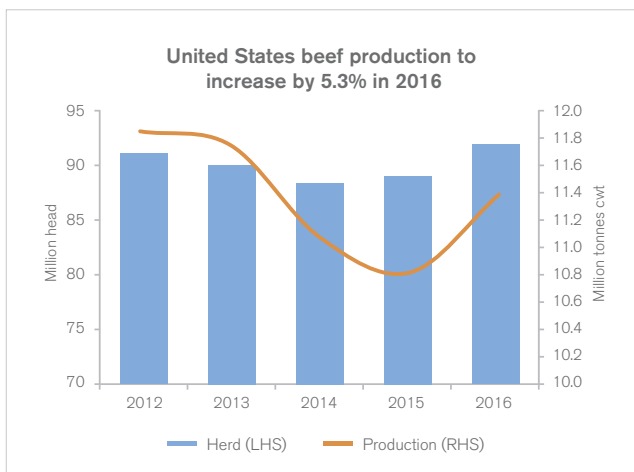
World beef production is rising again after a small decline in 2015. The recovery of global beef production is largely driven by herd rebuilding in the United States and the continued expansion of the beef herd in South America.

The US remains the largest beef producing country in the world, recording 11.8 million tonnes in 2016, accounting for 19% of global production. The US cattle herd began to rebuild in 2015, increasing by 3.2% to 92 million, and is expanding further in 2016. Low grain prices have contributed to heavier carcass weights, which has further boosted an increase in production.

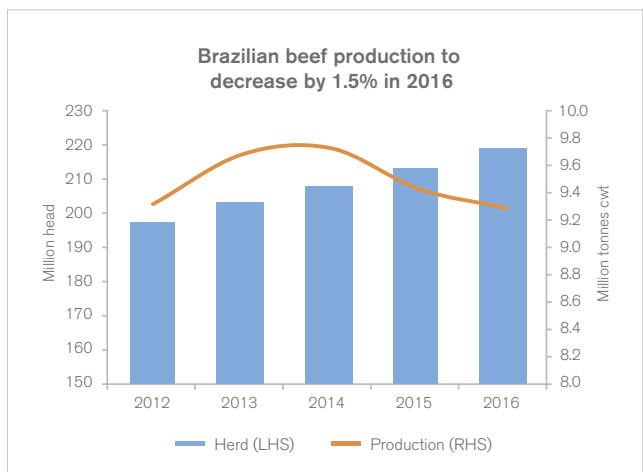
The Brazilian cattle herd continues to expand as more pastoral land is made available and the country works to improve access to international markets. Production declined in 2015 and 2016 due to poor rainfall and producers retaining cattle.

With domestic demand for beef only increasing marginally, most additional production will be exported. The ban on Brazilian beef exports to China was lifted in 2015 which has allowed Brazil to overtake Australia as the leading exporter of beef to China.

China is the world's third largest producer of beef, producing 6.9 million tonnes in 2016. While production has been steadily increasing, it has been far slower than the increase in domestic consumption, driven by changing diet preferences in China. In 2012, the gap between consumption and production was 44,000 tonnes. This is expected to grow to 940,000 tonnes in 2017. Growth in demand has encouraged increased slaughter of cattle, preventing the Chinese herd from expanding.



Data: United States Department of Agriculture (USDA)



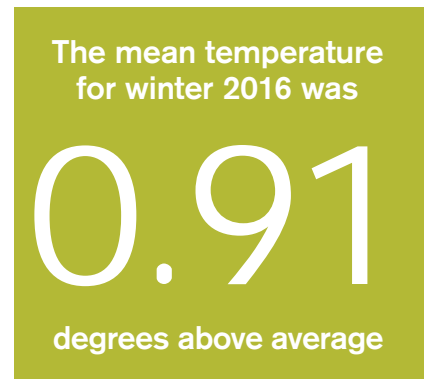
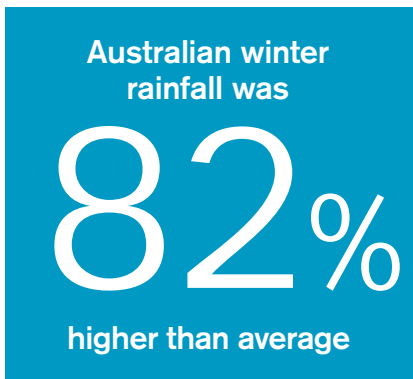
Data: USDA

