

Industry projections 2020

Australian sheep – September update

Market Information – globalindustryinsights@mla.com.au

KEY POINTS

- Annual lamb slaughter revised lower to 20.3 million head
- Short-term economic impacts and reduced foodservice activity could hinder lamb and mutton exports
- Recovering global demand and restocker competition will support flock rebuild



KEY 2020 NUMBERS



Lamb slaughter:
20.3 million head



Lamb production:
487,000 tonnes cwt



Lamb exports:
269,000 tonnes swt



Sheep slaughter:
6.3 million head

* Graphic illustrates year-on-year change

Summary

Encouraged by record lamb prices for much of 2019–20, improved seasonal conditions and higher productivity, sheep producers appear to have commenced flock rebuilding, despite demand uncertainties.

Though forecast rainfall through winter did not come to fruition, steady and regular falls across all southern states were sufficient to allow producers to commence rebuilding depleted flocks. As expected, sheep supply has already contracted, while lamb supply through winter was lower than forecast. Together with reports of higher-than-anticipated lambs marked this year, the estimate for the national sheep flock as at 30 June 2020 has been revised up to 63.8 million head, a 3% decline year-on-year.

It is now expected that sheep slaughter will decline to 6.3 million head in 2020, back 33% on 2019 levels, with annual lamb slaughter easing 6% on year-ago levels to 20.3 million head. With some offset from higher weights, this translates into a forecast decline of 3% and 31% for lamb and mutton production, respectively.

If the current forecast for above-average spring rainfall eventuates, producer intentions to rebuild flocks will continue to gain traction over the coming year, enabling a significant recovery in lamb supply.

The main uncertainty in the lamb market is on the demand front, with implications of COVID-19 in Australia and key export markets causing a general decline in foodservice demand, principally for lamb. Disruptions to processing capacity in key sheep producing states have seen domestic demand ease, which has caused lamb and mutton prices to decline by approximately 30% from records seen earlier in the year.

Demand should slowly begin to recover as COVID-19 restrictions on foodservice outlets ease, though the timing and extent of this is highly uncertain. The anticipated demand recovery could be offset in 2021 in the event of a global recession. Lamb exports in 2020 have been revised lower to 269,000 tonnes shipped weight (swt), back 5% year-on-year, while mutton exports are projected to decline 32% from 2019 levels to 126,000 tonnes swt.

With lamb supplies looking at a recovery and subdued demand likely to continue in the short-term, sheep and lamb prices are not expected to return to early 2020 records. However, prices could remain historically high, underpinned by positive drivers of demand in key markets, including an eventual recovery in foodservice demand locally and overseas, population growth, expanding Chinese imports, the ongoing protein deficiency as a result of African Swine Fever (ASF), stable demand for lamb from the US and limited competition in import markets. This could be offset in the short-term, however, by weaker local and global economies, and a stronger Australian dollar (especially relative to the US dollar).

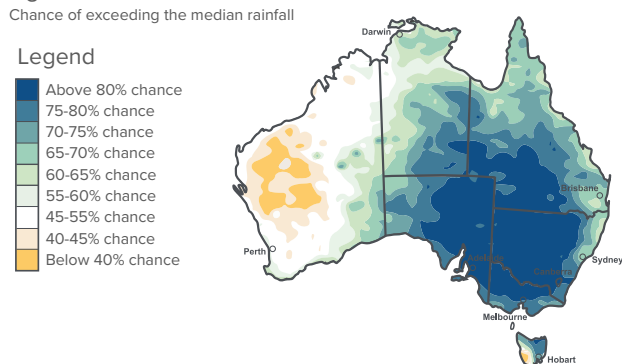
Assumptions

Average-to-above average seasonal conditions are forecast for the remainder of the year throughout Australia's eastern sheep producing regions, while the outlook for WA forecasts average to slightly below-average.

