Required Report - public distribution

Date: 8/31/2018

GAIN Report Number: AS1820

Australia

Livestock and Products Annual

September 2018

Approved By:
Rey Santella, Agricultural Counselor

Prepared By:
Roger Farrell, Agricultural Specialist

Report Highlights:
Australian cattle numbers are expected to decline slightly to 26 million head in 2019 due to widespread drought in the two major cattle producing states. Total slaughter for 2019 is forecast at 7.8 million head, down from an estimated 8.25 million head in 2018. 2019 beef and veal production is forecast at 2.18 million metric tons (MMT) while beef and veal exports are forecast at 1.51 MMT, compared to an estimated 1.63 MMT in 2018. In 2019, pig slaughter is forecast at 5.3 million head and pig meat production at 0.42 MMT, a decline from the previous year because of low pork prices and grain shortages.

Commodities:
Animal Numbers, Cattle
Animal Numbers, Swine
Meat, Beef and Veal
Meat, Swine

EXECUTIVE SUMMARY

The Australian cattle herd is forecast to decline slightly to 26 million head in 2019, due to the worsening of drought conditions in many cattle-producing regions. Very dry and hot weather conditions have resulted in poor pasture growth, high grain prices, and low water storages over much of eastern Australia. These conditions are likely to continue over the year and expected to pose a challenge to previous herd rebuilding efforts.

In 2019, cattle slaughter is forecast at 7.8 million head, down from the 8.25 million estimated for 2018. The cow slaughter rate increased above 50 percent in mid-2018, indicating that producers are de-stocking rather than re-building their herds. Cow slaughter is forecast at 3.4 million head in 2019 (44 percent of total slaughter), down from 3.6 million head in the previous year, assuming average seasonal conditions in 2019. The calf crop is expected to recover to 9.5 million head in 2019, up from an estimated 9 million head in the previous year, as seasonal conditions improve. The calf crop estimate for 2018 is revised downwards because of drought in New South Wales (NSW) and Queensland, two major cattle producing states in the eastern part of the country. Average rainfall is anticipated for 2019, which should support pasture growth and allow slaughter rates and the calf crop to recover.

Beef and veal production in 2019 is forecast at 2.18 million metric tons (MMT), down from the 2.3 MMT estimate for the previous year. Poor pasture and high female slaughter are expected to lower carcass weights over the year. The number of grain-fed cattle in feedlots reached a record 1.12 million head in mid-2018, an increase of 9 percent on the previous quarter, and 3 percent higher than the same quarter in 2017. In 2019, beef consumption is expected to stabilize, although per capita consumption is expected to decline.

In 2019, beef exports are forecast at 1.51 MMT, a decline of 6 percent on the estimate for the previous year due to lower carcass weights and reduced slaughter. This is in anticipation of improved rainfall and more benign seasonal conditions. Beef exports to the United States are forecast to remain stable, with continued demand for lean manufacturing beef for burger production. Exports to other markets such as Japan, Korea, and China have risen by at least 8 percent in the first 6 months of 2018. Live cattle exports are forecast at 1 million head in 2019, up by 11 percent from an estimated 900,000 head in the previous year.

In 2019, the Australia's pig herd is forecast be steady at 2.235 million head, with a smaller sow herd of 274,000 head. Australian pig slaughter is forecast at 5.3 million head. Pig meat production in 2019 is forecast to reach 420,000 MMT. Post forecasts Australian pig meat exports at 45,000 MT in 2018, reflecting increased production.

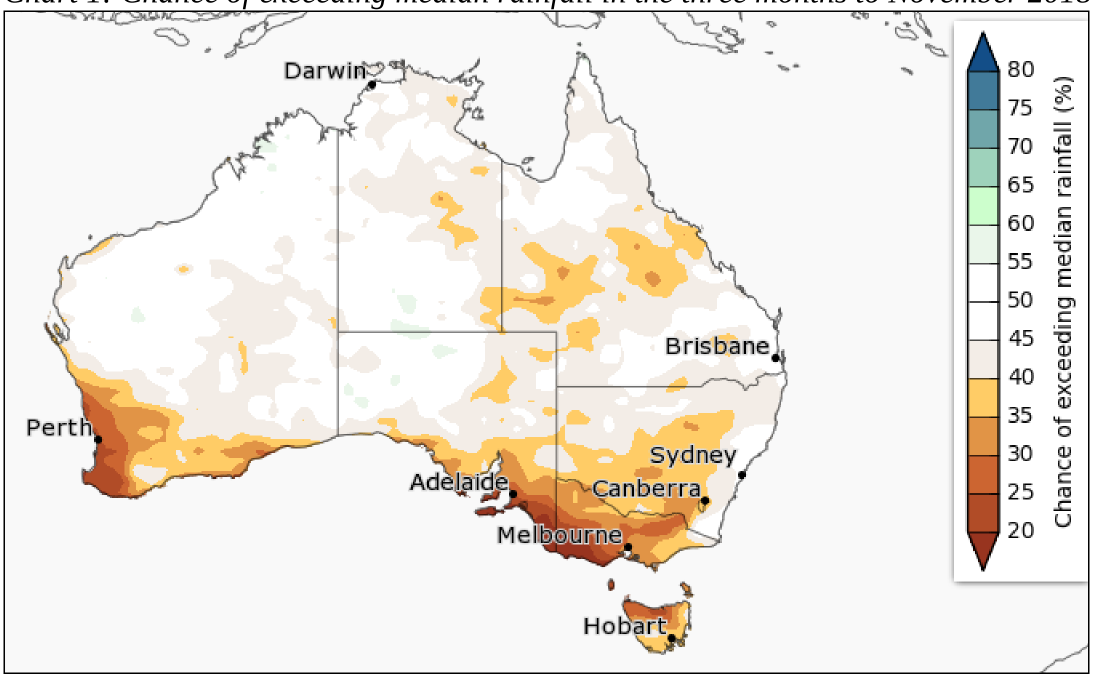
Imports of fresh, chilled and bone-in pig meat into Australia are prohibited under biosecurity regulations, as are imports of genetic material. Frozen pig meat imports are expected to be stable at 230,000 MT, the same as in 2018. The United States is the leading exporter of frozen pig meat to Australia. In 2019, U.S. exports of frozen pig meat to Australia are expected to increase to 90,000 MT or around 40 percent of total imports. Most ham, bacon and other processed pork products consumed in Australia are made from imported pig meat, which is heat-treated before being processed.

SEASONAL OUTLOOK

In Australia, variations in seasonal climate conditions such as temperature, rainfall, soil moisture, and drought have a significant impact on beef and dairy cattle herds, which are mainly grass-fed. Since 2016, drought conditions have affected a third of beef cattle farms across Australia and contributed to high cattle turn-off (slaughter and live cattle exports) as farmers faced feed shortages and higher prices in export markets. Conditions improved in 2017 for many beef producing regions, but the outlook for the rest of 2018 is for continued hot and dry conditions.

The latest Australian Bureau of Meteorology projections warn that the 3 months to November 2018 will be drier than average for most of eastern Australia. Most of eastern and southern Australia experienced a very dry first half of the year, thus, this forecast means that areas currently experiencing drought are unlikely to see improving conditions. Severe rainfall deficiencies have occurred over much of New South Wales (NSW), southwest Queensland and northeast South Australia. Serious rainfall deficits persisted in the region, with many areas receiving only half of their average rainfall for the first half of the year.

