



Sheepmeat's unique global position

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1: Executive Summary

Sheepmeat’s position in consumer diets around the world varies greatly, subject to a range of historical, economic, social and geographical factors. In a global sense, the product cannot simply be classified by whether or not it is a niche item. ‘Sheepmeat’ encompasses a range of products; lamb, mutton, higher-value cuts, lower-value cuts, chilled, frozen – and each of these products hold a unique position depending on the country or consumer segment in focus.

Developing countries (as defined in the introduction) are driving the growth of sheepmeat consumption on a global scale, largely due to population growth, urbanisation and increasing incomes – ultimately though, the availability and its associated affordability is likely to be the key limiting factor for consumption.

Developing countries (emerging economies), such as China and in the Middle East, tend to have a stronger affiliation with sheepmeat through cultural and religious customs, with lower-value product a staple part of many traditional cooking methods. This is changing, however, as markets become more progressive (globalised).

In many developed countries, such as the United States (US), lamb is a niche product, not readily available or commonly consumed, except in certain demographics and minority ethnic segments. However, due to the size of the population, the US is identified as a potential growth market for Australian sheepmeat.

Contrastingly, the position of lamb in Australia (and New Zealand) is different from other developed countries, with strong awareness and preference for sheepmeat arising from a long history of production and consumption.

In all developed countries, however, sheepmeat consumption is not so much affected by purchasing power, but rather consumer perceptions and awareness. These countries have a preference for high-quality product – and, in some cases, specifically lamb.

The unique features of sheepmeat demand and supply provide cause for optimism for future growth in demand and prices, though sheepmeat’s share of global protein consumption is likely to remain only around 5%.

2: Introduction

With global sheepmeat supply failing to match demand growth in recent decades, prices have risen and per person consumption in developed countries has declined. This is not the case, however, in many developing countries, where consumption is rising despite the higher prices. This report aims to throw some light on this, by investigating sheepmeat’s unique and contrasting positions around the world.

What sets sheepmeat apart from other meat proteins is its unique supply situation. The crux of the situation is that global production is currently failing to match consumption demand, which has seen a considerable rise in prices relative to other meat proteins.

The underlying factors to this supply scenario, unique to sheepmeat, include the relationship with other commodities from the animal, such as wool and milk, which constrains the supply of meat. Also, the competition for land, land use transitions to other enterprises, such as grain and dairy, and urbanisation has limited the production capacity of the global industry. Furthermore, environmental considerations and land degradation are becoming increasingly important production constraints in almost all countries, including China – easily the world’s largest sheepmeat producer and consumer.

This report will first outline sheepmeat’s unique aggregate global position before focusing on several markets that are influential within the global industry and that represent both developed and developing economies – China, the Middle East, the US, and Australia. The United Nations classifies China and the Middle East as developing countries, and the US and Australia as developed countries – based on various economic country conditions.

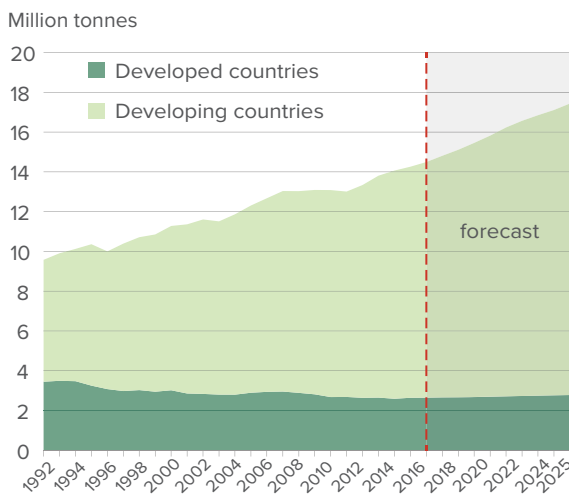
3: Sheepmeat’s unique global position

The consumption of sheepmeat across the world is determined by the combination of several factors, including economic growth and consumer purchasing power; population and consumer income; consumer dietary preferences associated with history, culture and religion; competition from other proteins; trade policy and market access (Fletcher et al. 2014). Increasingly, however, consumption is being impacted (if not dictated) by greater supply constraints (availability) and rising prices than any other of the major proteins.

Of these factors, OECD (2017) project that the predominant driver of agricultural commodity demand over the next ten years will be population growth in developing countries. The global population is forecast to increase from 7.4 billion people in 2016 to 8.1 billion people in 2025 – with 95% of this rise attributed to developing countries. By 2025, 6.7 billion people are projected to be living in developing countries and 1.4 billion in developed countries (OECD/FAO 2016).

Another aforementioned factor fuelling consumption demand is per capita income growth. As with population, and highlighted in figure 1, consumption growth will be largely driven from within developing countries, where the per capita income growth rate is expected to be higher. OECD (2017) contends that increasing per capita incomes are changing consumer preferences significantly.

Figure 1: Sheepmeat consumption: Developed vs Developing countries

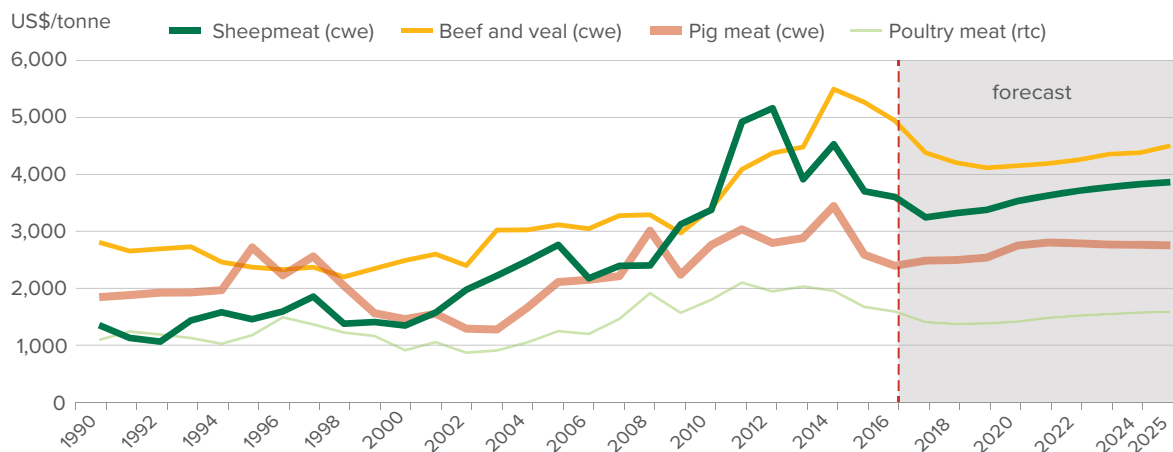


Source: OECD-FAO

Figure 2 highlights the rise in world sheepmeat prices, relative to other meats, and OECD’s outlook out to 2025. Sheepmeat prices have gradually been gaining on world beef prices, and this trend is anticipated to continue over the next decade (OECD 2017). In 1990, the global sheepmeat price was just under half the price of beef, in 2000 it had increased to 54%, climbing to 75% in 2015, and is forecast to be 86% the price of beef by 2025.

After overtaking pigmeat in 2001, sheepmeat is now the second highest priced meat behind beef, and maintains a clear margin above pigmeat. Similarly, sheepmeat sold globally for the same price as poultry meat in the early 1990s, but now commands 2.5 times the poultry price. Despite the rise in price, sheepmeat consumption continues to edge higher – driven predominantly by developing countries.

