

Domestic Red Meat Supply and Retail Pricing

In 2019 both cattle herd and sheep flock numbers dropped to multi decade lows as the impact of a widespread drought across key production areas (particularly in NSW) took its toll. The drought additionally drove a spike in feed costs across the board and led to all of the major proteins reaching record high retail prices in 2019 according to the ABS.

Coming into 2020 many producers were looking to rebuild their herd/flock with the right conditions and from late January through to March a number of widespread rainfall events have swept across northern and eastern Australia driving reprieve from the dry conditions and reinvigorating producers demand and desire for livestock. This has led to a significant immediate tightening of available livestock for slaughter and rapid increase in livestock prices.

At the same time the outbreak of covid-19 has created a new level of uncertainty and volatility across the globe. Domestically, recent coverage and announcements has led to a rush on retail stores with consumers seeking to 'stock-up' in the event of movement restrictions being imposed in Australia, similarly to many other nations around the world. This has led to a short term scenario where red meat products are unavailable at shelf as demand is outstripping the ability of supply chains to meet this spike in demand.

Key points

- **ABS Beef Retail Prices:** The average retail price of beef for 2019 was a new record at \$20.64/kg. This is a \$1.225/kg (or 6.3%) growth on last year.
- **ABS Lamb Retail Prices:** The average retail price of lamb for 2019 was a new record at \$17.56/kg. This is a \$1.89/kg (or 12%) growth on the same period last year.
- **AC Nielsen pricing:** The average retail pricing for beef and lamb has been trending up for 2 years (with data to Jan 26 available), as per what we have seen in ABS data however, the most recent data shows a slight decline in all fresh meat pricing.
- **Over the hooks pricing (OTH):** The average price of all categories has experienced sharp increases from the start of Jan to the start of March, and there has been a drop from the middle of March.

MLA action

- MLA will continue to monitor ABS, AC Nielsen, and livestock pricing

Background

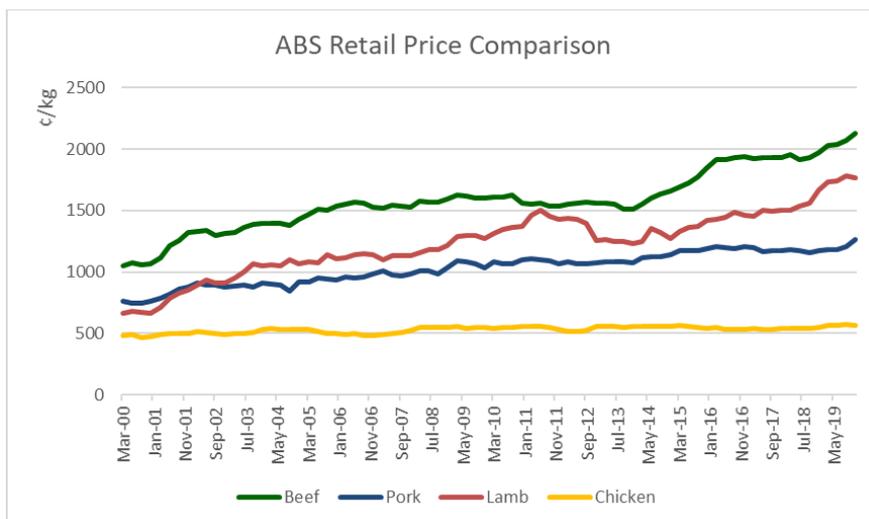
Australia is a leading producer of red meat and despite the tight conditions from the drought and recent rainfall we still produce more than enough product to service domestic utilisation many times over. In the last financial year only 26% of the red meat Australia produced was used domestically with the remainder of the product exported to over 100 countries globally. This places Australia in a reasonably exposed position to the performance and demand from global markets, but also means our food security in relation to red meat is not under threat.

2018-19	Beef	Lamb	Mutton	Total Sheepmeat	Goatmeat	Total Red Meat
Domestic Share	27%	35%	4%	25%	10%	26%
Export Share	73%	65%	96%	75%	90%	74%

- The average retail price of beef for 2019 was a new record at \$20.64/kg. This is a \$1.25/kg (or 6.3%) growth on 2018. Retail beef prices have been on the rise since 2014 and experienced growth in 23 of the last 25 quarters, according to the ABS (see chart 1: ABS retail prices).
- The average retail price of lamb for 2019 was a new record at \$17.56/kg. This is a \$1.89/kg (or 12%) growth on the same period last year. Retail lamb prices, similar to beef, have been on the rise since 2014 and experienced growth in 16 of the last 20 quarters, according to the ABS (see chart 1: ABS retail prices).

The next round of ABS retail price data is due at the end of April for the March quarter. An alternate source of information is Nielsen Homescan, but again the data for the March period is not available until the 3rd week of April.