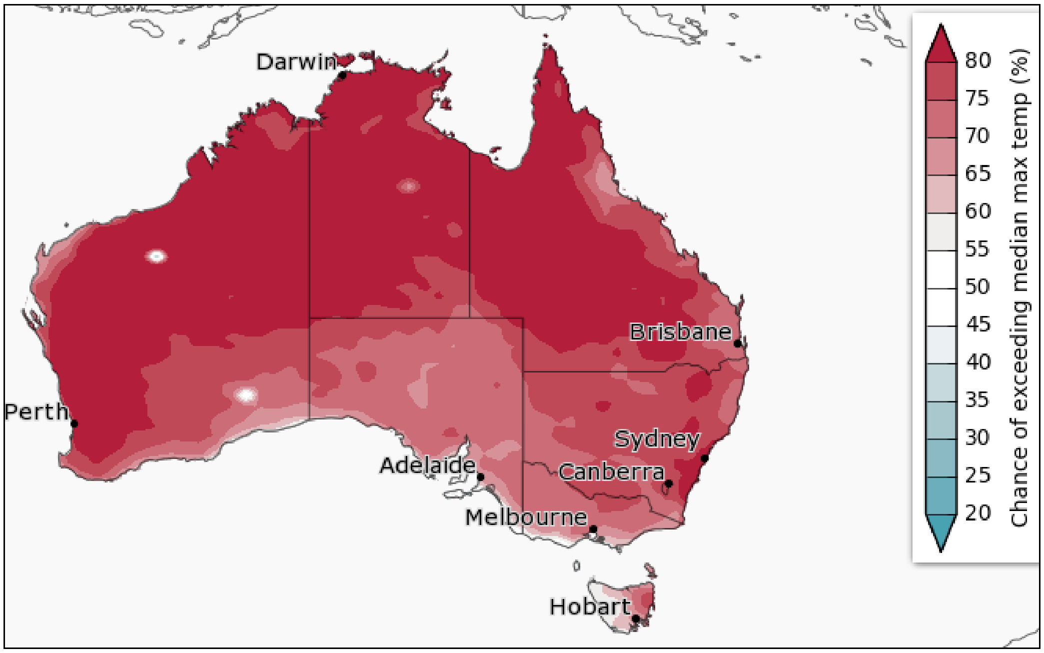
Chart 1: Chance of exceeding median rainfall in the three months to November 2018



Source: Bureau of Meteorology (August, 2018)

There has been a significant and unusual decline in soil moisture across much of NSW and Queensland, which limits pasture growth prospects and is signals a longer drought period (Chart 2). Furthermore, temperatures for 2018 are likely to be warmer than average in the northeast and southern parts of Australia. In NSW, 84 percent of the state has experienced rainfall deficiencies, the highest since 1965. In many parts of both NSW and Queensland, serious rainfall deficiencies alongside above-average temperatures have led to sub-soil moisture levels in NSW at the third lowest level on record.

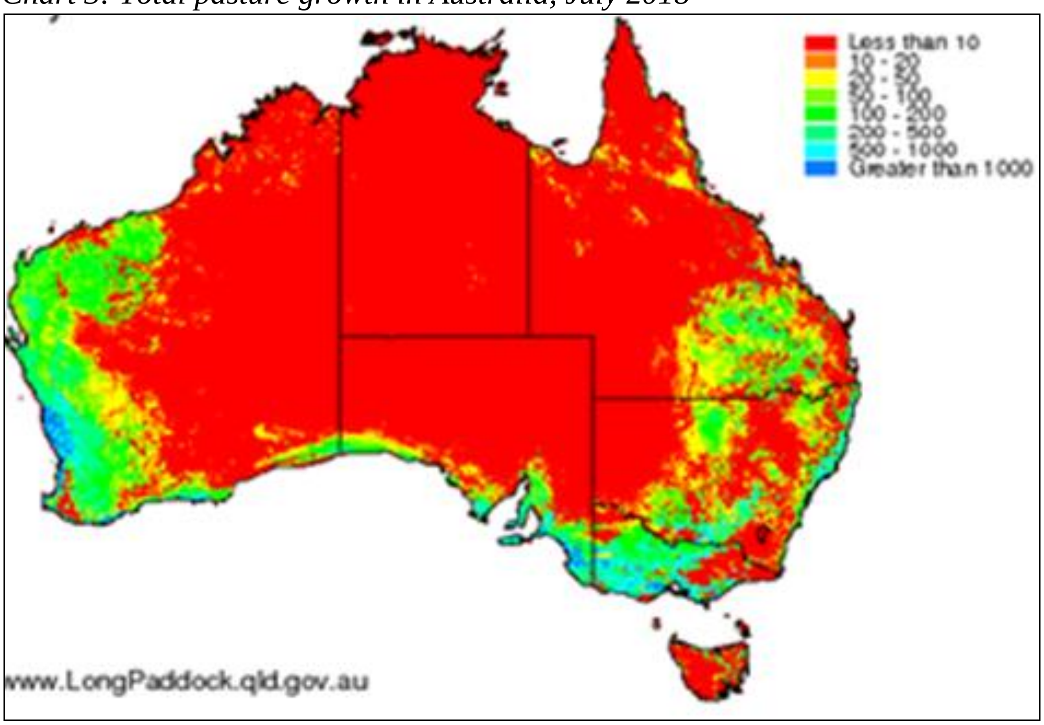
Chart 2: Chance of exceeding median temperature in 3 months to November 2018



Source: Bureau of Meteorology (August 2018)

These adverse seasonal conditions have resulted in higher costs for water and feed stock due to lower grain and hay production. Some significant rainfall occurred in some cattle producing areas in late August 2018, but it will need continued rainfall for soil moisture levels to recover. Chart 3 shows pasture growth in July 2018.

Chart 3: Total pasture growth in Australia, July 2018



Source: Queensland government

CATTLE

Overview

The beef cattle industry accounts for around 25 percent of the total value of Australian farm production and over 20 percent of farm export income. Almost 60 percent of Australian farms carry beef cattle. Beef cattle farms account for more than 75 percent of the total area of agricultural land in Australia. An estimated 25,000 farms have at least 100 head of cattle and farms with fewer than 100 head of cattle represent only 2 percent of the national beef herd. Large beef farms with more than 5,400 head account for almost 30 percent of the national beef herd, according to a 2018 survey by the Australian Department of Agriculture.

The Impact of Drought on the Cattle Industry

In August 2018, the entire state of NSW was declared as drought affected, with large areas classified as experiencing 'intense drought' while 57 percent of Queensland was drought-declared. Drought in Australia is defined by the Bureau of Meteorology (BOM) as "rainfall over a three-month period being in the lowest decile of what has been recorded for that region." The price of temporary water licenses in NSW has doubled from A$200 to A$400 a megaliter in August 2018, compared to the long-run average of A$120 a megaliter.

In June 2018, the NSW government announced an A$500 million Emergency Drought Relief Package, taking total drought support to over A$1 billion. Government freight subsidies will cover up to 50 percent of the full cost of transporting fodder, water for stock and livestock to pasture, slaughter or sale. Under the plan, the NSW Government has introduced a transport subsidy of up to A$20,000 per farm, to help livestock farmers source grain and hay from other states.

