Department of Agriculture and Food

GOVERNMENT OF WESTERN AUSTRALIA

Issue Number: 13

Date: May 2017

Beef Commentary

Newsletter of the Department of Agriculture and Food, Western Australia

Partners

WA BEEF COUNCIL INC.

BUILDING A WORLD CLASS COMPETITIVE BEEF SUPPLY CHAIN IN WA

Summary

- The Western Australian (WA) beef cattle herd was estimated to number approximately 2.09 million head (adjusted figure) in 2015/16, a decline of 7% year on year.
- During 2017 the WA market indicators have been strong, however have softened slightly in April:
  - The feeder yearling indicator averaged 297 c/kg, 6% lower than in April 2016
  - The heavy cow sale yard indicator averaged 219 c/kg in April, 1% lower than April 2016
  - The Western Young Cattle Indicator averaged 686 c/kg in April, 10% higher year on year
- The volume of boxed beef exported from WA grew by 72% between 2012 and 2015 from 25 million kg to 43 million kg before declining 5% to 41 million kg in 2016. The value of boxed beef exports rose from $68 million in 2012 to $184 million in 2015, an increase of 170%. It declined 7% to $171 million in 2016 but remains the highest on record except for 2015.In 2016 the largest market for boxed beef from WA was South Korea who accounted for 21% of the volume and 19% of the total value of WA beef exports.
- In 2016 there was a dramatic increase of 32% year on year in the volume of live cattle exported from WA to 355 000 and the value of live cattle exports reached an all-time high of $412.4 million. This is an increase of 137% from 2012 and a year on year increase of 47%.
- The largest market for live cattle in 2016 was Indonesia which accounted for 44% of the volume and 42% of the value of live cattle exported from WA.
- Despite a strong 2016, the first four months of 2017 have seen a softening in demand for both boxed beef and live cattle exports, possibly due to the current high prices of Australian cattle, the large northern wet season delaying mustering and changing policies in international markets.

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Important disclaimer

Current herd situation in WA

Over the last two years the Western Australian meat cattle herd has been undergoing a period of relative growth as illustrated below in Figure 1. In 2013/14 the total beef cattle herd numbered 1.83 million head. This grew by 22% to 2.24 million in 2014/15, however has contracted 7% to 2.09 million (adjusted figure) in 2015/16. Despite the herd reduction in 2015/16 this is still the highest the state herd has been since 2009/10 with the exception of 2014/15.

The Western Australian (WA) cow herd has shown similar growth over this time period. Between 2013/14 and 2014/15 the number of cows and heifers grew 22% from 1.00 to 1.23 million before declining 11% to 1.10 million (adjusted figure) in 2015/16.

Total WA cattle turn-off has increased 3% year on year from 0.68 million in 2014/15 to 0.70 million in 2015/16.

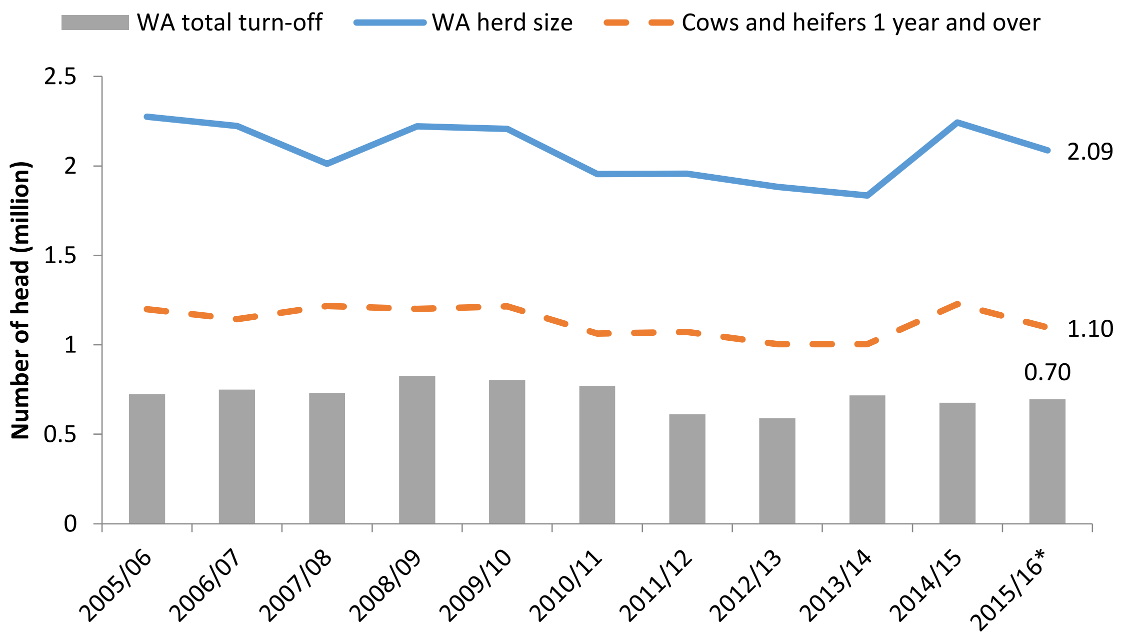


Figure 1 The closing number of beef cattle and cows and heifers in the Western Australian herd and total turn-off (Based on data from the Australian Bureau of Statistics (ABS), analysed by the Department of Agriculture and Food, WA (DAFWA))[1]

Market indicators

Over the past three years the WA feeder yearling indicator has been trending upwards as seen below in Figure 2. The first three months of 2017 were continuing this trend sitting between 3 and 17% higher than the corresponding months in 2016, however in April the indicator fell to 297 c/kg, 6% lower than the 316 c/kg seen in April 2016. The prices seen in 2016 were exceptionally strong though, being considerably higher than both the previous two years.

[1] 2015/16* The ABS has revised the cut-off for the Estimated Value of Agricultural Operations (EVAO) for farm businesses from $5000 to $40 000 in 2015/16 affecting the herd estimate. The 2015/16* herd estimate has been adjusted to account for the changes.

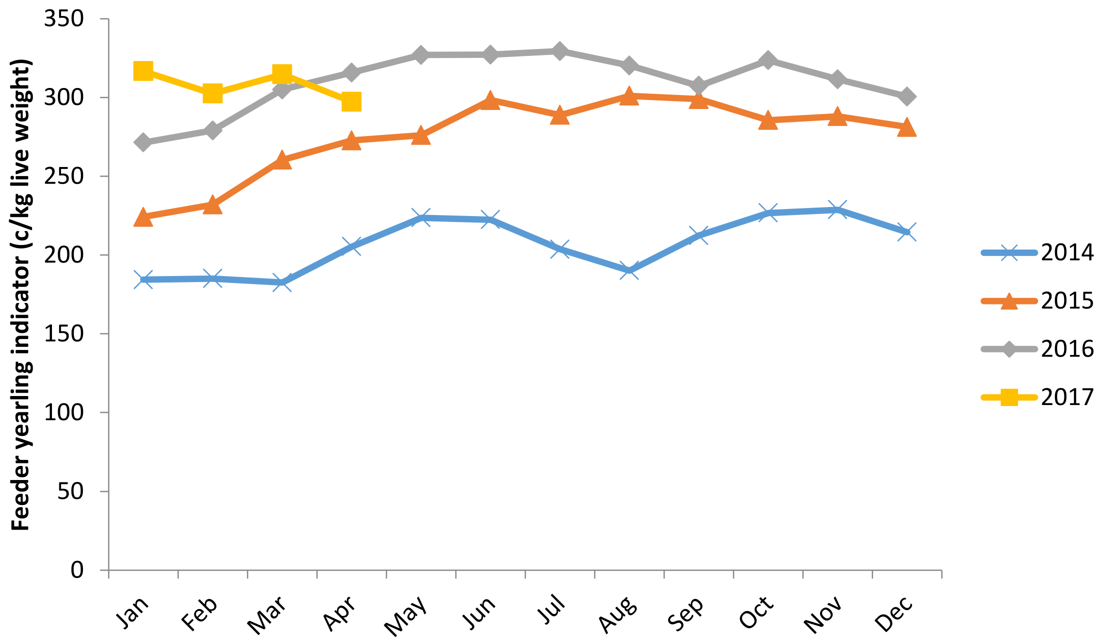


Figure 2 Trend in WA feeder yearling saleyard indicator (c/kg live weight) (Based on data from Meat and Livestock Australia (MLA) / National Livestock Reporting Service (NLRS), analysed by DAFWA)

The heavy cow sale yard indicator while not as strong as the feeder yearling indicator is still in a strong position as seen below in Figure 3. In 2017 the January average price was 18% higher than at the same time in 2016 and 2% higher in March; however it declined to 219 c/kg in April which is 1% lower than experienced in April 2016. Currently prices are tracking very close to the prices seen in early of 2015.

