

Industry projections 2021

Australian sheep





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KEY POINTS

- The national sheep flock is set to enter a rebuild phase in 2021
- Lamb numbers to lift on the back of increased marking rates
- Demand for Australian sheepmeat has been resilient despite COVID-19 related impacts



KEY 2021 NUMBERS

-  **Lamb slaughter:**
20.8 million head
-  **Lamb production:**
508,000 tonnes cwt
-  **Lamb exports:**
290,000 tonnes swt
-  **Sheep slaughter:**
6.6 million head

* Graphic illustrates year-on-year change

Summary

The national sheep flock should begin to rebuild in 2021, following two years of decline that saw it reach historically low levels last year. In positive signs, the flock is projected to reach 67.3 million head by 30 June 2021, a 5.2% increase on year-ago levels. The rebuild in flock size is attributable to improved seasonal conditions in key sheep producing regions of eastern Australia.

In contrast to the eastern states, WA is currently in a de-stocking phase due to drier conditions throughout 2020, which have limited available pasture and surface water. As a result, it is estimated that two million sheep were transported from WA to eastern Australia last year.

The rebuild in 2021 will not be as pronounced as other recent La Niña-induced flock rebuilds, such as those in 2010 and 2016. Factors contributing to the slower predicted pace of the 2021 rebuild include the lower starting flock size and the impact of the 2019 drought, which was the worst on record for some producing regions, with many completely destocking.

Strong sheep and lamb prices are expected to remain into 2021 provided favourable seasonal conditions continue. Supply is expected to remain tight as producers retain their core breeding stock and ewe lambs, consistent with a significant flock rebuild. The rebuild will also see producers retain more older ewes than usual and many enter the market to purchase additional ewes.

Lamb numbers are forecast to grow due to increased marking rates, with Merino marking rates expected to reach 92% nationally. The improved nutrition of pregnant ewes, stemming from the abundance of quality pasture, will drive this forecast rise in marking rates. The bigger lamb crop predicted in 2021 will only lead to a slight increase in lamb slaughter for the year, up 4% to 20.8 million head, as producers intend to retain a greater percentage of ewe lambs.

Sheep slaughter is also expected to rise 2% in 2021 to 6.6 million head. The small increases in slaughter numbers predicted for both sheep and lambs are still consistent with a flock rebuild given the expectation of productivity gains such as improved lambing rates.

Lamb production is expected to quickly rebound back to 2019 levels in 2021, and post a record in 2022. In contrast, mutton production is not expected to reach 2018 or 2019 levels until after 2023. Lamb production is predicted to lift 6% to 508,000 tonnes cwt in 2021 on the back of higher slaughter numbers and improved carcase weights. The increase in the number of lambs on feed, better seasonal conditions, improved genetics, a move toward meat sheep and better management practices are all factors driving the growth in both lamb numbers and carcase weights.

Over the coming years, increases in lamb carcase weights are expected to slow in order to meet consumer preferences for smaller cuts and certain processing constraints. High current lamb prices, and abundant feed will incentivise producers to grow out lambs to heavier weights. A fall from record prices should remove the motivation to produce heavier lambs, and stabilise carcase weights.

Exports remain integral to the sheepmeat industry. It is fortunate that sheepmeat supply is currently constrained post-drought, as Australian lamb and mutton faces short-term challenges in global markets.

As supplies begin to rebuild in coming years, global markets recover from COVID-19 and China's protein shortage due to African Swine Fever (ASF) recovers, Australia may have to consider new export opportunities, such as increasing access to the UK and European markets through free trade agreements (FTA's).

As the flock prepares to rebuild in 2021, starting from the lowest base in over 100 years, it is important to note that this rebuild phase could take time. It is likely to be less pronounced than other recent rebuilds as a result of the worst drought on record, the full impacts of which might not be known for years.

Assumptions

Climate

Average to above-average seasonal conditions have been forecast for Australia's sheep producing regions in the eastern states for the first quarter of 2021, before returning to more average levels in the second half of the year.

The two major climatic influences that affect Australia's rainfall are the Indian Ocean Dipole (IOD) and the Pacific Ocean La Niña/ El Niño weather patterns. The current moderate La Niña is forecast to continue until autumn 2021, and from May the IOD is forecast to transition from a neutral state to negative. Historically, the combination of a negative IOD and a La Niña has increased the likelihood of heavy rainfall across Australia, as demonstrated in the record wet years in 2010 and 2011.

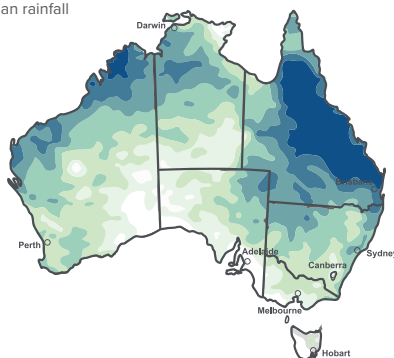
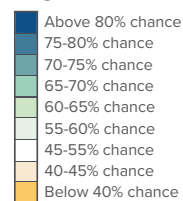
The La Niña event underway in the tropical Pacific is likely to bring above-average rainfall to the eastern mainland over the first quarter of 2021. The Bureau of Meteorology's (BOM) latest three-month outlook forecasts an above 60% chance that all NSW, southern Queensland and south-west WA will experience a wetter-than-average February to April period.

At the beginning of 2021, large parts of WA remain drought affected, with reduced pasture growth, low levels of available surface water and soil moisture deficiencies. Given the reliance on winter rainfall in the state's major sheep producing regions, any flock rebuilding in WA is likely to be delayed until at least mid-year.

Figure 1: Australian rainfall outlook – February to April 2021

Chance of exceeding the median rainfall

Legend

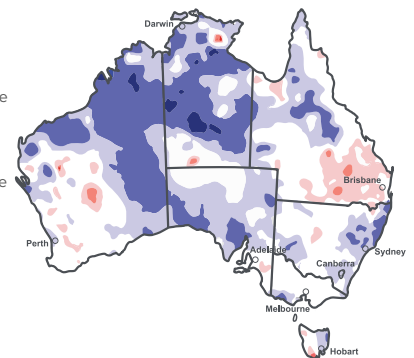
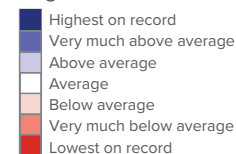


Source: Bureau of Meteorology

Figure 2: Australian rainfall – October to December 2020

Rainfall decile ranges

Legend



Source: Bureau of Meteorology

COVID-19

Throughout 2020, COVID-19 had a profound impact on economies and supply chains, both domestically and globally.

