The meat industry is cast in the classic cyclical mould of all Australian rural export industries. On top of the normal seasonally induced production cycles, there is superimposed the consumption cycles of its major overseas markets. And to make things more difficult, there is a great degree of variety in the seasonal nature of the Australian meat industry. Seasonal conditions in the North (Queensland and northern New South Wales) can (and have been) very different from those in the South (Victoria and southern New South Wales); northern operators (most of the larger public meat companies) have suffered for the past four years or so from drought and restocking while conditions have been excellent for the private and foreign-owned companies dominating the South. After the drought problem in Queensland which ended in 1971, the good rains over the last eighteen months resulted in graziers holding back stock. In recent times this post-drought shortage of available stock has been compounded by the move by sheep and wheat producers into cattle.

So there has been a very real shortage of stock coming to market in the North. Most of the meat operators had big sheep kills to keep them going in 1971, as the price of wool collapsed, but the cost of operating meatworks handling mutton, when most are designed to deal mainly with beef anyway, is far greater.

In any event, the run-down in sheep numbers which provided reasonable meatworks profits in 1971 is clearly limiting sheep supplies, and will do so for the next couple of years — or at least until wool prices fall again.

In the South, the good seasons meant there was not the same restocking impact; on the contrary, graziers had plenty of cattle, which was great for meatworks operators in Victoria who could benefit from the good domestic meat prices (generated to some extent by the northern shortage) while having enough supplies to do very well out of the American market as well. Operators in Victoria would have made a fortune in the last two years, but it is difficult to find out exactly how much, as generally Victorian operators are private companies either overseas owned like Borthwicks and Vestey's or local proprietaries like Smorgons and Gilbertsons.

To round off their massive profits, they had a terrific burst in late 1972 when it got a bit dry in Victoria and large numbers of Victorian cattle suddenly started flooding the market. Victorian meatworks were inundated with stock at a time when meat prices were very strong overseas, so margins between their selling prices and their livestock buying price became very wide, and that is where the meat company makes its money. This margin was so great that N.S.W. and Queensland operators were buying livestock in Victoria, transporting it to their meatworks, processing it and then transporting it to ports and exporting it at a nice margin. Imagine what margin the Victorian operators on the spot would have been making! But it also shows that if there were a shortage of stock in the south, but plenty in the north, Victorian operators could do the same thing in reverse.
The significance of all these special seasonal factors can be seen in the following figures.

Victoria's cattle population in March, 1972 was 5.5m. and yet their total kill in the seven months to January, 1973 was 1.1m., a 40 per cent increase on the same period for the previous year; its cattle numbers were up 160 per cent in the last twenty years. In New South Wales, the cattle population was 7.5m. (2m. more than Victoria), up 100 per cent in the last twenty years and in the seven months to January slaughterings were also 1.1m., a rise of 50 per cent on the same period of the previous year. Now we get to Queensland where the cattle population was 9.3m. (3.8m. more than Victoria's) and up 50 per cent in the last twenty years. But the slaughtering rate in Queensland was only 900,000 cattle in the seven months to January (up 20 per cent on the same period of 1971/72). The clear point emerges that Victoria had become the main beef killing centre despite having the smallest cattle population, and that this situation simply cannot persist.

The facts are even more dramatic than the figures indicate because in both N.S.W. and Queensland, cattle slaughterings included quite a few Victorian cattle imported for this purpose. The significance of all this for the future is that now we have a situation where the Victorian cattle population is probably half that of Queensland, whose killing rate must inevitably increase substantially. In the 7 months to January, 1973 Queensland killed less than 10% of its cattle population; Victoria killed 20%. To some extent, the different seasonal peaks are a factor, but not entirely. Beginning in the 1973 killing season it looks as if Queensland farmers will have to start turning off many more cattle to meatworks than in the past three seasons. By the way, in the latest seven months, the sheep slaughter in Victoria fell by 2.1m., by 1.5m. in N.S.W., and 0.3m. in Queensland, but this was easily offset by the higher beef output. The significance of this in meat production terms is that, overall, Victorian meat production in the 12 months to June 30 last year had risen by one-third, N.S.W. meat production was up 14 per cent., but Queensland meat production was only up 10 per cent. Because of their problems, the northern operators had been able to put out only modest results; if they have a good seasonal run for three years, they should do very well indeed. Last year, the average profit on sales of meat companies throughout Australia was 1.1 per cent, with many northern ones doing a lot worse than the average, and southern ones a lot better. The southern operators are basically unlisted, whereas many of the northern operators are listed. The northern public companies are Walkers, Fields, Andersons, and Tancreds.