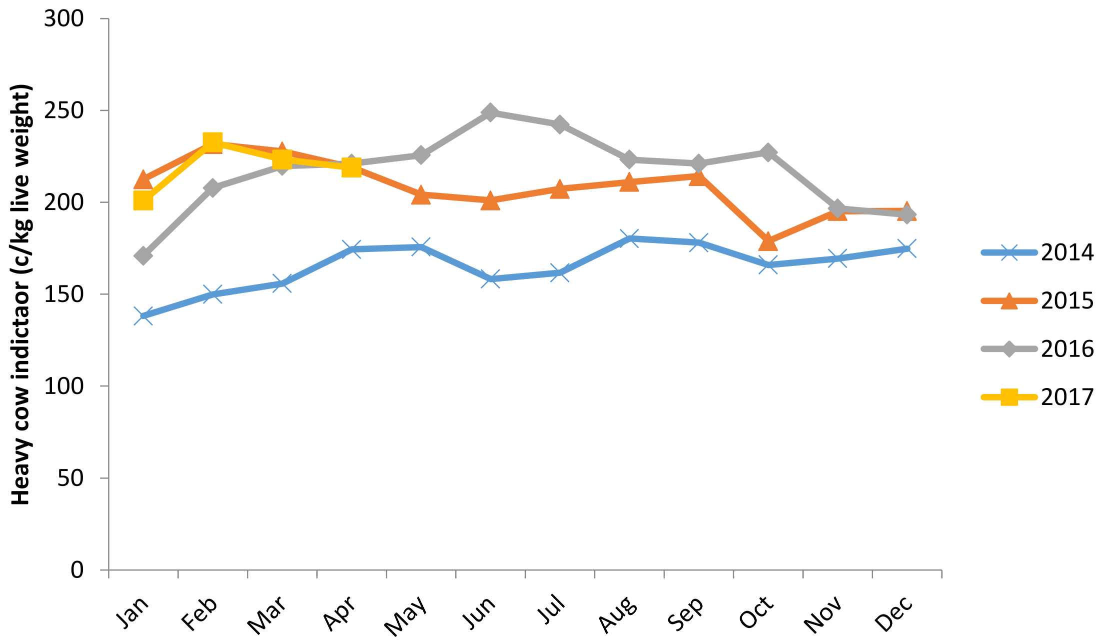


Figure 3 Trend in the WA heavy cow saleyard indicator (c/kg live weight) (Based on data from MLA/NLRS, analysed by DAFWA)

The Western Young Cattle Indicator (WYCI) is a cattle indicator developed by MLA from three key Western Australian cattle markets; Muchea, Mt Barker and Boyanup. It was created using the same parameters as the Eastern Young Cattle Indicator (EYCI) so as to be directly comparable. It is calculated on a weekly basis and is a seven day moving average price for C3 and C2 vealers and yearlings.

As seen below in Figure 4 the WYCI has been trending upwards over the last three years and the trend is continuing in 2017.

In April 2017 the WYCI averaged 686 c/kg. This is 10% higher than at the same time in 2016.

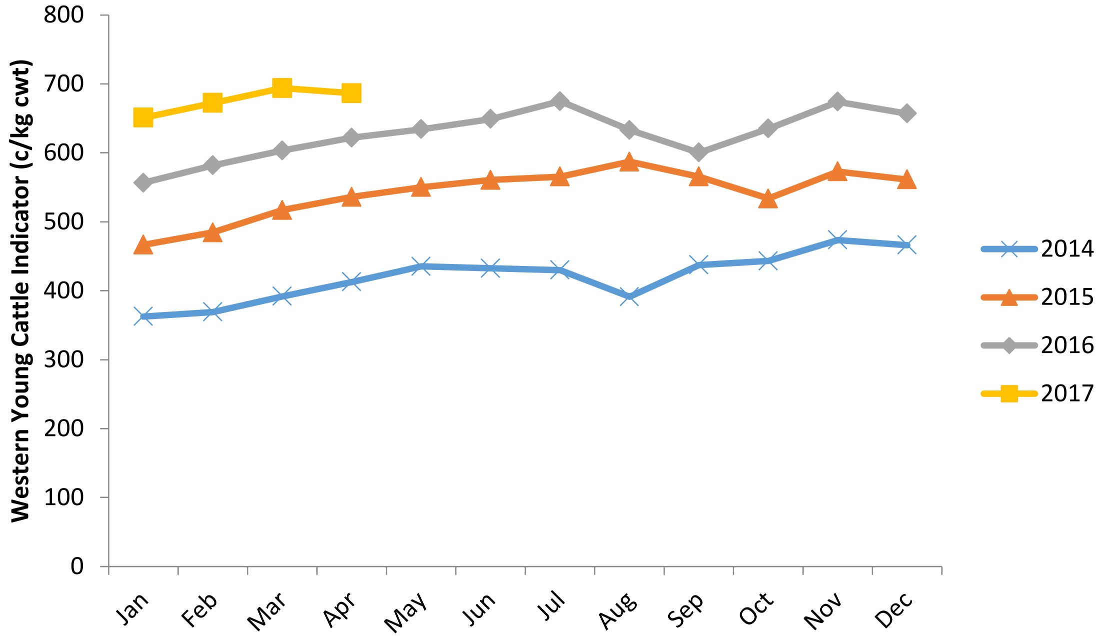


Figure 4 Trend in the Western Young Cattle Indicator (c/kg cwt) (Based on data from MLA/NLRS, analysed by DAFWA)

Since January 2013 both the EYCI and the WYCI have been trending upwards on a similar gradient. During 2017 the EYCI trended downwards between January and March from 653 to 622 c/kg before rebounding to 660 c/kg in April. On the other hand the WYCI experienced strong growth between January and March, increasing from 651 to 694 c/kg- the highest on record. This was possibly due to good seasonal conditions and increased competition. In April it has declined to 686 c/kg.

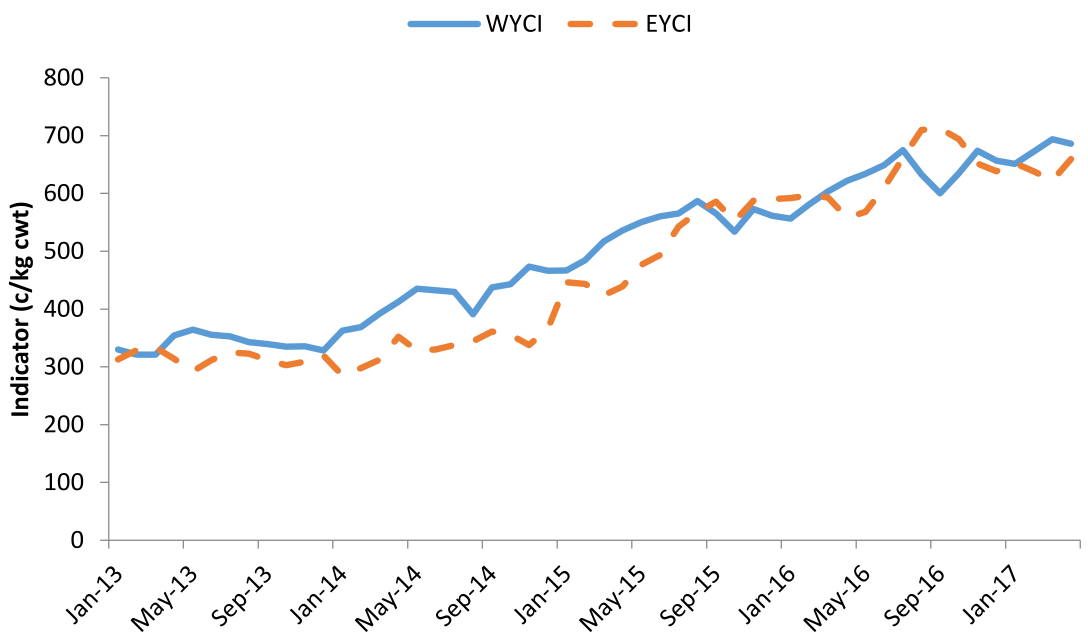


Figure 5 Comparison of the Western Young Cattle Indicator (WYCI) and the Eastern Young Cattle Indicator (EYCI) (c/kg cwt) (Based on data from MLA/NLRS, analysed by DAFWA)

Cattle turn-off and beef production

There are two main avenues available to WA producers to turn-off cattle; that of live export or domestic slaughter. As illustrated by Figure 6, domestic processing accounts for a higher proportion of cattle turn-off than live export, however the margin between the two narrowed significantly in 2016. This may be partly due to a relatively poor wet season in early 2016 resulting in producers needing to reduce stocking rates. 2016 also saw very high prices offered for export cattle. This may have been driven by increased demand from Indonesia who increased the number of head imported from WA from 67 000 in 2015 to 157 000 in 2016.

During 2016 cattle slaughter accounted for 389 000 head compared to live export which accounted for 355 000 head- a difference of 10% compared to 55% in 2015.