Throughout winter, key sheep production regions have seen average-to-below-average rainfall and average-to-above-average temperatures, which has prevented a full recovery in soil moisture content coming into spring across most states. In SA and western Victoria, temperatures have been reported below-average, with record lows in some regions, inhibiting typical pasture improvement rates coming out of winter.

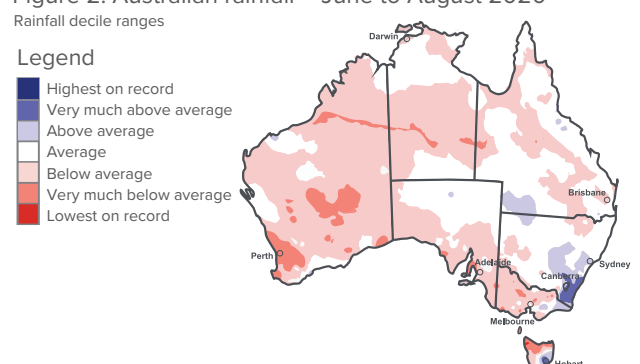
The latest outlook from the Bureau of Meteorology forecasts well above-average rainfall for eastern and central states from October to December. The majority of these states have at least a 70–80% chance of exceeding median rainfall, however, WA's forecast for the next three months is for drier-than-average conditions.

Figure 1: Australian rainfall outlook – October to December 2020



Source: Bureau of Meteorology

Figure 2: Australian rainfall – June to August 2020



Source: Bureau of Meteorology

Flock and slaughter

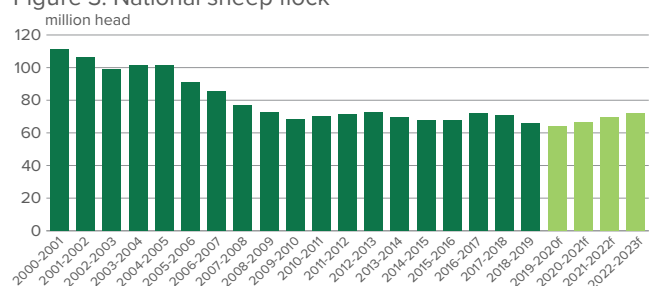
With the national flock in contraction for the past three years, the impacts of improved seasonal conditions seen earlier in 2020 will start filtering through to overall numbers with the spring flush, pushing the national sheep flock into a rebuild period from 2021. In contrast to the elevated slaughter in recent years, in 2020 processors have faced robust competition from restockers for a diminished supply pool. Interstate transfers from WA to the eastern states have held up throughout 2020, as producer intentions to rebuild in NSW and Victoria remain resolved.

Reports of increased lamb survival and marking rates through winter have increased confidence for a larger spring lamb crop this year. This has been reflected in NSW lamb yardings, with the first influx of new season lambs entering the market in greater numbers in mid-August.

With the assumption of favourable conditions for the remainder of 2020, there is the expectation that producers will retain larger numbers of ewe lambs from the spring crop, which will see fewer lambs enter the market in the coming months than in previous years. When combined with processor shutdowns and reduced processing capacity as part of COVID-19 restrictions in Victoria, the throughput of lambs entering southern markets could be significantly impacted. As such, despite an increase in the number of lambs on the ground, national lamb slaughter for 2020 has been revised slightly lower, to 20.3 million head, a decline of 6% year-on-year.

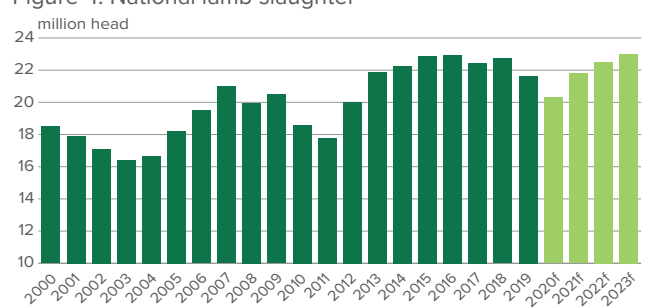
Sheep slaughter has been tracking well below year-ago levels throughout 2020, following two years of high breeding stock turn-off. Aforementioned favourable conditions will see increased retention of productive breeding ewes as producers look to rebuild flocks, with national sheep slaughter forecast to decline 33% on year-ago levels, to 6.3 million head.

