# Industry projections 2022

## Australian sheep

MLA's Market Intelligence – globalindustryinsights@mla.com.au

KEY POINTS

- National flock forecast to grow by 4.9% in 2022 to 74.4m head – driven by the strength of the NSW and VIC flocks
- Lamb slaughter volumes to grow by 7% on the back of a larger lamb cohort to 21.6m head
- Lamb exports to reach record volumes of 307,000 tonnes in 2022 – driven by higher carcase weights and slaughter

KEY 2022 NUMBERS

**Lamb slaughter:** 21.6 million head

**Lamb production:** 540,000 tonnes cwt

**Lamb exports:** 307,000 tonnes swt

**Sheep slaughter:** 6 million head

*Graphic illustrates year-on-year change

## Summary

In 2022, the national sheep flock is forecast to grow to its highest number since 2013.

On the back of successive strong seasonal conditions across the key sheep producing states of NSW and Victoria, the national flock will grow by 4.9% or 3.5 million head in 2022. A favourable autumn and winter rainfall period for WA in 2021 will also boost the flock's growth in 2022, as the state looks to rebuild numbers following recent average conditions.

As the national flock grows, the lamb cohort of 2022 will be sizable and sheep slaughter volumes will lift from their lows of 2021. As a result, the sheepmeat industry in Australia will be poised to continue to capture global opportunities in both emerging and established markets. As the high-value Australia-UK- Free Trade Agreement (A-UK FTA) comes into effect later in 2022, alongside the emergence and growing demand from other markets, the sheepmeat export industry will only continue to strengthen.

Strong domestic production conditions will continue to aid the flock's performance although domestic and international headwinds will remain. On the domestic front, weather, COVID-19 related issues affecting processor capacity and labour availability across the entire sheepmeat supply chain will be the key challenges. Meanwhile, internationally, the potential appreciation of the Australian dollar placing upward pressure on export margins, the overall cost of Australian sheepmeat in market, and continued supply chain and logistical bottlenecks for the movement of product will be important considerations.

Overall, the sheepmeat industry has a bright future, with strong supply forecast in 2022 and the export industry being well placed to continue capturing opportunities on the global market. Confidence remains high across most parts of the industry, including the production side where seasonal conditions and overall market prices are performing strongly in historical terms.

Table 1: Situation and outlook for the Australian sheep industry

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021$^{e}$ | % change 2021$^{e}$ on 2020 | 2022$^{f}$ | 2023$^{f}$ | 2024$^{f}$ | % change 2024$^{f}$ on 2021$^{e}$ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sheep and lamb numbers ('000 head)*** | | | | | | | | | | | |
| As at 30 June | 67,543 | 72,125 | 70,607 | 65,755 | 64,000 | *70,885* | *11%* | *74,356* | *76,261* | *76,800* | *8%* |
| Percentage change | -2.0% | 6.8% | -2.1% | -6.9% | -2.7% | *10.8%* | | *4.9%* | *2.6%* | *0.7%* | |
| **Slaughterings ('000 head)** | | | | | | | | | | | |
| sheep | 6,965 | 7,536 | 9,521 | 9,344 | 5,956 | *5,100* | *-14%* | *6,000* | *8,050* | *8,340* | *64%* |
| lamb | 22,956 | 22,431 | 22,725 | 21,624 | 19,900 | *20,250* | *2%* | *21,600* | *22,600* | *22,400* | *11%* |
| Total | 29,921 | 29,967 | 32,246 | 30,968 | 25,856 | *25,350* | *-2%* | *27,600* | *30,650* | *30,740* | *21%* |
| **Avg carcase weight (kg)** | | | | | | | | | | | |
| sheep | 24.2 | 24.8 | 23.7 | 24.2 | *25.5* | *25.6* | *0%* | *25.3* | *25.0* | *24.9* | *(3%)* |
| lamb | 22.5 | 22.7 | 22.5 | 23.3 | *24.7* | *24.7* | *0%* | *25.0* | *25.1* | *24.5* | *(1%)* |
| **Production ('000 tonnes carcase weight)** | | | | | | | | | | | |
| mutton | 170 | 188 | 225 | 228 | 152 | *128* | *-16%* | *152* | *201* | *208* | *63%* |
| lamb | 516 | 509 | 511 | 504 | 487 | *502* | *3%* | *540* | *567* | *549* | *9%* |
| Total production | 686 | 697 | 736 | 732 | 639 | *630* | *-1%* | *692* | *769* | *757* | *20%* |
| **Live exports ('000 head)** | | | | | | | | | | | |
| | 1,838 | 1,887 | 1,176 | 1,118 | 811 | *575* | *-29%* | *600* | *630* | *700* | *22%* |
| **Sheep exports** ('000 tonnes)** | | | | | | | | | | | |
| mutton shipped weight | 132 | 147 | 180 | 184 | 123 | *104* | *-15%* | *124* | *161* | *165* | *59%* |
| carcase weight | 161 | 179 | 215 | 218 | 150 | *127* | *-15%* | *151* | *196* | *202* | *59%* |
| lamb shipped weight | 242 | 251 | 267 | 282 | 264 | *283* | *7%* | *307* | *314* | *306* | *8%* |
| carcase weight | 290 | 302 | 324 | 337 | 320 | *340* | *6%* | *370* | *378* | *369* | *9%* |
| **Domestic utilisation ('000 tonnes c/c weight)***** | | | | | | | | | | | |
| Total Carcase Weight | 226 | 207 | 187 | 167 | 166 | *162* | *-2%* | *170* | *189* | *180* | *11%* |
| kg/head*** | 9.3 | 8.4 | 7.5 | 6.6 | 6.5 | *6.1* | *-6%* | *6.4* | *6.7* | *6.6* | *8%* |

Source: ABS, DAWR, MLA forecasts

*f = forecast*
*e = estimate*

* From 2017 is an MLA estimate based on ABS Data - Figures as of 30th June. Please note, the flock estimates are based off the new EVAO cut off used by the ABS.Previously this was $5,000 EVAO, but was changed upwards to $40,000 EVAO. For more information, please visit www.abs.gov.au

** excl. canned/misc, shipped weight

*** Domestic meat consumption is measured by removing the portion of exports (DAWR data) from total production (ABS data) and assuming the difference is consumed (or at least disappears) domestically. Imports are also added to domestic consumption when present. Per capita consumption is calculated by dividing domestic consumption by ABS population data. Please note that domestic per capita consumption is entirel a supply statistic and does not take account of waste or non-food uses of livestock meat products.