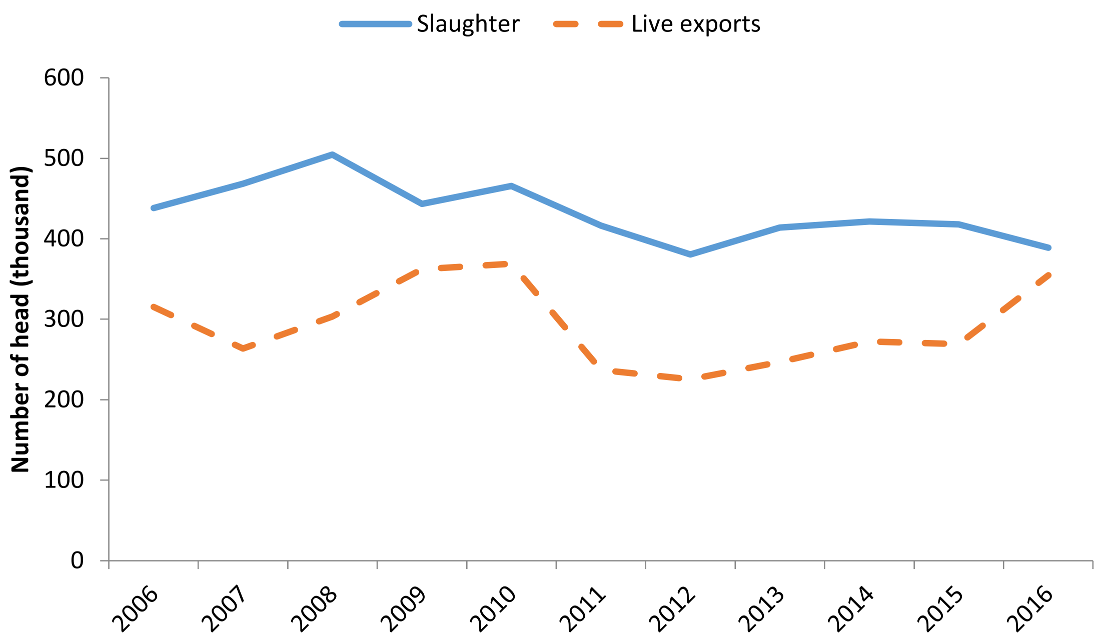


Figure 6 the volume of WA cattle slaughter and live exports (Based on ABS data, DAFWA analysis)

Cattle slaughter

Historically male cattle slaughter in WA has been lower than female cattle slaughter as seen in Figure 7; however over the last five years the number of male and female cattle slaughtered domestically has converged. During 2014 the number of male cattle slaughtered overtook the number of female cattle slaughtered in WA and this further increased to a difference of 7% in 2016 where female cattle slaughter totalled 187 000 and male cattle slaughter totalled 201 000.

The declining female kill may be a result of herd building due to favourable market conditions.

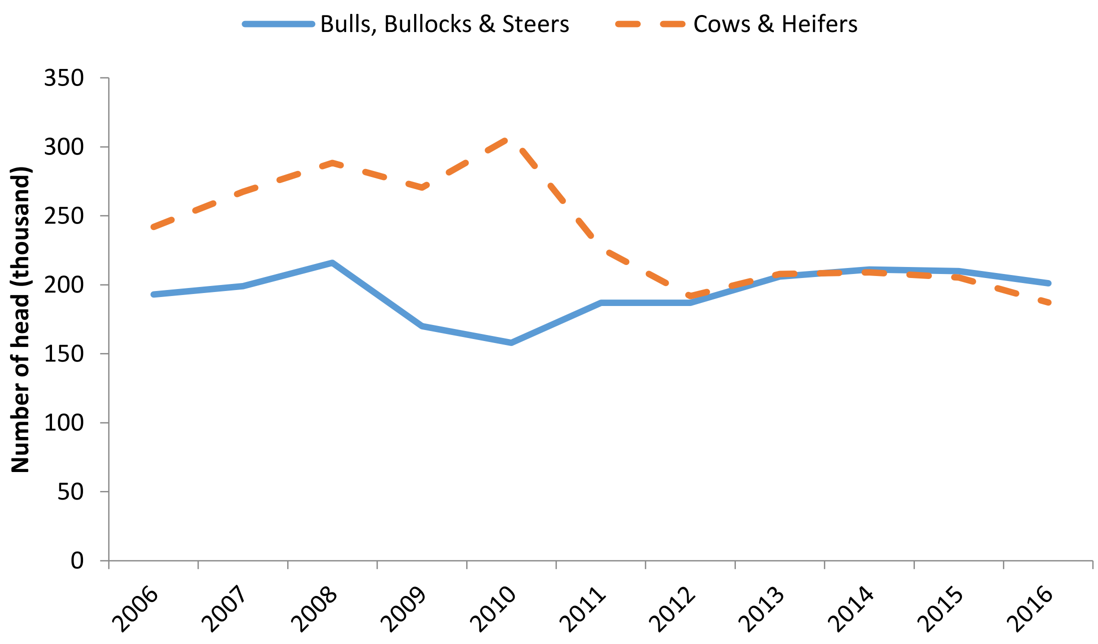


Figure 7 WA cattle slaughter by animal type (Based on data from ABS, analysed by DAFWA)

Beef production

The majority of WA beef is consumed on the domestic market; however the proportion being exported to international markets has been on the rise in recent years. In 2016 domestic consumption accounted for 61% of WA beef production while 39% was exported to 30 overseas markets. This is up from 25% in 2012. The increase in the proportion of beef exported may be in part due to the implementation of recent free trade deals such as that with China, Japan and Korea.

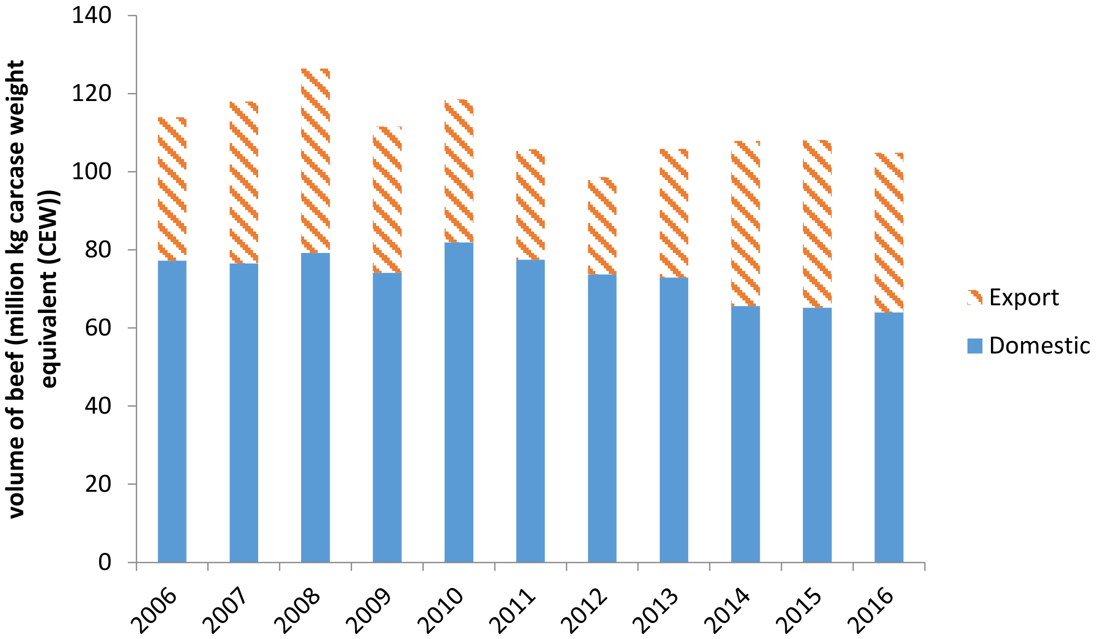


Figure 8 Western Australian beef consumption by market (Based on ABS data, analysed by DAFWA)

Exports

WA exports both live cattle and boxed beef from cattle that have been slaughtered domestically. As seen in Figure 9 over the last ten years the higher value market has been live export. This became especially pronounced in 2016, as the value of live exports increased quite dramatically reaching $412 million, while at the same time the value of beef exports fell to $171 million, though remained historically high.

A factor contributing to the higher value of live exports compared to beef exports is the large proportion of beef consumed locally as illustrated in Figure 8. In 2016 39% of the total slaughter was exported with the remaining 61% being consumed on the domestic market.

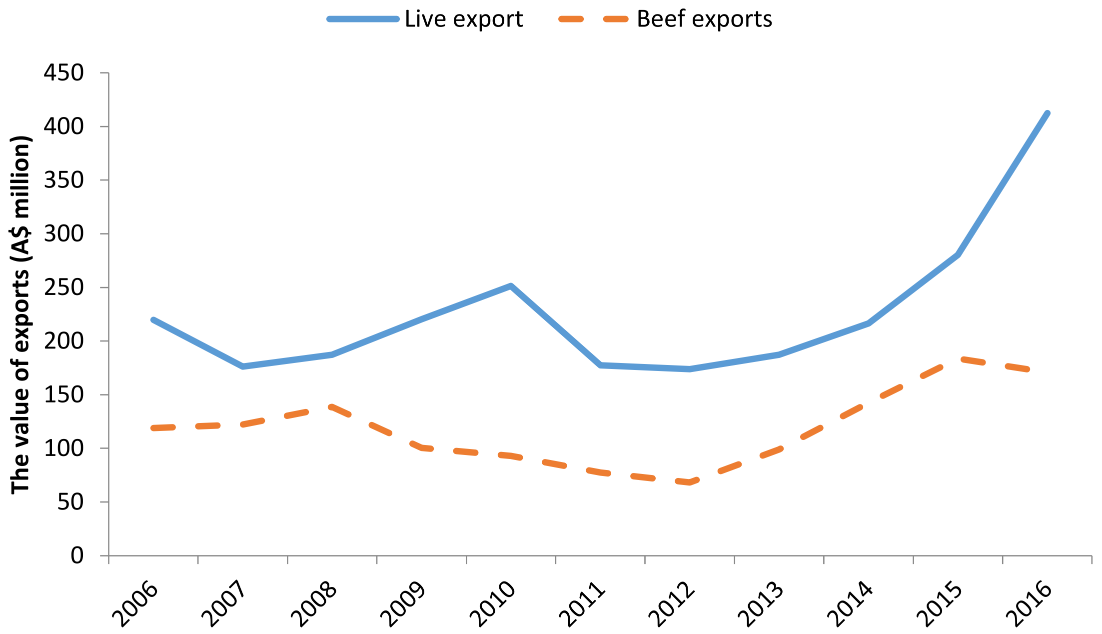


Figure 9 The value of WA live cattle exports and boxed beef exports (Based on ABS data, DAFWA analysis)

Boxed beef exports

Volume

Over the last decade the volume of WA beef exported has varied over the years. Figure 10 illustrates that between 2006 and 2008 WA beef exports rose 29% from 41.5 million kg to 47.2 million kg. This was followed by a period of contraction between 2008 and 2012 when it fell to 25.0 million kg before recovering to 42.9 million kg in 2015- an increase of 72%. It has however contracted 5% in 2016 to 40.9 million kg.

