Livestock

Beef and veal

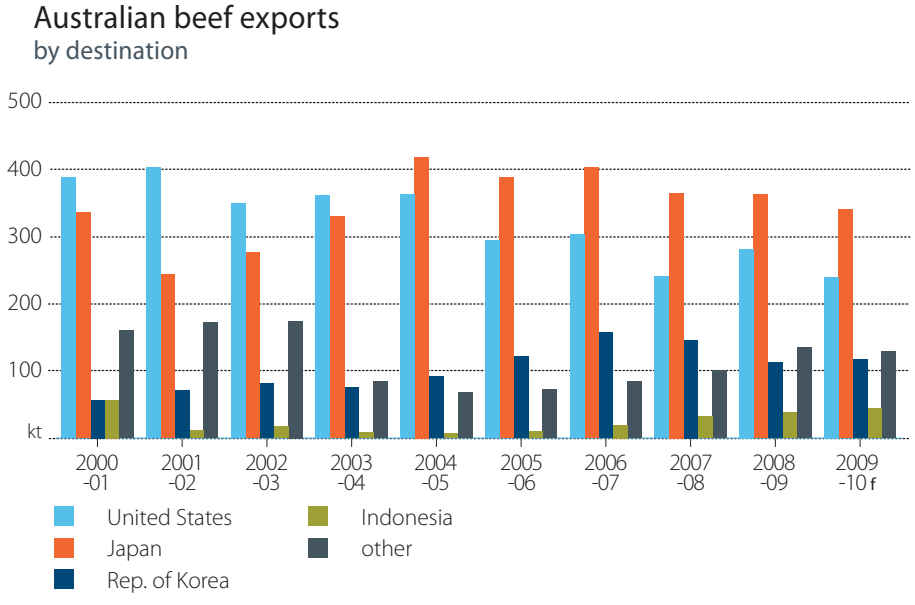
Outlook to 2014-15

Peter Berry and commodity analysts

The Australian weighted average saleyard price for beef is forecast to be around 279 cents a kilogram in 2009-10 and 272 cents a kilogram in 2010-11, compared with 296 cents a kilogram in 2008-09. The forecast lower domestic beef prices in the short term mainly reflect the effect of increased competition for Australian beef in key export markets, especially in Japan and the Republic of Korea. In addition, the assumed higher average value of the Australian dollar over these two years, especially against the US dollar, is expected to place downward pressure on beef export earnings and, hence, domestic saleyard prices.

However, there are upside risks to this short-term price outlook. First, herd rebuilding in many regions has the potential to lead to a higher average saleyard price than currently forecast, particularly if favourable seasonal conditions eventuate. For example, restocker demand following significant rainfall in late 2009 and early 2010 in eastern Australia led to a rise in cow prices of around 14 cents a kilogram in January 2010. Second, a stronger economic recovery in Australia's major export markets, namely Japan, the Republic of Korea, Chinese Taipei and Indonesia, could lead to stronger demand than currently forecast. This would especially be the case if US beef shipments were insufficient to meet the increased demand. This situation could arise given the contraction of the US beef cattle herd and the expectation of lower beef production over the next few years as breeding stock is retained for herd rebuilding.

Domestic saleyard prices for beef are projected to decline further in real terms in 2011-12 as competition with US beef increases in the major Asian export markets. Toward the end of the projection period, prices are projected to recover in real terms. By 2014-15, the average saleyard price for beef is projected to be around 270 cents a kilogram in 2009-10 dollars.

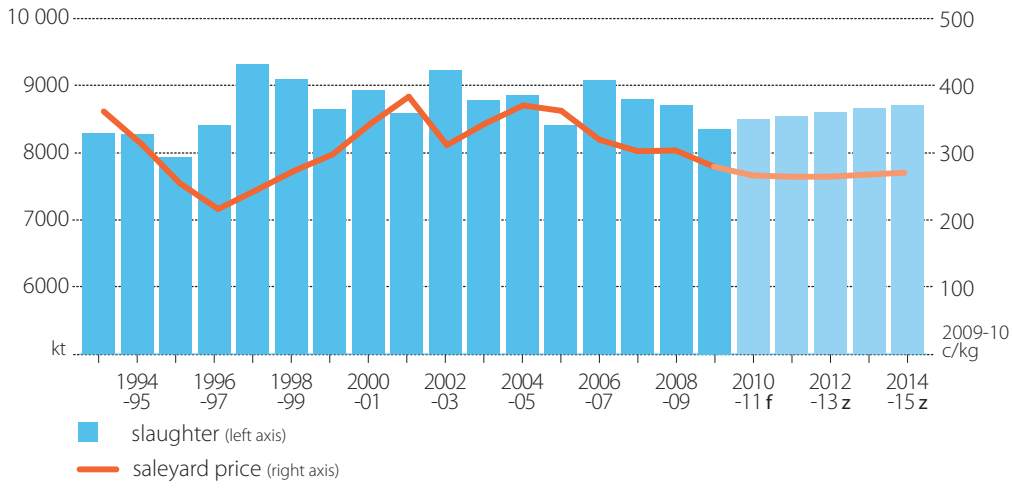


Beef herd projected to increase gradually toward 2014-15

In 2008-09, the Australian cattle herd fell by more than 1 per cent to 27 million head, with significant declines in Queensland, Northern Territory and Victoria. Less than favourable seasonal conditions in many regions prevented an increase in cattle numbers. Slaughter of cows and heifers was up by 3 per cent in 2008-09 and was the highest slaughter for some years.

However, in the first half of 2009-10, total slaughter declined year on year by 6 per cent, reflecting improved seasonal conditions in many regions in eastern Australia. In late 2009 and early 2010, significant rainfall across much of northern Australia has led to reduced turn-off as transport became difficult in some areas and graziers withheld cattle in anticipation of improved pasture growth. For Australia as a whole, the cattle herd is forecast to be around 27.1 million head by June 2010.

