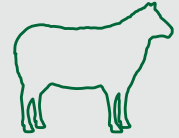


# Australian sheep

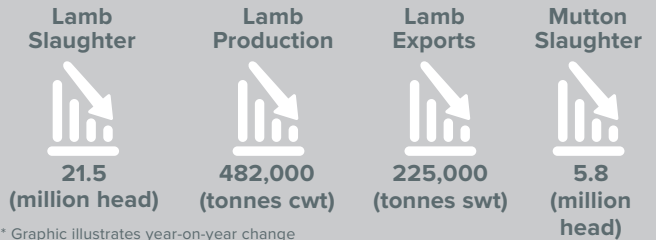
## Industry projections 2017 April update



### KEY POINTS

- Lamb slaughter revised down to 21.5 million head
- Total sheep and lamb slaughter expected to be 2.7 million head lower than 2016
- Strong prices likely to continue
- Winter supplies to be tighter than usual

### KEY 2017 NUMBERS



MLA's Market Information – Ben Thomas, [bthomas@mla.com.au](mailto:bthomas@mla.com.au)  
Rebecca Locke, [rlocke@mla.com.au](mailto:rlocke@mla.com.au)

## Introduction

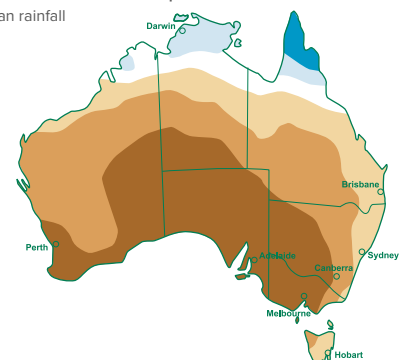
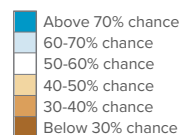
The April Australian Sheep Industry Update is influenced by extremely strong producer intent to retain ewes for flock rebuilding, and retaining Merino wethers for wool production. The result is an even greater year-on-year decline in lamb slaughter and production than what was originally forecast for 2017, and a significant contraction in mutton slaughter - in fact, to be the second lowest on record. The combined result is 2.7 million fewer sheep and lambs processed in 2017 which, when combined with high wool prices, suggests that Australian sheep and lamb markets are set to be the strongest ever – even with the poor April to June rainfall outlook.

Looking further ahead though, of concern is the continued struggle further up the supply chain, especially with some processors closing and the consequential reduced capacity once production levels return to those seen over the past five years.

Figure 1: Australian rainfall outlook April to June 2017

Chance of exceeding the median rainfall

### Legend



Source: BOM

# MLA and AWI wool and sheepmeat survey results – Intentions

Results from the February 2017 MLA and AWI (Australian Wool Innovation) wool and sheepmeat survey suggest that there is a strong intention for Australian producers to maintain or increase the size of their breeding ewe flock for the next 12 months. In fact, as highlighted in figure 2, the proportion of respondents indicating they intend to maintain or increase ewe numbers was the highest it's been over the past five years.

As illustrated in figure 3, the survey results indicate that there is an increasing intent amongst producers to lift ewe numbers by retaining older ewes and retaining more replacements - while the intent to purchase more has eased since the previous survey.

This is not surprising given the current market dynamics which have created a more enticing time than ever to retain stock.

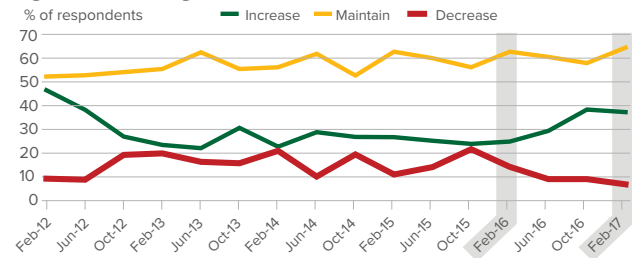
Firstly, mutton prices are in the realms of record territory - currently just short of the highs set in March and April 2011, with the national mutton indicator reaching 453¢/kg cwt in the final week of March 2017.

