

'RISKY BUSINESS'

PRESENTATION TO THE 2023 MEAT PROCESSING AND EXPORT CONFERENCE

RACV ROYAL PINES RESORT
GOLD COAST, QUEENSLAND
1ST NOVEMBER 2023

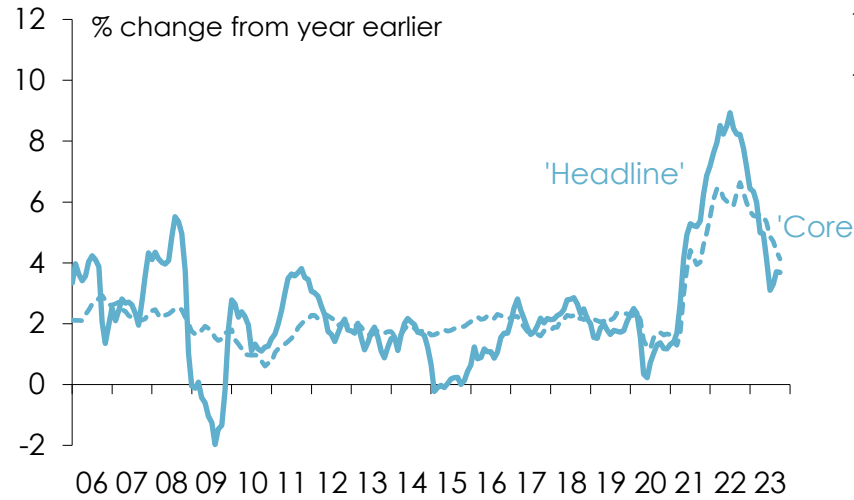
SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

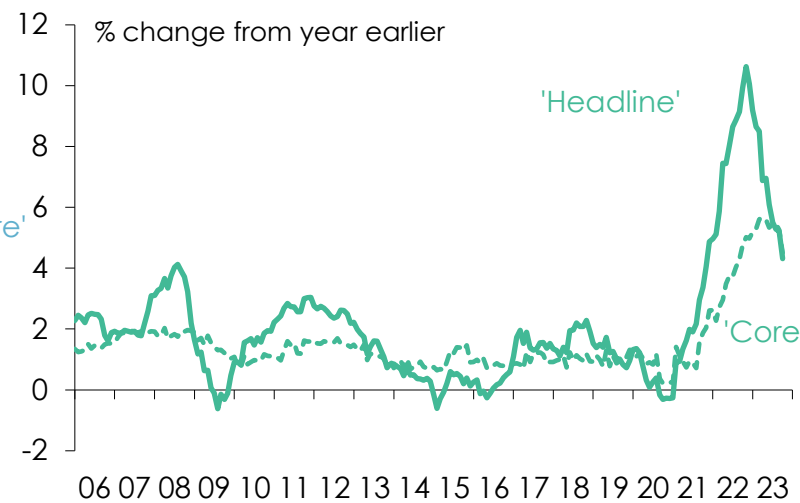
The world economy

Inflation rose sharply in all 'developed' economies in 2022, and although 'headline' inflation has now peaked, 'core' inflation remains 'too high'

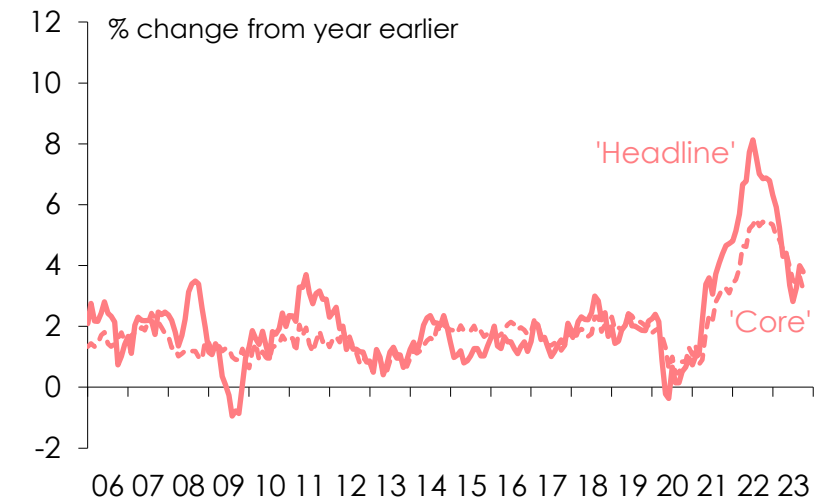
United States



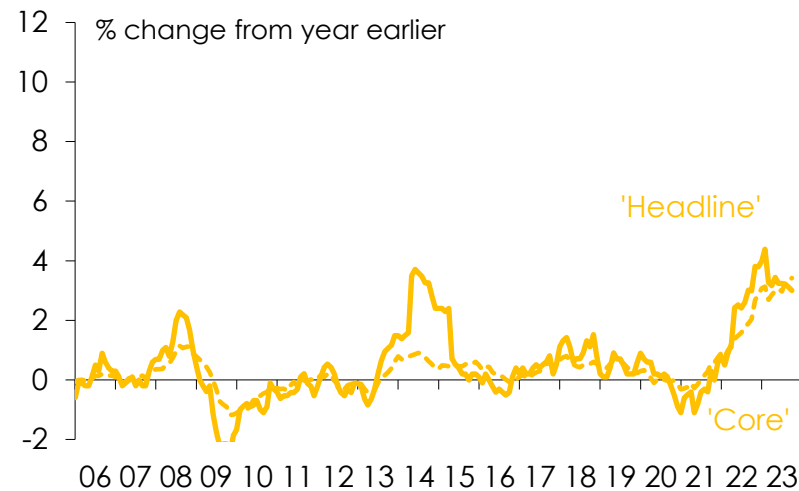
Euro area



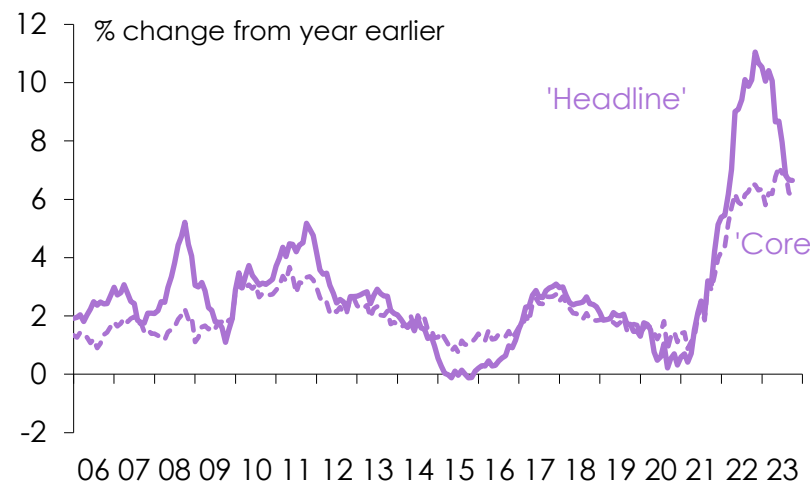
Canada



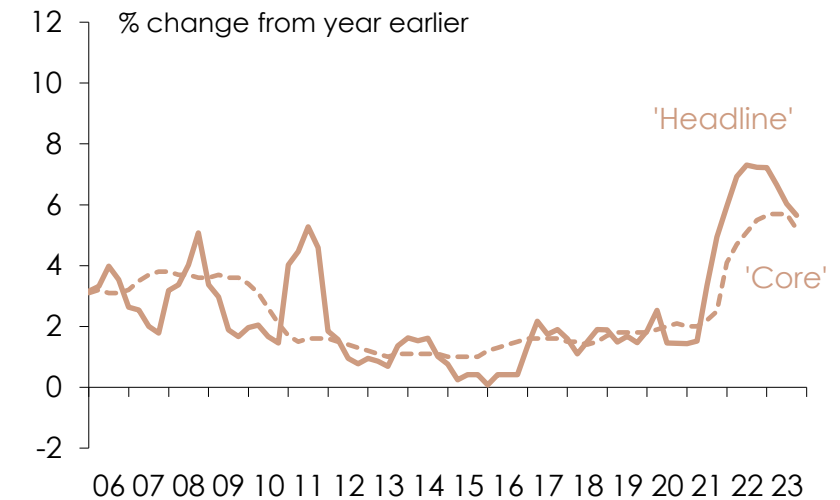
Japan



United Kingdom



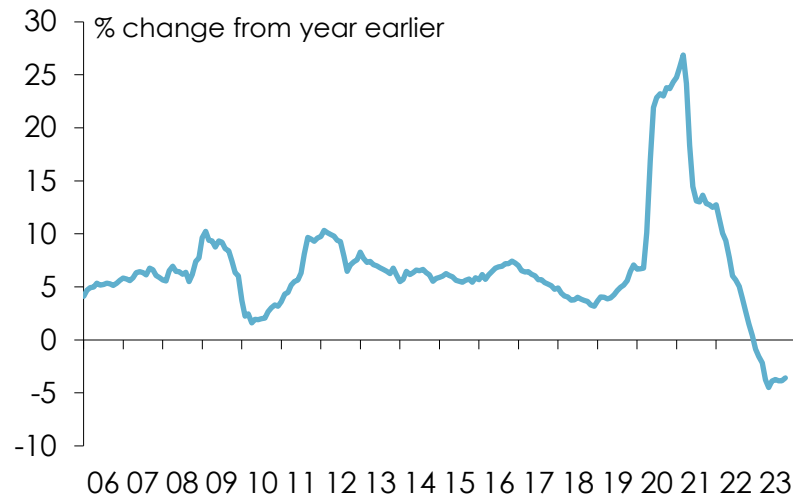
New Zealand



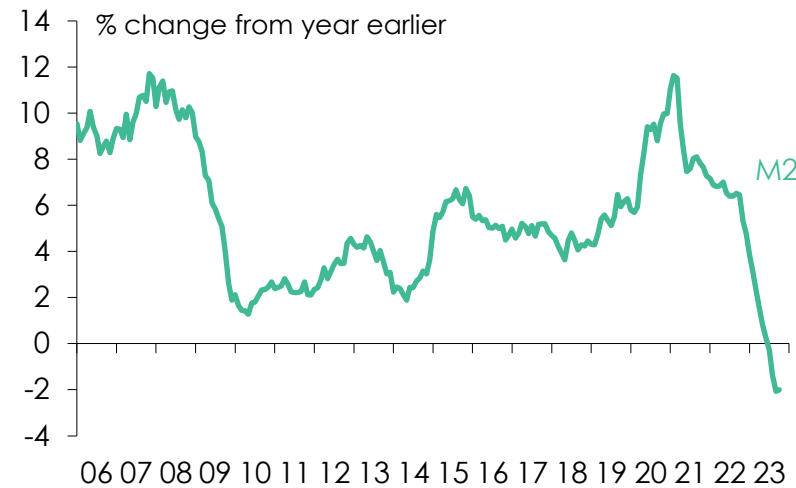
Note: 'Core' inflation is the annual change in the CPI excluding food & energy, except for Japan and NZ where 'core' inflation is derived from a statistical model maintained by the central bank. Sources: US [Bureau of Labor Statistics](#); [Statistics Japan](#); [Bank of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); [Statistics Canada](#); [StatsNZ](#).

A common factor across the developed world was the rapid growth in the 'money supply' during the Covid-19 pandemic (unlike during the GFC)

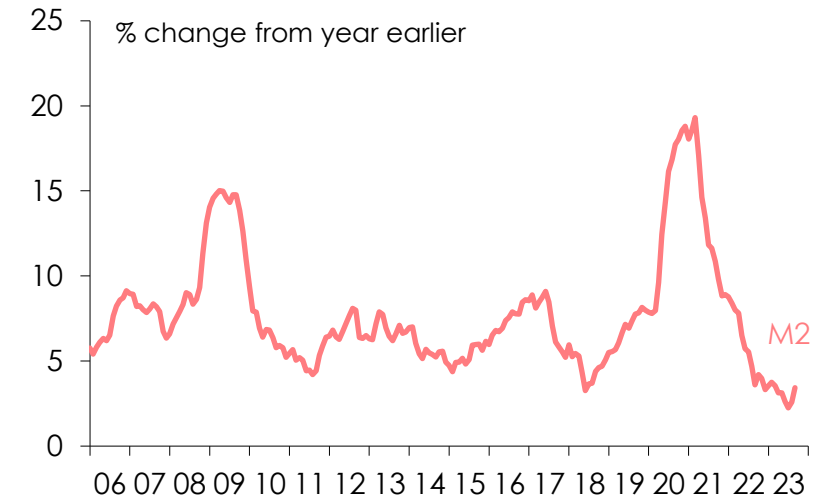
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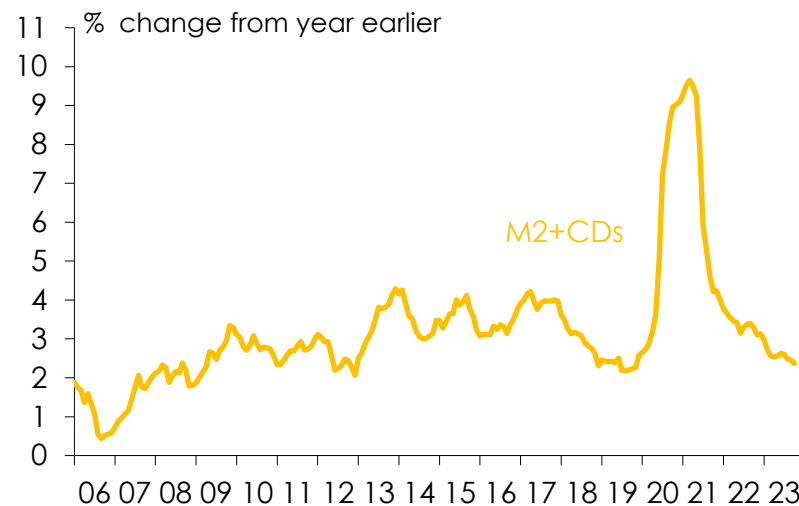
Euro area



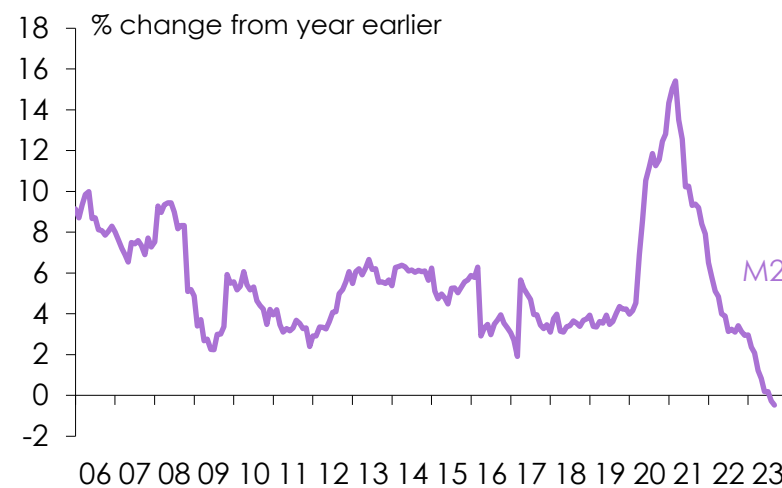
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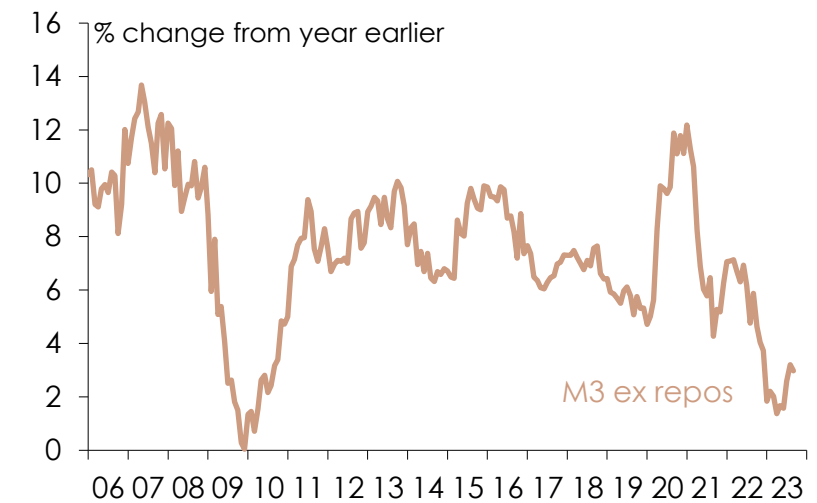
Japan



United Kingdom



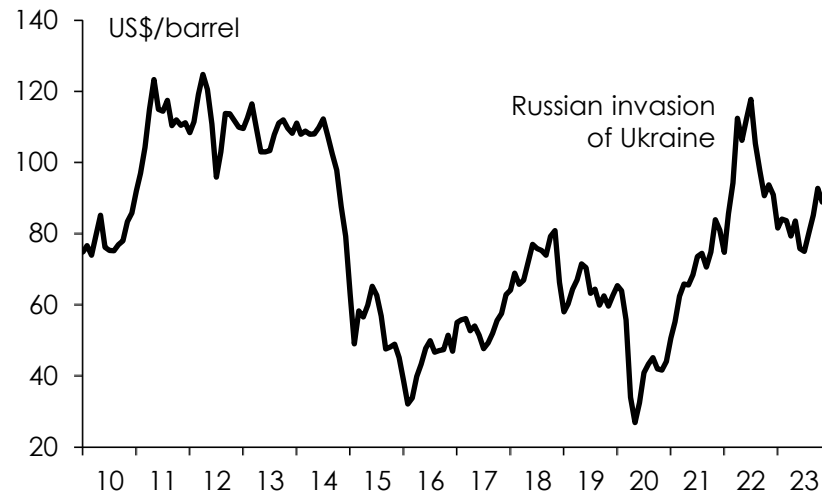
New Zealand



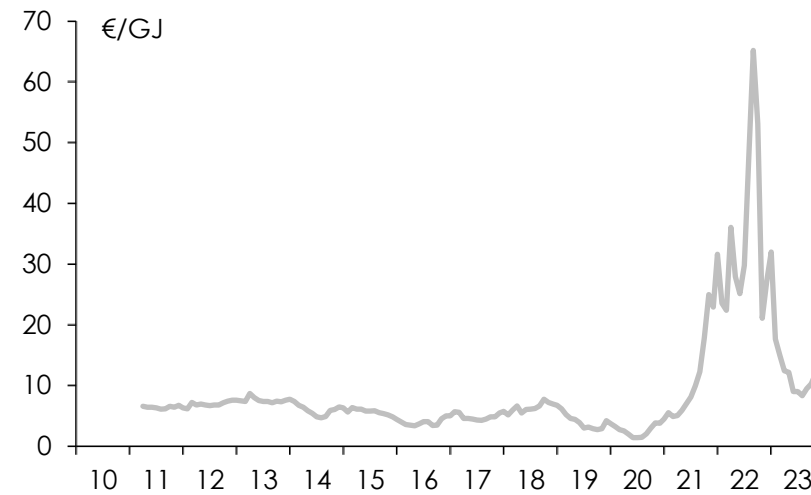
Sources: US [Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of New Zealand](#).

The easing in 'headline' inflation largely reflects declines in commodity prices and the resolution of supply chain blockages

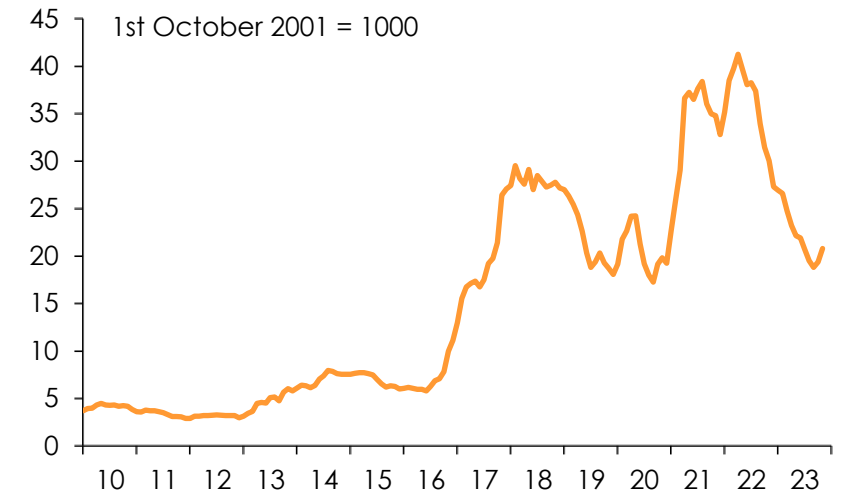
Crude oil prices



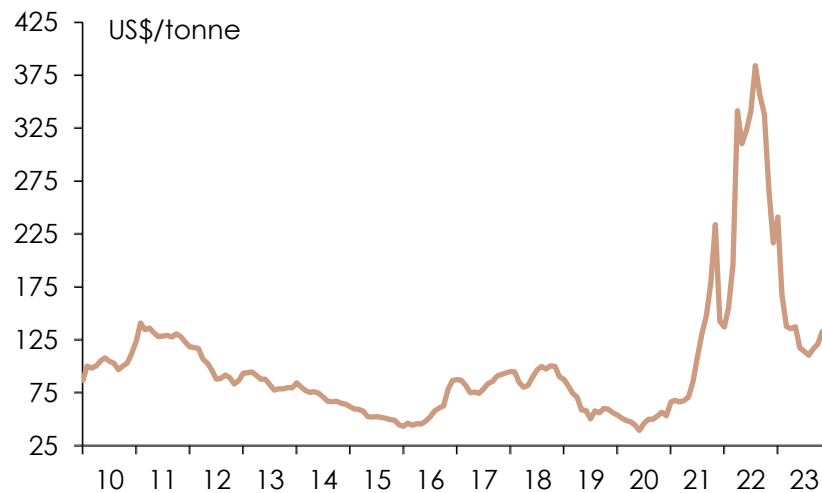
European natural gas prices



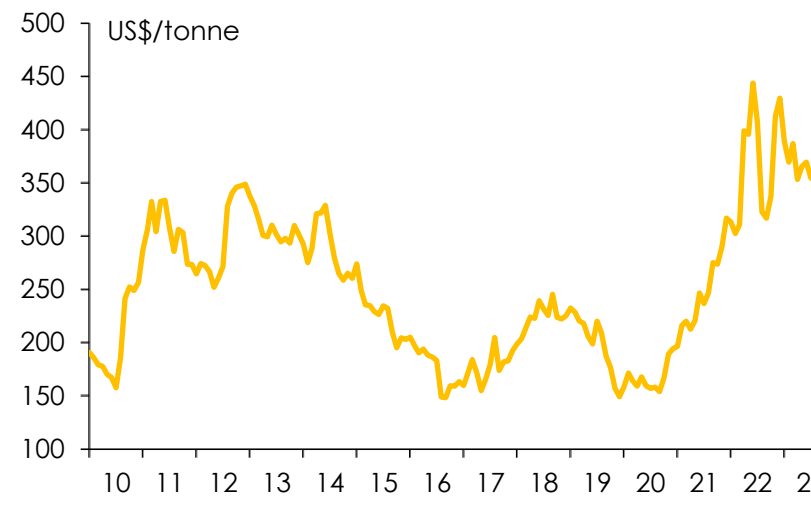
Semiconductor prices



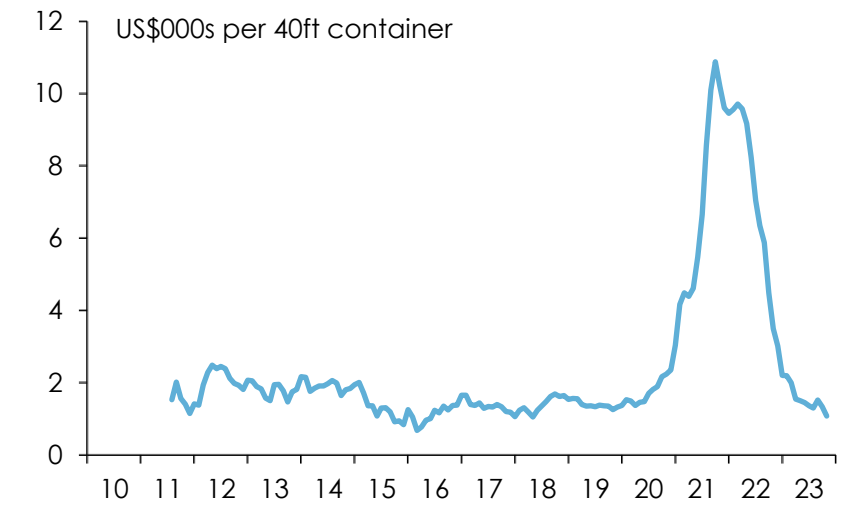
Thermal coal prices



Wheat prices



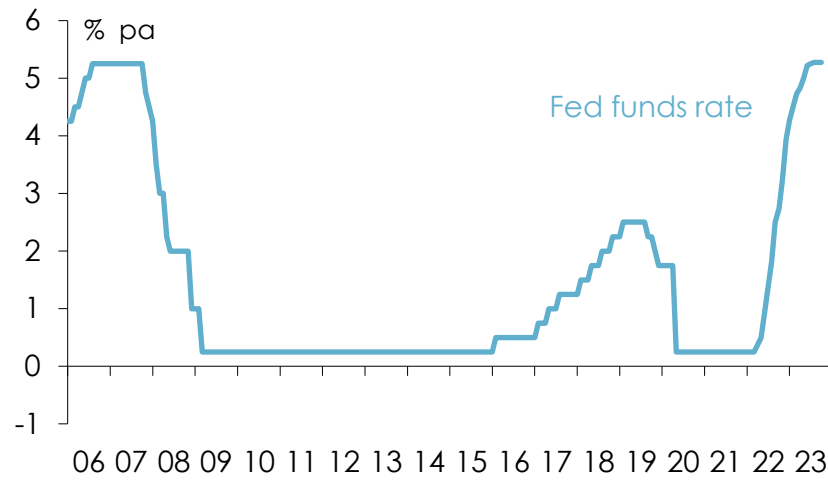
Container shipping freight prices



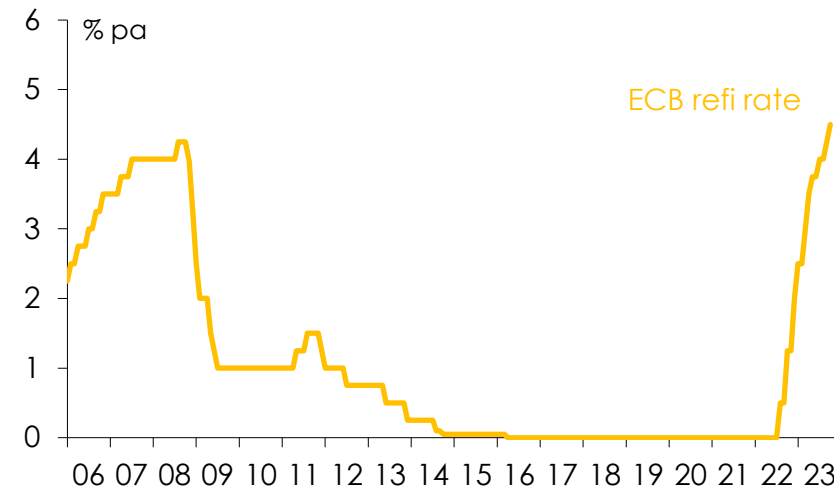
Sources: Refinitiv Datastream; [DRAMeXchange](#); [Freightos](#).