Figure 2: World meat prices



Source: OECD

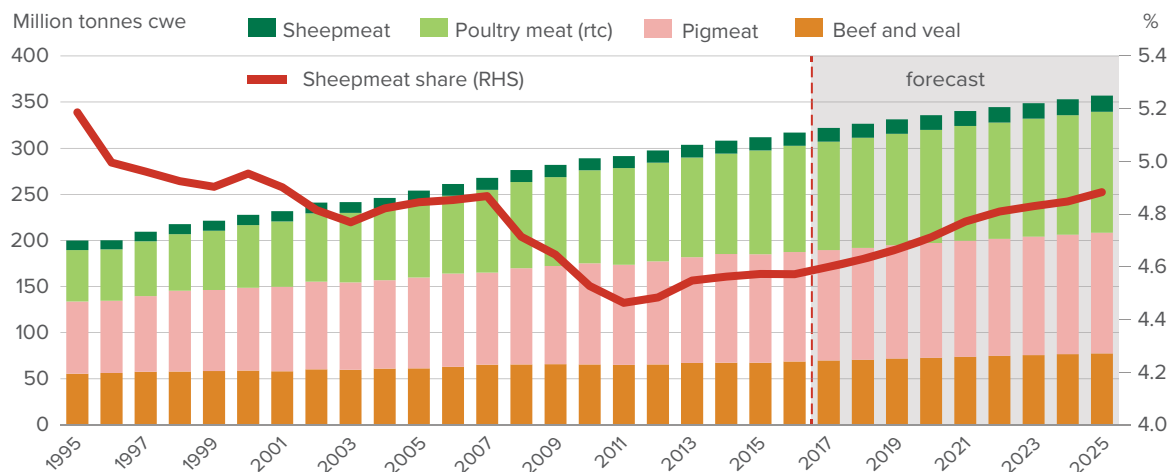
*cwe = carcase weight equivalent, rtc = ready to cook

Sheepmeat is widely regarded as a traditional meat, that constituted a major part of most diets before the intensification of pork and poultry production, with a more limited role in modern convenience cooking (Colby 2015). In developed countries, particularly, it has increasingly become a niche product when compared to beef, pork and poultry. In developing nations, on the other hand, sheepmeat is widely consumed and even the preferred meat protein in some countries, for example throughout the Middle East, the Mediterranean and Africa.

Lamb, specifically, is generally more widely consumed in developed countries, while there is generally stronger demand for mutton in countries with large Muslim populations and those with more limited purchasing power (Colby 2015).

On a global scale, sheepmeat only has a small share of total meat consumption. While total sheepmeat consumption around the world has risen over the past 20 years, and is forecast to continue increasing through to 2025, its share of total meat consumption has reduced since the 1990s – as shown in figure 3. This has been driven by a combination of factors such as supply, price, competition from cheaper proteins, consumer preference and familiarity and modern convenience cooking.

Figure 3: Global meat consumption



Source: OECD-FAO

Sheepmeat is likely to continue to only account for approximately 5% of global protein consumption despite signs of some pick-up in global production expansion (figure 3). This is interesting, considering there are no religious taboos, it is a product preferred by consumers in the fastest growing population centres and ethnic groups.

Global production has been rising, albeit at a slow rate compared to other meat proteins – particularly pigmeat and poultry. According to FAO, for the period 2000-2013, global sheepmeat production grew at an average of 0.8% per year. When China is excluded from the equation, however, the average rate of growth reduces considerably, to 0.2%.

Since 2012 though, production growth has improved relative to other meats and OECD-FAO now expect this to continue out to 2025. This is because the price of sheepmeat and sheep farm profitability has risen sufficiently relative to competing enterprises (e.g. cropping) to entice faster growth in flocks and production than for other meats.

However, supply growth is likely to continue to lag well behind demand, limited by land and water resources, environmental constraints and relationship with ‘companion’ products often produced in association with sheepmeat (wool, sheep milk, beef, crops).

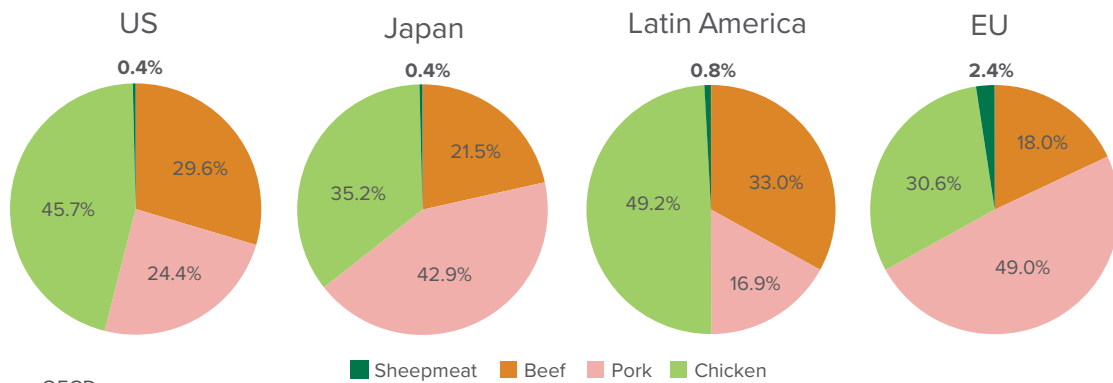
Another important and unique global feature for sheepmeat is that only around 10% of production is traded internationally (2016), and there are only two major exporters – Australia and New Zealand.

4: Sheepmeat’s diverse position in consumer diets

As mentioned above, and illustrated in figures 4 and 5, sheepmeat plays a widely divergent role in consumer diets around the world. It is a preferred meat and staple in many countries, especially those with predominantly Muslim and Hispanic populations and with a history of sheepmeat or goat meat production and consumption, but has a niche role in many developed countries.

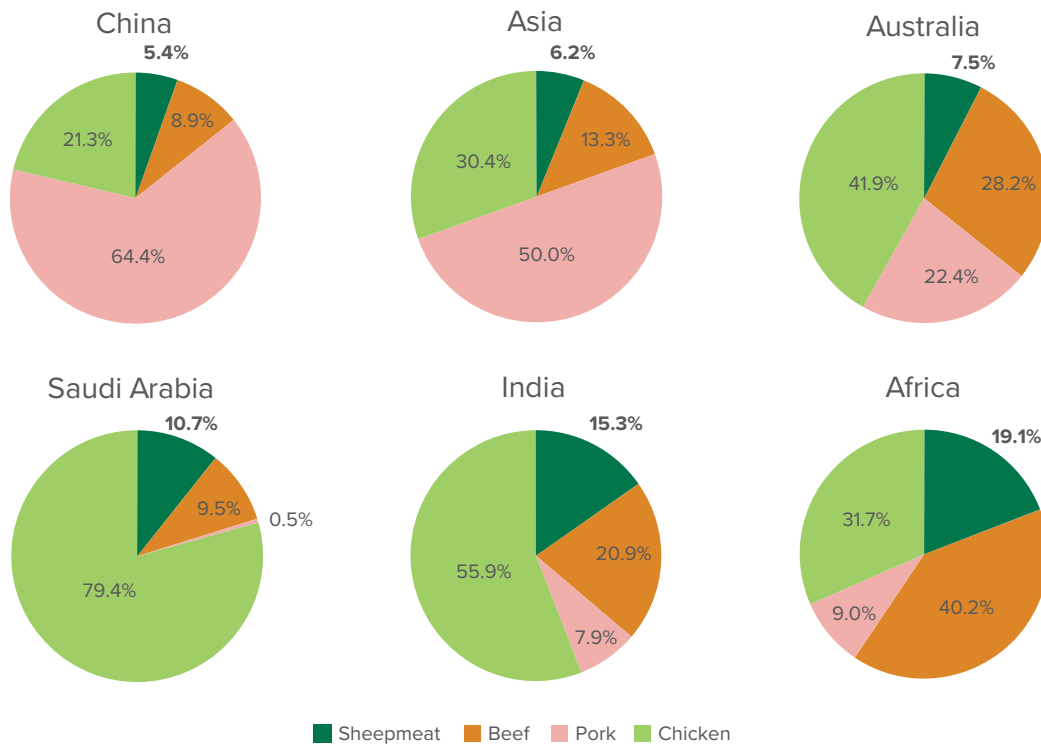
Australia is unusual in being a developed country with a history of sheepmeat production and consumption, and hence, having a significant consumption share in between those of most developed countries and developing countries.

