MEAT & LIVESTOCK AUSTRALIA

MARKET SNAPSHOT | SHEEPMEAT

United States (US)

The US remains one of the main destinations for Australian lamb in volume and value terms, with sheepmeat exports to the US increasing 6% in 2017, and growing opportunities expected for 2018. However, lamb continues to be an unfamiliar protein for the majority of US consumers, resulting in low per capita consumption levels (on average 0.4kg/year/person).

Challenges and opportunities in the US for Australian sheepmeat include:

- US consumers are increasing their willingness to try lamb, meaning there are opportunities for growth of Australian lamb.
- The foodservice channel represents a key area to expand lamb consumption, particularly within the quick service restaurant and casual dining sectors, which are largely frequented by millennials*.
- Millennials are driving the mindset towards more adventurous eating, including alternative proteins like lamb.
- The US will continue to rely on imported sheepmeat to satisfy consumer demand, as local production is expected to continue declining.
- However, differentiating Australian from New Zealand lamb remains a challenge, as many US consumers are still not able to accurately distinguish between the origins.

* Millennials: the generation that follows Generation X, with birth years ranging from the early 1980s to the early 1990s.

Population

324.5 in 2017

333.8 in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning*

>US$35,000/year

74.1 in 2017

82.0 in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

*Disposable income

Households earning*

>US$50,000/year

51.5 in 2017

59.6 in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

*Disposable income

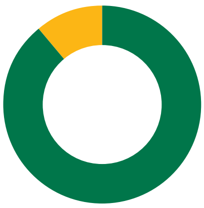
Australian sheepmeat exports – volume

- Chilled lamb – **40%**
- Chilled mutton – **0%**
- Frozen lamb – **41%**
- Frozen mutton – **19%**

Total 68,569 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR)

Australian sheepmeat exports – value



- Lamb – **85%**
- Mutton – **15%**

Total A$778.6 million

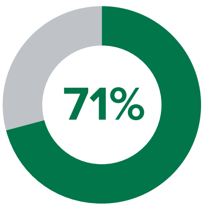
Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017*

Proportion of key cuts

- Carcase – **40%**
- Leg – **24%**
- Shoulder – **11%**
- Shank – **9%**
- Rack – **7%**
- Shortloin – **7%**
- Other – **2%**

Source: DAWR

Australia's share of imports

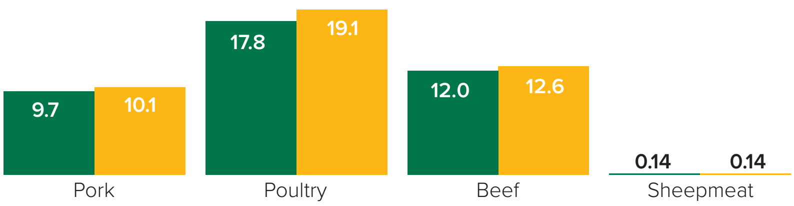


- Australia
- Other countries

Source: GTA. MAT December 2016 to November 2017.

Meat consumption

122.1kg per capita* total meat protein**



- 2017
- 2021

In million tonnes cwt

Source: BMI Research, OECD

* 2017e per person per year ** excluding fish/seafood

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Consumers

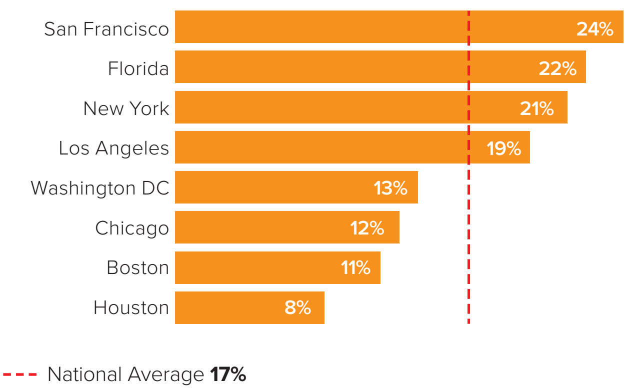
- Lamb remains a niche and unfamiliar protein to almost 40% of US consumers, driven by the lack of familiarity, taste concerns and limited knowledge on how to prepare it. However, US consumers are progressively increasing their willingness to try lamb, particularly the millennial generation.
- Without any real knowledge of lamb, Americans are much more likely to consider naturalness, safety and freshness ahead of country of origin when purchasing lamb.
- Consumers who purchase chilled lamb are generally premium shoppers, spend more in store and prefer healthier, home-cooked items. Lamb chops and roasts are the most frequently purchased cuts *(Source: Nielsen behaviour analysis)*.

What attributes are important for US consumers? (all proteins)	Main reasons haven't bought lamb
Family's favourite	Don't like the taste
Most superior	Not familiar
Guaranteed safe to eat	Don't know how to cook it
Part of healthy diet for kids	
Consistent quality standards	

Source: MLA Global Consumer Tracker US, 2016 and 2017

- Lamb consumption patterns varied across the eight cities surveyed by MLA's global consumer research, with San Francisco, Florida, New York City and Los Angeles having above average consumption – see chart below.
- Australia has started to close the gap and has increased consumer awareness and frequency of consumption compared to both American and New Zealand lamb.

