

Industry projections 2020

Australian sheep – June update

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KEY POINTS

- Lamb supply to remain subdued until spring
- Winter contraction to support sheep and lamb prices
- Foodservice demand providing headwinds for Australian sheepmeat



KEY 2020 NUMBERS



Lamb slaughter:
20.6 million head



Lamb production:
492,000 tonnes cwt



Lamb exports:
282,000 tonnes swt



Sheep slaughter:
6.5 million head

* Graphic illustrates year-on-year change

Summary

A recovery in the national flock is underway, with sheep producers in key regions now in a position to consider increasing flock numbers. However, estimates for June 2020 pin the national flock at 63.5 million head, its lowest level in more than a century.

The recent improvement in conditions has instilled an element of confidence in producers looking to rebuild depleted flocks, particularly in New South Wales. A lift in weaning rates and weights should help support lamb supply towards the end of the year. However, the impact and severity of consecutive drought years will hinder overall sheep and lamb supply in 2020, especially during the winter. Following back-to-back years of excessive turnoff, sheep slaughter is forecast to decline by 30% to 6.5 million head in 2020. Driven by a reduced breeding ewe flock and subsequent decline in the national lamb crop, lamb slaughter is anticipated to decline to 20.6 million head, back 5% on year-ago levels.

Lamb carcass weights are forecast to increase in 2020, assisted by improved feed availability, a greater number of lambs in lot feeding programs and strong price incentives to finish lambs to heavier weights. Increasing weights will not be sufficient to offset the fall in slaughter. As a result, lamb production in 2020 is forecast to decline 2% year-on-year, to 492,000 tonnes carcass weight (cwt). Underpinned by a substantial decline in sheep slaughter, mutton production is forecast to fall sharply to 161,000 tonnes cwt, back 29% year-on-year.

Global market conditions have been particularly volatile in the past few months, as the spread of COVID-19 has fostered instability, created logistical hurdles for trade and slowed foodservice industries around the world. This year, exports of lamb are forecast to fall slightly on 2019 volumes, to 282,000 tonnes swt, while mutton exports are expected to reach 129,000 tonnes swt, back 31% on 2019.

Encouragingly, growing retail demand, a soft A\$ and the African Swine Fever induced protein deficit continue to drive export prices for sheepmeat, particularly as key markets such as China and the US compete for shorter supplies. However, many key export markets now face economic recession as a result of the COVID-19 outbreak, which could lead to tighter disposable incomes and switching of consumption to lower-priced alternatives.

Overall, sheep and lamb prices are expected to remain at historically high levels for the remainder of the year, given the expectation for fewer lambs and sheep available for slaughter, strong restocker demand for ewe lambs, limited competition from New Zealand, generally strong demand (despite some disruptions) and a low A\$.

Assumptions

Average-to-above-average seasonal conditions are anticipated for key sheep producing regions in Australia for the remainder of the year.

The latest outlook from the Bureau of Meteorology forecasts above-average rainfall between June and September for most of the country. The majority of Australia's sheep producing regions in New South Wales, Victoria and South Australia have a 60-80% chance of exceeding median rainfall, as well as areas of inland Western Australia. June to September will likely see warmer than average days for northern and eastern Australia, but cooler conditions across the southern regions.

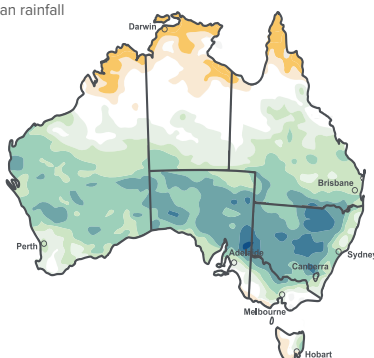
Widespread rainfall seen over the first quarter has positively impacted soil moisture across eastern and south western regions. However, despite sporadic downpours across Western Australia, soil moisture levels remain below-average and rainfall over winter will be vital for producers in the region.