Central banks, other than Japan's, have lifted their monetary policy interest rates sharply since mid-2022, to bring inflation back down

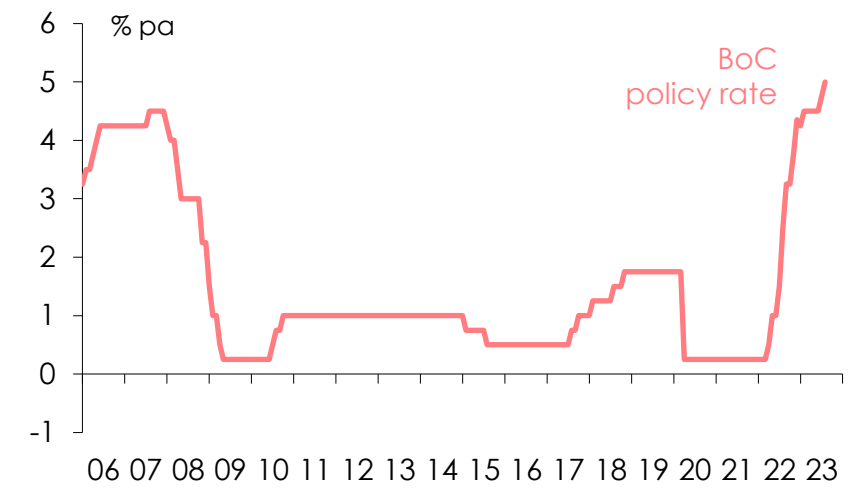
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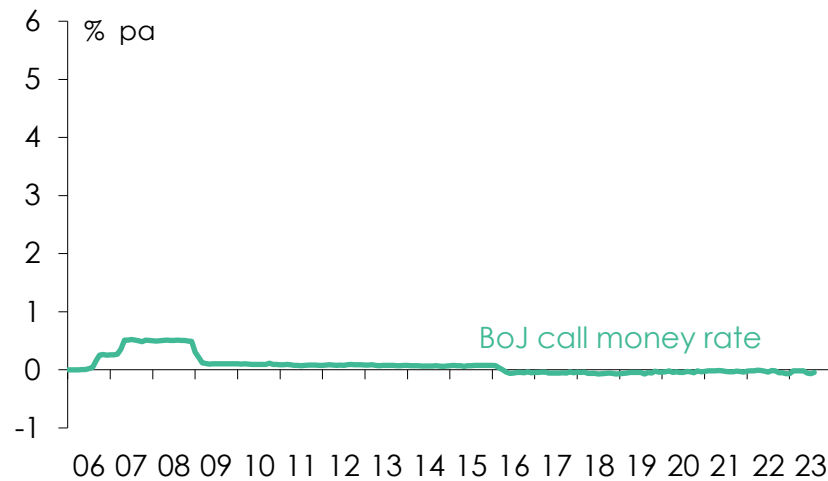
Euro area



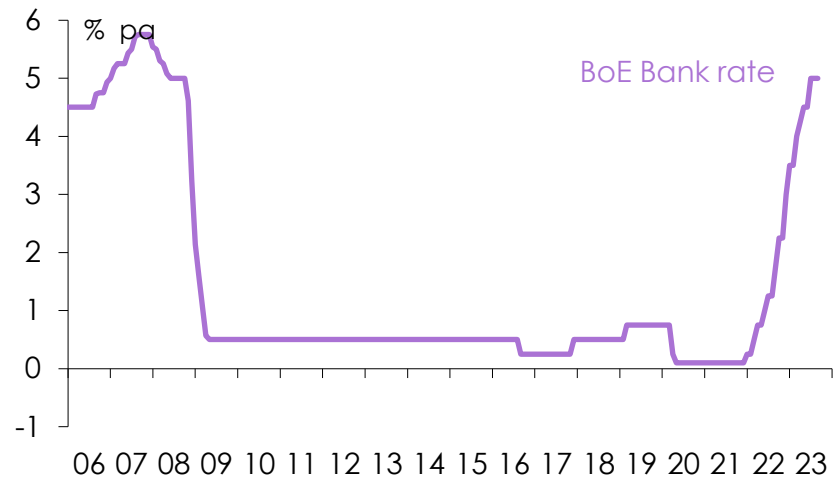
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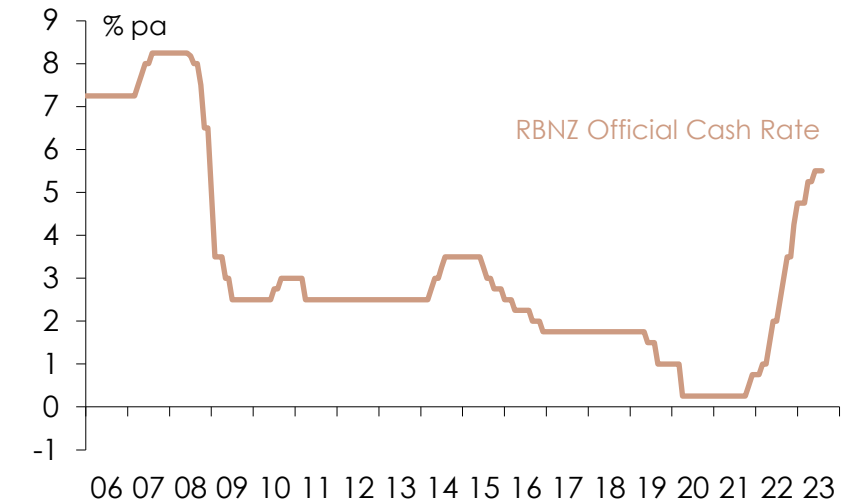
Japan



United Kingdom



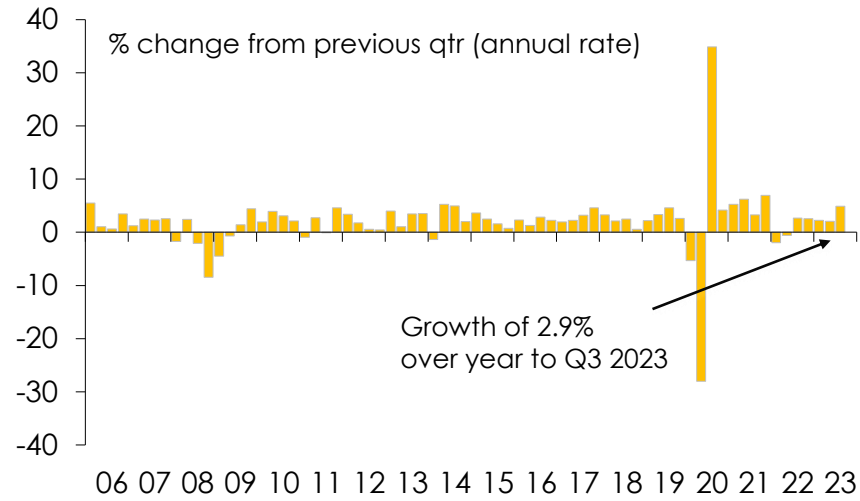
New Zealand



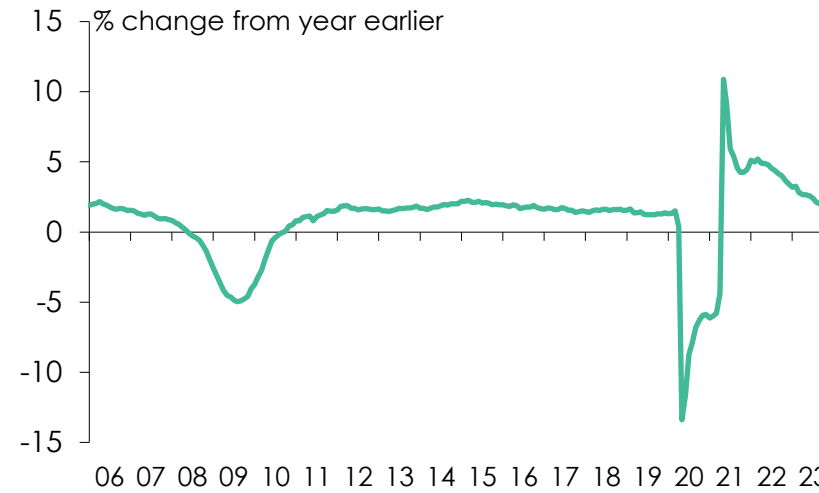
Sources: US [Federal Reserve](#); [Bank of Japan](#); [European Central Bank](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of New Zealand](#).

The US economy has proved surprisingly resilient to the rise in interest rates and a 'soft landing' now looks more plausible

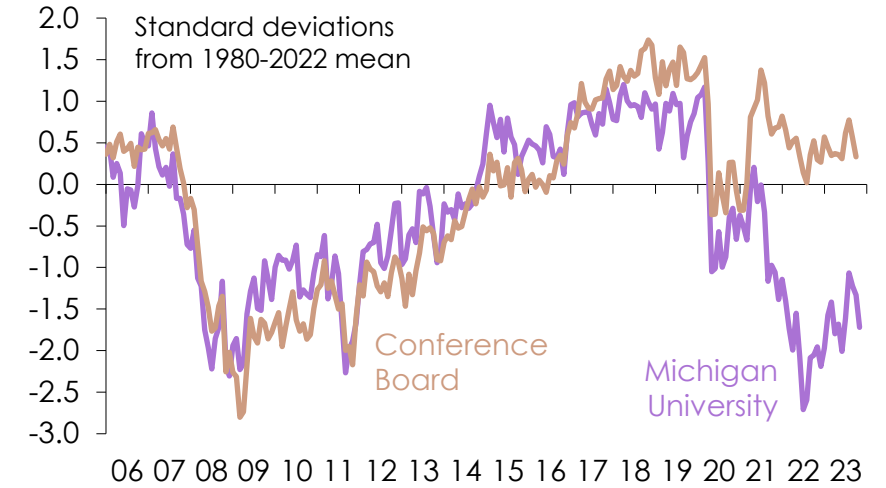
Real GDP



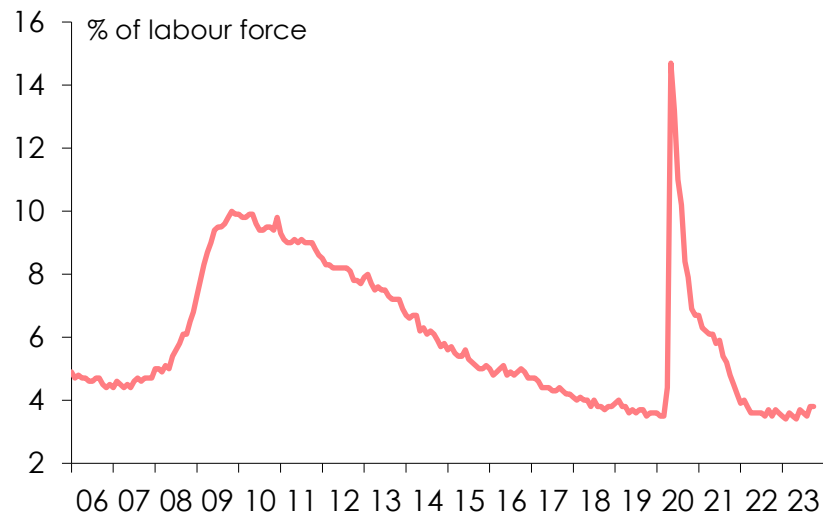
Employment growth



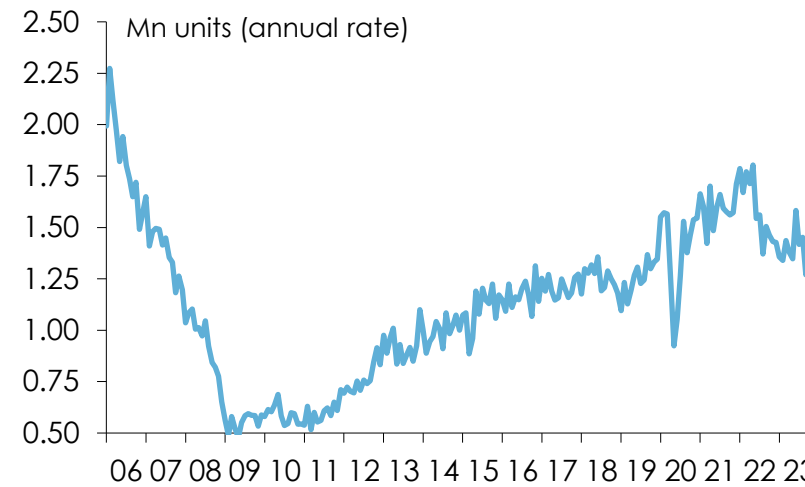
Consumer confidence



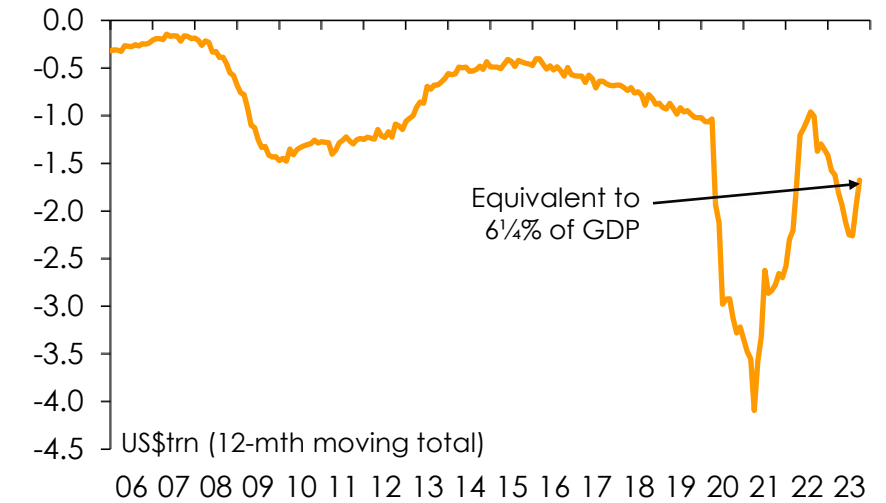
Unemployment



Housing starts

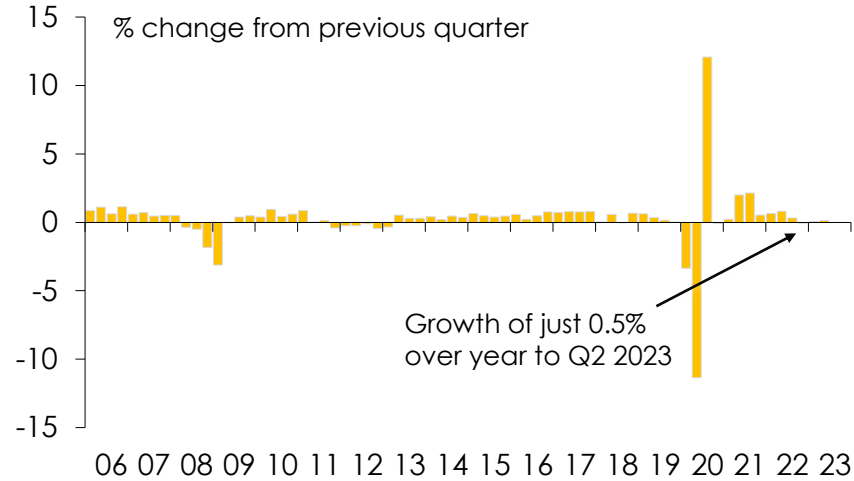


Federal Budget deficit

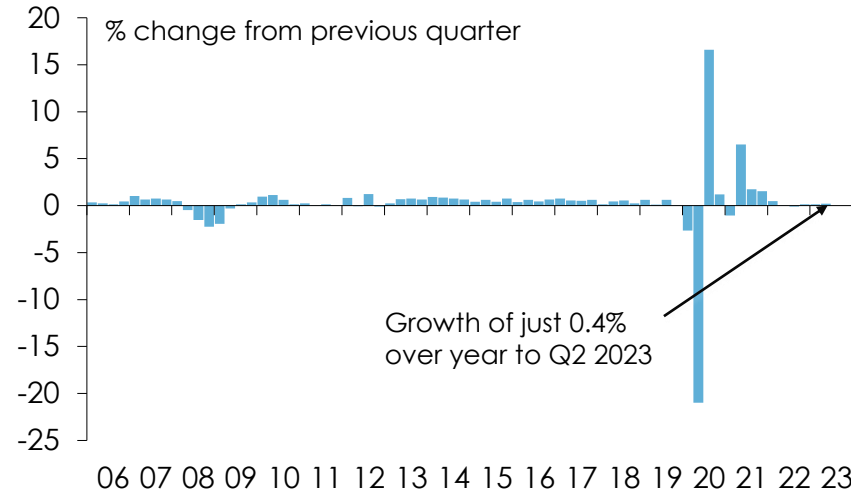


Both the euro area and the UK look less resilient, while New Zealand has already experienced a mild recession (by one definition)

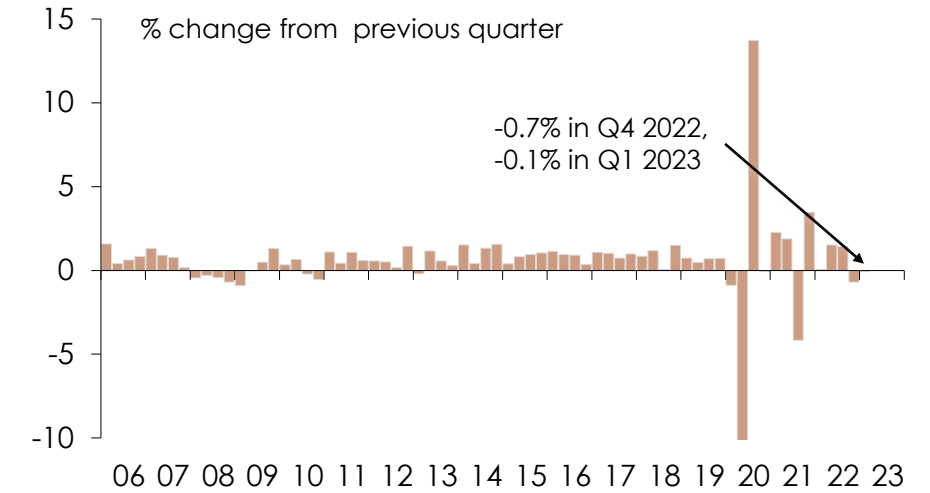
Euro area real GDP



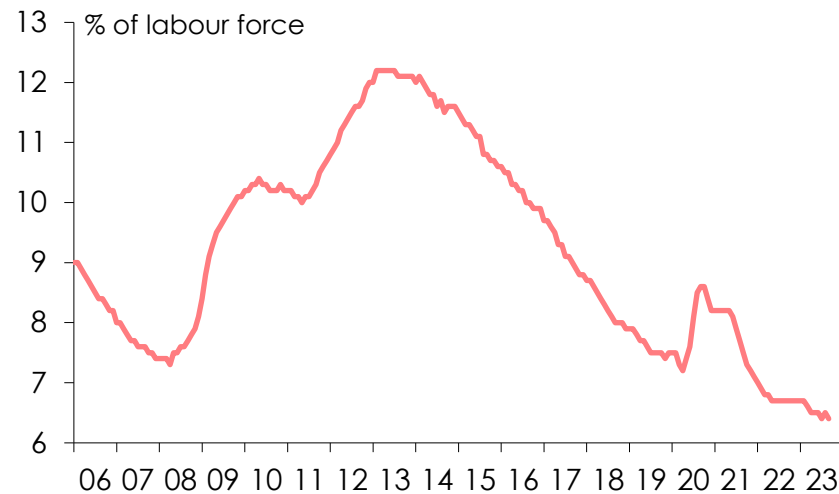
UK real GDP



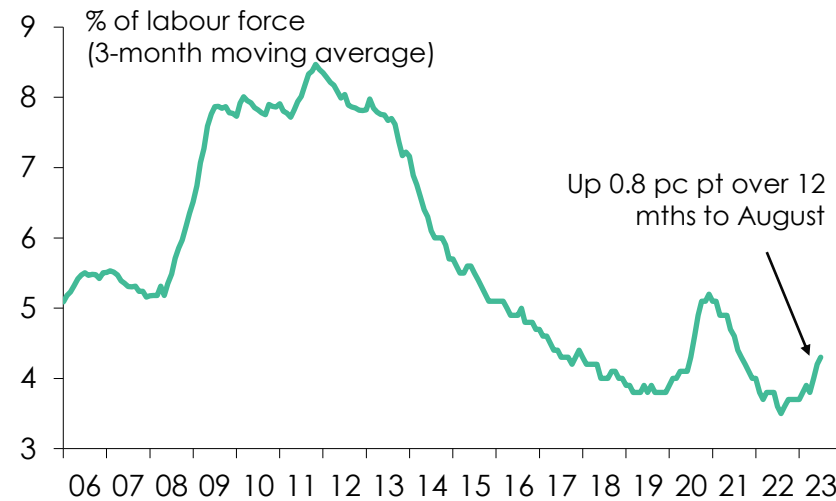
NZ real GDP



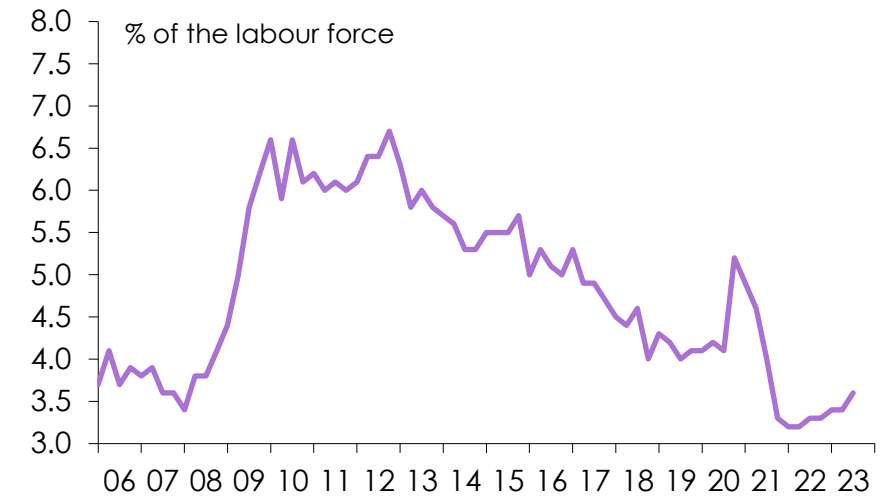
Euro area unemployment



UK unemployment



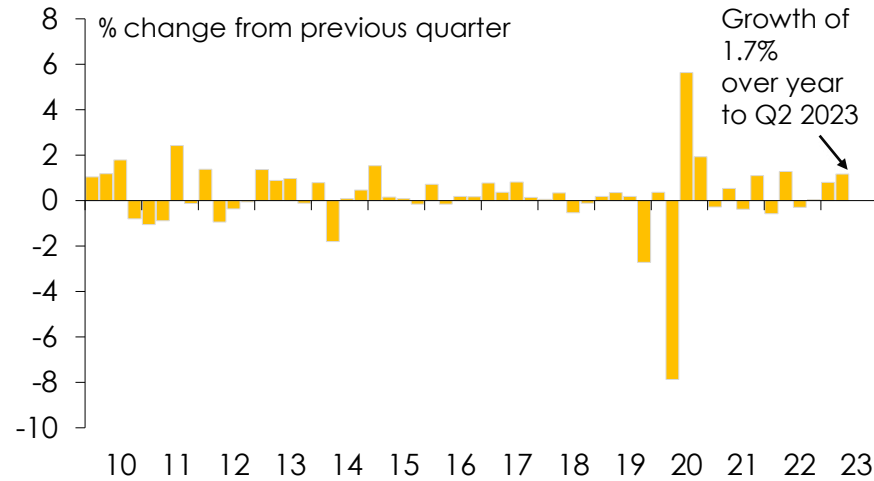
NZ unemployment



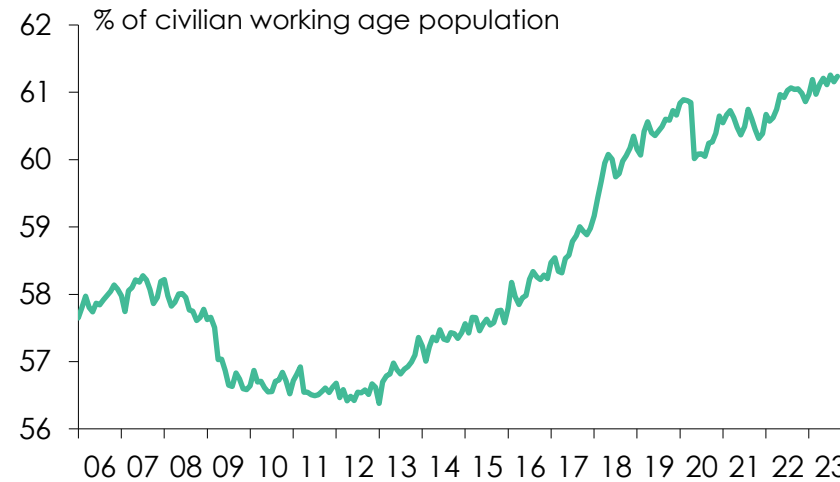
Sources: [Eurostat](#); UK [Office for National Statistics](#); [StatsNZ](#).

Japan's economy is making a slow but steady recovery from the protracted Covid recession

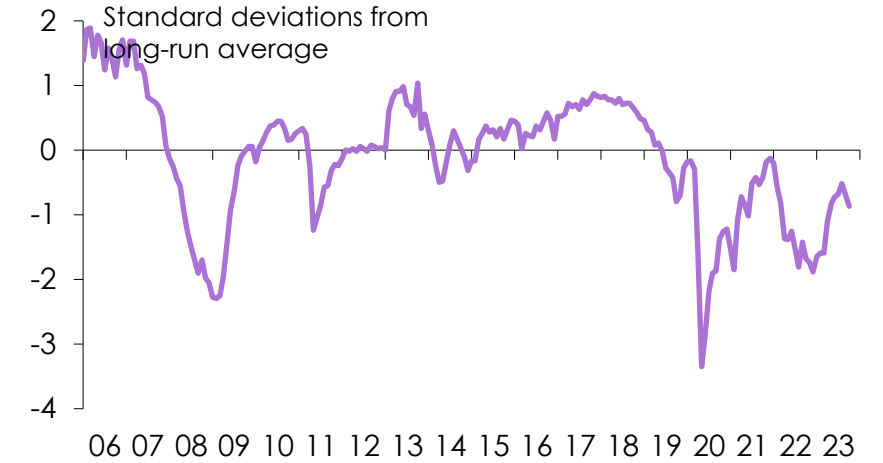
Real GDP



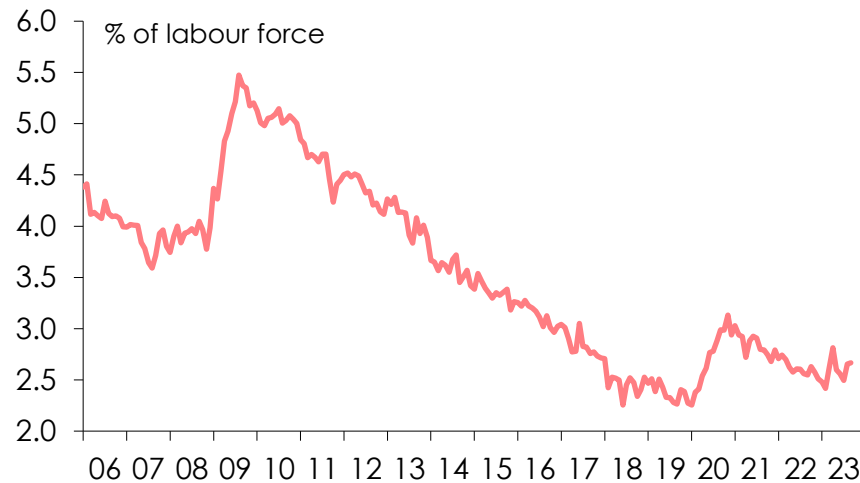
Employment



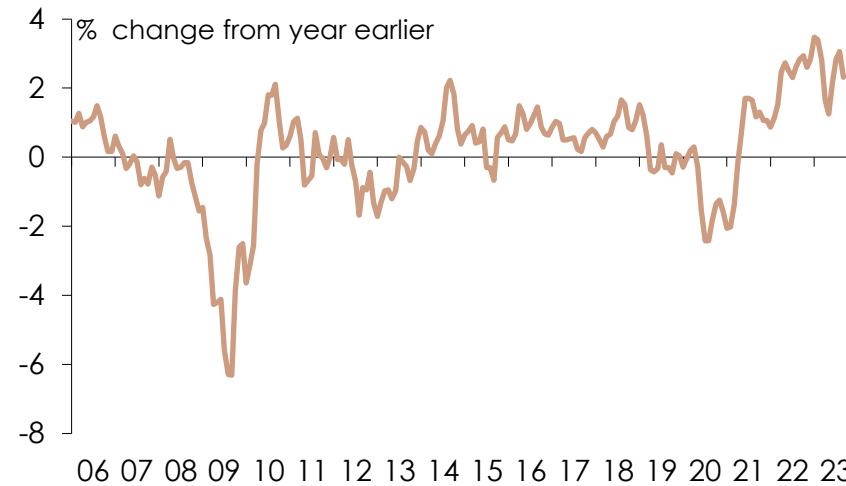
Consumer sentiment



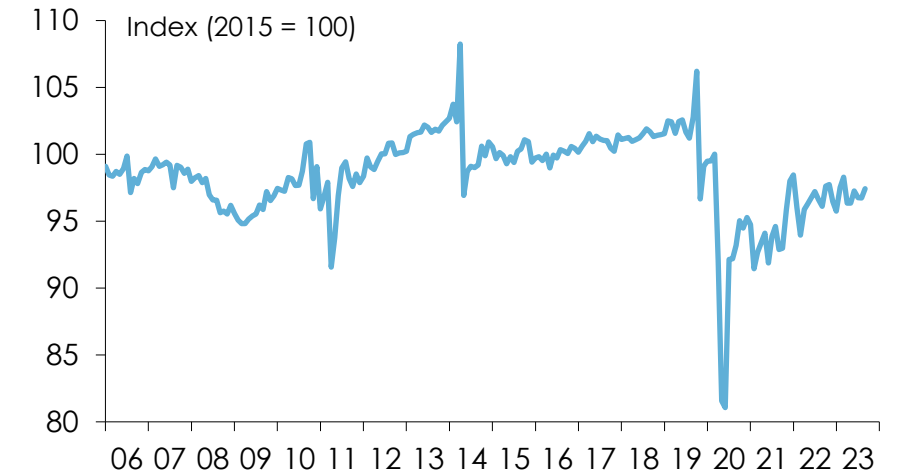
Unemployment



Employee cash earnings

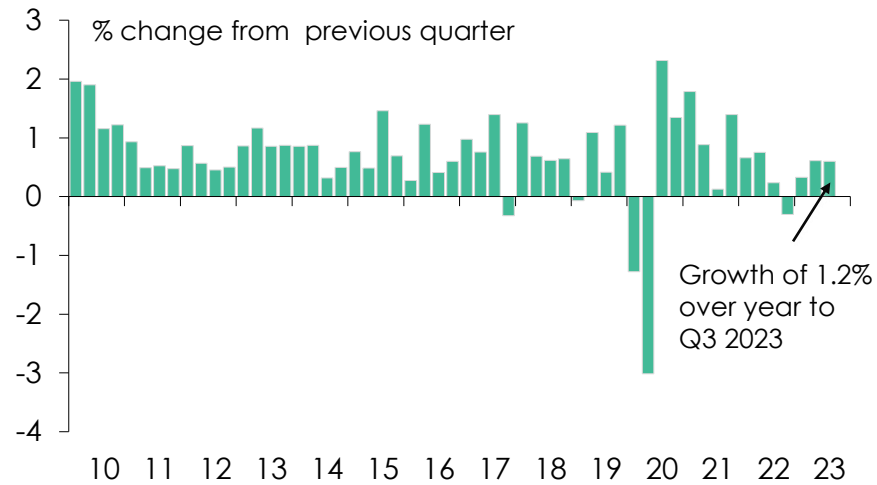


Consumer spending

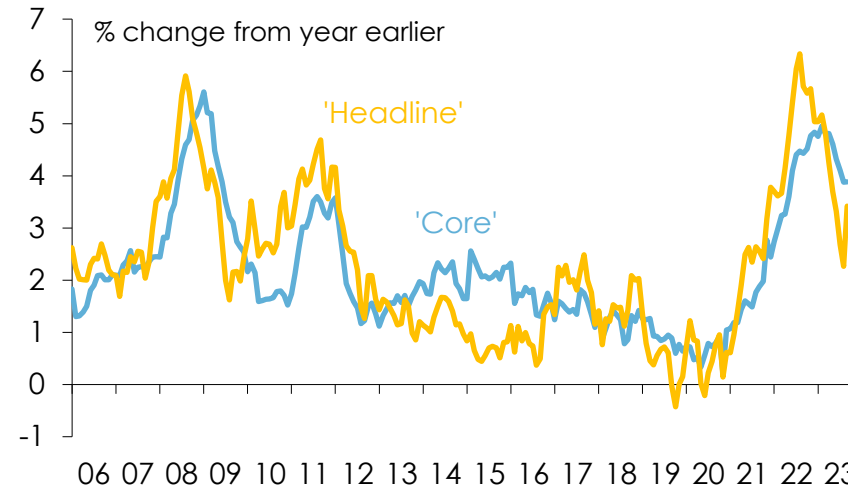


Korea's economy has recovered more strongly than Japan's, but is now confronting the impact of higher interest rates