National beef exports have been much more constant than that seen in WA as illustrated by the solid blue line in Figure 10. Between 2006 and 2012 the volume of beef exported from Australia hovered between 1.42 billion kg and 1.48 billion kg- a difference of 4%. However since 2012 there has been a period of steady growth, partly driven by drought conditions in Queensland, home to Australia’s largest cattle herd. In that time it has increased from 1.47 billion kg to 1.93 billion kg in 2015- an increase of 31%. In 2016 beef exports retracted to 1.53 billion kg.

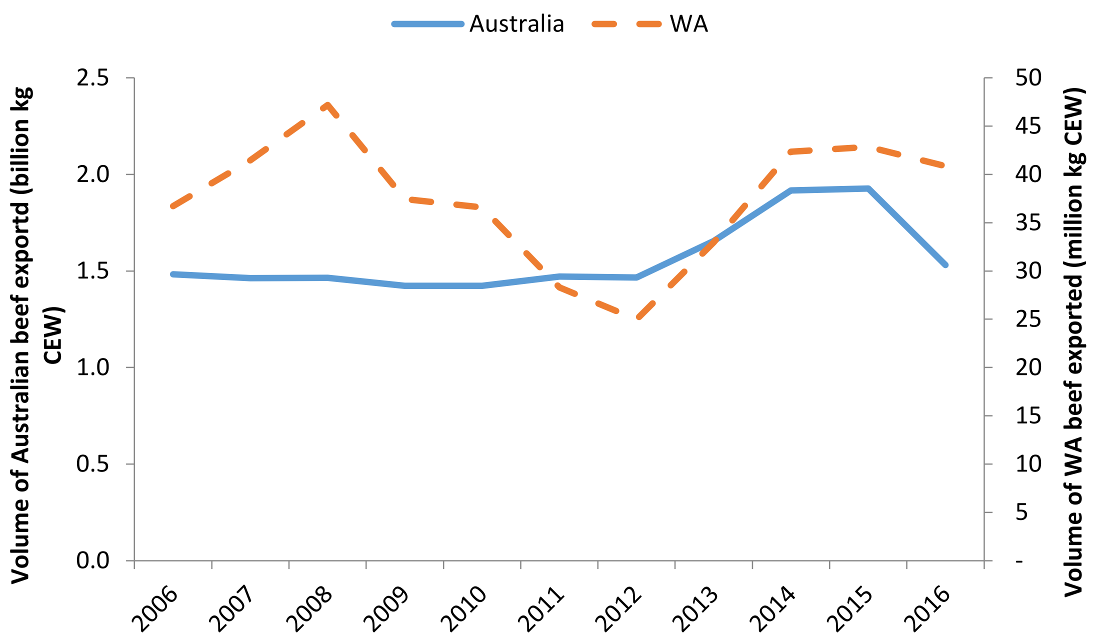


Figure 10 Volume of beef exported by Australia (LHS) and WA (RHS) (Based on ABS data, DAFWA analysis)

During the first four months of 2017 there has been a considerable retraction in the volume of beef exported from both WA and Australia as evidenced in Table 1. This decline may be the result of demand pushback due to the high price of WA beef and changing policies such as the move in Indonesia to allow the importation of Indian buffalo or carabeef. The markets where the largest declines are evident are Indonesia, China and Korea.

When comparing the first four months of 2017 to the same time period in 2016, WA beef exports have fallen 28% from 15.3 million kg to 10.9 million kg. If this trend continues it is estimated that full year beef exports from WA might total 29.2 million kg.

Table 1 Quantity of beef exported (million kg ceq) from WA and Australia (Based on ABS data, DAFWA analysis)

	2015	2016	Jan-April 2016	Jan-April 2017	2017p	Change
WA	42.9	40.9	15.3	10.9	29.2	-28%
Australia	1926.5	1530.3	490.0	425.0	1327.1	-13%

The largest market for Western Australian beef exports in 2016 was Korea who accounted for 8.4 million kg or 21% of exports. The second largest market was Indonesia with 7.4 million kg or 18% of exports. Japan accounted for 16%, the USA accounted for 15% and China 11%. There were 25 other markets who together accounted for 19% of the volume of beef exported.

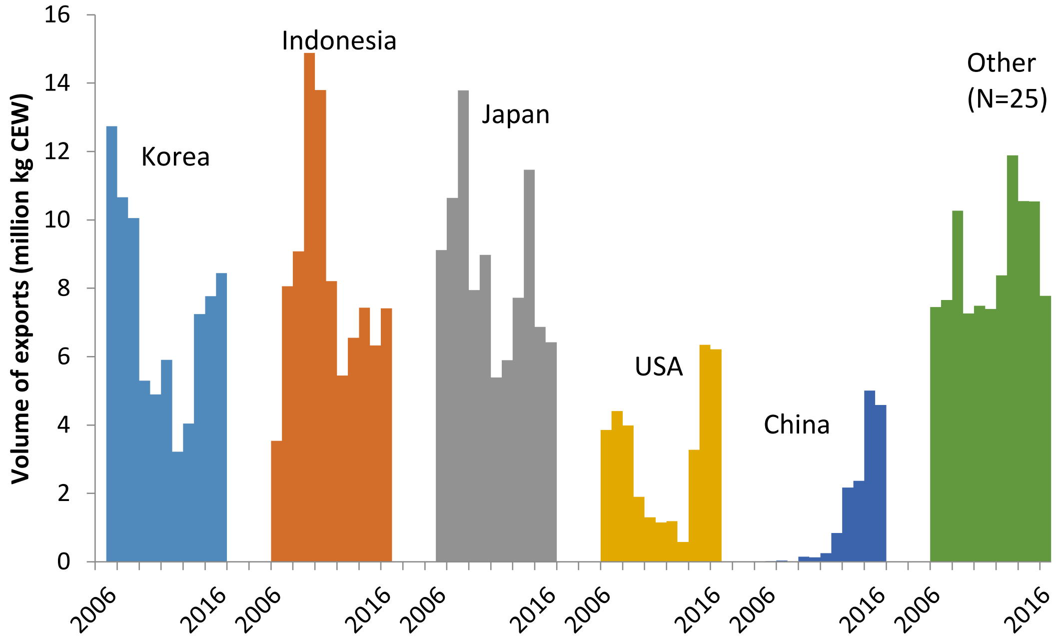


Figure 11 Quantity of WA beef exported by destination (Based on ABS data, DAFWA analysis)

Value

The value of WA beef exports (Figure 12) follows a similar pattern to that seen in the volume of exports in Figure 10. Between 2006 and 2008 the value of exports rose from $118.9 million to $138.6 million, an increase of 17%. It then fell to $68.0 million in 2012 before increasing substantially to $183.6 million in 2015, a rise of 170% and the highest annual value of beef exports on record. In 2016 it has declined 7% to $170.7 million; however this is still higher than all preceding years other than 2015.

Australian beef exports have also seen some dramatic increases in the value of exports in recent years. Between 2012 and 2015 the value of Australian exports rose 96% from $4.75 billion to $9.30 billion. In 2016 there was a decline of 20% to $7.40 billion; however this is still one of the highest values on record.