Figure 1: Australian rainfall outlook – July to September 2020

Chance of exceeding the median rainfall

Legend

- Above 80% chance
- 75-80% chance
- 70-75% chance
- 65-70% chance
- 60-65% chance
- 55-60% chance
- 45-55% chance
- 40-45% chance
- Below 40% chance



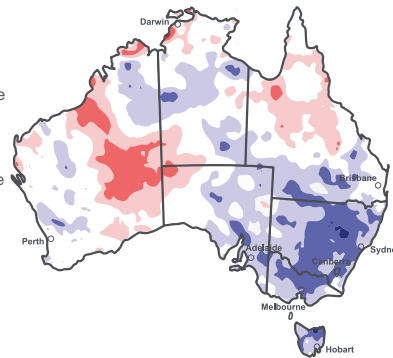
Source: Bureau of Meteorology

Figure 2: Australian rainfall – February to April 2020

Rainfall decile ranges

Legend

- Highest on record
- Very much above average
- Above average
- Average
- Below average
- Very much below average
- Lowest on record



Source: Bureau of Meteorology

Flock and slaughter

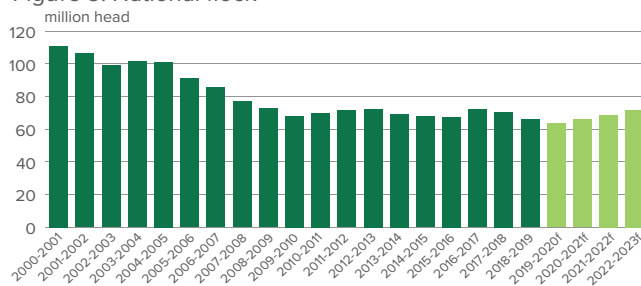
The national flock has been in contraction since 2017, attributed to very high slaughter from drought conditions across large areas of the country's major sheep producing regions, particularly New South Wales. However, New South Wales producers are now sourcing livestock from neighbouring states to restock depleted paddocks, with a large number of breeding ewes reported to be entering the Riverina, Northern and Central West areas. Demand in all eastern states has been robust, with producers and processors competing for a limited supply pool. This demand has also seen a record number of lambs heading interstate from Western Australia.

Estimates place the national flock at 63.5 million head, as at June 2020, the lowest level in over a century and 12% below June 2017, immediately preceding the latest drought. However, a renewed sense of optimism and strong price prospects over the course of the current projections period (2020-2023) should provide support to the flock rebuild.

Despite challenging conditions over the summer joining period, reports suggest positive scanning rates have been recorded. Producers with ewes on hand will have retained a productive flock base after destocking, supporting scanning rates. There has also been a greater number of producers managing ewes in containment to better monitor nutrition over the joining period.

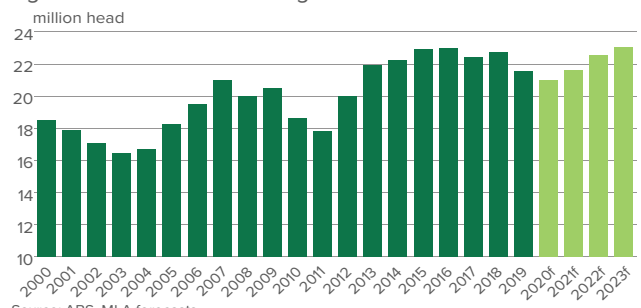
The focus through winter will be on improving lamb survival rates, which in turn will support marking rates and lamb supply towards the end of the year. However, as producers look to rebuild flocks, assuming conditions remain favourable, many ewe lambs will likely be retained. As a result, lamb supply is anticipated to remain below 2018 levels over the next two years.

Figure 3: National flock



Source: ABS, MLA forecasts

Figure 4: National lamb slaughter

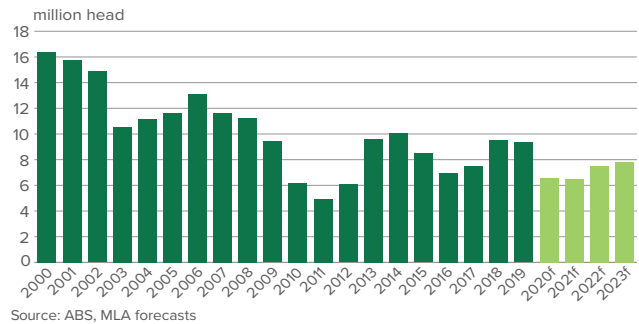


Source: ABS, MLA forecasts

This year, lamb slaughter is forecast to decline 5% year-on-year, to 20.6 million head. Similar to 2018 and 2019, supply is expected to be particularly tight during the winter months, given the depleted breeding ewe flock and fewer lambs on the ground. In addition, record prices in March elevated lamb yardings, further compounding the anticipated winter supply lull in 2020.