## Outlook

Global beef production is expected to increase in 2017, building on the slight increase in 2016. The US and Brazil are expected to be the main drivers of production. Producers in both countries will be encouraged by low grain prices and increasing opportunities for export to Asian markets. US producers will continue to benefit from strong domestic demand.

Chinese production is expected to keep increasing but not nearly enough to close the gap on growing domestic demand. To help increase the cattle herd, there will be a reliance on imported breeder, feeder and slaughter cattle.

# SEASONAL CONDITIONS



Recent conditions in Australia have been characterised by above average rainfall and warmer than average temperatures. These conditions are largely due to the breakdown of an El Nino which returned to a neutral state in May. A negative Indian Ocean Dipole has also persisted since May, enhancing these conditions.

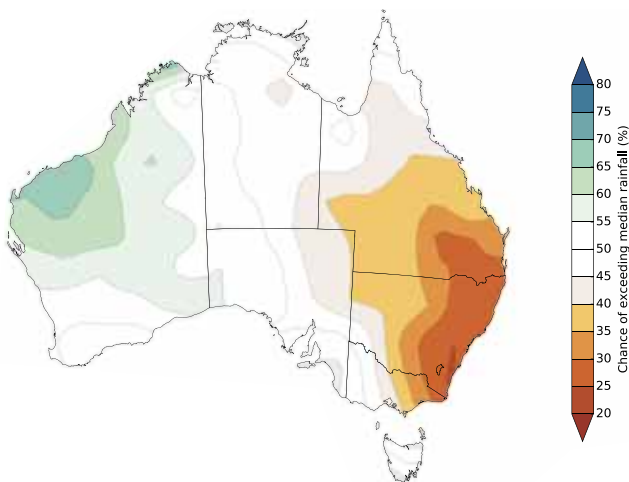
Winter in 2016 was the second wettest on record for Australia with total winter rainfall over the season being 82% above average. Queensland experienced its second wettest winter, recording rainfall 172% above average. New South Wales and the Northern Territory also experienced very much above average rainfall. Most of Western Australia received above average rainfall except for the south west of the state which saw average to below average rain. The wet winter was

followed by a wet September for all states except Western Australia. October saw a return to more average rainfall across most of the country except Tasmania which received above average rainfall.

Winter was also warmer than average for most parts of Australia. Warmer conditions were particularly evident in Queensland, New South Wales and the Northern Territory. The warmer conditions were driven by increased cloud cover and warmer sea surface temperatures.

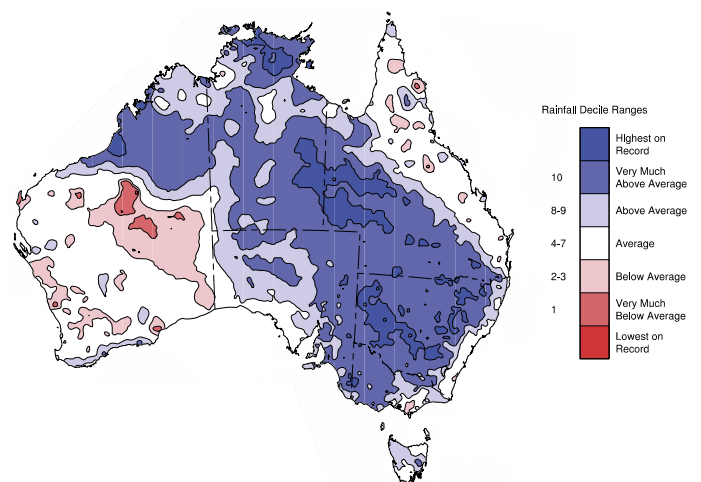
The Bureau of Meteorology's Normalised Difference Vegetation Index (NDVI) shows higher than normal spring pasture density and greenness especially in western and south eastern Queensland and most parts of New South Wales.