In Australia, the pandemic triggered a recession, the first since 1991, as business confidence and activity fell and unemployment spiked. National Gross Domestic Product (GDP) fell 7% over the first two quarters of 2020, before improving 4% in the September quarter. In response, the Australian Government committed A\$507 billion to stimulate the economy, boost consumer spending and assist hospitality businesses (which were especially impacted by COVID-19).

For Australian sheepmeat, the greatest impact of COVID-19 was the fall in foodservice demand, both domestically and globally, due to COVID-19 related restrictions. As consumers were forced to eat more in the home, retail sales of sheepmeat rose, making up for much of the decline in foodservice demand.

The global impact on demand varied greatly between markets, reflecting the length and strength of movement restrictions and the sheepmeat consumption patterns in individual countries.

A major impact on Australian sheepmeat sales has been evident in the Middle East – with demand for both lamb and mutton hit by depressed incomes (due in part to a fall in oil revenues) and lower tourist/business travel, cuts to some state meat price subsidy programs and the reduction in airfreight capacity to the region.

Going forward, the Reserve Bank of Australia (RBA) forecasts the Australian economy will rebound in 2021 and 2022, predicting year-on-year growth of 5% and 4% for the next two years, respectively.

The International Monetary Fund (IMF) World Economic Outlook from October 2020 estimated that the global economy contracted by 4.4% in 2020, with China the only major economy not to enter recession last year. The economies of South America and western Europe were severely affected by COVID-19, with Peru, Argentina, Spain and Italy all estimated to have shrunk by over 10% in 2020. Encouragingly, the IMF forecasts the global economy to rebound in 2021, predicting global growth of 5.2% – with both global foodservice spending and global GDP expected to recover to 2019 levels.

MLA's projections have been prepared on the basis that the world enters a COVID-19 recovery phase in 2021 due to the development and deployment of various vaccine programs. At the time of writing, a COVID-19 vaccine developed by Pfizer/BioNTech has been approved by the World Health Organisation (WHO) for emergency use and those by Moderna, Sinovac and AstraZeneca had been approved for use in a number of countries.

The global COVID-19 recovery will depend on a range of different factors including the effectiveness of the vaccines, the ability of countries to contain the spread of the virus, and how fast the virus mutates. While it is hoped the global recovery will be swift once widespread vaccination programs are implemented, the impact of the pandemic could be felt for years to come.

Wool prices

The price of wool influences the composition of the Australian sheep flock. Meat production is more attractive to sheep producers when wool prices are depressed. In 2020, the Eastern States Market Indicator for wool fell from 1,609 ¢/kg in January to 858 ¢/kg in September, a decline of 47%, before rising again to close the year out at 1,144 ¢/kg. ABARES expects wool prices in Australia to fall further in 2020–21, returning to the average level seen in the 10 years prior to 2014–15.

Exchange rate

The Australian dollar appreciated to 76US¢ in December, last reached in June 2018. At this level, Australian sheepmeat exports become more expensive compared with those of key competitors. In 2021, the major banks anticipate the AUD will remain strong with some reports suggesting it could reach 80US¢ by December, while most have the AUD sitting between 75US¢ and 78US¢.

Record low interest rates on a global scale mean interest rate differentials will have a smaller impact on exchange rates than previously. The price of key Australian exports, such as iron-ore and other minerals, will continue to be a driver of the AUD/USD exchange rate in 2021 – as at 31 December 2020 iron-ore was at a historic record price of \$158 US/tonne. Additionally, Australia's credit rating according to Standard & Poor is AAA, underpinning the forecasts that the Australian dollar should remain high.

Figure 3: GDP changes across key Australian markets

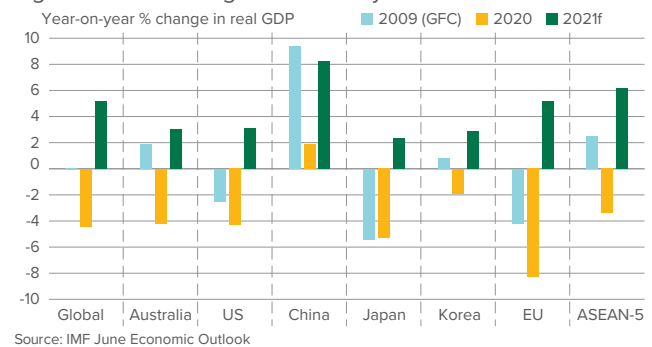
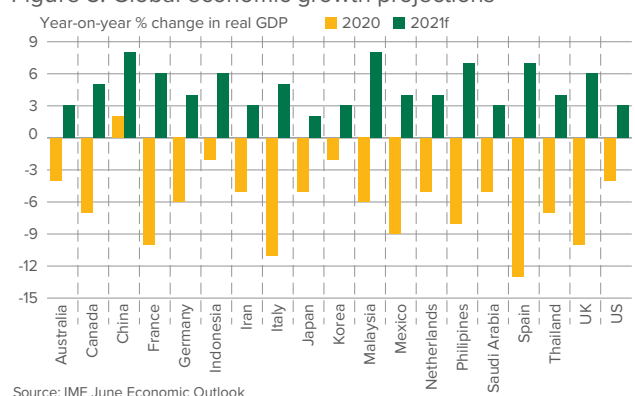


Figure 4: US/AU exchange rate



Figure 5: Global economic growth projections



Flock and slaughter

Flock

After three years of drought-induced turnoff, improved seasonal conditions across eastern Australia in 2020 assisted the transition towards a flock recovery, which is predicted to continue in 2021. As at 30 June 2021, the national flock is forecast to be 67.3 million head, a 5.2% increase on the 2020 flock. The increased flock size is largely due to significantly higher marking percentages and a higher retention of breeding ewes.