Figure 3: National sheep flock



Source: ABS, MLA forecasts

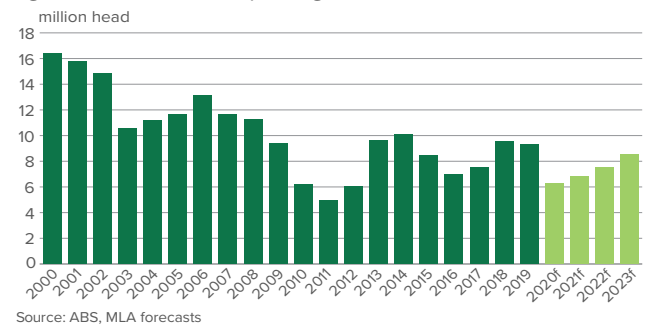
Figure 4: National lamb slaughter



Source: ABS, MLA forecasts

The national sheep flock estimation has been revised higher to 63.8 million head as at 30 June 2020, a decline of 3% year-on-year, with increased farm profitability, improved conditions and greater feed availability supporting a flock rebuild over the next three years. Increased retention of productive breeding ewes and ewe lambs, as well as improved lamb survival and marking rates from the 2020 lamb crop, will contribute to the flock recovery. This recovery is expected to be concentrated in NSW and Victoria, the states most impacted by the recent severe drought.

Figure 5: National sheep slaughter



Carcase weights and production – lamb and sheep

National lamb carcase weights have been revised slightly higher for 2020, up 0.7kg/head, or 3% on 2019 levels, to average 24kg/head in 2020. Greater feed availability across many key sheep producing regions has created increased opportunity to feed to heavier weights. However, the first weeks of spring saw downward pressure on heavy lamb prices, with subdued processor demand eliminating weight-based price premiums. Combined with anticipated greater lamb supply, lamb carcase weights are expected to remain close to the current projected levels for the remainder of the projections period (2020–23).

Sheep carcase weights are also expected to rally in 2020, revised higher to 24.9kg/head, an increase of 0.7kg/head or 3% on year-ago levels. In recent years, carcase weights have been buoyed by elevated numbers of supplementary fed stock, while the aforementioned improved feed availability is expected to bolster carcase weights to the end of 2020.

The projected increase in carcase weights this year will not be sufficient to offset the decline in slaughter, with lamb and mutton production forecast to reach the lowest levels since 2014 and 2012, respectively. Lamb production is expected to ease 3% to 487,000 tonnes carcase weight (cwt) in 2020, while mutton production is projected to contract 31% to 157,000 tonnes cwt, in line with reduced slaughter levels.

Figure 6: Average carcase weights

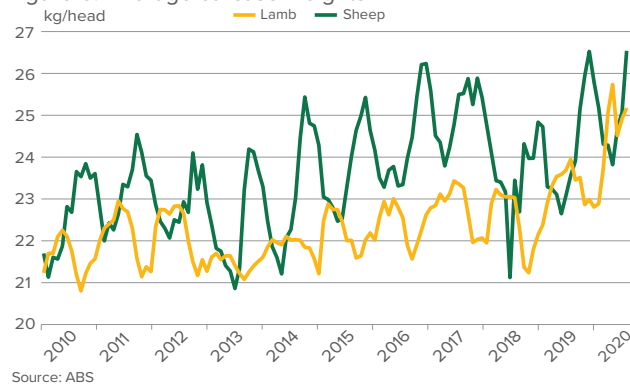
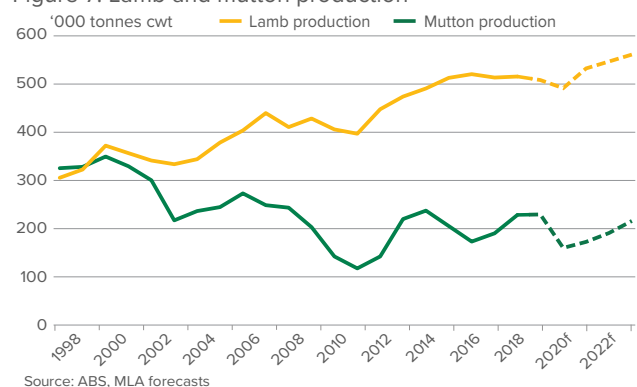