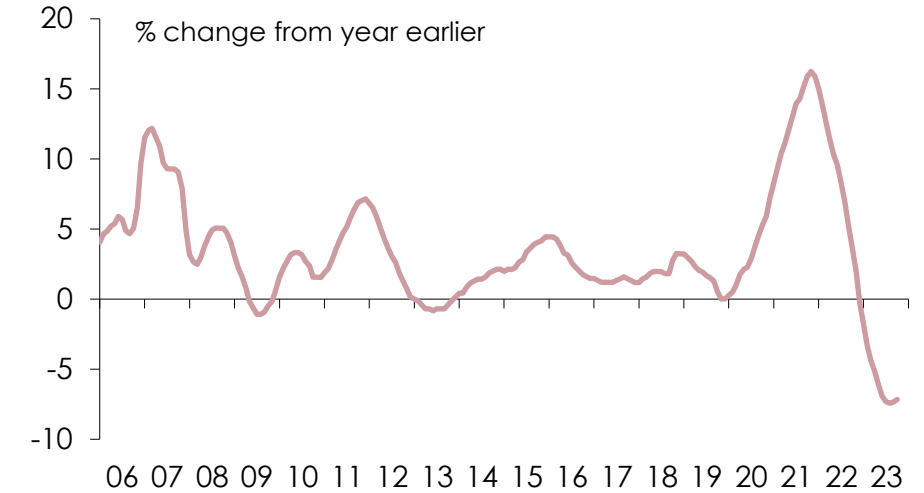
Real GDP



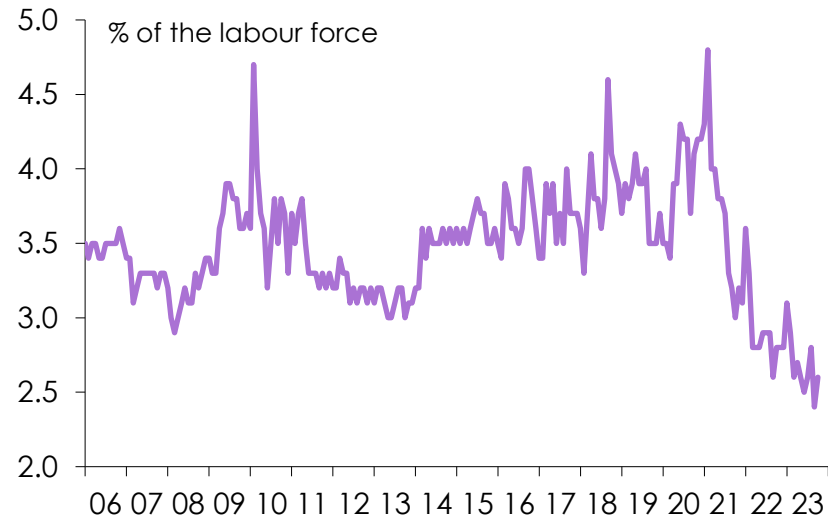
Inflation



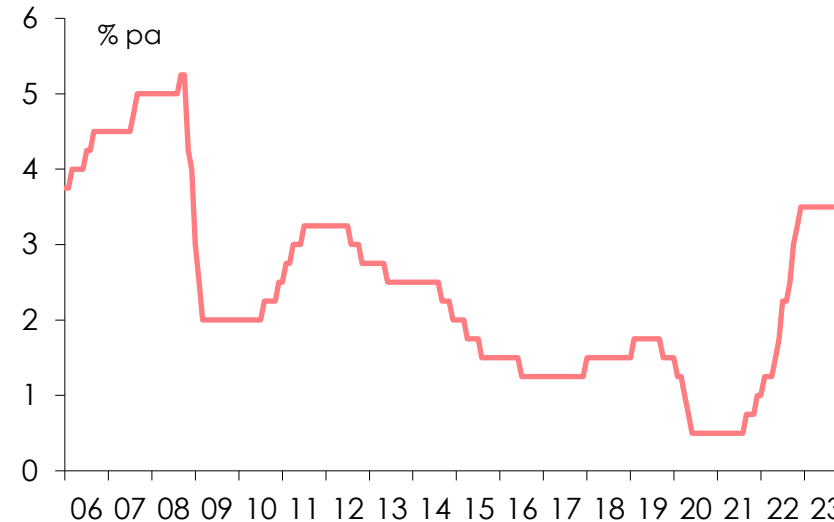
House prices



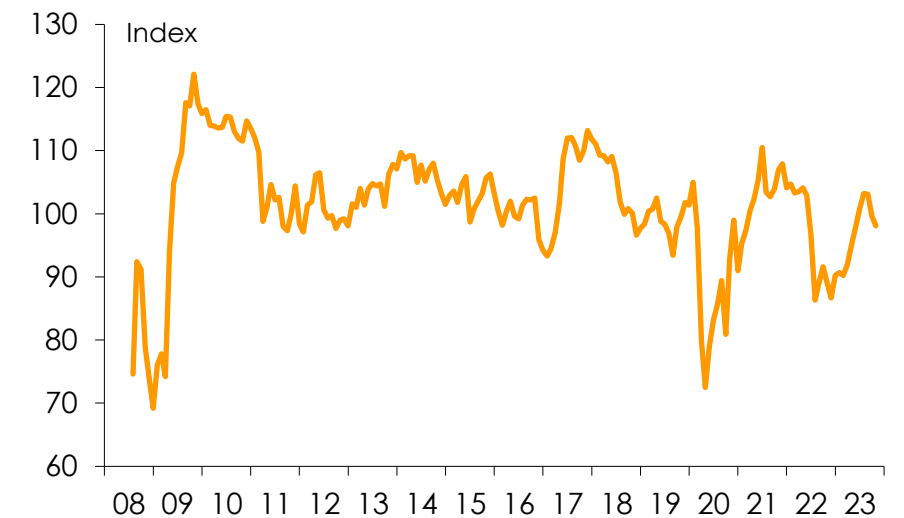
Unemployment



Bank of Korea base rate

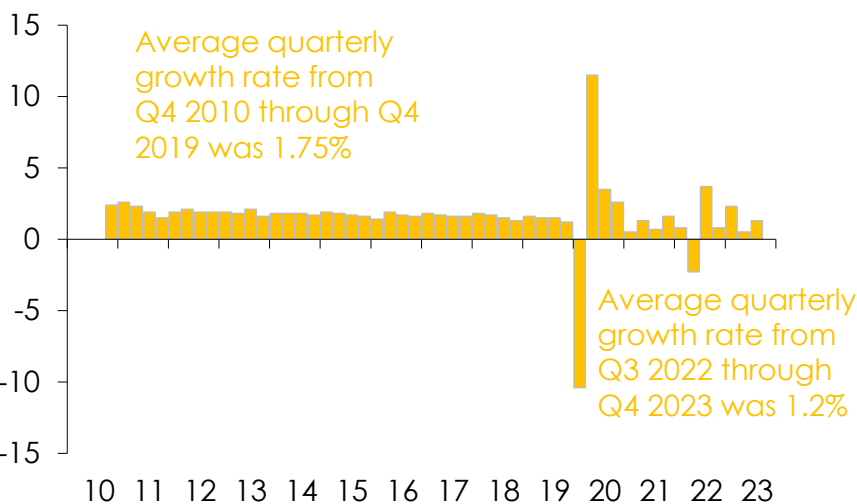


Consumer confidence

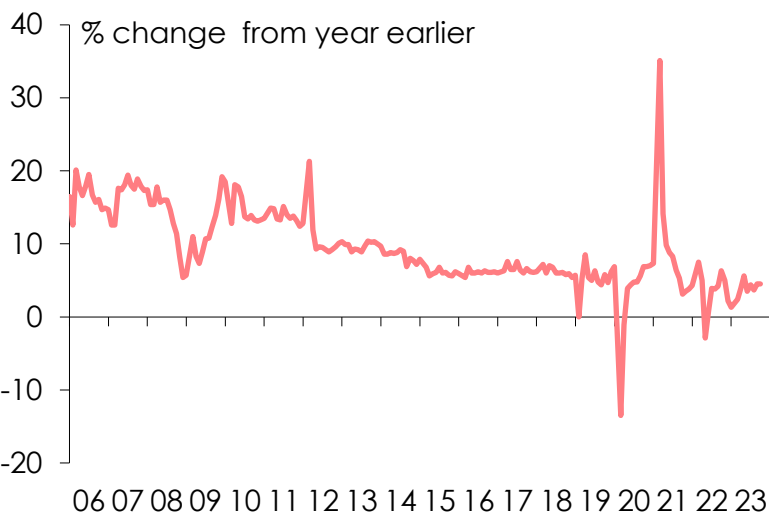


China's post-Covid recovery has been very modest

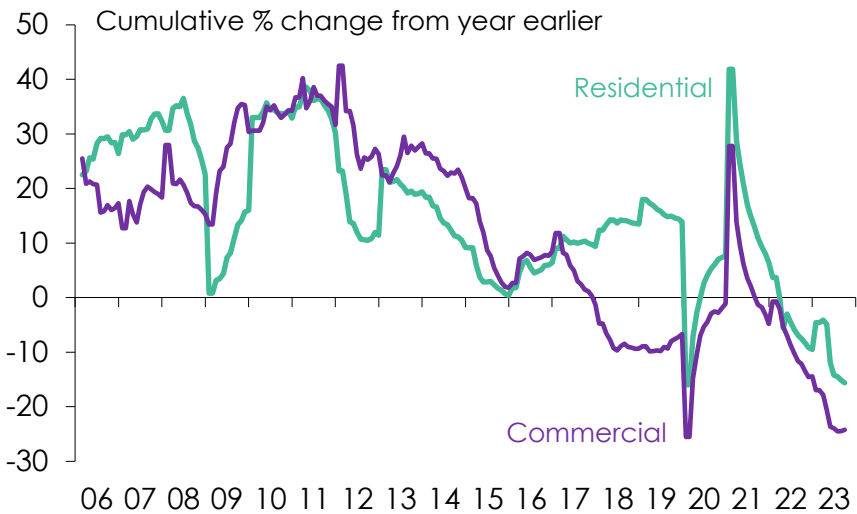
Quarterly real GDP growth



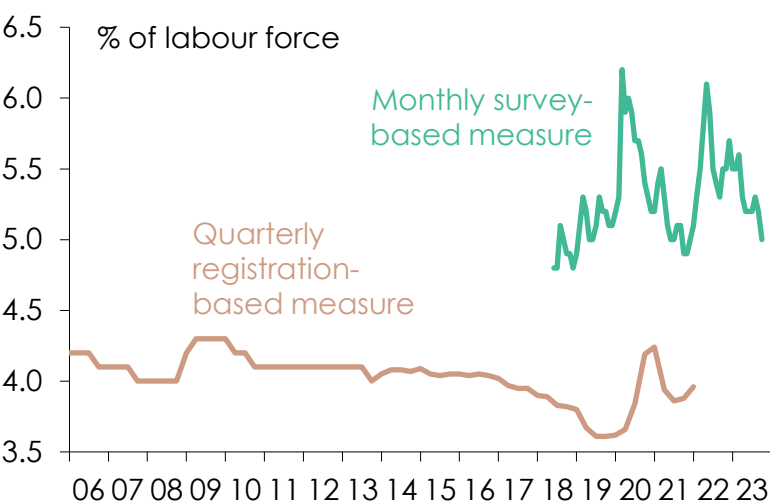
Industrial production



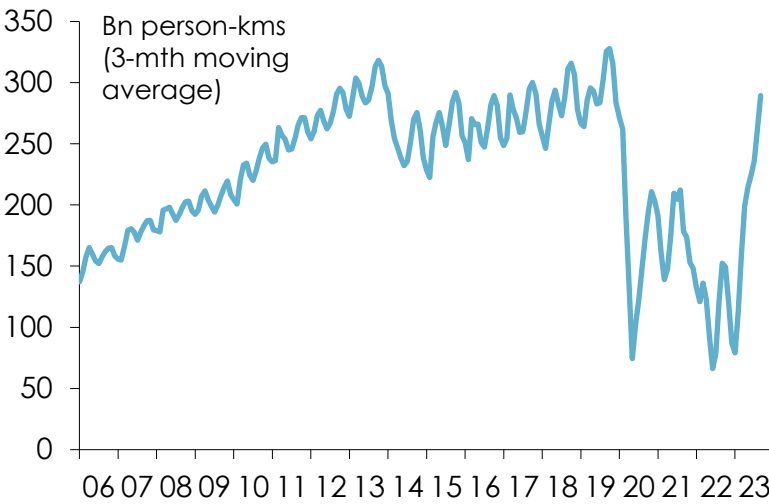
Real estate investment



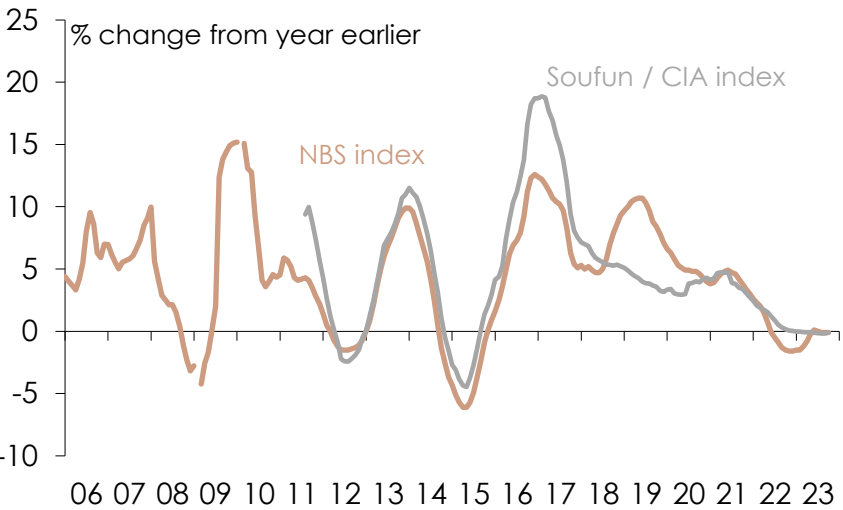
Urban unemployment rate



Passenger traffic volumes



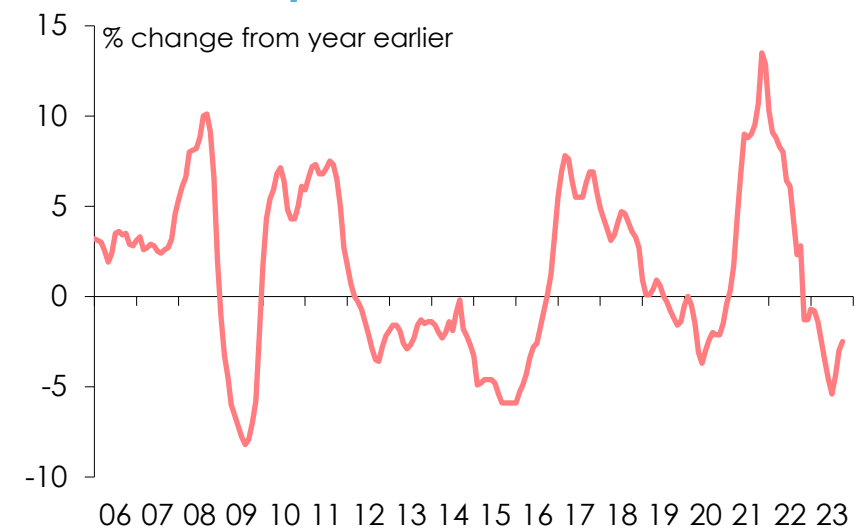
Residential real estate prices



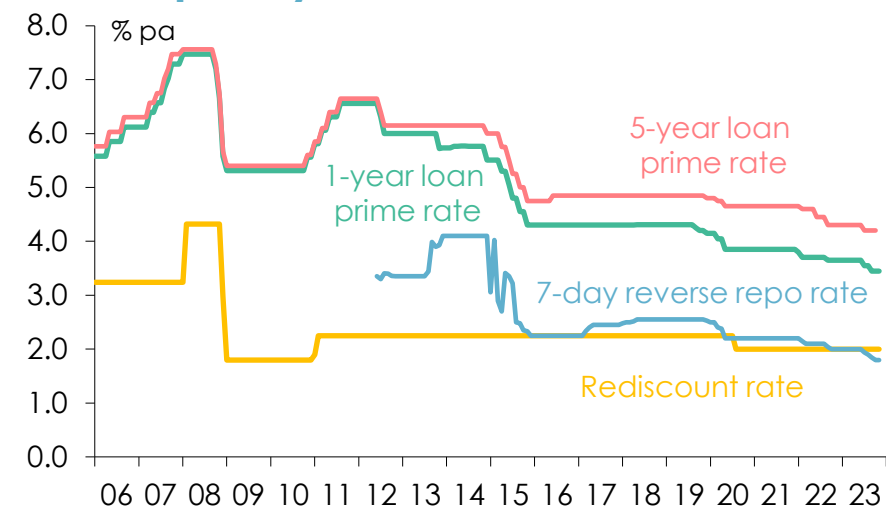
Sources: [National Bureau of Statistics of China](#).

One problem China doesn't have is inflation – but the authorities have been very cautious about easing monetary policy

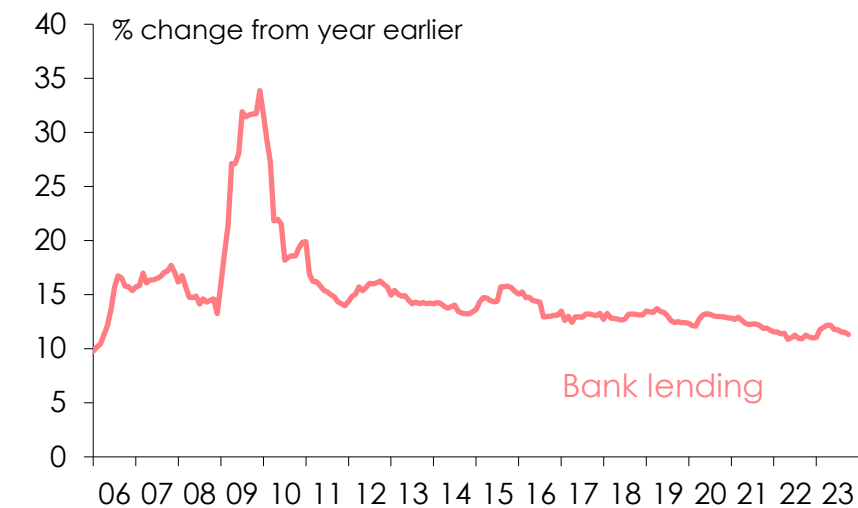
Producer prices



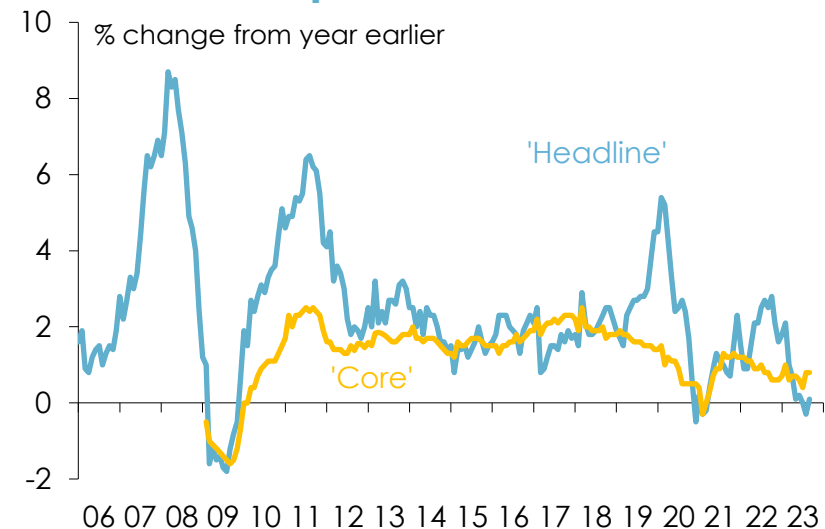
PBoC policy interest rates



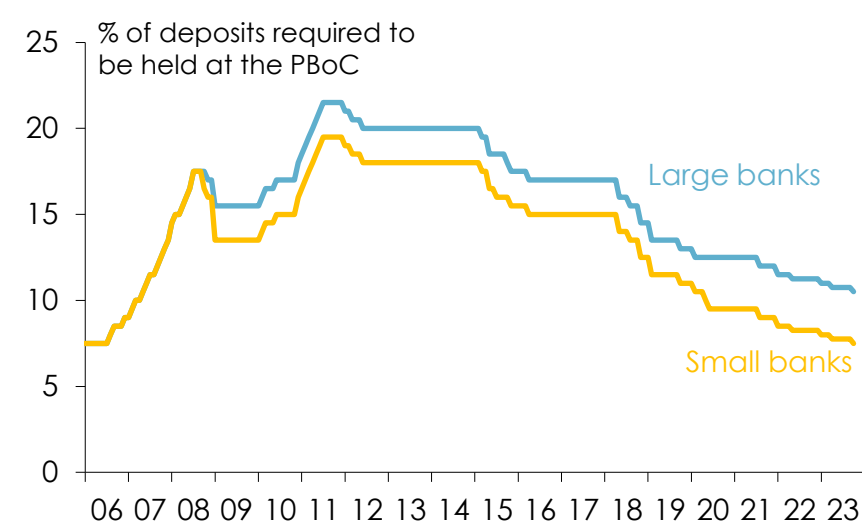
Credit growth



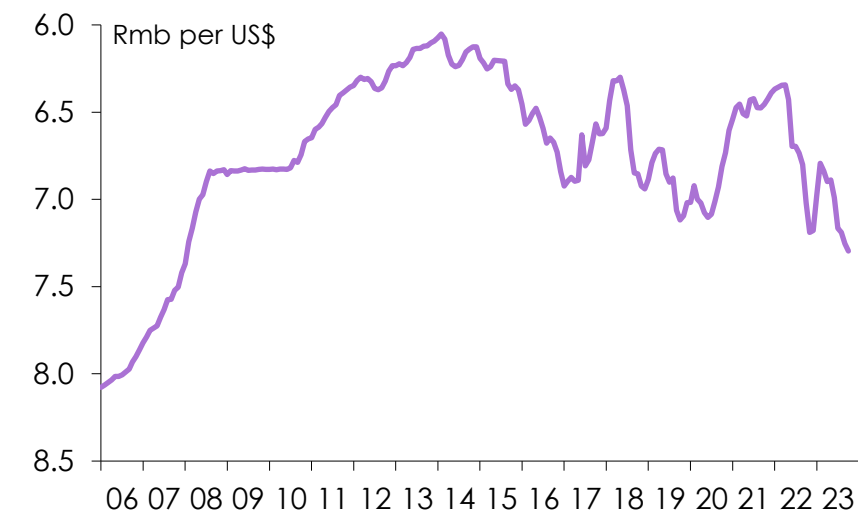
Consumer prices



Bank reserve requirement ratios



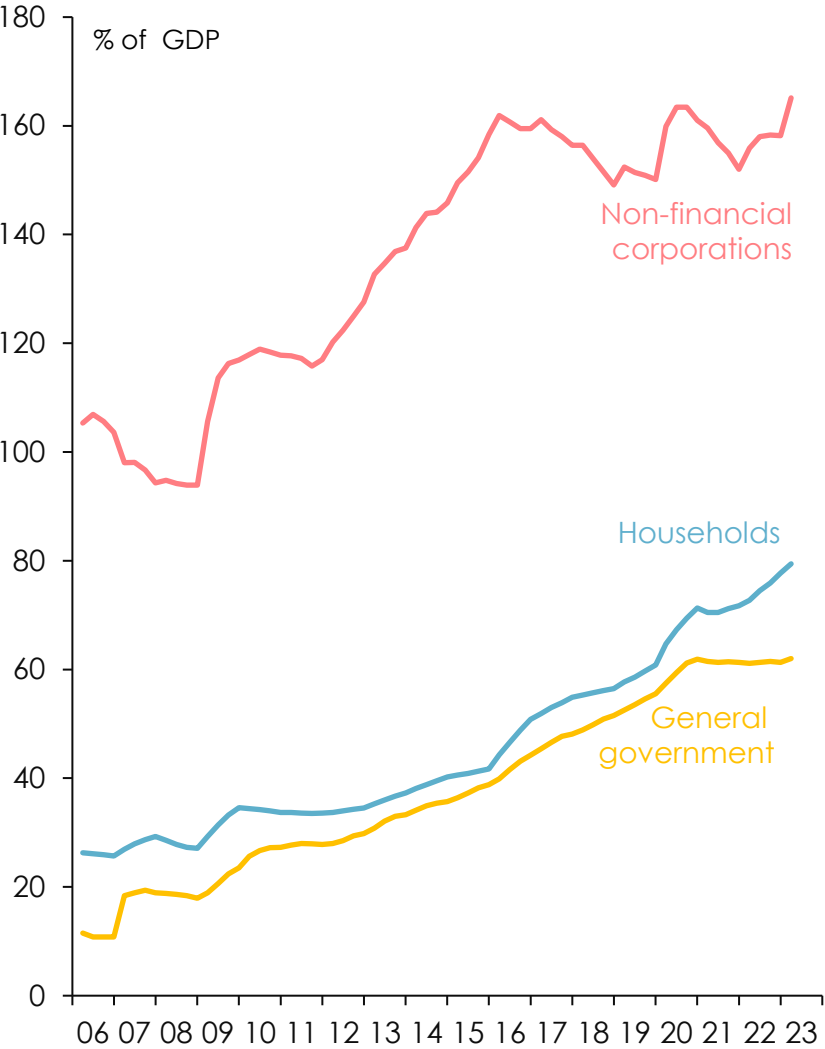
Yuan vs US dollar



Sources: [National Bureau of Statistics of China](#); [People's Bank of China](#).

That in large part reflects the authorities' on-going concern about China's high level of debt, especially in the corporate sector

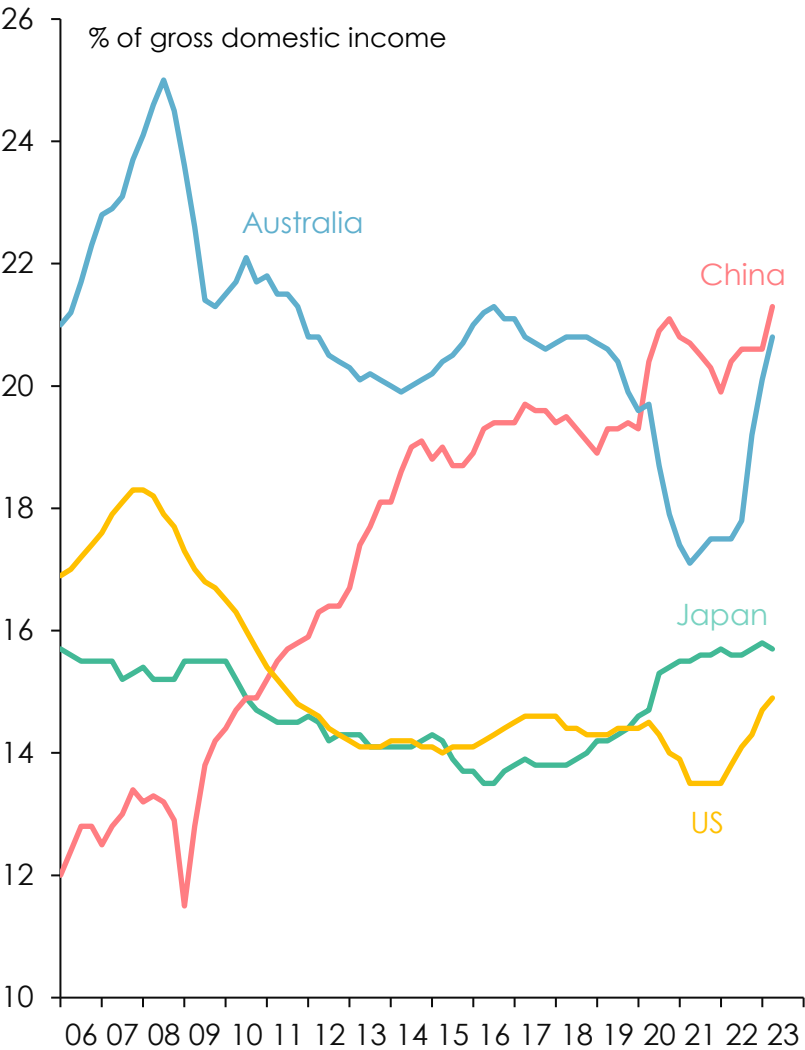
Debt as a percentage of GDP, by sector



China's debt compared with other emerging & advanced economies



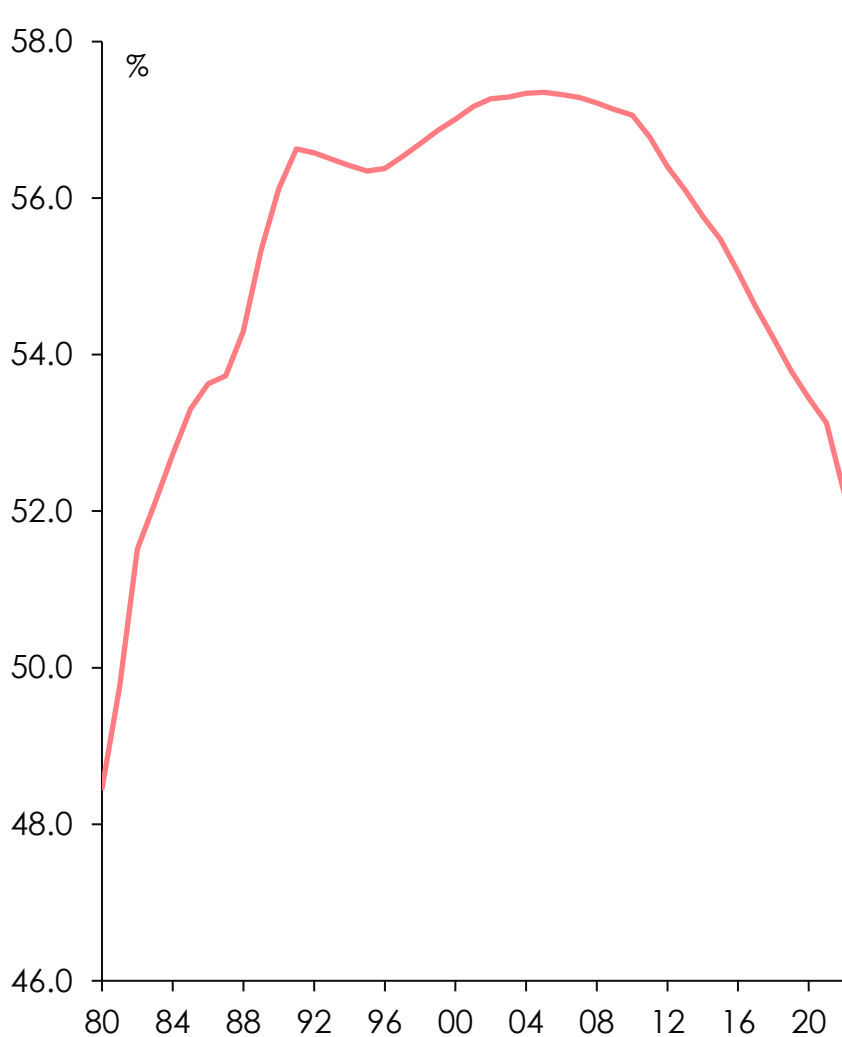
Debt servicing ratios



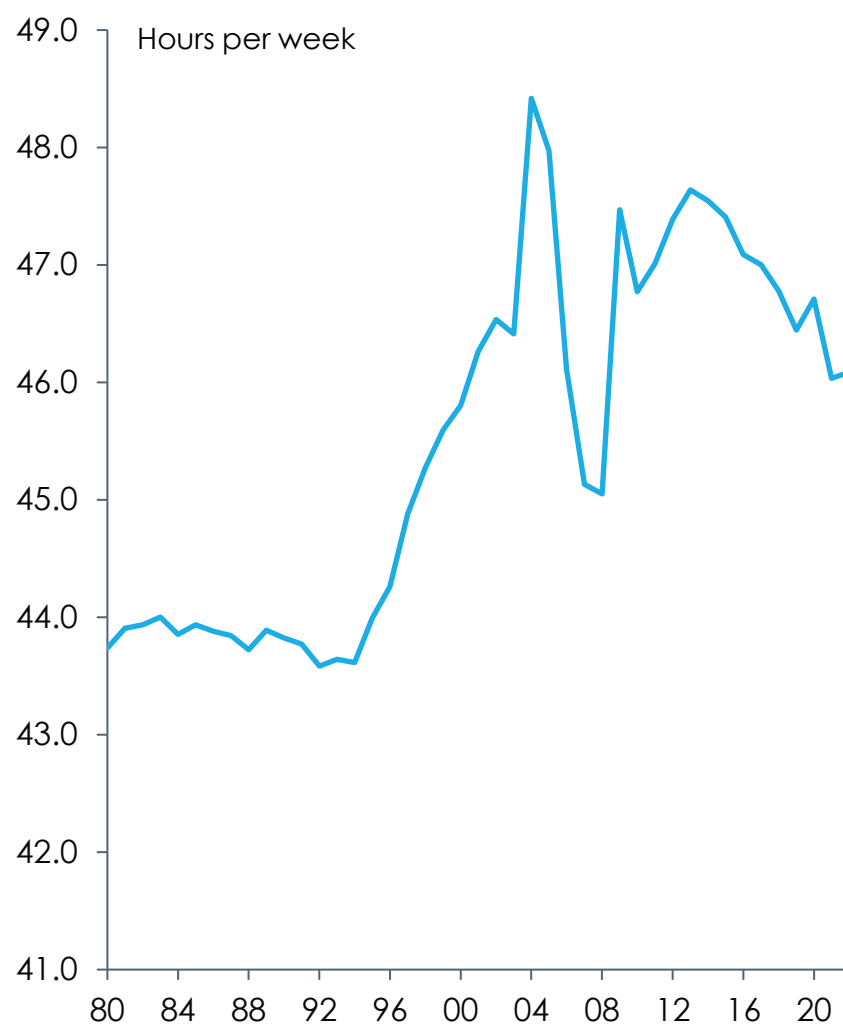
Note: 'general government' excludes state-owned enterprises, which are included in non-financial corporations.
Source: Bank for International Settlements, [Credit to the non-financial sector](#), September 2023.