Average to above-average seasonal conditions in the first half of 2020 boosted pasture production across large parts of the eastern states. Follow up rainfall events in the second half of the year saw increased feed availability throughout the winter/spring lambing period. For WA, however, average spring rainfall events were not sufficient in relieving long-term rainfall deficits and destocking continued throughout much of 2020. As a result, around 2 million sheep departed WA for eastern Australia in 2020.

The impact of improved seasonal conditions in 2020 has renewed confidence across the eastern states, with a greater number of productive ewes retained ahead of the current joining season. This is expected to result in a bigger cohort of lambs in 2021. Producers are also expected to retain more older ewes in order to maximize their number of breeding ewes.

Increased rainfall in the eastern states throughout 2020, which is forecast to continue into 2021, is expected to provide ewes with increased nutrition during joining and pregnancy, driving up marking rates in 2021. This complements long-term management and genetic advancements that have seen marking rates trend upwards over time. Furthermore, if eastern Australia experiences a mild winter again, as it did in 2020, lamb mortalities should be limited.

On a state basis, the sheep population in Queensland is expected to continue to grow as the implementation of wide-spread cluster fencing reduces the impact of lamb and sheep predation by wild dogs and dingoes. In contrast, the WA sheep population is expected to decline in 2021 due to consecutive years of low rainfall.

Between 2016 and 2019, Australian wool prices traded at record highs. This period of high wool prices coincided with the recent three-year drought (2017–2019). In this time producers destocked a higher percentage of first-cross, shedding and dual-purpose ewes than Merino ewes to take advantage of high wool prices. Depressed wool prices, record sheepmeat prices and improved seasonal conditions are expected to change the demographics of the national flock for both ewes and lambs.

Restocker demand for breeding ewes and female lambs is expected to remain high in 2021 as the flock rebuild continues. The favourable conditions forecast in 2021 will see the number of lambs born rise – leading to increases in both the number of lambs slaughtered and those being retained for breeding purposes.

Slaughter

Lamb slaughter is expected to rise to 20.8 million head in 2021, up 4% on the estimated 20.0 million head processed in 2020.

In 2020, lamb slaughter was down 8% on 2019 levels as producers held on to ewe lambs with intentions for long-term flock rebuilds. COVID-19 also played a significant role in the subdued slaughter levels, with domestic processing capacity reduced for a period to satisfy Victoria's social-distancing requirements.

The forecast increase in lamb slaughter for 2021 reflects the expectation of a bigger lamb cohort for the year and no foreseeable disruptions to processing capacity.

Despite the Australian flock being in a rebuild phase, high prices for lambs nationally provide strong incentives for turn-off. Regionally, drier winter conditions in WA could see lamb slaughter numbers increase slightly as western producers elect to turn-off lambs, taking advantage of well-supported prices.

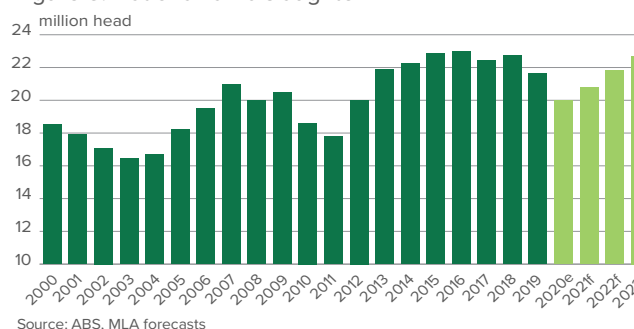
Figure 6: National sheep flock



Figure 7: Number of breeding ewes



Figure 8: National lamb slaughter

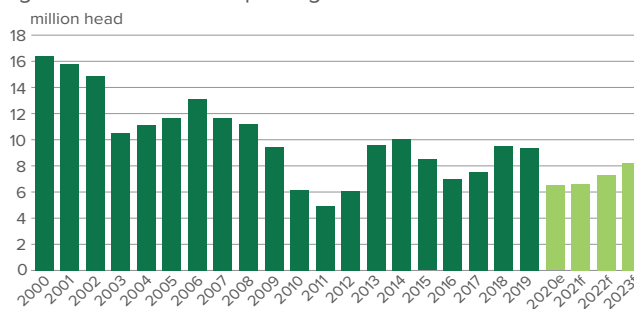


Sheep slaughter was down 30% in 2020 as producers commenced rebuilding their flocks, retaining more breeding ewes, including those older but still fertile, than are normally held on to. In 2021, sheep slaughter is expected to recover 2%, or 100,000 head, to 6.6 million head.

The increase of sheep slaughter forecast in 2021 will not offset the substantial reduction experienced in 2020, which was 10% lower than initially expected.

Producers will likely use the flock rebuild to invest in improved genetics and sell unproductive breeding ewes. They may also take advantage of high domestic prices, underpinned by steady global demand, to turn-off any surplus wethers. These factors contribute to the slightly higher sheep slaughter figure in 2021, despite the flock being in a rebuild phase.

Figure 9: National sheep slaughter



Source: ABS, MLA forecasts

Carcase weights and production

Carcase weights

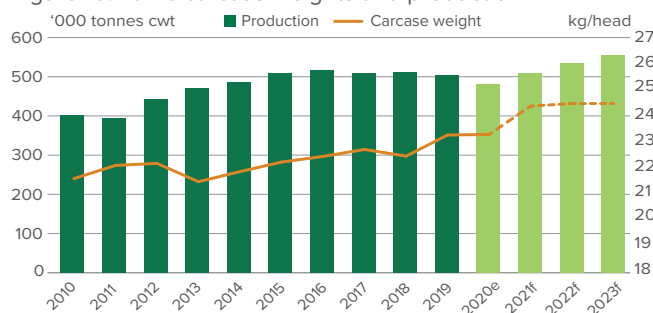
Lambs

On the back of improved eastern conditions last year, national lamb carcase weights are expected to rise 2% to average 24.4kg/head in 2021, up from 24kg in 2020. Abundant high quality feed and low stocking rates over 2020 saw lamb weights lift from those recorded in 2019, backed by improved body condition and a rising plane of nutrition for mothering ewes. Over the past 10 years, average lamb carcase weights have improved by 11%, from 21.6kg in 2010 to the aforementioned 24kg in 2020, attributable to better meat genetics, improved pasture, increased grain-finishing and better management practices, including predation control.