# Assumptions

## Weather

According to the Bureau of Meteorology (BOM), Australia's current La Niña conditions will continue until April. To date, no predictions have been released as to whether the climate pattern will enter a neutral or El Niño phase, or if the La Niña will continue after April.

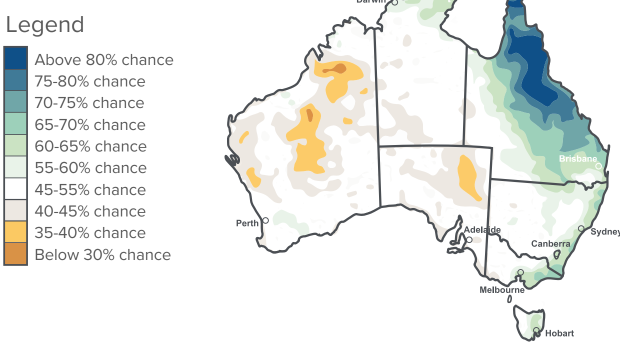
While a La Niña brings increased summer rain to northern and eastern Australia, the majority of Australia's sheep-producing regions are in southern and western Australia. Therefore, the La Niña has limited influence on the sheep flock.

The BOM is predicting conditions up to five degrees above average over the next three months in southern and western Australia. This could limit pasture growth and water supplies in these regions.

If the 2022 growing season does not eventuate, current grain supplies, soil moisture profiles and ground water supplies would prevent the need for a widescale flock liquidation.

Figure 1: Australian rainfall outlook – Feb to April 2022

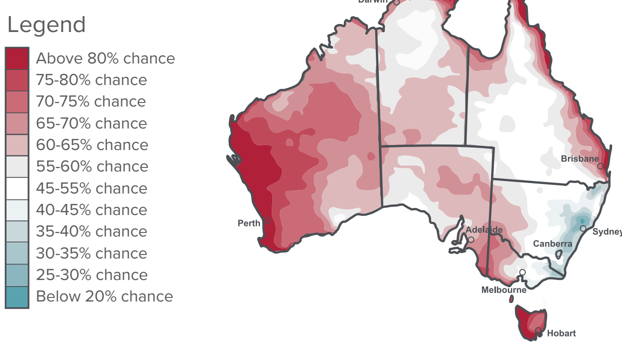
Chance of exceeding the median rainfall




Source: Bureau of Meteorology

Figure 2: Australian temperature outlook – Feb to April 2022

Chance of exceeding the median max temperature




Source: Bureau of Meteorology

# Australian dollar

The Australian dollar fell back to $0.69 USD in late January following the news that the US Federal Reserve would raise interest rates to ease inflationary pressures. The following Tuesday, RBA Governor Phillip Low expressed that Australia could experience interest rate rises in late 2022. These anticipated hikes in interest rates could cause the AUD to rise.

Given the importance of the US market for Australian lamb, the USD/AUD exchange rate is critical to processors and exporters.

Figure 3: US/AU exchange rate


Source: RBA, NAB, ANZ, CBA, Westpac

# Economic performance

The OECD estimates the global economy will grow 4.5% in 2022 as the world emerges from COVID-19, two years after it started. However, global GDP growth is expected to slow into 2023, to 3%.

As 2022 continues, it is expected that economies will reach pre-COVID output but with greater debt burdens and bigger inflationary pressures. The long-term effect of this is that developed countries will experience lower growth potential for some time. Furthermore, low income and developing economies, along with industries requiring high levels of human interaction, will struggle to recover in the short to medium term.

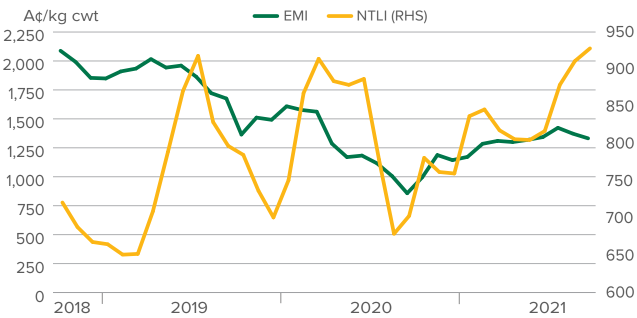
Australia's main lamb and sheep markets are the US and China – these economies are expected to remain strong, as is Australia.

# Wool

The main wool price indicator – the Eastern Market Indicator (EMI) – is currently 10% above 2021 levels, currently breaking the 1,400¢/kg mark. At current prices, it remains 20% below the corresponding price of 2020. However, at 1,400¢/kg, wool prices remain high in a historical context.

Typically, high wool prices tend to change the sheep flock demographics away from meat sheep to Merino types. However, this is not a trend that has been observed in the last year, with trade lamb prices hitting new records in 2021. The high prime lamb prices have translated to a falling proportion of Merinos as a total of all breeding ewes.

Figure 4: Eastern Market Indicator (EMI) and National Trade Lamb Indicator (NTLI) comparison




Source: Australian Wool Innovation

# Supply

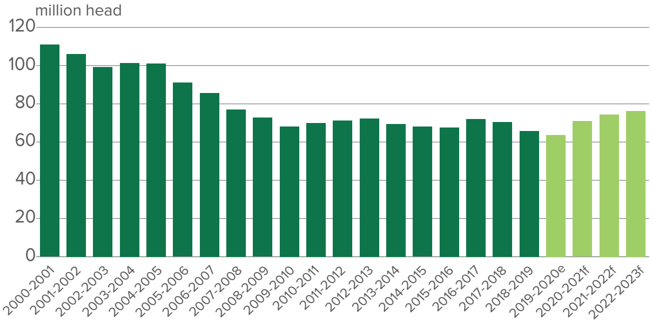
## Flock

In 2021, the sheep flock was at its largest size since 2017 with a projected total of 70.9 million head. After years of drought-induced turn-off, flock growth continues to increase steadily on the back of encouraging seasonal conditions. MLA forecasts that the national flock will reach 74.4 million in 2022, marking an 4.9% increase on 2021 levels.

