Current trends in the world beef industry during the financial and economic crisis

Introduction
The present note sums up the current trends in the world beef industry incorporating the first forecasts for 2009 in the wake of the economic and financial crisis. As the world moves into a much slower economic growth period, the world demand and supply balance for beef has been tightening, leading to prospects for higher prices. Over the longer term the prospects for beef look promising as more of the world increases its living standards. In the short term the prospects are now not so clear and this analysis identifies the facts and the possible trends and outcomes over the next year or so. Nonetheless, early indications suggest that world production and consumption are slowing with the key to prices in the short term depending on how much consumption is reduced, if at all, worldwide as a result of the slowdown in world economic growth.
## Table of Contents

Introduction.............................................................................................................. 1

WORLD TRENDS ...................................................................................................... 3

USA ............................................................................................................................ 3

EU-27 ......................................................................................................................... 4

BRAZIL ...................................................................................................................... 5

INDIA .......................................................................................................................... 6

AUSTRALIA ............................................................................................................... 6

RUSSIA ...................................................................................................................... 7

JAPAN ....................................................................................................................... 7

SOUTH KOREA ......................................................................................................... 8
WORLD TRENDS

CHART 1 shows the USDA figures and the slowdown in the world's total beef production and consumption which appeared in 2008. While production and consumption are forecast to reach new records, the rate of increase has slowed due mainly to a pause in the rise in production from Brazil and India. The differences in production and consumption each year shown on CHART 1 comprise the losses in trade and are lower when stocks are falling as use is higher.

CHART 2 shows the change in world stocks which have for the past 6 years been at relatively low levels. There is no mountain of beef held anywhere in the world any longer. While it is difficult in the current economic climate of uncertainty to predict the eventual behaviour of consumers, this analysis looks at the current trends and the initial forecasts for 2009 with an emphasis on consumption. Production through grain feeding can be increased or decreased marginally fairly rapidly. If prices fall too far from lack of demand, then production is likely to fall fairly rapidly as well.

USA

The USA is the world's largest producer, consumer and importer of beef and is forecast to be the third largest exporter in 2009. CHART 3 shows the recent trends in production and consumption of beef in the USA. Note the decline in domestic consumption in 2008. Production has not really increased since 2000 with the lack of Canadian live cattle to kill showed in the 2004 and 2005 production. Consumption peaked in 2006.
Per capita consumption is forecast to fall to 28.3 kg in 2009, down slightly again on the 2008 level of 28.6 kg. The slowdown in domestic consumption and a slight increase in production up to 2008 have allowed exports to recover from their crash when BSE was discovered. Exports are forecast to rise further in 2009 although the actual increase is less than what had been achieved over the last 3 years, as shown on CHART 4. Although imports have fallen in each of the 4 years up to 2008, they are forecast to rise again slightly in 2009 due to the drop in production and rise in exports outweighing the drop in consumption. Canada is the major exporter to the USA, with Australia and New Zealand being the other 2 major suppliers. The USA also imports beef from Brazil, Argentina, Uruguay and Mexico with small amounts from other suppliers. The recession in the USA is unlikely to cut manufacturing beef use but could reduce total consumption more than forecast in 2009, thus increasing export availability.

EU-27

The EU-27 is the world’s third largest producer of beef after the USA and Brazil, the second largest consumer after the USA and the fifth largest importer. As shown on CHART 5, use has exceeded production for the last 7 years. Consumption and production are both forecast to fall in 2009 with the gap remaining about the same as in 2008. This gap is filled by net imports which were at 300,000 tonnes in 2008 with the gap forecast to reach 320,000 tonnes in 2009.

Prior to 2003, the EU-27 was a net exporter of beef but production declined until 2005 while consumption kept rising. Production has risen slightly since then while consumption has eased. Production is forecast to drop in 2009 with the EU-27 forecast to remain a net importer.

Imports peaked in 2006 and then fell for the next 2 years. CHART 6 shows the trends in imports and exports. The EU-27 is likely to remain a net importer but is unlikely to increase net imports further over the next 2 or 3 years unless production drops dramatically.
Brazil has the world's second largest bovine herd after India, is the world's largest beef exporter, the second largest producer after the USA and the third largest consumer after the USA and the EU-27. **CHART 7** shows the trends in beef production and consumption in Brazil. Production has risen dramatically from 2000 to 2007 but is forecast to have fallen slightly this year with a slight recovery in 2009. The drop in production has occurred as a result of a lower kill.