The positive seasonal outlook for 2021 will continue to support heavier weights. The availability of cheap grain and fodder to supplementary or containment feed to achieve additional weight gain, following the second biggest eastern states harvest on record, is another factor supporting heavier lamb weights this year. As at 1 January 2021 feed wheat prices were \$305/tonne, down 32% on a year earlier.

Looking ahead, it is expected that the industry will see a slowing of the growth in average carcase weights due to production, market demand and processor specification constraints.

Figure 10: Lamb carcase weights and production



Source: ABS, MLA forecasts

Sheep

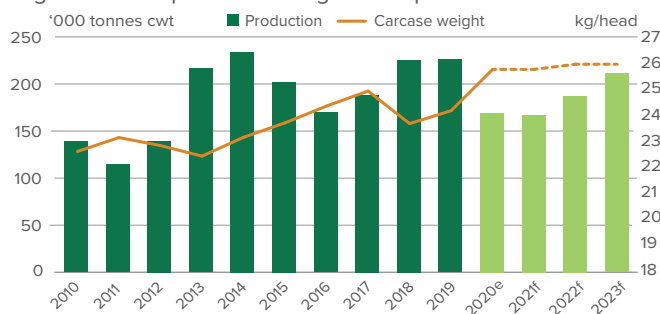
In 2020, carcase weights climbed by 7% to 25.7kg as seasonal conditions delivered abundant, quality feed to many sheep producers. Similar to lamb, sheep carcase weights are expected to experience slower growth over the next three years, reaching 26kg in 2023. Sheep carcase weights could be lower, around 25.5kg, if producers use the improved seasonal conditions to improve genetics and off-load their secondary animals. Below-average wool prices may also incentivise producers to change their flock composition towards more meat breeds, increasing sheep carcase weights in the long-term.

The weight differential between mutton and lamb carcasses is expected to continue in 2021, with mutton carcasses forecast to be 6% heavier than lamb carcasses.

A fall in prices from current record levels would lead to slower carcase weight gains, as it will not be as economical to add additional kilograms per sheep.

Currently, the domestic mutton market is operating at record prices, with this expected to continue throughout the first half of 2020, giving producers a financial incentive to maintain carcase weights in the short-term.

Figure 11: Sheep carcase weights and production



Source: ABS, MLA forecasts

Production

Lambs

Improvements in carcase weights failed to fully offset the reduction in slaughter during 2020. Lamb production was down to 480,000 tonnes carcase weight (cwt), a decline of 5% on 2019 levels. Continued growth in lamb carcase weights and a 4% forecast rise in slaughter numbers underpin a 6% increase in lamb production to 508,000 tonnes cwt in 2021 (see Figure 10).

Long-term increases in lamb production are based on the assumption that lamb prices remain attractive and average seasonal conditions continue, allowing the current rebuild phase to mature.

Sheep

In 2020, improved conditions saw producers retain more older ewes than usual to rebuild flock numbers. This was a contributing factor in sheepmeat production falling by 25% to 170,000 tonnes cwt.

Over the coming three-year projection period, sheep production is not expected to return to the high levels seen during the flock-liquidation of 2019, as flock rebuilding continues through to at least 2023. The rebound in sheep production levels will be far more incremental than for lambs. Forecasts are for mutton production to remain stable at 170,000 tonnes cwt in 2021, and hit 213,000 tonnes by 2023, still 6% below the 2019 peak (see Figure 11).

Domestic demand

Domestic Australian consumption of lamb declined slightly in 2020 for a number of reasons, especially due to the impacts of COVID-19. The softer Australian economy and tightening of consumers discretionary spending, placed affordability pressure on lamb's role in Australian diets. Despite this, in 2020, Australian per capita lamb consumption was approximately 6kg per person, capturing an 11.8% share of fresh meat retail sales by value, placing Australia among the largest per capita consumers of sheepmeat in the world.

Pricing has had the biggest influence on falling domestic lamb consumption in recent years. In 2020, the retail price of lamb reached new heights, increasing \$1.29/kg, or 8.5% to reach an average of \$16.51/kg (calendar year 2020 vs. 2019). Lamb was not alone, with all of the other major proteins also experienced a jump in retail prices in 2020 to historic highs – beef was up 9.5%, pork up 6.6% and poultry rose slightly year-on-year by 0.4%.

Lamb prices are about 33% higher than the price of pork and almost double the price of chicken. This growing price differential compared to other major proteins, means justifying and delivering value to the consumer has become even more critical for lamb.

Despite the pricing pressure, almost all lamb cuts experienced a growth in the value sold through retail channels in 2020 as cooking from home increased due to COVID-19 and social distancing restrictions that impacted the foodservice and hospitality sector. Leading the growth in retail sales were lamb cutlets, legs and shoulders, however, lamb sausage experienced a decline (Nielsen Homescan).

Australian retail shelves are getting more competitive each year as our population demographics shift with growing migration (30% of Australians are born overseas) and the exposure to new cuisines expands. Maintaining per capita lamb consumption will be a challenge, as forecast supply constraints in coming years place further pressure on lamb affordability, increasing the price differential between lamb, chicken and pork. However, there are still plenty of opportunity areas, particularly around consumer demand for better quality, more nutritious, versatile and convenient food offerings.

International markets

Last year was an unprecedented year due to the outbreak and rapid spread of COVID-19 around the world. As we head into 2021, global markets are continuing to deal with the economic and logistical impacts of the virus. Despite this, international demand for Australian red meat remains firm and the long-term outlook is buoyant. Demand is supported by a range of global megatrends, including, growth in population and middle-class incomes, the ongoing impact of African Swine Fever (ASF) on Chinese pork supply, constraints on global sheepmeat supply growth and a lack of large competitors able to penetrate markets.

The impact of COVID-19 has been multi-faceted and far-reaching, requiring swift adaptation and flexibility to navigate the multitude of challenges it presented. The key initial impacts were on the logistics of global trade, the downturn of the foodservice industry, lift in retail and online sales, as well as the impact created by the economic downturn. The principal impact on demand for Australian sheepmeat has been some change in the regional destination of exports, a volume and value shift from foodservice to retail and online customers, and change in demand for various different cuts.