Australian cattle slaughter and prices



Over the medium term, the Australian cattle herd is projected to increase gradually under the assumption of favourable seasonal conditions. Also supporting the increase will be stronger export demand as a result of income growth, and hence increased beef consumption, in Australia's major export markets. The Australian cattle herd is projected to grow by almost 3 per cent over the outlook period, reaching around 28 million head by the end of 2014-15.

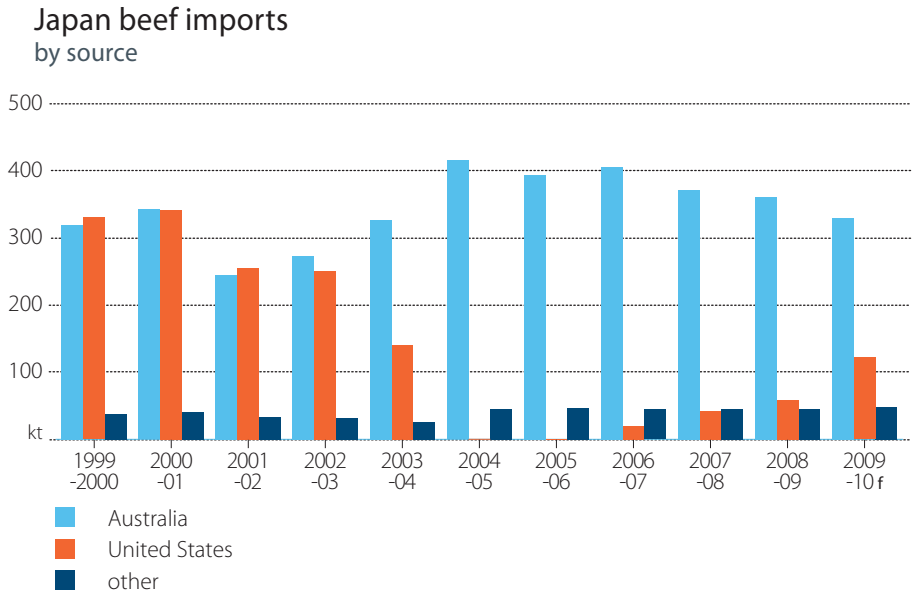
Much of the increase in the cattle herd is expected to occur in northern Australia. Beef cattle numbers have been increasing in northern Australia with improvements in management practices, including grazing management and cattle genetics and infrastructure. With the demand for live cattle and beef projected to remain relatively strong in the Asian region over the medium term, herd numbers in northern Australia are expected to increase gradually.

Competition from US beef in the Japanese market

Following a decline of 1 per cent in 2008-09, exports of Australian beef to Japan (Australia's biggest export market for beef) fell, year on year, by 3 per cent to 178 kilotonnes in the first six months of 2009-10.

Total Japanese beef imports are forecast to increase in the next two years in response to improved income growth. However, much of the forecast increase in beef imports is expected to be filled by supplies of US beef. In the short term, rising imports of US beef are expected to increasingly displace Australian beef. Although Japan continues to restrict US beef imports to cattle slaughtered under 21 months of age and not containing any brain, bone or spinal cord, which have a higher risk of transmitting bovine spongiform encephalopathy (BSE or 'mad cow disease'), US exporters have been able to provide increased volumes of compliant products, including the cuts that are in greatest demand in Japan.

For 2009-10 as a whole, Australian beef exports to Japan are forecast to decline by 6 per cent to 341 kilotonnes. In 2010-11, Australian exports to Japan are forecast to recover by 3 per cent to 350 kilotonnes.



While the competition from US beef is expected to increase in the next few years, the adverse impact on Australian beef exports is likely to be offset by a gradual strengthening in the overall demand for beef in Japan. This is particularly expected toward the end of the projection period.

Total beef consumption in Japan has been declining since the early 2000s, while pork consumption has increased. The shift away from beef mainly came as a result of food safety concerns following the discovery of BSE in Japanese cattle and later on in North American cattle, leading to a ban on US beef imports between 2003 and 2008.

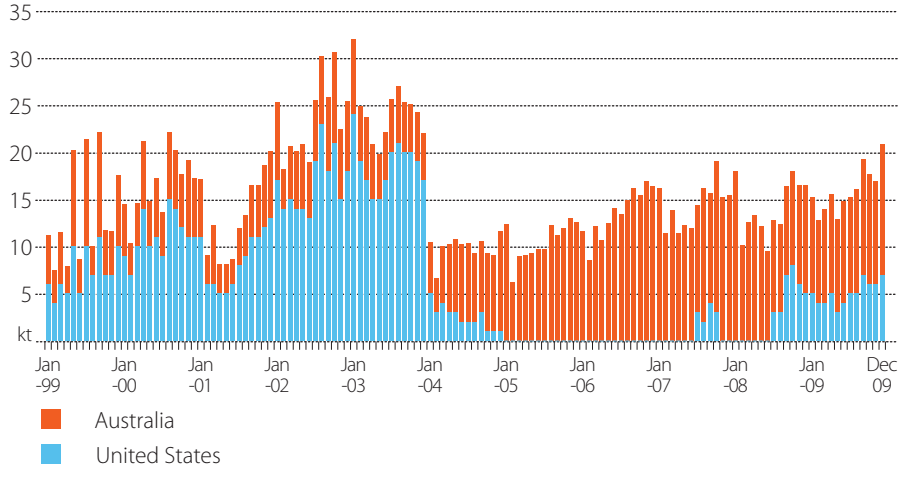
Over the medium term, Japanese consumption of beef is projected to rise gradually in line with improving income growth. Food safety concerns surrounding beef are assumed to gradually recede. In response to higher demand, Australian beef exports to Japan are projected to increase gradually toward the end of the projection period, reaching around 380 kilotonnes by 2014-15.

