



Australian Market Situation

An analysis by Beef + Lamb New Zealand
Insights Team

December 2023



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Introduction

After several years of benevolent weather, which resulted in a significant increase in Australia's livestock numbers, Australia has experienced dry conditions in Q3 2023 that has resulted in farmers rapidly downsizing their herds and flocks.

The increased supply of Australian sheepmeat and beef in New Zealand's key markets in the second half of the 2022-23 season (ending September) is expected to continue into 2023-24.

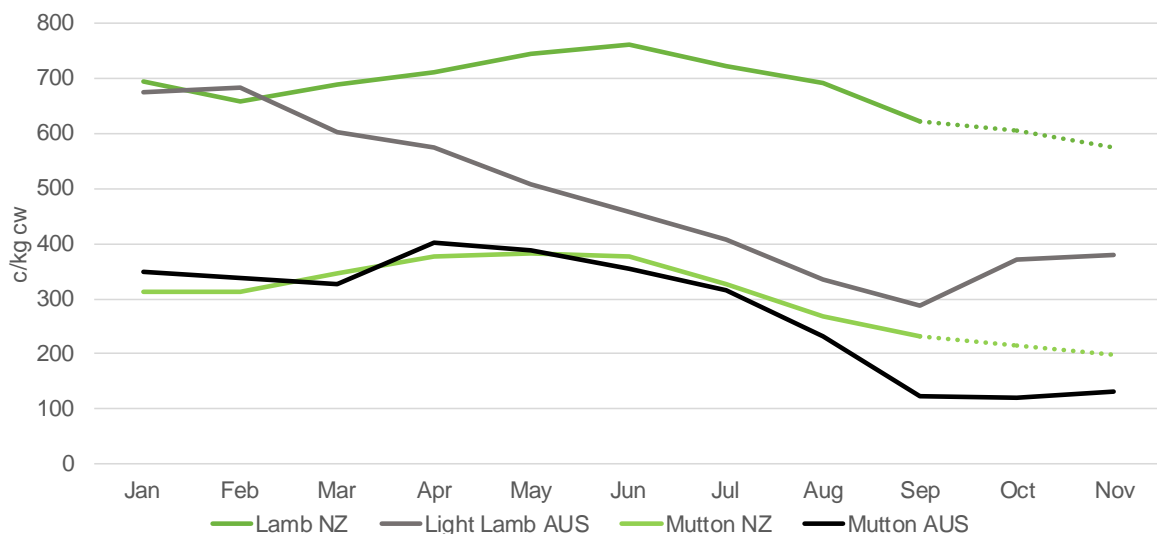
In the first 11 months of 2023, the number of Australian lambs and sheep processed were 7% higher and cattle processed were 16% higher, than in 2022.

The extra supply of lamb, mutton and beef has entered international trade when demand is fragile and contributed to a decline in prices for prime livestock in New Zealand (particularly lambs and sheep), which is unusual for this time of year because prices are usually higher.

Mutton prices are 45% below the five-year average. The reason this is so bad for New Zealand farmers, is that the softer conditions are combining with high on-farm costs and farmers' profits are forecast to average more than 60% lower than two years ago with many farmers not expected to make a profit this year.

The decline in prices in New Zealand, however, is a lot less than what has happened in Australia and what Australian processing companies are selling for in markets, as our processing companies have worked hard to hold their prices. In some markets (like the US and UK where we sell legs and racks) New Zealand has been able to differentiate itself from Australian product as our smaller cuts are valued by our customers (see Figure 10).

Figure 10 New Zealand versus Australia sheepmeat prices



How long downward pressure on international markets will remain depends largely on the severity and length of the dry conditions/drought in Australia, and how long it takes China's economy (and demand) to recover.

We should get a sense of the prospect of improvement in the China market in the next couple of weeks (by the middle of December) as pre-order sales start for Chinese New Year.

Purpose

The purpose of this report is that there has been a lot of farmer interest and questions on wanting to understand the dynamics in play in Australia with respect to the build-up of its capital stock and impact of weather patterns on international red meat markets and on New Zealand prices. We therefore tasked the Beef + Lamb New Zealand Insights Team to produce this report.