Overall, demand for Australian sheepmeat has been resilient, surprising given that two-thirds of Australian sheepmeat sent overseas is destined for foodservice outlets, the channel hardest hit by COVID-19. Export volumes fell in line with the decline in Australian production, but prices held at high levels. There was a clear drop in demand in China and the Middle East, related to COVID-19 and their skew to mutton imports. However, the performance in other markets, especially the US, Japan and South-East Asia was solid.

In 2020, Australia exported 264,000 tonnes shipped weight (swt) of lamb, back 6% on 2019 levels. Mutton exports reached 140,000 tonnes for the year, a sharper decrease of 24% on the previous year, with the tight contraction of livestock supplies following the 2018–19 drought impacting trade volumes.

Figure 12: Volume of Australian sheepmeat exports

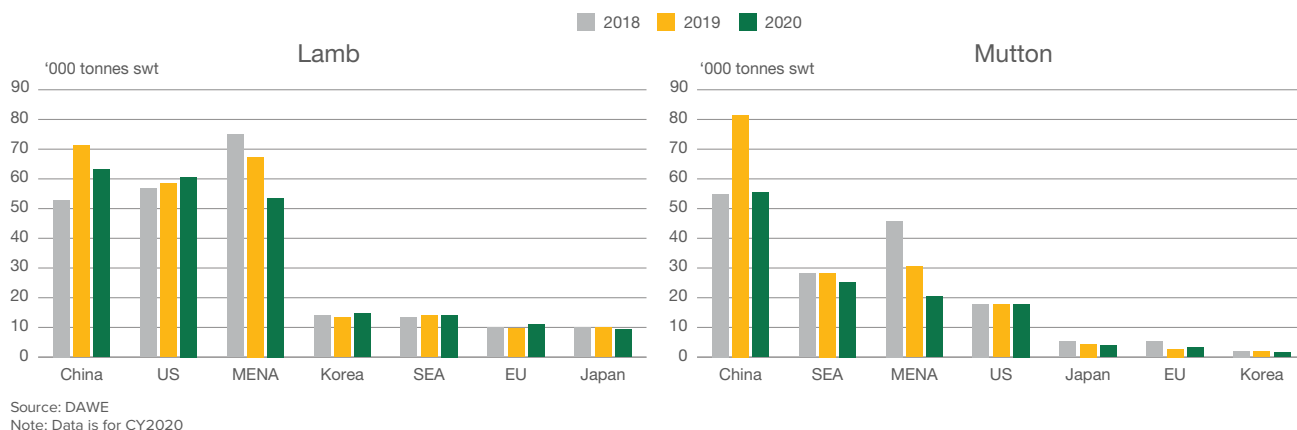
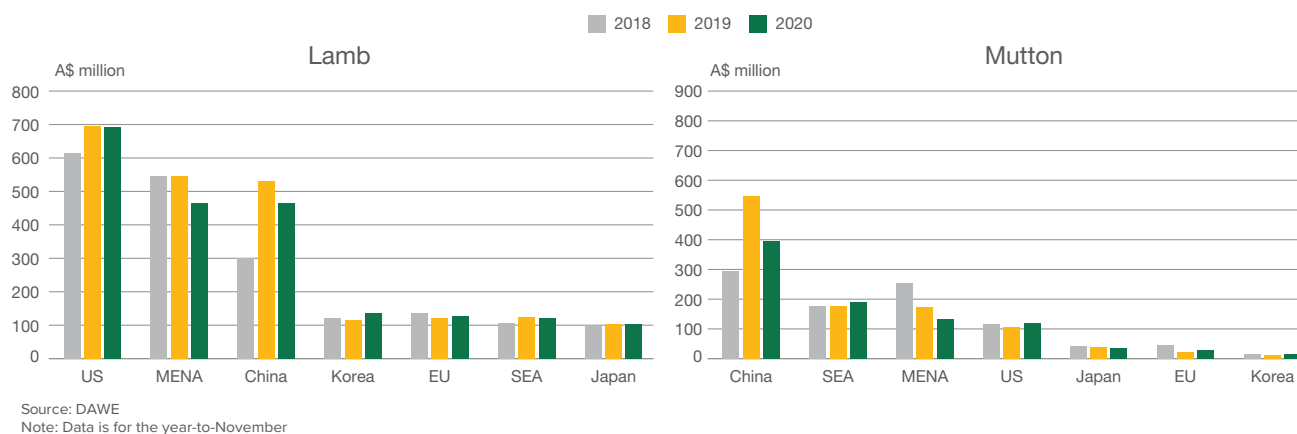


Figure 13: Value of Australian sheepmeat exports



Looking at the year ahead, Australian lamb exports are expected to lift in 2021, up 10% to 290,000 tonnes swt, supported by a rise in both average carcase weight and slaughter levels. Mutton exports will remain stable in 2021 at 140,000 tonnes swt.

The global environment is expected to enter a period of recovery in 2021, as vaccines are rolled out and nations look to address the impact the epidemic has had – with global foodservice spending and global GDP expected to recover to 2019 levels. While the majority of Australian export destinations entered recessions in 2020, forecasts made by the International Monetary Fund (IMF) in October 2020 indicate that 2021 could be a year of recovery, with global GDP growth expected to bounce back by 5.2%. However, consumers will certainly be impacted by ongoing repercussions from recessions, which could include tighter disposable incomes and reduced discretionary spending.

Global foodservice and retail

Global sheepmeat sales through foodservice channels had major downturns during 2020 due to COVID-19 lockdowns, felt more acutely in markets with higher dependence on leisure and business tourism. With the roll-out of COVID-19 vaccines beginning in some markets in December 2020, but also rapidly increasing infection rates in many countries, a global foodservice recovery will probably commence in the second half of 2021. Australia and several key export markets, such as China, South Korea, Singapore and Taiwan, have been notable exceptions, with foodservice recovering earlier, quicker and more sustainably due to relatively successful infection control to-date.