In August 2018, the Australian federal government also announced an A$1.8 billion drought relief package to assist famers and local councils dealing with the problem. Farmers affected by a sustained lack of rain are to receive an additional one-off payment of A$12,000 to help with higher feed and water costs for livestock.

Cattle Numbers

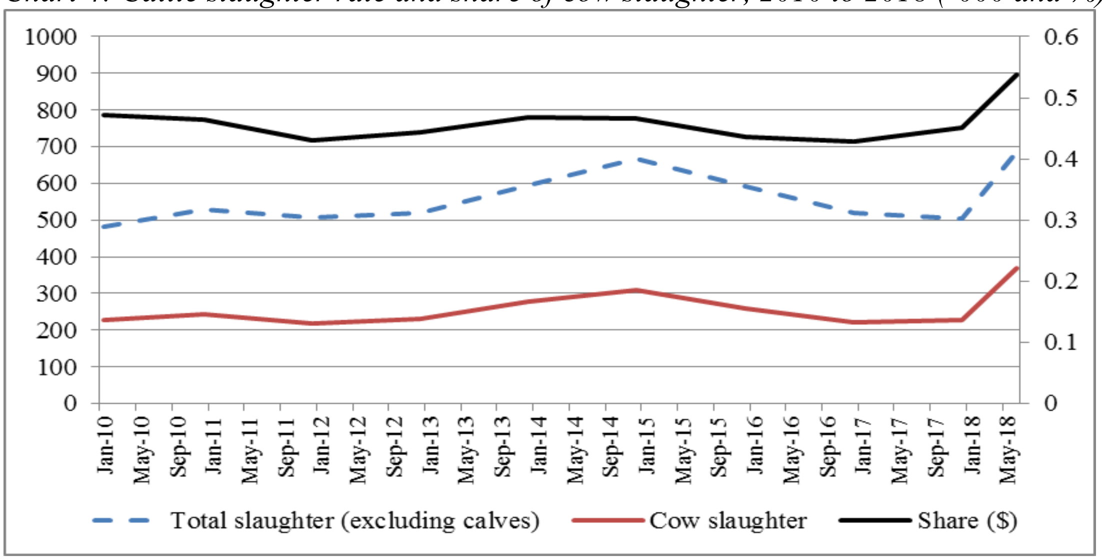
Australian cattle numbers are expected to decline slightly to 26 million head in 2019, due to widespread drought in the two major cattle producing states. Farmers face significantly higher cost of feed, poor pasture and a diminishing capacity to maintain herd sizes. The cow slaughter rate has increased above 50 percent in mid-2018, indicating that producers are de-stocking rather than re-building their herds. In June 2018, the female slaughter rate jumped to 54 percent in NSW and 51 percent in Queensland. Due to drought conditions, the fertility rate is expected to be decline and calves will be vulnerable to reduced pasture availability and dry conditions.

Dairy herd numbers are expected to be stable at 1.5 million head in 2019. In recent years, the dairy industry has experienced falling profitability, significant seasonal variations, low milk prices, and higher costs for water, feed grains, and hay. This has resulted in culling of dairy cows to take advantage of relatively high beef prices, as well as live cattle exports. This trend has resulted in lower profitability and increased farmer exits from the industry. A recent report from Dairy Australia showed that one in five farmers could leave the dairy industry in the near future.

Cattle Slaughter

In 2019, cattle slaughter is forecast at 7.8 million head, down from the 8.25 million estimated for 2018. Cow slaughter is forecast at 3.4 million head in 2019 (44 percent of total slaughter), down from the estimate of 3.6 million head for the previous year. High cattle and beef prices provide a motivation for producers to slaughter in response to drought conditions. The situation is expected to ease in 2019 as more average seasonal conditions prevail. Details of cattle slaughter are given in Charts 4 and 5 below.

Chart 4: Cattle slaughter rate and share of cow slaughter, 2010 to 2018 (‘000 and %)

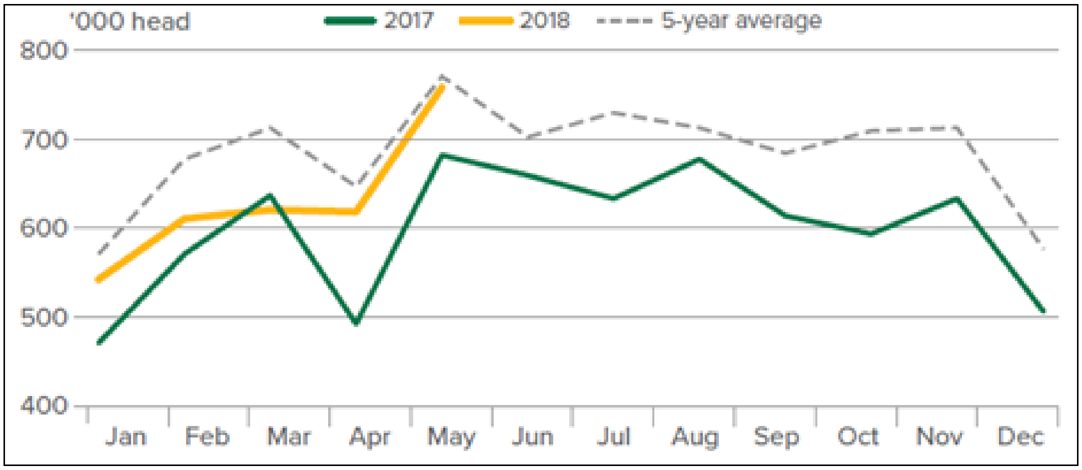


Source: Australian Bureau of Statistics.

Post has revised cow slaughter rates for 2018 above the official estimate, reflecting the downward trend in official statistics. Similarly, numbers in the ‘other slaughter’ category have been revised below the official estimate for the same reason. Overall slaughter numbers have increased by 200,000 head for 2018. The composition of cattle slaughter changed in 2018 due to the very hot and dry conditions, which have impacted pasture growth and water availability. These conditions have resulted in higher culling of cows and heifers, and made herd rebuilding less probable for the rest of the year. Average carcass weights are expected to increase slightly in 2019, after falling in the previous year, in anticipation of a return to average seasonal conditions.

Post forecasts that the calf crop will recover to 9.5 million head in 2019, up from an estimated 9 million head in the previous year, assuming that seasonal conditions improve. The calf crop estimate for 2018 represents a downward revision from 10 to 9 million head due to drought in NSW and Queensland. A return of average rainfall is assumed by Post for 2019, to support pasture growth and allow lower slaughter rates and a recovery in the calf crop.