Australia

Weather

Australian weather forecasters are predicting a strong drought in Australia starting this summer with the change to the El Niño weather pattern, which usually brings warmer weather. Meat & Livestock Australia (MLA) estimates that farmers started to downsize their flock around September in anticipation of this.

Australia's Bureau of Meteorology (BOM) reported that October 2023 was the driest October since 2002, with rainfall 65 per cent below historical averages (see Figure 1), which saw a lot of farmers increase their liquidation.¹

There was, however, good rain in November (see Figure 2), which took some pressure off.

The BOM is currently still forecasting dry/drought conditions until at least February next year.² The outlook, however, is uncertain as some forecasters have also noted that the BOM models are less accurate with climate change.

¹ "Nationally-averaged October total rainfall for Australia was 65.4% below the 1961-1990 average, the fifth-driest October on record (since 1900) and the driest since 2002." Australia in October 2023 <http://www.bom.gov.au/climate/current/month/aus/summary.shtml>

² "Widespread showers and thunderstorms across northern and eastern Australia" <http://www.bom.gov.au/climate/rainfall/archive/20231127.archive.shtml>

Figure 1

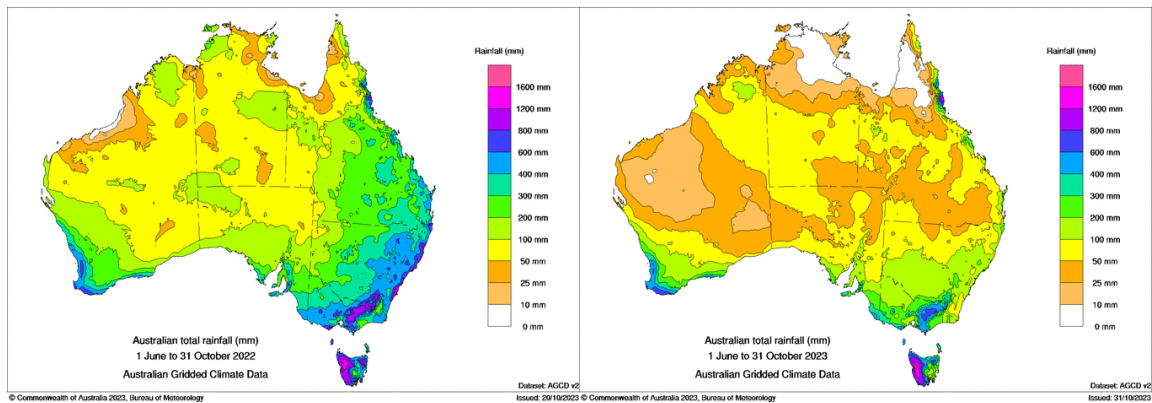
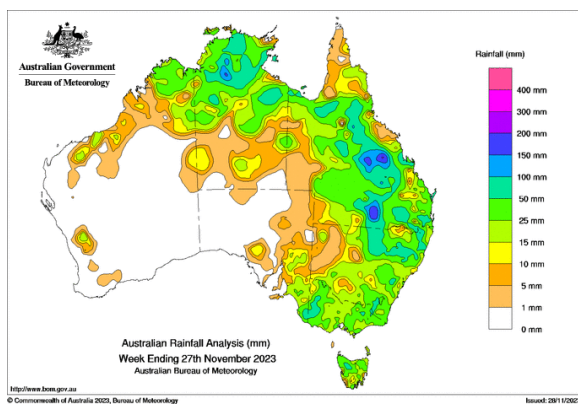


Figure 2



Impact In Australia

Livestock Numbers and Processing

Lambs and Sheep

Since the last drought ended in 2020, Australian pasture growth, quality, and feed utilisation were high, and the country went through a rapid multi-year rebuild of the national flock. In the three years, sheep and cattle numbers are estimated to have increased 23%.³

In 2023, the national sheep flock reached just under 79 million head, its highest in 15 years. The beef cattle herd reached nearly 29 million head, the highest since 2014.

In the September 2023 quarter, the number of lambs processed reached a record 6.6m, and low lamb prices followed.