Figure 4: Countries/regions with lower proportion of sheepmeat consumption



Source: OECD

Figure 5: Countries/regions with higher proportion of sheepmeat consumption



Source: OECD

To illustrate the contrasting and unique positions of sheepmeat in diets across the globe, the following is an in-depth description of the product’s role in two developing Middle East countries, Saudi Arabia and the UAE, as well as China, and two developed countries, the US and Australia.

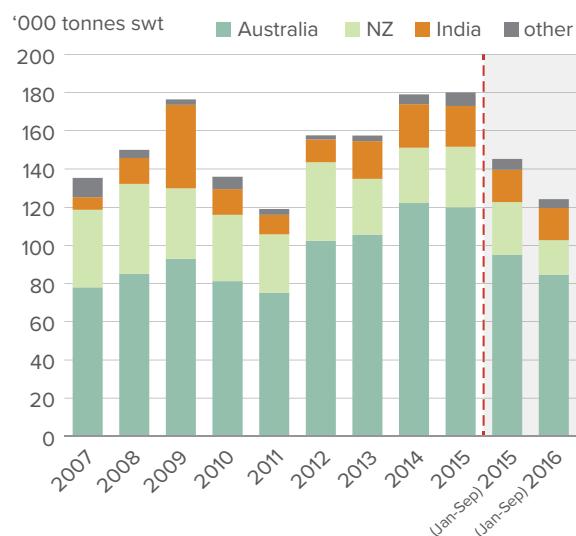
5: The Middle East

Sheepmeat’s position in the Middle East

MENA (Middle East and North Africa) is a large and complex region – comprising 29 countries and an array of consumer markets. Over one quarter of the world’s live sheep and sheepmeat trade is estimated to occur with countries in MENA (Colby 2015). While Colby (2015) reports that the MENA region is approximately 80% self-sufficient for their requirements, growth in domestic sheepmeat production is fairly limited due to a long-term decline in sheep flocks – the result of expanding urbanisation, desertification and conflict. Another limiting factor on domestic production is the availability and cost of imported animal feed and fodder, which many countries in the region rely upon, and the effect of reduced government support for these imports. Sheepmeat consumption and import demand is forecast to rise in several markets – particularly in the Gulf Cooperation Council countries.

Sheepmeat has a long history of production and consumption within the Middle East, and the region encompasses a range of consumer markets – from lower value mutton to prime lamb cuts, depending on the purchasing power of the consumer. Cultural, religious and societal traditions vary from country-to-country within the region and, as such, sheepmeat’s position in-market and consumer preferences differ accordingly. The two largest import markets within the region are the United Arab Emirates (UAE) and Saudi Arabia – which are the focus in this report.

Figure 6: Sheepmeat exports to MENA by supplier



Source: GTA, DAWR

As illustrated in figure 6, Australia and New Zealand are the major sheepmeat suppliers to the Middle East. While Australia is (and is expected to remain) the predominant supplier, both countries have the advantage of modern processing plants that meet Halal requirements. Having a reliable and reputable Halal processing system is crucial for trade access into most markets in the Middle East.

Consumers in the Middle East can be roughly divided into three main groups – nationals of the various countries; highly paid expatriates (mostly from western or developed Asian nations); and expatriate labourers (mostly from the Indian sub-continent). There is a general perception amongst Middle Eastern consumers that meat consumption should be limited due to health concerns – particularly beef and lamb – however this view differs between countries.

Demand growth in the region is predominantly driven by economic expansion, led largely by oil, as well as population growth – which is currently around 2% per annum (Colby 2015). The impact of oil market conditions in the Middle East flows through to sheepmeat consumption, due to the influence on consumer income and due to some government sheepmeat consumer assistance programs (notably in Qatar).

Sheepmeat is expected to remain a widely consumed meat protein in the Middle East. GIRA Consultancy & Research (2010) expect demand for sheepmeat from the region to remain buoyant in their forecasts out to 2021, underpinned by several factors – demographic growth, sheepmeat’s position as a meat of choice and economic growth (from forecast recovery in oil prices).

Furthermore, MLA expects the live sheep trade to remain important to the region for cultural and religious reasons, such as ritual slaughter and demand for freshly slaughtered meat. Furthermore, both the local population and expatriate workers have a well-established culture of sheepmeat consumption. Growth in consumption will be supported by an increasing population and rising incomes – between 2015 and 2025, the region’s population is anticipated to increase by approximately 100 million people (Colby 2015).

The Consumer

Saudi Arabia

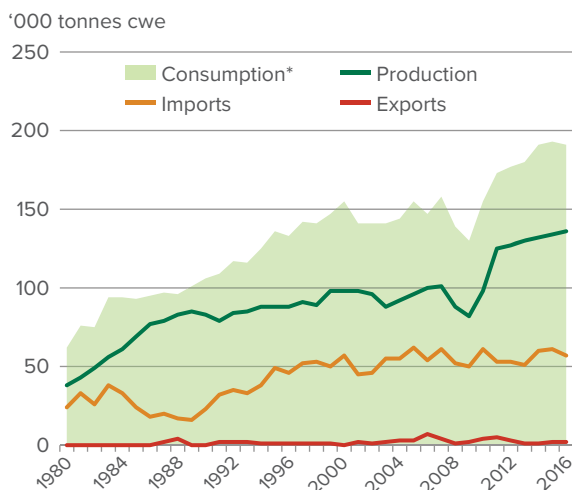
Saudi Arabia had an estimated population of 31.5 million people in 2015 (United Nations 2015) and the vast majority follows the Islamic faith. Historically, sheepmeat has been an important part of the diet within the Islamic religion and culture, and with the population growing at approximately 2.5% per annum over the past 10 years (United Nations 2015), consumption is likely to benefit from the increased need for protein.

Figure 7 clearly highlights a steady rise in sheepmeat consumption in Saudi Arabia, from an estimated 62,000 tonnes cwe (carcase weight equivalent) in 1980 to 191,000 tonnes cwe in 2016 (FAO 2017). The share of imports versus domestic supply grew steadily from 1986 to 2010, but has fallen since, with a surge in local supply and imports flat (on rising prices). In 2016, domestic production accounted for approximately 70% of the nation’s consumption, leaving imports to fulfil the remaining 30% (FAO 2017).

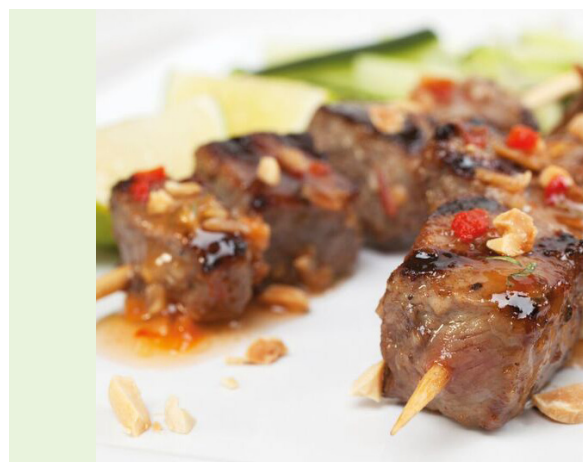
Saudi Arabian consumers are very aware of, and have a strong affinity with, lamb – higher than all other meat proteins – with local lamb the preferred source, according to MLA’s Global Consumer Tracker 2016 (see page 19 for further details). The attribute most important to Saudi consumers is price, followed by low in fat and being part of a healthy diet. Beef and lamb rate similarly in terms of safety, however chicken is a strong competitor due to its cheaper price and versatility.