Processors will likely have to extend their winter shutdown period in 2020 in the absence of sufficient lamb numbers and an inability to switch to sheep, as producers look to rebuild flocks. Following sustained high sheep kills in 2018 and 2019, sheep slaughter is forecast to decline 30% in 2020, year-on-year, to 6.5 million head.

Figure 5: National sheep slaughter



Carcase weights and production – Lamb and Sheep

As a result of improved seasonal conditions in many sheep producing regions, and strong saleyard prices seen in the first quarter of 2020, average lamb and sheep carcase weights are expected to find support this year. This will help offset some of the expected decline in slaughter, albeit lamb and mutton production are still forecast to decline on year-ago levels.

Average national lamb carcase weights for 2020 have been revised higher to 23.9kg/head, an increase of 0.6kg/head on 2019 levels. Price incentives supported lamb carcase weights in 2019, despite prolonged drought conditions, as producers supplementary fed lambs and elevated numbers entered lot feeding programs. Better conditioned lambs are already starting to show, and with the aforementioned trends expected to continue, a lift in average carcase weights will help support overall production levels.

Average sheep carcase weights are also forecast to improve, lifting to 24.7kg/head in 2020, up 0.4kg/head on 2019 levels. Greater feed availability, strong mutton prices and a greater volume of ewes managed in containment should continue to support sheep carcase weights for the remainder of the year.

Increased carcase weights will not be enough to offset the drop in processor throughput, with a fall in lamb and mutton production expected for 2020. Lamb production is expected to fall 2% from 504,000 tonnes cwt in 2019 to 492,000 tonnes cwt in 2020. Mutton production is anticipated to see a sharper decline, contracting by 29% from 227,000 tonnes cwt in 2019 to 161,000 tonnes cwt in 2020. This would place lamb and mutton production at their lowest levels since 2014 and 2011 respectively.

Figure 6: Average carcase weights

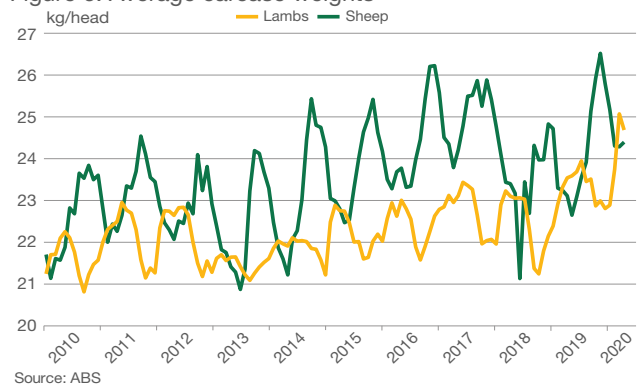
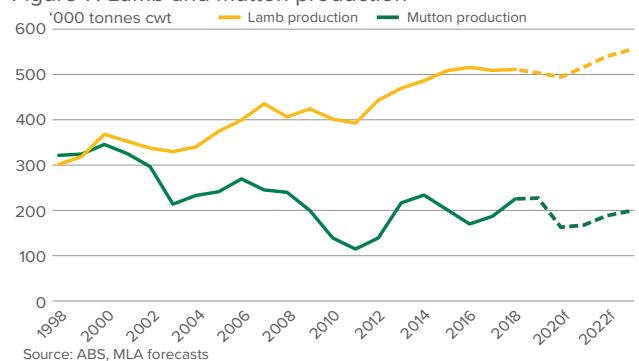