Increased US beef imports by the Korean market

Increased competition from US beef has also occurred in the Korean market. Import demand for beef by the Republic of Korea has been recovering as domestic consumer demand strengthens in response to improving economic growth. However, most of the increase came from increased imports from the United States.

While the competition from US beef has increased, the effect on Australian beef has been more than offset by recovering total consumption of beef. Australian beef exports to the Republic of Korea rose year on year by 6.1 per cent to 72 kilotonnes between July 2009 and January 2010, following a decline of 23 per cent in 2008-09. In the short term, Australian beef exports to that market are expected to encounter strong competition from US beef, as the US Meat Export Federation has launched an advertising campaign to win back Korean consumers. For 2009-10 as a whole, Australian beef exports to the Republic of Korea are forecast to rise by around 4 per cent to 117 kilotonnes, before falling by 6 per cent to 110 kilotonnes in 2010-11.

Korean monthly beef imports from the United States and Australia



Competition from US beef in the Korean market is expected to continue over the remainder of the projection period, although the effect on Australian beef is expected to be offset by an increase in total beef demand in that market as relatively strong income growth resumes over the medium term. Also expected to support the competitiveness of Australian beef will be an assumed depreciation of the Australian dollar against the US dollar by that time. Reflecting these factors, Australian beef exports are projected to increase gradually over the medium term, reaching around 115 kilotonnes by 2014-15.

Australian beef exports to the United States

In the United States, beef production has been falling since 2008, which partly reflects a declining beef cattle herd. Beef consumption in the United States also declined over this period, although a moderate increase in imports of manufacturing beef occurred.

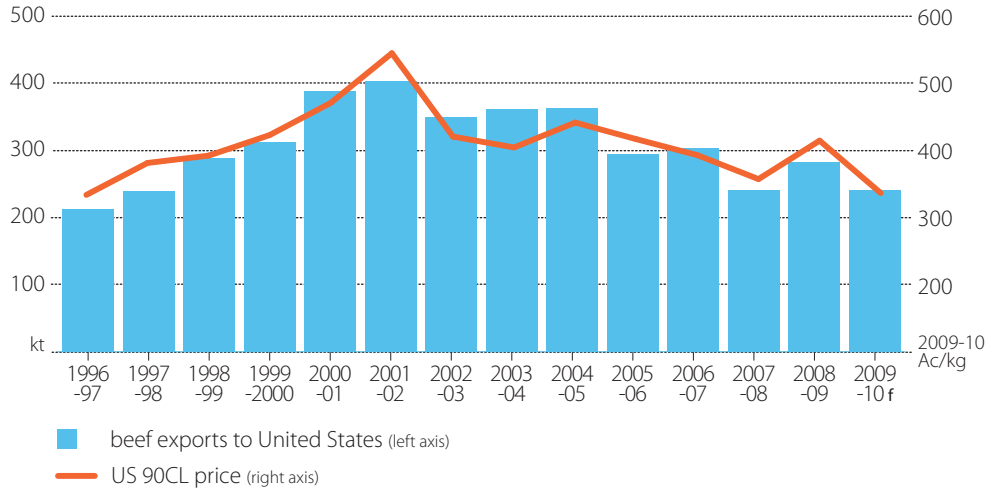
The strengthening in demand for lower priced manufacturing beef was a reflection of the adverse impact of the economic downturn. This shift in US consumer preferences provided support for Australian beef (mainly manufacturing beef), with imports increasing by 18 per cent to 282 kilotonnes in 2008-09.

However, a significant appreciation of the Australian dollar since mid-2009 has weakened the competitiveness of Australian beef in the US market. In the first seven months of 2009-10, Australian beef exports fell year on year by 24 per cent to 115 kilotonnes. For 2009-10 as a whole, Australian beef exports to the United States are forecast to fall by around 15 per cent to 240 kilotonnes.

There has also been an increase in the US domestic supply of manufacturing beef as a result of an increased cull of US dairy cows. The US dairy industry has subsidised the cull of around 276 000 dairy cows since mid-2008 as a means of supporting domestic milk prices. While domestic milk prices have recovered partially from their recent lows, there remains a possibility that subsidised culls of dairy cows could occur in the year ahead. Given the low profitability of many US dairy farms, cow slaughter is expected to remain relatively high, at least in the short term.

In 2010-11, US imports of beef are forecast to increase by 4 per cent to around 1.3 million tonnes, with manufacturing beef making up the bulk of the imports. Despite continued competition from South American imports and an assumed strong Australian dollar, Australian beef exports are forecast to increase by 8 per cent to around 260 kilotonnes in 2010-11.

Australian beef exports to the United States and real prices



Over the medium term, the demand for Australian beef is expected to recover further as the United States enters a herd rebuilding phase and cow slaughter falls. A more significant depreciation of the Australian dollar which is assumed toward the end of the projection period is also expected to improve the competitiveness of Australian beef. Australian beef exports to the United States are projected to increase over the medium term, reaching 295 kilotonnes by 2014-15.

Prospects for improved trade with the European Union

In a recent resolution to a long-running World Trade Organization (WTO) dispute with the United States, the European Union agreed to open a new global import tariff quota for high quality beef, allowing 20 kilotonnes a year free of tariff, beginning 1 August 2009. To date, the United States and Australia are the only countries to have gained the EU certification required for access to this arrangement, although a number of other beef exporting countries are also seeking certification.

Access to the tariff quota has strict conditions. It requires cattle be less than 30 months old, not be treated with growth hormones and be fed on a specific diet for at least 100 days prior to slaughter. Carcasses and meat are then subject to EU agreed quality controls. The tariff quota is initially set at 20 kilotonnes a year for three years, before rising to 45 kilotonnes from the fourth year.