When compared to consumers in the UAE, Saudi consumers are more likely to limit meat intake to avoid possible health concerns. Looking at the type of meat though, Saudi consumers are less likely to limit lamb than those in the UAE, but more likely to limit beef, chicken, seafood and goatmeat than the UAE (Global Consumer Tracker 2016).

Figure 7: Sheepmeat in Saudi Arabia



Source: FAO * Estimated Consumption = (Production + Imports) - Exports

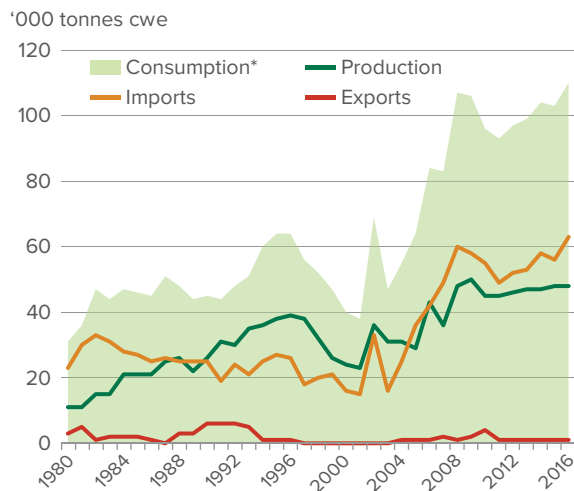


The United Arab Emirates (UAE)

The population of the UAE in 2015 was estimated at 9.2 million people – growing at an average rate of 7.6% over the last decade (United Nations 2015). Total sheepmeat consumption over this period has also risen considerably – up more than 40% since 2015 (figure 8).

In contrast to Saudi Arabia, imports account for a greater proportion of consumption than domestic production, and the import share continues to rise. In 2016, sheepmeat imports accounted for an estimated 57%, while domestic production met 43% of the UAE’s consumption requirements (FAO 2017).

Figure 8: Sheepmeat in the UAE



Source: FAO * Estimated Consumption = (Production + Imports) - Exports

According to MLA’s Global Consumer Tracker 2016, lamb is a widely consumed and popular protein in the UAE, although chicken competes in frequency of consumption and past month purchases. Price and convenience are the attributes driving high consumption of chicken in the UAE, although lamb has some negative connotations related to price and fat content.

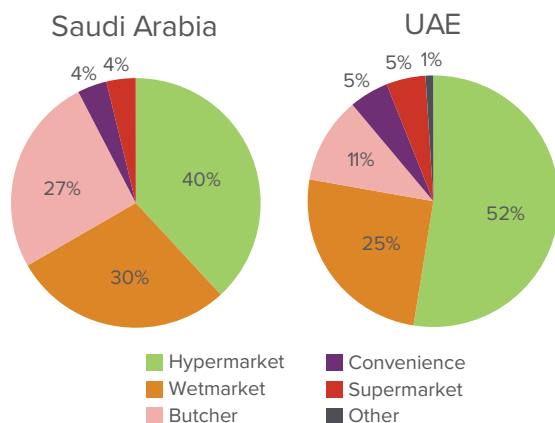
MLA’s Global Consumer Tracker indicates that Australian lamb rates the strongest in terms of awareness and consumption, followed by local and Indian mutton.

Marketing channels in the Middle East

In the Middle East, imported lamb is predominantly marketed through the retail sector. Chilled lamb carcasses attract the strongest demand, along with leg and shoulder to a smaller extent. The degree of in-market development and consumer cooking preferences influences the popularity of purchase channels in each country.

As shown in figure 9, in Saudi Arabia, consumers are most likely to purchase lamb from butchers and at wet (traditional) markets (MLA Global Consumer Tracker 2016). The key marketing influences on Saudi Arabian consumers are in-store displays/leaflets, word of mouth or a television advertisement.

Figure 9: Consumers’ main place of purchase (retail) for sheepmeat



The UAE is the most developed market in terms of purchasing and cooking methods. Hypermarkets are the main avenue for purchasing lamb in the UAE, followed by wet markets (figure 9), and lamb is also prominent on social occasions and when eating out. The survey results highlight that television cooking segments and celebrity chef endorsements are most influential in lamb, and also beef, purchases.

Source: MLA Global Consumer Tracker 2016 conducted by Kantar Millward Brown

In terms of Australian sheepmeat, utilisation channels differ between countries. In the UAE, Australian sheepmeat is utilised in both the retail and foodservice sectors. Volumes of higher value lamb cuts (such as leg, rack and boneless loin) to the market have grown, as lamb increasingly features on higher end dining menus. However, carcasses to the UAE have dominated the trade and have recorded considerable growth over the last two decades. Carcasses are utilised across all segments of the market – highlighting the urbanisation and growth of the retail sector.

In Saudi Arabia, the majority (particularly frozen mutton) goes into foodservice – lower-end catering in particular. Elsewhere in the Middle East, the carcass trade is dominant in Qatar and Bahrain, where butchers break down the carcass to be sold to consumers.

Factors affecting sheepmeat’s position in the Middle East in the long-term

MENA is a developing region where sheepmeat is a long-standing and staple part of the diet for a large proportion of the population. Economic growth and, in turn, consumer demand for sheepmeat in the region will depend largely on the direction oil prices move in the future – the IMF, World Bank and Economist Intelligence Unit all expect a recovery in oil prices from the 2016 low.

A further determining factor on the import front will be the extent to which domestic sheepmeat production rises with demand growth – driven by income and population growth, as well as consumer preferences. However, a declining sheep flock, desertification, conflict and the cost and availability of imported feed are the primary factors limiting domestic production growth in the MENA region, suggesting demand is likely to increase further for the import-reliant UAE in particular.

Overall, the primary limitation to increased consumption in the region is affordability.

6: The United States

Sheepmeat’s position in the US

In the US, lamb occupies a niche position and is increasing in popularity.

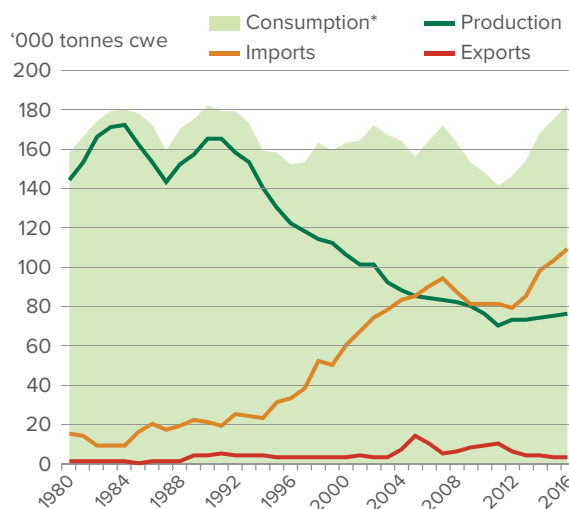
The sheepmeat market in the US is relatively small, compared to other meat proteins and imports, although it is a high value market – mostly importing higher quality lamb cuts, and a smaller proportion of mutton. While per capita sheepmeat consumption is very low, total consumption volume is still quite large due to the size of the US population (324.1 million people in 2016; BMI Research 2016 estimates).