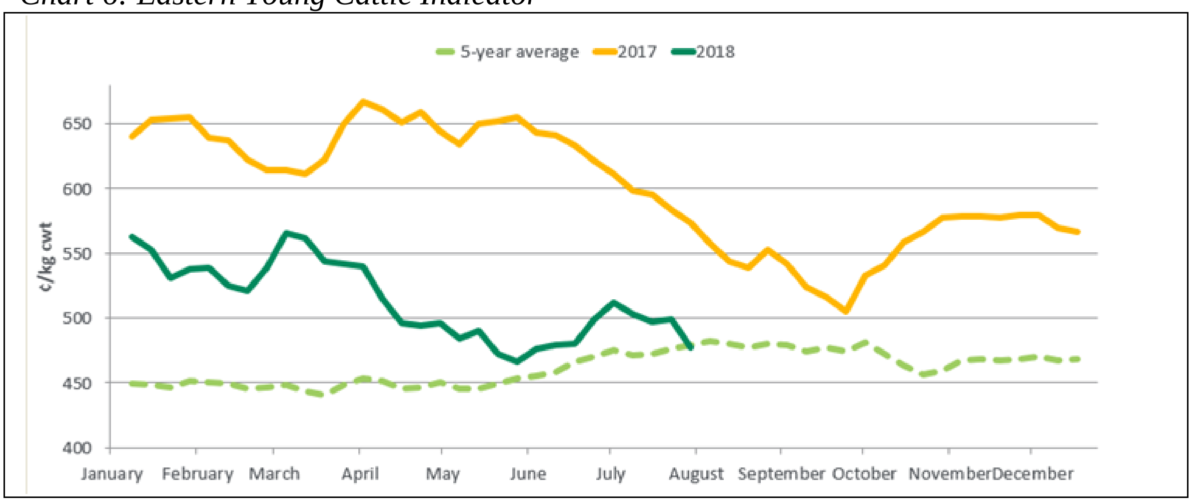
Chart 5: Monthly adult beef cattle slaughter (‘000), 2017-2018



Source: Australian Bureau of Statistics and Meat and Livestock Australia

Due to the drought, the supply of lighter cattle in poorer condition cattle at saleyards has increased in both states. Greater supplies of stock to saleyards have impacted livestock prices. Prices of NSW yearling steers averaged A$2.60 a kilogram in July 2018, a decline of more than 20 percent on the same month in 2017. After rising in June 2018, saleyard cattle prices weakened because of rising saleyard numbers and increasing prices for feed stock. De-stocking increased from early July to early August 2018 because of the dry conditions in NSW and Queensland and resulted in a 42-cent a kilogram to A$4.75 a kilogram cwt decline in the Eastern Young Cattle Indicator (see chart 8).

Chart 6: Eastern Young Cattle Indicator



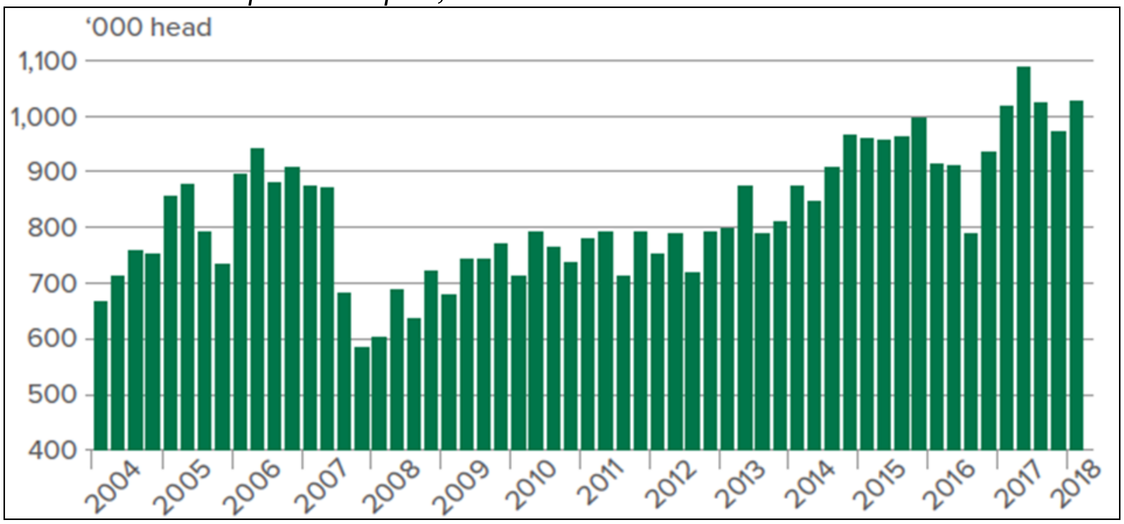
Source: MLA

In July 2018, cattle numbers in saleyards in the eastern states of Australia increased by more than 35 percent to more than 250,000 head compared to the previous month. Saleyard numbers in Queensland and NSW in July 2018 increased by 25 and 35 percent respectively. The lack of rain, forecasts of a drier winter and spring, as well as the shortage of feed stock has forced many producers to offload stocks. A trend towards lower carcass weights has continued during 2018 for beef farms in Queensland and NSW.

Cattle on Feed

The number of cattle fed with animal feed at the end of the June 2018 quarter rose to a record 1.12 million head, an increase of 9 percent on the previous quarter and 3 percent higher than the previous record set in June 2017. This increase reflects the deterioration of pasture growth in NSW and Queensland and the higher cost and declining availability of feed grain and fodder (see Chart 7).

Chart 7: Number of cattle on feed, 2004-2018



Source: Australian Lot Feeders Association

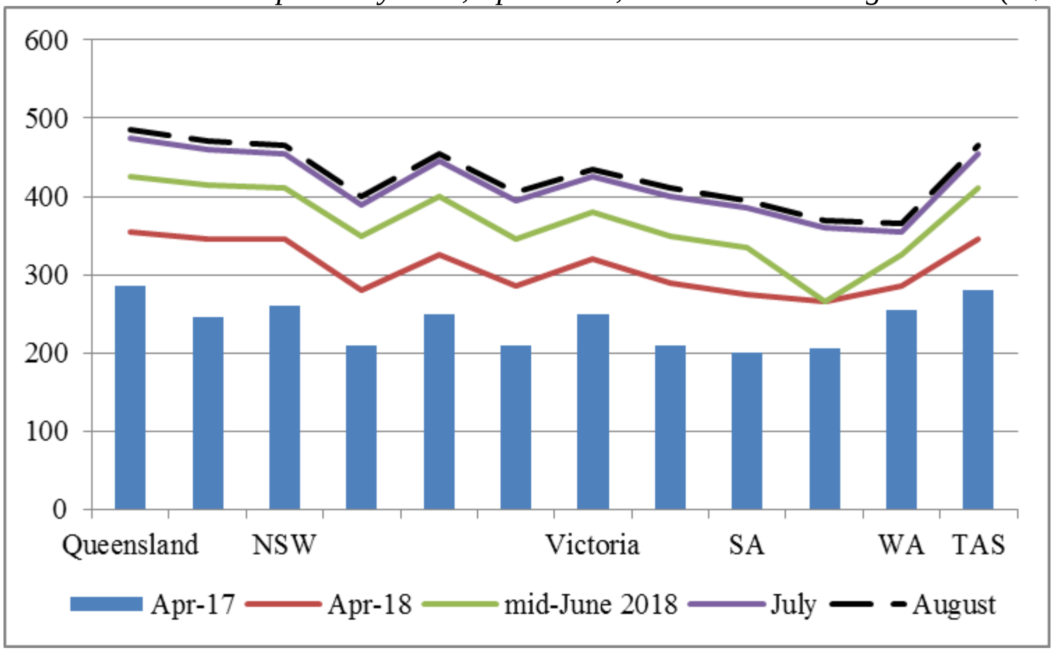
The drought has severely affected even the fertile Darling Downs region of southern Queensland, which has the highest concentration of feedlots in Australia, as regional pastures have been dry and barren. As a result, grain has been transported from Western Australia to help meet the demand for cattle feed. Grain stores in Queensland and parts of NSW are reportedly exhausted and high grain prices in these states are drawing some supplies from South Australia and Western Australia. The Australian Fodder Industry Association recently reported that South Australia has run out of hay supplies and more farmers are looking to Victoria and Western Australia to feed their livestock.