Figure 7: Lamb and mutton production

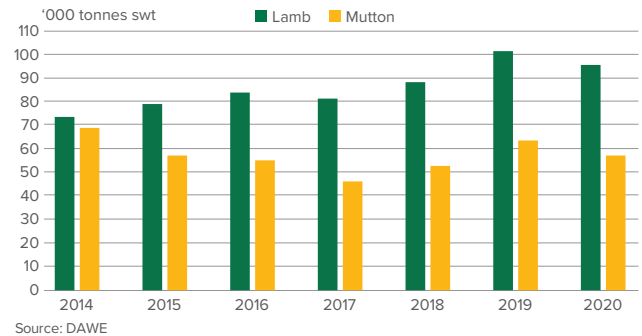


International Markets

Global market conditions have been particularly volatile in the past few months as the impact of COVID-19 ripples around the world, with the fluctuating and unpredictable nature of the pandemic causing major complications for exporters and importers. The unprecedented nature of the outbreak has created a multitude of headwinds, one of which is the slowdown of global foodservice industries, a key channel for Australian sheepmeat exports. Although sheepmeat remains a niche, premium component of many diets, the impact of COVID-19 on Australian sheepmeat demand may be more sheltered than many sectors, given that lamb and mutton play a central role in a broad mix of cultures and cuisines.

Lamb exports for the year-to-April were down 6% on 2019 volumes, however they remained ahead of the five-year average (2014-2018). The flow of exports has been encouraging, given the expectations of tightening livestock supply and supply chain disruptions resulting from COVID-19. Exports of mutton have been impacted by lower slaughter levels, down 10% on 2019 volumes for the year-to-April period. Export forecasts for the year have been revised lower, due to the softening global economy and recent rainfall tightening supply. Lamb exports in 2020 are forecast to reach 282,000 tonnes swt, down 1% on 2019 volumes, while mutton exports are forecast to decline 31% to 129,000 tonnes swt.

Figure 8: Australian sheepmeat – Year-to-April



Economic environment changing

The global economy, and most of Australia's key red meat markets, are facing a significant slowdown or outright recession as a result of the COVID-19 outbreak. In April, the International Monetary Fund (IMF) revised their forecast for global GDP growth in 2020 to a 3.0% contraction - a stark contrast to the 3.3% growth forecast back in January or the 2.9% estimated for 2019. China is the only top-10 Australian sheepmeat export market not expected to enter into an economic contraction this year. Australia, still the industry's single largest market, is also expected to enter recession after three decades of uninterrupted growth.

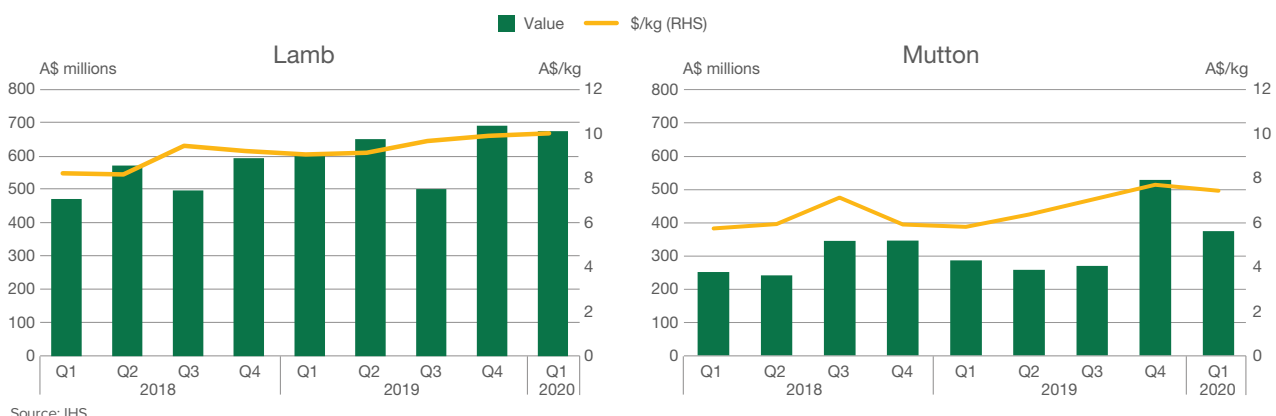
Any significant and widespread impact on disposable incomes could encourage greater consumption of lower-priced substitutes. However, in some markets, demand for sheepmeat should be sheltered by the reliance on imports and the unique role lamb and mutton plays in the certain cultures and cuisines. Regardless, the softening global environment has moderated the fierce buying competition that existed late in 2019, which led to some record prices.