According to the Bureau of Meteorology, above-average rainfall due to a La Niña weather pattern meant that for the first time in five years, no parts of the country were experiencing drought conditions in 2021. Encouraging weather conditions, particularly in the eastern states, are consistent with the sentiment of a recent survey which indicated that 95% of producers are looking to increase or maintain their ewe flock over the next nine months (MLA and AWI October 2021 Wool and Sheepmeat survey).

Disruptions caused by COVID-19 have had periodic impacts on an otherwise very strong sheep market. As a result of various supply chain disruptions as well as the favourable conditions, early 2022 indications would suggest that producers have held back on turning off lambs destined for processing.

Figure 5: National sheep flock




Source: ABS, MLA forecasts

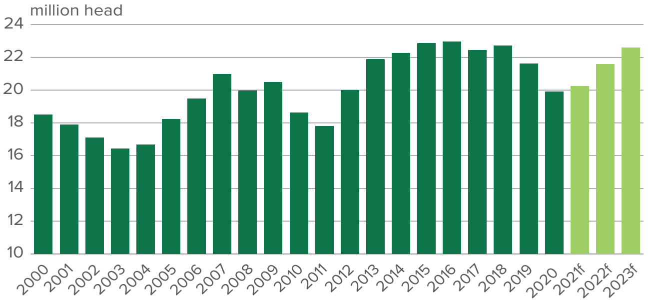
## Slaughter

In 2021, lamb slaughter was predicted to reach 20.25 million head, approximately 350,000 head higher than 2020. Due to the large size of the 2021 lamb cohort MLA expect a promising influx of lambs to hit the market in early 2022, with lamb slaughter expected to reach 21.60 million head in 2022.

Meanwhile, sheep slaughter is expected to reach six million head in 2022, marking a 17.6% increase, or 900,000 head on 2021 levels. These projections for higher sheep slaughter represent the maturation of the Australian sheep flock rebuild and follows consecutive years where older ewes have been retained on-farm.

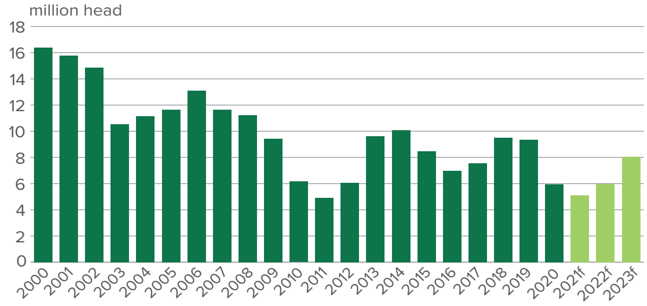
COVID continues to challenge the processing sector. If unresolved, labour shortages could significantly affect Australian abattoirs and reduce slaughter capacity at a traditionally critical time of year for lamb processing.

Figure 6: National lamb slaughter




Source: ABS, MLA forecasts

Figure 7: National sheep slaughter




Source: ABS, MLA forecasts

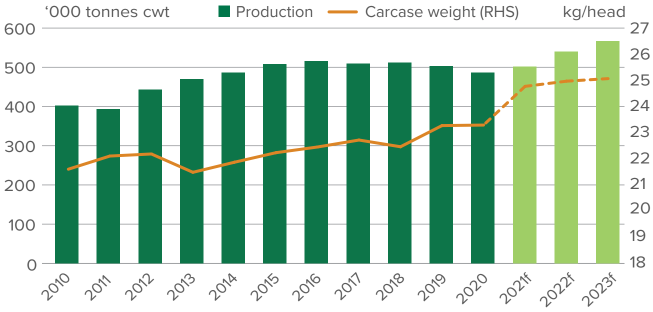
Click here to access the MLA's NLRS WeeklySlaughter Report

## Carcase weights

MLA isn't forecasting significant changes to carcase weights in 2022. Given the abundance of feed across the key lamb producing regions of eastern Australia during both 2020 and 2021, average national lamb carcase weights are expected to gain a modest 0.2kg to reach 25kg in 2022.

Price premiums for trade and heavy weight lambs continue to provide producers with an incentive to add additional kilos to animals. In line with the increase in carcase weights, the Heavy Lamb Indicator averaged 845¢/kg cwt in January 2022 – a 2.5% and 12.1% increase on 2021 and 2020 prices respectively.

Figure 8: Lamb carcase weights and production



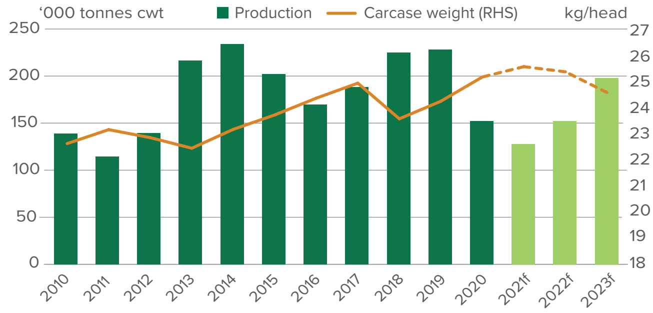

Source: ABS, MLA forecasts

## Production

Growing lamb slaughter volumes and stabilising, but historically high, carcase weights will lead to record lamb production in 2022 and 2023. In 2023 lamb production is expected to reach 567,000 tonnes cwt.

Despite sheep carcase weights for 2022 being forecast to drop by a marginal 0.3kg/head from 2021 levels to 25.3kg, sheep production in 2022 is set to reach 152,000 tonnes cwt, marking an increase of 24,000 tonnes cwt.

Figure 9: Sheep carcase weights and production




Source: ABS, MLA forecasts

## Live export

The current outlook for Australian live sheep export in 2022 is subdued, with high sheep prices and the summer export prohibition the major restrictions on the trade. Depending on the effect that the WA flock rebuild will have on increasing supply and easing prices from mid-year, exports may be stronger from September when exports to the Gulf can resume – potentially making up for a weak first half of the year. Exports for 2022 are anticipated to be similar to 2021. In 2021, a total of 575,529 head of sheep were exported, 29% fewer than in 2020 and 13% fewer than earlier forecasts. This is the lowest number since 1969 when 396,519 head were exported.