China's economic slowdown is structural, not cyclical ...

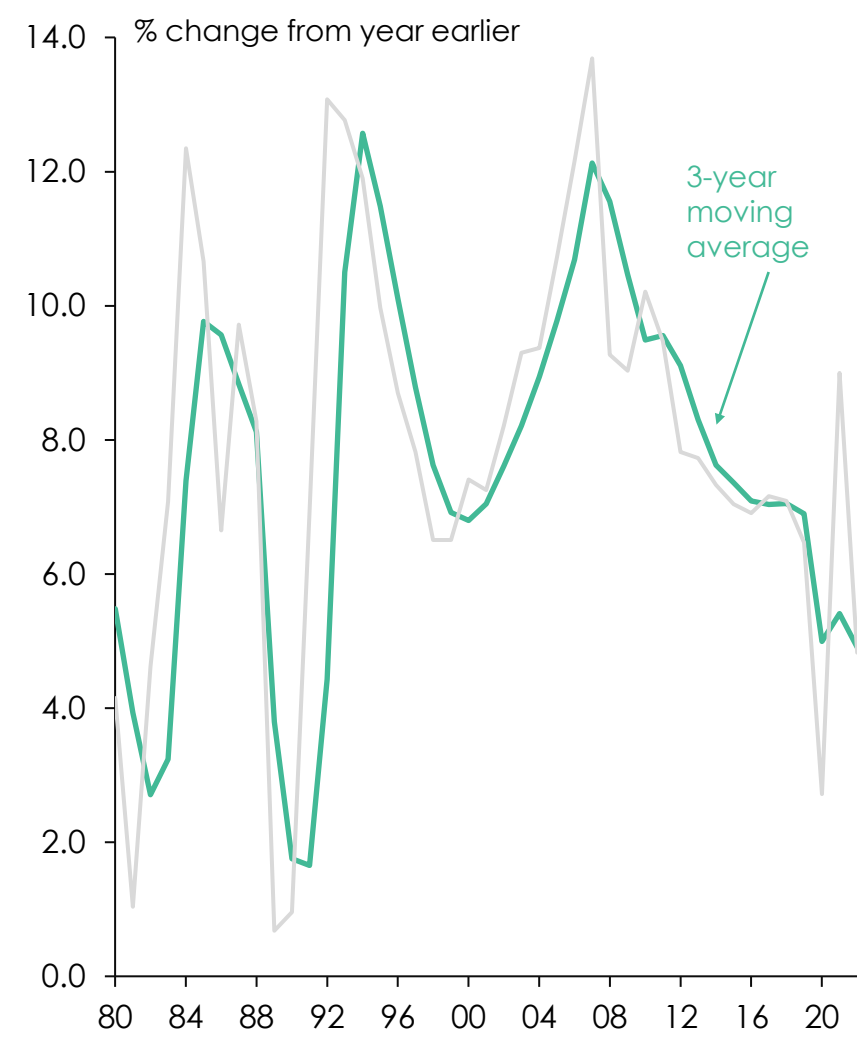
Employment as a pc of population



Average hours worked



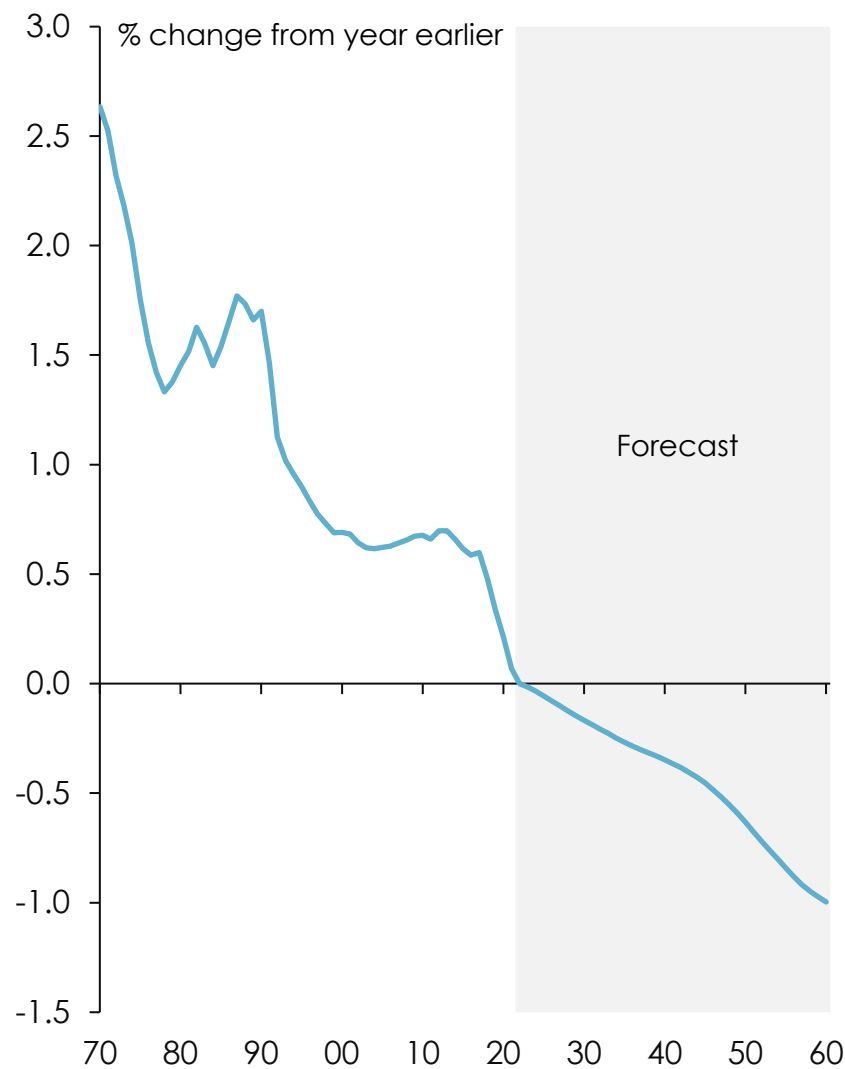
Output per hour worked (aka labour productivity)



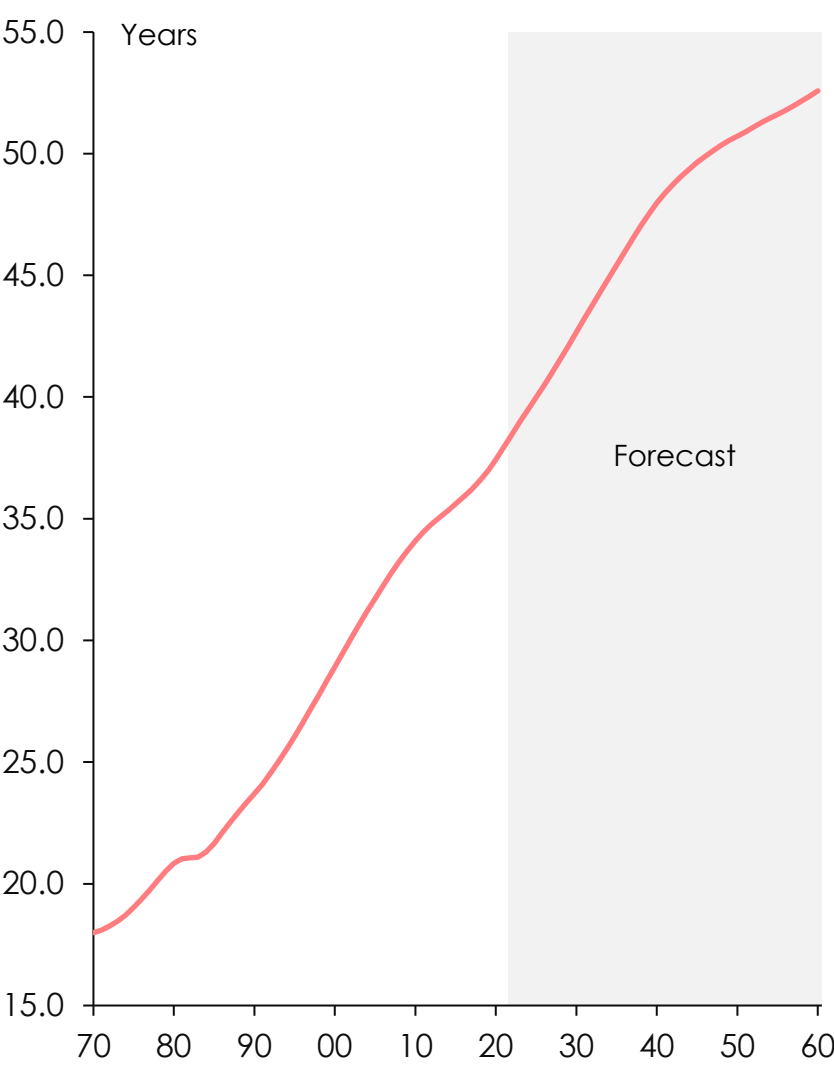
Source: The Conference Board, [Total Economy Database](#), 2023.

... and inexorable demographic factors mean that this structural slowdown will continue for the next 40 years (and beyond)

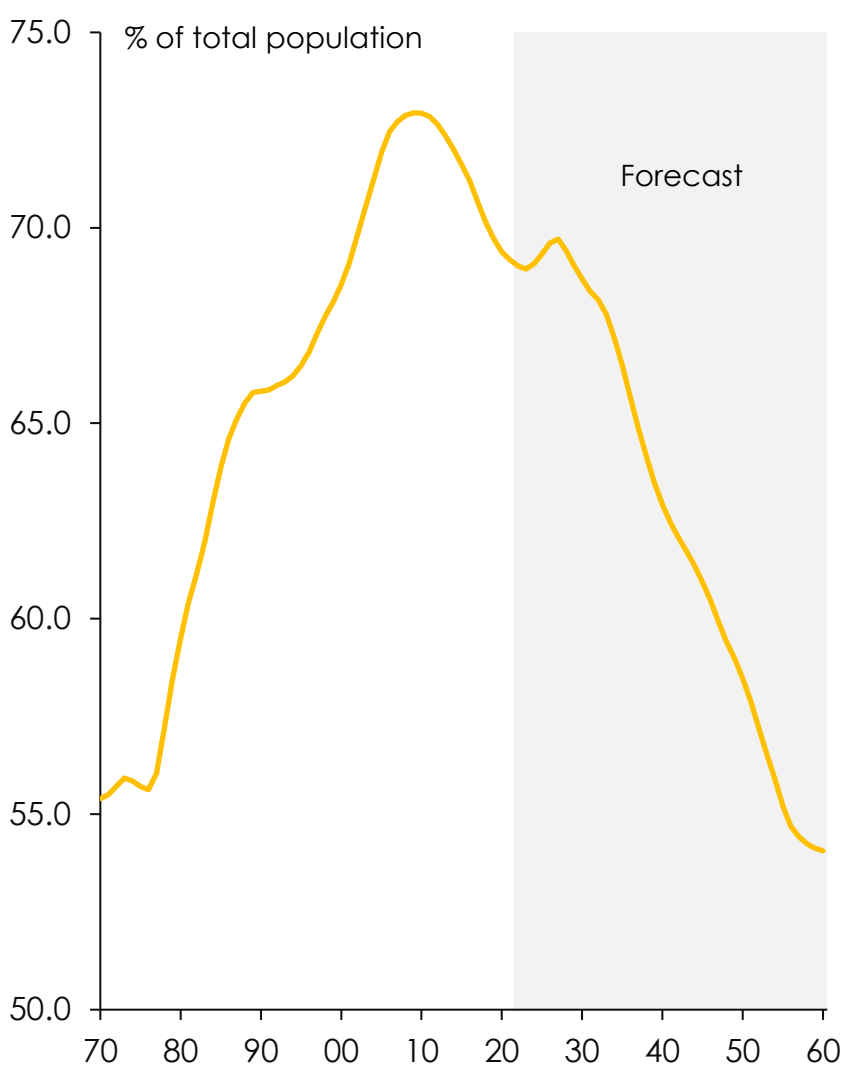
Population growth



Median age



Working-age population as a pc of total

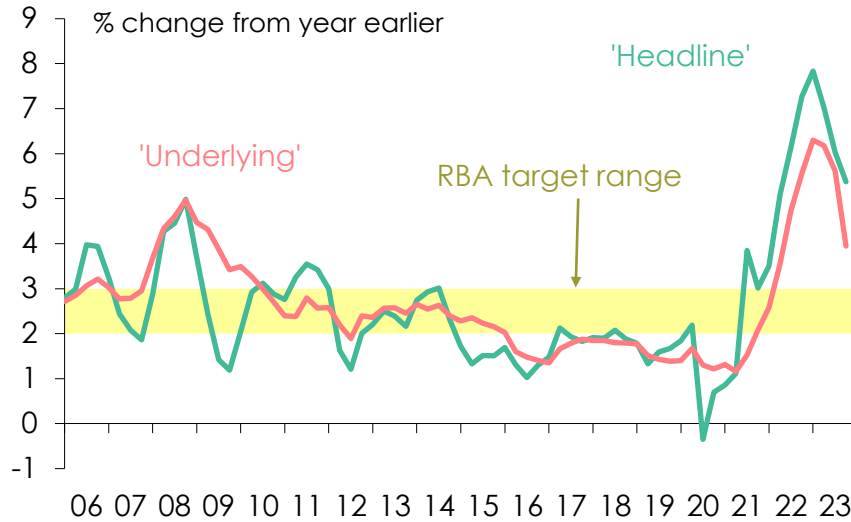


Source: United Nations Department of Economic and Social Affairs, [World Population Prospects](#), 2022.

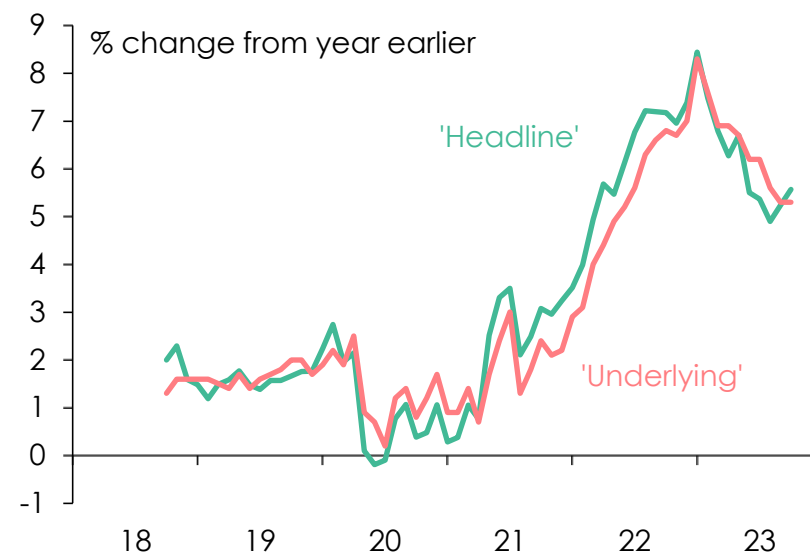
The Australian economy

In Australia inflation has eased from the peak at the end of 2022 but remains 'too high', especially for services

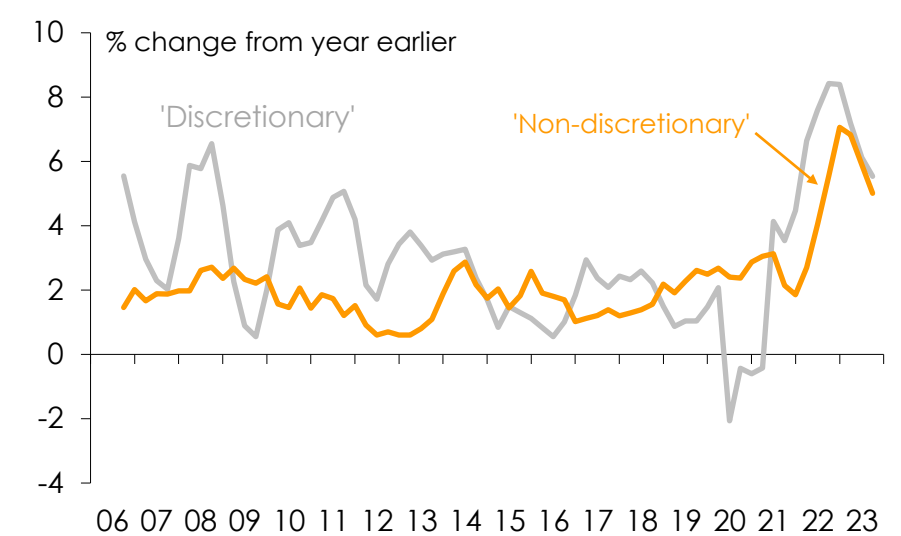
Consumer prices – annual change



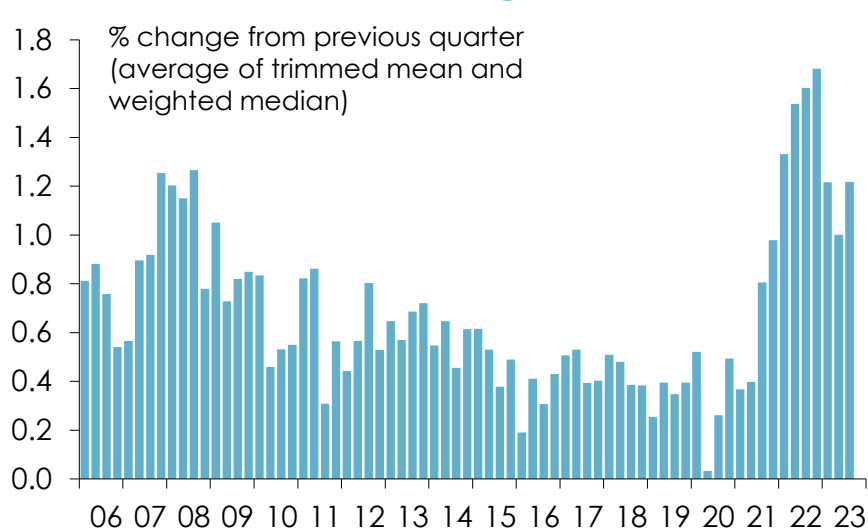
Monthly 'CPI indicator'



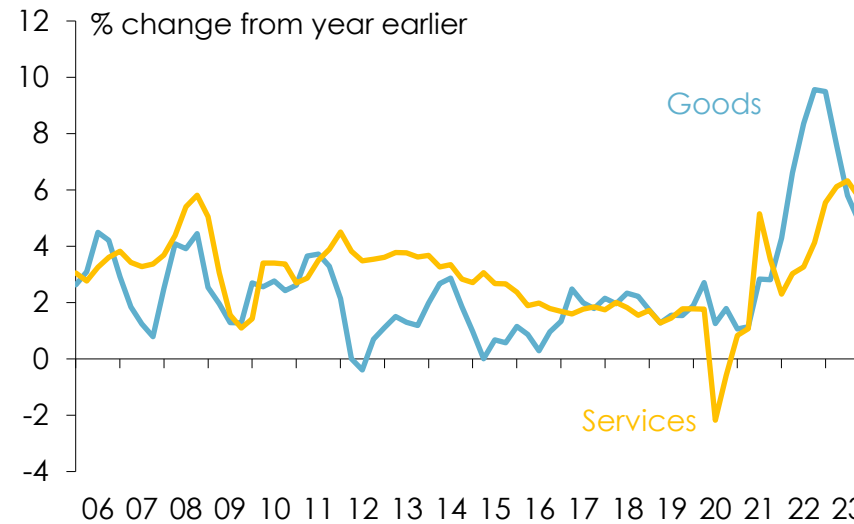
'Discretionary' vs 'essential' items



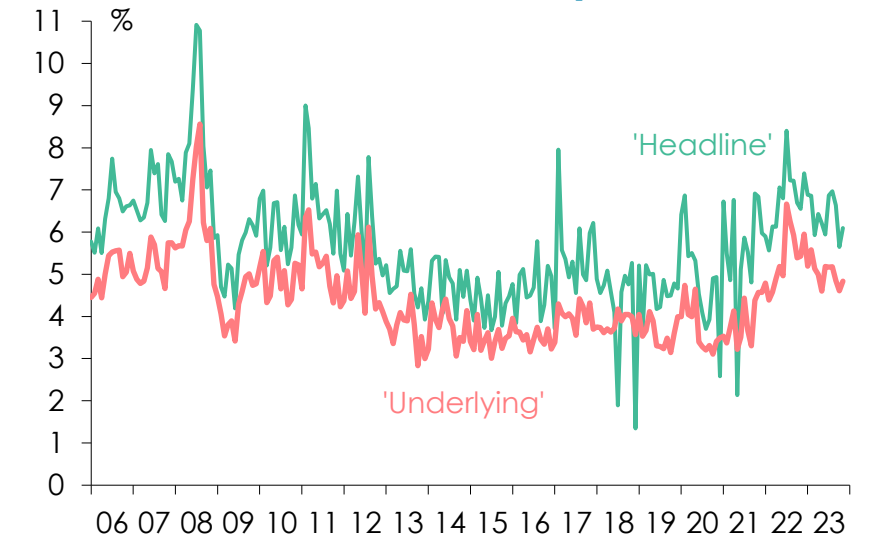
Quarterly 'underlying' inflation



Goods and services prices



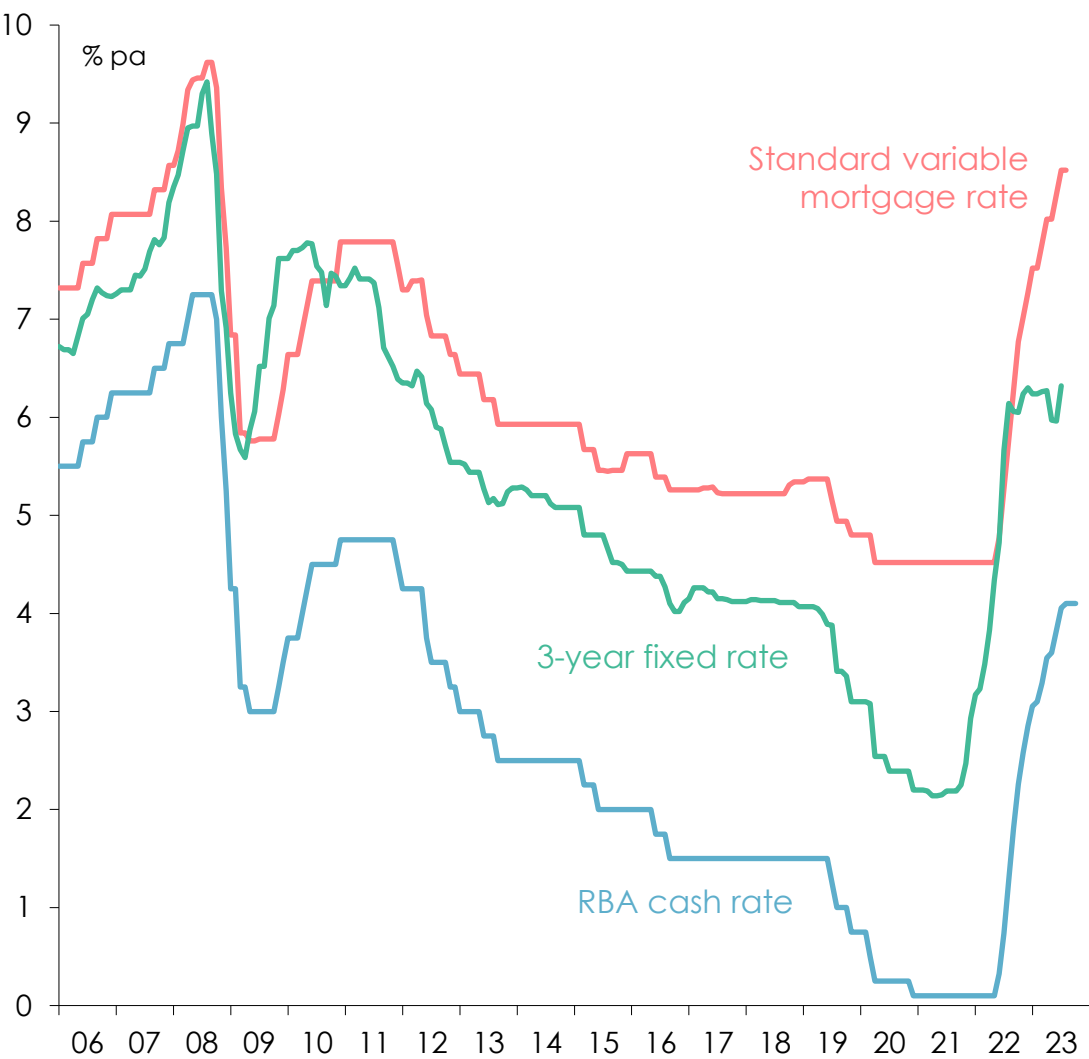
Household inflation expectations



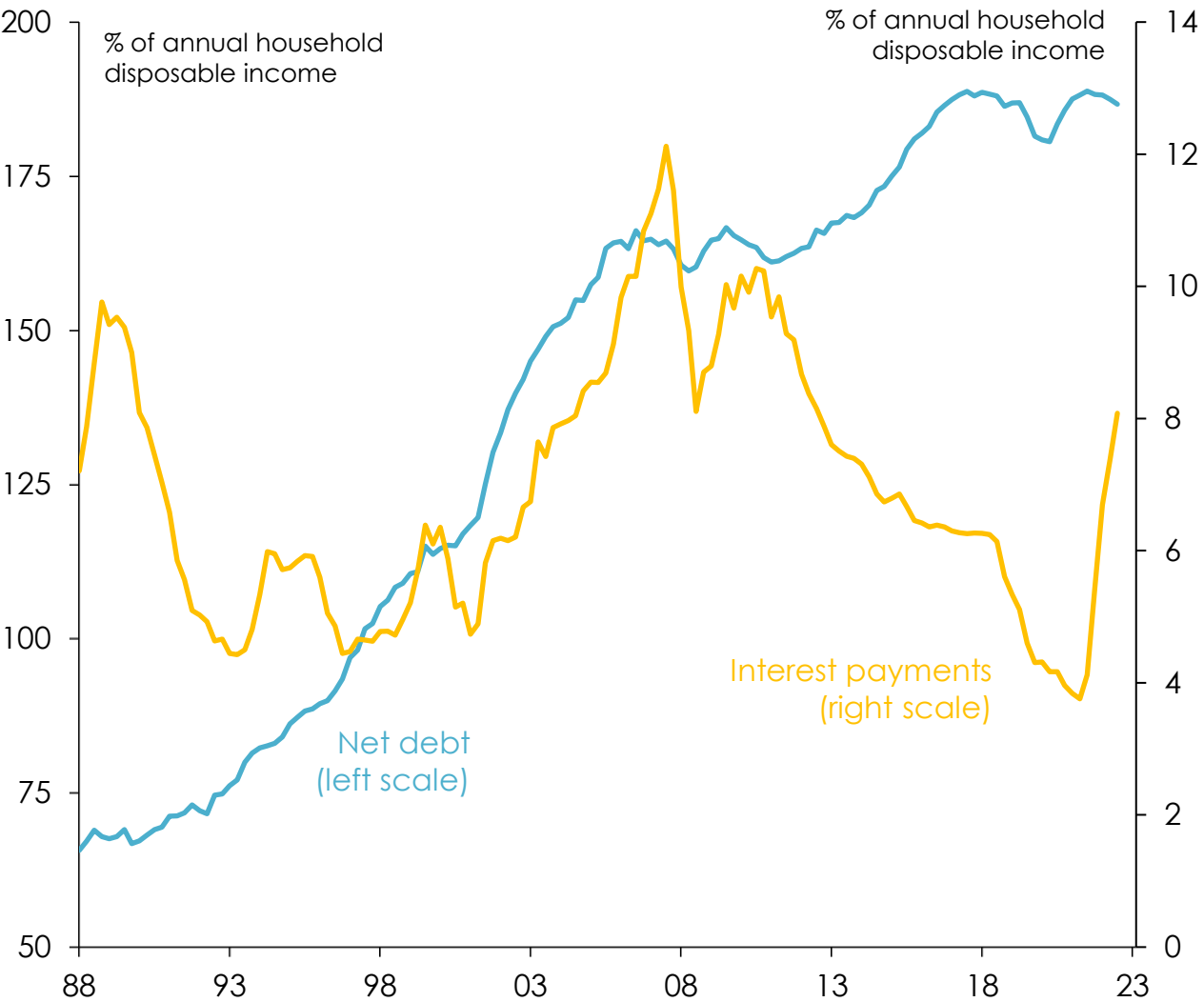
Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. Sources: ABS, [Consumer Price Index](#); Melbourne Institute, [Survey of Consumer Inflationary and Wage Expectations](#).