Chart 1: ABS Retail Prices



- Retail pricing as reported by AC Nielsen HomeScan has also been increasing since Jan 2018. Prices for all Fresh Meat, Beef and Lamb have increased however, there has been a slight decrease in the most recent data. Total Fresh Meat prices dropped 19c/ Kg Jan'20 vs Dec '19; Lamb dropped 25c/Kg; beef dropped 5c/Kg, see chart 2: AC Nielsen pricing)
- Premium cuts of beef have experienced the largest drop in average pricing (scotch fillet -64c/Kg; sirloin - \$1.10/Kg; eye fillet – 34c/Kg), see chart 3.
- Beef mince price has increased, with the increases starting in Nov 2018 for regular beef mince. Premium beef mince price has been relatively flat at the same time, see chart 4.

Updated: 26 March 2020

Chief Marketing and Insights Officer: Lisa Sharp
Telephone: +61 447 949 650

Author:
Telephone:

Scott Tolmie
02 9463 9163 / 0437 497 259

Chart 2: AC Nilesen Fresh Meat prices

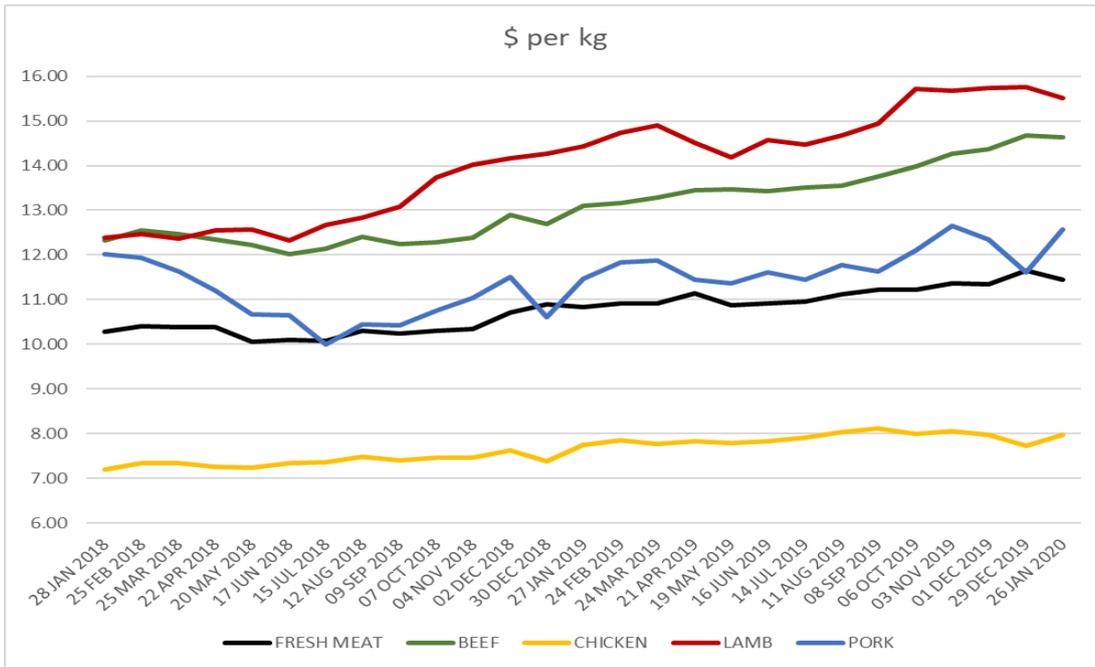
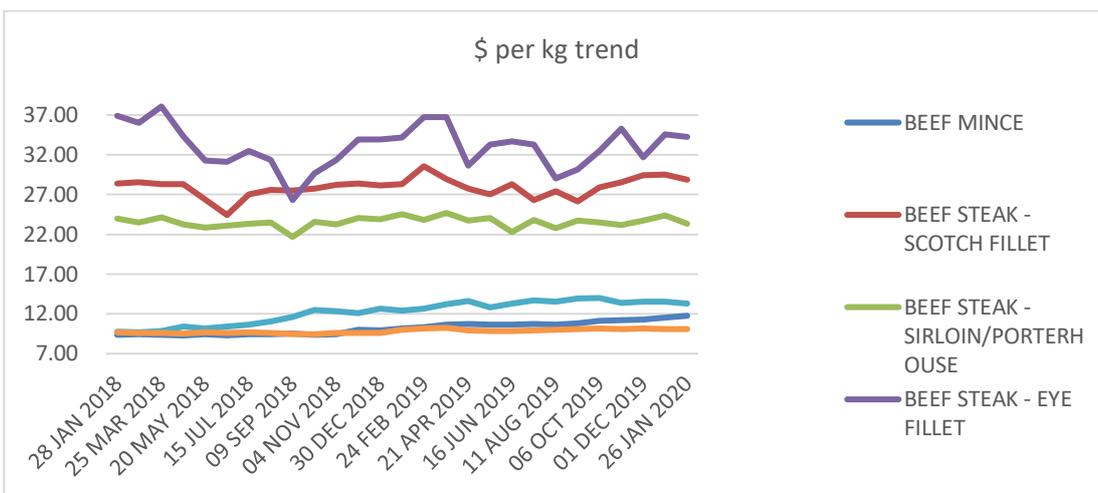


Chart 3: AC Nielsen prices- key cuts Beef and Lamb



- Over the hook prices have increased from the start of 2020 to the start of March 2020 but have now started to drop. For example, heavy steers rose from 540c 20th Jan 2020 to 610c 3rd March 2020 and have dropped to 586c this week, see chart 3: OTH prices.