Figure 7: Lamb and mutton production



International markets

The Australian export industry continues to face a multitude of headwinds, including declining domestic supply, wavering international demand, fluctuating currency rates and recessions across a number of key market destinations.

Global market conditions remain unpredictable, particularly due to the impact of COVID-19 and its influence on foodservice industries around the world. These dining outlets are usually a key channel for Australian sheepmeat, due to Australia's status as a leading supplier of high quality lamb into global markets. For high-end foodservice outlets, a full-scale return to pre-COVID-19 demand is unlikely in the short-term, however, some promising signs have recently appeared across a select few markets.

Tightening domestic supplies have been a major limiting factor for sheepmeat exports this year. Lamb exports for the year-to-August were down 9% on 2019 volumes, while exports of mutton were back 21% on 2019. Approximately 60% of exported Australian lamb is channelled into the foodservice industry, and given the impact of COVID-19 on dining out, this has had a weighty influence on international demand. The flow of Australian sheepmeat exports through the remainder of the year is expected to continue to fluctuate as markets move through different stages of their COVID-19 recoveries.

Export forecasts for the year have been revised lower, due to the softening global economy, COVID-19 impacts on global demand and reduced supply on the back of a positive rainfall outlook. Lamb exports in 2020 are forecast to reach 269,000 tonnes swt, a 5% decline on 2019 volumes, while mutton exports are forecast to ease 32% to 126,000 tonnes swt.

Economic environment

The Australian dollar has fluctuated in 2020, as volatility in global markets has affected trade and investor sentiment. Since plummeting in March amid heightened global uncertainty, the Australian dollar has rallied, which can largely be attributed to a falling US dollar. While the Australian government will extend stimulus spending into next year to help support the economy and the Australia dollar, Australia has officially entered its first recession in over 30 years due to the impact of COVID-19. Current forecasts have the Australian dollar ranging between US 70–77¢ through to the end of the year.

Eleven of Australia's top-15 most valuable red meat export markets are now expected to enter recession in 2020, and those that are still expanding have had growth rates lowered. Australia, still the industry's single largest market, is also expected to remain in recession until at least the end of the year, after three decades of uninterrupted growth. Unfortunately, the impending contraction in key economies around the world will act as a handbrake to export demand.

Given the tightening levels of sheepmeat supply, export prices for the remainder of 2020 will largely hinge on Chinese import demand and the timing of any recovery in global foodservice, combined with the economic recovery of key markets. In addition, the strength of the Australian and New Zealand dollars will come into play, as this has a strong influence on the price of sheepmeat globally.

International competition

For the year-to-July, New Zealand exports of sheepmeat were 266,000 tonnes swt, up 1% on 2019 volumes and 18% higher than Australian sheepmeat exports for the same period. Last year, total New Zealand exports were just shy of 390,000 tonnes swt, a level that will likely be reached again in 2020. Given the contraction in Australian sheep and lamb supply and the influence that this is having on exports, New Zealand could finish 2020 as the world's largest sheepmeat exporter for the first time since 2013.