Since May last year the RBA has lifted interest rates more quickly than in any tightening cycle in the past three decades

RBA cash rate and mortgage rates

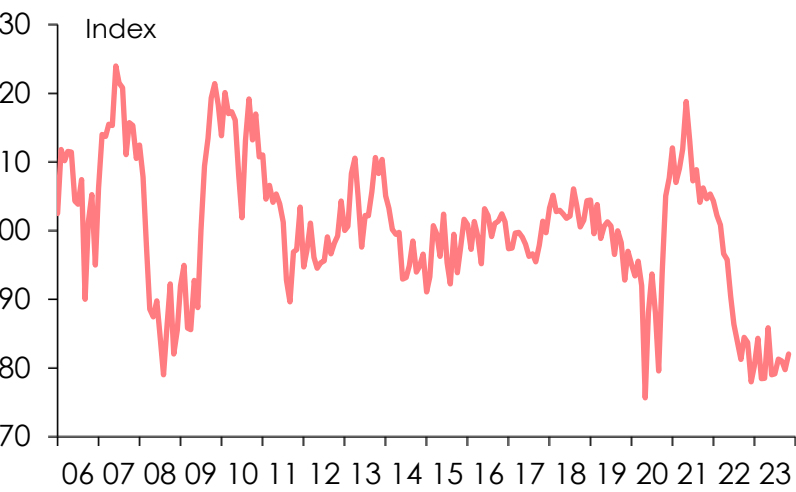


Household debt

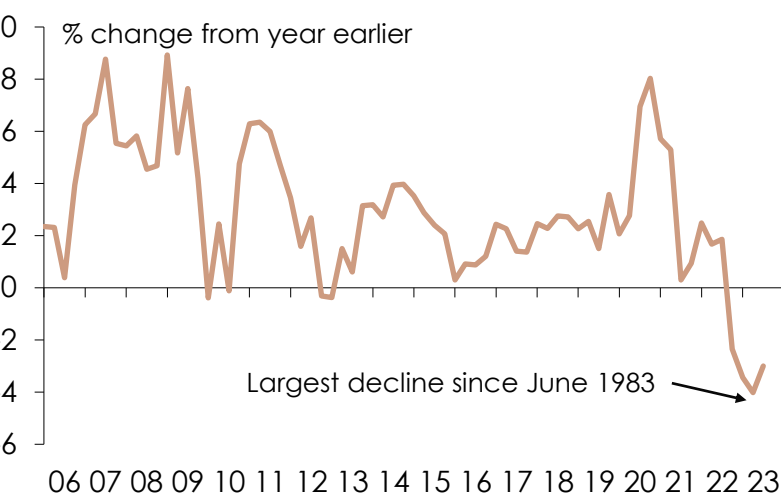


Household finances are under pressure from falling real incomes, rising interest rates and an increasing income tax burden

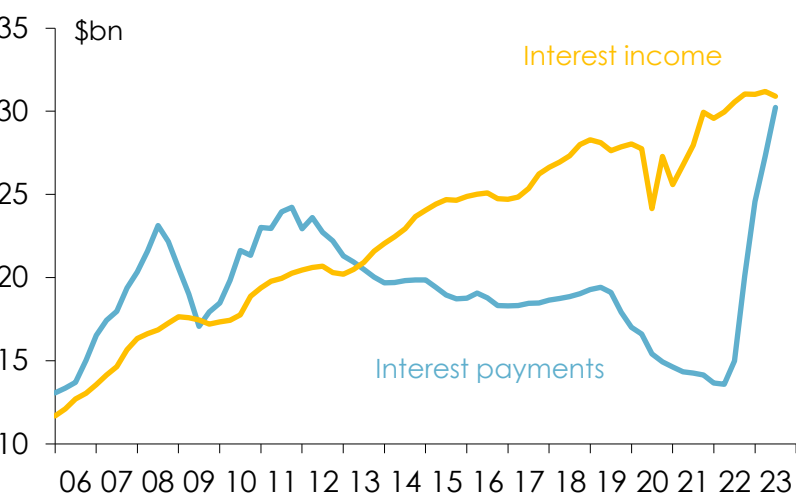
Consumer confidence



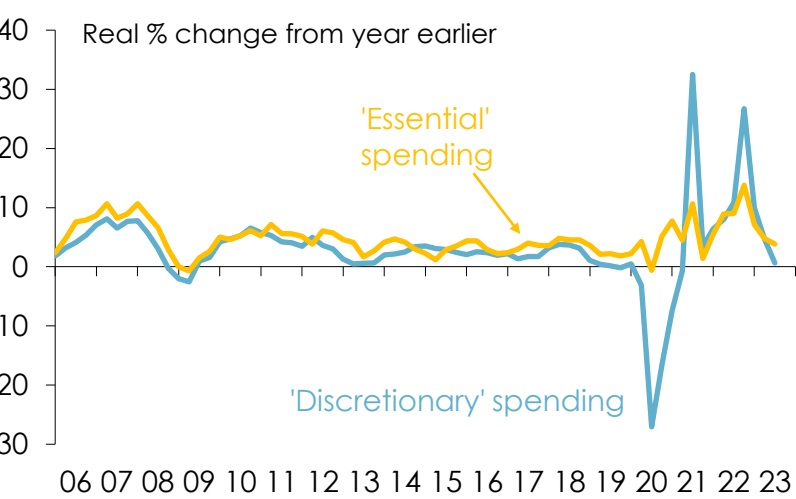
Real household disposable income



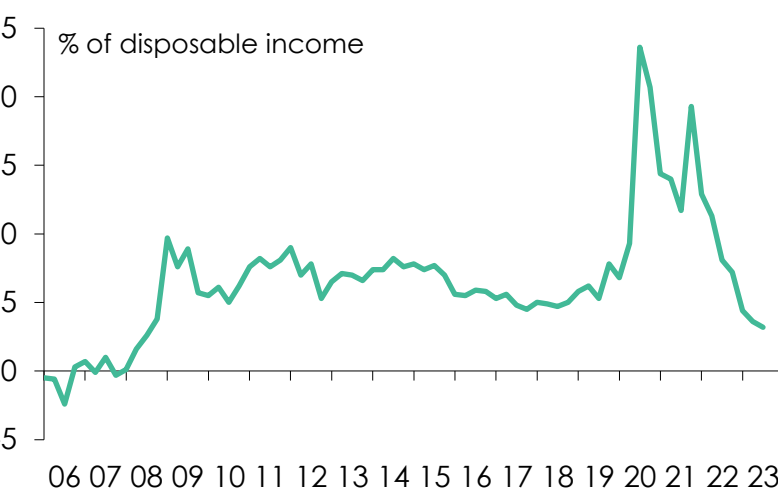
Interest income and payments



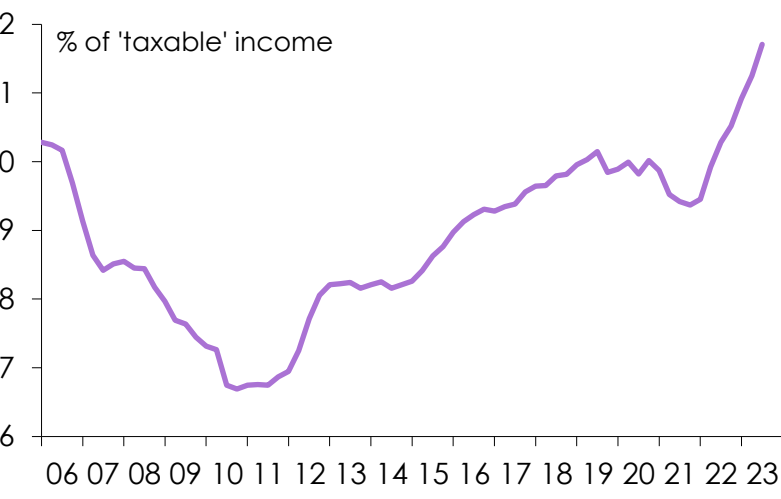
Real consumer spending



Household saving



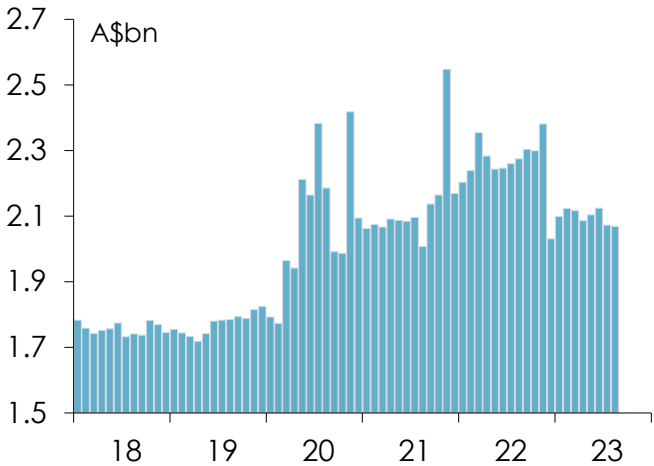
Personal income tax payments



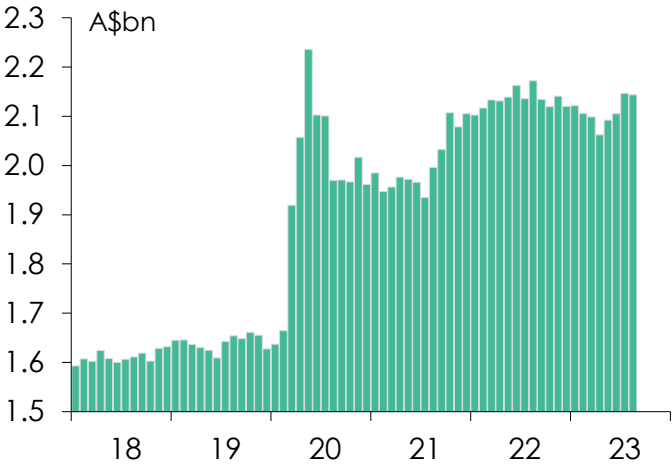
Sources: Westpac, [Westpac-MI Consumer Sentiment](#), September 2023; ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June 2023.
Note: 'essential' spending comprises housing, food, fuel & power, medical & health care, ground transport, communications and education services; 'taxable' income is gross household income excluding gross operating surplus of dwellings, workers' compensation premiums and interest paid by unincorporated enterprises.

While consumers have cut back spending in some discretionary areas, in others spending remains at a high level

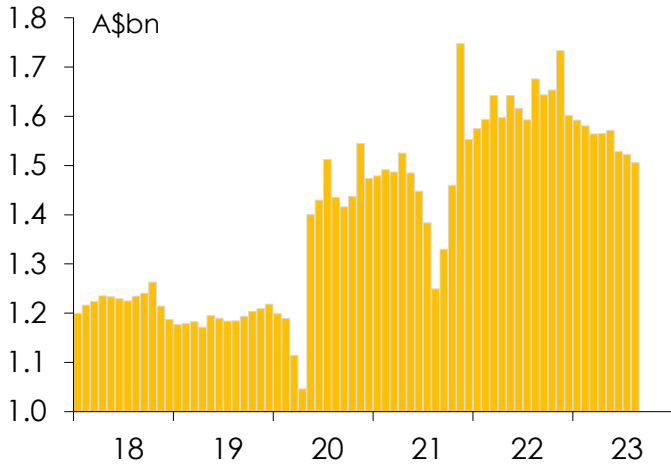
Electronic & electrical goods



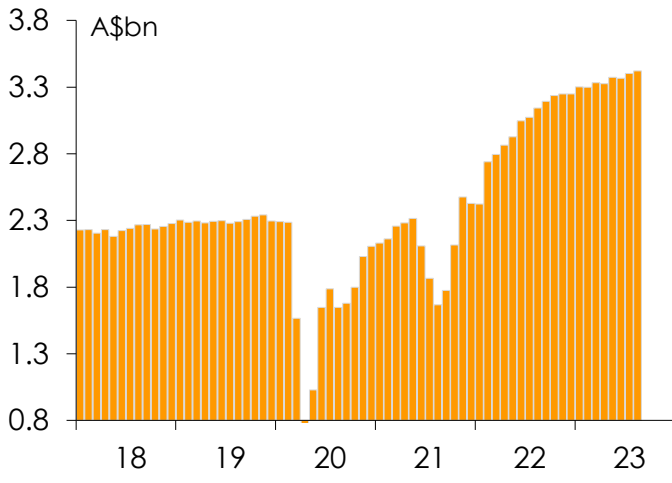
Hardware, building & garden supplies



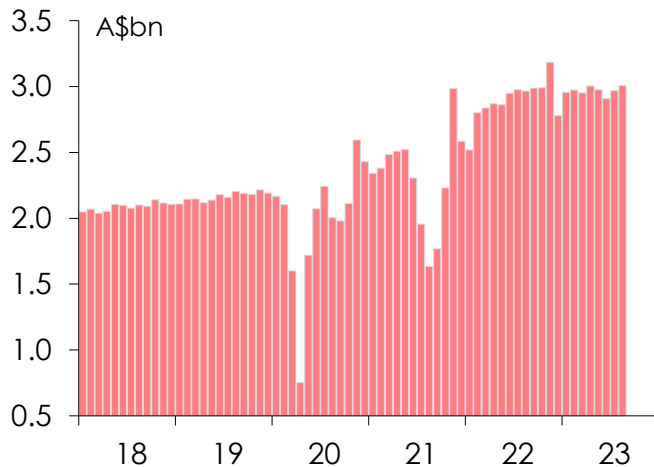
Floor coverings, furniture, housewares etc



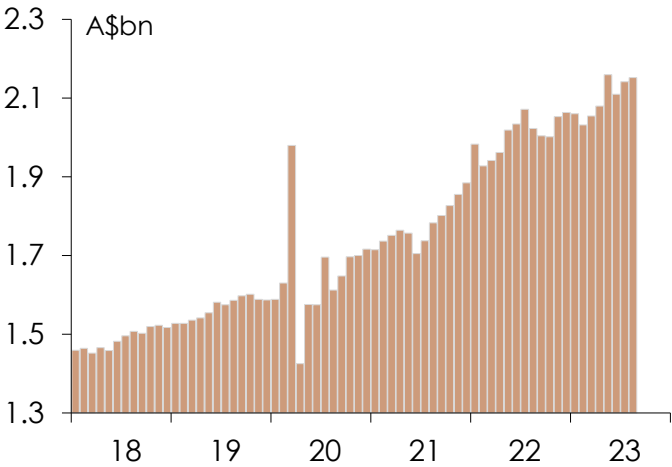
Cafes and restaurants



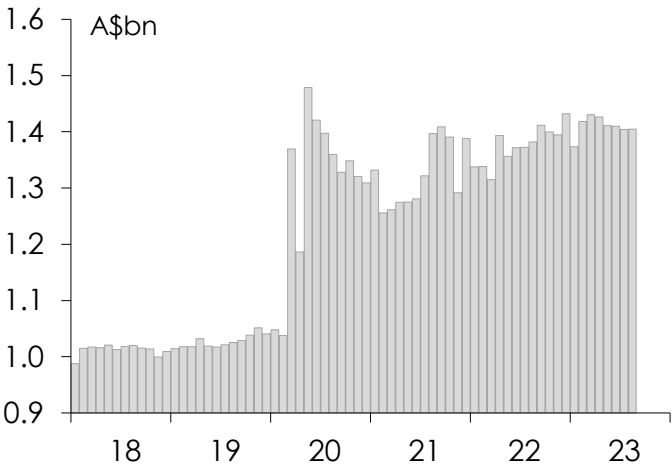
Clothing, footwear & personal accessories



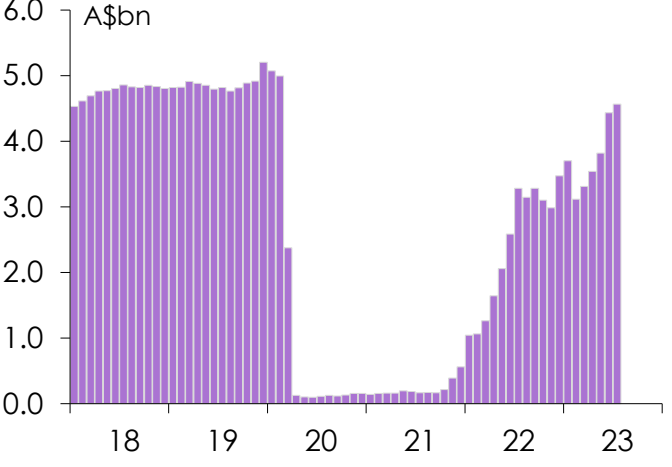
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



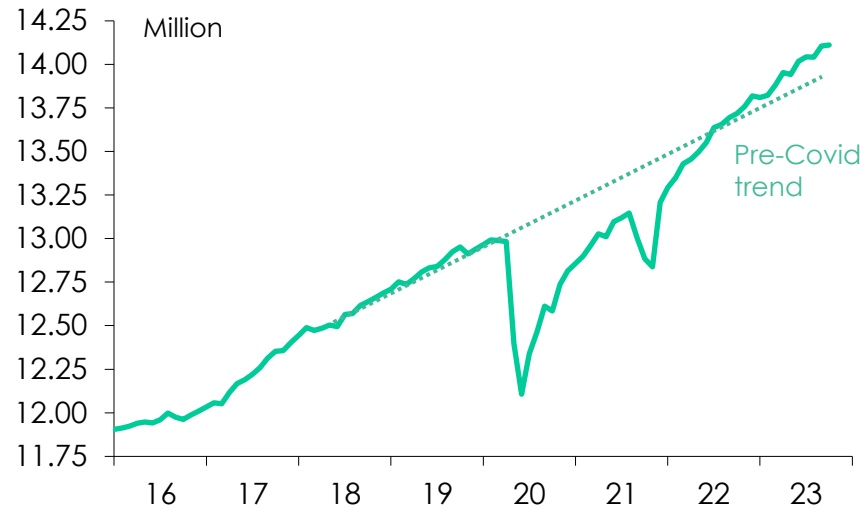
Overseas travel



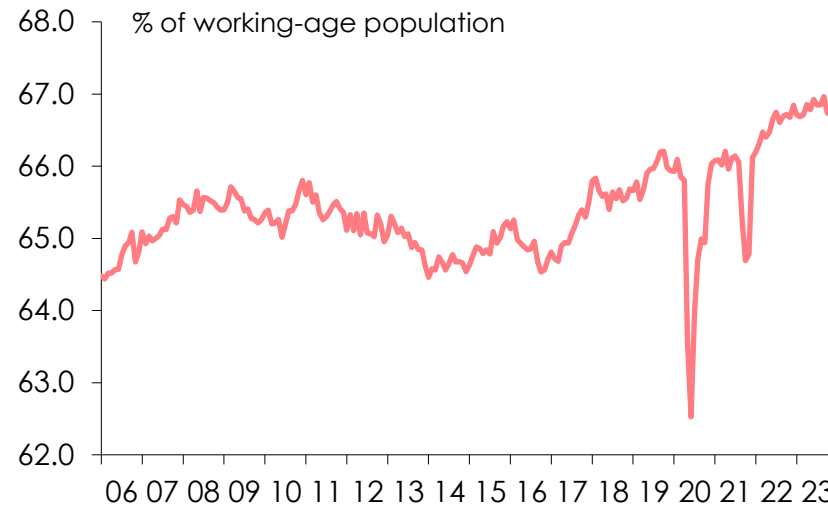
Source: ABS, [Retail Trade](#), August 2023.

Employment growth has begun to slow but the labour market remains very tight, and wages have begun to pick up

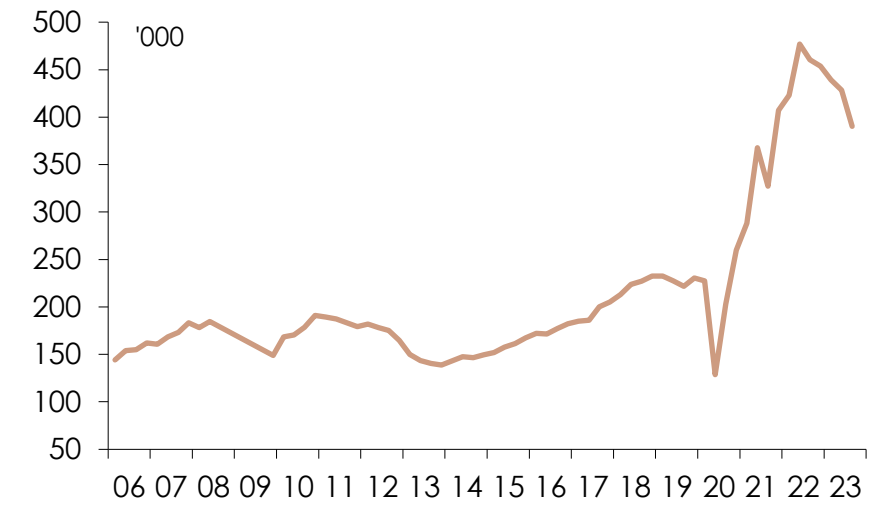
Level of employment



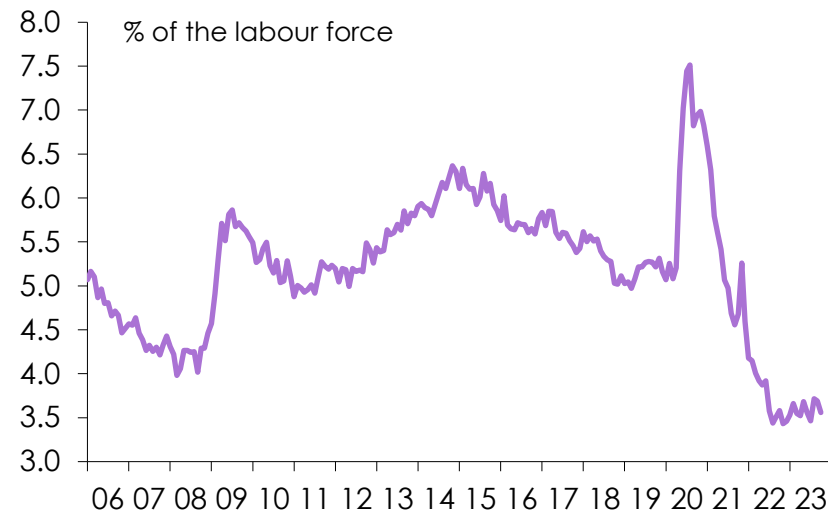
Labour force participation rate



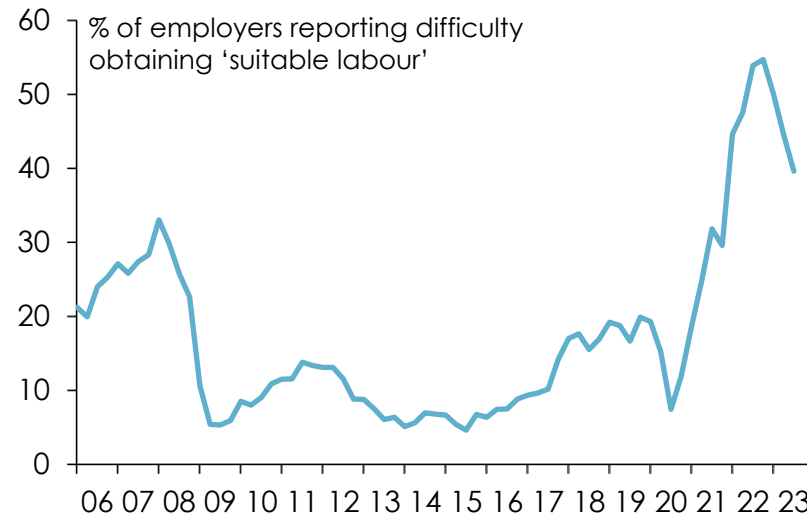
Job vacancies



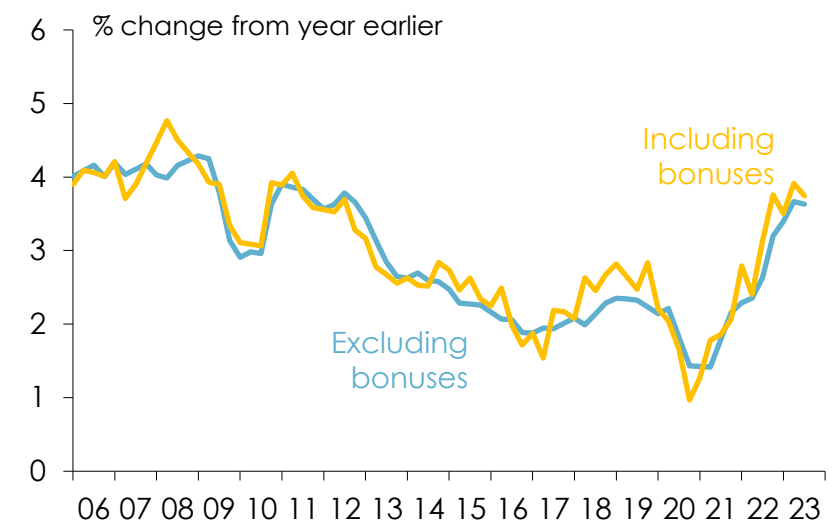
Unemployment rate



Labour shortages

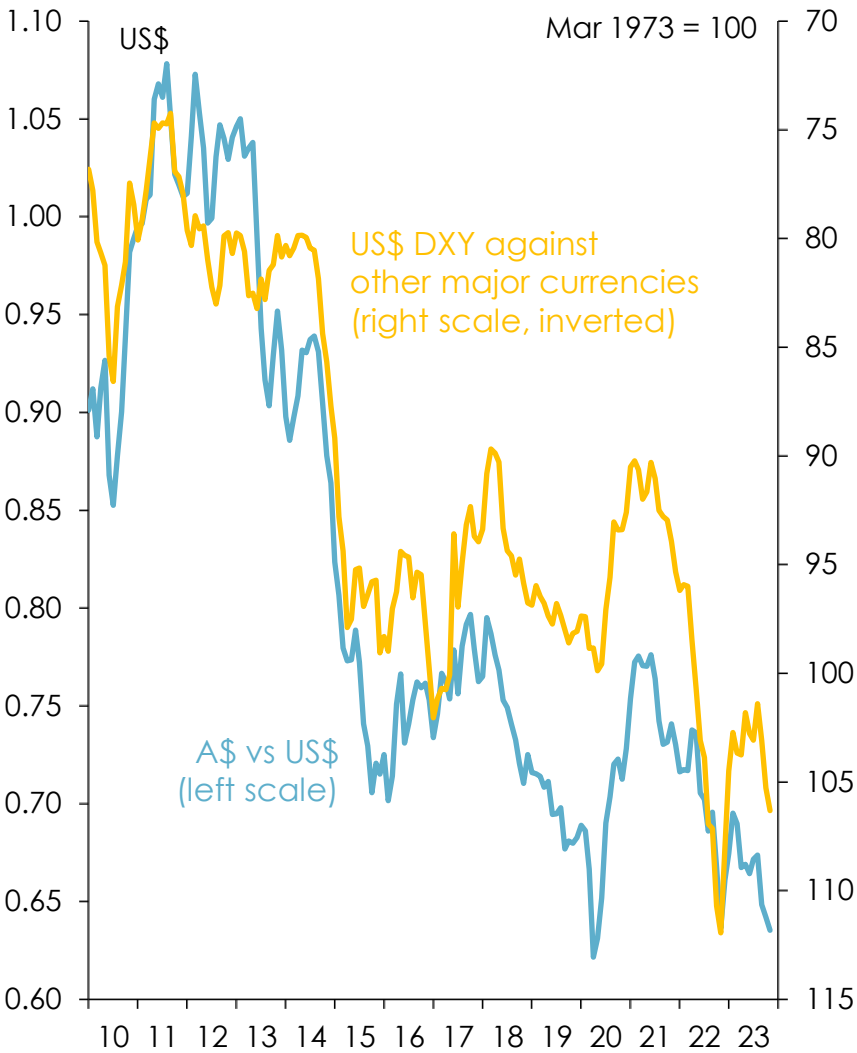


Wage price index

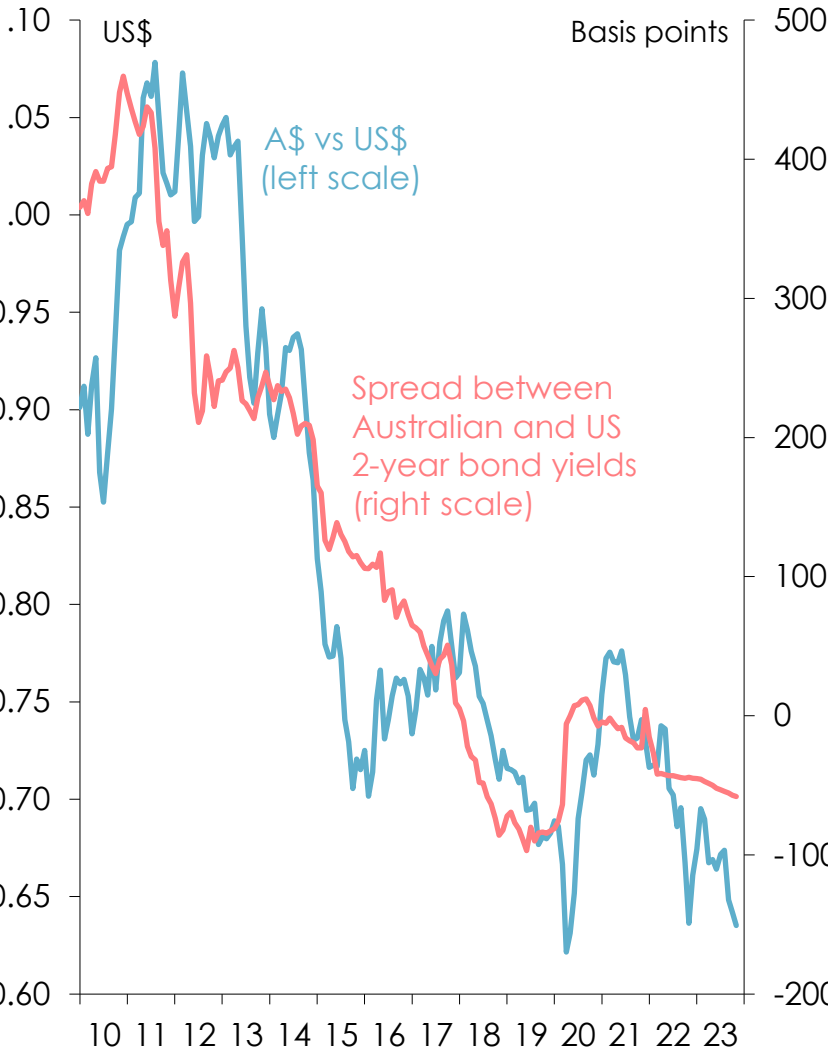


A strong US\$ and high US interest rates are offsetting the impact of high commodity prices on the A\$, keeping it in the low 60s

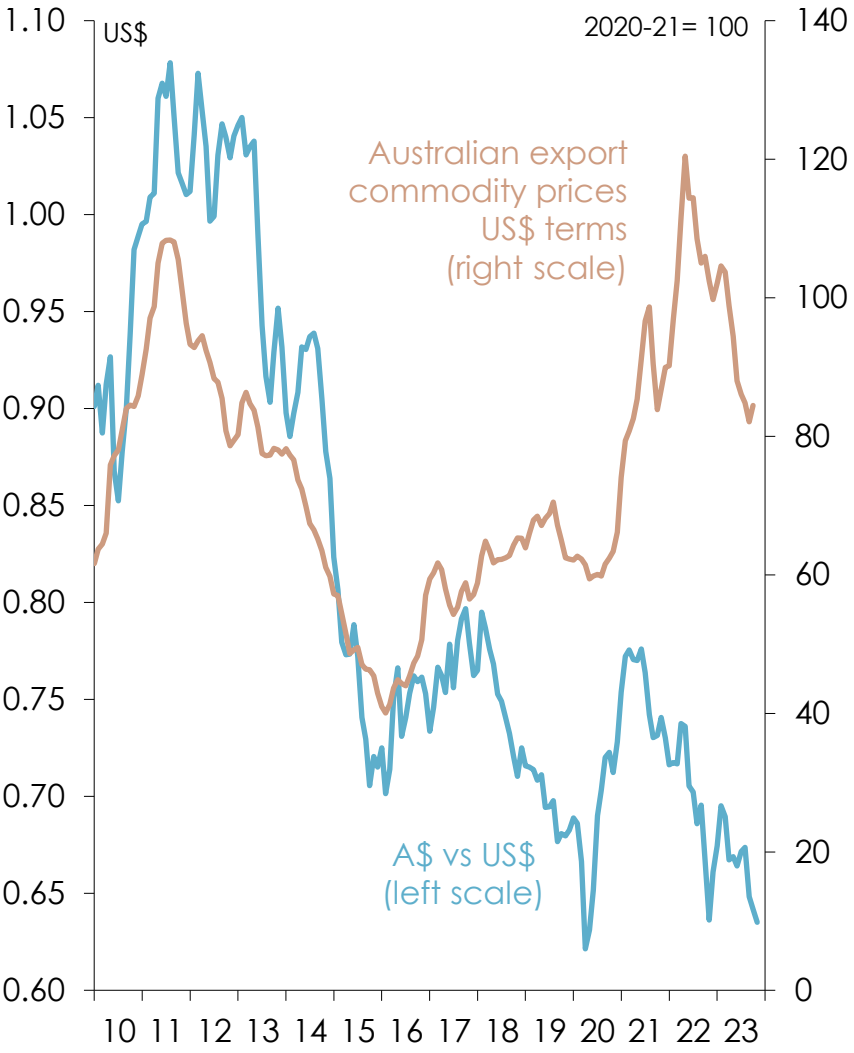
A\$-US\$ and US\$ trade-weighted index



A\$-US\$ and Australia-US 2-year bond yield spread



A\$-US\$ and Australian export commodity prices

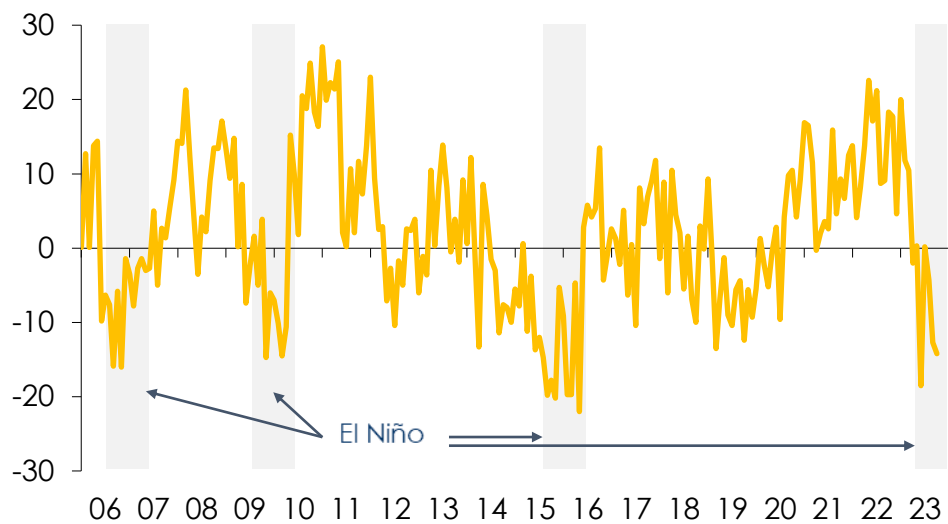


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc).
Sources: [Reserve Bank of Australia](#); [US Federal Reserve](#).