Chance of above median rainfall from December 2016 to February 2017



Source: Bureau of Meteorology (BoM)

Recent rainfall deciles between August and October 2016



Source: BoM

## Outlook

Below average rainfall is expected for New South Wales, southern Queensland and Gippsland over summer. Average rainfall is likely in other regions with the exception of northern Western Australia which has a higher chance of exceeding the median. The temperature outlook suggests warmer conditions in South Australia and eastern states over summer. Tasmania and south western Western Australia will be cooler.

Of the eight climate models surveyed by the Bureau of Meteorology, only two indicate a short, weak La Nina developing over summer. The most likely outlook is for the neutral state to continue during summer.

# PRICES

In 2016, the EYCI price averaged

# 26%

higher than 2015

In 2016, the US import price is averaging

# 12%

lower than 2015

The EYCI price was above 700 cents for

# 65

consecutive days

The continued tightening of cattle supplies in Australia has protected domestic markets from softening international prices and resulted in another year of record high prices.

The Eastern Young Cattle Indicator (EYCI) has averaged 632c/kg cwt so far in 2016, 26.1% higher than 2015 and a remarkable 48.5% higher than the five-year average. The indicator rocketed from 600c/kg to 700c/kg in only 56 days as widespread rainfall between May and September led to a rapid decline in slaughter rates. The price held above 700c/kg for just over two months before declining in October, as cattle prices often do in spring.

Demand from restockers has been a significant driver of record prices. This is evident in the difference between price increases in saleyards and over-the-hooks indicators.

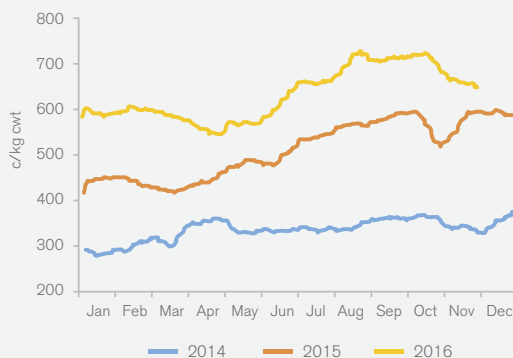
Trade steer prices in saleyards have averaged 21% higher for the year to date, while the over-the-hooks indicator has only increased by 16%.

Current prices are higher than this time last year in all states, with the largest increases in Tasmania, Victoria and Western Australia.

US prices have fluctuated slightly in 2016, but overall for the year to date have averaged 12.4% lower than in 2015. Prices in the US have been driven downwards due to growing herd numbers and subsequent increases in production, softening their demand for imported beef.

Refer to the back of this report for state-by-state and live cattle price details.

The Eastern young cattle indicator has averaged 632c/kg cwt in 2016



Data: MLA

US import prices have trended lower in 2016 while live export prices have been rising



Data: MLA

## Outlook

Australian cattle prices are usually steady or rise slightly in the final weeks of the year as supplies to saleyards decline – this pattern looks likely to repeat in 2016. In the medium term, a decline in prices seems inevitable given that the Australian herd is set to grow over the next few years and international beef production is increasing.

The US market in particular is likely to be well supplied by domestic production leading to further easing of import demand and price.