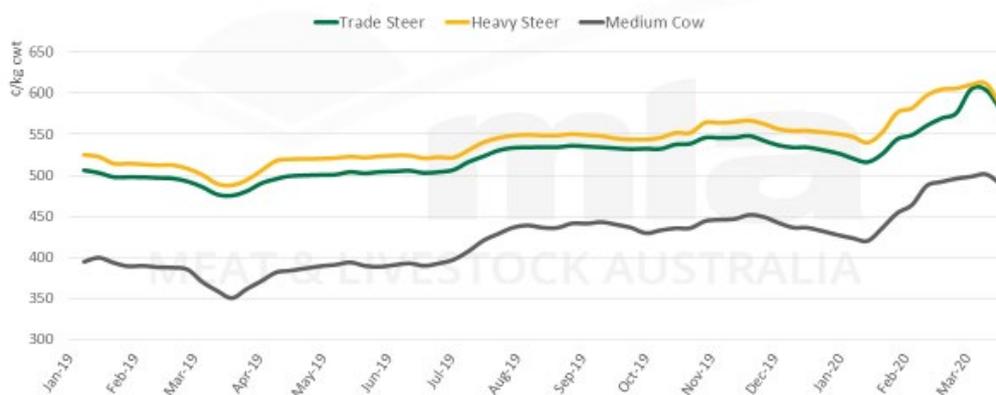
Updated: 26 March 2020

Chief Marketing and Insights Officer: Lisa Sharp
 Telephone: +61 447 949 650

Author:
 Telephone:

Scott Tolmie
 02 9463 9163 / 0437 497 259

Chart 3: Over The Hooks prices



Source: MLA's NLRS

- **Beef livestock prices:**

- The recent rain has encouraged restocker producers in the store market, increasing competition for a reduced pool of livestock, between feeders and processors.
- Cow and heifer prices have also experienced significant upside on the back of recent rainfall, as restockers are now looking to expand their core breeding herds. Productive breeding stock will be in high demand during 2020, given the extent of turnoff during the last two years.

- **2020 forecast beef supply:**

- National herd expected to fall to the lowest level since 1992, at 24.7 million head
- Adult cattle slaughter estimated at 7.2 million head in 2020, a 15% decline year on year (however with recent rain fall events this will likely be even lower)

- **Beef Exports:**

- Based on beef industry projections, Australian beef exports in 2020 are forecast to decline 16% to 1.03 million tonnes swt, one of the lowest levels in recent years, but still higher than any year before 2013.
- Covid-19 outbreaks in many key international markets are disrupting 'typical' product flows with significant supply/logistics challenges as well as consumer behaviour and demand shifting.
- For example February business activity slumped in China, which is typical post lunar New Year, but was more pronounced and prolonged, driven by employee travel restrictions preventing plants and workplaces from re-opening, and the freight-logistics network grinding to a halt. Consumer demand has also been subdued with bricks-and-mortar retail (for non-necessities), foodservice, tourism and hospitality have been particularly hard hit, as consumers study and work at home due to fear and movement restrictions. However, demand has boomed for digital and e-commerce-based services, with home-delivery meal and grocery businesses struggling to keep up with orders.
- China is now showing some signs that business activity is recovering and confidence remains in the long term demand for red meat in this markets underpinned by growing consumer wealth and the gap in domestic pork supply, resulting from African Swine Fever.
- The growing spread of cases beyond just China presents a demand-side risk to the Australian red meat industry. With about three-quarters of Australian beef and sheepmeat consumed in overseas markets, access to free and open trade is critical. Japan and Korea – two key beef

Updated: 26 March 2020

Chief Marketing and Insights Officer: Lisa Sharp
Telephone: +61 447 949 650

Author:
Telephone:

Scott Tolmie
02 9463 9163 / 0437 497 259

markets for Australia – have recorded an increase in covid-19 cases. As beef shipments to China cooled in February, beyond the expected seasonal lull, Japan and Korea picked up some of the slack. However, as the number of covid-19 cases grow it has potential to disrupt demand and the ability to distribute product through these North Asian markets.

- A key watch out for Australian red meat in coming months will be an increase in competition in many markets as global suppliers redirect product placing downward pressure on prices.
- Looking ahead, there are still a wide range of factors that will continue to impact the prices and supply of red meat across the supply chain. The obvious immediate unpredictable factor is covid-19 - the severity and length of the outbreak domestically and in key international markets will greatly impact our ability to supply the market and combined with the impact this has on consumer demand, will play a key role in market pricing. Other key factors include, but are not limited to, seasonal conditions domestically, global economic growth, the availability of labour, exchange rates, crop forecasts and red meat production from competing suppliers.
- Australia remains one of the largest per capita consumers of beef in the world and is still the largest market for Australian beef. However, total consumption of beef dropped slightly in 2019 as the backdrop of a soft Australian economy and rising retail prices impacted affordability and consumer demand.