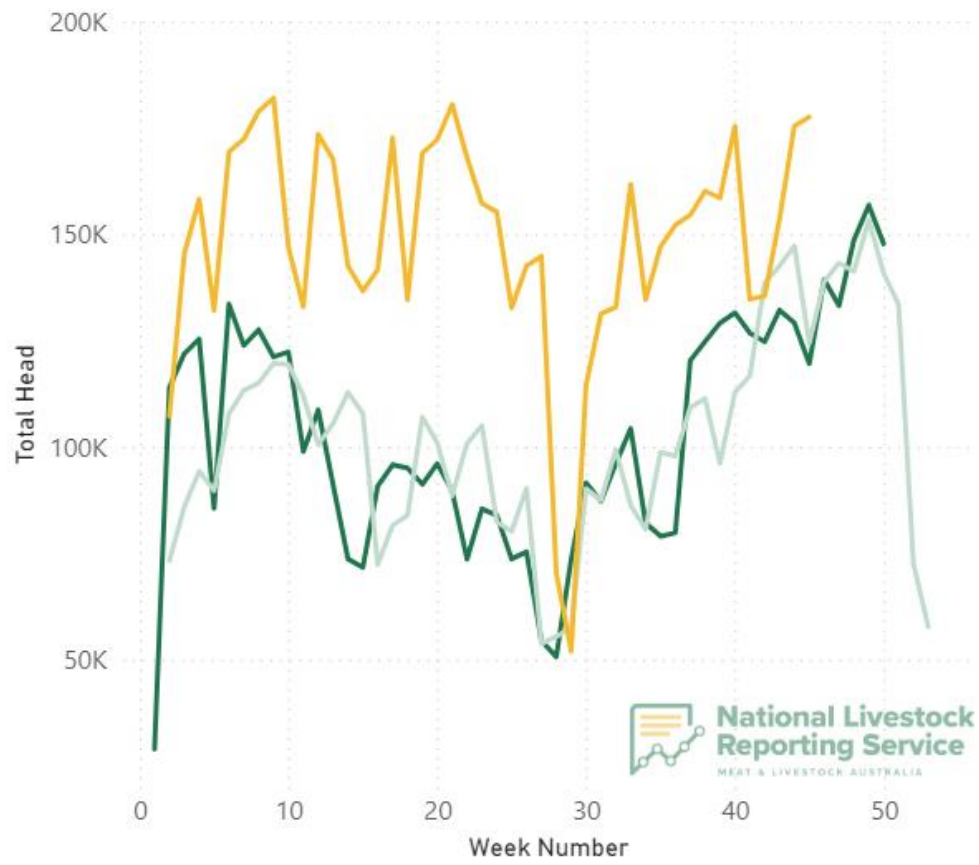
Sheep processing in 2023 was already higher than previous years because of the higher capital stock numbers, but the recent dry conditions have led to this going even higher (see Figure 3).

³ New Season Outlook 2023-24 <https://beeflambnz.com/sites/default/files/2023-10/New-Season-Outlook-23.pdf>

Figure 3 Weekly Processing of Adult Sheep in Australia in Calendar 2021, 2022 and 2023

3-Year Comparison

Year — 2021 — 2022 — 2023



The high levels of adult sheep processing signals that the sheep flock is being liquidated.