# DEMAND

The value of Australian cattle exports was

**\$11.4**

billion in 2015/16

The YTD volume of beef exports to the USA is

**43%**

lower than 2015

Australians consume an average of

**30kg**

of beef per year

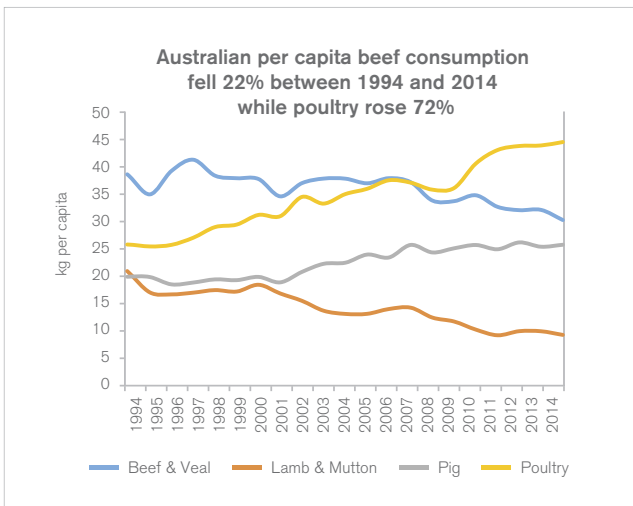
Beef consumption in Australia on a per capita basis has been declining since the late 1970s. In 1994, Australian's consumed, on average, 39kg of beef and 26kg of poultry. Since then, retail beef prices have increased by 129% while poultry prices are only 32% higher. The competitive price advantage of poultry is a major driver of Australians substituting beef, and red meat more generally, for poultry. Beef consumption per capita was 30kg in 2014, while poultry was 45kg.

In total volume terms, population growth has kept beef consumption relatively steady, increasing by 4% between 1994 and 2014. At the same time, total meat consumption has increased by 38%, dominated by poultry (127%) and pig meat (70%).

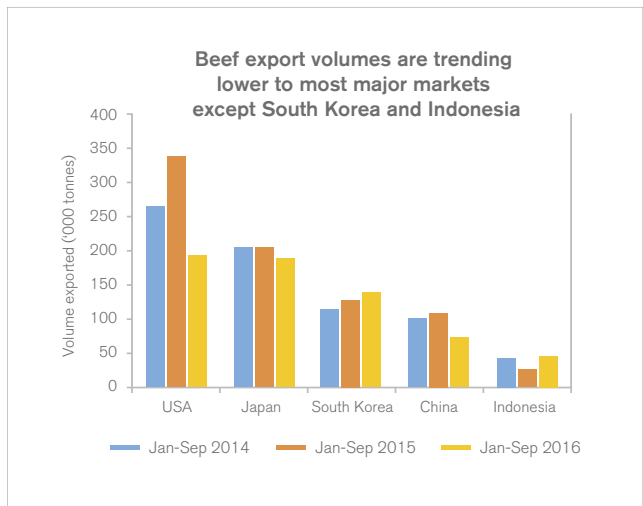
While total consumption has been stable, beef production grew by 41% between 1994 and 2014. This has led to domestic utilisation of production declining to a low of 28% in 2014, demonstrating a growing reliance on export markets.

The volume of beef exported from January to September 2016 is 21% lower than in 2015, largely due to a 43% decline in exports to the US. This significant drop stems from low cattle supply out of Australia and increased production in the US softening their demand for imported product.

Live cattle exports from January to September 2016 are 17.3% lower than in 2015. Despite export prices averaging 26.5% above 2015 levels, demand from Indonesia remains strong with exports volumes up 3%.



Data: MLA



Data: Global Trade Information Services

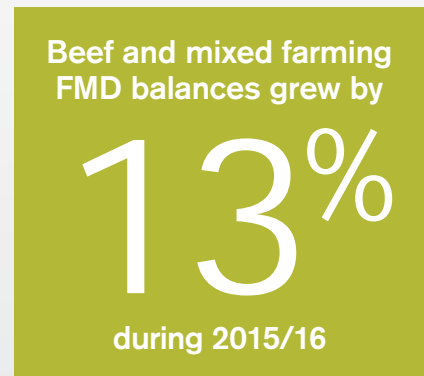
## Outlook

A widening gap between consumption and production in China will continue to increase China's reliance on imported beef. With import bans recently lifted, Brazil and the US appear well placed to meet demand from China and challenge Australia's share of this market.