While it is difficult to make an accurate assessment on what share of the new tariff quota Australian beef may eventually fill, the move provides a new niche opportunity for Australian exporters and comes in the wake of US beef re-entering the Japanese and Korean markets. Under the existing country-specific tariff quota that Australia already accesses for high quality beef into the European Union, Australia has typically exported between 7 and 10 kilotonnes of beef a year to that region.

Shipments within the existing 7150 tonne beef tariff quota set by the European Union attract a 20 per cent tariff, while over-quota shipments attract a 100 per cent tariff. Under the new arrangement, Australian exporters are likely to sell high quality beef into the European Union from late March 2010.

Growth in Australian beef exports to the European Union under the new arrangement will be dependent on the ability of competing beef exporters to meet the strict import requirements, although the United States is expected to fill the bulk of the tariff quota.

Performance in other markets

The Russian Federation

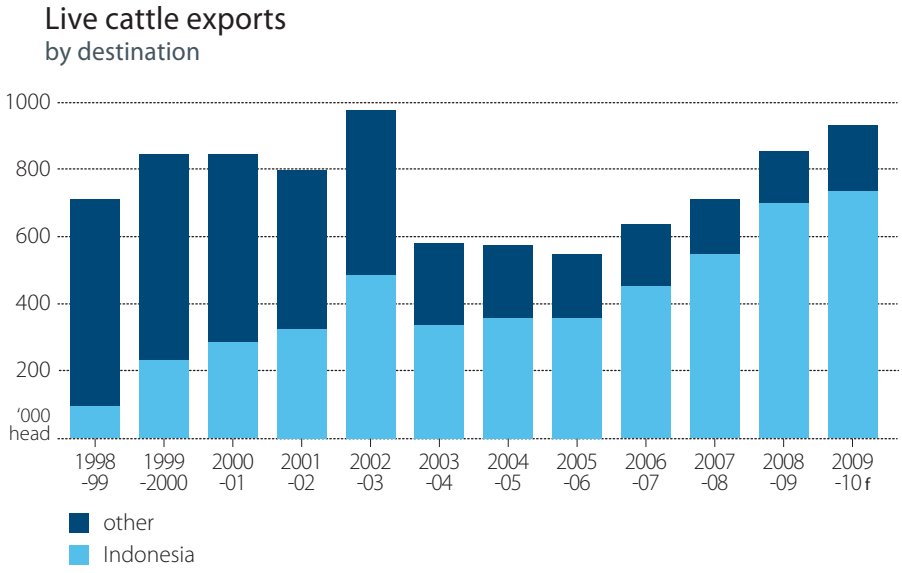
Australian exports to the Russian Federation fell by more than 19 per cent, to around 37 kilotonnes in 2008-09. Reflecting the effect of the economic downturn and a strong Australian dollar against the exchange rates of other suppliers, especially Brazil, Australian beef exports to that market are forecast to decline by a further 54 per cent to around 17 kilotonnes in 2009-10.

In 2010-11, total beef imports by the Russian Federation are forecast to increase by 10 per cent to 800 kilotonnes. However, much of this growth is expected to be filled by cheaper imports from South America. Australian beef exports to the Russian Federation are expected to recover only gradually over the medium term.

Indonesia

Australia's beef exports to Indonesia are forecast to increase by 16 per cent to 44 kilotonnes in 2009-10, largely as a result of continued strong consumer demand. Indonesian beef consumption has increased strongly over the past few years as a result of rising incomes. However, a relatively strong Australian exchange rate against the Indonesian rupiah is expected to moderate growth in export earnings from shipments to that country, at least in the short term.

In Indonesia, imports of live cattle from Australia increased by 28 per cent to 700 000 head in 2008-09. Indonesian import demand for live cattle has grown strongly, particularly after a recent expansion of Indonesian feedlot infrastructure. Australian exports of live cattle to Indonesia are forecast to increase by 5 per cent to 735 000 head in 2009-10 and by a further 2 per cent to 750 000 head in 2010-11.



Over the medium term, the Indonesian market is expected to become increasingly important to Australian beef producers in northern Australia, with strong growth projected for both beef and live cattle exports. Nevertheless, one downside risk to this outlook is the possibility of increased competition from Brazilian beef.

In early September 2009, the Indonesian Government issued a ministerial decree allowing imports of boneless beef from Brazil. The effect on Australian beef exports to Indonesia will depend on a number of factors, such as price and consumer preferences. While Australia has a freight advantage, Brazil is a lower cost producer. The integration of Australia's live cattle trade into Indonesian's beef supply chain (through feedlots), Indonesia's familiarity with Australian product and the preference to consume beef on the same day as it is slaughtered is expected to provide support for Australia's live cattle trade.

The Middle East

Australian beef exports to the Middle East rose by more than 145 per cent to 14 kilotonnes over the five years to 2008-09. In 2009-10, strong growth in Australian beef exports to this market is

forecast to continue, reaching around 20 kilotonnes. Over the next few years, the Middle East is expected to increase its significance as a market for Australian beef exports, although import demand in this region will still be relatively small compared with the main export destinations of Japan, the United States and the Republic of Korea.

Changes in Australian conditions for beef and beef product imports

On 20 October 2009, the Australian Government announced a change in the import conditions for beef products sourced from countries that have had one or more cases of Bovine Spongiform Encephalopathy (BSE or 'mad cow disease') in its cattle herd and have managed the human health risk from the disease. Under the changed requirements, which come into effect from 1 March 2010, such countries can apply to Food Standards Australia New Zealand (FSANZ) to seek to export beef and beef products to Australia for human consumption. Upon receiving an application, FSANZ is to conduct a rigorous risk assessment to determine if the country meets the conditions that allow exports to Australia. Any beef or beef product imports from countries assessed as having a controlled BSE risk will need to be certified as not containing, or being contaminated, with BSE risk materials.