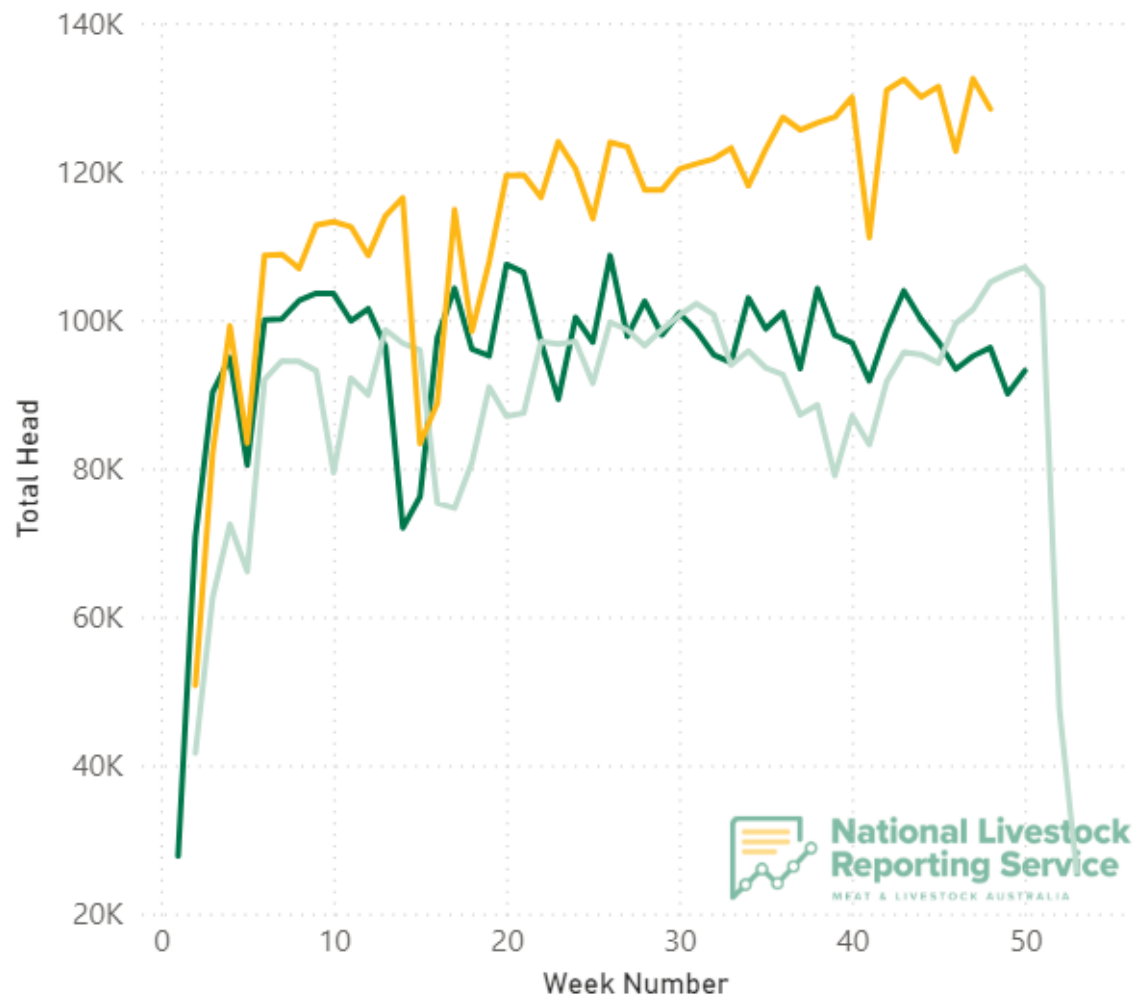
Cattle

In calendar 2023, till late November⁴, 5.4m cattle had been processed in Australia 17% above the equivalent period in calendar 2022.

Figure 4: Weekly Processing of Cattle in Australia in Calendar 2021, 2022 and 2023

3-Year Comparison

Year — 2021 — 2022 — 2023



Prices

Lambs and Sheep

Prices in Australia plummeted as a result of the oversupply.

In August and September, lambs were receiving \$3-\$4 a kg carcass weight, down from \$7 a kg back in January and sheep as low as \$1 a kg from \$3.50 a kg back in January. This means lambs were selling for as little as \$50 a head.

⁴ To 24/11/23 to be precise, per <https://www.mla.com.au/prices-markets/slaughter/>

As a result of rain in November, lamb and sheep prices improved a little from the lows in September as producers hoped the rain signaled a longer-term improvement in growing conditions. This may not last if the dry weather that is expected pans out.

Figure 5 Australia National Light Lamb Indicator⁵



Outlook

It is difficult to forecast when Australian farmers will have downsized the flocks/herds to a level that matches their expectations for pasture conditions and feed supplies, because it is hard to predict how dry summer will be, and all El Niño events are different.

If the drought is as severe as originally forecast liquidation of the flock will likely continue until February.

⁵ The National Light Lamb Indicator is a seven-day rolling average of light lambs from Australia's National Livestock Reporting Service (NLRs) reported saleyards across Australia. The National Light Lamb Indicator includes lambs up to 12 months of age with all fat scores and carcass weights from 12–20kg.