Similarly, Australian lamb prices have had a remarkably strong start to 2017. At various points during February and March this year, all national lamb saleyard indicators hit new highs. With the exception of heavy lambs, the previous records for these indicators were set in 2011. The national trade lamb indicator peaked at 656¢/kg cwt in February, while restocker and heavy lambs reached 751¢/kg cwt and 667¢/kg cwt, respectively. The national light lamb indicator hit 651¢/kg cwt and Merinos lambs topped at 591¢/kg cwt in the last week of March 2017.

Other factors encouraging the retention of stock are the strength of the wool market and low grain prices. The Eastern Market Wool Indicator has continued an upward trajectory, breaking new ground in 2017. Discussions from MLA's Lamb Forecasting Advisory Committee Meeting in March indicate that many producers are also retaining Merino wethers and wether lambs to generate income from wool.

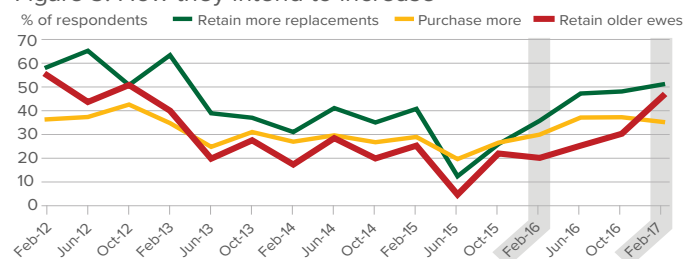
While livestock prices have been high, grain prices over the past six months have been low, with prices now more in line with levels seen in 2011. For much of southeast Australia, a very wet start to spring last year stimulated grain and hay yields, which provided good feed and stubble over the summer months and alleviated any pressure to turn off stock.

Figure 2: Enticing time to retain ewes



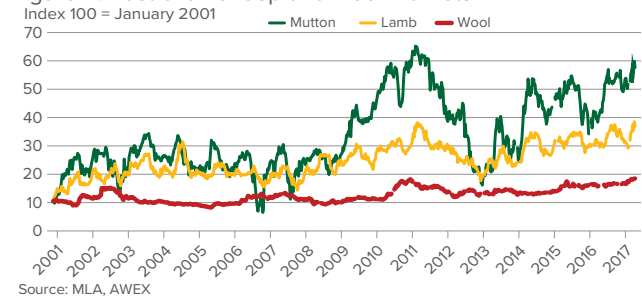
Source: MLA/AWI wool and sheepmeat survey

Figure 3: How they intend to increase

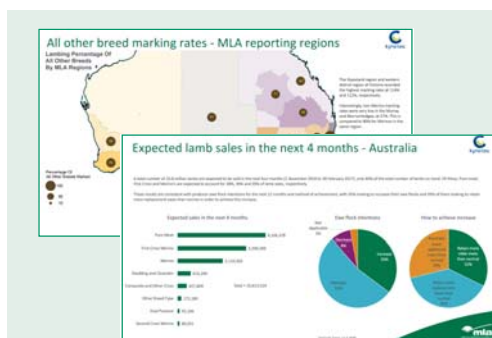


Source: MLA/AWI wool and sheepmeat survey

Figure 4: Australian sheep and wool markets



Source: MLA, AWEX



**For further information on the MLA and AWI wool and sheepmeat survey and to read the full survey results report, please click here.**



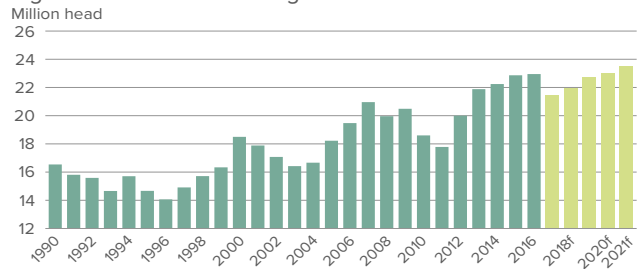
# Lamb slaughter

Australian lamb slaughter is expected to contract even more than initially forecast for 2017, with a strong incentive from producers to retain ewe lambs for future breeding and Merino wether lambs for wool production. These factors exacerbate the already lower supplies on the back of lower lamb markings during the second half of 2016. The result is an expected 2017 lamb slaughter of 21.5 million head, down a further 500,000 head from what was originally forecast for 2017, and down 1.5 million head (6%) from the 2016 record (figure 5).