Increasing Feed Costs for the Livestock Industry

The Australian domestic livestock market normally requires more than 12 million metric tons (MMT) of feed and demand has expanded in recent years due to significant variations in seasonal conditions and regional shortages of pasture and grains. The domestic animal feed industry includes beef, dairy cattle, layer and poultry chickens, pigs, sheep, horses, aquaculture, and a number of smaller industries with the bulk of feed grains consumed by the beef, dairy cattle, and chicken industries. Feed for livestock include raw grains, such as wheat, barley, sorghum, triticale, oats, maize, lupins, field peas, faba beans, and whole oilseeds, including canola. In addition, vegetable protein meals are produced from processed oilseed (canola, soy, sunflower, and safflower).

The beef and dairy cattle industries are estimated to need more than 6 MMT of feed in normal years when drought is not a significant factor. Hotter and drier than average seasonal conditions during 2018 in Queensland and NSW have significantly increased livestock producer demand for feed grains. However, grain regions in Australia are separated by considerable distances and high freight rates usually make it less economic to trade between states, even if Western Australia (WA) has a major surplus and eastern Australia has a feed grain shortage. Nevertheless, there have been several bulk shipments of grain from WA to Queensland in recent months, reflecting the worsening drought situation and high grain prices.

Chart 8: Feed wheat prices by state, April 2017, 2018 and June-August 2018 (A$/MT)



Source: Dairy Australia.

Prices for feed grain, hay and fodder generally have increased sharply in 2018 due to the poor outlook for the winter grains harvest, low grain storages, and the impact of drought on pasture growth. Feed wheat prices across Australia are shown in Chart 8. Since April 2018, there has been a marked increase in feed wheat prices across all regions, but especially in those areas affected by drought such as Queensland and NSW.

Grain imports into Australia are not possible under current biosecurity regulations. As a result, grain prices in Australia are significantly higher than world prices and this has affected the cost of feed in the livestock sector, such as the dairy and beef cattle industries. In the 1995 drought, 0.4 MMT of feed was reportedly imported into eastern Australia for the livestock industry because of the low pasture availability. Similarly, in 2006, some quantities of imported grain from the United Kingdom were processed near ports in eastern Australia and used for the poultry industry as biosecurity provisions prevented the transport of grain outside a limited area. Bulk grain imports from quarantine-approved countries in 2018 would soften the impact of the grain shortages, but very few countries have approved export facilities.

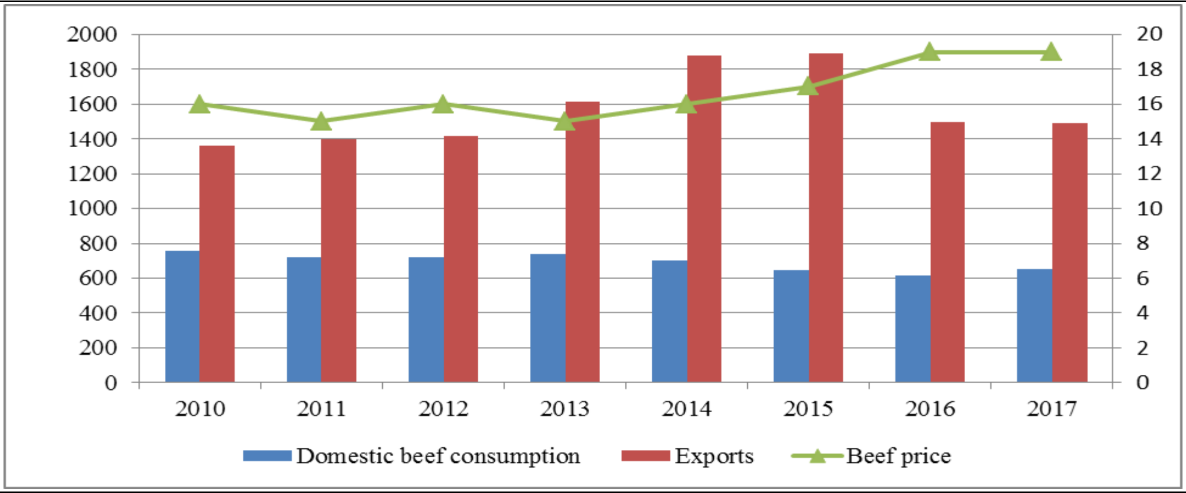
Production

Beef and veal production is forecast at 2.18 MMT in 2019, from an estimated 2.3 MMT in 2018. This reflects a forecast of lower slaughter rate in 2019 in anticipation of average seasonal conditions and lower carcass weights. Very hot and dry conditions in 2018 significantly increased the slaughter rate to 8.25 million head because of the lack of pasture growth in many cattle regions, as well as the higher feed and water costs.

Consumption

Beef consumption in Australia is forecast to be stable at 0.68 MMT in 2019. Beef consumption is estimated at 26 kilograms per person in 2019. This compares to 26.5 kilograms for pork and 47.7 kilograms for poultry. Retail beef prices declined during 2018 as the number of cattle entering the domestic market increased. However, beef prices remain around 8 percent above the 10-year average to 2017.

Chart 9: Beef prices and consumption in Australia, 2010-2017 ('000 MT and A$/ kilo)



Source: Meat and Livestock Corporation and Australian Bureau of Statistics

Trends in beef prices and consumption from 2010 to 2017 are shown in chart 9. For the three months to June 2018, there was a 1.7 percent decline in average beef prices to A$19.20 cents a kilogram, according to the Meat and Livestock Corporation of Australia. This compares to a 1 percent decline in average pork prices to A$11.70, an increase of 2.1 percent for lamb to A$15.30 and stable prices for chicken at A$5.40. On a per capita basis, beef consumption appears to have fallen in recent years as Australia's population has grown, reaching 25 million people in August 2018.

The food service sector accounts for 40 percent of domestic sales and the remaining 60 percent is sold through the retail sector. The three major supermarket retailers control more than 70 percent of the domestic grocery market. Similarly, the three largest Australian meat processing companies account for at least 50 percent of the industry in Australia.

Trade

Beef and veal exports are forecast at 1.51 MMT in 2019, from an estimated 1.63 MMT in 2018. Higher beef production in 2018 is the major reason for the expansion of exports, together with the more competitive Australian dollar. Beef exports increased 13 percent for the six months to June 2018 and exports to Japan, Korea and China increased by more than 10 percent during this period. Beef exports to the United States are expected to be stable in 2018 and 2019.

Table 1: Australian beef exports by country, 2012-2018 ('000 MT)

	2012	2013	2014	2015	2016	2017	2018 (a)
United States	227	212	396	419	241	232	113
Japan	313	294	289	283	265	293	154
South Korea	142	155	157	182	196	163	81
China	35	153	128	151	98	117	78
Indonesia	27	40	58	40	65	59	35
Other	261	284	294	249	192	196	97
World	1,005	1,138	1,322	1,324	1,057	1,060	558

Note: (a) Six months to end-June. Figures in this table need to be adjusted by a factor of 1.4 to account for the equivalent carcass weight. *Source*: World Trade Atlas.