However, if the drought is not as severe, supplies may stabilise quickly as there has already been considerable liquidation of the breeding flock.

This means in the future there will be fewer ewes for mating so that in 2024 (and potentially the first half of 2025) there will likely be fewer Australian lambs being processed and the pressure will come off the market a bit.

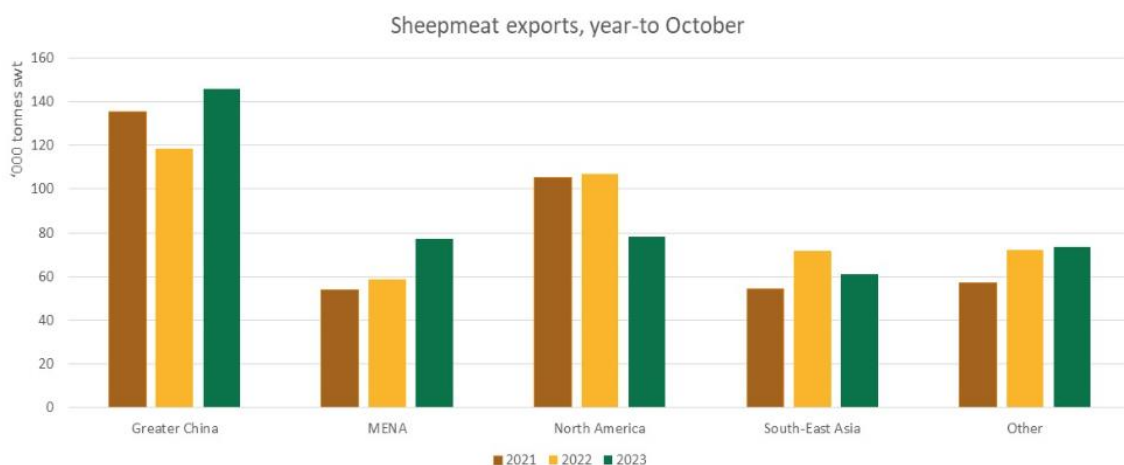
It's also worth noting that many producers in Australia operate mixed sheep and cropping enterprises and some anecdotes suggest recent low prices for lambs and good crop yields will encourage an increase in cropping. On the other hand, producers will assess the costs and benefits of diversified income streams, and time will tell.

Impact on New Zealand

Sheep

Australia and New Zealand are the main exporters of sheepmeat/lamb globally. The two countries compete in most markets. The increased supply from Australia has impacted heavily on sheepmeat and lamb markets. Australian exports have increased most significantly into China and the Middle East (MENA).

Figure 6



Source: DAFF, MLA



Nearly 50 per cent of New Zealand's total lamb exports are to China. New Zealand's schedule prices have therefore been hit hard as Australia's increased supply comes at the same time as China's economy and red meat demand remains weak.

The next largest share of New Zealand's lamb exports is to the EU27 (15%) and then a combination of "other" markets accounts for 14% (US, Middle East, and UK).

These markets have been holding up better, as explained in the next section, but this has not been enough to offset the situation in China.

Latest BakerAg schedule prices⁶ for lamb in New Zealand are currently around \$6.30 per kgCW for lamb and \$2.60 per kgCW for sheep, 15% and 45% lower than the five-year average for lamb and sheep respectively.

The increased supply from Australia is coinciding with solid export volumes from New Zealand and this is expected to continue due to a lamb crop of 20.9 million lambs tailed in spring 2023, 2.6% above last year.⁷

In spring 2023, the lamb crop is expected to be slightly higher than in 2022 due to high lambing percentages and high survival rates due to good weather during mating, winter, lambing.

If New Zealand also experiences El Niño this could lead to New Zealand putting more into international markets in January and February, but at the moment conditions have been wet across the country.

Beef

While New Zealand and Australia are large players in global sheepmeat trade, the global beef market is much bigger and there are a lot more dynamics at play.

Therefore, changes in Australian supply have less impact. Australia is the second-largest beef exporter and its main markets are the US, China, Japan, and South Korea.⁸

New Zealand is the sixth largest beef exporter and China and the US together account for 75 percent of exports by volume.

While there has been an increase in supply of beef from Australia (particularly into China and North America – see Figure 7), some other major producers like the US and Canada have been experiencing drought for a while and their exports are down, and demand for imports is up.