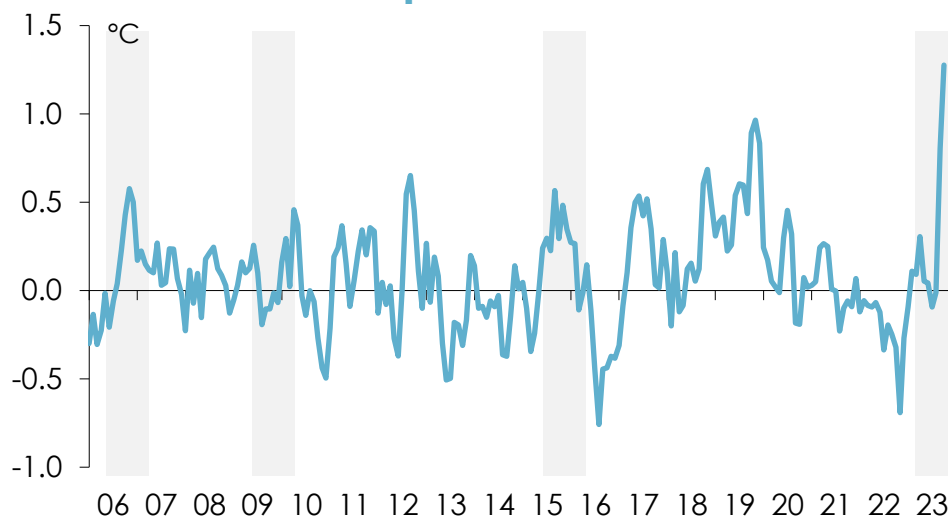
The Australian meat industry

Australia is likely to experience a drier-than-normal spring and summer

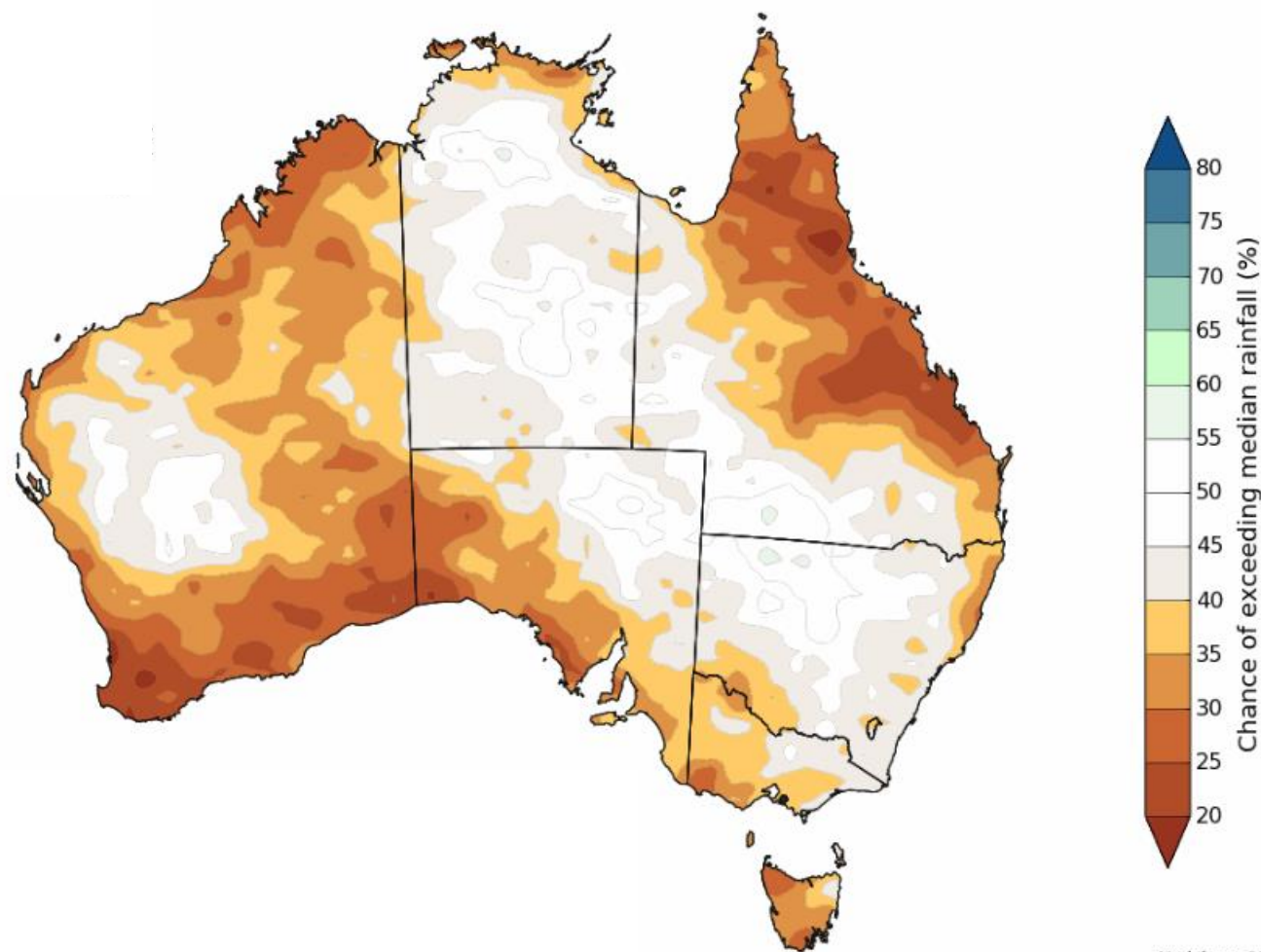
Southern Oscillation Index



Indian Ocean Dipole Index



Likelihood of exceeding median rainfall for November 2023 through January 2024

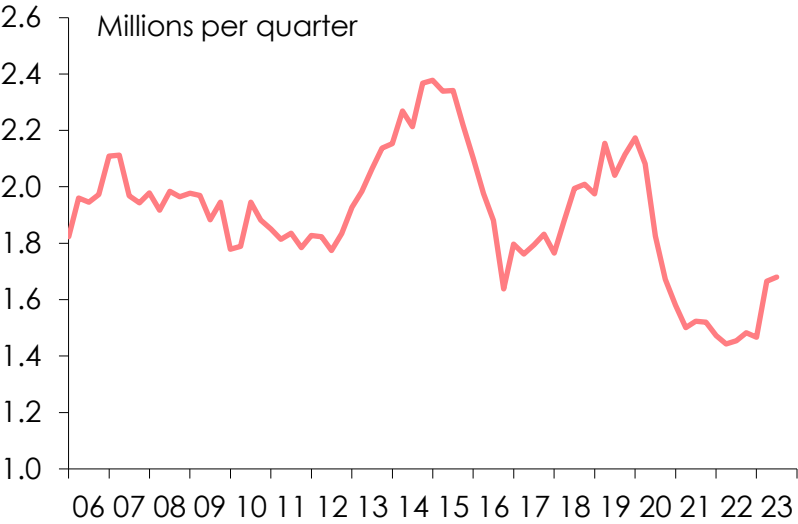


Model run: 23/10/2023
Issued: 26/10/2023

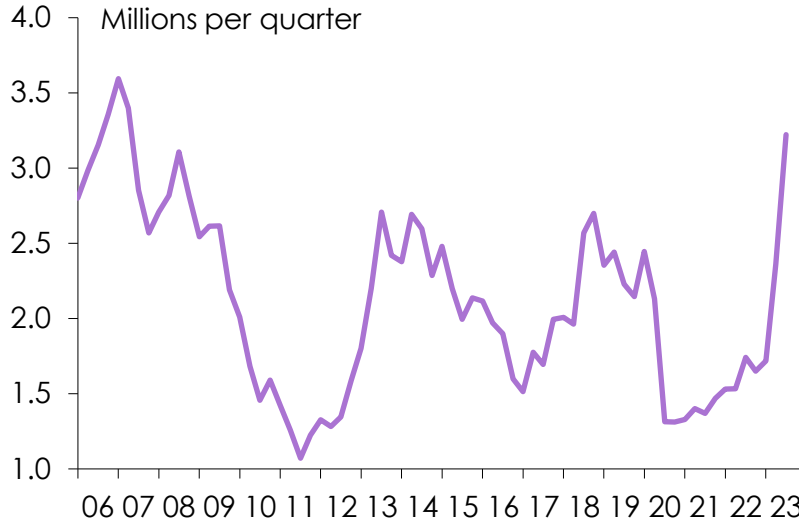
Note: The Southern Oscillation Index measures the difference in surface air pressure between Tahiti and Darwin; and is one of the key atmospheric indices for gauging the strength of El Niño and La Niña events. The Indian Ocean Dipole is the difference in sea surface temperatures between the western and eastern Indian Ocean. It has the opposite relation to El Niño and La Niña events from the SOI. Source: [Bureau of Meteorology](#).

Slaughtering have increased since mid-2022 after a period of herd rebuilding following drought, and in anticipation of a dry period ahead

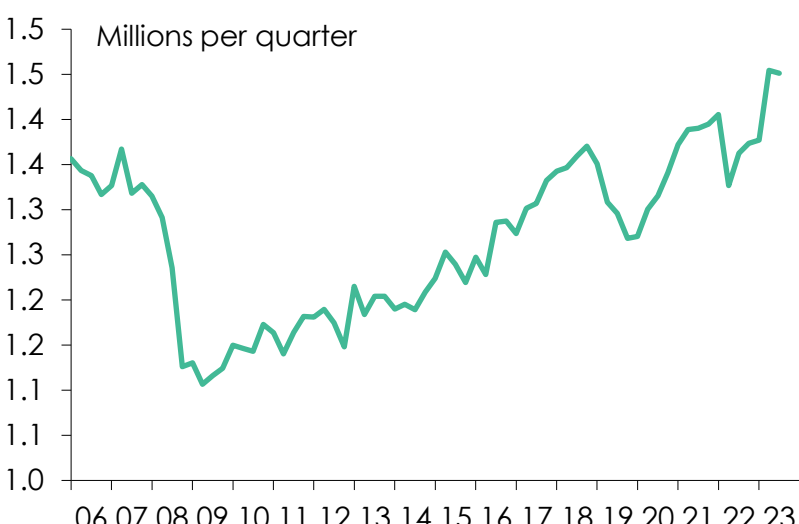
Cattle



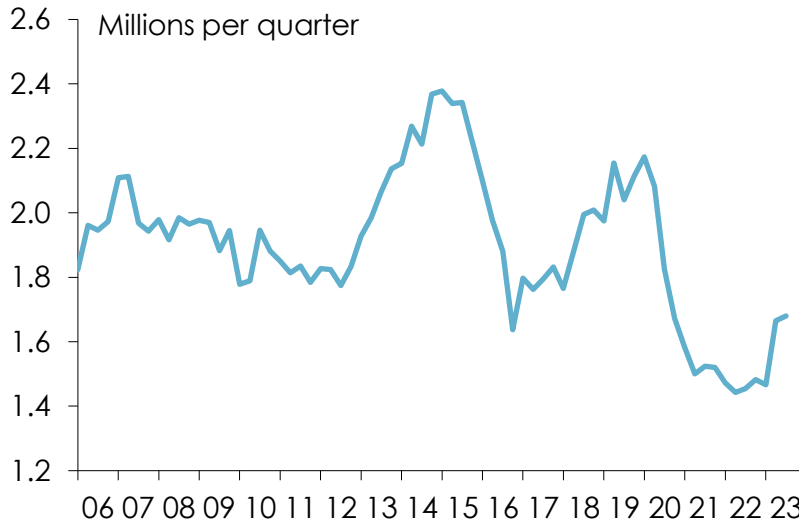
Sheep



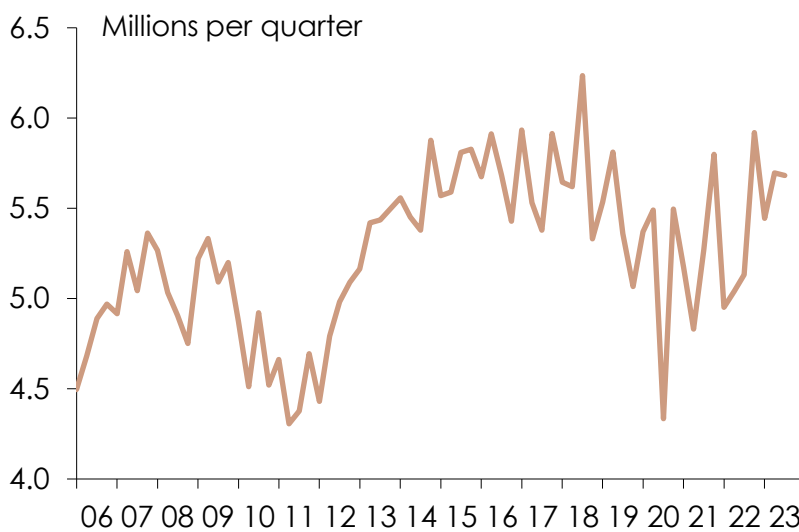
Pigs



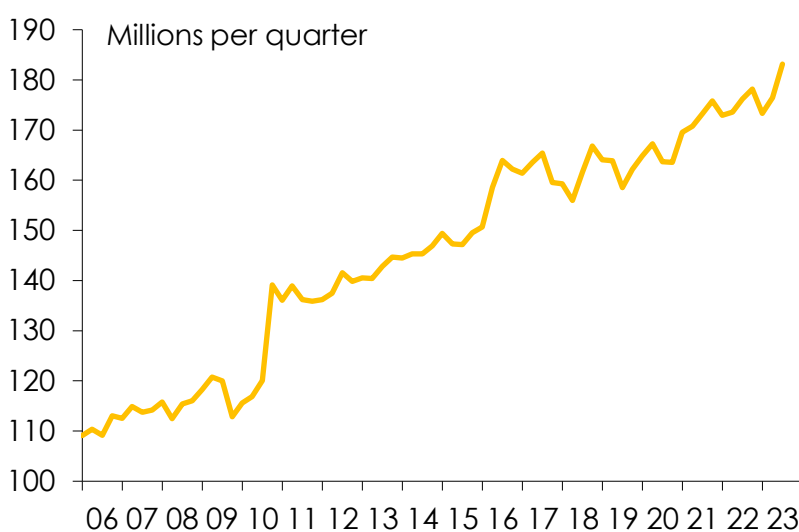
Calves



Lambs

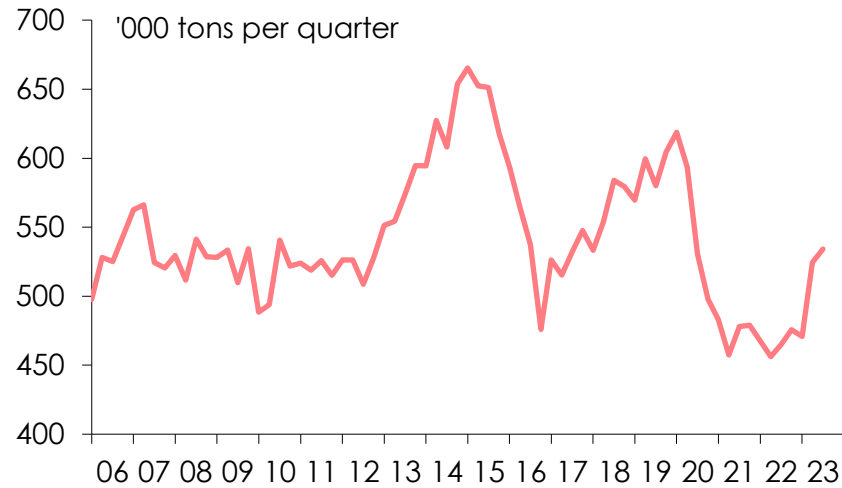


Chickens

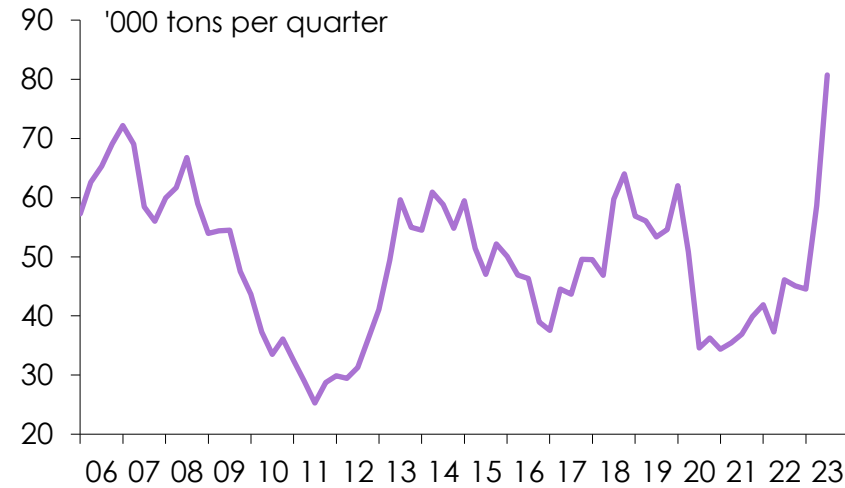


As a result, meat production (apart from veal) has also rebounded ...