After showing some signs of recovery late last year, the A\$ has softened with the global spread of COVID-19 causing the A\$ to fall as low as 58 US¢ in March. The A\$ is forecast to remain subdued through the rest of the year, which will continue to provide price support for exports.

While first-quarter export volumes of sheepmeat were back on 2019, they were up 17% in terms of value, totalling A\$1.13 billion. Lamb experienced an 11% lift in first-quarter export prices and mutton prices grew by an impressive 31% year-on-year. The growth in value was supported by surging restocker demand inflating livestock prices, the aforementioned favourable shifts in exchange rates and strong international demand at the start of the year.

While demand has held up relatively well so far, looking ahead, the outlook continues to be clouded by the volatility and uncertainty surrounding the impact of COVID-19. A global recession looms, and with over two thirds of Australian exports destined for heavily impacted foodservice channels, how this sector recovers as markets ease COVID-19 restrictions will be critical for Australian sheepmeat demand prospects.

Figure 9: Value of Australian sheepmeat exports

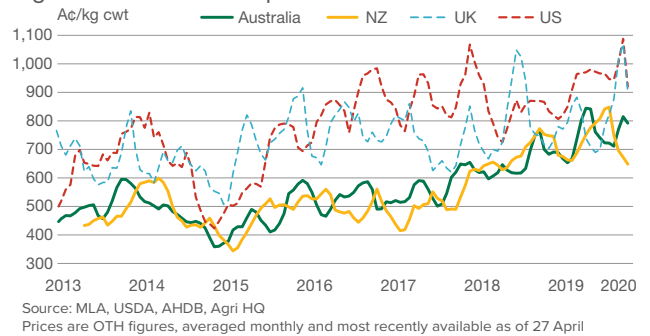


International prices

When it comes to the global sheepmeat market, Australia and New Zealand drive supply and account for 70% of global product traded. When focusing on exports, particularly into high-value markets, historically Australian and New Zealand lamb prices track each other closely. However, a clear disconnect has emerged at present due to domestic influences in Australia.

The Australian trade lamb OTH indicator in April averaged a 22% premium over its New Zealand counterpart. This largely reflects the improvement in domestic conditions and strong restocker competition, as producers look to rebuild depleted flocks. In contrast, New Zealand has experienced a particularly dry season so far and a backlog of lambs for processing hasn't been complementary to prices. As New Zealand enters its typical seasonal decline in production, this could offer further support for Australian prices.