Beef prices internationally have therefore held up relatively well and that is expected to continue.

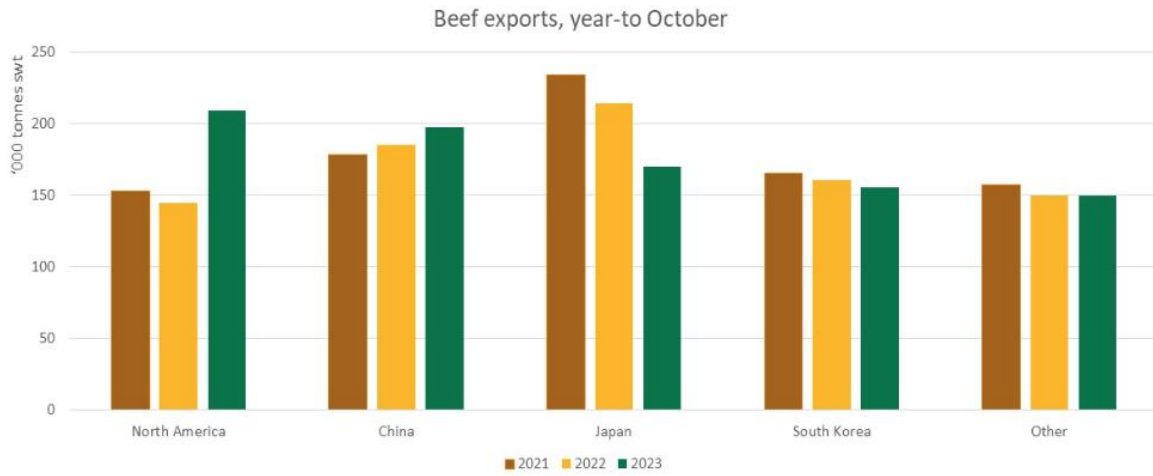
In New Zealand the schedule price for All Beef is \$5.53 per kgCW, which is 1% below the five-year average.

⁶ Average of recent BakerAg publications.

⁷ P23019 Lamb Crop Report 2023

⁸ Reference: <https://beef2live.com/story-world-beef-exports-ranking-countries-0-106903>

Figure 7

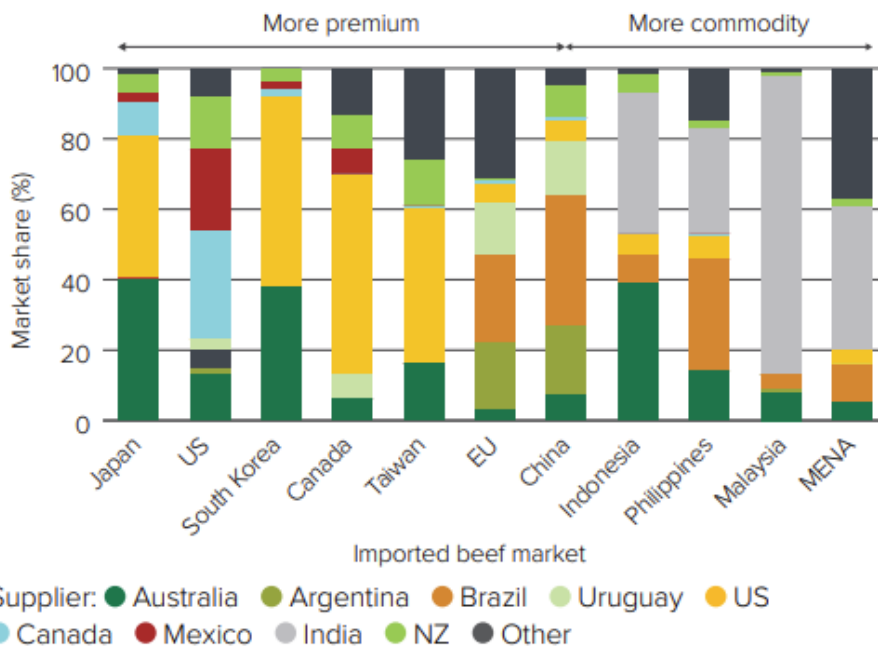


Source: DAFF, MLA



Figure 8

Competition in Australia's major markets



Source: IHS Markitt, 2021 figures

Deeper Market Insights

China

It is unclear when China's economy (and red meat demand) will rebound. Some observers are expecting an improvement in the first quarter of 2024, due to Chinese New Year, but China still has quite significant meat inventories, and it is unclear when they will clear.