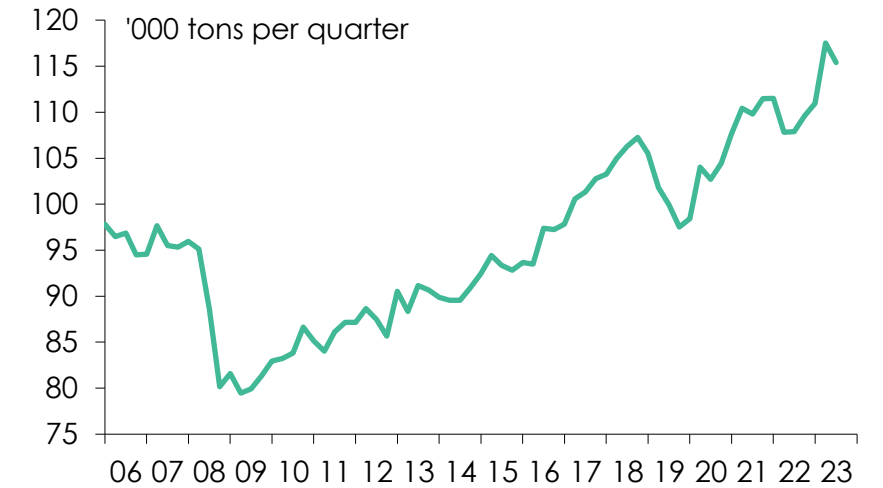
Beef



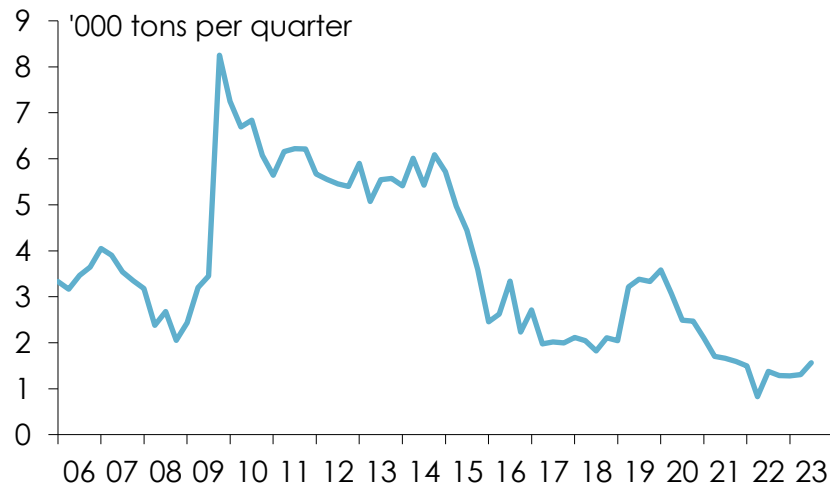
Mutton



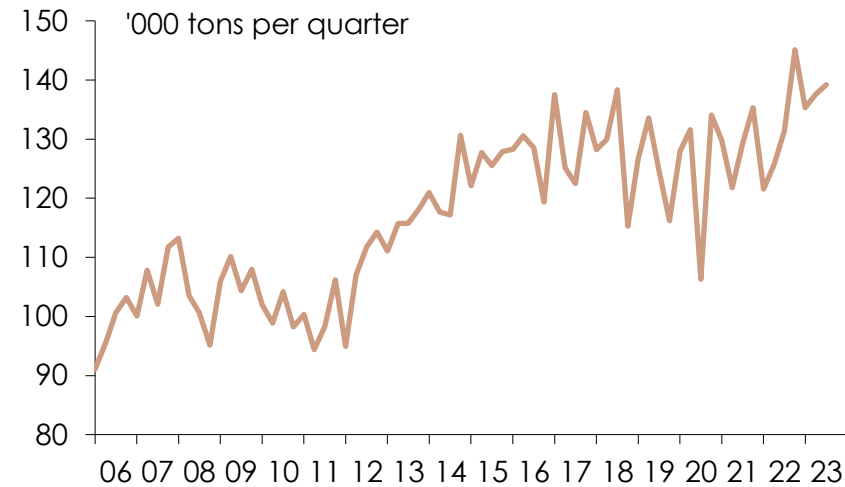
Pig meat



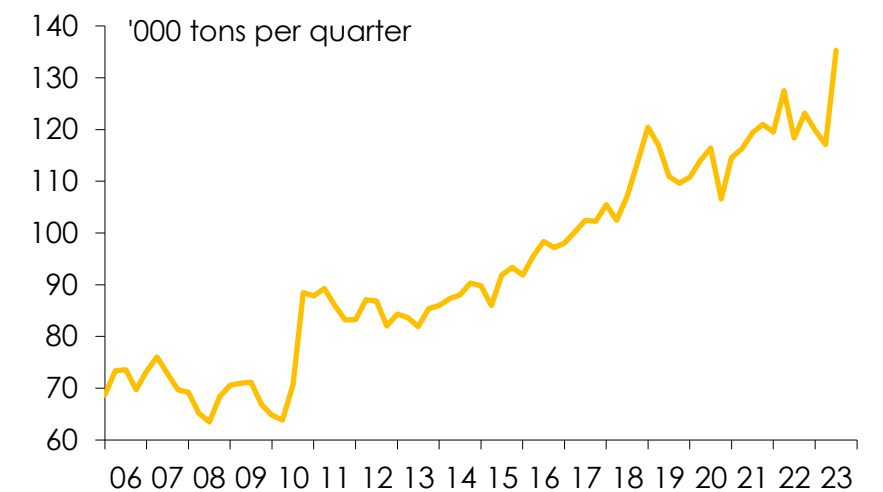
Veal



Lamb

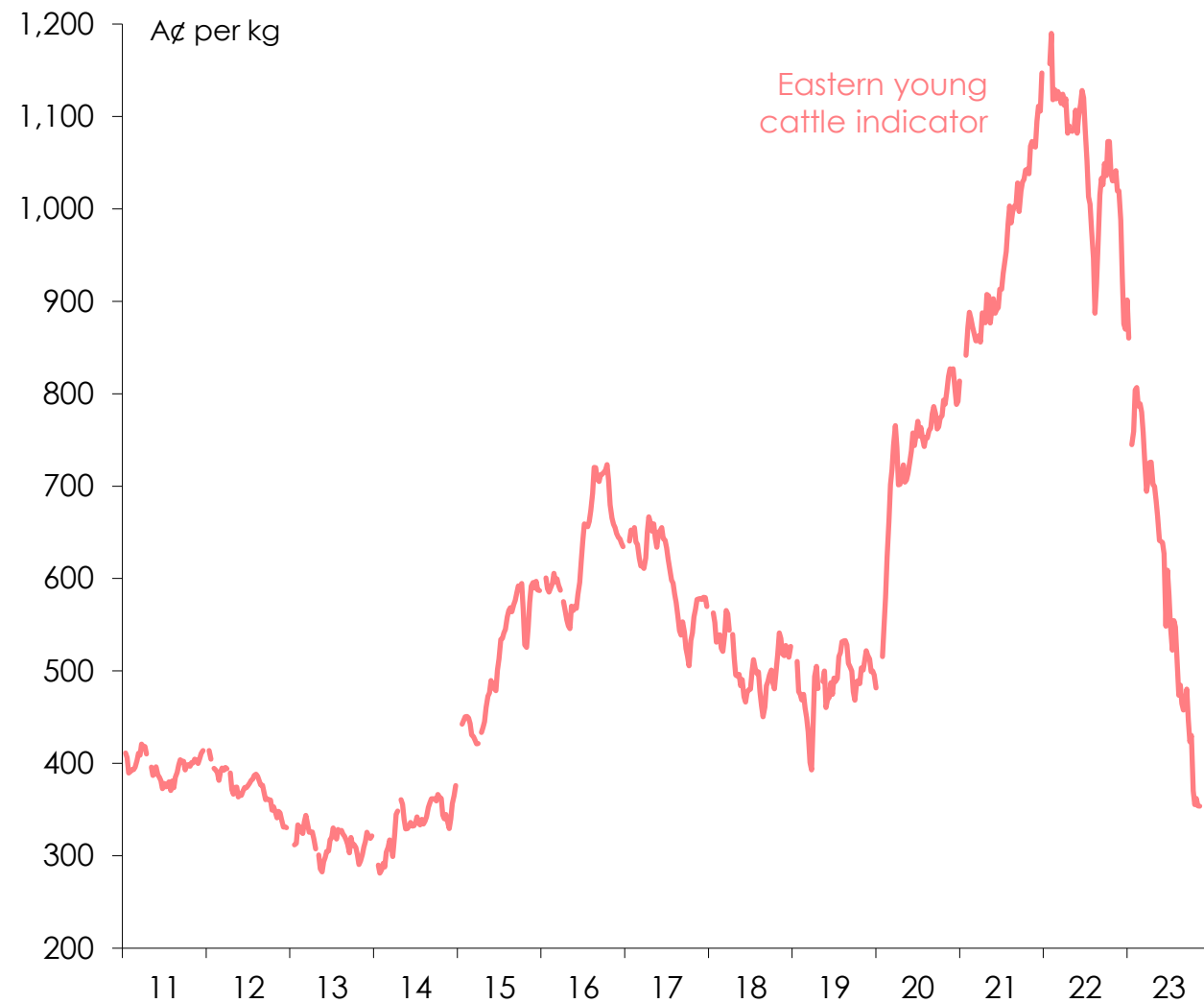


Chicken

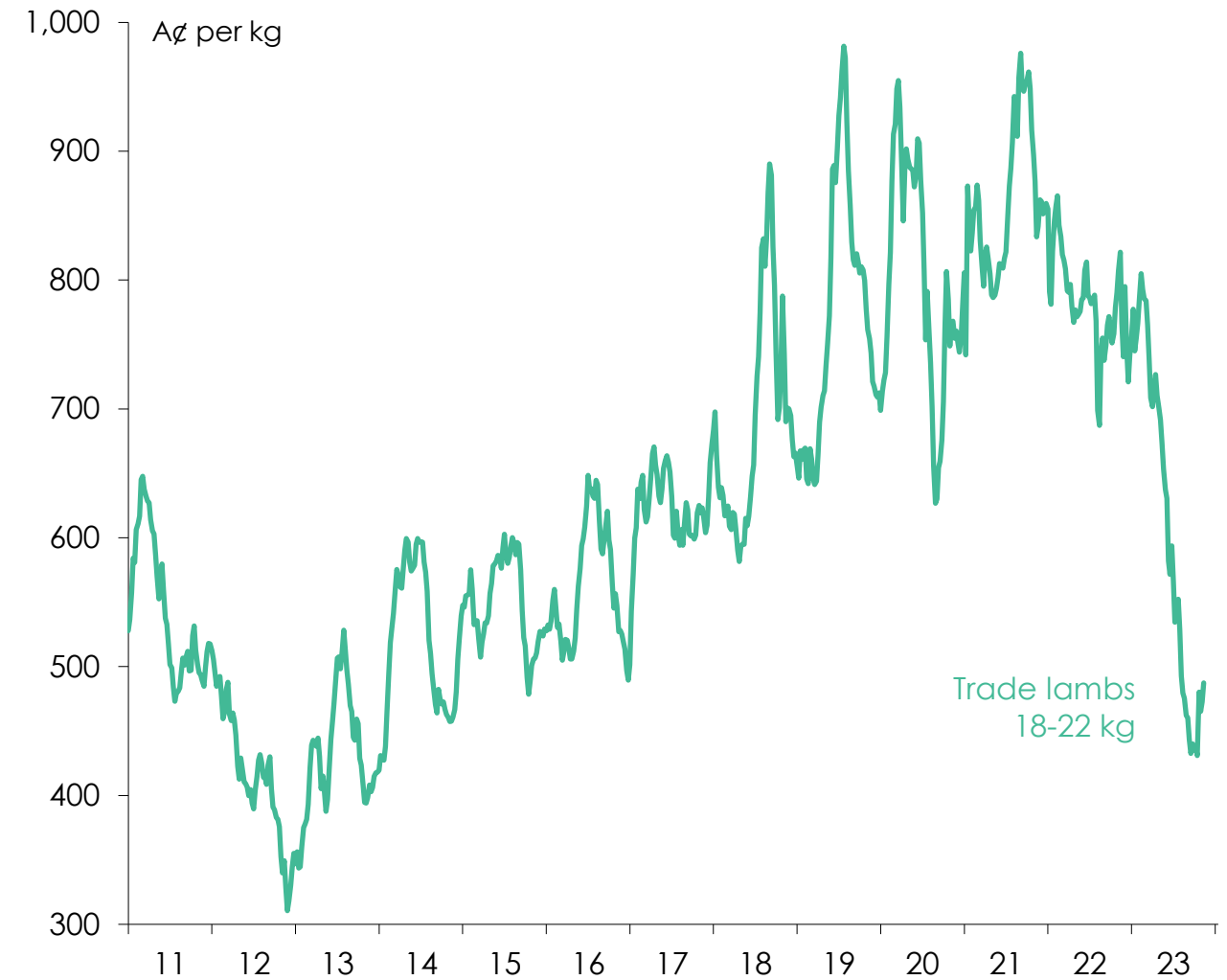


... in turn prompting a drop in livestock saleyard prices to pre-Covid levels

Saleyard cattle prices



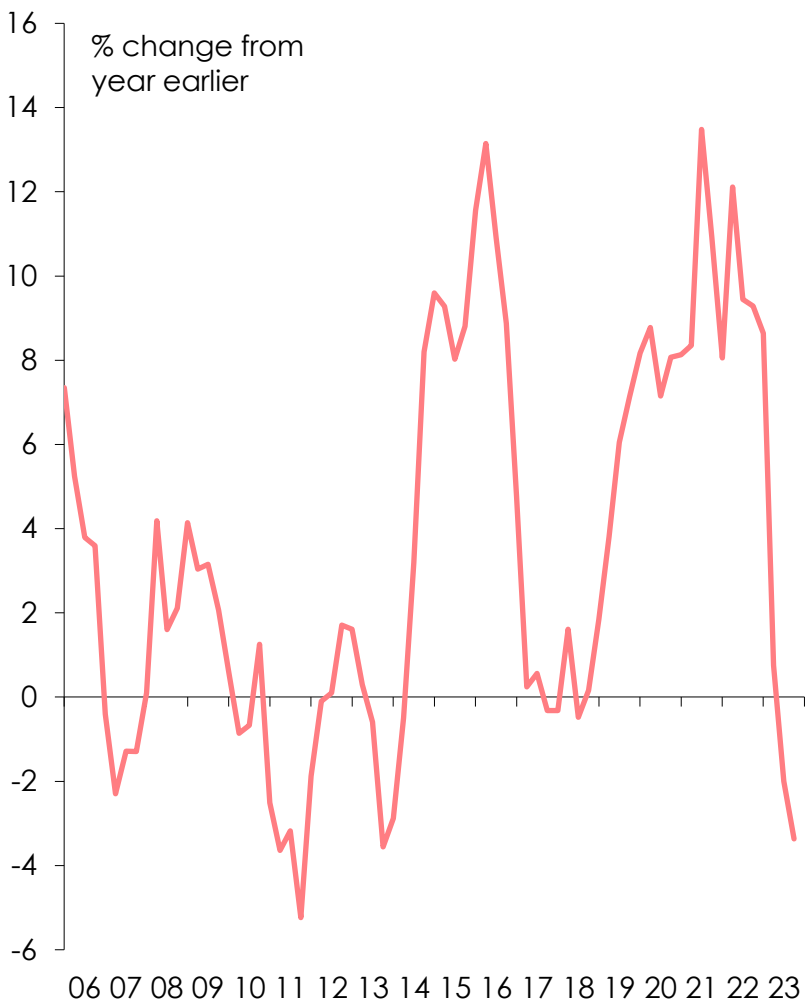
Saleyard lamb prices



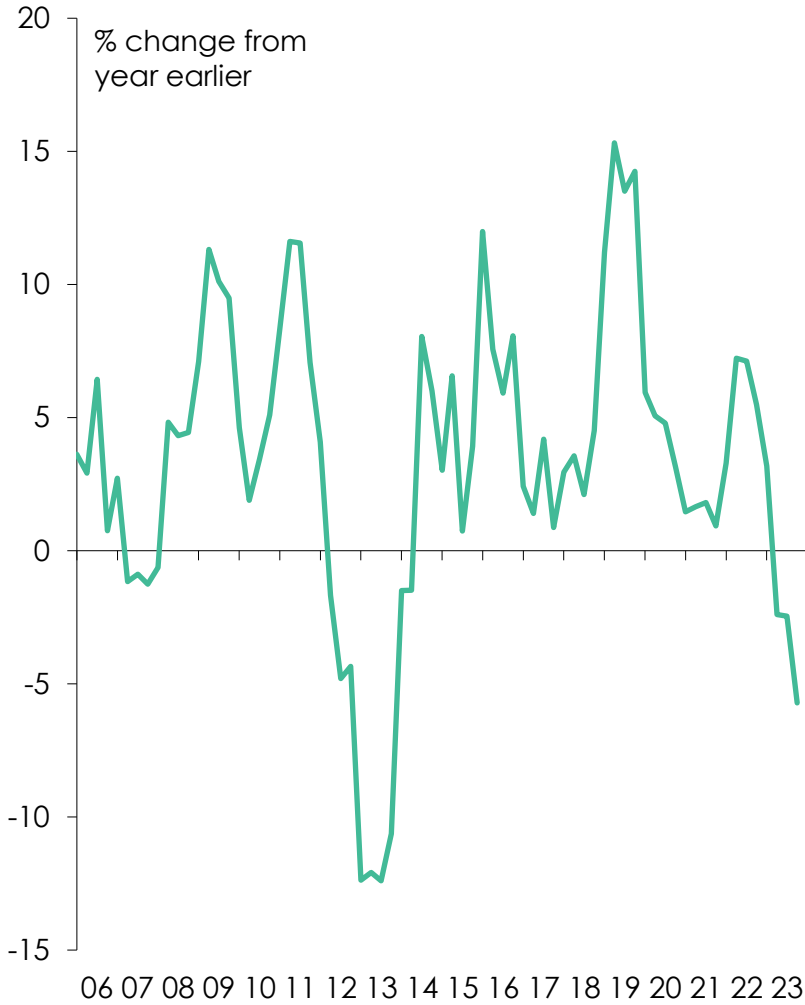
The sharp falls in saleyard prices are (slowly) starting to be reflected in prices paid by consumers

Annual change in CPI measures of meat prices

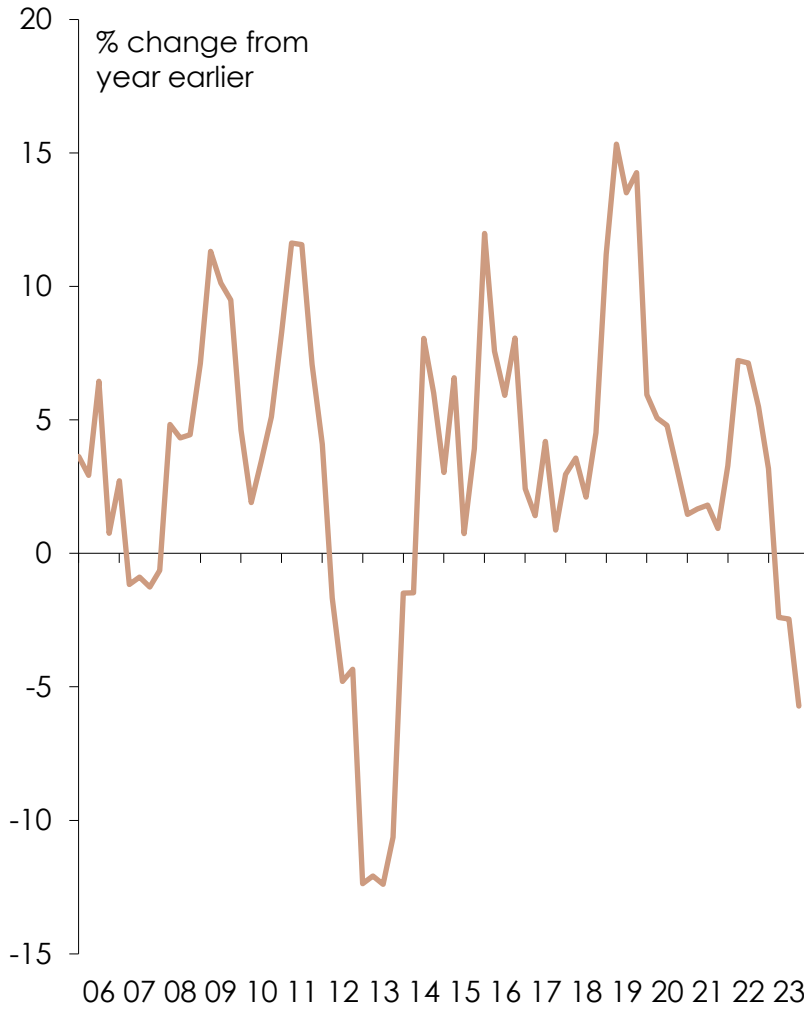
Beef and veal



Lamb and goat

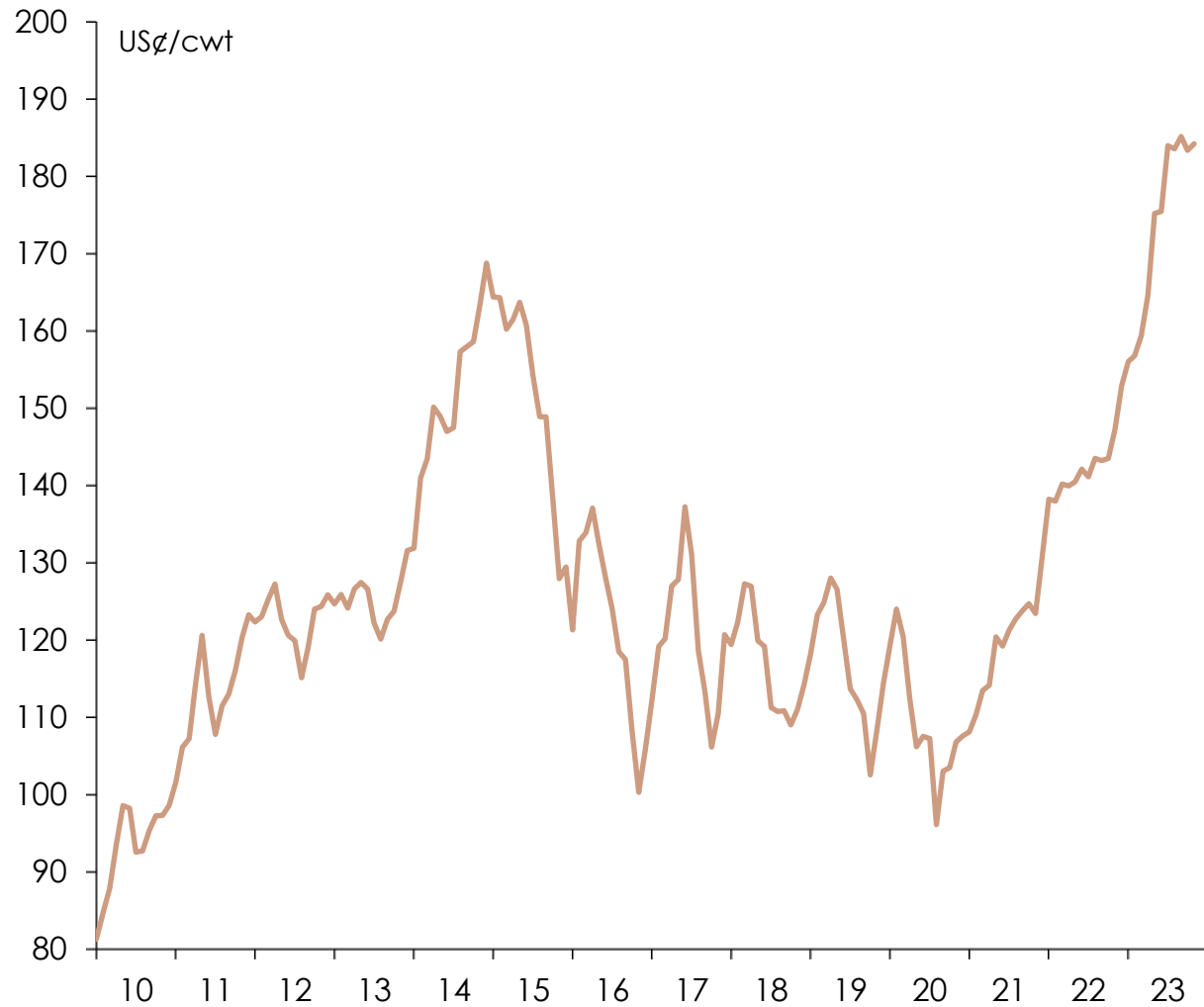


Pork

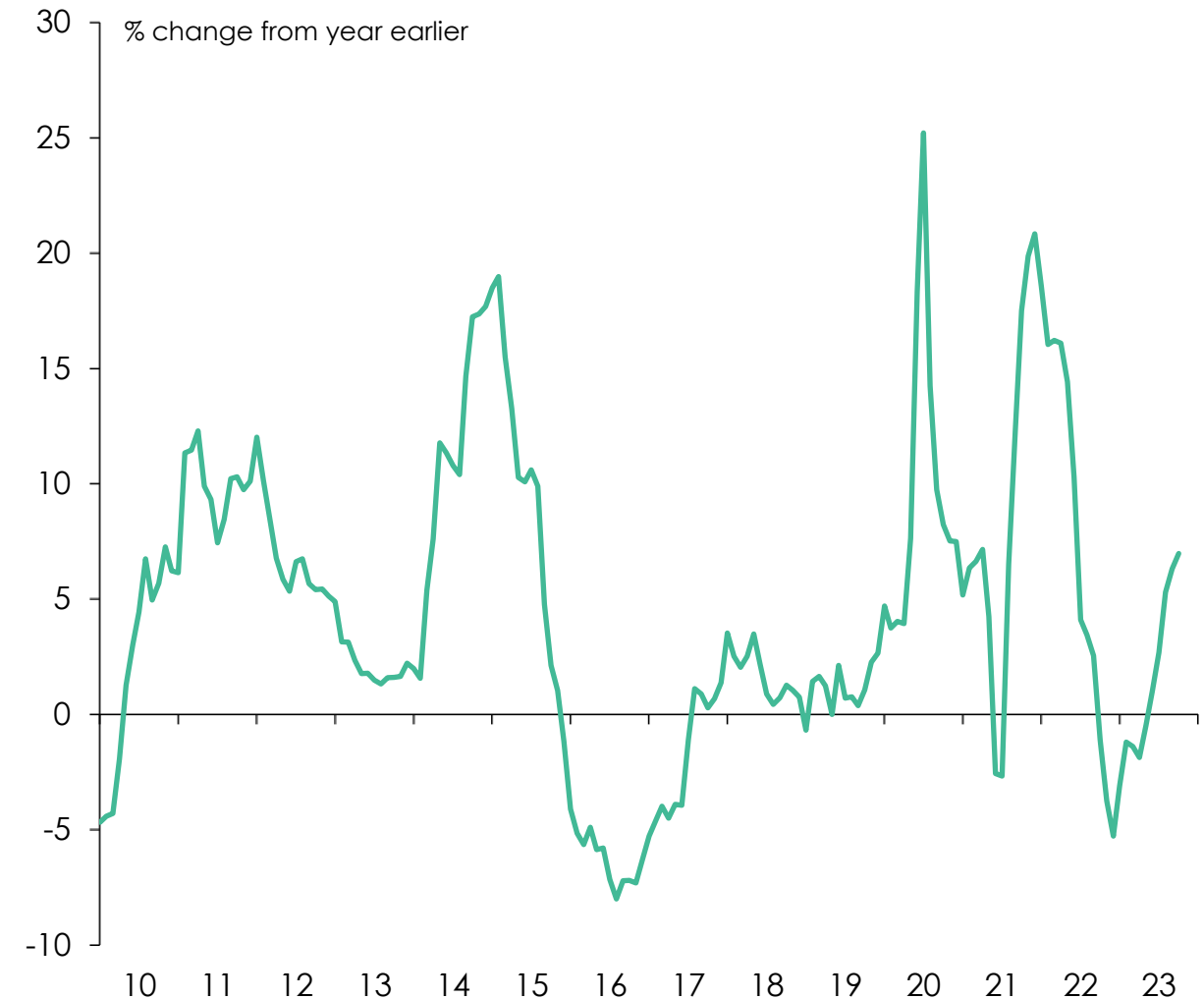


US prices are moving in the opposite direction (largely because so too are seasonal conditions)

US steers prices

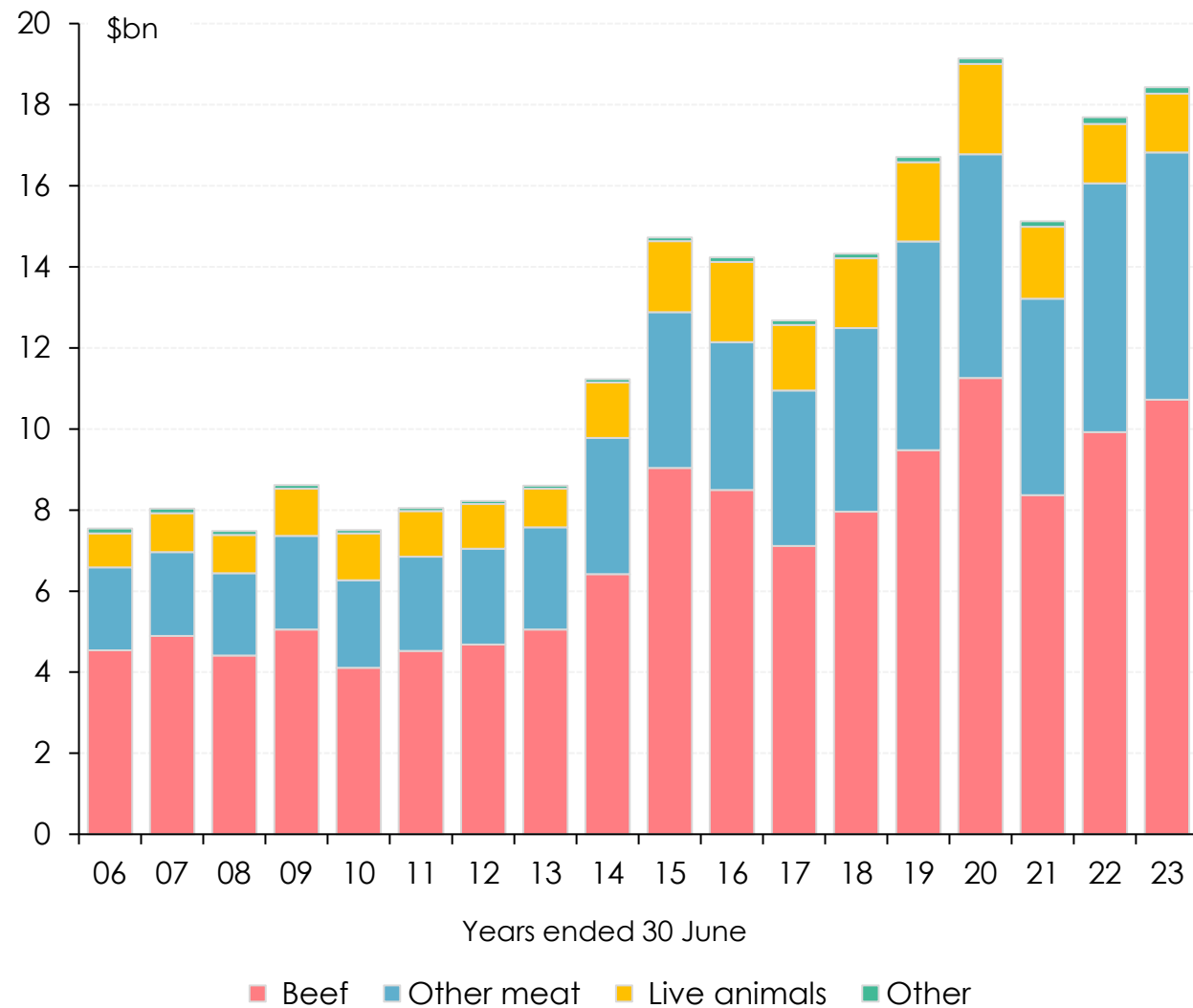


Consumer prices for beef and veal

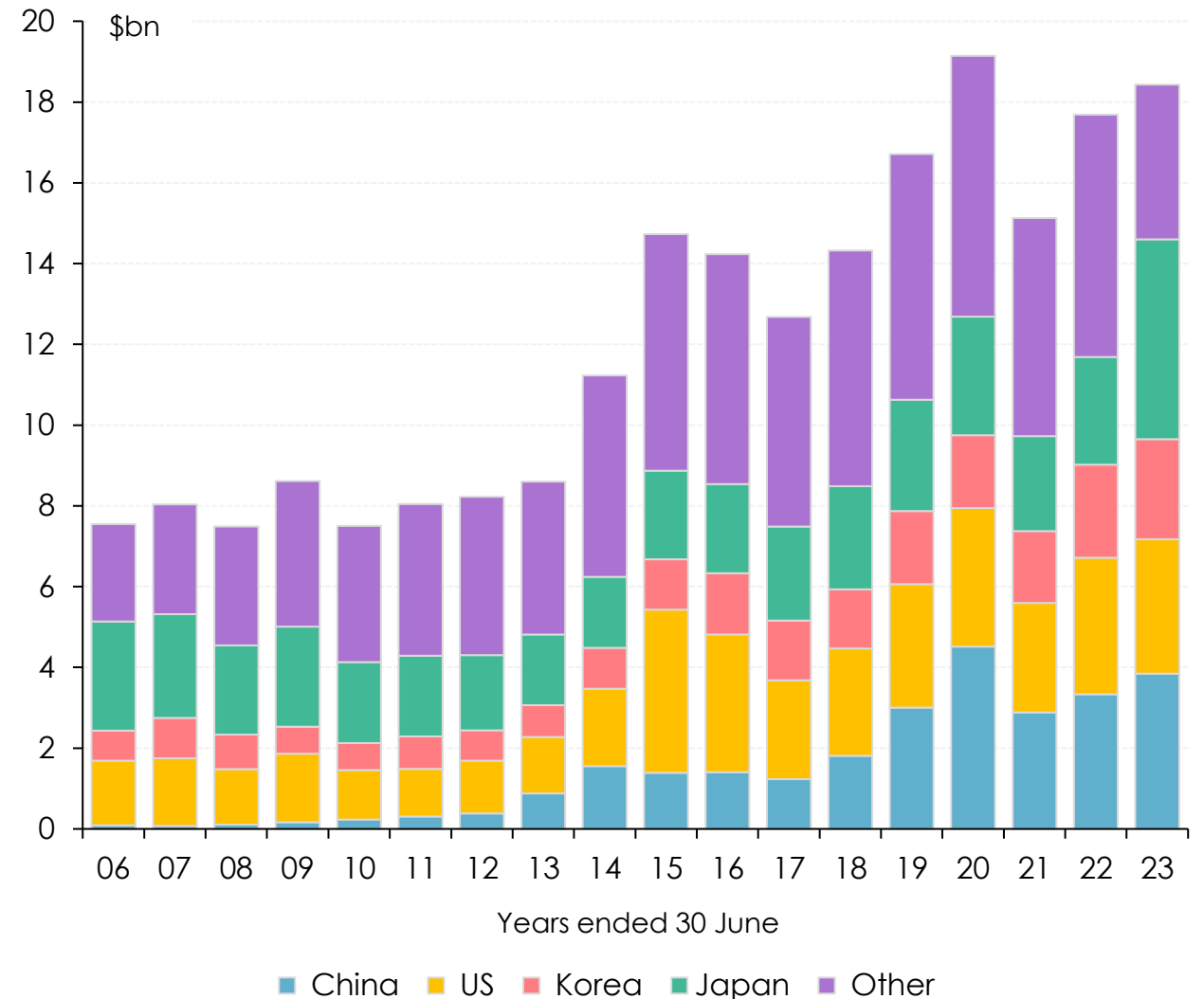


Exports, particularly to Japan, have rebounded strongly after Covid, except for China, where previously strong growth has stalled

Meat & livestock exports, by category



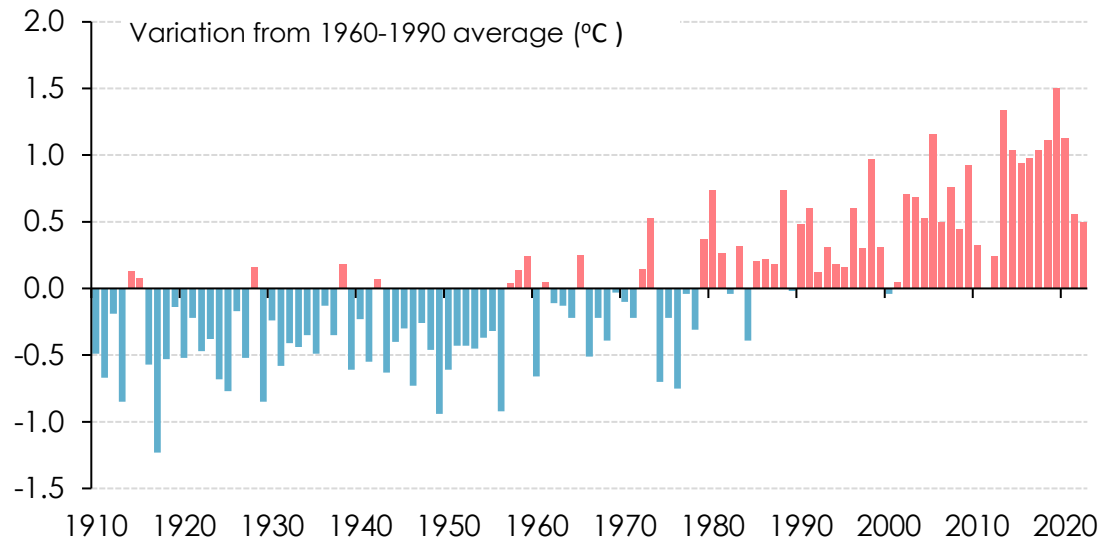
Meat & livestock exports, by destination



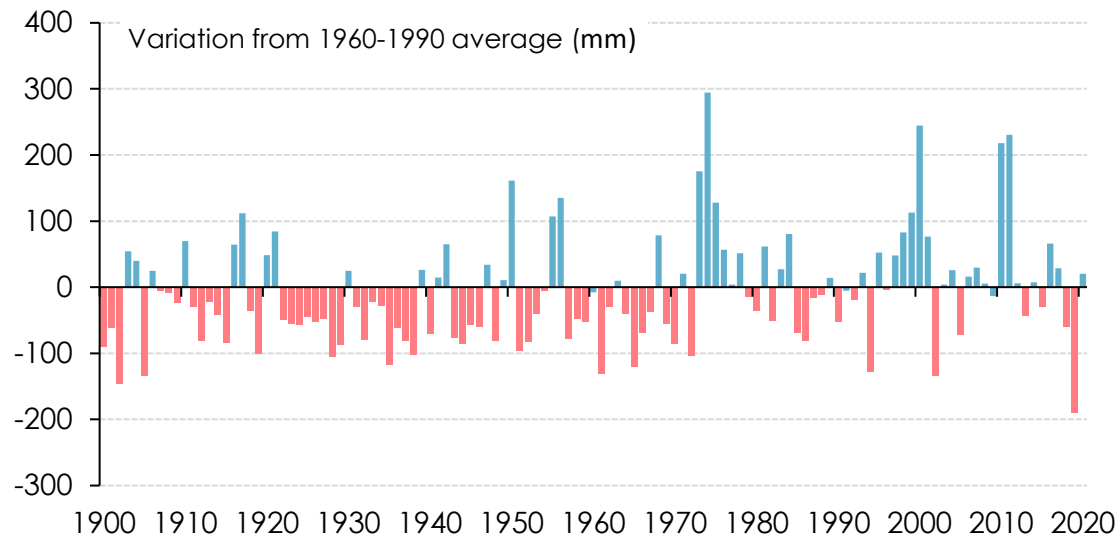
Three big risks confronting the Australian meat industry

