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Date: 5/8/2013

GAIN Report Number: AS1316

Australia

Post: Canberra

Seasonal conditions and market update - May 2013

Report Categories:

Agricultural Situation

Livestock and Products

Grain and Feed

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Report Highlights:

Large areas of northern Australia have received far below average rainfall over the last six months which has forced many cattle producers to reduce numbers dramatically and caused prices to fall steeply. The industry has also been affected by reductions in demand for live export cattle and a further breach of animal welfare standards in Egypt.

Low rainfall has also affected sowing of winter crops, particularly in New South Wales and Victoria where soil moisture levels are very low.

Seasonal conditions

The 2012-13 Australian monsoon was extremely late and provided much lower than average rainfall across northern Australia. Cattle numbers in these areas had built up significantly over the last two years when rainfall had been above average however producers are now finding they must reduce numbers quickly. In Queensland 13 local government areas have been officially “drought-declared” with more declarations expected (see [Figure 1](#)).

Rainfall in parts of New South Wales, Victoria and Tasmania over the period August 2012 to April 2013 was the lowest on record. In particular the central, western and Riverina districts of New South Wales received rainfall substantially below average as did the western half of Victoria, extending into eastern South Australia. Western Australia has had much closer to average rainfall over the same period (see [Figure 2](#)).

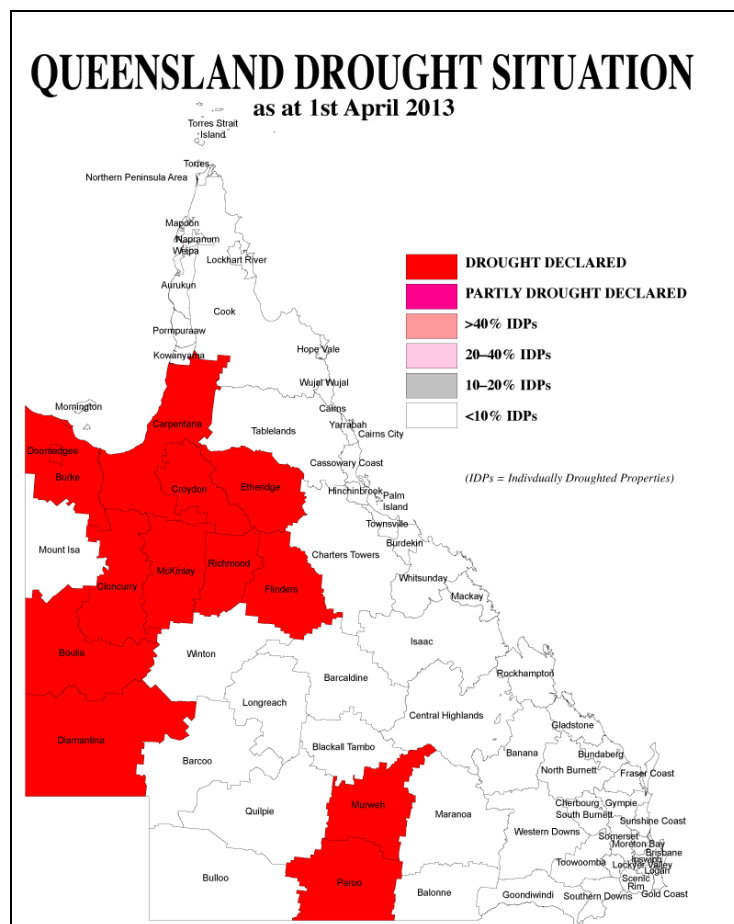


Figure 1 Queensland drought declaration (Source: QLD Department of Agriculture, Fisheries and Forestry)