It is likely that the potential quantity of beef imported under these changed conditions will be small given the competitiveness of the Australian beef industry and the small quantities of imported beef, both historically and currently. The combined effect of the medium-term projections of saleyard prices and production, allowing Australia to remain a significant global beef exporter, and transports costs suggests any potential imports would have to focus on small niche markets to be competitive. Prior to the decision in 2001 to stop imports from countries that had one or more cases of BSE in its cattle herd, Australia only imported small quantities of beef and beef products.

Beef and veal outlook

	unit	2007 -08	2008 -09	2009 -10 f	2010 -11 f	2011 -12 z	2012 -13 z	2013 -14 z	2014 -15 z
Saleyard price a									
– nominal	Ac/kg	286	296	279	272	277	285	295	305
– real b	Ac/kg	302	303	279	266	264	265	268	270
Cattle numbers c	million	27.3	27.0	27.1	27.2	27.3	27.5	27.7	27.9
– beef	million	24.8	24.5	24.7	24.8	24.9	25.0	25.2	25.4
Slaughterings	'000	8 799	8 702	8 355	8 490	8 540	8 600	8 665	8 700
Production	kt	2 155	2 148	2 062	2 108	2 120	2 139	2 157	2 165
Consumption per person	kg	36.3	32.7	33.9	34.0	32.8	31.9	30.7	28.9
Export volume d	kt	930	968	889	910	930	950	975	1 000
– to United States	kt	240	282	240	260	270	275	285	295
– to Japan	kt	365	363	341	350	360	365	370	380
– to Korea, Rep. of	kt	146	113	117	110	105	107	110	115
Export value									
– nominal	A$m	4 190	4 857	4 160	4 085	4 024	4 187	4 421	4 693
– real b	A$m	4 423	4 971	4 160	3 993	3 838	3 895	4 013	4 156
Live cattle exports	'000	713	856	934	953	973	994	1 017	1 041

a Dressed weight. **b** In 2009-10 Australian dollars. **c** At 30 June. **d** Fresh, chilled and frozen, shipped weight. **f** ABARE forecast. **z** ABARE projection.

Sources: Department of Agriculture, Fisheries and Forestries; Australian Bureau of Statistics; ABARE.

Sheep meat

Outlook to 2014-15

Gwendolen Rees

In recent years, the Australian sheep industry has increasingly shifted its focus to meat production as the national sheep flock continues to decline. Production of sheep meat, particularly lamb, has been maintained as a result of strong demand. In the short term, sheep producers are forecast to continue to focus on meat production, as sheep meat returns are expected to remain favourable.

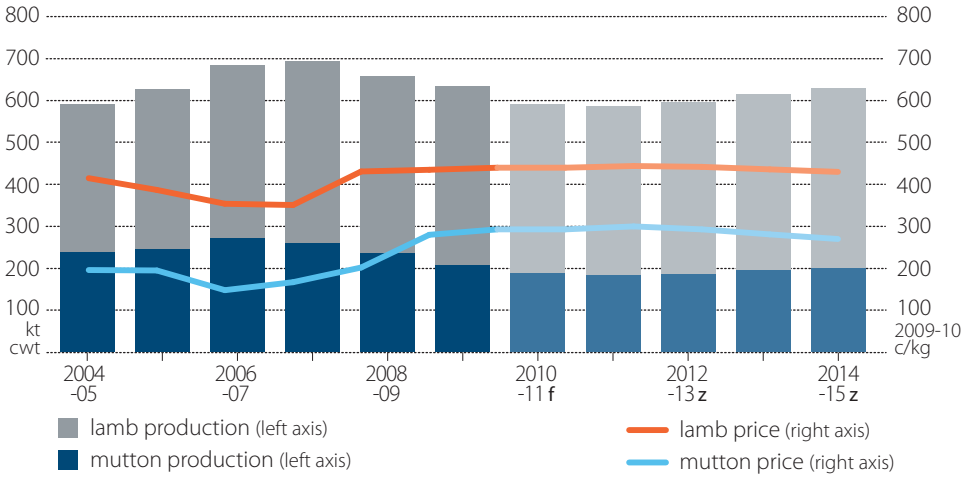
Over the medium term, a projected gradual recovery in wool prices combined with favourable sheep meat prices is expected to lead to a gradual rebuilding of the sheep flock toward the end of the outlook period. This projected increase in flock numbers, together with a continued emphasis on meat production within sheep enterprises, is projected to result in increasing sheep meat production over the medium term.

Favourable sheep meat prices continuing into the medium term

The Australian weighted saleyard price of lambs is forecast to increase by 3 per cent in 2010-11, to average 450 cents a kilogram. Reduced lamb production combined with increased demand is forecast to result in higher prices in 2010-11. Over the medium term, lamb prices are projected to remain relatively high in real terms. Production is expected to fall slightly to 2011-12, before gradually rising, while demand is projected to increase steadily.

In real terms, the Australian weighted saleyard price of sheep is forecast to rise by 38 per cent in 2009-10, and by a further 5 per cent in 2010-11. The saleyard price is expected to peak in 2011-12, at 300 cents a kilogram (in 2009-10 dollars), largely as a result of a forecast decline in adult sheep slaughter over that period. Real prices are projected to remain relatively high in historical terms throughout the outlook period.

Australian sheep meat production and prices



Sheep flock to increase from 2011-12

The Australian sheep flock was estimated to total 71.6 million head at 30 June 2009, continuing the downward trend in sheep numbers. Although a positive outlook for wool and sheep meat prices is expected to encourage producers to retain breeding stock from 2009-10, it is projected that overall flock numbers will only begin to recover from 2011-12, and reach around 72 million head by 2014-15.