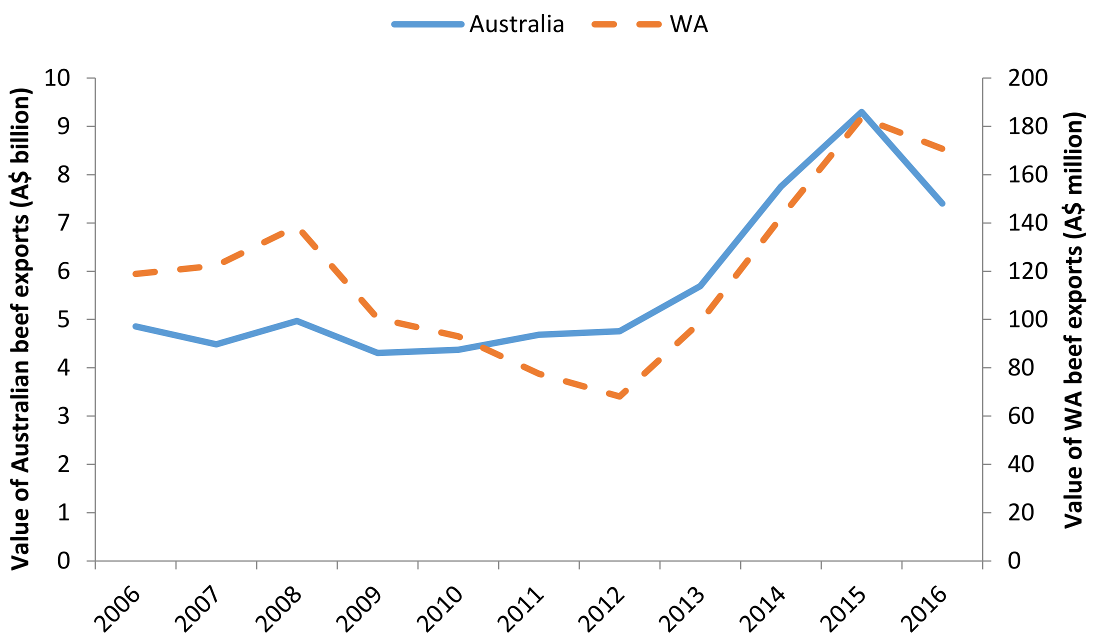


Figure 12 Value of beef exported from Australia (LHS) and WA (RHS) (Based on ABS data, DAFWA analysis)

So far in 2017 the value of beef exports from both WA and Australia are continuing the downward trend evident in 2016 (Table 2). The first four months of 2017 have seen the value of WA beef exports decline 24% from $61.7 million in 2016 to $47.2 million in 2017. If the value of exports continues on this trajectory, 2017 may total $130.5 million.

The value of Australian exports has declined 11% year on year from $2.3 billion to $2.1 billion.

Table 2 Value of WA and Australian beef exports in A$ million (Based on ABS data, DAFWA analysis)

	2015	2016	Jan-April 2016	Jan-April 2017	2017p	Change
WA	183.6	170.7	61.7	47.2	130.5	-24%
Australia	9296.4	7401.4	2304.4	2056.0	6603.5	-11%

The largest market, in value terms, for Western Australian beef exports in 2016 was Korea who accounted for 19% of the total value of WA beef exports worth $33.1 million. The second largest market was Japan to whom WA exported $29.1 million worth of beef or 17% of exports. Indonesia, while the second largest market in volume terms was the third largest in value terms accounting for 15% of the value of exports or $25.0 million. The USA was the fourth largest market accounting for 13% and China was fifth with 13% of exports. Another 25 markets accounted for 23% of the value of exports.

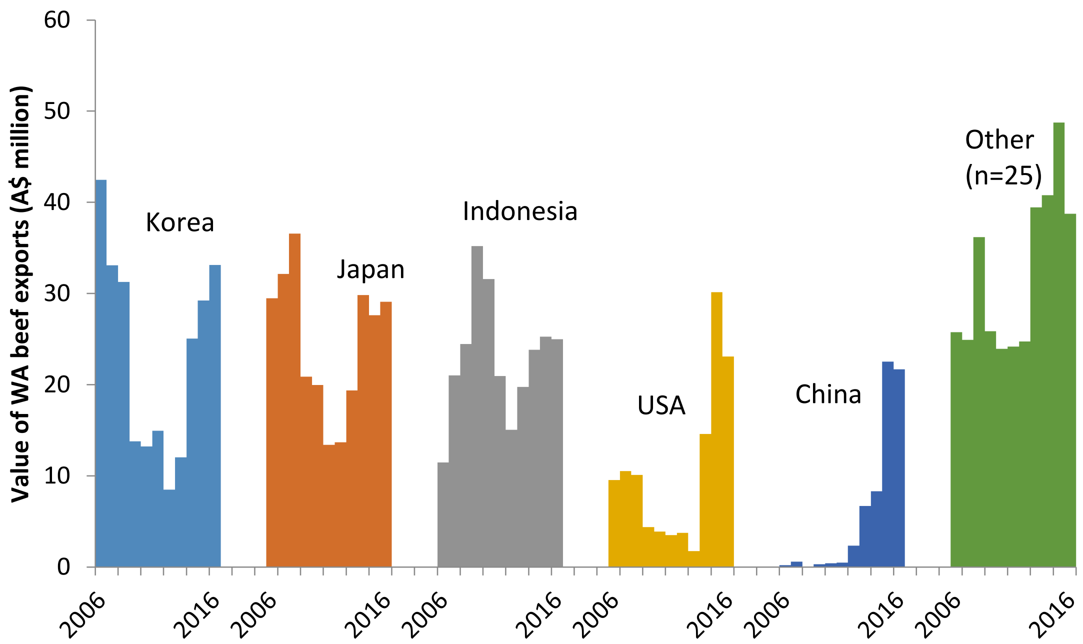


Figure 13 Value (A$ million, FOB) of WA beef exports by year and destination (Based on ABS data. DAFWA analysis)

Live exports

Volume

Following five years of depressed live cattle exports from WA, 2016 saw a dramatic increase in the number of cattle exported to levels similar to that seen in 2009 and 2010 (Figure 14). After reaching a low of 225 000 in 2012 WA live cattle exports increased to 272 000 in 2014, an increase of 21%. Between 2014 and 2016 it has grown by a further 30% to 355 000.

National live cattle exports experienced a period of even stronger growth between 2012 and 2015 as illustrated below. The number of live cattle increased 116% over this time from 620 000 to 1.34 million head. In 2016 it declined to 1.15 million head.

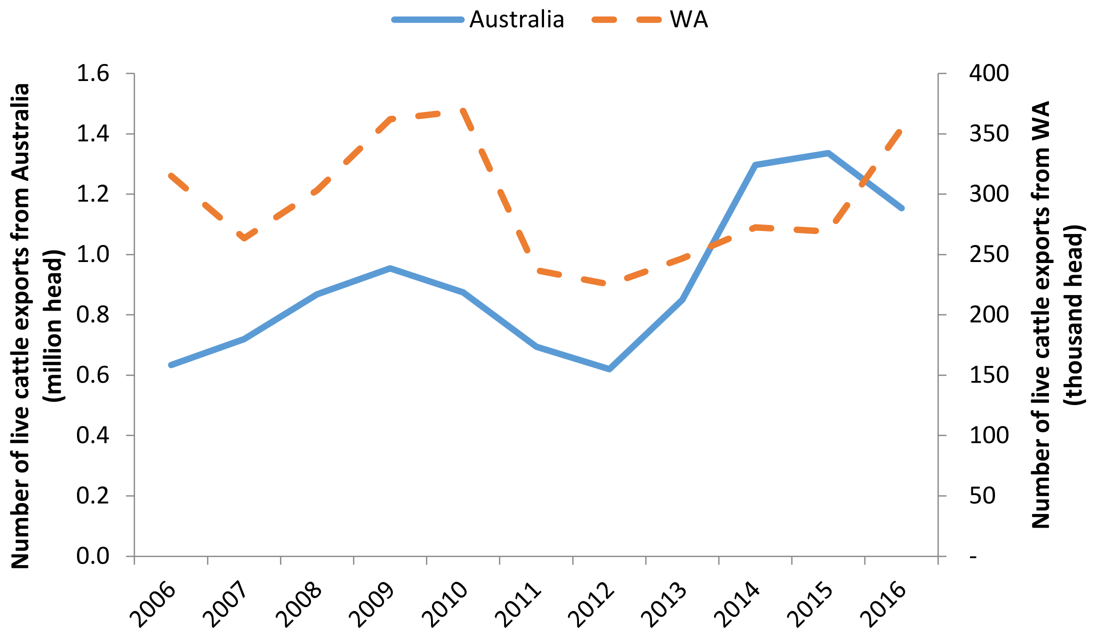


Figure 14 Number of cattle exported live from Australia (LHS) and WA (RHS) (Based on ABS data, DAFWA analysis)

So far during 2017 (January to April) the number of live cattle exported from WA to overseas markets has softened as seen in Table 3. During the first four months of 2016, WA exported 125 000 cattle, however that has fallen by 65% to 44 000 over the same time period in 2017. If this trend continues a total of 124 000 cattle may be exported over the whole year, though it is still early in the year and exports may pick up in later months.

It has been a similar story for live cattle exports from Australia as a whole, where January to April live cattle exports have fallen 40% year on year from 422 000 to 253 000 head. If this continues for the remainder of the year total live cattle exports may equal 690 000 head.

Reasons underlying this decline in exports may include the high cost of Australian livestock, the large wet season which may have delayed mustering in some areas and policy changes in some important markets such as Indonesia.

Table 3 Number of live cattle exported from WA and Australia in thousand head (Based on ABS data, DAFWA analysis)

	2015	2016	Jan-April 2016	Jan-April 2017	2017p	Change
WA	269	355	125	44	124	-65%
Australia	1336	1154	422	253	690	-40%

The largest market by volume for Western Australian live cattle in 2016 was Indonesia who accounted for 44% of the live cattle exported during that year, or 157 000 head. This was followed by Vietnam with 17% of the live cattle exports (61 000), Israel with 16% and Turkey with 15%. 2016 signalled a return to the Western Australian market for Turkey following limited live exports in recent years. In 2015 there were no cattle exported to Turkey and only limited numbers in 2013 and 2014 as seen in Figure 15.