In 2021, exports to Kuwait were steady, with notably higher volumes going to the United Arab Emirates (UAE), Oman and Israel. However, Qatar – once a major export market taking 180,00 head in 2020 – saw zero trade in 2021 after the Qatar subsidy removal took effect from 1 January 2021. This situation is expected to continue in 2022. Exports to Jordan also fell significantly due to weak demand.

Back home, the rebuild of the national flock in response to improved conditions in many sheep-producing areas has reduced supply of sheep suitable for live export, particularly in the main supply state of WA. Australia's live export trade relies on the supply of older merino wethers, an observed shift away from merinos to meat breeds may effect this crucial supply. The absence of Australian sheep exports to MENA markets for three months of the year (from June to September) for over three consecutive years has forced importers to source alternative year-round supply. Consequently, the region has seen increased supplies from a mix of countries in Europe (Spain, Romania and Georgia), Africa (Sudan, Somalia, Ethiopia, Kenya, Somaliland and South Africa) and now also Turkey, none of which have ESCAS requirements.

Despite officially regaining market access to Saudi Arabia for Australian sheep in April 2021, the combination of high sheep prices and complex export protocols around vaccination has not yet seen trade re-commence.

However, despite the supply challenges, MENA markets appreciate the high quality of Australian sheep. Long-term demand for live sheep remains strong in the region and is gradually recovering to pre-pandemic levels as social gatherings and tourism for the purposes of business, leisure and Hajj resume. Indications are that as Australian sheep prices ease, exports will grow again.

▶ Click here to visit MLA's LiveLink interactive Dashboard for export statistics

# Key issues

## Shearing (meat and sheep demographics)

Over the last two instalments of MLA and AWI's Wool and Sheepmeat survey, the percentage of Merino breeding ewes has fallen from 76% to 72%, highlighting a move away from wool production to meat production. This move towards meat production can be attributed to several factors including lower wool returns, higher lamb prices and difficulties in sourcing shearers.

The difficulty in sourcing shearing staff is a result of increasing shearing rates in New Zealand, which has reduced the number of NZ shearers who choose to work in Australia. The shearer shortage has led many producers to extend the period between shearings, sometimes to two shearings every three years. Additionally, some producers are paying above the standard rate to secure shearers – putting upward pressure on shearing costs.

In the last three years since February 2019, the EMI (Eastern Market Indicator) which measures wool price performance has fallen by 28%, from 1,934¢/kg back to 1,389. In the corresponding period, the National Trade Lamb Indicator has increased by 30% to 865¢/kg. These shifts in pricing highlight that meat sheep have become more attractive for producers than wool breeds.

## Labour

### *Labour shortages*

In 2022, labour shortages are expected to be an area of significant concern for the red meat industry right across the entire supply chain. The shortages that industry will face will effect the availability of farm hands and managers, through to boning room staff in processing plants as well as truck drivers.

The impacts of a labour shortage on the processing sector are difficult to forecast or quantify. However, securing more staff through skilled and non-skilled visa programs will be critical to ensure reliable supply to both the domestic and international markets of Australian sheepmeat.

New government visa programs are a welcome development and should provide red meat businesses with access to a larger employee pool. However, it is imperative that migrants sign up to the program and to date, it's too early to assess whether it has been a success.

The recent Australian government announcement that international borders will be reopening to double vaccinated tourists from 21 February could improve the labour situation across the sheep and lamb supply chain, from the farm gate through to the processing sector and further afield.

### *Costs*

The current labour market is putting pressure on wage costs for red meat businesses. The shortage of workers means that agricultural businesses are competing heavily with the major and much larger construction and mining industries to secure staff.

### *Training*

Industry is also faced with training challenges in 2022. Investing in the training of processing plant employees is a costly and timely process. Some industry sources have indicated that it will take at least eight months to one year to train new staff to the appropriate level in order to process higher volumes of sheep and lambs.

# Global supply chain disruption

Supply chains and logistics are a major hurdle for the sheepmeat industry in 2022 and 2023. The issue covers both the difficulty in getting product to the desired market and the cost of freight.

Ongoing disruption, initially stemming from COVID-19, has seen continued delays and large price increases in shipping routes globally. Shipping costs worldwide have increased by 434% in 2021[1], with many ships initially earmarked for smaller routes redirected to larger ones, while shipping companies rapidly raise prices and change schedules to meet market conditions.

Locally, this has been felt through higher prices, greater uncertainty and delivery delays. Compounding the situation, between 2018–19 and 2020–21 there was a 39% increase in average on-berth hours at Australian ports and a 46% increase in average idle hours. This has led to delays in shipping and increases in costs, both from the shipping companies themselves and road freight companies.

The USA to China shipping route has become the dominant shipping route over the last two years. As ships prioritise this route, it's difficult to secure ships and alternative routes.

## *Background*

Difficulties in the shipping industry began in early 2020, during the initial spread of COVID-19. Several ports were shut down in China, while consumer spending spiked across wealthy countries due to monetary stimulus and reduced service spending. This spike increased demand for Chinese produced goods, while Chinese ports were shutting down.

Subsequently, shipping companies began increasing prices, redirecting ships away from smaller routes and emphasising speed to meet demand. This gradually created an accumulation of shipping containers in western ports, as ships would be directed to leave port without carrying empty containers in the event of a delay. As a result, port productivity was impacted, slowing the rate of movement.

This revealed issues in the shipping industry that had been masked over the past decade. After the 2008 global recession, the largest eight shipping companies consolidated into three alliances to improve productivity and much larger ships were commissioned to improve efficiency. These two changes negatively impacted the viability of smaller shipping routes and decreased the amount of choice exporters had.

The process of building a new container ship takes several years. While anecdotal evidence suggests ship orders have increased to address the current global shipping and logistic issues, these new boats will not be on the water until 2023 or 2024.

## *Australia*

Beyond this, there are unique difficulties facing Australian exporters unrelated to wider disruption. Productivity challenges, high docking times and discord between port owners and workers in major Australian ports has impacted costs and reduced the attractiveness of Australian shipping lines to shipping companies. This is particularly so for larger shipping vessels, where margins per shipping unit are usually lower and extra costs are especially problematic.

