At the last meeting of the Group we commented that there were encouraging signs that the world beef market was improving. Unfortunately, in our view it now appears that this recovery will not take place in 1977.

The heavy supply situation which in recent months has characterized many of the major beef producing areas, particularly in the United States, is still continuing and this appears to have delayed the recovery in world beef prices.

We may, therefore, have to wait until 1978 before there is any substantial improvement in world beef prices.

Continued heavy marketing of stock in Australia has put a stop to the sustained growth in the beef herd which characterized our industry over the last decade. In fact, preliminary figures available for the end of March suggest that cattle numbers may be as low as 32 million head or some 4 per cent below the record level of 33.4 million head at the same time last year. From these figures it appears that a liquidation phase in the Australian cattle cycle is definitely underway.

The main reason for the reduction in the cattle herd is the record slaughtering of adult females and calves which has continued into 1977. In February and March this year, slaughtering of cows and heifers represented more than 53 per cent of adult stock slaughtered. This compares with a usual level of less than 40 per cent. Total adult slaughterings were also more than 12 per cent above their previous peaks for these months. Calf slaughterings were more than 14 per cent above their previous records for the months of February and March.
These high culling rates reflect the very depressed economic conditions which continue to confront Australian producers. Beef producers in Australia continue to receive low or negative net returns for their cattle despite an improvement in pastoral conditions in southern Australia which has generally removed those elements of forced slaughter which were evident last year. Saleyard prices for cattle have shown little improvement in recent months, despite some strengthening in overseas demand for beef. In the first three months of 1977, prices for first and second export quality ox (301-320 kgs. on dressed weight basis) have averaged only 49.6 cents per kg. compared with an average of 48.5 cents per kg. in 1976. The heavy marketings of stock and recent revaluations of the Australian dollar are largely responsible for the lack of any significant increases in saleyard prices so far this year.

At the same time, farm input costs have risen considerably over the last twelve months. The increased liquidity pressure that this has placed on beef producers, combined with a more favourable outlook for wool and sheepmeats relative to beef, has been a major factor influencing producers to reduce their herds. Of more longer term concern is the effect that these liquidity pressures have on the use of fertilizers which has fallen sharply since 1974. If this trend continues, it must inevitably result in the declining productivity of grazing land which will seriously limit the size of our future cattle herd.

In forecasting the level of beef and veal production in calendar 1977, it has been assumed that the present high slaughter rates are likely to ease in the next few months, due mainly to a decline in the availability of suitable cattle, favourable seasonal conditions over most of the country, and some improvement in producer expectations about their longer term viability. Under these assumptions, total slaughter of cattle and calves in 1977 is estimated to reach 11.5 million head and production has been forecast at a record 1.91 million tons, some 2 per cent above last year's level. The high proportion of female cattle and calves being slaughtered is likely to offset any increase in average slaughter weights which may result from more favourable seasonal conditions.

Given that production is likely to be at record levels and that saleyard prices have yet to show any significant improvement so far this year, our earlier forecast for a small decline in domestic demand between now and the end of the year, is unlikely to eventuate, even if export prices rise within the next few months. If retail prices continue to reflect low saleyard prices, per capita consumption of beef and veal in 1977 is estimated to remain close to the very high levels of 1975 and 1976. In this case total domestic consumption should increase slightly in 1977 by some 5,000 tons to reach a total of around 910,000 tons (carcass weight).
Turning now to the outlook for exports. In general, prospects are not as favourable now as they first appeared earlier this year. The revised consumption estimate should reduce the availability of export supplies by about 80,000 tons so that it is now anticipated that our exports this calendar year will be in the order of 950,000 tons (carcass weight). This, however, is still some 10 per cent above the level of 1976. In addition, indications now are that any recovery in world prices will be delayed until 1978. When the USSR and Eastern European countries entered the market during the latter part of 1976, expectations were that this increase in demand could lead to a substantial recovery in world prices this year. It is now apparent that a heavy supply situation still exists in many of the major beef producing countries including the United States as the United States is the world's largest importer of beef and veal, it is unlikely that any recovery in world prices can occur before there is some easing of the situation on the United States market.