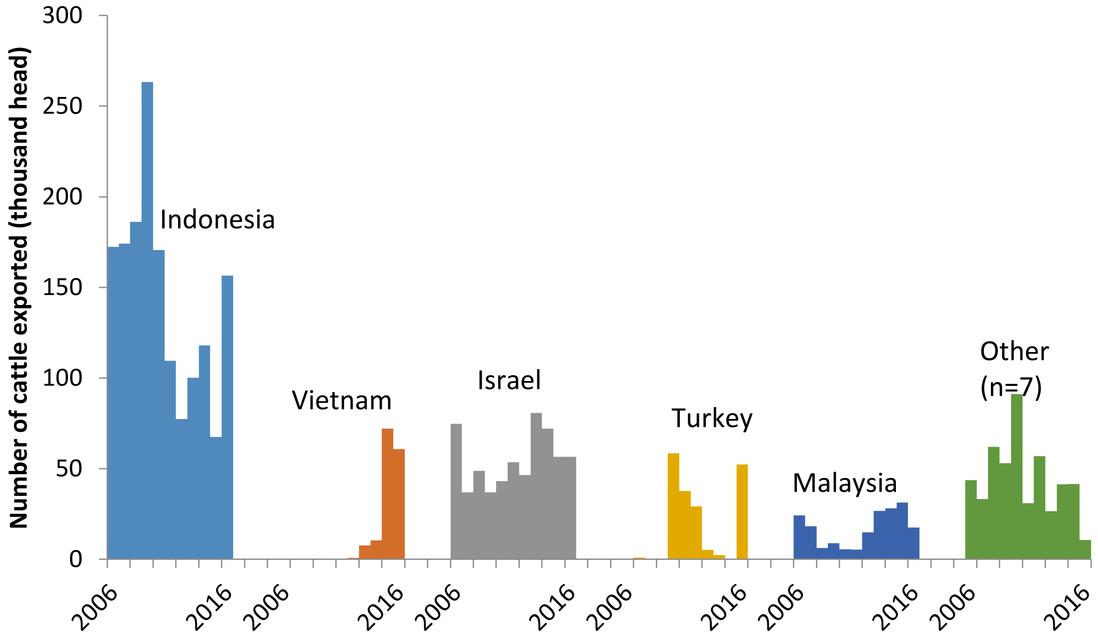


Figure 15 Number of WA live cattle exported by destination and year (Based on ABS data, DAFWA analysis)

Value

The value of live cattle exports from both WA and Australia reached all-time highs in 2016. Between 2012 and 2016 the value of WA live cattle exports increased 137% from $173.9 million to $412.4 million. Year on year it increased 47%, a larger increase than that seen in the volume of exports, denoting the higher prices experienced in 2016 (Figure 16).

Between 2012 and 2016 the value of Australian live cattle exports have increased 140% from $606.6 million to $1.46 billion.

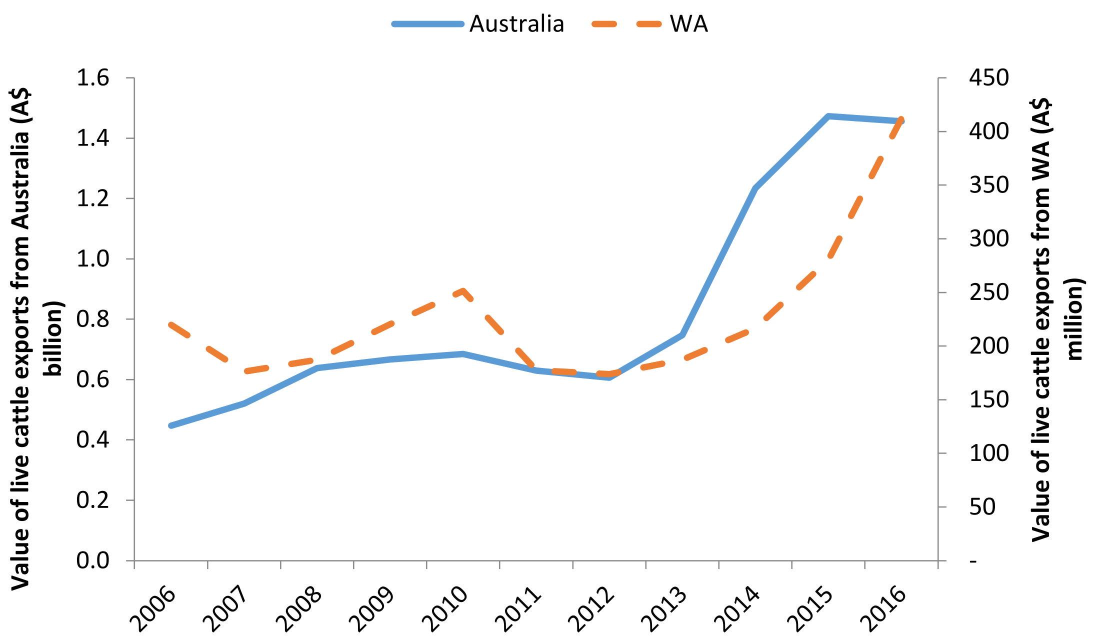


Figure 16 Value of cattle exported live from Australia (LHS) and WA (RHS) (Based on ABS data, DAFWA analysis)

In a similar fashion to that seen in the volume of live cattle exported, there has also been a decline in the value of live cattle exported in the first four months of 2017 when compared to the same period in 2016. There has been a 64% contraction in the value of cattle exported from WA from $149.5 million in 2016 to $54.1 million in 2017. National live cattle exports have declined by 36% in this time period from $541.0 million in 2016 to $348.1 million in 2017.

Table 4 The value of WA and Australian live cattle exports in A$ million (Based on ABS data, DAFWA analysis)

	2015	2016	Jan-April 2016	Jan-April 2017	2017p	Change
WA	280.4	412.4	149.5	54.1	149.3	-64%
Australia	1473.1	1455.7	541.0	348.1	936.8	-36%

The largest market for Western Australian live cattle in value terms during 2016 was Indonesia, who accounted for $174.5 million or 42% of the value of WA live cattle exports. The second largest market was Vietnam accounting for 20% of the value of live cattle exports or $83.2 million, followed by Israel with 16% and Turkey with 13% (Figure 17).

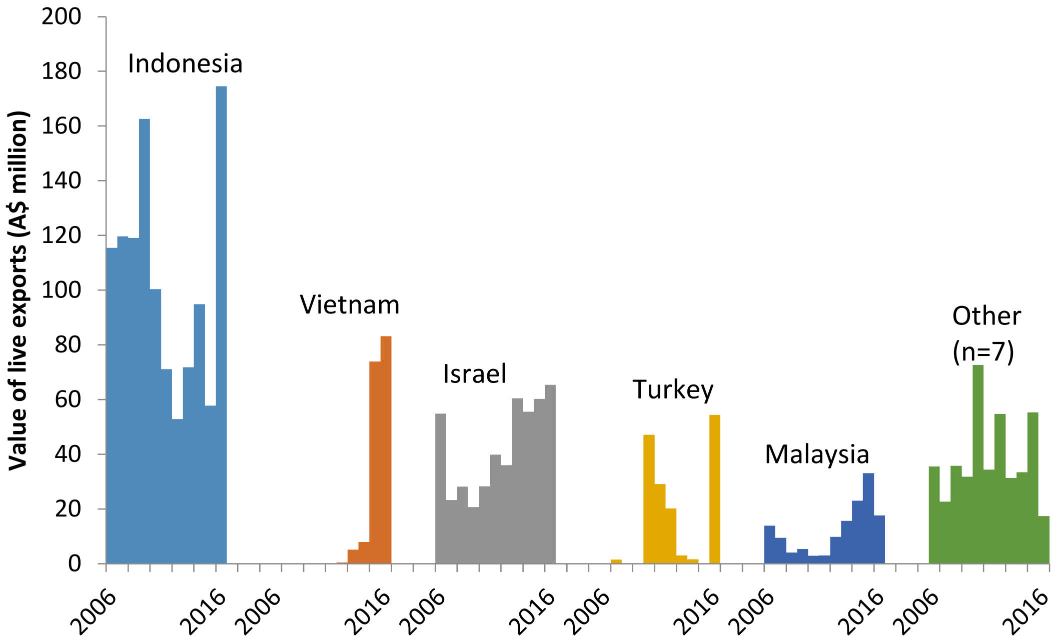


Figure 17 Value (A$ million, FOB) of WA live cattle exported by year and destination (Based on ABS data, DAFWA analysis)

Market analysis - Japan

Japan, with a population of 126.3 million, is the world's third largest economy and one of the largest importers of red meat in the world. Beef consumption is estimated to be approximately 9.4kg per person per year (MLA).

During 2016 Japan was Australia's largest beef market in both value and volume terms, and Western Australia's third largest market by volume and second largest by value.

As seen in Figure 18 the value of Western Australian beef exports to Japan underwent a stage of significant growth between 2012 and 2014 whereby it increased 118% from $13.7 million to $29.8 million. Over this time the volume of beef exported to Japan rose 94% from 5.9 million kg to 11.5 million kg. There has however been a decline between 2014 and 2016 of 44% in volume and 3% in value.