Figure 10: Global lamb prices on the rise



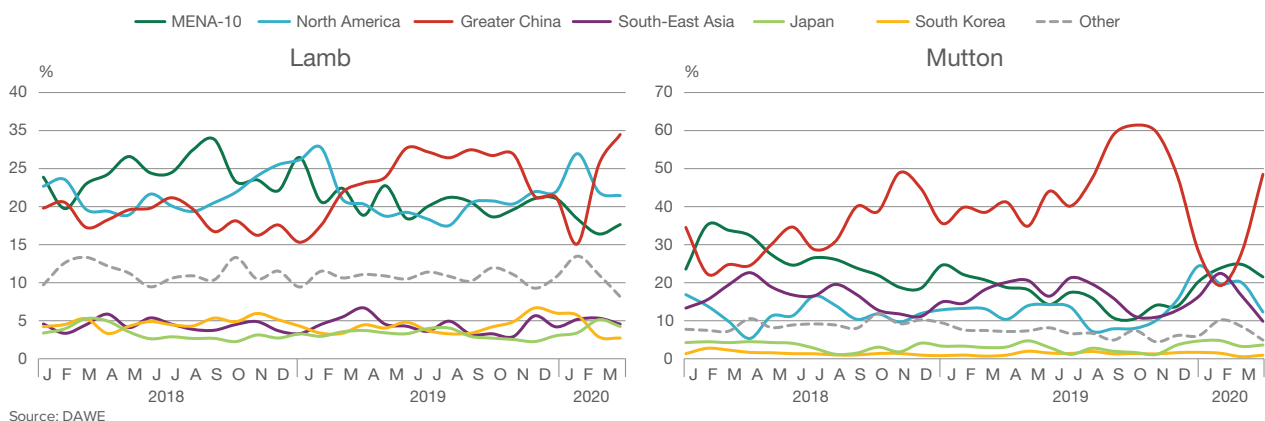
Australian export markets

After particularly elevated import volumes through the back end of 2019, demand from China had eased after the Lunar New Year and as the impact of COVID-19 set in. However, April trade figures showed a resurgence of demand, with Australian lamb exports to China now tracking 9% ahead of 2019 volumes for the year-to-April period.

Critically, China appears to be emerging from its COVID-19 shutdown, with strong meat import demand beginning to return. The percentage share of exports to China lifted through March and April, as the impact of COVID-19 led to subdued demand and disrupted trade into other international markets. Demand from China will be critical for both Australia and New Zealand in order to support prices through the coming months of uncertainty.

Like many nations around the world, COVID-19 has had an unprecedented and immediate impact on the US foodservice industry. While retail demand has picked up to help offset some of the volume lost, the sale of quality cuts often purchased through the foodservice channel is difficult to replace. Overall, US demand for lamb has slowed, with exports for the year-to-April easing 7% on 2019. A full scale return in foodservice demand in the US does not look likely in the short term, suggesting demand from other channels and markets will be essential.

Figure 11: Market share of Australian sheepmeat exports



Countries in the MENA region are not only dealing with the impacts of COVID-19, but in addition, are having to address the impact of low oil prices, which will likely impact consumer spending power. Australian exports to MENA already reflect weaker demand, with total sheepmeat export volumes for the year-to-April down 16% on 2019, and a shift in demand from chilled lamb to frozen mutton. However, red meat sales through retail channels have been strong as consumers cook more at home and online grocery shopping gains momentum.

Most of Australia's key markets in the MENA region are forecast to see weakened import demand for premium sheepmeat during the second half of 2020 and into 2021. COVID-19 lockdowns have coincided with Ramadan and Eid al-Fitr festive celebrations, while major international events such as the Qatar Grand Prix and Dubai Expo have been postponed, effectively placing the brakes on emergent hospitality and tourism industries.

Prices

Sheep and lamb prices have remained robust despite a turbulent start to 2020, having achieved record levels in March. An improvement in seasonal conditions renewed restocker confidence and intensified competition between restockers and processors for an ever-tightening supply pool.

In the first week of March, the national trade lamb indicator equalled the record set in July 2019 at 950¢/kg cwt, before returning below the 900¢ mark in subsequent weeks. The national mutton indicator surpassed the record set in 2019, peaking at 729¢/kg cwt on 12 March, 115¢ higher than the previous ceiling. Interim CV-19 price indicators have since stabilised but remain well above year-ago levels.

Looking ahead, the uncertainty surrounding the impact of COVID-19 will continue to be a key factor in processor buying decisions in the short-term, especially as foodservice demand remains largely at a standstill. However, at a domestic level, winter supply will be pivotal to price trends and the expectation is for reduced availability on year-ago levels.

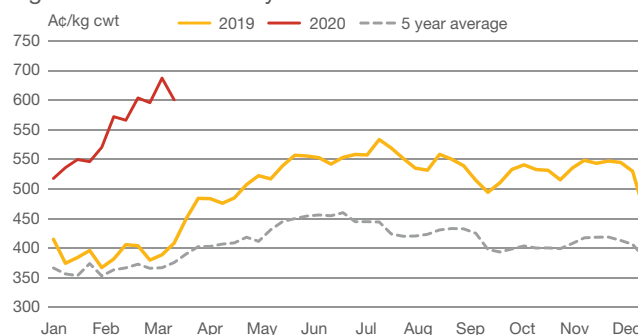
Several factors are driving this sentiment. Firstly, extensive destocking of core breeding stock over the previous two years will reduce the available lamb supply through winter. Secondly, producers will likely focus on maintaining or increasing flock numbers if they are in a position to do so, despite the expected incentive to turn off stock provided by the ongoing high prices. Finally, in response to record prices in March, many lambs were brought forward, which could further compound and prolong the winter supply lull in 2020.