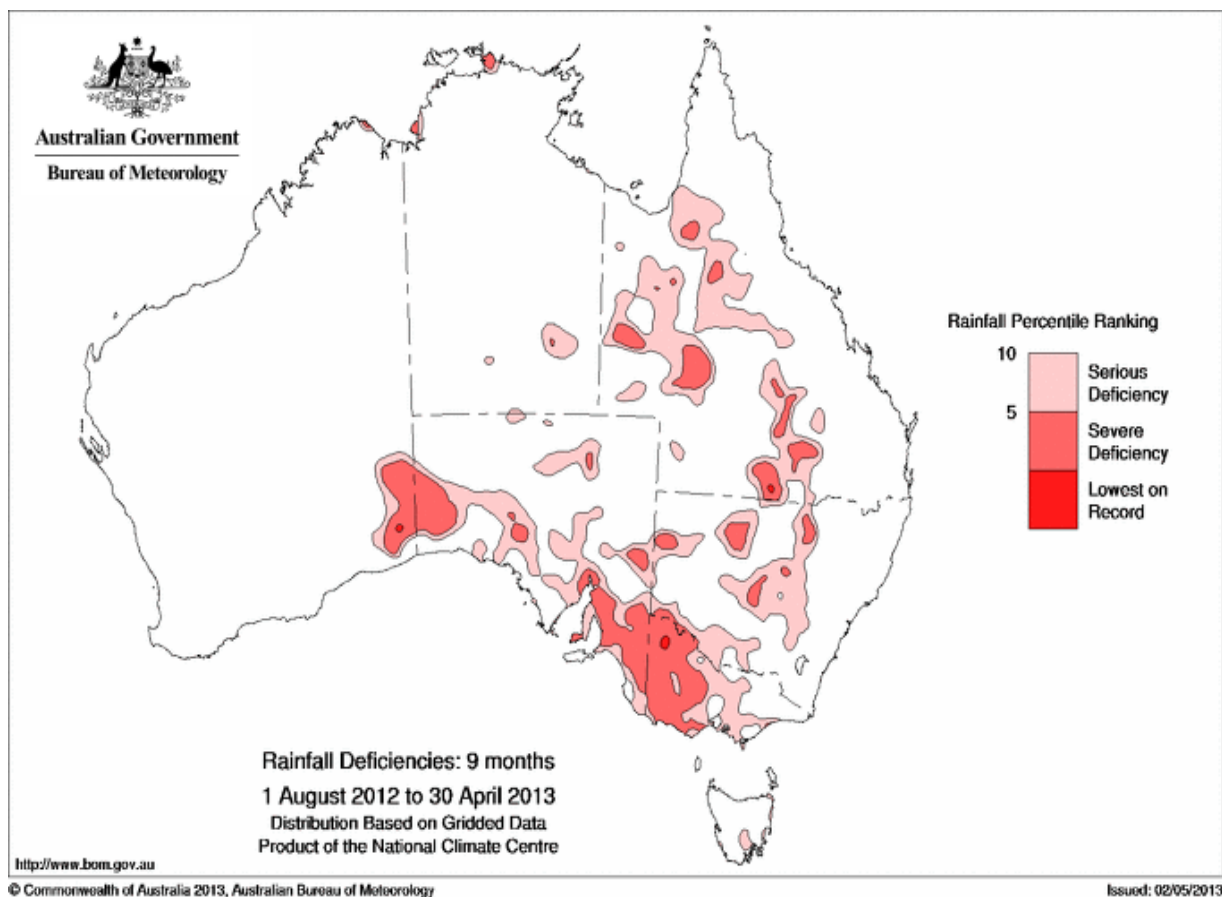


Figure 2 Australian rainfall deficiencies August 2012 - April 2013 (Source: Bureau of Meteorology)

Market conditions

All major livestock selling centers in Queensland have reported higher than average numbers for several weeks and reports are that most meat processing plants are booked to capacity through to at least July and some through until August and September. As a result cattle prices have fallen dramatically, with reports of underweight female cattle selling for as little as \$AU0.20 per kilogram. The key indicator of Australian cattle prices is the Eastern Young Cattle Indicator (EYCI) which has fallen nearly 22 cents in the past month. The graph below shows the current EYCI compared to the previous two years. At the end of the week of May 3rd, the EYCI fell below 300 cents per kilogram for the first time since December 2009 when seasonal conditions were similarly dry.