In terms of availability throughout the year, on-the-ground reports suggest there will remain a reasonably steady lamb supply through until the end of April, before numbers are expected to become very tight until August/September, when the new season flush comes through. It should be noted that while a 6% decline in lamb slaughter is expected, the 2017 estimate is still very much in line with the longer-term growth trend.

Looking at production, the expectation of relatively high lamb carcase weights will slightly offset the impact of lower slaughter. For 2017, expectations are for a 6% year-on-year fall in lamb production, to 481,600 tonnes cwt, before rebounding back above the 500,000 tonne mark in 2019.

Figure 5: Annual lamb slaughter



Source: ABS, MLA forecasts

Figure 6: Monthly lamb slaughter\*



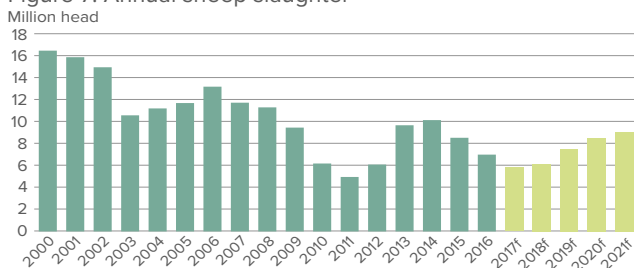
Source: ABS \* = rolling 12 month average

# Mutton slaughter

Like lamb slaughter, mutton processing is also expected to contract further year-on-year than what was originally forecast, although the adjustment is to a greater extent. On the back of the high wool, lamb and mutton prices, producer intent to increase breeding flocks is as strong as ever. Therefore, fewer older ewes are expected to come to market, combined with fewer Merino wethers. The consequence will be a 1.2 million head (17%) year-on-year drop in slaughter, to 5.8 million head - not the lowest on record, but very close (figure 7).

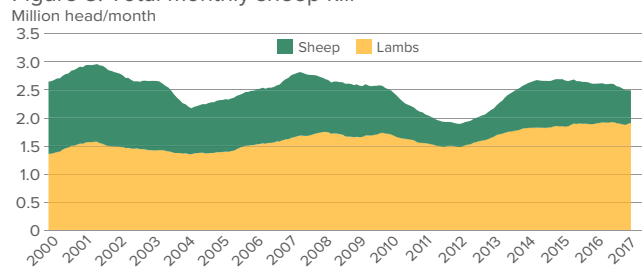
Overall, the outcome will be 2.7 million head less sheep and lambs processed year-on-year, and it's this short supply that will more than likely keep prices buoyant for the duration of 2017.

Figure 7: Annual sheep slaughter



Source: ABS, MLA forecasts

Figure 8: Total monthly sheep kill\*

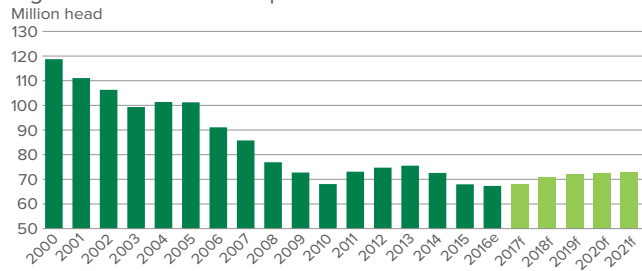


Source: ABS \* = rolling 12 month average

# Australian sheep flock

After dipping to 67.3 million head in 2016 (under the new ABS parameters), the aforementioned high ewe retention during 2017 is likely to result in a fairly quick recovery in the Australian sheep flock. Expectations are for a small increase in 2017, to 68 million head, before returning above the 71 million head mark in 2018 (figure 9). This pattern is alike to what occurred after 2010 when there were similar market conditions, although this time it may not be quite as responsive, based on the slightly higher expected slaughter this time. Looking further ahead, the Australian flock is anticipated to continue expanding, albeit at a slower rate, through until 2021, when it's anticipated to hit 73 million head again. This is, of course, largely dependent upon seasonal conditions.