Tight supplies of Australian slaughter cattle and higher prices are set to continue in 2017, suggesting that Australian beef may lose market share into key markets in 2016 and 2017, particularly with increased US beef in the market. Exports to the US are likely to return to pre-2014 levels as their demand for imported product softens.



# FINANCIAL PERFORMANCE



The financial performance of Australian beef farms has benefited greatly from record high cattle prices and relatively steady cash costs.

Average farm cash receipts grew by 20% in 2015 to \$315,697. This follows an 8% increase in 2014. Increasing cattle prices and relatively higher rates of turn-off in 2015 led to growth in receipts from cattle sales.

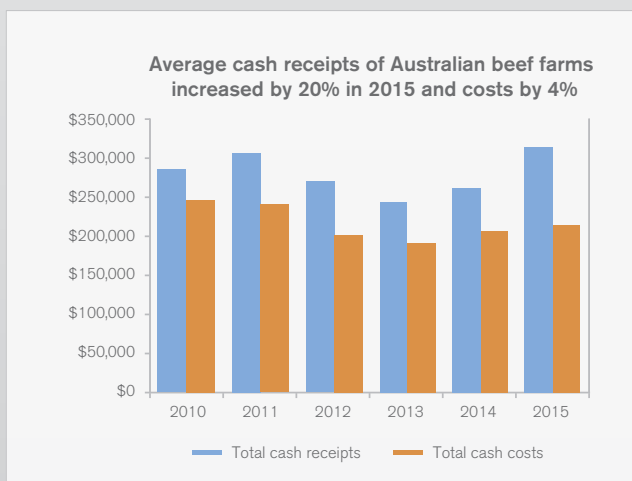
While cash receipts grew significantly in 2015, cash costs only increased by 4%, to \$217,588. This slight increase is likely to be due to higher costs of purchasing livestock.

Cash receipts and costs are approximately 30-40% higher for northern graziers compared to southern graziers largely due to differences in the scale of beef operations in these regions.

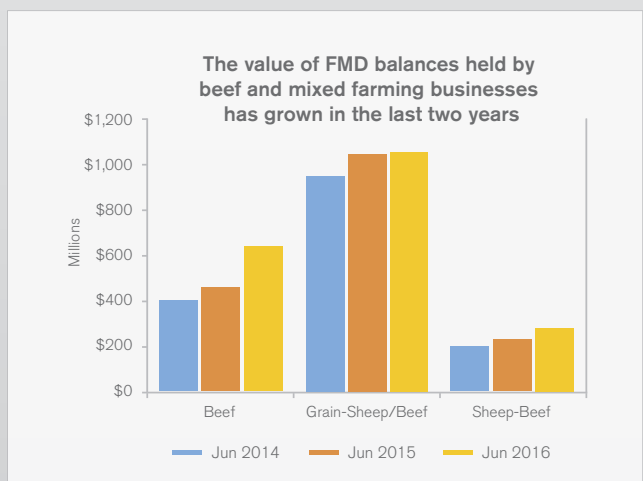
A further sign of the health of Australian beef and mixed farming businesses is the growth in farm management deposit (FMD) balances. FMD balances have grown by 13% in both 2014/15 and in 2015/16. At the end of June 2016, the national balance for beef and mixed farming FMDs was \$1.99 billion.

Specialist beef farms recorded the greatest growth in FMD balances in 2015/16, increasing by 38% to \$646 million. This accounts for 14.6% of total FMD balances.

In addition to financial performance, the median value of Australian farmland increased by 5.3% in 2015. Growth was strong in major cattle producing states of New South Wales (+10.2%) and Queensland (+3.3%). Western Queensland has been a standout cattle region with an increase of 14.7% in the 2015 median farmland price which followed increases in the previous two years.



Data: Australian Bureau of Agricultural and Resource Economics and Sciences



Data: Department of Agriculture

## Outlook

Cash receipts of beef farms are expected to increase further in 2016. This will be largely due to further increases seen in prices around the country, despite fewer cattle being sold. With producers expected to focus on stock retention and herd rebuilding even fewer cattle are expected to be sold in 2017. The degree to which Australian prices ease will affect the movement of cash receipts.