Per capita sheepmeat consumption in the US has declined from just over 0.6kg in 1990, to 0.4kg in 2016, and is projected to ease to 0.34kg by 2025 (OECD 2017). However, the fall in total US sheepmeat consumption has been much less pronounced – with the 2006-2015 average down 7% on the preceding 10 years, to 147,000 tonnes cwt (FAO 2017). Probably in part because of its niche position, the consumption range has been wide over the last 10 years, largely in line with import supply changes – between 172,000 tonnes (2007) and 133,000 tonnes (2011), and back to 149,000 tonnes in 2015.



Contrary to beef and pork, domestic sheepmeat production in the US no longer covers domestic consumption requirements, with imports accounting for an increasing share of the total volume of sheepmeat consumed in the US (Jones & Shane 2009). As illustrated in figure 10, US production has followed a steady downward trajectory since the 1980s, largely due to low profitability and the removal of the National Wool Act subsidies in the early 1990s, while consumption remained fairly stable. The US sheep flock has fallen from a record high of 56 million head in 1942, to just 5.3 million head as at January 2016 (Haley & Mathews 2016). As a result, lamb imports – largely from Australia and New Zealand – have increased to supplement reduced domestic supplies (Jones & Shane 2009).

Figure 10: Sheepmeat in the US



Source: FAO * Estimated Consumption = (Production + Imports) - Exports

The US Consumer

Lamb remains an unfamiliar protein to the majority of US consumers, and generally makes up a very small part of the average American diet. In fact, 49% of US consumers have never purchased lamb, largely due to lack of awareness and knowledge when it comes to preparation (MLA Global Consumer Tracker 2016).

Table 1: US consumer perceptions

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

Source: MLA Global Consumer Tracker 2016 conducted by Kantar Millward Brown

There are, however, opportunities (both new and existing) to broaden the consumption base of lamb in the US, particularly high-value, high-quality cuts appealing mostly to consumers with a higher disposable income who live on the east coast.

Sheepmeat consumption in the US has traditionally been driven by ethnic populations (Muslim, Hispanic, Greek) who consume considerably more than the nation’s per capita average. A large proportion of the immigrant population in the US originate from countries where sheepmeat is widely consumed. As of July 2015, the US Census Bureau report that the Hispanic population in the US was 56.6 million, accounting for 18% of the nation’s total and the nation’s largest ethnic minority. By 2060, the Hispanic population is projected to more than double to 119 million, which would constitute 29% of the total US population by that date (United States Census Bureau 2016). The growing Muslim and Hispanic populations which incorporate sheepmeat as a staple part of their diet will drive further consumption and demand for the protein.

Millennials are an important target group in the US market for sheepmeat consumption, who are keen to try different foods and flavours. Approximately 15% of people in the US aged 20-34 were born in a different country (The Council of Economic Advisers, 2014) – which has seen a rise in popularity of ethnically diverse cuisines (such as Middle Eastern, African and Indian styles of cooking) and ‘non-traditional’ flavours, and lamb is increasingly utilised. The expansion and more widespread adoption of ethnic cuisines that traditionally involve lamb offers a potential growth segment of the market, outside the dominant leg and loin trade, to lift sheepmeat consumption in the US.

According to results from the MLA Global Consumer Tracker 2016, in the US, lamb is associated with good animal welfare, becoming a more popular protein and a superior meat that consumers are willing to pay more for. However, lamb scored negatively for versatility, ease and convenience of preparation and cost.

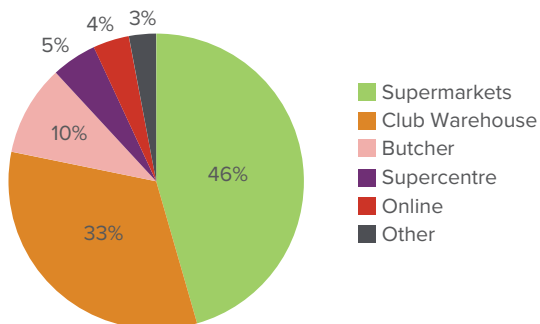
Furthermore, the number of higher income earning households in the US is increasing – one of the key factors that is driving consumption demand. It is estimated there are currently 28.5 million households with an income over US\$75,000 p.a., and this number is projected to rise 17% by 2020 (BMI Research).

Marketing channels in the US

There are regional differences in lamb consumption in the US. Of the cities surveyed in the MLA Global Consumer Tracker 2016, Florida, New York, Los Angeles and Washington rated the highest in terms of Australian lamb consumption (in the past seven days) – while Chicago and Houston were the lowest.

At the retail level, supermarkets and club warehouses (i.e. Costco) are the main purchase channels for Australian lamb in the US, followed by butchers (figure 11). Those who shop at Costco tend to be younger, higher income consumers – awareness is less of a challenge among this group of consumers, highlighting their willingness to purchase if product is available (MLA Global Consumer Tracker 2016). Fresh lamb consumers in the US are premium shoppers – they have a higher spend per shop and have a preference for healthy, home-cooked items (Nielsen, shopper behaviour analysis, 2015). Nielsen report that the fresh lamb cuts with the greatest value share at US retail are lamb chops (52%), followed by lamb roasts (22%), lamb leg (15%), mince (7%) and shank (3%).

Figure 11: Consumers’ main place of purchase (retail) of Australian sheepmeat



Source: MLA Global Consumer Tracker 2016 conducted by Kantar Millward Brown

The perception of lamb as a niche product, appealing largely to affluent consumers, offers the opportunity to drive lamb consumption through the foodservice sector. Lamb has increasingly featured in US restaurants over the last decade – in 2015, lamb appeared on 42% more menus than in 2005. Lamb maintains a strong position in fine dining restaurants, but shifting demographics and demand for more convenient and cheaper lamb options (burgers, meatballs, kebabs) has driven growth in fast-food, family and casual dining channels as well. The most popular cuts used in US foodservice are lamb chops, followed by lamb rack and mince (Datassential – Lamb Menu Trends 2015).

Factors affecting sheepmeat’s position in the US over the long-term

The US is a developed country with a diverse population. Sheepmeat remains a niche item in the US as a whole, on account of limited consumer awareness and historical trends, of the product. Within certain ethnic groups, however, sheepmeat is considered a staple protein of traditional cooking styles and cuisines.

The capacity to enhance consumer awareness and confidence to purchase and cook with lamb will be a long-term determinant of consumption growth, along with increased adoption of ethnic cuisines that incorporate lamb across the wider US population.

With expansion in population, ethnic demographics and rising incomes, underlying demand for sheepmeat in the US seems likely to rise in the long-term. However, with local production expected to continue declining, the market will rely on imported sheepmeat to satisfy consumer demand.

Whether this occurs will depend heavily on Australian supplies and the dynamics of the global lamb market – with the US needing to compete with emerging markets in China, elsewhere in Asia and the Middle East.