Figure 9: Australian sheep flock



Source: ABS, MLA forecasts

# Exports

Australian lamb exports for 2017 are expected to be lower than initially forecast, due to the revised reduction in projected lamb slaughter. The result is an expected 7% year-on-year drop in lamb shipments for 2017, to 225,000 tonnes swt – 5,000 tonnes swt lower than the previous forecast. Despite the decline in 2017, volumes remain well-above the long-term average (figure 10).

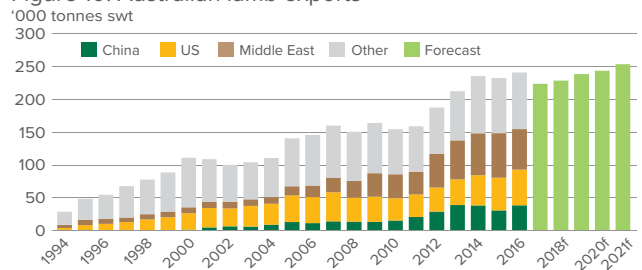
The US, China and the Middle East are expected to remain the major markets, while the Australian domestic market share is anticipated to be 46%.

For the first two months of 2017, volumes were slightly higher (5%) than the same period last year, with reports of lambs being held over summer due to good feed and water supplies after the wet spring season. As previously mentioned, supplies are anticipated to tighten towards the end of autumn.

Shipments to the US, Australia's largest lamb export destination, eased 2% year-on-year, to 9,914 tonnes swt, while to the Middle East, volumes were back 8%, to 9,179 tonnes swt. China, on the other hand, has recorded strong growth for the start of the year, with lamb exports up 47% from 2016 levels, to 8,172 tonnes swt, on the back of lower domestic production and less availability from New Zealand.

Per capita consumption in Australia is likely to remain within the 9-9.5kg/capita range for the duration of the projections, with Australian consumers demonstrating over the past five years that they are willing to maintain consumption within these bounds, despite the increase in average retail prices.

Figure 10: Australian lamb exports



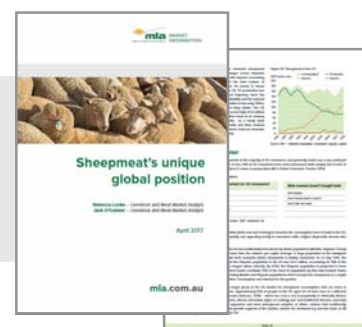
Source: DAWR

Australian mutton exports have also been revised lower than the previous forecast, as a result of limited availability. For 2017, 102,000 tonnes swt are anticipated to leave Australian shores, down 18% from last year's levels.

For up-to-date trade statistics and further market insights, please click here.



MLA has recently released a comprehensive analysis of sheepmeat's unique position in the global protein market, which can be found by clicking here.



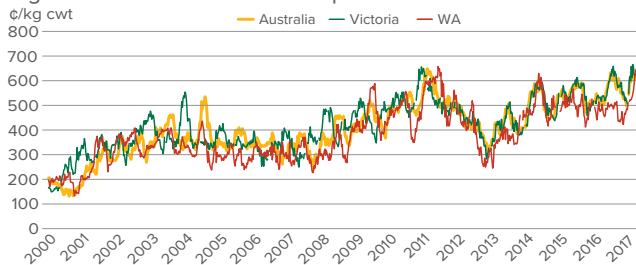
# Prices

Based on the compounded tighter-than-usual supply situation, Australian sheep and lamb prices in 2017 are each likely to average alongside, or even exceed, previous records. As an indication, saleyard trade lambs (18-22kg) averaged a record 557¢/kg cwt in 2016, and for the year-to-date are already at 614¢/kg cwt, while the previous annual saleyard mutton record was 413¢/kg cwt in 2011, and for the year-to-date has averaged 415¢/kg cwt. This is largely a function of strong producer confidence and desire to rebuild flocks while wool and lamb prices are high, at the same time as grain prices are low.

However, while tight supply, along with continued strong local and overseas demand and restrained NZ competition, makes for a very positive short-term outlook for sheepmeat producers, a major concern is the sustainability of the current price levels further up the supply chain. A consequence of the recent limited supply has been some permanent and some temporary processing plant closures. The risk for producers is that once the number of sheep and lambs available for processing does eventually recover, and if the processing capacity remains reduced, the outcome could be a greater correction in prices than otherwise would have been the case.