Big Threat #1: Climate change

Australian surface temperature anomaly



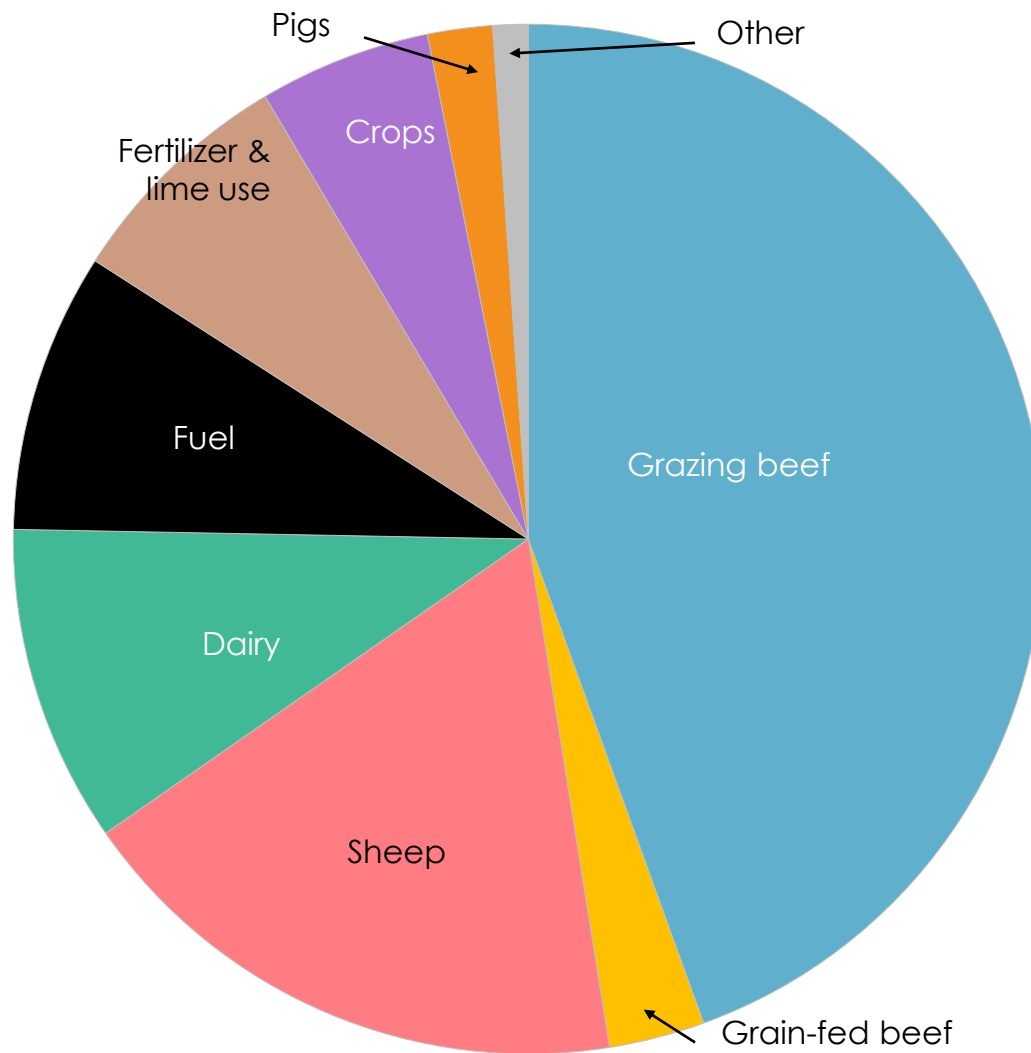
Australian rainfall anomaly



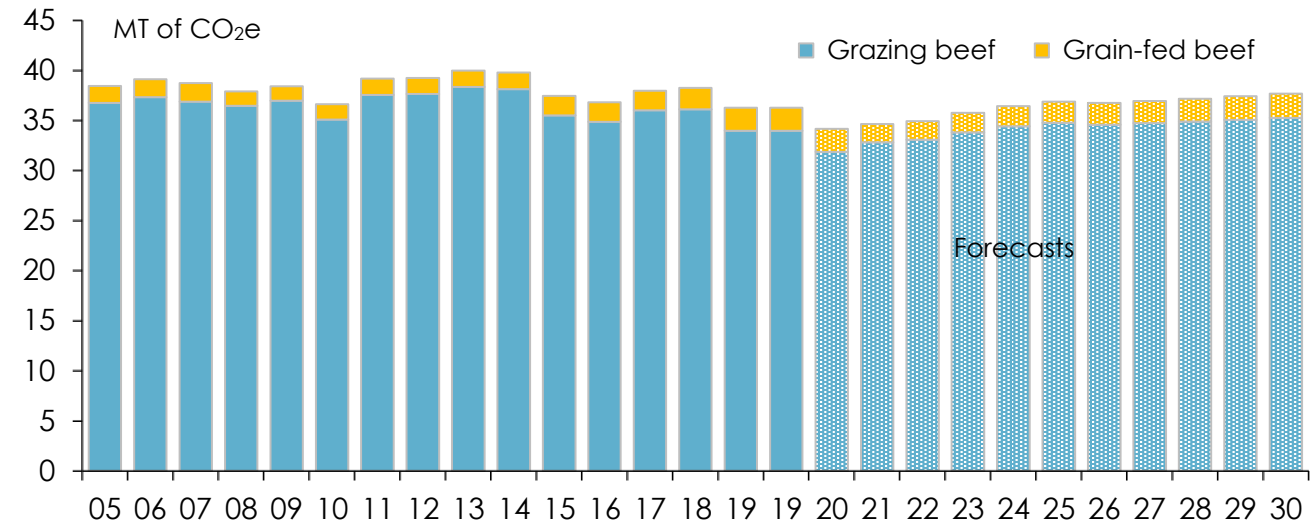
- ❑ Climate change means, among other things,
 - more severe, and possibly more frequent droughts
 - more severe, and more frequent flood events
 - more frequent and damaging storms and cyclones
 - greater bushfire risks
 - higher insurance costs
- ❑ The first three of these imply greater volatility in, and greater uncertainty about, livestock herd sizes, slaughtering rates and (hence) prices
- ❑ Climate change also of course implies more frequent natural disasters in other countries, including Australia's principal export markets
- ❑ It's possible that concerns over climate change and agricultural emissions could prompt more people to give up eating meat
- ❑ Meat producers will come under growing pressure (from governments and consumers) to reduce their own emissions
 - which may entail significant changes to production processes and increased costs

Agriculture accounts for just under 16% of Australia's carbon emissions, and 75% of those emissions come from cattle and sheep

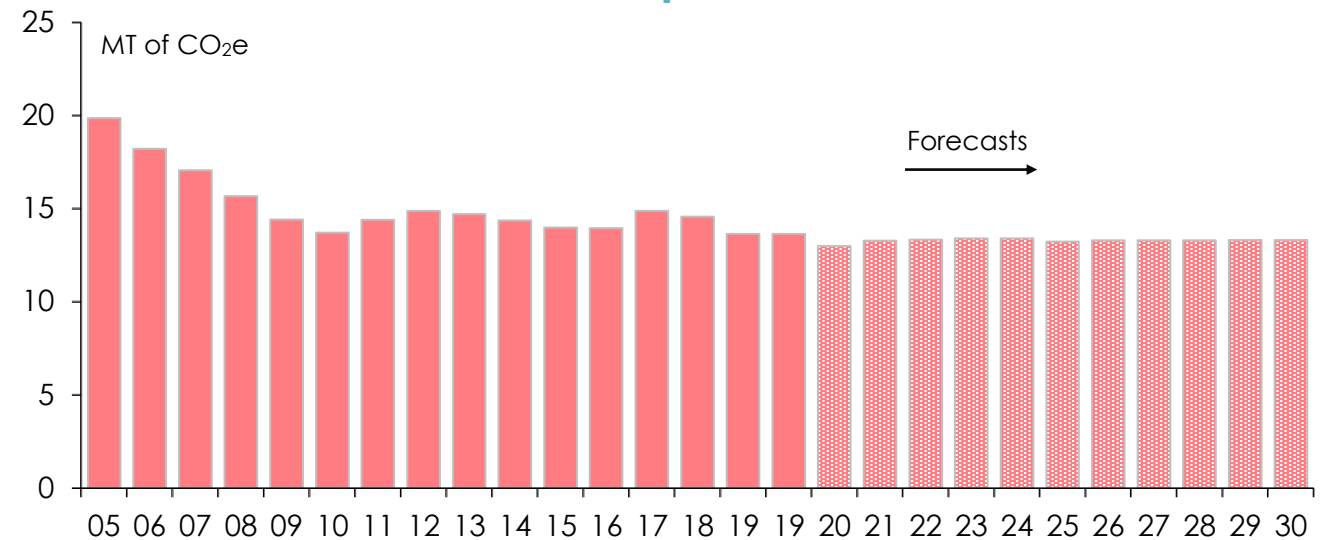
Agricultural carbon emissions



Carbon emissions from beef cattle



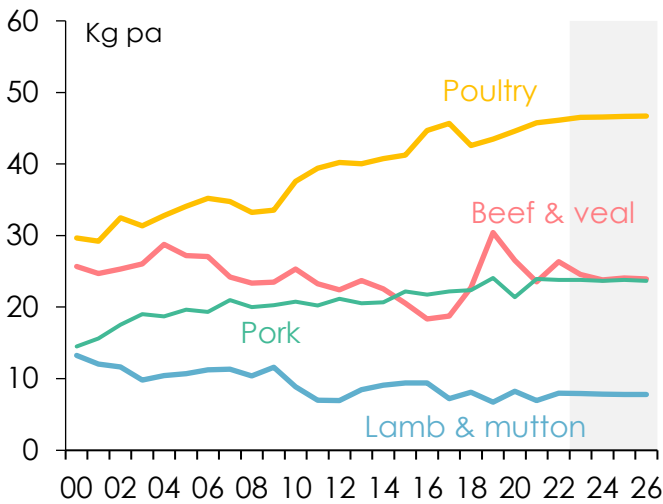
Carbon emissions from sheep



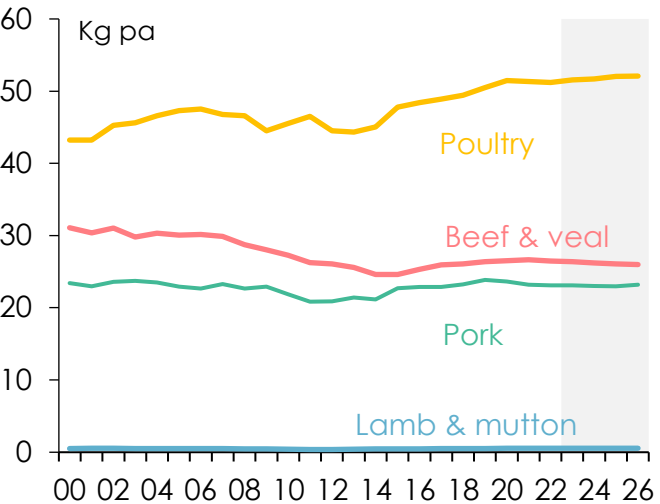
To date there's not much evidence that environmental concerns are prompting a reduction in meat consumption (except perhaps in NZ)

Per capita meat consumption

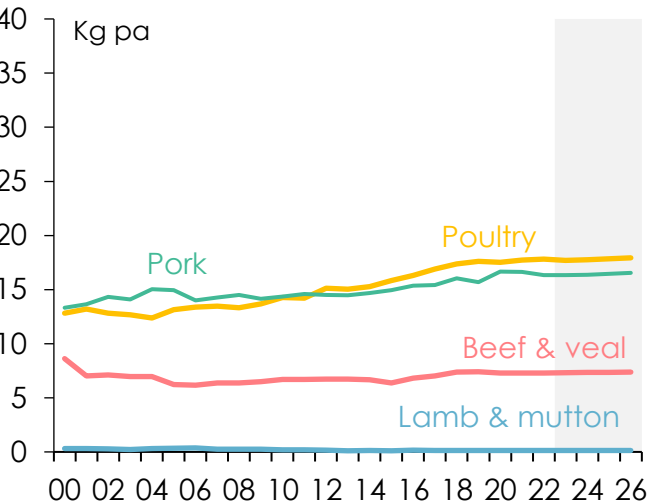
Australia



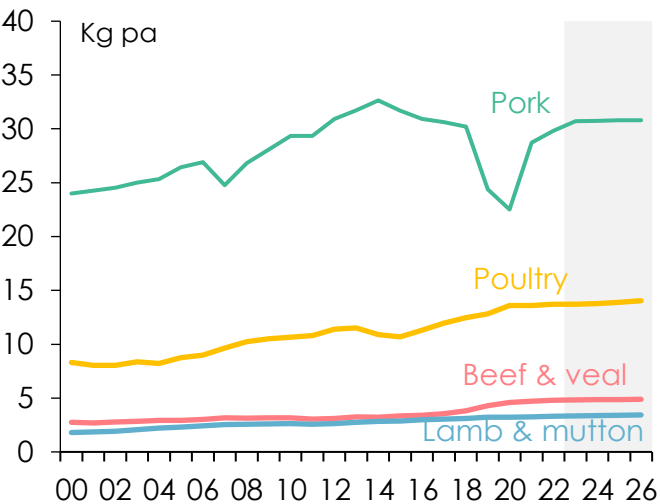
United States



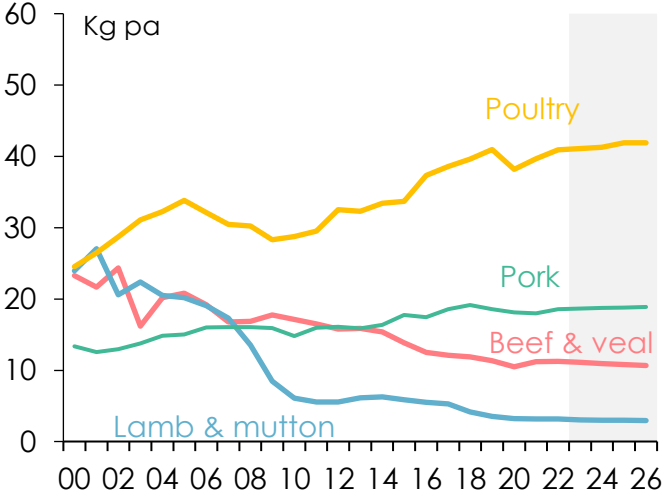
Japan



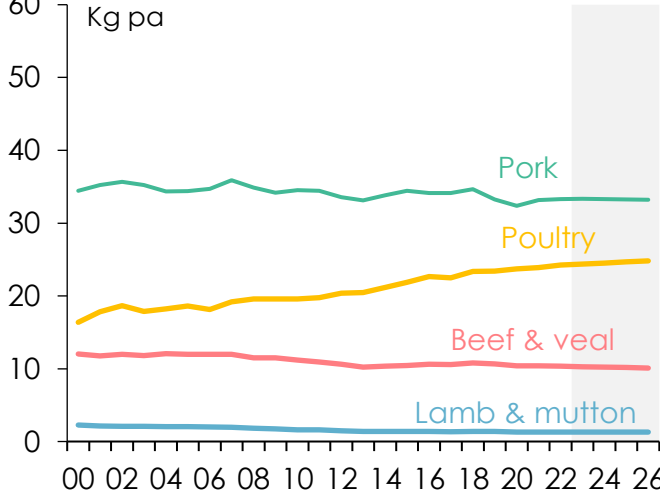
China



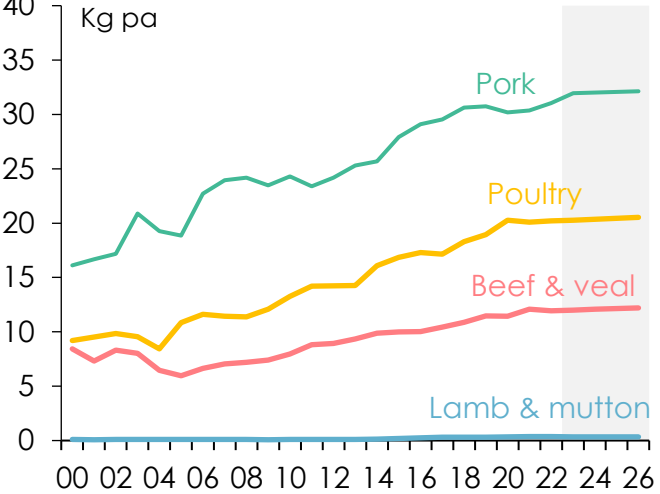
New Zealand



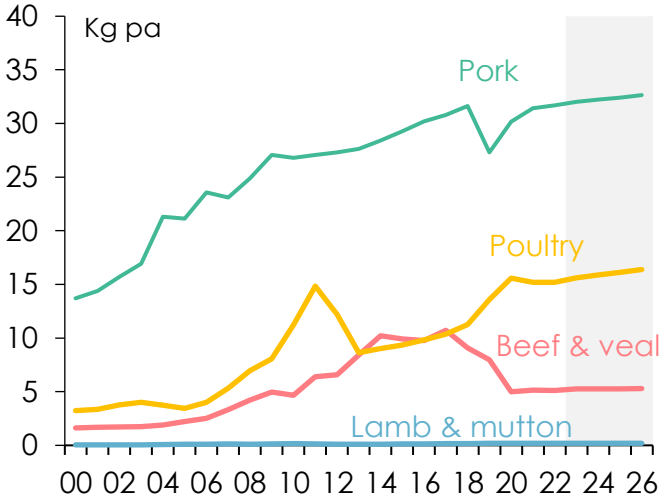
European Union



Korea



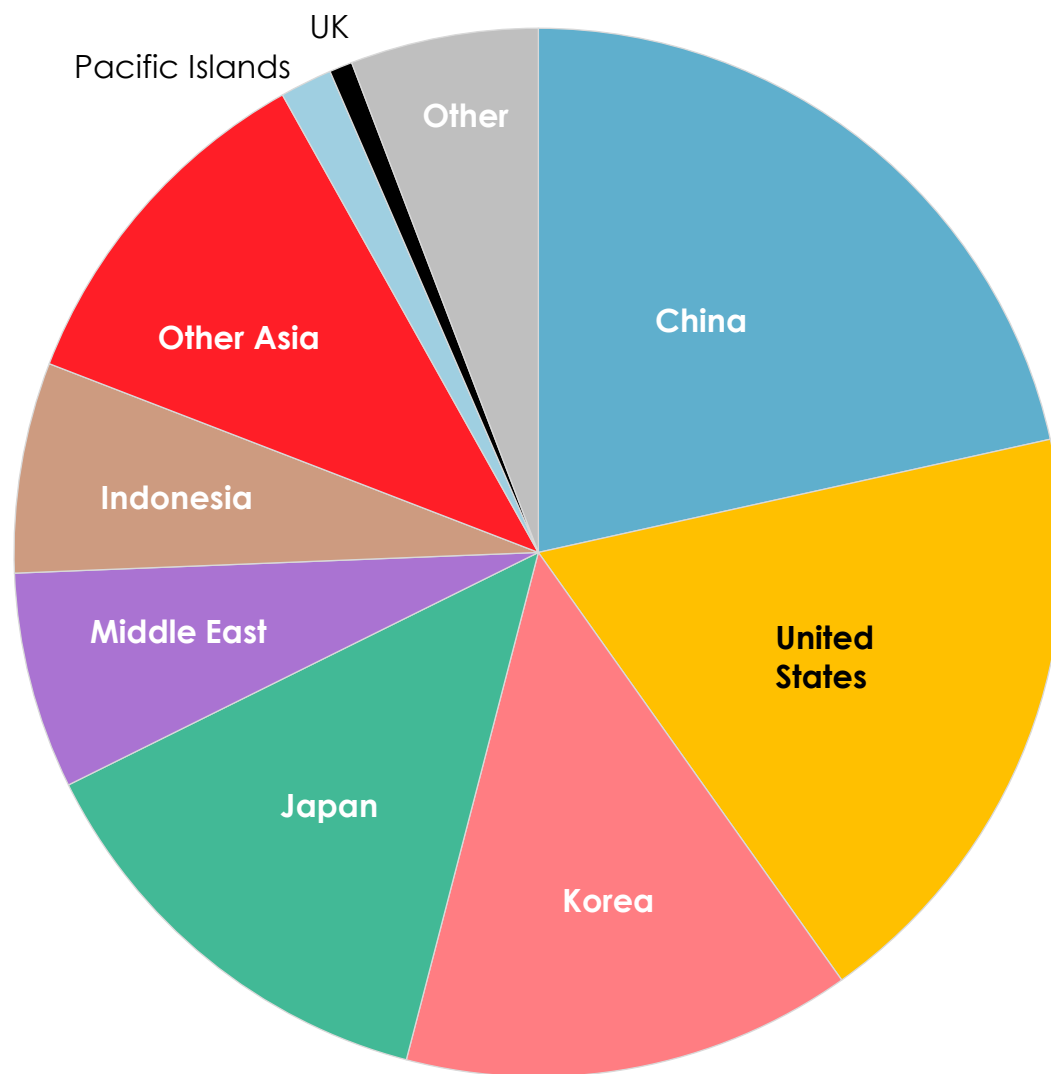
Vietnam



Note: Shaded areas denote forecasts. Also note different scale for Asian countries.
Source: OECD and Food & Agricultural Organization, [OECD-FAO Agricultural Outlook 2023-2032](#).

Big Threat #2 : a sustained downturn in China's economy, another deterioration in bilateral relations, or military conflict involving China

Australian meat exports by destination, 2022-23




- ❑ China is now Australia's largest market for meat exports
 - accounting for 22% of the total by value
- ❑ Although not a primary target for Chinese trade sanctions against Australia beginning in 2022, some meat exporters have encountered 'technical difficulties' accessing the Chinese market
- ❑ Bilateral relations between China and Australia have begun to thaw since the change of government in May last year
 - but those meat exporters who were excluded from the Chinese market have in most cases yet to regain access
- ❑ If bilateral relations were to deteriorate again, for whatever reason, imports of meat from Australia could be a target for trade sanctions
 - China could source meat from alternative suppliers, most obviously Brazil
- ❑ In the event of some kind of military conflict between China and the US, most likely over Taiwan, shipping lanes would be disrupted,
 - and Australia might be asked by its Western allies to cease all exports to China

Source: Department of Foreign Affairs & Trade, [Trade Statistical Tables](#).

The Chinese can't dislike us *that* much ...

Chinese

 **中华人民共和国海关总署** | Customs statistics
General Administration of Customs of the People's Republic of China

Interactive tables | Codes | Guidelines | Methodology | FAQ

Define your table

Sort Order: Coding sorting

Flow: Import ☒ Export ☐ Import ☐

Currency: Renminbi Yuan ☒ US dollar ☐

Period: 2023 1 -- 7

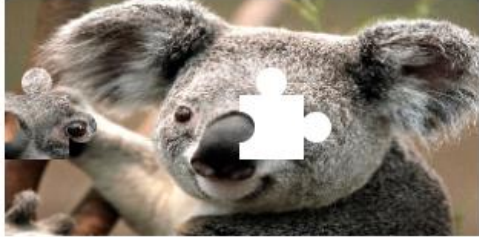
Select: Select commodity

Select: --NOchoice--

Select: Select customs regime

Select: --NOchoice--

captcha



Slide right to fill puzzle

Please verify the puzzle

Enquiry

Enquiry Reset

Selection coding

Selection coding

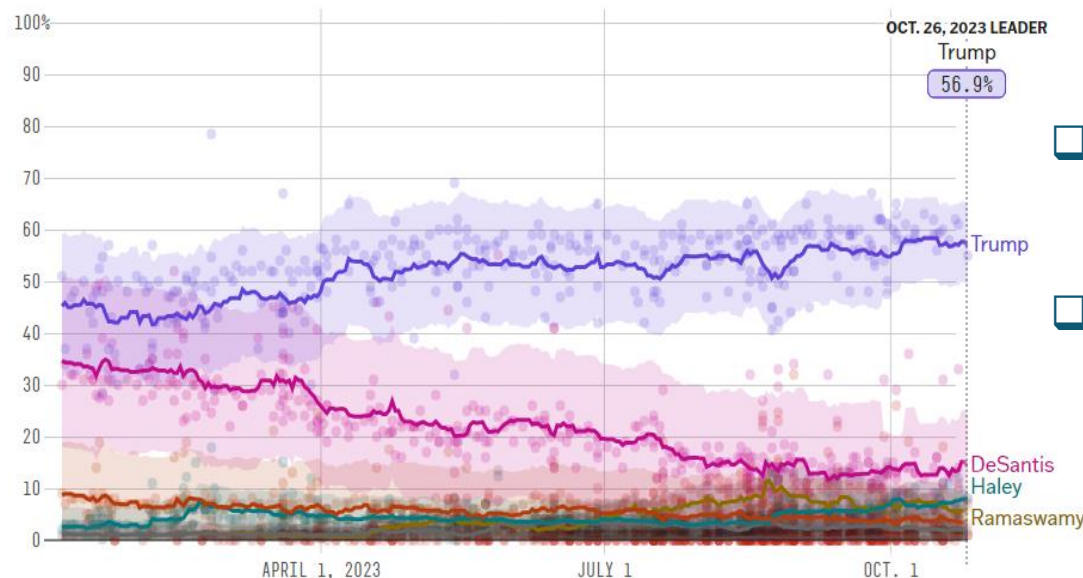
Selection coding

Selection coding

Big Threat #3 : the possible return of Donald Trump to the White House in January 2025



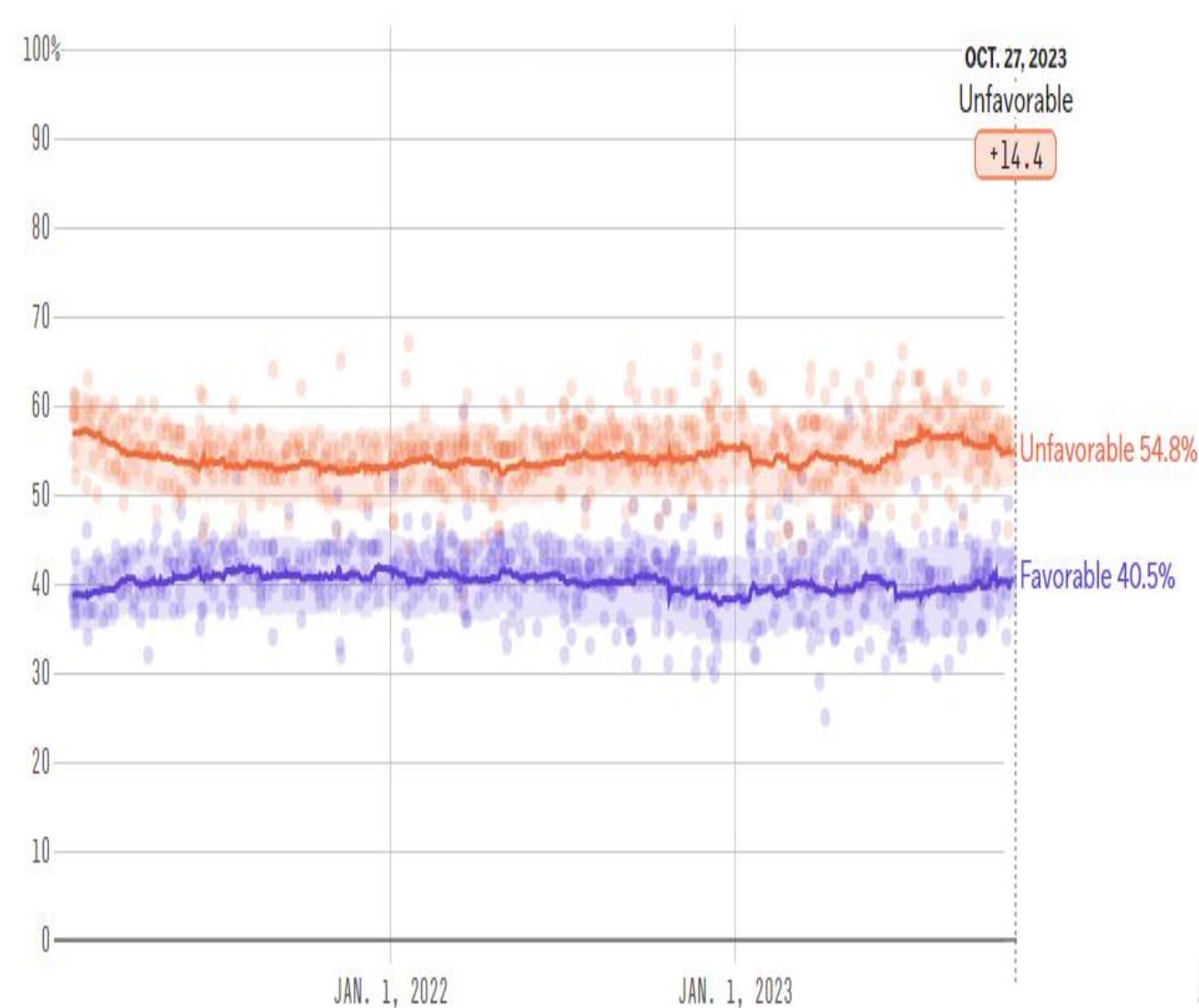
- ❑ Donald Trump is the front-runner for the Republican nomination for President in the November 2024 election
- ❑ If Trump were to become US President again, he would be unrestrained by any desire for re-election in 2028
 - or (as in his previous term) by anything else
- ❑ Relations between the US and its traditional allies are likely to again become more fraught, as they were in Trump's previous term
 - Australia was largely immune to those difficulties in part because of the close alignment of PMs Turnbull and (especially) Morrison with Trump, a stance unlikely to be repeated by PM Albanese
- ❑ As President, Trump was openly contemptuous of the 'rules-based international order' which has been so important for Australia in opening up export markets, especially for agricultural products
 - and would be again should he secure another term in 2024
- ❑ Trump has pledged to impose a 10% tariff on all imports into the US
 - which would presumably apply to the 448,214 tonnes of beef which Australia is currently permitted to export tariff-free to the US under the A-USFTA
- ❑ The most likely alternative Republican Presidential candidate, should Trump be 'unavailable', is Florida Governor Ron de Santis
 - who can be viewed as Trump without the personal baggage, narcissism, social media addiction etc, but in policy terms differs very little



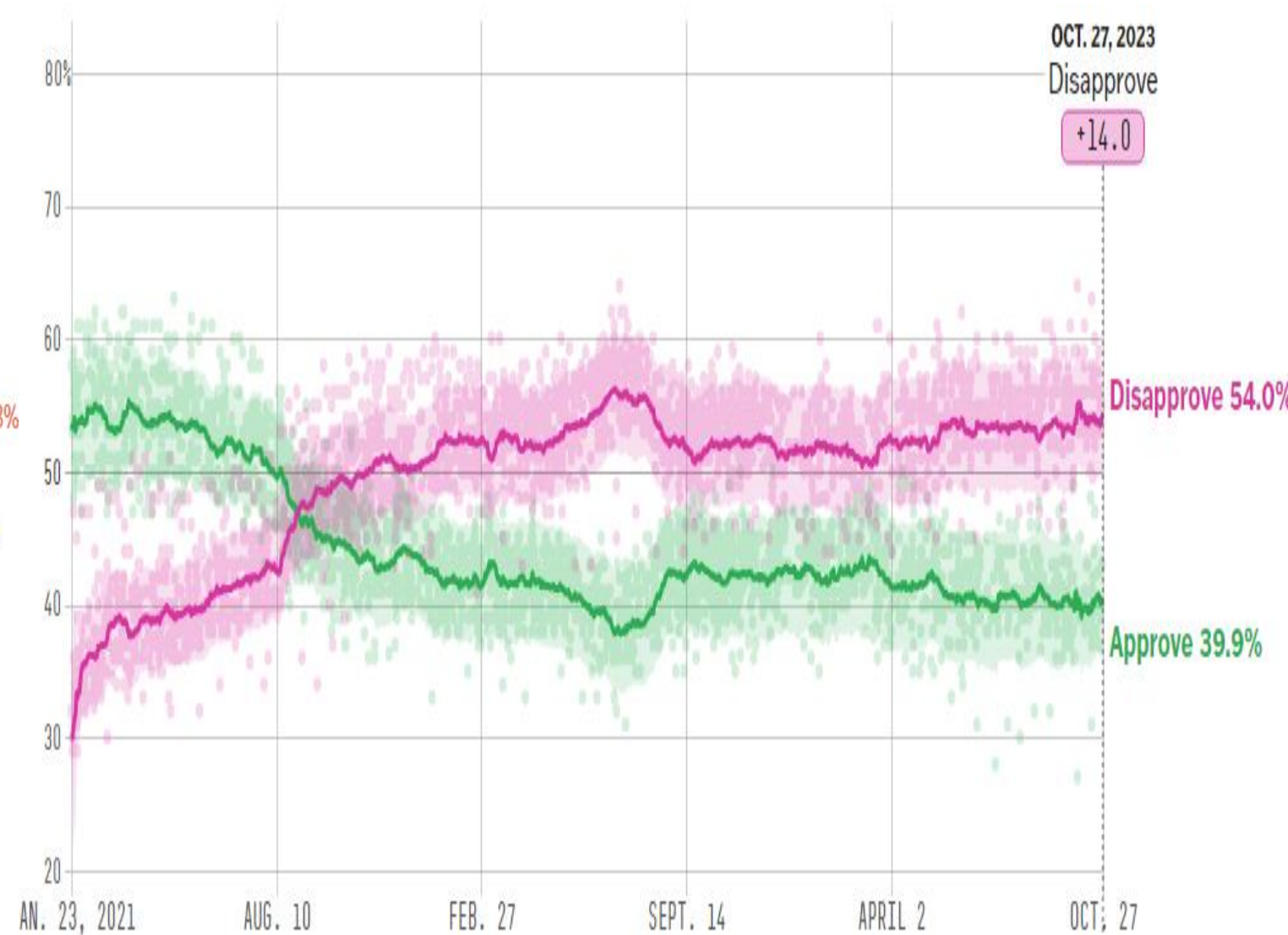
Sources: [Fulton County Sheriff's Office](#), [FiveThirtyEight](#).

The outcome of the 2024 Presidential election may hinge on which candidate voters like least (and on who turns out to vote)

Opinions of Donald Trump



Opinions of Joe Biden



Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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