New Zealand lamb supplies are typically reduced through August and September due to the seasonal pattern of New Zealand sheepmeat production. In the coming months, markets may look to Australia for more support if New Zealand offerings ease. Recent months have seen Australian and New Zealand lamb prices begin to converge, which may improve Australia's competitive position across global markets.

Australian export markets

The Middle East is regarded as a high-value market for Australian sheepmeat, with an established carcass trade to the region underpinned by substantial growth in air-freight in the last 10 years. However, COVID-19 is having a profound effect on demand in the region and on trade. Lamb exports to key Middle East markets softened during the first half of 2020 as the crude oil-dependent countries battled with sharp economic pressures on the back of subdued oil prices, a downturn in the aviation industry and subsequent declines in tourism to the region. The aviation downturn has also adversely impacted the cost and volume of air-freighted Australian sheepmeat to the region.

For the year-to-August, MENA's total market share of Australian lamb exports was 20%, down 5% on 2019 export levels, reflecting this subdued demand.

Figure 8: Australian sheepmeat exports – year-to-August

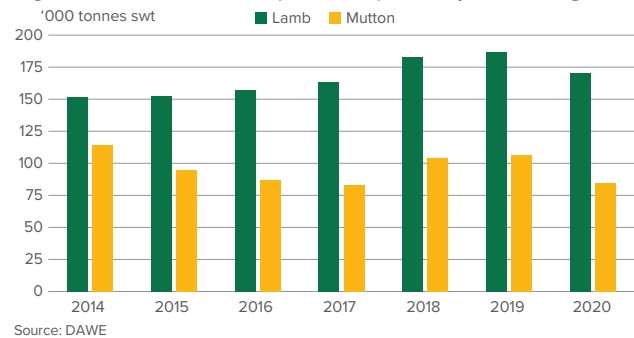


Figure 9: GDP changes across key Australian markets

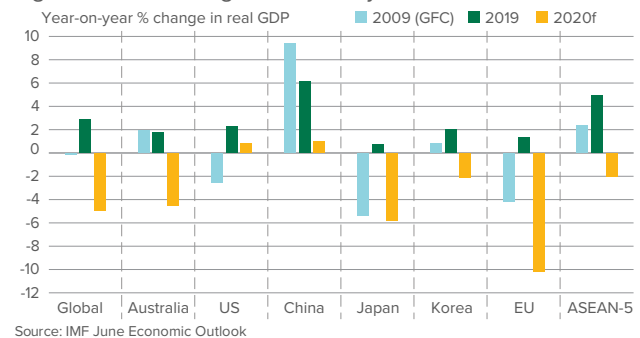


Figure 10: Australia and New Zealand lamb prices

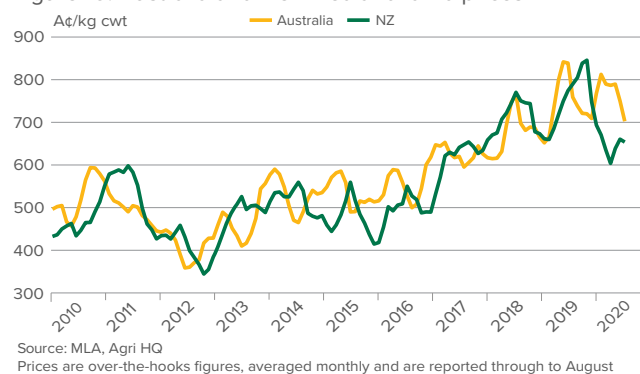
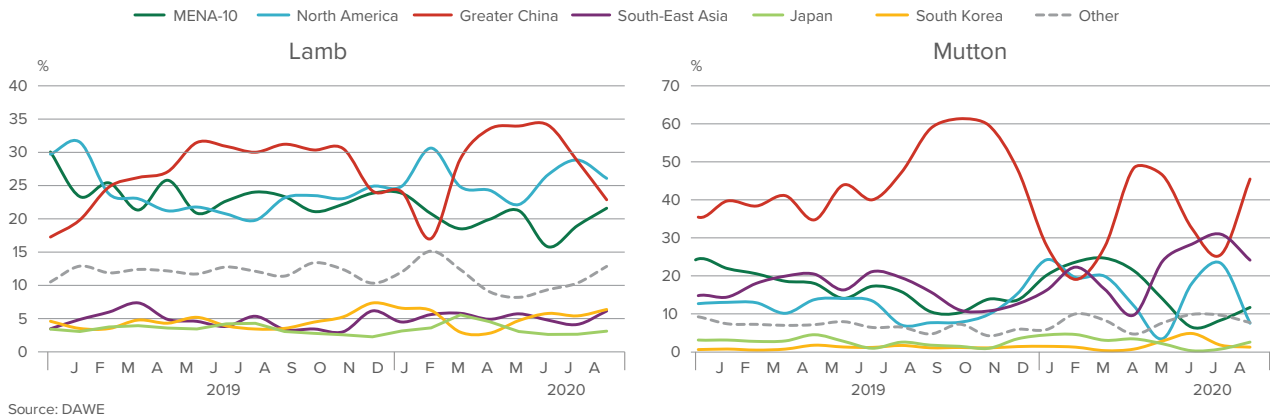