Additionally, it's difficult to secure empty refrigerated containers into Australia, a key requirement for sending meat overseas. Shipping companies are not shipping empties into Australia as it is more economical to send full containers to Australia. Therefore, the Australian sheepmeat industry is struggling to access enough empty refrigerated containers to fill.

## *Overall impact*

These freight developments have had two main effects: the price of shipping has increased dramatically and certainty around scheduling has collapsed.

The spot contract price of shipping from Sydney to Shanghai has increased by approximately $4,000 per standard shipping unit between January 2020 and January 2022[2], adding roughly $140 to the cost per tonne of frozen exports. The price of insurance has increased as uncertainty around arrival and departure times can negatively affect product value, and the potential for delays adds the risk of contract failure, triggering fines that can further increase costs.

The relative focus on the busiest sea lanes over smaller ports has put producers near smaller ports at a particular disadvantage. Low frequency limits their flexibility and impedes ability to ship refrigerated goods.

## *Impact on chilled exports*

The shipping delays and shipment frequency reduction have been especially difficult for exporters who export chilled produce. In addition to the widespread delays, cost increases and uncertainty faced by exporters generally, can substantially cut the value of produce and impact relationships with buyers.

This uncertainty has driven up insurance costs for exporters and has made airfreight more attractive for high grade products. However, Australian air-freight capacity fell by 91% in 2020 due to travel restrictions put in place over the course of the pandemic, which has contributed to a 170% price increase on major routes since November 2019.

---

[1] Global container freight rate index from July 2019 to December 2021

[2] Shanghai Containerized Freight Index

### *Medium-term prospects*

While capacity is currently beneath that needed to meet exporter demand globally, it is anticipated that large vessels initially commissioned in 2020 will begin coming online in late 2022 and 2023.

At the same time, the number of vessels at anchor or drifting around the Port of Los Angeles has declined from 89 to 67 between November and December 2021, suggesting the supply backlog is slowly resolving.

In the US the Ocean Shipping Reform Act of 2021 passed the US House of Representatives in December 2021 and is expected to become law in 2022. This act will modernise regulation of ports and remove some of the structural inefficiencies in port operation that have become apparent since the onset of the pandemic, recognising the shift in conditions over the past 20 years. Given the large percentage of global trade that passes through the US, any easing of congestion there will have substantial effects globally.

In Australia, there are a number of infrastructure improvements due to be completed over the next two years in major ports, while four of Australia's five port operators have entered into enterprise agreements in the last year, substantially mitigating the risk of increased industrial action.

# Demand

## Domestic demand for sheepmeat

With uncertainties and trade tensions in the international markets, the importance of the domestic market is increasing. Localising more of the Australian meat consumption lowers the impact of supply disruptions associated with international events. Lamb consumption in Australia makes up a large proportion of total global lamb consumption. However, the domestic utilisation of lamb has been gradually dropping since 2015. Australia domestically consumed 60,645 tonnes of lamb in the March quarter of 2015, falling to 39,751 tonnes in the September quarter of 2021. The quarterly utilisation has cumulatively dropped by 34%, whereas the retail price has increased 40% over the same period, trending upwards from $13.29/kg to $18.59/kg. The sales volume of lamb shows strong resilience to the price movement in Australia's domestic meat sector. Mutton consumption is minimal in Australia.

In 2021, the retail price of lamb remained relatively stable. Compared to the 11% growth of the beef and veal retail prices, the quarter-on-quarter increase for the lamb price in the September quarter of 2021 was less than 1%. Meanwhile, chicken and pork saw a decline of 0.4%. The relative price change among the major proteins suggests consumers are shifting their consumption towards cheaper meats. The volume share of fresh lamb has reduced by 0.4% over the period of June, July and August compared to the same period two years ago, while chicken has gained an additional 2.5% volume share followed by pork which increased by 0.9% *(Source: Nielsen Homescan)*. The value share of lamb also saw a slight decrease of 0.1%.

In terms of cut performance, legs, chop, lamb shoulder and cutlets account for 64.9% of the total lamb sales volume. In the third quarter of 2021, legs, shoulder, pre-prepared lamb and cutlets were the leading cuts of the sales volume, while chops and shanks did not perform as well. Looking at distribution channels, online meat sales have driven growth for the fresh meat category. Meanwhile, bricks and mortar sales maintain relatively stable compared to last year. However, fresh lamb accounts for about 2% less in sales value through online fresh meat channels than it does in the total distribution channels. Its online value share was 10.1% versus 11.9% in the omnichannel. Lamb's online volume share was 7.3% compared to 9.0% in all channels. *(Source: Nielsen Homescan)*.

## Key export markets

### *Global markets summary*

2021 saw over one million tonnes of sheepmeat exported globally, down 6.1% on 2020 volumes. Australia was the largest exporter, followed by New Zealand and the UK, which shipped 62,000 tonnes. China remained the largest import market for sheepmeat at 372,000 tonnes, followed by the US, which imported over 115,000 tonnes, and the UK, at 43,000 tonnes *(Source: IHS Markit)*.

In Australia, overall sheepmeat exports increased by 0.5%. At the same time, the overall value of sheepmeat exports rose by 5.3% to $3.96 billion. This reflected a strong increase in the unit value of sheepmeat products from Australia, with each unit of sheepmeat valued at $9.05/kilogram compared to $8.54/kg in 2020. The volume of chilled sheepmeat exports dropped by 12.2%, while frozen exports increased in 2021 by 4.9%. Lamb represented 65.3% of total exports, while mutton accounted for 34.7%.

Exports into the US increased by 18.7% in 2021, to 93,349 tonnes. Of this, chilled lamb accounted for 43.3%, frozen lamb accounted for 32.3% and frozen mutton accounted for the remaining 24.4%. Frozen mutton exports grew by 26.9% between 2020–21, despite a 51.5% drop in exports in Q1 as supply chain issues made exporting difficult. A 61.7% increase in the remainder of the year reflected an increase in demand for Australian sheepmeat as American domestic production fell.

Over the decade, Australian sheepmeat exports are projected to increase by 20% to 488,000 tonnes per annum in 2031 *(Source: OECD/FAO)*. This is largely driven by increased consumption in the developing world as incomes increase and premium red meat becomes more accessible to an emergent middle class.