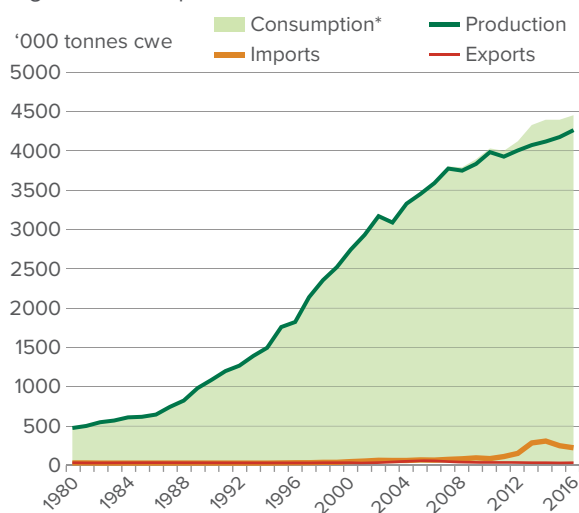
7: China

Sheepmeat’s position in China

As the largest producer, consumer and importer of sheepmeat in the world, China plays a critical role in the sustainability of the global sheepmeat industry. Rapid urbanisation, particularly within the middle income earning class, will contribute a great deal to growing meat consumption over the coming years. However, competition between other proteins (pork, chicken, beef) has the potential to limit further growth (BCG 2015).

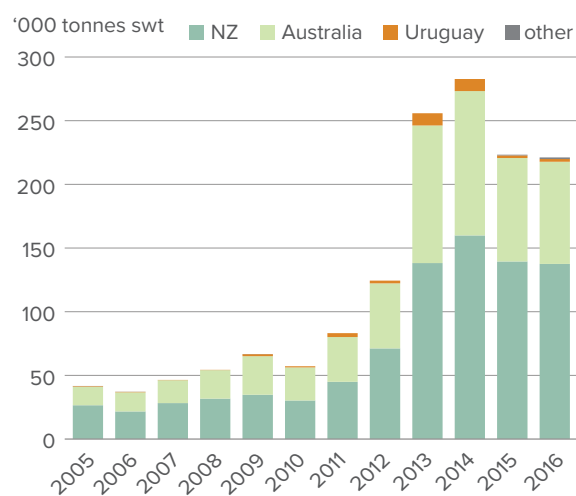
The situation in China is particularly critical to world trade and will greatly influence the extent to which demand for sheepmeat continues to grow in the future. As shown in figure 12, China’s total consumption in 2016 is thought to have reached over 4.4 million tonnes cwe, with 96% of total sheepmeat consumed produced domestically (FAO 2017).

Figure 12: Sheepmeat in China



Source: FAO * Estimated Consumption = (Production + Imports) - Exports

Figure 13: China sheepmeat imports



Source: GTA

FAO forecast China’s population to grow at 0.4% per annum between 2013 and 2023 – with further consumer demand for meat products expected to be assisted by increasing incomes and urbanisation (FAO; Colby 2015). Working in Australia’s favour, future demand for high quality meat is expected to be unpinned by further growth in China’s middle/upper classes, particularly, with the influence of changing preferences and an openness toward foreign food cultures from younger demographics (Colby 2015).

Shifting consumer tastes and preferences in China, as a result of a growing middle income earning class and greater population, has resulted in higher demand for premium imported sheepmeat – putting suppliers such as Australia in a commanding position to capture market share. Recent growth of Chinese sheepmeat imports has changed the dynamics of the world sheepmeat market. However, it has also raised questions about how future developments in global trade will impact sheep prices and farm gate returns (Colby 2015). The global export trade for sheepmeat is heavily dominated by Australia and New Zealand (NZ), and although Australia is the largest exporter of sheepmeat in the world (FAO, 2014), New Zealand continues to be the largest supplier to China, as illustrated in figure 13.

Australian sheepmeat exports to China declined marginally (1%) in 2016, to 59,449 tonnes swt (Department of Agriculture and Water Resources). However, the proportion of lamb shipments increased to 66% (up from 52% in 2015), with the share of mutton exports lowering accordingly. These shifts reflect tighter New Zealand supplies, a rebuilding Australian flock, along with changing Chinese consumer preferences. As a result, this has seen demand for certain cuts (mainly lamb) strengthen – with volumes of breast and flaps, manufacturing, neck and shoulder exports all increasing year-on-year in 2016.

The Consumer

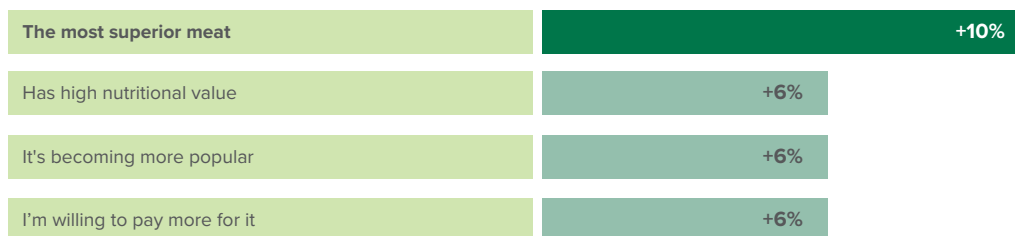
Breast and flaps have been Australia’s most sought after lamb cut in China due to its higher cooking versatility compared to other cuts, and their suitability for use in popular cooking methods, such as hot pot and slow cooking.

The expansion of the middle class has seen growing demand for premium product in recent years, presenting value growth opportunities for Australia and New Zealand.

More highly consumed meat proteins in China, such as pork (31kg per capita), beef (4kg per capita) and poultry (12kg per capita), presents strong competition for sheepmeat (3kg per capita; OECD 2017). Although the rise in higher income consumers – who are more resilient to higher prices and show greater willingness to pay for premium product – have supported demand growth for sheepmeat consumption and higher value cuts. This growth has largely been underpinned by the growing need for more guaranteed food safety and quality assurance in branded products – hence the attractiveness of Australian and New Zealand product.

According to MLA’s Global Consumer Tracker 2016 (figure 14), Chinese consumers have a strong affinity towards lamb, despite the popularity of cheaper proteins such as pork and chicken – highlighting their willingness to pay a premium for quality. The survey results show that pork and chicken are seen as more convenient, low cost options, while red meat proteins such as lamb are associated with higher nutritional benefits and superiority.

Figure 14: Chinese consumer perceptions – Strengths of lamb versus other proteins



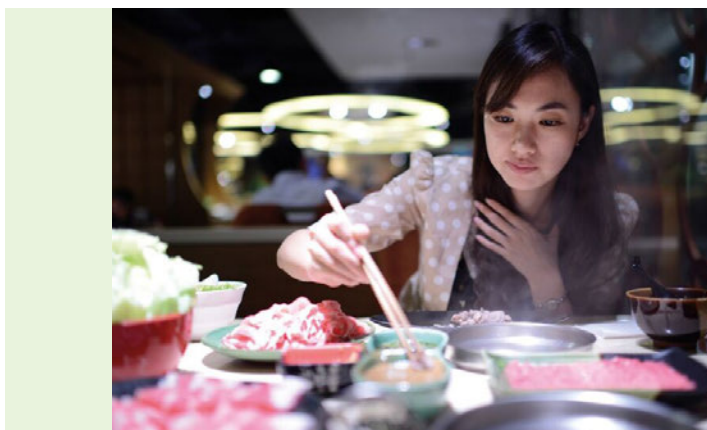
Source: MLA Global Consumer Tracker 2016 conducted by Kantar Millward Brown

Marketing channels in China

Key drivers for further growth in demand, particularly for value growth, will be both high-end retail and foodservice sectors. In particular, high-end hotel restaurants, hypermarkets and supermarkets remain the key channels in the larger cities in China, as national retail food groups reportedly continue to expand as a result of the growing population and middle income earning class. Online retail is also forecast to see strong growth in coming years, as significant investments in cold chain logistics improve customer satisfaction with online purchasing of fresh produce such as meat (IGD 2017).

Despite China ranking number one globally in total retail sales, the retail sector is among the most fragmented. Although supermarkets now account for 44% of food sales in China, retail chains tend to be quite localised. As the government continues to encourage development in rural areas, the number of outlets is expected to expand 8% per annum over the coming years (Colby 2015; IGD).