Figure 11: Market share of Australian sheepmeat exports



The US has been a key market for Australian sheepmeat this year, accounting for 21% of total exports through 2020, up from the five-year average of 17%. However, due to the premium placement of lamb through foodservice channels, COVID-19 will continue to have an impact on import demand, with prices for foodservice items such as racks well back on year-ago levels, while prices for retail cuts of lamb are holding up quite well. With the Northern Hemisphere winter looming, there is further uncertainty into how foodservice demand will cope as patrons look to dine indoors.

Lamb exports to China have performed well through 2020, back just 1% for the year-to-July, sitting ahead of the US and the Middle East as the top destination for Australian lamb. China has made some positive steps towards COVID-19 recovery, with domestic travel having been available for a few months, allowing businesses to regain some much needed momentum as residents shift back towards typical consumption patterns.

Prices

Sheep and lamb prices have declined considerably since June because of processor disruptions in Victoria and reduced foodservice demand, despite a reduction in lamb turn-off and a COVID-19 related growth in retail demand.

Adding to the unprecedented and uncertain market dynamics, improved seasonal conditions have led to higher weights and quality across all lamb categories, contributing to irregular price trends. From the beginning of June, the national trade lamb indicator declined 279¢/kg to average 637¢/kg cwt on 21 August, before gaining momentum in the following weeks to be reported at 694¢/kg cwt on 15 September, 114¢/kg below year-ago levels. Similarly, the national heavy lamb indicator reported a 303¢/kg decline over the same period, averaging 596¢/kg cwt on 21 August, before increasing to 661¢/kg cwt on 15 September, back 170¢/kg year-on-year.

COVID-19 containment efforts limiting processors in Victoria to two-thirds of total capacity have resulted in larger numbers of lambs sold through NSW saleyards since June, in a period when Victorian saleyard throughput usually increases. According to the National Livestock Reporting Service, Victoria typically accounts for close to 50% of lamb slaughter when new season lambs begin entering the markets. However, since the beginning of June, Victoria has only accounted for 43% of total lamb throughput, with NSW contributing 33%.

Restocker lamb prices have fluctuated and are currently operating below the record prices set in March, despite increased producer intentions to restock. Furthering this, a higher number of new season lambs were entering the market earlier, with throughput in July and August up 77% on year-ago levels for the eastern states.

Mutton prices have held up well relative to lamb this year, due to a significant decline in supply as producers withhold ewes to rebuild. A strengthening Australian dollar and subdued demand in key export markets have contributed to mutton prices declining since June. The national mutton indicator eased 155¢/kg cwt between 9 June and 21 August, averaging 523¢/kg cwt on 21 August, 63¢/kg cwt below year-ago levels.