In 2020, Australian lamb exports, which are highly geared toward foodservice consumption (approximately 60%), saw a notable, though not disastrous, decline. Lamb exports fell by 6% in both volume and estimated value (year-on-year to November). Fortunately, reduced foodservice sales have been partly offset by an increase in retail sales, as more consumers have cooked meals at home.

This shift has had some impact on the demand for cuts. In key markets, such as Australia and North America, sales of some high-value cuts such as racks have been slow, while popular retail cuts such as shoulder and legs have generally performed better.

Looking ahead, as household foodservice spending recovers from 2021 onwards, retail spending on food will decelerate, with spending in both channels not expected to return to pre-pandemic levels until 2022.

There are indications that some diner and shopper behaviours may have permanently shifted as a result of the pandemic, presenting opportunities for Australian sheepmeat. There is likely to be a sustained increase in demand for meal delivery services, better quality ready-to-eat and ready-to-cook sheepmeat products, and online retail purchasing of sheepmeat. While hypermarkets and supermarkets are generally the most popular modern retail channels for sheepmeat purchasing, there has been growth in demand for smaller, local convenience-type stores for meat and other fresh foods across many markets. The apparent link between wet markets and COVID-19's origins is likely to see a proportion of more affluent wet market shoppers shift to modern retail channels. This trend can be seen in China, the Middle East and some South-East Asian markets where significant volumes of sheepmeat are still sold through wet markets.

COVID-19 has increased consumer concerns around meat safety and quality, country of origin, nutrition and immunity. Australian sheepmeat sales have benefited from the widespread awareness of Australian products' strengths relating to these attributes. The temporary closure of wet markets in some countries and increased online meat purchasing has accelerated cold chain development in a few key markets, which will further benefit Australian sheepmeat sales in the long-term.

With dented consumer confidence and lower purchasing across many markets, it remains important that Australian sheepmeat products communicate their value propositions to consumers in a compelling way. There are opportunities for Australian sheepmeat to further capitalise on the global growth in home cooking, by highlighting easy ways to cook the product in recipes that are popular local family favourites.

Key export markets

China

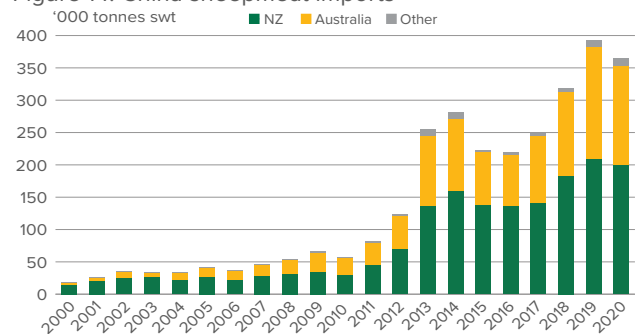
Over the past decade, China has emerged as the world's largest market for sheepmeat, driven by a growing affluent consumer class discovering a taste for quality sheepmeat, and more recently by the huge meat deficit resulting from the impact of ASF.

In a post-COVID world, it is expected there will be a renewed emphasis on food security and consumers and policy makers wanting to understand the origins of their food. To what extent this may impact on China's domestic sheep production is unclear.

China has strict environmental regulations that limit animal grazing, placing limits on flock size growth in major production areas. However, the impact of small herders increasing their flocks, attracted by high sheepmeat prices, could potentially see a short-term surge in domestic production. In the long-term, however, domestic production is unlikely to keep pace with expanding consumption.

China was the top destination for both Australian lamb and mutton in 2020. Australian lamb exports to China totalled 63,000 tonnes swt, back 11% on 2019, while mutton volumes contracted 32% to 55,000 tonnes swt. Much of the decline in export volumes can be attributed to reduced Australian supply and a fall in carcass and leg exports, back 46% and 38%, respectively. Breast and flap exports – typically used in popular hot pot restaurants across the country – remain steady, and in 2020 comprised just under half of all sheepmeat exports to China.

Figure 14: China sheepmeat imports



Source: IHS Markit
Note: Due to the nature of reporting, discrepancies can occur between import and export figures

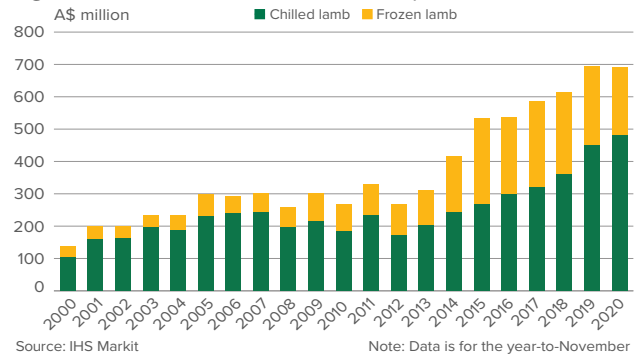
United States

The US remains a pivotal destination for lamb, with export volumes reaching 61,000 tonnes in 2020, an increase of 4% relative to 2019. Chilled lamb remains a key category for the US, with demand holding up well amid the complications of COVID-19, particularly through retail channels.

Prices received for imported lamb were mixed throughout 2020, with high-value cuts, such as racks, struggling, while prices for retail products such as shoulder and leg performed well. Increasing COVID-19 cases throughout 2020 created much uncertainty in the US market, with subdued foodservice activity occurring off the back of widespread lockdown restrictions through much of the year. Regardless, the US remains a high-value market for lamb, with exports worth A\$691 million for the 2020 year-to-November, eclipsing the value of the Chinese market, A\$464 million for the same period.

Despite a large part of the country remaining unfamiliar with lamb, millennials appear increasingly willing to try the product, especially through foodservice where the barriers to cooking ability are removed. US east coast cities remain notable consumers of lamb, where it has traditionally featured on menus, and now these areas host large and expanding populations of Hispanic and Middle Eastern residents. US demand in 2021 is expected to remain firm and should benefit from some resurgence in consumer dining activity.

Figure 15: Value of Australian lamb exports to the US



MENA

Impacted by COVID-19, the Middle East market struggled through 2020 for a number of reasons, including a steep decline in the price of crude oil, disruptions to typical airline pathways and the emigration of expats as they returned to their home countries.