They all own very modern and well equipped works on which large sums of money have been spent to ensure retention of U.S. export licences. They have all generally operated well below capacity in recent years.

However, a large part of the apparent over-capacity in the meatworks industry is not real, at least in terms of exports, because of the specific requirements of some of the export markets; the expense of keeping American licences is far too great for probably the bulk of slaughterhouses in Australia and the continuing pressures for up-grading of works by the Americans will probably bring most Council abattoirs to a crisis point within the next five years. As a result, the industry is not so over-provided with works as recent years would suggest, and one group has even
announced plans for a big new abattoir in N.S.W.

The functions of the meat companies are that they buy livestock, slaughter it, and export it or sell it locally. It can be up to five weeks before they get back the money they outlaid on livestock. The meat markets around the world are traded in by the butchering companies. They have salesmen and agents, and sell to whatever market offers the best prices. Obviously, when buying stock in the livestock markets, they are aware of the selling prices in various world markets. So an operator can tell his salesmen what livestock price to bid up to. To some extent there is a little bit of judging or “punting” on what will happen to the price in-between buying the livestock and settling on the sale price. Sometimes it is wise to sell well forward if the market looks "topy" but it can be dangerous if stock prices keep rising; at other times it may be useful to go very long on livestock (possibly holding them on agistment) if the meat market looks to be rising.

So far this year, some meat companies have followed the second course and are making a fair amount of money out of the fact that the market has risen so much.

Apart from the seasonally-oriented production cycles in Australia, there is also the marketing cycle. The cattle cycle in America is based not only on seasonal factors but on the simple response of primary producers to markets. The price of beef rises, so primary producers switch to beef, thus the demand is met and the price falls, and so they switch out of beef into something else. It is a classic pastoral cycle.

Although America is our biggest customer, we provide less than 5 per cent of total American consumption, so that clearly if there is a one per cent movement in the American beef cycle, providing a gap for us to make up, it reflects a 20 per cent change in our market in America. It also means that because we are supplying such a small percentage of the American market, Australian producers generally tend not to create a price structure in America but simply to respond to it. Australian operators can influence the U.S. market for manufacturing beef, but that would largely be by accident rather than design.

The manufacturing meat market in America is influenced mainly by supply and demand pressures inside America, so the Australian meat producer or exporter simply looks at the price there, and knows that whatever he does won't basically change it. He can then look at the Australian cattle price and know at what price to buy his cattle in order to make a profit by selling his product at the American market price. The bigger the differential between the cattle buying price in Australia (which is a supply and demand market) and the going American meat price, the bigger is his scope for profits. There is a complication in the fact that U.S.- destined manufacturing meat may come from the forequarters of an animal, the hindquarters of which might go to another market for another price, but it does not detract from the general principle.

The reason we don't export prime cuts to America is because we want to avoid head-on collisions with the American cattle producers whose profits mainly come from the quality end of their market. They are prepared, under protest, to accept imports of manufacturing meat, particularly as they can mix their fat with our very lean, range fed, North Australian type cattle. The export of prime cuts would have serious
political implications with the Americans, and the Meat Board simply won't allow that to happen and has blocked plans to export chilled meat to the U.S. instead of the normal frozen product.

However, there is an increasing trend towards selling chilled meat to European and Japanese markets as a result of technical improvements, and Japan is now a major customer of good quality chilled meat.

The world meat cycle seems to be set for at least two to three years of reasonably high prices. So that on all scores, marketing and availability of cattle (the marketing giving a good margin for the wholesaling function, availability of cattle giving high throughput, which is essential to profitable meatworks operation) wholesale meat companies should have at least three highly profitable years ahead of them.