Australia has significantly increased its exports of lamb and beef to China in 2023, at a time when demand is still soft, and this has therefore pushed down prices in our biggest market for both products.

For example, Australian mutton exports to China were up 57% to 10,100 tonnes in October (New Zealand exported 1,400 tonnes of mutton) compared to the same month last year and Australian lamb exports lifted 14% over the same period to 6,038 tonnes (New Zealand sent 12,100 tonnes of lamb).

Australia's access into China improved in 2023 and exports of lamb, mutton and beef increased accordingly.⁹

Under the FTA between Australia and China, all tariffs on imports of sheep and goat meat were removed at the start of 2023.

New Zealand and China have had an FTA since 2008, and all tariffs on imports of sheep and beef were removed at the start of 2016.

Under the Australia-China FTA, there is a special agricultural safeguard "trigger level" of 196,349 tonnes for beef imports for 2023, at zero duty, which will increase to 202,240 tonnes in 2024. It is expected China's imports from Australia could reach the trigger level in 2023 and thus additional imports would be subject to a higher tariff, which will constrain how much they export to this market).¹⁰

⁹ New Season Outlook 2023-24 <https://beeflambnz.com/sites/default/files/2023-10/New-Season-Outlook-23.pdf>

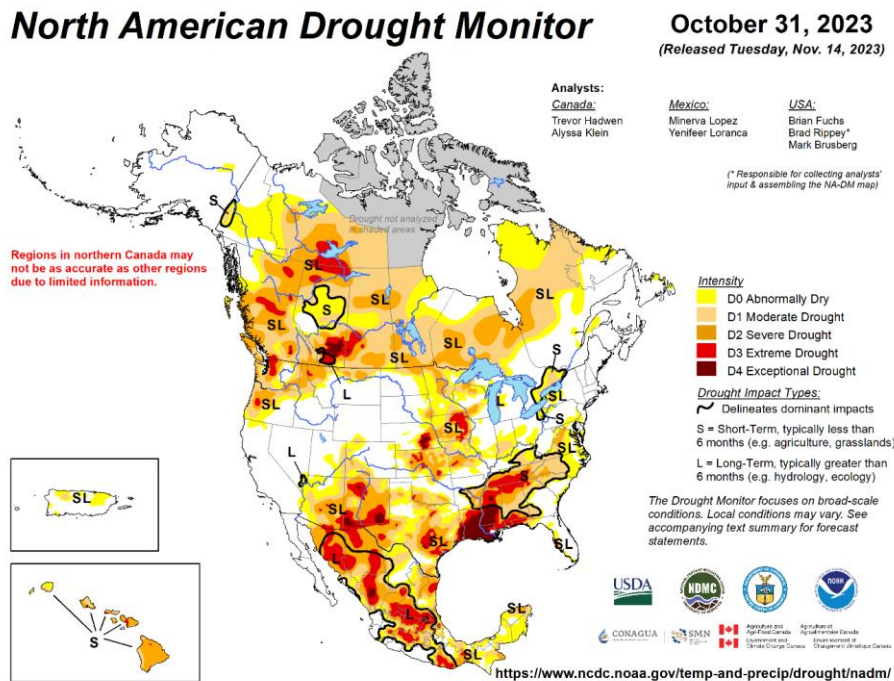
¹⁰ Pg 13, FREE TRADE AGREEMENT BETWEEN THE GOVERNMENT OF AUSTRALIA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA
<https://www.dfat.gov.au/sites/default/files/chافتا-agreement-text.docx>

North America

Beef

In North America, beef demand remains robust/strong, while domestic supplies are beginning to be restricted due to the cattle cycle reaching a trough and rebuilding from a drought being anticipated (see Figure 9).