The International Freight Assistance Mechanism (IFAM) has provided funding assistance to sheepmeat exporters. It has particularly benefited the chilled carcass trade to the MENA region, where there are significant shelf life restrictions on sheepmeat and a strong consumer preference for chilled over frozen product, especially in Qatar and the UAE. From 31 December 2020, the Qatari Government-funded subsidy on the wholesale price of Australian sheepmeat, and meat from Australian live sheep slaughtered locally, ceased. Removal of the subsidy, estimated at between 50–60% in value during the five years it has operated, will result in a market correction. However, long-term opportunities for both boxed sheepmeat and live sheep exports to Qatar remain.

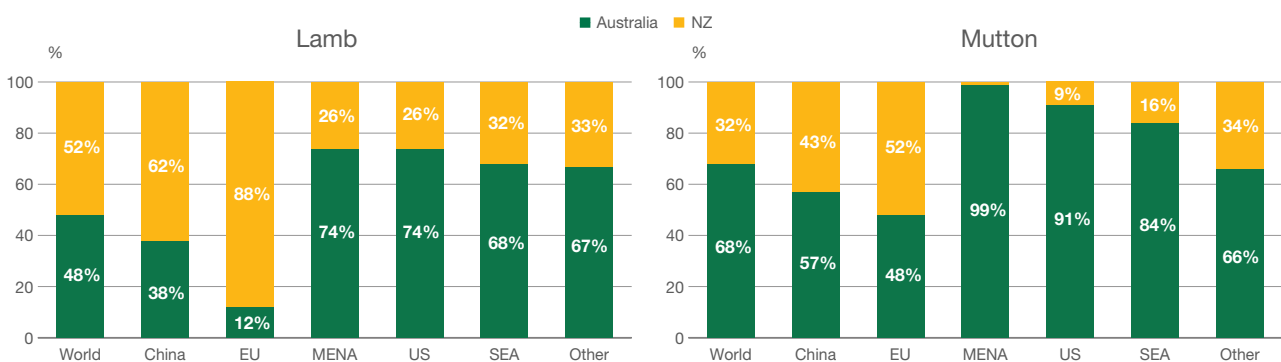
For the Middle East, lamb exports were 52,000 tonnes swt in 2020, down 21%. As seen in markets around the world, the economic impacts of COVID-19 have taken a toll on the Middle East. Mutton exports were back 32% on 2019 levels due to the departure of expat workers, buying competition from Asia and tight Australian supply. If crude oil prices continue to rebound, demand for Australian sheepmeat should see a recovery in 2021.

While the majority of the sheepmeat market in MENA is commodity product in carcass form, premium lamb consumption and import demand are forecast to continue increasing, particularly in Gulf countries. This trend is driven by increasing disposable incomes, ongoing urbanisation and westernisation, young populations and large groups of wealthy locals and expats.

Competitors

Sheepmeat often plays a minor part in the agricultural mix and a niche role in consumer diets globally. As such, most production is largely consumed in the country of origin, and few countries have an exportable surplus – under 10% of production is traded globally and Australia and New Zealand (NZ) account for over 70% of global exports. While global sheepmeat production is forecast to continue expanding, it will remain a minor protein and make up less than 5% of the global meat supply over the coming decade.

Figure 16: Australia and NZ sheepmeat market shares*



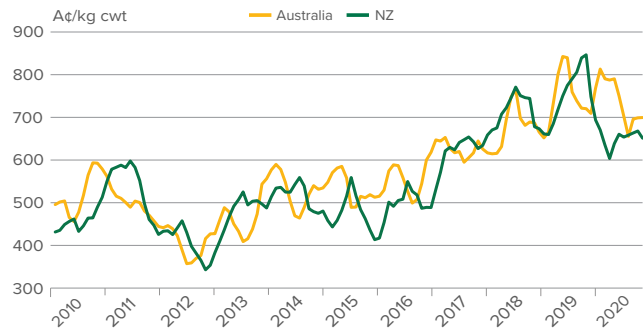
Source: Statistics NZ, ABS, FY2019–20

*shares are solely between Australia and NZ and ignore domestic product and other exporters

Up to November 2020, NZ lamb exports were up 1% on 2019 levels, despite the global challenges, with a rise in sales through retail channels offsetting some of the decline in foodservice demand. Last year, NZ lamb exports increased to the UK, Germany, Jordan and Saudi Arabia. Demand from China eased late in the year on the back of rising levels of Chinese sheepmeat production in response to the ASF outbreak. China remains an important destination for NZ lamb, despite exports decreasing.

For 2020–21, NZ lamb exports are forecast to be back 6.5% on the previous season to sit at 280,000 tonnes swt, due to a smaller 2019–20 lamb flock. With NZ lamb supplies expected to tighten in 2021, Australian lamb may be able to achieve greater market penetration across key destinations.

Figure 17: Australia and New Zealand lamb prices



Source: MLA, Agri HQ
Prices are over-the-hooks figures, averaged monthly and are reported through to December

Live sheep exports

Live sheep exports continue to be an important profitable channel for Australia, valued at just under A\$143 million in 2019. In 2020, however, export volumes reached a historic low with high prices offsetting some of this decline, driven by several factors.

There has been a gradual, long-term reduction in sheep exports correlating with the national sheep flock decline, as the industry has transitioned away from wool towards meat production. A key factor accelerating the decline in live sheep exports has been the moratorium on exporting to the Gulf during the northern summer (operating from early June to late September, with exact dates varying depending on the destination). It began as an industry moratorium in 2018 and then became a Government-regulated prohibition from 2019. During this 3–4 month period, Australia has typically exported some 500,000 head (based on the prior five-year average).

At the same time, overall live sheep import demand in the Middle East region was notably lower in 2020 compared to 2019, with some estimates suggesting a 17% decline (Source: GIRA). The drop was driven largely by various COVID-19 impacts, including lower oil prices, lower consumer confidence and reduced religious tourism.

These factors have had a disproportionate impact on WA, which has been supplying an increasing majority of live sheep for export over the years (peaking at 97% in 2019), as slaughter pathways have been comparatively limited by state capacity, particularly during periods of peak turn-off. Opportunities to transfer WA sheep and lambs interstate have partly offset market impacts.