In China generally, there is increasing demand from consumers and key retail channels for imported product which is generally regarded as safer, more environmentally sustainable and of higher and consistent quality compared to domestic product. Food safety scandals over the years have caused consumers to be more selective in their food choices, presenting further opportunity for Australian and New Zealand lamb exports, particularly as new and innovative channels such as E-commerce (online shopping) develop. Through to 2020, E-commerce is expected to drive 42% of total consumption growth (BCG 2015).



E-commerce is well-developed in China, as demonstrated by its importance in other categories such as consumer electronics and fast-moving consumer goods. A range of manufactured and frozen sheepmeat products are currently sold through online channels. Cold chain integrity and management remains a challenge for fresh produce, including chilled meat, though improvement is expected in the longer term.

Factors affecting sheepmeat’s position in China over the long term

China’s economic complexity and cultural variation regionally provides both challenges and opportunities for the global sheepmeat market. Demand growth will predominantly be driven by ongoing, albeit slower, economic expansion and urbanisation. The latter is particularly important for future demand for imported sheepmeat. Despite slower economic growth, consumer demand for imported meat is expected to continue to grow – with the urban middle class, desire for premium products, greater variety, guaranteed safety, higher quality and greater health awareness among the main drivers.

Expected future growth in the upmarket hotels and restaurant sector in particular is likely to continue to facilitate the growth in demand of sheepmeat in China over the coming years – with a growth rate of close to 10% per annum forecast through to 2020 (Colby 2015).

China supplies the vast majority of its sheepmeat needs and has, up until this decade, managed to expand supply fast enough to contain sheepmeat price rises without significant imports. However, the more rapid growth in demand together with land and water constraints and severe wind erosion has caused China to accept that sheep production growth will be insufficient and imports will be required to meet future demand growth.

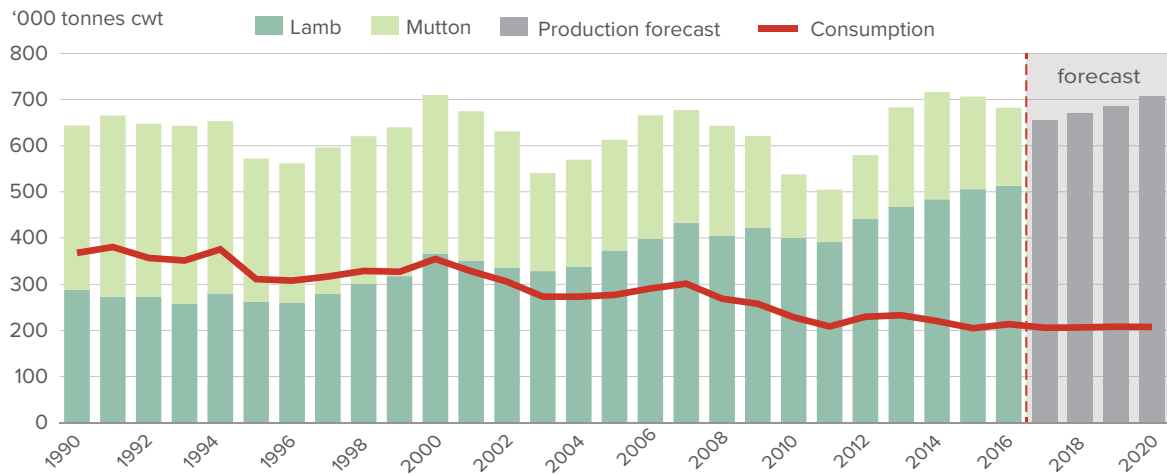
Therefore, the extent of this expected long-term sheepmeat consumption growth will depend greatly on global sheepmeat availability and prices, competing proteins, the continued improvement of cold chain storage and logistics, and evolving consumer preferences, along with the wider implications of a rising upper-middle class, emerging new generations and the growing role of E-Commerce (BCG 2015).

8: Australia

Sheepmeat’s position in Australia

Australia is the world’s second largest sheepmeat producer, but the largest exporter. Driven largely by a growing population and the traditional position of lamb in the diet, Australians remain the third largest consumers of sheepmeat in the world in per capita terms (7.7kg per capita; OECD, BMI) and second largest in total behind China. Figure 15 illustrates the gradual decline in consumption since 1990, despite the rise in lamb production over the same period. Australia’s total sheepmeat consumption has somewhat stabilised in recent years, and is forecast to remain around this level, at just over 200,000 tonnes cwt. Improved technologies have seen Australian consumers become increasingly information empowered. However, with slower disposable income growth in recent years and increased competition from other proteins (pork, beef, chicken), consumers have simultaneously become more price sensitive as a result (MLA 2017).

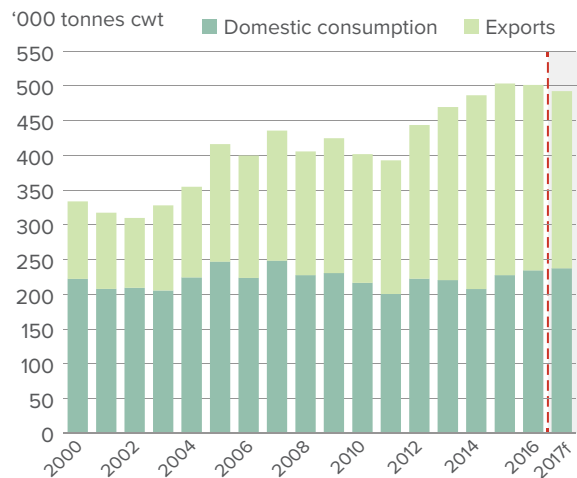
Figure 15: Australian sheepmeat production and consumption



Source: ABS, MLA forecasts

Traditionally, production was predominantly utilised by the domestic market. However, in recent years, as a result of stronger global demand and increased production levels, the share of total production has swung in favour of exports, as illustrated in figure 16 – with 53% of total lamb production exported in 2016. In 2016, Australian lamb production increased marginally (1%) compared to the year prior – at close to 516,000 tonnes cwt. Lamb exports recorded a slight decline year-on-year in 2016 – to 242,285 tonnes swt – driven predominantly by lower shipments to the Middle East.

Figure 16: Domestic lamb utilisation



Source: ABS, MLA forecasts

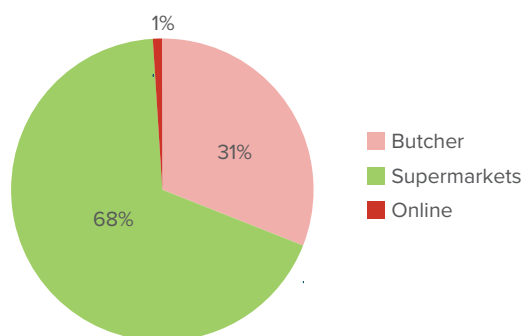
Greater migration from Asian countries and the changing demography has created both opportunities and challenges for the Australian sheepmeat domestic market in recent years. Furthermore, the Australian population is anticipated to increase to 25.6 million by 2020 (BMI Research, 2020 estimate). This, combined with an expected increase in average household earnings, will underpin demand for total meat protein over the coming years. However, with this comes a simultaneous increase in competition from other more widely consumed proteins such as pork and chicken – which are more ‘staple’ proteins in many Asian countries, relatively to sheepmeat.

The Consumer

In recent years, a range of factors have contributed to fluctuating consumer demand for lamb in Australia. Social factors have continued to grow in importance to the consumer – with environmental awareness, animal welfare concerns and food integrity among the most prevalent.