Historically, lamb and sheep prices have traded at elevated levels from the end of May through to October. However, prices are currently reported well above year-ago levels and given the export uncertainty, domestic prices for store lambs are performing remarkably well.

Lamb prices are expected to remain at historically high levels for the remainder of 2020. However, if export demand wanes, processor appetite to pay current or higher prices could dwindle. Another consideration weighing on prices through winter could be the consistency of lamb supply. On the back of improved conditions, producers will be in a better position to finish lambs, unlike the previous two years, when heavy supplementary feeding has been required.

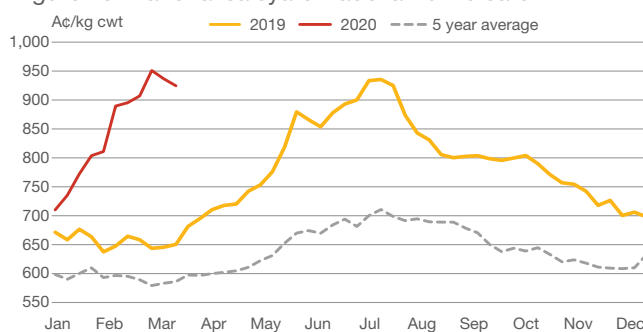
While uncertainty remains a constant, over the next two years global demand for quality sheepmeat, limited international competition and domestic supply constraints should tip the balance in favour of support for Australian sheep and lamb prices.

Figure 12: National saleyard mutton indicator



Source: MLA's NLRS
Carcass weight prices reported to 26 March 2020 due market reporting changes

Figure 13: National saleyard trade lamb indicator



Source: MLA's NLRS
Carcass weight prices reported to 26 March 2020 due market reporting changes

Situation and outlook for the Australian sheep industry

	2015	2016	2017	2018	2019	2020 ^f	% change 2020 ^f on 2019	2021 ^f	2022 ^f	2023 ^f	% change 2023 ^f on 2020		
Sheep and lamb numbers ('000 head)*													
As at 30 June	68,025	67,543	72,125	70,607	65,775	63,500		65,500	68,300	71,400	13%		
Percentage change	-1.9%	-0.7%	6.8%	-2.1%	-6.9%	-3.5%		3.2%	4.3%	4.5%			
Slaughterings ('000 head)													
Sheep	8,487	6,965	7,536	9,521	9,344	6,500	-30%	6,500	7,500	7,800	20%		
Lamb	22,876	22,956	22,431	22,725	21,624	20,600	-5%	21,600	22,500	23,000	12%		
Avg carcase weight (kg)													
Sheep	23.7	24.4	24.8	23.7	24.3	24.7	2%	25.0	25.1	25.1	2%		
Lamb	22.2	22.5	22.7	22.5	23.3	23.9	3%	23.9	24.0	24.1	1%		
Production ('000 tonnes carcase weight)													
Mutton	202	170	187	225	227	161	-29%	163	188	196	22%		
Lamb	509	516	509	511	504	492	-2%	516	540	554	13%		
Sheep exports** ('000 tonnes)													
Mutton	shipped weight		151	132	147	176	186	129	-31%	131	152	158	23%
	carcase weight		181	161	179	215	227	157	-31%	159	186	193	23%
Lamb	shipped weight		234	242	251	270	283	282	-1%	297	317	330	17%
	carcase weight		277	290	302	324	340	338	-1%	357	381	395	17%
Domestic utilisation ('000 tonnes c/c weight)***													
Lamb			231	226	207	187	163	155	-5%	159	159	159	3%
	kg/head***		9.7	9.3	8.4	7.5	6.4	6.0	-7%	6.1	6.0	5.9	

Source: ABS, DAWR, MLA forecasts

^f = forecast (in italics)

* From 2016 is an MLA estimate based on ABS Data. 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 entirely a supply statistic and does not take account of waste or non-food uses of livestock meat products.

^ Much uncertainty remains on the outlook for live exports and future forecasts will reflect developing trading, regulatory and social licence impacts upon the live export industry's ability to operate.

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