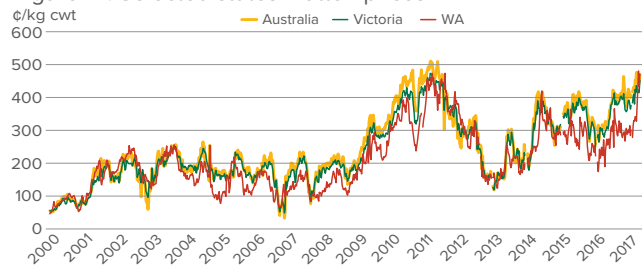
In short, producers should be cautiously optimistic about prices beyond 2017, based on continuing demand growth, limited export competition and only an expected modest rebuild of sheep flocks. However, some price falls from recent records can be anticipated eventually, largely be determined by the rate at which the flock recovers, and the extent of any permanent reduction in processing capacity.

Figure 11: Selected states lamb prices



Source: MLA

Figure 12: Selected states mutton prices



Source: MLA

## Situation and outlook for the Australian sheep industry

	2012	2013	2014	2015	2016	2017 <sup>f</sup>	% change on 2016	2018 <sup>f</sup>	2019 <sup>f</sup>	2020 <sup>f</sup>	2021 <sup>f</sup>	% change on 2017 <sup>f</sup>	
<b>Sheep &amp; lamb numbers ('000 head)</b>													
at June 30	74,722	75,548	72,612	68,000	67,300	68,000		71,000	72,000	72,500	73,000	7.4%	
percentage change	2.2%	-0.9%	-3.2%	-6.4%	-1.0%	1.0%		4.4%	1.4%	0.7%	0.7%		
<b>Slaughtering ('000 head)</b>													
sheep	6,063	9,614	10,086	8,487	6,965	5,800	-16.7%	6,100	7,500	8,500	9,000	55.2%	
lamb	20,009	21,886	22,251	22,876	22,956	21,500	-6.3%	22,000	22,750	23,000	23,500	9.3%	
<b>Avg carcase weight (kg)</b>													
sheep	23.0	22.5	23.2	23.7	23.7	23.8	0.4%	23.9	24.0	24.0	24.0	0.8%	
lamb	22.2	21.5	21.9	22.2	22.3	22.4	0.4%	22.5	22.6	22.6	22.6	0.9%	
<b>Production ('000 tonnes carcase weight)</b>													
mutton	140	217	234	201	165	138	-16.4%	146	180	204	216	56.5%	
lamb	443	470	487	508	512	482	-5.9%	495	514	520	531	10.2%	
<b>Sheep exports ('000 head)</b>													
	2,279	1,973	2,298	1,959	1,870	2,000	7.0%	2,000	2,000	2,000	2,000	0.0%	
<b>Exports ('000 tonnes)*</b>													
mutton	shipped weight	107	172	186	151	125	102	-18.4%	108	132	150	159	55.9%
	carcase weight	134	206	223	181	161	133	-17.4%	140	172	195	207	55.6%
lamb	shipped weight	189	214	237	234	242	225	-7.0%	230	240	245	255	13.3%
	carcase weight	222	250	280	277	290	262	-9.7%	268	280	285	297	13.4%
<b>Domestic utilisation ('000 tonnes carcase weight)</b>													
mutton		5	10	11	20	4	5	25.0%	5	8	9	9	80.0%
	kg/capita	0.2	0.5	0.5	0.8	0.2	0.2	0.0%	0.2	0.3	0.4	0.4	100.0%
lamb		222	220	207	231	222	219	-1.4%	227	235	234	234	6.8%
	kg/capita	9.8	9.5	8.8	9.7	9.2	9.0	-2.2%	9.1	9.3	9.2	9.0	0.0%

Source: ABS, DA, MLA forecasts

<sup>f</sup> = forecast (in italics)

\* excl. canned/miscellaneous

Please note, the 2015 and 2016 ABS flock estimates are based off the new EVAO cutoff. Previously it was a \$5K EVAO, but is now \$40k EVAO cutoff. For more information, please visit [www.abs.gov.au](http://www.abs.gov.au)

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