Manufacturing beef is the primary Australian beef product exported to the United States, with a two thirds share of the import market. Manufacturing beef is used to produce burgers and other processed beef products for the foodservice sector while chilled grass-fed beef is used mainly by full service restaurants and retailers. In the past six years, Australia has more than doubled its chilled grass-fed beef trade to the United States, now accounting for 25 percent of total exports.

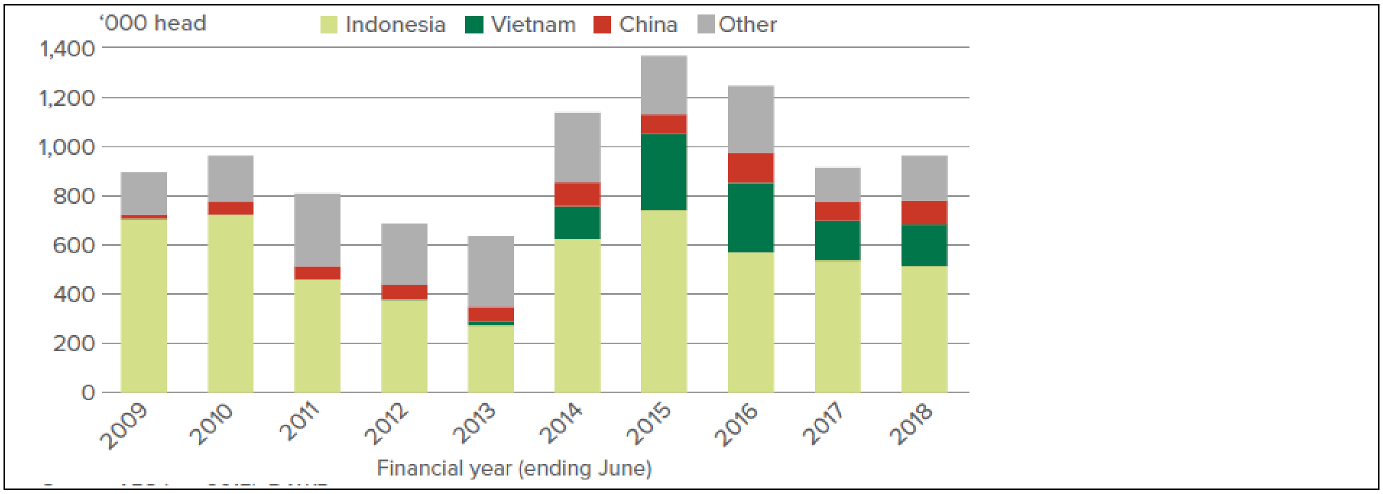
Grainfed beef exports at the end of the June 2018 quarter reached almost 75,000 MT shipped weight, up 10 percent compared to the same period last year, reflecting the record numbers of cattle on feed. Grainfed beef exports to Japan and Korea both increased by 8 percent in the June quarter 2018, compared to the previous year. Volumes to China increased by 75 percent in the June quarter of 2018, compared to the previous year, making China the second largest grainfed beef market for that period. However, grass-fed exports remain the predominant type of beef exported from Australia.

Australian beef exporters compete with U.S. exporters in markets such as Japan, Korea and China and they have increased their competitiveness internationally due to the depreciation of the Australian dollar. Higher slaughter and beef production in 2018 is expected to boost Australian exports, but beef exports are forecast to decline in 2019 as slaughter rates fall and herd rebuilding becomes a greater priority. This outlook assumes average seasonal conditions in 2019.

Live Cattle Exports

Post forecasts an upturn in live cattle exports to 1 million head in 2019, compared to the estimate of 900,000 head in 2018. Export growth should be sustained by greater access to markets such as China and Russia, while exports to Indonesia, the main market, are expected to be stable. In the first half of 2018, exports of live cattle exports increased by 23 percent over the first six months of 2018 to reach 487,000 head. Improved seasonal conditions in the Northern Territory and the northern region of Western Australia have resulted in larger herd sizes.

Chart 10: Australian exports of live cattle, by country, 2009-2018 (‘000 head)



Note: Financial year ending in June.
Source: Meat and Livestock Australia and Australian Bureau of Statistics.

Australia's live cattle exports are directed to markets which have cultural preferences for freshly slaughtered meat or where the lack of refrigeration and cold chain facilities makes this type of trade preferred to exports of processed beef. Feeder and breeder cattle are imported either for further weight gain before slaughter or for building up herds in a number of countries including Indonesia, China, and Vietnam.

Table 2: Australian live cattle exports by country, 2012-2018 ('000)

	2012	2013	2014	2015	2016	2017	2018 (a)
Indonesia	279	452	728	618	607	512	232
Vietnam	3	67	182	358	194	167	96
China	56	66	117	89	93	76	53
Israel	50	98	78	79	72	34	20
Turkey	46	10	2	0	61	26	17
Other	185	157	185	188	108	65	75
World	619	850	1,292	1,332	1,135	880	493

Note: (a) Six months to end-June. Source: World Trade Atlas.

Australia has sought to develop new markets for live cattle because of the lack of growth in the Indonesian market. The main reason is sustained competition from imports of Indian buffalo meat in the wet market of Indonesia, especially during the holiday period when demand tends to peak. Currently, Australia and Indonesia are nearing the completion of free trade agreement. An Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) is expected to be announced in September 2018, which could improve market access for Australian beef and live cattle exports to the Indonesian market.

In 2018, there were a number of reviews into the live animal export trade by regulatory bodies in Australia, following concern over animal welfare, especially for the sheep trade. Currently, cattle and sheep exporters need to adhere to the Australian Standards for the Export of Livestock (ASEL), as well as importing country requirements and the relevant Australian regulations. There has been no recent disruption of the live cattle trade because of animal welfare concerns unlike in 2011 when the bilateral export trade to Indonesia was suspended by the Australian government.

Production, Supply and Distribution Data Statistics

Animal Numbers, Cattle	2017		2018		2019	
Market Begin Year	January 2017		January 2018		January 2019	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beginning Stocks	24,971	24,971	25,500	25,500	0	25,300
Dairy Cows Beginning Stocks	1,565	1,565	1,600	1,500	0	1,500
Beef Cows Beginning Stocks	11,750	11,750	12,250	11,250	0	11,000
Production (Calf Crop)	9,050	9,050	10,000	9,000	0	9,500
Total Imports	0	0	0	0	0	0
Total Supply	34,021	34,021	35,500	34,500	0	34,800
Total Exports	928	928	900	900	0	1,000
Cow Slaughter	3,255	3,255	3,300	3,600	0	3,400
Calf Slaughter	413	413	550	550	0	500
Other Slaughter	3,904	3,904	4,200	4,100	0	3,900
Total Slaughter	7,572	7,572	8,050	8,250	0	7,800
Loss	21	21	50	50	0	50
Ending Inventories	25,500	25,500	26,500	25,300	0	25,950
Total Distribution	34,021	34,021	35,500	34,500	0	34,800
(1000 HEAD)						

Note: Not official USDA data.