The Qatar subsidy removal on sheepmeat from both chilled carcasses and locally-slaughtered imported Australian sheep, which came into effect from 31 December 2020, is expected to put further downward pressure on demand for live sheep in Australia's second largest export market.

Live sheep imports will continue to be a key source of fresh sheepmeat in many Middle East markets due to consumer preference, with demand increasing to meet growing populations and incomes. As a consequence, Australia is facing increased competition from suppliers in Europe, Commonwealth of Independent States (CIS) countries, the Caucasus region and Sub-Saharan Africa.

Looking ahead, overall demand for live sheep in the Middle East is expected to see some recovery, with volumes up around 4% in 2021 on 2020 levels. The medium-term demand outlook is also currently forecast to remain positive, with growth averaging around 6% from 2020 to 2025 (Source: GIRA).

Considering demand and supply factors, current forecasts indicate Australian live sheep exports may see a modest increase in 2021 on 2020 of around 2%.

Prices

Lamb and mutton prices reached record highs in early 2020, before the COVID-19 pandemic saw markets ease slightly. This was highlighted by the National Restocker Lamb Indicator breaking the 1000¢/kg barrier for the first time ever, reaching 1025¢/kg on 10 March.

The high sheep and lamb prices were driven by tight supply and restocker demand, as east coast producers retained greater numbers of breeding ewes and ewe lambs, or bought more to rebuild their flocks on the back of favourable seasonal conditions. Tighter supplies were reflected in a significant decline in saleyard throughput in 2020, down 14% on 2019 levels to 14.3 million head.

All national sheep and lamb indicators closed at least 12% higher on 2019 prices, with historic levels achieved in every category except heavy lambs. Prices for this category failed to reach the records set in 2019, as improved seasonal conditions translated to a greater number of lambs reaching heavier weights than in the drought years. Nationally, the restocker lamb and mutton indicators had the greatest improvements during 2020, up 26% and 20%, to 902¢/kg and 572¢/kg, respectively (based on prices 17 December 2020 to 20 December 2019).

Last year's sheep and lamb prices were significantly different between WA and eastern states due to differing seasonal conditions, despite most WA indicators reaching historic levels in 2020. WA restocker lamb and mutton indicators closed 2020 at 32% and 9% discounts, respectively, to national indicators.

Any impacts of COVID-19 and its associated economic ramifications on global sheepmeat markets in 2020 did not flow through to Australian saleyards, as limited domestic supply and restocker demand supported prices.

Early indications are that prices across all categories will remain elevated for 2021, with smaller yardings expected to persist. Demand is expected to continue to outstrip supply, as restockers look to source additional stock on the back of good summer rains and favourable conditions forecast for the start of 2021. Looking ahead, the increase in lambs expected to be born in 2021 may put some downward pricing pressure on different classes of lamb later in the year.

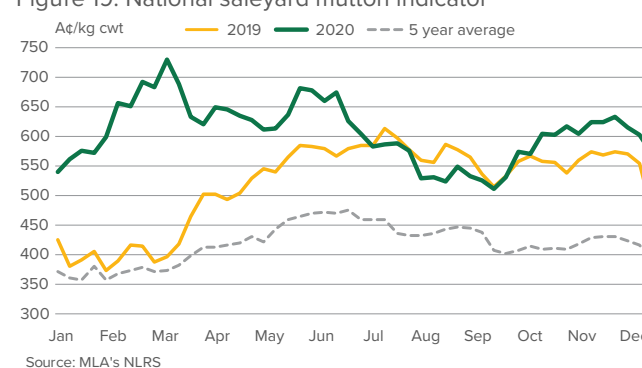
In 2020, the uptake of AuctionsPlus and other online platforms increased due to COVID-19 and the inability to physically attend saleyards. In 2021, these platforms will continue to play an important role in price transparency and discovery.

Figure 18: National saleyard restocker lamb indicator



Source: MLA's NLRS

Figure 19: National saleyard mutton indicator



Source: MLA's NLRS

Situation and outlook for the Australian sheep industry

	2015	2016	2017	2018	2019	2020 ^e	% change 2020 ^e on 2019	2021 ^f	2022 ^f	2023 ^f	% change 2023 ^f on 2020 ^e
Sheep and lamb numbers ('000 head)*											
As at 30 June	68,025	67,543	72,125	70,607	65,755	64,000	-2.7%	67,300	71,500	74,700	17%
Percentage change	-1.9%	-0.7%	6.8%	-2.1%	-6.9%			5.2%	6.2%	4.5%	
Slaughtering ('000 head)											
Sheep	8,487	6,965	7,536	9,521	9,344	6,500	-30%	6,600	7,300	8,200	26%
Lamb	22,876	22,956	22,431	22,725	21,624	20,000	-8%	20,800	21,800	22,700	14%
Avg carcase weight (kg)											
Sheep	23.7	24.4	24.8	23.7	24.2	25.7	7%	25.8	26.0	26.0	1%
Lamb	22.2	22.5	22.7	22.5	23.3	24.0	3%	24.4	24.5	24.5	2%
Production ('000 tonnes carcase weight)											
Mutton	202	170	187	225	226	170	-25%	170	190	213	26%
Lamb	509	516	509	511	504	480	-5%	508	534	556	16%
Sheep exports ('000 head)											
	2,070	1,840	1,890	1,180	1,118	815	-17%	830	860	900	10%
Sheep exports** ('000 tonnes)											
Mutton shipped weight	151	132	147	176	185	140	-24%	140	153	173	24%
carcase weight	181	161	179	215	226	170	-24%	170	187	211	24%
Lamb shipped weight	234	242	251	267	282	264	-6%	290	312	331	25%
carcase weight	277	290	302	324	339	321	-6%	348	375	397	25%
Domestic utilisation ('000 tonnes c/c weight)***											
Lamb	231	226	207	187	165	158	-4%	159	159	159	1%
kg/head***	9.7	9.3	8.4	7.5	6.5	6.1	-6%	6.1	6.0	5.9	-2%

Source: ABS, DAWR, MLA forecasts

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

** excl. canned/misc, shipped weight

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

f = forecast
e = estimate

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