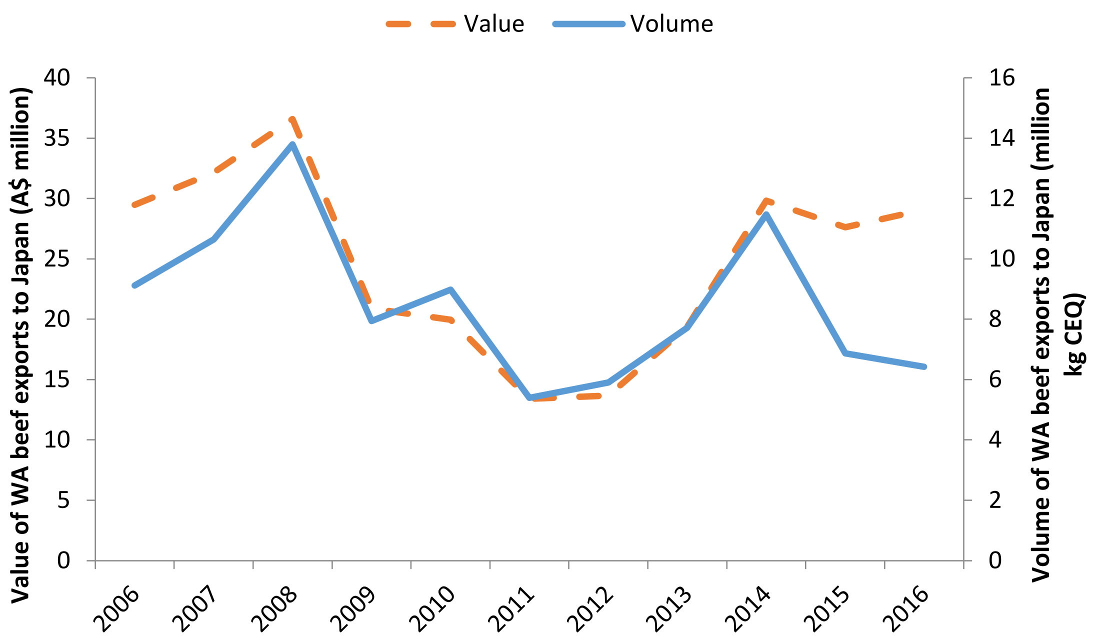


Figure 18 the value (LHS) and volume (RHS) of Western Australian beef exports to Japan (Based on ABS data, DAFWA analysis)

According to MLA the local Wagyu and Kokusan beef are favoured in Japan; however Australian beef has the highest awareness and frequency of consumption.

Australia accounts for 54% of beef imports in Japan, but faces increasing competition from the USA which has been growing its market share in recent years. Other major players are New Zealand, Mexico and Canada (MLA).

Due to recent trade negotiations Australia has a competitive advantage over other beef exporting nations. The Japan-Australia Economic Partnership Agreement (JAEPA) entered into force on the 15 January 2015. The JAEPA had wide ranging implications for many agricultural exports including beef. It resulted in an immediate tariff cut for frozen beef from 38.5% to 30.5% and will continue to be phased down to 19.5% over 18 years. For fresh beef it will be phased down to 23.5% over 15 years. It also exempted Australia from the “global snapback” tariff which is deployed when total beef imports increases rapidly, as well as increased safeguard trigger levels at which tariffs increase when reached (35 000 tonnes for chilled beef and 200 000 tonnes for frozen beef in 2017) (Department of Foreign Affairs and Trade).

MLA estimate that around 60% of Australian beef exported to Japan is used in the foodservice sector and 40% is sold through the retail sector. This sector is very sophisticated but also very fragmented and highly competitive.

Due to Japan’s ageing population and smaller household’s nakashoku, which are pre-cooked small meals for home consumption, is becoming popular. Chicken and pork are popular in nakashoku however beef is increasing in popularity.

Younger generations are developing a taste for steaks and leaner red meat leading to bistros and steak bars gaining popularity. Marbled yakiniku cuts also remain popular (Korean style table top barbeque using skirts, loins and offal) (MLA).

The most popular cuts exported are the Japanese full sets, which are a 12 cut set trimmed of fat. It equates to 43% of carcase weight with the remainder being fat and low value trim (Dunlop 1992).

Manufacturing beef is also very popular as seen below in Figure 19.

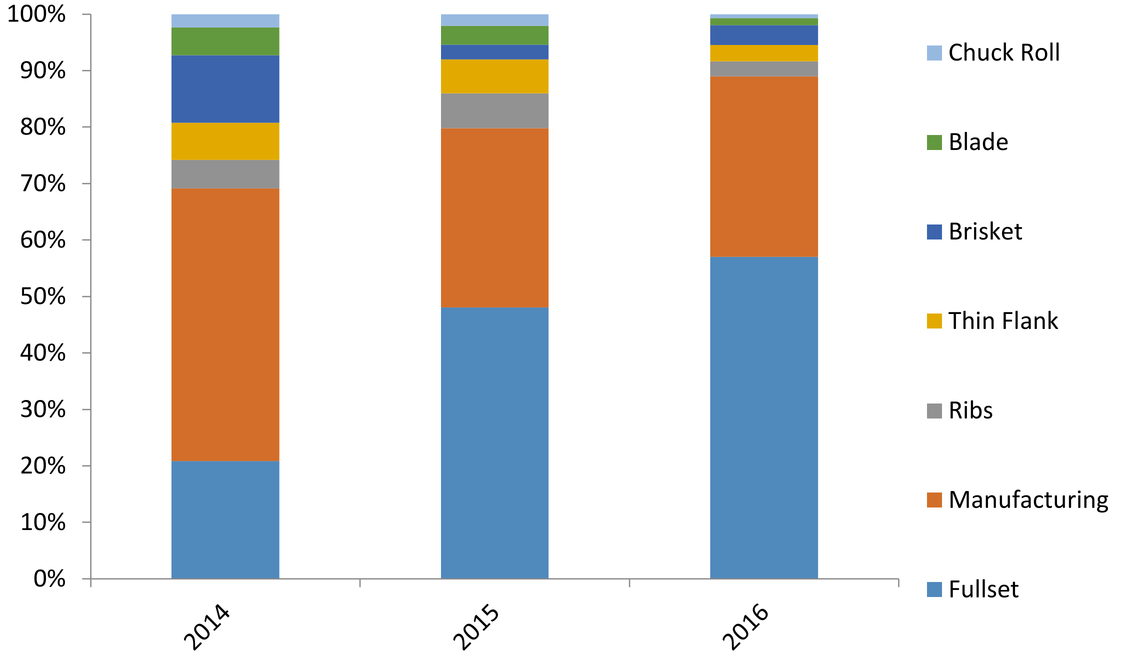


Figure 19 WA beef cuts exported to Japan (MLA data, DAFWA analysis)

Insights and opportunities

Indian buffalo

In an attempt to lower the domestic price of beef the Indonesian government decided to open its market to Indian buffalo meat in mid-2016 signing an agreement to import of 80 000 tonnes of buffalo meat in 2016 (Beef Central).

The importation of buffalo meat has resulted in a flood of low priced, low quality product entering the market impacting demand for Australian live exports and boxed beef exports to Indonesia (Beef Central).

Despite Indian buffalo meat successfully penetrating the market the price for beef remains high in Indonesia. According to Beef Central the cheaper price of buffalo meat is not being passed onto consumers, but instead being absorbed or pocketed by wholesalers or retailers. Whereas lot feeders with imported cattle are closely scrutinised and monitored by government agencies, no such monitoring exists for wholesalers or retailers.

As the buffalo entered the market the demand for feedlot cattle fell which coincided with a reduction in the price of live cattle with feedlot gate prices declining about 5% from October 2016 to January 2017. Currently it is believed that abattoirs in West Java are running at about 50% of the usual levels while the other 50% of beef supply has been captured by buffalo. The consensus is that the buffalo is replacing the fresh and frozen product previously supplied by imported Australian cattle and beef servicing the low end food service sector, a very large segment in Indonesia (Beef Central).

It has been reported that the importation of Indian buffalo is affecting Australian beef and cattle exports to Indonesia and from a WA perspective it appears to be a similar story concerning beef exports. The volume of beef exported from WA to Indonesia between October 2016 and January 2017 has declined 55% when compared to the same time period a year earlier and has declined 2% when compared to the same time period in 2012/2013, which was another low volume year.

Live cattle exports from WA on the other hand appear to be unaffected so far as the volume exported to Indonesia over this time period have been some of the highest on record.

Trumps USA

The USA is one of Australia's leading trade partners especially for agricultural exports. During 2016 the USA was WA's fourth largest market for boxed beef in both value and volume terms accounting for 15% of the volume and 14% of the value of WA beef exports.

In November 2016 the widely publicised US election was held and the newly elected President Donald Trump took power in early 2017. During President Trump's campaign he pledged to "put America first" especially in the way of international trade. The campaign included promises of large tariffs on imported products, to remove the North American Free Trade Agreement (NAFTA) and withdraw from the Trans Pacific Partnership (TPP). It is hoped the limitations on free trade would stimulate domestic manufacturing and jobs.