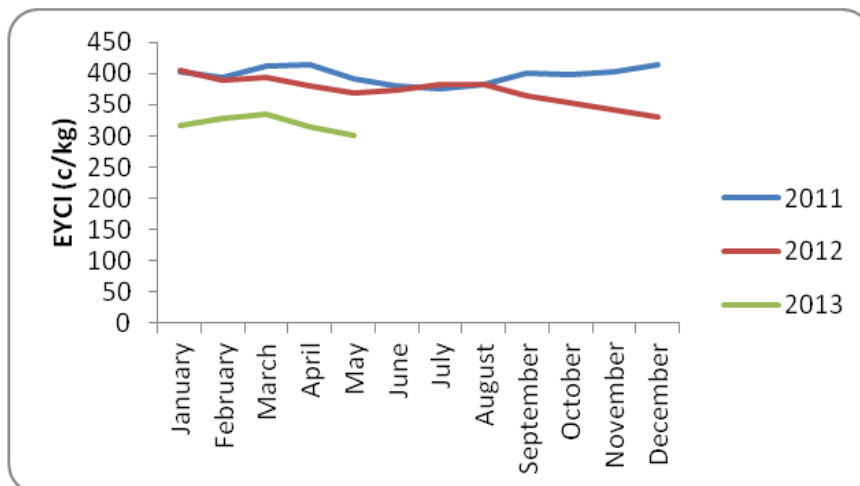


Figure 3 Eastern Young Cattle Indicator (Source: Meat and Livestock Australia)

As a result beef exports have risen significantly. Early estimates indicate that total exports for January to April 2013 are 10 percent higher than during the same period in 2012. Key markets remain the United States, Japan, South Korea and China.

However, at least three regular cattle sales have been cancelled in Queensland for the week beginning May 5th due to lack of numbers. There are several possible reasons for this; producers may feel that recent prices are not sufficient to justify the freight costs of getting cattle to market. In severe cases they may feel that their remaining cattle are not healthy enough to transport.

Policy response

In response to worsening seasonal conditions and recognition of rising input costs and the continued impact of the high Australian dollar, on April 27th, 2013 the Australian government announced a finance package for all farmers across the nation. The package provides up to \$60 million over two years to each State and Territory to fund concessional loans of up to \$650,000 per farm and expand the farm financial counseling service with an additional 16 staff. The Western Australian Government has also announced a further \$7.8 million package which includes exit grants of up to \$25,000.

On May 3rd, 2013 the Australian Minister for Agriculture, Joe Ludwig also announced a new Intergovernmental Agreement on National Drought Program Reform. This program replaces the Exceptional Circumstances relief scheme which was abolished in June 2012. The new package includes a farm household support payment, taxation changes including expansion of the Farm Management Deposit scheme, a national approach to farm business training, coordination of social support services and tools and technologies to assist farm decision making.

On the same day the Australian Department of Agriculture, Fisheries and Forestry (DAFF) reported that they had received a complaint of animal welfare breaches at slaughter facilities in Egypt. As a result the industry has voluntarily suspended live cattle exports to Egypt while the matter is investigated by DAFF. Australian live cattle

exports to Egypt are currently regulated under a specific Moratorium of Understanding between the two countries rather than the Exporter Supply Chain Assurance System (ESCAS) which regulates other live animal exports from Australia. The incident has again sparked debate about the continued viability of live export but both the Government and the Opposition have stated that they support the continuation of the live export trade.

Industry response

On May 7th approximately 250 beef producers attended an industry organized meeting to discuss key issues including the high Australian dollar, drought, industry debt levels and export market restrictions. Several resolutions were made at the meeting including calls for:

- Establishment of a body to negotiate expansion of live cattle exports with the Indonesian Ambassador to Australia
- Australian government funds to be used to purchase 100,000 head of cattle to be donated to Indonesia as relief aid
- Australian and state governments to fund emergency financial relief for rents and taxes
- The Queensland government to reduce registration costs for vehicles and
- The Australian government to reduce interest rates and the Australian dollar
- The Australian government to review regional tax zone allowances to attract workers
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- Meat and Livestock Australia to suspend the \$5 per head transaction levy on cattle in drought affected areas (this levy funds industry research, development and promotion).

The meeting was also attended by the Australian Minister for Agriculture, Joe Ludwig, the Queensland Minister for Agriculture, John McVeigh, Queensland Senator Barnaby Joyce and Queensland Member of Parliament Bob Katter.

Both the seasonal and market conditions are expected to have an impact on Australian cattle numbers and beef production. Updated estimates will be provided in the Australian Livestock and Products Annual report which is due to be released in September 2013.

Cropping update

As mentioned in the *Australian Crop Update – Winter Planting 2013*, planting of winter crops including wheat, barley and canola has begun but slowly. Most crops in the eastern states (Queensland, New South Wales and Victoria) are being planted with little subsoil moisture on the hope that expected winter rainfall will eventuate. Reports of scattered rainfall during the week beginning April 29th have been received but mostly in southern Queensland areas.

Final planted areas for all major winter crops will depend on rainfall over the next month. Further updates will be provided when available.