At the same time, it is projected that most sheepmeat globally will be sourced and consumed domestically *(Source: OECD/FAO)*. Australia and New Zealand are likely to remain the main contributors to global sheepmeat exports and face little competition in serving markets where domestic production is unable to keep up with increased demand.

Table 2: Major export market summary

| | 2021 tonnes | YOY % change | 2021 market share | 2021 tonnes top 5 cuts | 2021 top 5 cut % | Grassfed 2021 | Grainfed 2021 | Chilled 2021 | Frozen 2021 |
|---|---|---|---|---|---|---|---|---|---|
| China | 120,224.20 | 1.40% | 35.30% | 62,147.64 | 51.70% | 120,224.20 | - | - | 120,224.20 |
| United States | 93,349.09 | 18.80% | 73.30% | 62,559.24 | 67.00% | 93,349.09 | - | 40,446.47 | 52,902.62 |
| Malaysia | 25,819.55 | 3.80% | 86.10% | 20,793.73 | 80.50% | 25,819.55 | - | 68.21 | 25,751.34 |
| Dubai | 16,829.72 | -3.50% | 63.50% | 12,830.12 | 76.20% | 16,829.72 | - | 11,556.40 | 5,273.32 |
| South Korea | 16,104.50 | -1.00% | 92.10% | 9,980.06 | 62.00% | 16,104.50 | - | 5,922.62 | 10,181.88 |

Source: MLA, IHS, DAWE

## *United Kingdom*

Once the Australia-UK Free Trade Agreement enters into force – likely later in 2022 – Australia will benefit from enhanced access to the UK market: in particular, a tariff-free volume of 25,000 tonnes of sheepmeat in year one, increasing to 75,000 tonnes by year 10.

While the UK is a net exporter of sheepmeat, exporting mostly to Europe, it imports significant volumes (averaging 65,000 tonnes shipped weight over the past five years) which varies according to local production and seasonal fluctuations and global price.

While UK consumers enjoy 2.5 times as much sheepmeat in their daily diets than their counterparts in the European Union, import volumes have been trending down in line with a long-term decline in consumption. This has been driven in part by heightened health and environmental concerns, as well as stronger competition for New Zealand and Australian product from China. That said, total UK lamb sales are still forecast to increase at a CAGR of 5.6% from 2020 to 2025[f] to reach around US$2.1 billion *(Source: Fitch Solutions)*.

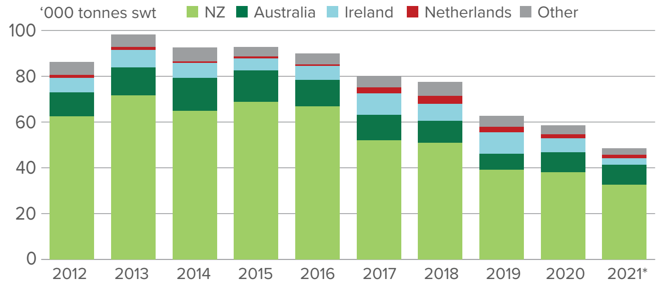
With UK domestic sheepmeat production expected to decline in the coming years at a CAGR of -1.5% 2020–2025 in response to a fall in government support payments *(Source: GIRA)*, import demand is expected to remain relatively stable.

Australia has long been the UK's second largest supplier of imported sheepmeat after New Zealand. Australian chilled lamb leg, chump and shortloin, as well as frozen lamb and mutton leg, shank and manufacturing meat are among the popular products in the UK. MLA estimates around 70% of Australian sheepmeat exported to the UK is utilised in the foodservice sector, which has experienced ongoing impacts from reduced domestic and tourist demand due to COVID-19. Encouragingly, however, current forecasts indicate that the tourist visitor numbers of 41 million seen in 2019, pre-pandemic, may be achieved again in 2023[f] *(Source: Fitch Solutions)*.

Into the future, the Australian sheepmeat industry is looking forward to developing new long-term sheepmeat export opportunities in the UK market.

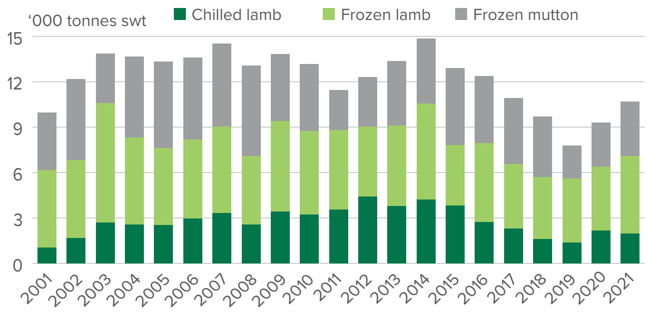
Click here for MLA's UK snapshot to learn more about its sheepmeat market and the A-UK FTA market access conditions

Figure 10: UK sheepmeat imports by key supplier




Source: IHS Markit. *2021 = 12-month period Dec 2020-Nov 2021

Figure 11: Australian sheepmeat exports to the UK




Source: DAWE

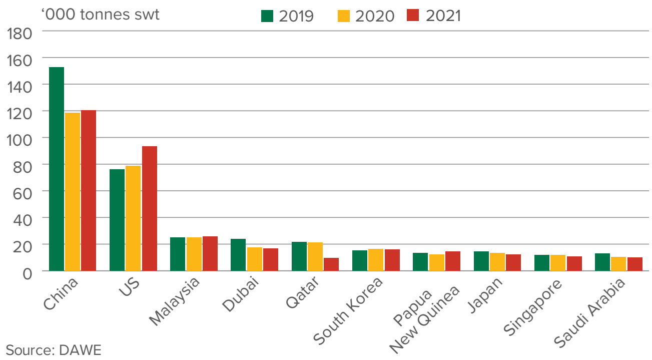
## *US import market*

At the start of 2022, the total US sheep and lamb inventory has declined 2%, to 5.065 million head, from the previous year. Poor weather in the Southwest region and processing difficulties related to COVID-19 have impeded production, and high prices have encouraged producers to destock over the year.

The gap between local production and robust US domestic demand, has been filled by imports from Australia and New Zealand, which made up 98.2% of American sheepmeat imports in 2021 *(Source: Steiner Consulting)*.