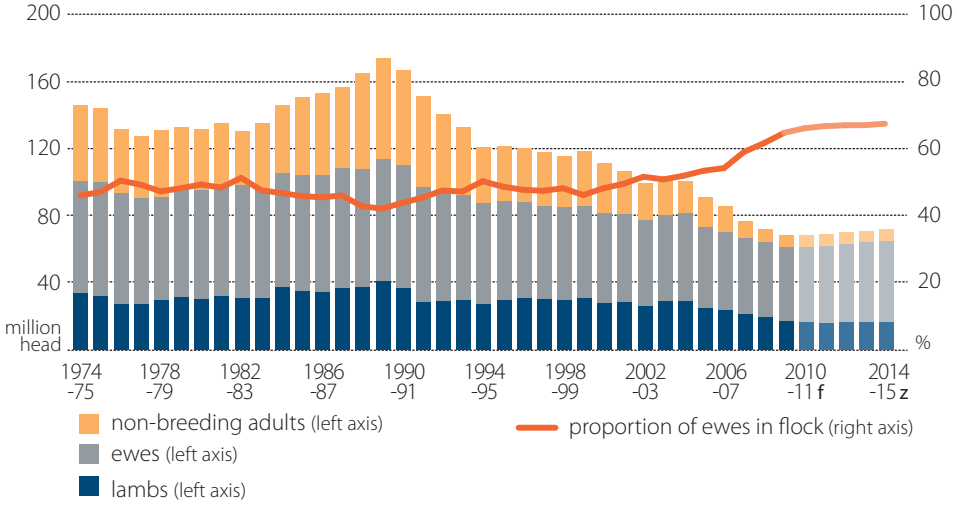
The shift away from sheep enterprises into alternatives such as cropping is expected to slow over the outlook period. Unfavourable cropping seasons in some regions of Australia over recent years could encourage some mixed livestock-cropping producers to shift their enterprise mix toward sheep. The sheep industry is expected to remain focused on meat production. Producers are therefore expected to increase their breeding stock, with little expansion in non-breeding adult sheep (wethers) numbers until the latter part of the outlook period. Total sheep numbers are projected to begin to increase from 2011-12, despite projected relatively high turn-off of lambs in response to favourable prices.

Adult sheep slaughter is forecast to fall to 10 million head in 2009-10, and by a further 13 per cent in 2010-11 to 8.8 million head. In the medium term, sheep slaughter is projected to gradually increase from 2011-12 to around 9.6 million head by 2014-15 as the sheep flock expands.

Mutton production is also forecast to fall in the short term, following the decline in slaughter. A decline of 12 per cent is forecast for 2009-10, to around 207 kilotonnes carcass weight. Over the medium term, production is projected to decline to 182 kilotonnes in 2011-12 before increasing to around 200 kilotonnes by 2014-15. Slaughter weights could increase if seasonal conditions are favourable over the outlook period.

Lamb slaughter is forecast to rise by around 1 per cent to 21 million head in 2009-10, as producers respond to favourable prices by increasing turn-off. In the six months to December

Australian sheep flock



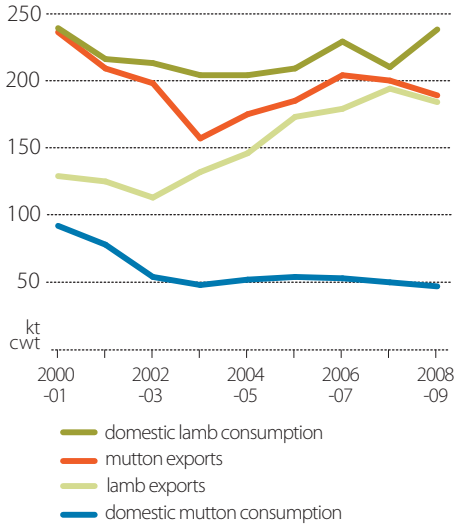
2009, lamb slaughter was 1 per cent higher than the same period in the previous year. However, this high slaughter is not expected to continue over the medium term. Producers are expected to rebuild flock numbers and total sheep numbers are projected to rise gradually. Lamb slaughter over this period is expected to fall as more female lambs are retained for flock rebuilding. As ewe numbers begin to rise toward the end of the outlook period, lamb numbers are forecast to increase and lamb slaughter is projected to gradually rise again.

Lamb production is forecast to follow the same trend, also rising by around 1 per cent in 2009-10, but then falling in the next few years because of lower flock numbers. By 2014-15, lamb production is projected to increase from the low of 2011-12 to roughly the same as 2009-10. Slaughter weights are expected to improve over the outlook period because of an increased focus on first and second cross lamb production.

Domestic consumption

Domestic lamb consumption averaged around 10.4 kilograms per person over the five years to 2008-09. In 2007-08, per person consumption fell to around 10 kilograms, but recovered in 2008-09 despite the negative effect of the economic slowdown.

Australian sheep meat consumption and exports



Domestic per person consumption of lamb is projected to remain around 10.4 kilograms over the outlook period. Per person consumption of mutton is projected to continue to fall in line with past trends, to around 1.9 kilograms in 2014-15. The possibility of consumer substitution away from sheep meat toward lower priced sources of protein, in response to relatively high sheep meat prices, remains a potential downside risk to this consumption outlook.

Exports to fall in the short term, but recover in the medium term

Total exports of Australian sheep meat are forecast to fall by 5 per cent to 286 kilotonnes shipped weight in 2009-10, with an expected reduction in mutton export volumes more than offsetting increased exports of lamb. In the first half of 2009-10, mutton exports fell year on year by 16.5 per cent, while lamb exports grew by 12.5 per cent. Australia's lamb exports to the United States from July to December 2009 increased by 4 per cent in volume terms compared with the previous year, although in value terms they declined by 18 per cent as a result of a significantly higher Australian dollar against the US dollar and consumers substituting toward lower value cuts of meat. Mutton export volumes to Canada, Japan, the Republic of Korea and the Russian Federation fell, in aggregate, by around 40 per cent in the same period. China remains a rapidly growing destination for Australian sheep meat, with export volumes of mutton and lamb growing by 75 per cent and 5 per cent, respectively, in the same period. In 2010-11, total sheep meat exports are forecast to fall a further 12.8 per cent.