Past month Australian Lamb Consumption



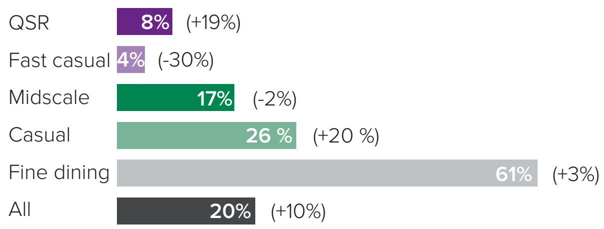
Source: MLA Global Consumer Tracker US, 2017

Source: MLA

Foodservice

- Of all segments within the US foodservice sector, lamb is most prevalent in fine dining restaurants. However, strong growth is now occurring in other segments such as quick service restaurant/family/casual dining. Growth in these segments has been driven by changing demographics and the shift in demand for more convenient and affordable lamb options such as lamb burgers, meatballs and kebabs.
- It is estimated that 60% of total Australian lamb imports are consumed in the foodservice channel.

Casual and quick service operators (QSR) operators are increasingly menuing lamb



(Bracket percentage) = 4 year % change 2016 vs. 2012

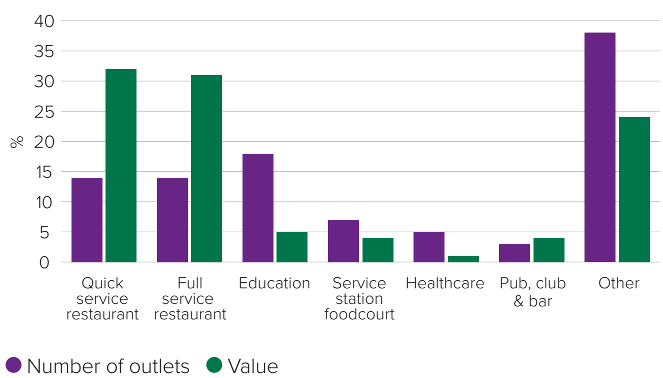
Source: Dataessential, beef and lamb menu analysis, 2017

- Another interesting growth area is the non-commercial long-term care segment, which saw 14% penetration of lamb in the area in 2016 reflecting an older, more affluent demographic demand for natural, healthy and interesting protein options, such as lamb *(Source: Datassential menu monitor, 2016)*.
- The penetration of lamb on US restaurant menus has grown steadily over the years and overall there has been a 10% increase in the past four years. Lamb was featured on 42% more menus in 2015 than it was in 2005.

> Lamb is one of the fastest growing burger proteins. Lamb burger menu penetration is still relatively small, but there has been triple digit growth on restaurant menus. *(Source: DataEssential, Menu Matters beef and lamb 2017)*

- The US foodservice segment is set to continue growing in coming years, with transactions and consumer spending driving strong growth, as outlet numbers are forecast to stagnate, demonstrating the maturity of the US foodservice market *(Source: GlobalData, The future of foodservice to 2021)*.

Number of outlets numbers and value by key foodservice channel (% out of total)

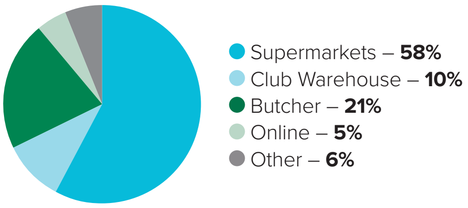


Source: GlobalData, 2017 estimate

Retail

- At the retail level, while supermarkets are still the main purchase channel for Australian lamb, butchers and club warehouses also have a significant share of lamb shoppers.

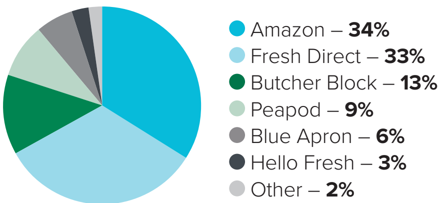
Where do shoppers buy Australian lamb?



Source: MLA Global Consumer Tracker US, 2017

- Stores such as Costco attract a younger, affluent consumer, who seeks more ethnically diverse cuisine and more exciting 'non-traditional' flavours, with lamb recognised as a viable option.
- Although there are significant barriers to purchasing meat online (only 5% of Australian lamb is purchased online), it is clearly a growth area, with Fresh Direct and Amazon being the leading destinations for online lamb purchasing.

Most common online retailer for purchasing lamb



Source: MLA Global Consumer Tracker US, 2017

- One in four Americans bought a meal kit in 2016, with the industry growing 6.7%/year. This avenue offers an easier entry point for consumers wanting to trial unfamiliar products such as lamb. Millennials are 321% more likely to buy meal kits compared to other generations.

What things do consumers look for on lamb retail packs?