Figure 12: National saleyard mutton indicator

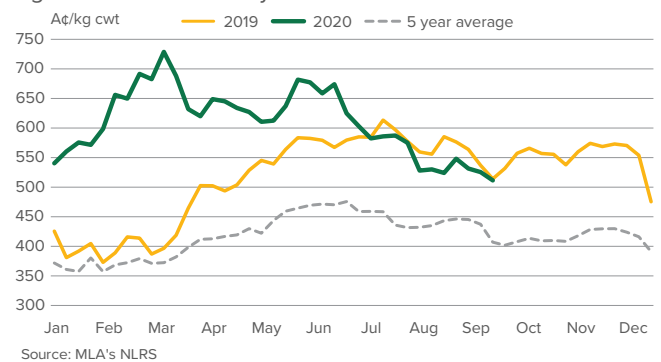
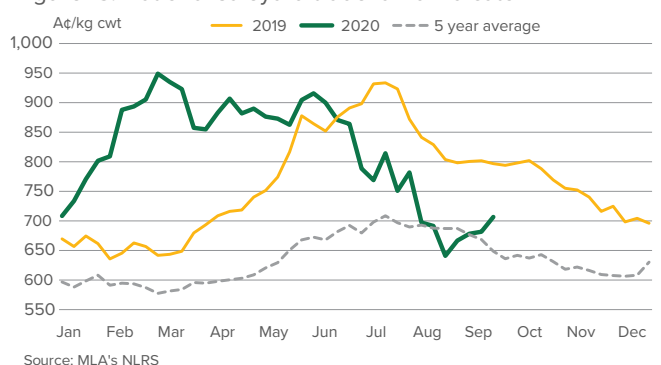


Figure 13: National saleyard trade lamb indicator



For the remainder of the year, lamb and mutton prices are unlikely to report significant increases, as subdued processor competition and decreased global foodservice demand add further downward pressure on the market. However, moving into next year, an anticipated recovery in overseas demand, robust domestic restocker buying and limited supply availability should lend support to prices.

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	65,755	63,800		66,300	69,300	71,800	13%
Percentage change	-1.9%	-0.7%	6.8%	-2.1%	-6.9%	-3.0%		3.9%	4.6%	3.7%	
Slaughterings ('000 head)											
Sheep	8,487	6,965	7,536	9,521	9,344	6,300	-33%	6,800	7,500	8,500	35%
Lamb	22,876	22,956	22,431	22,725	21,624	20,300	-6%	21,800	22,500	23,000	13%
Avg carcase weight (kg)											
Sheep	23.7	24.4	24.8	23.7	24.2	24.9	3%	24.9	25.0	25.0	0%
Lamb	22.2	22.5	22.7	22.5	23.3	24.0	3%	24.0	24.1	24.2	1%
Production ('000 tonnes carcase weight)											
Mutton	202	170	187	225	226	157	-31%	169	188	213	35%
Lamb	509	516	509	511	504	487	-3%	528	542	557	14%
Sheep exports** ('000 tonnes)											
Mutton shipped weight	151	132	147	176	185	126	-32%	136	152	172	37%
Mutton carcase weight	181	161	179	215	226	153	-32%	166	185	210	37%
Lamb shipped weight	234	242	251	270	282	269	-5%	307	319	331	23%
Lamb carcase weight	277	290	302	324	339	322	-5%	369	383	398	23%
Domestic utilisation ('000 tonnes c/c weight)***											
Lamb	231	226	207	187	165	165	0%	159	159	159	-4%
kg/head***	9.7	9.3	8.4	7.5	6.5	6.4	-2%	6.1	6.0	5.9	

Source: ABS, DAWR, MLA forecasts

* 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.

^f = forecast (in italics)

© Meat & Livestock Australia, 2020. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's *Australian sheep industry projections 2020* and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.

 [Click here for
MLA's Terms
of Use](#)