Over the medium term, import demand in key destinations such as the United States, China and the Middle East are expected to grow. Reflecting an assumed gradual depreciation of the Australian dollar, total exports of lamb and mutton are projected to be around $1.5 billion in 2009-10 dollars by 2014-15.

Competition with sheep meat from New Zealand

New Zealand accounts for around 40 per cent of global sheep meat exports and is Australia's main competitor in major export markets. Over the past 10 years, sheep numbers in New Zealand have declined by more than 20 per cent, with some producers converting to dairy production. According to Meat and Wool New Zealand, the New Zealand flock is forecast to fall a further 3 per cent in 2009-10, to 33.1 million head.

Over the medium term, the New Zealand Ministry for Agriculture and Fisheries has projected a rebuilding of the New Zealand sheep flock, as returns to sheep meat improve relative to alternative enterprises. Sheep meat exports from New Zealand are forecast to fall slightly in 2009-10, but to rise gradually over the next five years. However, increased New Zealand exports are not expected to significantly affect the demand for Australian sheep meat, as demand growth in sheep meat importing countries is expected to be more than sufficient to absorb increased exports from both countries.

Strong prospects for exports to the United States

Lamb exports to the United States, Australia's largest export market, are forecast to grow by around 3 per cent in 2009-10, to 39 kilotonnes shipped weight. Although export volumes were weaker in both November and December 2009, the total volume exported increased year on year by around 4 per cent in the second half of 2009. US domestic demand for lamb is expected to increase gradually in the short term as economic conditions in the United States begin to improve.

According to the United States Department of Agriculture, US flock liquidation is continuing with adult sheep slaughter rates considerably above historical averages in the second half of 2009. Given this trend of lower domestic production, the projected recovery of US demand for lamb and mutton provides an opportunity for increased demand for Australian sheep meat exports.

One factor potentially limiting growth in Australian exports to this market is the assumed relatively strong Australian dollar over the short to medium term. If the Australian dollar remains strong against the currencies of other sheep meat exporters such as New Zealand, there could be some substitution away from Australian sheep meat in export markets.

Live exports to slow

Over the past three years, Australia has exported around 4 million sheep a year. In 2009-10, live exports are forecast to fall to 3.7 million head, which reflects a lower number of suitable adult sheep and competition from the slaughter lamb industry. Over the medium term, live exports are projected to average around 3.5 million head a year. Live export values are expected to be supported by strong demand for live sheep, particularly in the Middle East. Competition from other live sheep exporters such as Sudan is expected to be constrained by flock numbers and quality regulations such as import protocol health requirements.

Sheep meat outlook

	unit	2007 -08	2008 -09	2009 -10 f	2010 -11 f	2011 -12 z	2012 -13 z	2013 -14 z	2014 -15 z
Saleyard price for sheep a									
– nominal	Ac/kg	159	199	280	300	315	315	310	305
– real b	Ac/kg	168	203	280	293	300	293	281	270
Saleyard price for lambs a									
– nominal	Ac/kg	335	424	435	450	465	475	480	485
– real b	Ac/kg	353	434	435	440	444	442	436	430
Sheep numbers c	million	77	72	68	68	69	70	71	72
Slaughterings									
Sheep	'000	11 929	11 282	10 000	8 750	8 650	8 850	9 200	9 550
Lamb	'000	20 899	20 767	21 000	19 750	19 700	19 850	20 300	20 700
Production d									
Mutton	kt	258	235	207	187	182	186	194	200
Lamb	kt	435	423	428	405	404	410	420	430
Consumption per person									
Mutton	kg	2.3	2.1	2.1	2.1	2.0	2.0	1.9	1.9
Lamb	kg	10.0	10.9	10.7	10.6	10.4	10.4	10.4	10.4
Exports									
Mutton exports e	kt	158	146	125	111	108	113	120	124
Lamb exports e	kt	163	156	161	139	141	143	149	154
– to United States	kt	42	38	39	34	34	35	36	38
Lamb export value									
– nominal	$m	803	925	980	873	917	985	1 036	1 084
– real b	$m	848	947	980	853	875	917	940	960
Live sheep exports	'000	4 069	4 064	3 700	3 400	3 400	3 450	3 500	3 500

a Dressed weight. **b** In 2009-10 Australian dollars. **c** At 30 June. **d** Carcass weight. **e** Fresh, chilled and frozen, shipped weight. **f** ABARE forecast. **z** ABARE projection.

Sources: Australian Bureau of Statistics; Department of Agriculture, Fisheries and Forestry; ABARE.

Pig meat

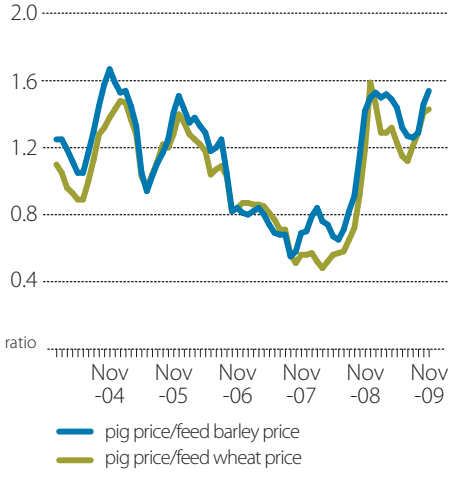
Outlook to 2014-15

James Fell

The weighted average Australian saleyard price of pigs is forecast to be 317 cents a kilogram in 2010-11. While this represents a decline of 1 per cent from the average price achieved in the previous year, this forecast remains around 33 per cent higher in real terms than the average price over the five years to 2008-09.

Over the medium term, the weighted average saleyard price of pigs (in 2009-10 dollars) is projected to fall gradually to 297 cents a kilogram in 2014-15, which reflects increases in both domestic pig meat production and imports. Under the assumption of a gradual depreciation of the Australian exchange rate toward 2015, growth in import demand could ease marginally over the outlook period.