As far as the local market is concerned, it has been a fairly unrewarding sector for the bigger northern operators for some years. To a large extent, the high prices for the local product result from a basically inefficient internal marketing structure. The tendency has been for the corner store butcher to buy whole sides of beef and lamb, and to price his cuts in a way to get a reasonable return on the whole body. It would be much more efficient for meat wholesaling to be done on a cuts basis, and probably through chain stores. This would enable a more market-oriented pricing policy for all cuts and offals, with local housewife demands being met specifically without involving the "subsidised" disposal of less marketable portions by the corner butcher; the wholesaling companies have good markets for these non-local cuts. Added to this is the fact that consumers insist on buying fresh meat rather than frozen meat, which puts handling pressures of an expensive nature on the product, which has to be quickly transported and quickly marketed. Basically someone handling a chilled product will want a bigger margin because of the risk of spoiling. And it means that seasonal glut periods cannot be adequately used for the local trade, so that prices fluctuate severely depending on the immediate supply situation. Yet the insistence on fresh meat is often ridiculous; many housewives do their week's shopping and then freeze the meat themselves in their refrigerator. Improvements in merchandising techniques for meat could well reduce prices and increase local consumption which lags well behind exports.

Exports will (unless officially restricted) continue to rise despite swings in the Japanese market and meatless days in the U.S. The U.S. quota seems to have gone for some years to come. Under the U.S. restrictions, the Australian Government used to require Australian exporters to sell one pound of meat to a non-American market in order to have the entitlement to sell 1½ pounds to America. Therefore, because the American market had a nice margin on it exporters were prepared to lose money on the sales to other countries in order to get the entitlement to sell to America at a profit. But the American quota has now been removed because President Nixon wants prices down, and his next plan is to reduce the import duty on beef which is now three cents per pound.

The development of new export markets for quality meat, such as Japan, has brought increasing interest in cattle feedlots, and now most of the big meat operators are involved. However, there are a lot of traps in feedlotting, quite apart from the problem of economically converting grain into meat in a pen.
There is a strong view in Australia that the only way for a feedlot to work is if the cattle price is continuing to rise and that if the cattle price falls after you have spent a lot of money feeding your animal, the break-even selling price would become very high compared with non-stall fed animals. In this case, the only way to make it economic would be to have a "tied consumer" who was obliged to take the product. Another feedlot concept is to use it simply to hold cattle, not to put condition on them, while awaiting slaughter (particularly to extend the season at a seasonal works) and so the food required may be much less expensive.

Now a brief final word about meat company reporting. Borthwicks have gone on record on the subject of "how to fiddle meat company accounts" and it must be admitted that by balancing in mid-season at June 30, most companies have their maximum stock positions, so allowing substantial scope for "conservatism" in establishing the lower of cost or market (a difficult enough task anyway, when the forequarter of an animal bought at an identifiable price may already have been exported, the rump and loin sold but not yet paid for and the remainder held in stock). At the same time, this means the companies present, in their balance sheets, their worst possible liquidity positions. But when security analysts decide that the meat industry is "fashionable", this sort of problem is of no consequence; it only matters at the bottom of the cycle, when no-one is interested in the stock. Yet that is the very time to buy a cyclical stock; your large attendance here today and your interest in meat indicates that the cycle must be nearing its top and that it will soon be time to think about selling.

Those associated with the sharemarket would agree that it is of benefit to all concerned (raisers of capital, middlemen, speculators and investors) if the market is able to allow without undue disruption the movement of reasonable quantities of shares.

Australia's stock market is renowned for its "thinness". An attempt to quickly accumulate or dispose of a large parcel of shares in any but the few biggest companies will usually prove to be very difficult and substantial price movements may result.

Several factors contribute to the inadequate depth of the Australian market:

- relatively small capital market.
- several important industries wholly overseas owned.
- many large companies have overseas parent with majority holding.
- gradual accumulation by local institutions and their unwillingness to sell.