I now propose to review some of the likely short and medium-term trends that appear to us to be developing in some of the major markets for beef and veal, in particular, the United States, Canada, the EEC and Japan.

The beef herd in the United States also appears to be going through a liquidation phase in the cattle cycle. Cattle numbers declined by 4 per cent during 1976 to reach a level of 123 million head in January this year. Lower inventory levels are expected to keep total cattle slaughterings down to an estimated 40.5 million head during 1977, some 7 per cent below that achieved in 1976. However, a bigger proportion of fed cattle is included in the slaughter mix and this should help to increase average slaughter weights. Total beef and veal production is forecast at 11.6 million tons, a decline of 5 per cent on that produced in 1976. We are uncertain of the effect which a continuation of the drought affecting many areas of the country, particularly the western States, is likely to have and I would welcome any comments.

Although beef supplies in the United States should ease slightly in the next few months, any stimulus that this could give to domestic beef prices this year should be neutralized by increases in production of other meats, particularly of pork and poultry. Production of these meats is forecast to increase by 12 per cent and 3 per cent respectively. We understand total meat production is estimated to increase slightly on last year's level of 22.7 million tons. If beef prices remain at relatively low levels, cattle slaughterings, particularly of cows for manufacturing may be higher than previously forecast.

It seems to us that the beef industry in Canada is in a situation similar to that in the United States. Canadian cattle numbers as at 1 January were 4 per cent below the year earlier figures which included a decline of 5 per cent in cow numbers. In the first two months of 1977, total cattle slaughterings
were 5 per cent above those for the corresponding period last year. Cow slaughterings are estimated to have increased by 2 per cent during this period. A decline in slaughter levels is expected during the second half of the year but pasture and range conditions will again be a key factor because of the drought in western parts of Canada. If the drought continues, further liquidation can be expected throughout the year. At this stage, total cattle slaughterings are expected to be marginally below last year's level.

In the EEC we see that production is still expected to decline slightly in 1977. Estimates now indicate that total beef production should amount to 6.15 million tons, a decline of only 4 per cent from the 6.42 million tons produced last year. Total cattle slaughterings are also expected to decrease by 4 per cent to 26.9 million head. As yet we have no estimates on the likely impact on these forecasts of recently announced measures in the dairy sector, particularly the conversion of dairy cattle to the beef herd.

EEC consumption is expected to decline slightly on 1976 levels to 6.44 million tons. Although the removal of the Italian import deposit scheme in April may improve Italian demand for manufacturing grade beef, continuing inflation, high unemployment and increases in support prices, particularly in the United Kingdom, as well as the devaluation of the United Kingdom green pound are likely to offset any improvement in Italian consumption of beef.

The current low level of community market prices has ensured that imports have continued to be subject to the maximum levy rate of 11 1/4 per cent and the market has remained effectively closed. The best prospects for exporters to improve sales to the EEC market during 1977 therefore appear to lie with the two quotas for 75,000 tons manufacturing grade beef under the balance sheet arrangements. However, performance under this scheme to date has proved to be disappointing. Only 15,000 tons (20 per cent) were permitted entry under these quotas during the April-June quarter and we understand that only 10,000 tons have been allocated for the quarter beginning 1 July. We would welcome any comments on the total amounts that is likely to enter the EEC market this year under these arrangements.

The outlook for imports to the Japanese market in 1977 also appears to be less favourable. We understand beef production in 1977 is expected to increase by some 14 per cent on the 298,000 tons produced last year, largely as a result of increased production of dairy steer beef which is already running at 40 per cent above year earlier levels.

At the same time, consumer demand for beef is expected to rise by only 3 to 4 per cent due mainly to a slight rise in real economic activity and population growth.
In conclusion, therefore, the outlook is for continuing high levels of world beef production, only marginal increases in demand and therefore no significant expansion of world trade is likely to occur this year. In markets where imports are simply treated as a residual, the projected increases in domestic production are likely to reduce the volume of beef imports. Because of the availability of substitute meats, particularly pork and poultry, we would think it is unlikely that any significant recovery in world beef prices will occur before 1978.