This signals a move on America's part to shift from a period of free trade and open markets using multilateral agreements to one of protectionism and bilateral agreements with individual nations. Trump has stated he would renegotiate deals with members of the NAFTA and TPP separately in a bilateral setting (Beef Central). These one on one negotiations would allow the USA to obtain more of its demands while having to make fewer concessions (The Conversation).

This increased level of protectionism could have a negative effect on Australian producers. Increasing tariffs on Australian goods or decreasing import quotas would have a detrimental effect on Australian producers by reducing the volume able to be traded and making it less price competitive (Beef Central). Despite this US demand for Australian beef has kicked again with prices increasing recently.

Despite this, other opportunities have arisen since the decimation of the TPP. Negotiations have begun amongst another trading bloc of 16 countries, of which Australia is one, to create the Regional Comprehensive Economic Partnership (RCEP). This economic bloc is a similar size to that which was involved with the TPP but has China spearheading the negotiations (ABC).

Weather watch

The six months between October 2016 and April 2017 have delivered good seasonal conditions across much of WA as seen in the rainfall map in Figure 20. The Kimberley has had rainfall levels that are either the highest on record or very much above average for the northern wet season which will hopefully translate to good feed and water availability for the coming season.

The rest of WA has had good summer rain and has deciles that are generally above average or very much above average with only a small proportion of the state recording average rainfall over the summer.

These good conditions paired with strong prices give a sense of optimism to the WA industry and may lead producers to retain cattle to grow their herds.

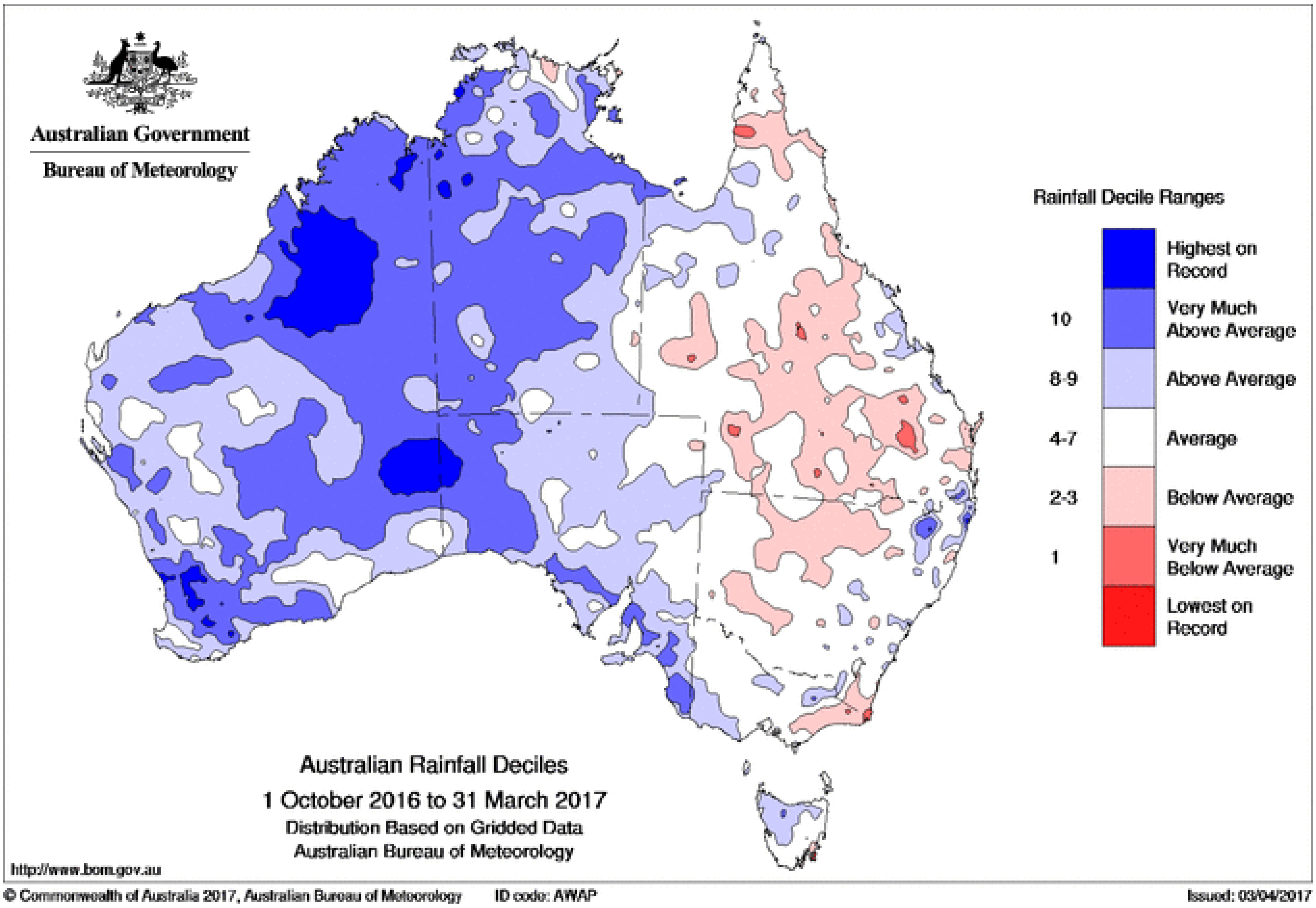
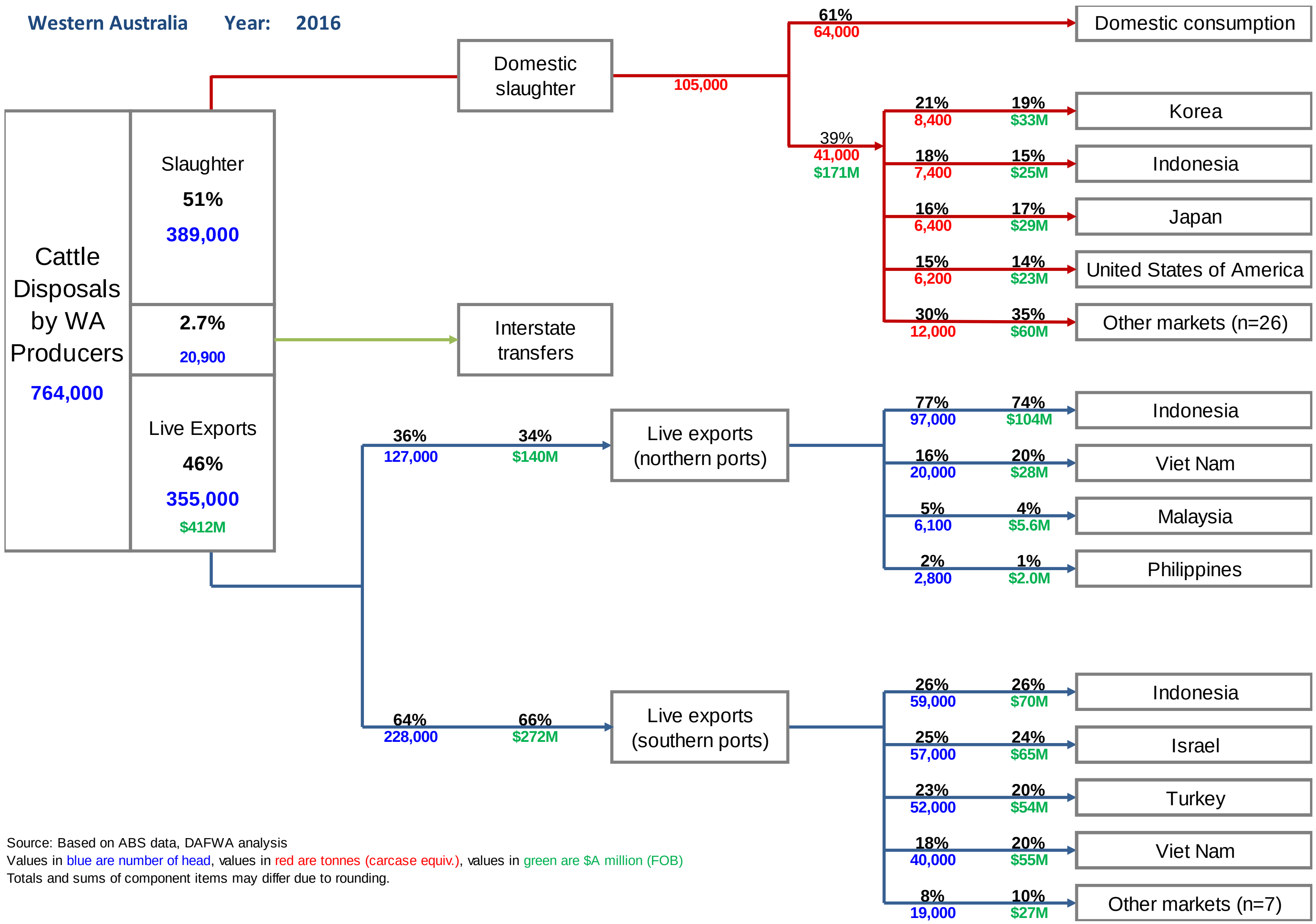


Figure 20 Rainfall deciles from October 2016 to April 2017 (Source: The Bureau of Meteorology)

Appendix



Source: Based on ABS data, DAFWA analysis
Values in blue are number of head, values in red are tonnes (carcase equiv.), values in green are $A million (FOB)
Totals and sums of component items may differ due to rounding.