GENERAL AGREEMENT ON TARIFFS AND TRADE

INTERNATIONAL MEAT CONSULTATIVE GROUP
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Statement Made by the Representative of Australia

OUTLOOK FOR BEEF AND VEAL

In general, some encouraging signs are beginning to emerge for the Australian beef cattle industry. The heavy supply situation which has overshadowed the world market in aggregate over the last two to three years is expected to ease in 1977 and there should be some continued recovery in incomes in the developed market economies.

However, clouding the outlook for Australia is the continued high rate of production in Australia and a continuation of unpredictable government policies in the major importing countries.

In the twelve months to 31 March 1977, the Australian cattle herd is expected to show its first decline since 1966 - down to 32.5 million head. Slaughterings of adult females and calves are running at record levels, reaching 50 per cent of cattle slaughtered in January 1977. As members of the Group will note from the papers distributed, in previous years the percentage of adult females slaughtered has averaged just over 30 per cent of cattle slaughtered.

This trend could be accentuated if the run of relatively good seasons in much of north and central Australia is broken by a major drought.

In any event, a reduction in cattle numbers is clearly in prospect in 1977 and 1978, based on the broad slaughtering patterns of the beef industry since the mid-1950's. The timing of the inevitable decline in beef and veal output will depend on the extent to which herd liquidation proceeds following the recent improvement in seasonal conditions and the time lapse before the onset of the next drought.
The relatively high female component of total slaughterings will tend to keep average slaughter weights down, although improved seasonal conditions will cause them to rise above the low levels of 1976. Production in 1976/1977 is estimated at 1.73 million tonnes, 3 per cent below the record level of 1975/1976.

Cattle prices in 1976/1977 are expected to average some 35 per cent above year earlier levels. On this basis, prices for first export quality ox 301-320 kgs. should range between 57-76c/kg and between 47-82c/kg for yearling, both on an estimated dressed weight basis. The major factors contributing to the rise are higher prices in some importing countries, the slight decline in Australian production and the devaluation of the Australian dollar in November 1976.

Domestic demand for beef is expected to decline slightly over the next twelve months and to absorb some 550,000 tonnes (product weight) in calendar 1977. Household disposable incomes are likely to move more or less in line with the rate of inflation while prices of competing meats are not expected to increase significantly in real terms. Given a small reduction in Australian supplies and some strengthening in overseas demand, the price of beef is considered likely to rise moderately in real terms, thus resulting in some decline in domestic consumption below the very high levels of 1975/1976. The net effect of these movements is likely to be a moderate rise in the level of supplies available for export.

Supplies available for export in calendar 1977 are expected to be around 705,000 tonnes (product weight) of which approximately 571,000 tonnes is already committed. Any further improvement in demand for Australian beef exports will depend primarily upon the development of conditions leading to improved access to the major markets, the United States, Japan, the EEC and Canada. Nevertheless, demand from a number of traditionally smaller markets including the USSR, Eastern Europe and the Middle East increased markedly in the latter months of 1976 and early 1977, with prices paid being close to United States offer prices.

As has been noted on many previous occasions, relatively small shifts in the aggregate supply/demand balance in the major beef importing regions can have a very marked impact on the volume of Australian exports and on export returns. Therefore, I now propose to review what appears to Australia to be some of the likely short and medium-term developments in the United States, Canada, the EEC and Japan. The most significant probable development, of course, is the levelling off over the next one to two years of the liquidation phase of the cattle cycle associated with high slaughterings in North America and the EEC.

The critical factors affecting the outlook for beef in the United States during 1977 are expected to be the level of domestic demand for meat, the price of feed grains and the price of pigmeat and poultry.
Although the strong economic recovery in the first two quarters of 1976 slackened later in the year, domestic consumption of red meat is estimated to have increased by 5.5 per cent in 1976 and a further expansion of total red meat consumption is expected in 1977.

Feed grain supplies are expected to be slightly above year earlier levels while wheat availability will be substantially higher. Supplies for domestic feeding should be up on the previous year with the decline in feed grain sales to the USSR outweighing increased import demand in Western Europe.

Total cattle and calf slaughter is forecast to decline at least 5 per cent to below 40 million head, almost 2 million less than the 1976 level. Production of beef and veal, however, is forecast to decline only 3-5 per cent from the estimated 1976 output of 11.9 million tonnes, due to a greater proportion of fed cattle being slaughtered and the consequent increase in average slaughter weights. In addition, substantial rises in pork and broiler supplies forecast for 1977 are likely to have a dampening effect on beef price rises.

Beef market developments in Canada should be similar to those in the United States. The sizable drop in both total inventory and the cow herd will keep calf crops at a lower level than in the 1973-1975 period. This, along with a smaller 1976 spring calf drop, points to some cutback in cattle slaughter supplies in 1977 and 1978. Slaughterings of cows and heifers are expected to decline in 1977 and could be 4-5 per cent below 1976 levels with beef production 3 per cent lower, as the proportion of fed cattle slaughtered is likely to rise.

Production in the EEC is forecast to decline in 1977 by about 6 per cent from the 6.3 million tonnes estimated for 1976. This reflects a fall in both total cattle and cow numbers in 1976 and higher slaughterings in the June-August period due to the drought.

Although this decline in beef production and continuing import controls would suggest a rise in prices for 1977, the release of intervention and Community financed private stocks, together with possible heavy supplies of pigmeat, will tend to dampen the impact on prices of the reduction in output. Some growth in consumer income will have an upward influence on demand; however, continuing inflation, high unemployment and upward adjustments in prices, in the United Kingdom particularly, are expected to hold overall EEC consumption close to the levels of 1976.

Finally, the build-up in herd numbers in Japan which has occurred over the last two years is forecast to result in a significant recovery in beef and veal production. Indications are that output could rise by about 13 per cent from the
1976 estimated level of 300,000 tonnes, largely as a result of substantially higher slaughterings of dairy steer.

At the same time, consumer demand for beef is expected to rise in line with growth in real GNP and population and should be capable of absorbing the increase in production, together with a volume of imports around the 1976 level, without a decline in prices received by producers.

In conclusion, therefore, with an overall easing in the level of production and prospects for a moderate improvement in demand, world trade should show some expansion in 1977. However, as usual, this will depend critically on the operation of trade restrictions by the major importing countries.