In 2021 total sheepmeat exports to the US increased by 27.1%, and the value of those exports increased by 47.8%. Australia's total sheepmeat exports have increased by 18.8% to 93,349 tonnes, while New Zealand exports have increased by 38.7% to 28,323 tonnes *(Source: DAWE, Stats NZ)*.

Figure 12: Australian sheepmeat exports to key markets – volume

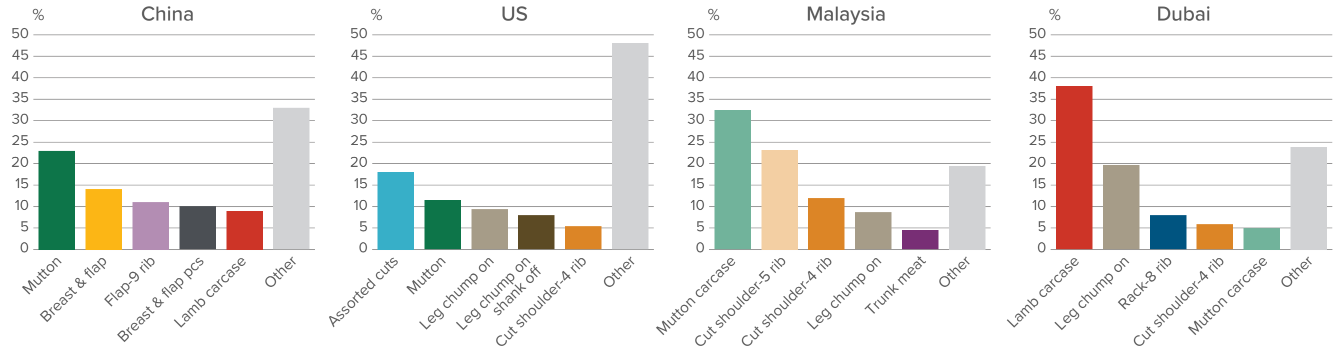



Source: DAWE

Traditionally, New Zealand export volumes have been considerably lower than Australia but the goods being shipped have typically been of higher value. This has changed as import volumes from New Zealand have increased and the export product mix has changed. In 2019, the difference per kilo between Australian and New Zealand lamb in the USA was $3.56/kg. In 2020 this had declined to $1.50/kg, and in 2021 the spread was $1.03/kg *(Source: HIS Markit)*.

Australia saw consistent increases across product categories, while New Zealand saw the largest increases in frozen produce, recording a 45% volume increase in that category compared to a 25.5% volume increase in chilled goods. Given the usual price difference between frozen and chilled product, this has had the effect of bringing Australian prices closer to New Zealand prices, eroding New Zealand lamb's positioning as a premium offering.

Figure 13: Top cuts by key markets – percentage of total volume




Source: MLA, IHS, DAWE

Given local production constraints, it is projected that US domestic production will continue to slow in 2022 *(Source: Steiner Consulting)*. Simultaneously, ongoing demand from China will sustain high prices for sheepmeat *(Source: USDA-FAO)* – meaning it is likely that the US market will remain receptive to imports, even at higher prices. As Australian export volumes rise with the flock rebuilding phase maturing over 2022 and 2023, the outlook for the US market is positive.

# Export forecast: The OECD data

Total consumption of sheepmeat is projected to grow 14% by 2030 to 18,395 thousand tonnes a year *(Source: OECD-FAO)*. Most of this demand is expected to be met by increased domestic production. For example, China is expected to increase consumption by 10.9% but will also increase domestic production by 11.6%, marginally reducing its reliance in imported sheepmeat.

However, despite these increases in domestic production, there will still be considerable opportunities for Australian exporters. Many of our long-term trading partners are expected to increase consumption while export volumes remain flat globally.

Malaysia is projected to consume 23.6% more sheepmeat by the end of the decade, while still relying entirely on imports. Given the long, stable relationship Australian exporters have built with Malaysian retailers, as well as the tariff-free access Australian exporters enjoy in the Malaysian market, Australia is well-positioned to meet future needs in this market.

The US is projected to maintain consumption at current levels, but production has fallen consistently over the past three years due to shifting climate and land use patterns. Given this, the United States is likely to remain a substantial importer of sheepmeat for the foreseeable future, with domestic production unlikely to increase in 2022 and/or return to the previous five-year average levels until mid-2023 at least.

In addition, the long-term increase in dairy production and exports in New Zealand has effectively reduced sheepmeat export capacity. This trend is likely to continue as demand for milk solids increases in China. This means that despite marginal increases in demand globally, the supply of sheepmeat available for export is likely to decrease over the coming decade.

In positive news, Australia is likely to emerge as the only country with the production and transport infrastructure available to meet transient supply challenges over the next decade as well as ongoing demand from markets that lack the capacity for domestic supply.

Given high prices globally and limited supply, it is likely that the value of sheepmeat will continue to grow.

# The Qatar subsidy and air freight

## *Qatar subsidy*

The largest shift seen in 2021 was the significant drop in Australian exports to Qatar. Total exports of sheepmeat fell by 56% year-on-year, from 21,341 tonnes in 2020 to 9,395 in 2021.

Two main factors contributed to this drop. Firstly, the Qatari government ended its program that subsidised Australian sheepmeat, which substantially raised prices in Qatar and subsequently caused demand to fall.

Under the program, which was instituted in 2015, the government of Qatar would subsidise the purchase price of lamb by roughly 50% in order to make lamb more affordable for consumers and to ensure a steady supply from Australian producers.

Initially, the program aimed to decrease cost of living pressures on Qatari residents and ensure a consistent protein supply. The program led to large increases in Australian sheepmeat exports to Qatar, with total exports between 2014 and 2020 increasing by 67%, despite the effect of COVID-19 on shipping in the MENA region and resultant freight challenges. The success of this program led to large costs for the Qatari government, which were not sustainable in the long term – particularly given the volatility around oil prices, which is the main source of government revenue in Qatar.

The conclusion of this subsidy at the end of 2020 had an immediate and significant impact on sheepmeat exports. Between December 2020 and January 2021, total export volume dropped 41.9%, and every month in 2021 was below 2020 volumes by at least 40%.