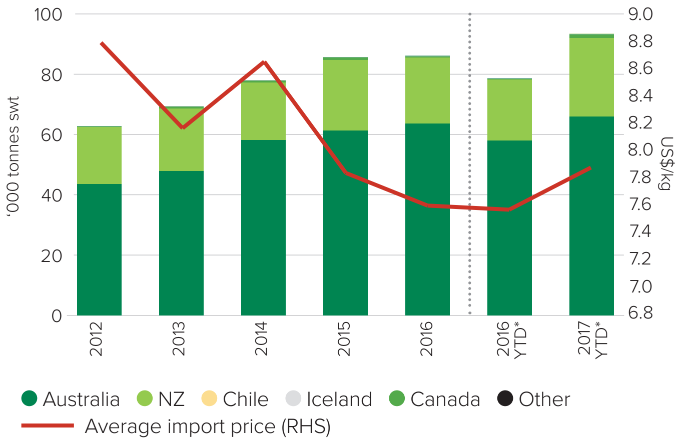
1	100% all natural
2	Meat colour
3	Date packed
4	Safety certification
5	No added hormones
6	Grassfed
7	Use-by/sell-by date

Source: MLA Global Consumer Tracker US, 2017

Other suppliers

- Imports make a significant contribution to the lamb and mutton supply in the US. In 2017 imports accounted for approximately 70% of total sheepmeat consumed in the US. *(calculated based on OECD-FAO consumption and total sheepmeat imports sourced from GTA).*

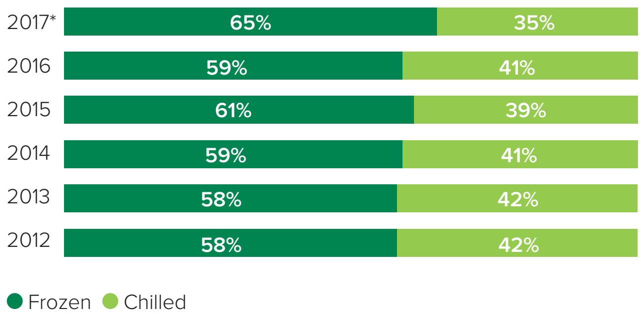
Sheepmeat imports by major supplier



Source: GTA
* CYTD: calendar year to Jan-Nov

- Australia is the major supplier of lamb in the US, followed by New Zealand. New Zealand sheepmeat imports to the US increased 29% in 2017, rising its market share and accounting for 28% of total imports.

% of chilled and frozen sheepmeat imports to the US



*Source: GTA *CYTD Jan-Nov 2017*

Source: MLA

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-United States Free Trade Agreement (AUSFTA)	Australia to US – 0%	New Zealand has a tariff of US 0.7 cents per kg for lamb and US 2.8 cents per kg for mutton	Zero	Point of entry inspection, label approvals and port mark compliance

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian sheepmeat exports to US – summary table

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
	Total	**68,569**	**100**	**64,562**	**100**	**55,799**	**100**	**23**	**12,770**
Storage	Chilled	27,224	40	28,376	44	24,353	44	12	2,871
	Frozen	41,346	60	36,185	56	31,447	56	31	9,899
Meat type	Lamb	55,158	80	54,545	84	45,304	81	22	9,854
	Mutton	13,411	20	10,016	16	10,495	19	28	2,915
Storage/meat type	Chilled lamb	27,223	40	28,365	44	24,304	44	12	2,919
	Chilled mutton	0	0	11	0	49	0	-100	-49
	Frozen lamb	27,935	41	26,180	41	21,000	38	33	6,935
	Frozen mutton	13,411	20	10,005	15	10,447	19	28	2,964

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
	Total	**778,644***	**100**	**678,717**	**100**	**521,492**	**100**	**49**	**257,152**
Meat type	Lamb	663,446*	85	609,670	90	461,810	89	44	201,636
	Mutton	115,198*	15	69,047	10	59,681	11	93	55,516

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*

Australian lamb exports to US – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Carcase	17,840	32	19,303	35	12,116	27	47	5,724
Leg	14,546	26	14,906	27	13,565	30	7	980
Shoulder	6,211	11	4,767	9	5,186	11	20	1,025
Shank	5,465	10	5,348	10	4,335	10	26	1,130
Rack	4,844	9	4,017	7	4,450	10	9	393
Other	6,252	11	6,204	11	5,651	12	11	601
Total	**55,158**	**100**	**54,545**	**100**	**45,304**	**100**	**22**	**9,854**

Source: DAWR

Australian sheepmeat exports to Canada

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Total		**8,976**	**100**	**7,910**	**100**	**6,838**	**100**	**31**	**2,102**
Storage/meat type	Chilled lamb	3,830	43	3,737	47	3,563	52	7	926
	Chilled mutton	0	0	0	0	0	0	0	149
	Frozen lamb	4,404	49	3,387	43	2,569	38	71	356
	Frozen mutton	742	8	787	10	705	10	5	672

Source: DAWR

Australian sheepmeat exports to Mexico

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Total		**2,897**	**100**	**4,078**	**100**	**3,731**	**100**	**-22**	**-834**
Storage/meat type	Chilled lamb	0	0	0	0	0	0	0	0
	Chilled mutton	0	0	0	0	0	0	0	0
	Frozen lamb	781	27	1,088	27	999	27	-22	--218
	Frozen mutton	2,116	73	2,990	73	2,731	73	23	-615

Source: DAWR