Meat, Beef and Veal	2017		2018		2019	
Market Begin Year	January 2017		January 2018		January 2019	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	7,572	7,572	8,050	8,250	0	7,800
Beginning Stocks	0	0	0	0	0	0
Production	2,149	2,149	2,280	2,300	0	2,180
Total Imports	13	13	13	13	0	13
Total Supply	2,162	2,162	2,293	2,313	0	2,193
Total Exports	1,486	1,486	1,610	1,630	0	1,510
Human Domestic Consumption	676	676	683	683	0	683
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	676	676	683	683	0	683
Ending Stocks	0	0	0	0	0	0

Total Distribution	2,162	2,162	2,293	2,313	0	2,193
(1000 HEAD), (1000 MT CWE)						

Note: Not official USDA data.

SWINE AND PORK

Overview

The Australian pig and pig meat industry is the smallest of the livestock industries and the only one competing with imported products, mainly from the United States, Denmark, Canada, and the Netherlands. The fresh pig meat market is wholly supplied by local producers as biosecurity regulations prevent imports of fresh and chilled pig meat. The processed pig meat market (which includes ham, bacon and smallgoods) is supplied from processed imports of frozen pig meat.

In recent years, increased domestic pig meat production has contributed to a fall in prices. In mid-2018, pork prices in Australia reached a decade low and led to a number of industry expansions to be put on hold. Western Australia's largest pig producer, Westpork announced that plans for a US$15 million, 68,000-head piggery north of Perth would be suspended. In addition, high prices for feed grain, coupled with drought conditions in some states, have made many smaller pig farms unprofitable.

Pig Numbers

The Australian pig crop is forecast at 5.3 million head in 2019, down almost 2 percent on the estimate for 2018. In response to low pork prices and high feed costs, the industry is forecast to reduce the sow population in 2019 resulting in a fall in the pig crop.

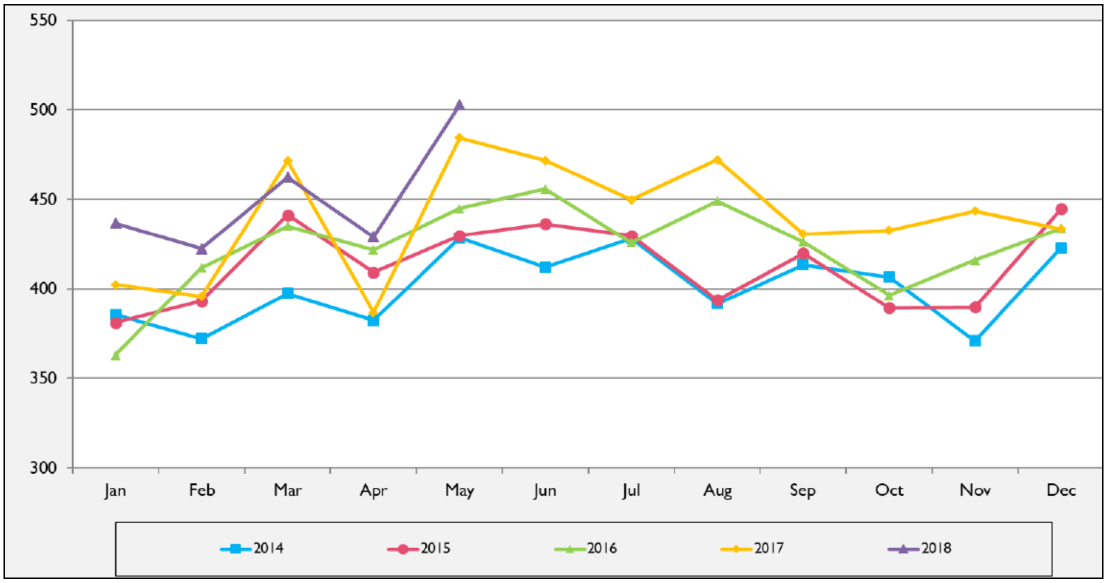
The industry is dominated by large-scale piggeries with the number of pig farms declining from 40,000 in the early 1970s to less than 1,400 farms in 2018. The two largest producers are Queensland-based Sunpork and NSW-based Rivalea, which together account for around one half of total production in 2018. Feed related expenses (i.e., wheat, barley, and sorghum) comprise around 60 percent of total pig production costs. During 2018, a shortage of feed grain and hay has led to sharp price increases for these inputs, with an adverse effect on the industry.

Slaughter

Post forecasts pig slaughter for 2019 at 5.3 million head from an estimated sow herd of around 274,000. New data has been released on sow numbers using the Pig Pass database compiled by the industry showing sow numbers at 280,000 in 2017 and 2018. Post forecasts that oversupply, low pork prices, and a shortage of feed in the domestic market will lead to a decline in the 2019 sow population to 274,000.

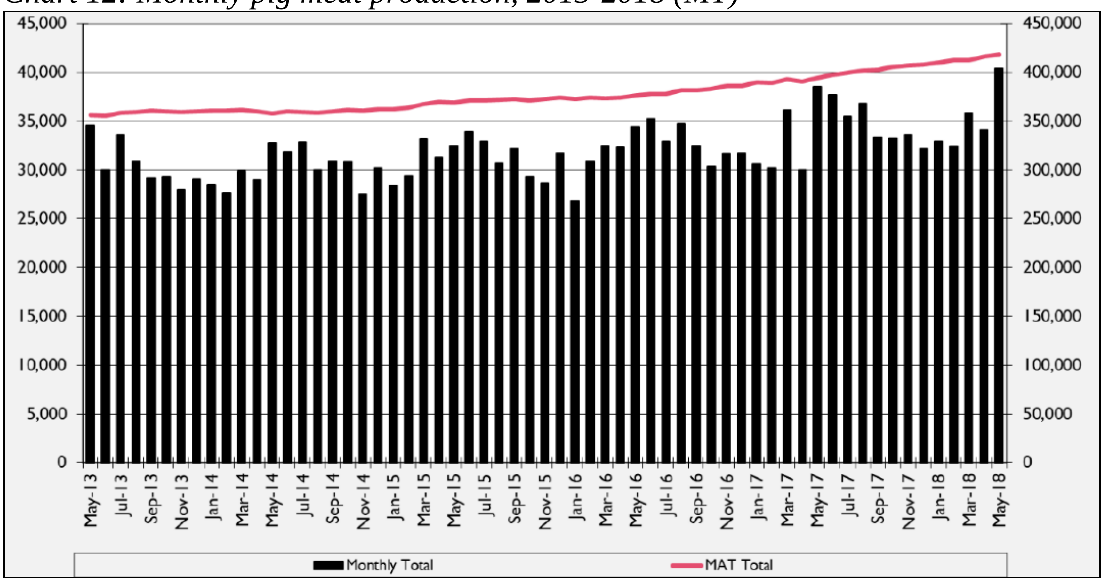
Pigs are primarily classified as porkers or baconers. Porkers are used for fresh meat products like pork chops, while baconers are processed into bacon, ham, sausages, etc. Most pigs are sold at baconer weight (50-105kg dressed weight) for processing into cured products or sold as fresh pork. Porker-weight pigs (30-50kg dressed weight) are used for fresh meat while stores (25-40kg liveweight) and weaners (15-25kg liveweight) are sold for growing out or for special consumer markets. Government regulations prohibit the sale of fresh meat to the public, unless it has been processed at a licensed abattoir.