Despite this, Qatar remains the second largest per capita consumer of Australian sheepmeat after Dubai, consuming 3.2 kilograms per resident in 2021 *(Source: IHS Markit, Fitch Connections)*. It also remained Australia's 12th largest export destination over the year. The value of Australian sheepmeat imported by Qatar rose from $6.73/kg in 2020 to $7.03/kg in 2021, in line with global price shifts over the year. Exporters were able to pivot from Qatar to the United States, which saw a roughly equivalent increase in import volume.

The end of subsidies has also shifted the type of produce Qatar is importing. Frozen produce now makes up 18.6% of export volume, compared to 2.9% in 2020. Mutton now makes up 26.9% of export volume, compared to 8.4% in 2020.

These shifts bring export patterns closer in line with the neighbouring United Arab Emirates, which has historically seen more frozen imports and mutton in its import mix. This suggests that the volumes seen in 2021 are representative of something closer to equilibrium for Qatar, acting more like its neighbours in the gulf region than the outlier it was in the period of 2015–2020.

### *Air freight*

The second issue relevant across the MENA region is strained air freight capacity in and out of Australia and its effects on chilled sheepmeat exports. Roughly 80% of Australian air freight is carried on commercial passenger planes, which has presented exporters with a serious challenge since the closure or restrictions of borders due to the pandemic. It is estimated that airfreight capacity has declined by 91% over the past two years, reducing reliability and increasing prices *(Source: ACCC)*.

In addition, ongoing issues in ocean shipping have created substantial delays in ports, lowered reliability and increased shipping costs. This has narrowed the cost-benefit differential between airfreight and shipping and means that for certain high-value product categories there are now fewer disadvantages to air freight than in the past – increasing demand and raising prices further.

This is especially important in the Middle East and North Africa (MENA) region, which typically maintains strict regulations around produce age – with only chilled goods under three weeks of age usually being allowed to enter. Between 2019 and 2021, the contribution of chilled exports as a percentage of sheepmeat exports to MENA have dropped from 68.5% to 57.8%, on top of declines in volume overall.

This shifting landscape explains changes in sheepmeat exports over the year and suggests that those changes are unlikely to reflect a permanent shift in the market. The per-tonne value of sheepmeat shipped via airfreight has risen by 21.2% over 2021, compared to 5.3% for ocean-liner shipping, while the total volumes dropped by 40.2% for air freight and increased by 4.4% for shipping. Essentially, through 2021 lower value cuts of lamb and mutton have been priced out of an exceptionally expensive air freight market *(Source: IHS Markit)*.

Although this has been an issue for exporters in the short term, in the long term it is likely to increase flexibility for exporters who need to use air freight. As commercial airlines increase the number of flights in and out of Australia, the short-term decline in capacity will reverse, easing demand pressures and increasing certainty in the market.

In addition, the massive cash influx shipping and logistics companies received over the course of the COVID-19 pandemic has allowed some to invest in airfreight capacity. For example, Maersk, the largest shipping company in the world, has purchased several Boeing 777 freight-equipped aircraft to expand its Star Airline brand, while the Mediterranean Shipping Company has partnered with airline Lufthansa in a bid to purchase Italian Airline ITA Airways, aiming to more fully integrate airfreight into MSC's transport logistics. Given this, it is likely that in the medium-term air freight will emerge in a stronger position than it was prior to 2019.

# Price

## Overview

The 2022 saleyard prices for sheepmeat categories have been mixed, however they are outperforming the long-term historical averages. While processors haven't been as active in saleyards as usual during the month of January, prices have begun 2022 strongly, backed by the international demand for Australian lamb and mutton in key established global markets.

For the first release of sheep projections for 2022, the industry analysts' National Trade Lamb Indicator forecast was not conducted due to Christmas and New Year shutdown periods, among other industry challenges. MLA expects this forecast to return for the mid-year projections.

Click here to see how the sheepmeat markets in 2022 are performing compared to the 10-year average

## Supply

When compared to 2020 yardings, the 2021 lamb yardings indicate significant growth in the year's lamb cohort and the national flock, as was predicted in MLA's October Sheep Projections. National lamb yardings rose by 11% or 903,000 head year-on-year overall, with NSW the key driver, lifting its lamb supply by 15% or 647,000 head. Victorian yardings rose more mildly, by 6% or 179,000 head. Meanwhile, in the west, lamb supply strengthened 5% overall, equivalent to 27,000 head.

For sheep, yardings nationally were firm reflecting what was happening in the key states of NSW and Victoria. South Australia painted a different picture due to it's challenging seasonal conditions, with numbers rising by 18% or 39,000 head year-on-year. In Tasmania, producers are building their flock size, with sheep yardings softer compared to 2020 by 19% or 13,000 head as producers look to capitalise on strong seasons and build their sheep flocks. A key highlight was the positive attitude of producers in WA, with strong intentions to rebuild their numbers. The states yarding volumes validate this, with volumes down 9% or 50,000 head year-on-year as producers look to utilise mature breeding ewes to build flock numbers following a strong autumn/winter rainfall period in 2021.

Considering Victoria's lamb yardings were marginally stronger in 2021, this yarding data would indicate a large volume of lambs have been held back by producers in 2021. As a result, these numbers should come onto the market in the first half of 2022.

Click here to access MLA's suite of domestic sheep market reports

# Looking ahead

Slaughter volumes were softer than usual for the traditionally busy January month. Processing constraints, as well as excellent pasture cover and availability, has allowed producers to hold lambs back from market. Therefore, a large increase in lamb supply is expected within the next three to four months in certain states, possibly placing pressure on prices.

As good seasons have provided producers with an opportunity to continue to add weight and finish to lambs. A greater supply of heavier lambs is expected with heavy lamb prices performing well and incentivising weight gains.

The COVID-19 related challenges faced by processors appear to have passed. However, if labour challenges remain exacerbated for the processing sector, MLA may revise sheep slaughter volumes to recognise this.

There is continued support for Australian sheepmeat globally and economies are continuing to recover and grow. As a result, the outlook for Australian sheepmeat, both on a domestic production level and within the established and emerging global markets, is extremely positive.

Challenges will influence fluctuations in the market but overall, as the previous two years have shown, the Australian sheepmeat industry will remain resilient across the entire supply chain and manage these challenges to support the delivery of product across the globe.

Click here to access MLA's recent sheep projections documents.