Brazil's exports had been growing at a frantic pace up to 2007 and despite earlier forecasts of exports continuing to grow in 2008, they actually fell as can be seen on **CHART 8**. Their appreciating currency value made exports less attractive and reduced on farm prices. Consequently the total kill fell as farmers retained stock. Stock numbers and breeding numbers in particular have continued to increase with numbers at the end of 2009 forecast to be up by 2.14 million on the end of 2008 figure with breeding numbers continuing to increase. This is setting the scene for higher production again in the years ahead. Brazil's domestic consumption is forecast to reach a record 38.2 kg per capita in 2009. This is relatively high and has every chance of stabilizing around this figure meaning that more of the growth in production will be available for export. Although there are some comments suggesting that cattle number growth will slow as other land uses are more profitable, there are no signs in these forecasts to suggest the growth in cattle numbers and so potential beef production is slowing in 2009. If growth does slow, then it will mean more cattle killed and a short-term rise in production will occur as a result. We must conclude that exports will continue to rise from Brazil over the next few years after the pause in 2008.
INDIA

India has the largest bovine population in the world, expected to be at 281 million at the end of 2009. Unlike Brazil, numbers in India have been gradually falling for the last 15 years having peaked in 1995 at almost 294 million. Many of these animals are buffalo and these comprise the majority of the kill. Although some cattle are killed in some states, religious beliefs prevent cattle slaughter and most die of natural causes after their working life as milking cows and beasts of burden is over. Losses from natural causes are enormous and at just over 30 million in 2009. The proportion of buffalo in the total herd is growing, allowing more carabeef (buffalo meat) to be produced. India will be the world's fourth largest exporter of beef in 2009 with a forecast 815,000 tonnes, just behind the USA at 934,000 tonnes and well above the next largest exporter, New Zealand, at 497,000 tonnes. However, as shown on CHART 9, exports are forecast to grow by only 5,000 tonnes in 2009 with domestic consumption growing by 130,000 tonnes and consuming most of the production growth. Per capita consumption in India is only 1.69 kg but has been rising steadily since 2005. There is enormous potential for beef consumption in India to rise as living standards improve and the current trends suggest growth in exports is more likely to be limited by increasing domestic consumption rather than continue the growth seen over recent years. Carabeef is favoured by some Asian and Middle East countries as it is a good manufacturing meat for some dishes. India is still infested with Foot and Mouth Disease and so this beef will only supply the secondary and manufacturing markets. However if supply growth is limited, then more pressure will come on other manufacturing beef producers to supply this growing Asian market.

AUSTRALIA

Australia is the world's second largest exporter of beef but only the seventh largest producer. As shown on CHART 10 Australia's production and exports have been falling for the past 2 years and are forecast to fall again in 2009. Drought, high grain prices and more profit potential from grain production have been the major reasons for this fall. Consumption in Australia has remained relatively steady and comprises only about 35.6% of total production, with the remainder being exported.
Per capita consumption is just over 35 kg and is unlikely to change much. Australia's cattle numbers are forecast to rise by about 0.5 million over 2009 and so a slight recovery in production can be expected once the drought is over. There will not be any sudden jump in export quantities unless the beef price is high enough to attract more grain feeding.

RUSSIA

Russia has successfully destroyed its beef industry since independence in 1988, reducing cattle numbers from 59.8 million in 1988 to only 17.295 million forecast by the end of 2009. It will take many years if not decades to regain the herd that once existed if it ever occurs. Although the rate of decrease is slowing, numbers are still forecast to fall over 2009 by a further 505,000. As shown on CHART 11, beef production is continuing its decline with consumption also falling slightly since 2005 as imports have stabilized at around 1 million tonnes.

Russia is now the second largest importer after the USA and is still the world's ninth largest producer of beef. Per capita consumption of beef in Russia is now at 16.6 kg having been at about 36 kg in 1999. Implicitly Russia has a significant potential to increase consumption if living standards rise and beef availability improves. This will not necessarily occur however. As imports have not risen appreciably since 2005, and are not forecast to rise in 2009, it is difficult to see any increase in imports over the next few years. Considering the fall in oil prices, Russia's main source of foreign exchange, it is more likely that imports will fall slightly as Russia adjusts to their lower level of export income. Russia will, however, remain a significant importer, mainly of manufacturing beef.

JAPAN

Japan has been a key quality market for Australia, New Zealand and the USA. The BSE occurrence in the USA cut imports from the USA to Japan (as well as South Korea). Australia and New Zealand benefited and have captured most of the market since 2004. Japan is forecast to be the world's third largest importer in 2009. CHART 12 shows that stability is the best way to describe production, consumption and imports since 2005.
Minor changes have occurred but there does not appear to be any real sign of recovery of consumption to pre BSE levels. The most sensible expectation is for the totals to remain much the same for the next few years with the USA possibly winning back a greater share of this stable market from Australia and New Zealand.

**SOUTH KOREA**

South Korea on the other hand appears to be recovering more rapidly from the BSE cut backs. South Korea is now the sixth largest importer of beef. As *CHART 13* shows, South Korea's consumption continues to recover and is forecast to reach 12 kg per capita in 2009 just short of the previous record of 12.9 kg/person reached in 2002. Imports are continuing to grow. So is production. The current trends suggest that South Korea will continue to import an increasing quantity of beef even as they produce more, but more of the imports may come from the USA.