Changes in attitudes and perceptions towards lamb have been underpinned by various demographic trends that have resulted in Australian consumers becoming more informed and health conscious. Furthermore, research indicates that freshness and price are the two key attributes for consumers when purchasing meat. The latter is particularly important, with concerns over price one of the biggest barriers to red meat consumption and, in the case of lamb, a significant weakness. However, a recent study has shown that, due to its benefits in flavour and safety, lamb is in fact a product that consumers are willing to pay more for (MLA Global Consumer Tracker 2016).

Figure 17: Consumers’ main place of purchase (retail) for sheepmeat in Australia



Source: MLA Global Consumer Tracker 2016 conducted by Kantar Millward Brown

Turning over close to \$123 billion in 2016, and with a further 5.7% rise in revenue expected in 2017, the Australia grocery retail sector is a fundamental platform for future growth in consumer demand for lamb (IGD 2015). As shown in figure 18, approximately two-thirds of Australian consumers nominate supermarkets as their main place of purchase for sheepmeat, while 31% nominate butchers – with only a marginal proportion buying lamb online. The Australian grocery retail sector continues to be driven by market leaders Woolworths (36% market share in 2016) and Coles (26%) – with price competition a regularity, particularly for discounted categories.

Much the same as retail frameworks in other developed economies, the Australian retail sector is concurrently adopting disruptive technologies (such as online platforms) in order to regain market share – with IDG reporting Coles sales increased 25% in 2016 as a result.

Although highly fragmented compared to retail, the Australian foodservice sector is another avenue that has the potential to greatly influence future demand for sheepmeat. Inclusive of institutional channels such as hospitals and aged care, shifting consumer attitudes and behaviour effectively drive innovation and the evolution of foodservice providers – with further growth particularly vulnerable to international dynamics such as tourism and a fluctuating Australian dollar. Noting the growth of E-Commerce shopping elsewhere, especially in China, a trend to keep a close eye on in the Australian foodservice sector in 2017 is the tech-driven food delivery avenues, such as Deliveroo and UberEats. Recent studies have shown that value, familiarity and occasion based convenience are at the forefront of factors that contribute to consumer eating behaviours (MLA Domestic Consumer Tracker 2016).

Factors affecting sheepmeat’s position in Australia over the long-term

As demographic shifts and fluctuating consumer preferences continue over coming years, the importance of perception and buying behaviour to the Australian sheepmeat industry is paramount. When asked, the vast majority (73%) of Australian consumers feel generally positive about the sheepmeat industry and could not point to any negative elements about the industry (MLA/Pollinate, 2016).

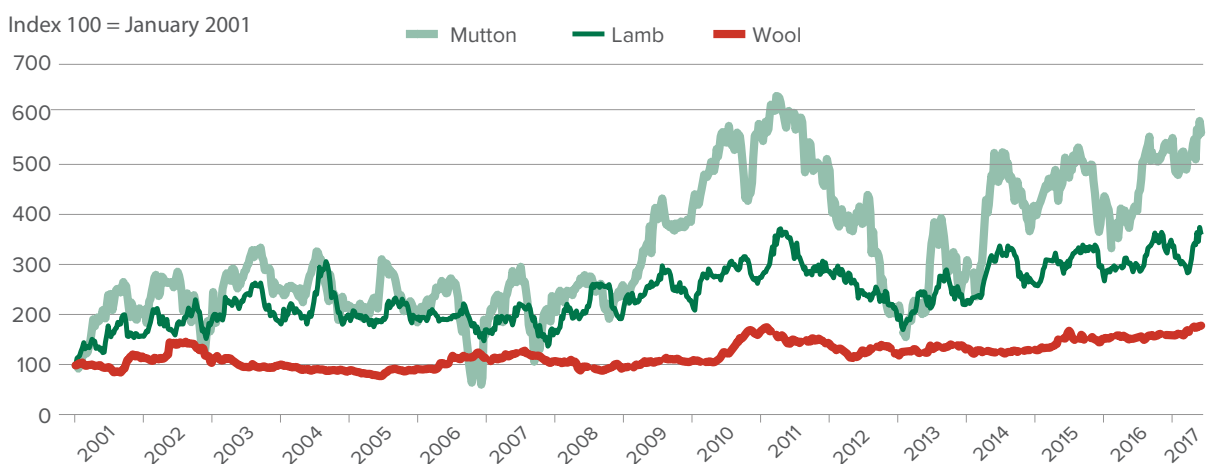
However, high prices (driven by export demand) and market competition from pork, beef and chicken are expected to continue to be a challenge for sheepmeat consumption. Although lamb value share remains steady irrespective of fluctuations in price, ensuring a consistent level of supply whilst maintaining market share will be important.

The 2017 Australian sheepmeat industry projections see Australian lamb production and exports begin to increase from 2018 onwards – with the longer-term rise in global shipments likely to be underpinned by further growth in demand in China in particular – along with the wider Asian region, the US and Middle East. The continued prosperity of the Australian sheepmeat industry is therefore heavily reliant on improving market access, as by reducing tariffs on sheepmeat through the agreements such as ChAFTA, both consumer demand and market competitiveness is improved.

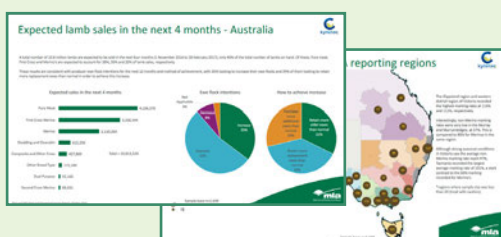
Population growth and migration from Asia, combined with growing household incomes, are significant opportunities for growth of sheepmeat consumption over the coming years. Although for many migrants, traditional meat based consumption patterns favour competing proteins such as pork and chicken, Australian lamb’s image of a clean, green and high quality product should continue to support consumer demand through what is forecast to be a buoyant domestic market in the years ahead (MLA 2017).

Figure 18 highlights that, so far in 2017, the Australian sheep industry is in a very strong position. With tighter supplies and strong international demand, the general outlook for the year ahead suggests yet again another strong year for producers and prices. However, the sustainability and effects of these higher prices domestically on both processors and consumers is uncertain.

Figure 18: Australian sheep and wool markets



Source: MLA, AWI



Visit MLA’s Market Information for up-to-date Australian sheep flock demographics and forecasts for supply and demand



9: Conclusion

The unique features of sheepmeat demand and supply provide cause for optimism for future growth in demand and sheepmeat prices, though its share of global protein consumption is likely to remain around 5%.

Like other meats, sheepmeat is likely to benefit from expected (albeit slower) global population and economic growth, particularly in developing countries. However, the product has the added advantage of no religious taboos, and a preference by consumers in the world’s fastest growing population centres and ethnic groups.

Sheepmeat supply has proven unable to match demand and, despite expected faster price-driven growth in the next decade, the imbalance seems likely to continue – due to growing resource and environmental constraints.

The four countries highlighted in this paper illustrate this global scenario, as all are likely to see further growth in demand for sheepmeat, but limited supply, making consumption largely dependent on the extent of local demand, price rises and price-sensitivity – competition between markets for the limited sheepmeat supply is likely to remain intense.

MLA Global Consumer Tracker

The MLA Global Consumer Tracker, conducted by Kantar Millward Brown, is an annual quantitative consumer research study done simultaneously in numerous export markets around the world for Australian red meat.



The research project aims to accurately describe the current protein landscape in each market and identify trends over time, quantify the awareness and consumption of Australian red meat relative to competitors, and map the consumer path to purchase. Insights gained from the report are used by MLA to develop in-market strategies and tactics to further the position of Australian beef and lamb.

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