Chart 11: Monthly pig slaughter, 2014-2018 ('000 head)



Source: Australian Pork Limited (2018)

Chart 12: Monthly pig meat production, 2013-2018 (MT)



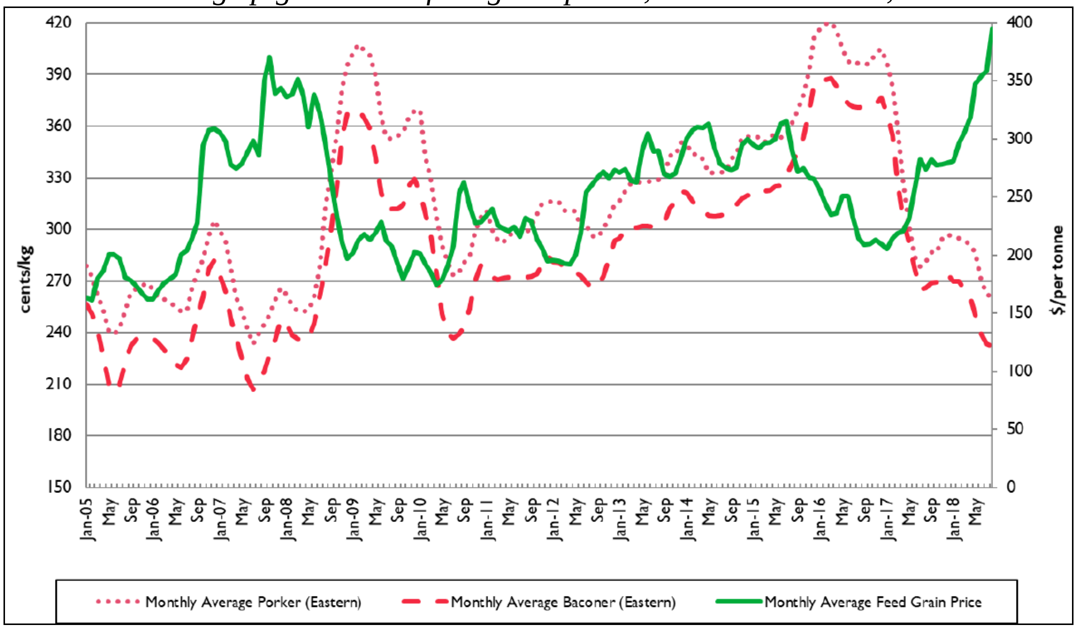
Source: Australian Pork Limited (2018)

Pig Meat Production

Pig meat production is forecast at 420,000 MT in 2019, down 2 percent from the previous year. The domestic pork industry has increasingly focused on growing sales of fresh meat, which encounters less competition from imports compared to frozen pig meat, which are subject to biosecurity regulations. The major pig production areas are located in south-eastern Queensland, especially Darling Downs; southern NSW; northern and western Victoria; south-eastern South Australia; and south-western Western Australia.

Traditionally, pigs have been farmed in major grain-growing areas and in some dairy areas. In recent years, the industry has gravitated towards grain-growing areas near abattoirs. Large-scale producers have focused on production efficiency while small-scale producers have targeted niche markets. Farm gate prices peaked at A$3.70 a kilogram in 2016, but fell to A$2.70 in early 2018 and then A$2.20 by August 2018, which is below the cost of production for smaller producers.

Chart 13: Average pig meat and feed grain prices, Eastern Australia, 2005-2018



Source: *Australian Pork*

Production cost is influenced mostly by feed, labor, and energy-related expenses. For many farms, transport from farm to abattoir is a significant cost, although less so for integrated producers. Larger piggeries use methane gas to generate power for their facilities and sell any surplus to local power companies. Feed expenses account for around 60 percent of the cost of production, but this proportion is also affected by grain price fluctuations, seasonal climate conditions, and global demand. Grain for feed is processed by grinding and mixing the ration with additives and pelleting. In 2018, grain prices have increased significantly in Queensland and NSW as a result of poor weather conditions.

Consumption

In 2019, pig meat consumption is forecast to increase to 620,000 MT due to lower prices and substitution with other proteins. For the three months to June 2018, there was a 1 percent decline in average pork prices to A$11.70 compared to an increase of 2.1 percent for lamb to A$15.30 and stable prices for chicken at A$5.40.

Pork consumption is forecast at 26.5 kilograms per person in 2019, above the previous year by around one kilogram. This compares to 26 kilograms for beef and 47.7 kilograms for poultry. This is first time that pork has overtaken beef in terms of average consumption and reflects an oversupply of pigs in the domestic market, which has contributed to lower pork prices. Pig meat accounts for nearly 10 percent of total fresh meat retail consumption. Fresh pork sold in Australia is domestically produced while most processed pork products are made from imported frozen boneless pig meat. Fresh pork consumption was around 12 kilograms per person in 2018.

Trade

Post forecasts Australian pig meat exports to be stable at 45,000 MT in 2019. Australia typically exports pork to Singapore, Hong Kong, and New Zealand. Exports of pig meat are usually made by processors and around 50 percent of these exports are made on an intra-company basis; from subsidiary to parent company. The largest integrated Australian pig farm exports around one third of its production, mainly to Singapore and Japan. The industry is targeting exports of premium pig meat to China, but export volumes are not expected to be significant and biosecurity protocols have not yet been agreed to.

Around seventy percent of the ham and bacon eaten in Australia is produced using imported frozen pig meat. Imports from the United States are typically boneless legs of pork, which are then cooked and cured and processed into ham. Imports from Europe are typically boneless middles, which are cooked and cured in Australia and processed into bacon.

Biosecurity Regulations

Biosecurity regulations make it difficult to import live pigs into Australia. Thus, only pigs raised in Australia can be sold as fresh meat on the domestic market. Imports of fresh, chilled and bone-in pork are also not permitted under these regulations. However, imported frozen pig meat, which is heat-treated in government accredited facilities in Australia can be used to make ham and bacon products. Imports are typically frozen boneless legs of pork that are cooked and cured and made into ham as well as frozen boneless middles portions, which are cooked and cured into bacon. Biosecurity regulations also prevent the importation of breeding stock and genetics via semen or embryos from foreign suppliers.

Production, Supply and Distribution Data Statistics

Animal Numbers, Swine	2017		2018		2019	
Market Begin Year	January 2016		January 2018		January 2019	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	0	2,260	0	2,235	0	2,235
Sow Beginning Stocks	0	280	0	280	0	274
Production (Pig Crop)	0	5,250	0	5,400	0	5,300
Total Imports	0	0	0	0	0	0
Total Supply	0	7,510	0	7,635	0	7,585
Total Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	0	5,275	0	5,400	0	5,300
Total Slaughter	0	5,275	0	5,400	0	5,300
Loss	0	0	0	0	0	0
Ending Inventories	0	2,235	0	2,235	0	2,235
Total Distribution	0	7,510	0	7,635	0	7,535
(1000 HEAD)						

Note: Not official USDA data.

Meat, Swine	2017		2018		2019	
Market Begin Year	January 2017		January 2018		January 2019	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	5,275	5,275	5,300	5,400	0	5,300
Beginning Stocks	22	22	18	18	0	33
Production	408	408	420	430	0	420
Total Imports	215	215	225	230	0	230
Total Supply	645	645	663	678	0	683
Total Exports	43	43	45	45	0	45
Human Dom. Consumption	584	584	595	600	0	620
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	584	584	595	600	0	620
Ending Stocks	18	18	23	33	0	18
Total Distribution	645	645	663	678	0	683
(1000 HEAD), (1000 MT CWE)						

Note: Not official USDA data.