Australian pig to feed price ratios
monthly, ended November 2009



Domestic production to increase

Domestic pig meat production is forecast to remain largely unchanged at 329 kilotonnes in 2010-11. Production is projected to increase to 338 kilotonnes by 2014-15 as producers respond to relatively high real prices projected over the medium term and more favourable feed grain costs. Feed costs account for approximately 55 per cent of total production costs. Over the outlook period, the pig to feed grain price ratio, which is an indicator of returns from pig production, is expected to remain largely unchanged from current levels.

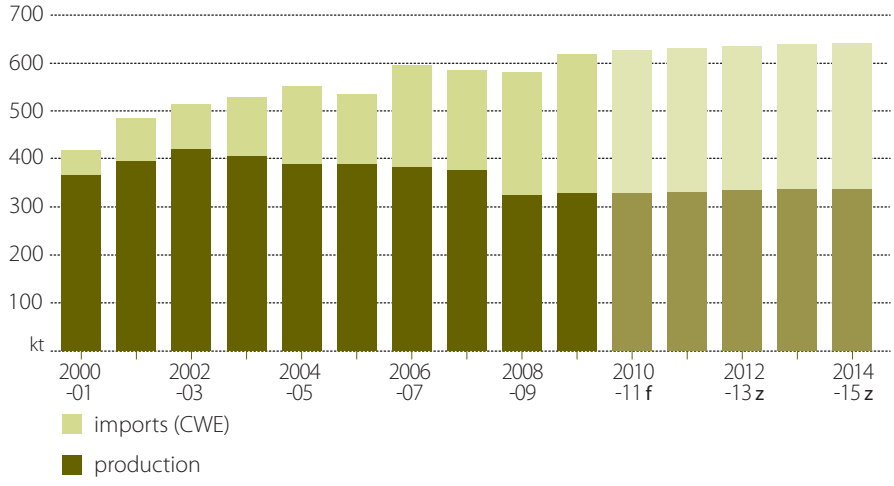
Imports to rise slightly over the medium term

In 2010-11, pig meat imports are forecast to increase by 4 per cent to 148 kilotonnes as a result of the relatively high value of the Australian dollar. Australian Pork Limited estimates that around 70 per cent of processed pig meat consumed in Australia is currently sourced from imports. The processed pig meat sector accounts for around 60 per cent of total pig meat sales. As the domestic pig meat industry increasingly focuses on the fresh pig meat market, the scope to which imports can substitute domestic production or maintain downward pressure on domestic saleyard prices will depend on the extent to which consumers will accept processed pig meat as a substitute to fresh pig meat. Australian pig meat imports are projected to increase only slightly over the medium term, to reach 151 kilotonnes by 2014-15.

Given that approximately 50 per cent of Australian pig meat consumption was sourced from imports, market developments in major exporting countries can affect the Australian pig meat market. Over the past five years, pig meat imported by Australia has mostly originated in

Denmark, Canada and the United States. In Canada, the breeding pig herd has been declining, with a fall of 5 per cent in the 12 months to October 2009. A similar trend has also occurred in the United States since 2007, with the breeding herd down by 3 per cent in 2009. In contrast, sow numbers in Denmark increased by 1 per cent in the 12 months to October 2009. Despite the reduction in the breeding herd in the United States, lower US feed grain prices and an improved US pig to corn price ratio (an indicator of returns to US pig farmers) are expected to encourage pig production in that country.

Australian domestic production and imports (carcass weight equivalent)



Exports to rise slightly

Australian pig meat export volumes consist of around 55 per cent fresh pork, with exports to Singapore and New Zealand accounting for approximately 78 per cent of all pig meat exports by volume. Exports are forecast to remain stable at 27.5 kilotonnes in 2010-11. Toward 2014-15, exports are projected to increase to 29.5 kilotonnes, being supported by an assumed depreciation of the Australian dollar.

Pig meat and poultry outlook

	unit	2007 -08	2008 -09	2009 -10 f	2010 -11 f	2011 -12 z	2012 -13 z	2013 -14 z	2014 -15 z
Pig meat									
Breeding sows a	'000	313	276	298	301	303	305	306	307
Saleyard price b									
– nominal	Ac/kg	240	330	320	317	320	325	330	335
– real c	Ac/kg	253	338	320	310	305	302	300	297
Slaughterings	'000	5 217	4 522	4 550	4 590	4 630	4 670	4 700	4 710
Production	kt	377	324	328	329	332	334	336	338
Consumption									
per person	kg	24.7	24.3	26.0	26.2	26.0	25.8	25.5	25.3
Imports d									
– fresh	kt	100.2	125.3	139.1	145.5	146.5	147.5	148.0	148.5
– preserved	kt	2.8	2.8	2.7	2.5	2.5	2.5	2.5	2.5
– total	kt	103.0	128.0	141.8	148.0	149.0	150.0	150.5	151.0
Export volume de	kt	39.1	32.3	27.9	27.5	28.0	28.5	29.0	29.5
Export value									
– nominal	$m	128.1	123.7	108.6	110.0	112.0	112.0	116.0	120.0
– real c	$m	135.2	126.6	108.6	107.5	106.8	104.2	105.3	106.3
Poultry meat									
Production	kt	835	866	873	910	940	970	1 000	1 030
Consumption									
per person	kg	37.8	37.5	38.0	38.8	39.5	40.3	40.9	41.7
Export volume	kt	30.2	37.1	33.1	36.0	36.5	37.0	37.5	38.0

a Numbers at 30 June. **b** Dressed weight. **c** In 2009-10 Australian dollars. **d** Shipped weight. **e** Excludes preserved pig meat. **f** ABARE forecast. **z** ABARE projection.
Sources: Australian Bureau of Statistics; ABARE.