Figure 9 North American Drought Monitor Map



As a result, as mentioned earlier, imports of beef into both the US and Canada have increased. In the first 10 months of calendar 2023, imports of New Zealand beef into Canada were 70% higher than in the same period in 2022, while imports of New Zealand beef into the US were nearly 40 per cent higher¹¹ (see Table 1 US Beef Imports Figure 7).

US beef exports have also slowed, and this situation has helped sustain beef prices internationally.

¹¹ "Beef Supply at a Glance" Prepared by Red Meat Section, Agriculture and Agri-Food Canada [20231118.pdf](https://www23.international.gc.ca/20231118.pdf)

Table 1 US Beef Imports

U.S. beef imports by volume, January–August 2022 and 2023

Country	August 2023 imports	Year-to-date imports				Share of YTD imports, percent	
		2022	2023	Year-over-year volume change	Year-over-year percent change	2022	2023
Canada	85.4	624.6	638.6	14.0	2	26	25
Mexico	53.9	514.4	457.2	-57.2	-11	22	18
New Zealand	55.6	307.3	401.0	93.7	30	13	16
Australia	69.6	259.6	374.1	114.5	44	11	15
Brazil	25.5	390.7	349.8	-40.9	-10	16	14
ROW	45.6	285.8	290.3	4.4	2	12	12
Total	335.6	2382.4	2510.9	128.5	5		

Note: Volumes are in million pounds, carcass weight equivalent. The rating of the top five countries shown here is based on 2023 year-to-date imports; YTD = year-to-date; ROW = rest of world.
 Source: USDA, Economic Research Service calculations using data from U.S. Department of Commerce, Bureau of the Census.

Sheepmeat

Sheepmeat demand from the US is expected to be strong in 2024. USDA forecasts sheepmeat imports will increase 24 per cent in 2024 after a decline of nearly 20 per cent in 2023.¹² A significant increase in Australian and New Zealand exports could exacerbate trade tensions in sheepmeat.

The US is a major market for racks and New Zealand exporters have worked hard to differentiate our smaller sized racks, compared to Australia, with US consumers of the last few years.

EU/UK

Demand for New Zealand lamb has recently rebounded in the UK, and EU27 is still a strong destination for New Zealand lamb exports. At this stage these markets are expected to hold up quite well, but because they are smaller for New Zealand than they once were this won't offset the lower returns in China.

In September and October, New Zealand lamb exports to the UK were 47 per cent and 70 per cent, respectively, higher than in the corresponding months in 2022. But at 31,000 tonnes product weight, the UK now accounts for less than 10 per cent of New Zealand's lamb exports.

¹² Livestock, Dairy, and Poultry Outlook: October 2023
<https://ers.usda.gov/webdocs/outlooks/107666/u.s.%20red%20meat%20and%20poultry%20forecasts.xlsx?v=8110>

New Zealand has the largest market share of lamb into the EU and UK, due to better traditional market access¹³ and customer and consumer preferences.

Australia's FTA with the UK entered into force with the UK in May 2023, and it got significantly improved access for lamb¹⁴. So far this has not had too major an impact on the market.

The main UK sheepmeat import is legs and so far consumers seem to be retaining their preference for the smaller New Zealand leg. Australia's lamb exports to the UK are around one-fifth of New Zealand's.

On 9 July 2023, New Zealand and the European Union signed an FTA, which is anticipated to enter into force by mid-2024.¹⁵ Australia does not have an FTA with the EU yet and based on media reports a deal is not looking imminent¹⁶¹⁷

Therefore, we consider unlikely any significant challenge to New Zealand's lamb exports to the EU27. New Zealand beef exports to the UK and EU27 are minimal.

¹³ Reflecting historical trade patterns when access arrangements were being negotiated.

¹⁴ "Free Trade Agreement between Australia and the United Kingdom of Great Britain and Northern Ireland" accessed from <https://www.dfat.gov.au/trade/agreements/in-force/aukfta>

¹⁵ <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-concluded-but-not-in-force/new-zealand-european-union-free-trade-agreement/nz-eu-fta-overview/>

¹⁶ The major advanced economies – Canada, France, Germany, Italy, Japan, the UK and the US. The EU attends G7 meetings as a "non-enumerated member".

¹⁷ <https://www.euractiv.com/section/economy-jobs/news/eu-australia-fail-to-agree-on-trade-deal/>