Cash costs will also be affected by a switch to herd rebuilding with strong demand from restockers being evident so far in 2016. More cattle being purchased at higher prices could lead to increasing cash costs for businesses.

# CATTLE PRICES – STATE DETAIL

	State	Current (2nd Dec)	December 2015	5 year average	80th percentile	20th percentile
<b>Saleyard indicators (c/kg lwt)</b>						
<b>Trade steer 330-400kg</b>	NSW	351	307	241	316	192
	QLD	331	310	227	302	177
	SA	337	281	227	304	175
	TAS	318	273	223	295	180
	VIC	324	291	236	304	189
	WA	340	230	255	311	208
<b>Medium steer 400-500kg</b>	NSW	320	302	221	298	171
	QLD	312	308	210	276	164
	SA	323	283	232	304	170
	TAS	302	252	203	253	173
	VIC	299	285	221	288	176
	WA	299	272	247	301	181
<b>Medium cow 400-520kg</b>	NSW	227	235	163	219	125
	QLD	232	237	163	222	123
	SA	238	212	161	214	123
	TAS	241	207	161	216	125
	VIC	235	228	167	223	128
	WA	191	200	168	213	126
<b>Heavy steer 500-600kg</b>	NSW	287	299	227	291	181
	QLD	301	302	217	282	175
	SA	320	293	225	302	174
	VIC	300	285	228	293	182
	WA	277	276	218	281	164
<b>Over the hooks indicators (c/kg cwt)</b>						
<b>Trade steer 240-260kg</b>	NSW	537	536	396	510	321
	QLD	529	533	388	499	308
	VIC	555	527	403	527	320
	WA	560	540	517	552	440
<b>Medium steer 260-280kg</b>	NSW	531	529	389	503	314
	QLD	528	533	380	497	298
	TAS	522	520	397	520	330
	VIC	549	507	399	512	328
<b>Medium cow 260-280kg</b>	NSW	443	442	326	417	257
	QLD	459	479	343	442	274
	SA	452	442	323	427	249
	TAS	437	430	319	408	263
	VIC	438	423	324	418	257
<b>Heavy steer 300-400kg</b>	NSW	541	539	398	512	322
	QLD	539	543	389	507	308
	TAS	532	520	397	520	327
	VIC	556	516	400	518	323
<b>Live export (c/kg lwt)</b>						
<b>Light feeder steers</b>	NT	370	340	235	300	180

Data: MLA

# EXPORT MARKETS – COUNTRY DETAIL

Destination Country	2013	2014	2015	% Change	% Share	2015 Jan–Sep	2016 Jan–Sep	% Change
<b>Beef exports ('000 tonnes swt)</b>								
<b>World</b>	1,131.6	1,314.3	1,316.6	0.2%		995.7	786.0	-21.1%
<b>USA</b>	210.9	394.6	418.3	6.0%	31.8%	340.0	194.1	-42.9%
<b>Japan</b>	292.4	286.3	279.2	-2.5%	21.2%	206.2	190.2	-7.8%
<b>South Korea</b>	155.2	157.2	181.6	15.5%	13.8%	129.2	138.5	7.2%
<b>China</b>	152.7	128.3	151.2	17.9%	11.5%	109.0	74.2	-31.9%
<b>Indonesia</b>	40.3	57.5	40.0	-30.5%	3.0%	27.0	46.5	72.1%
<b>Live exports ('000 head)</b>								
<b>World</b>	726.6	1,176.6	1,227.7	4.3%		922.5	762.9	-17.3%
<b>Indonesia</b>	449.0	715.8	616.3	-13.9%	50.2%	420.7	433.5	3.0%
<b>Vietnam</b>	67.0	179.6	352.6	96.3%	28.7%	306.1	154.9	-49.4%
<b>Israel</b>	98.1	78.2	79.3	1.5%	6.5%	63.7	65.3	2.6%

Data: GTIS

## Primary sources

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