

Industry projections 2020

Australian sheep





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KEY POINTS

- The national flock to reach lowest level in more than a century
- Reduced lamb slaughter reflects consecutive years of lower marking rates
- Demand for Australian lamb and mutton remains robust in key markets but disruptors are emerging



KEY 2020 NUMBERS

-  **Lamb slaughter:**
21 million head
-  **Lamb production:**
500,000 tonnes cwt
-  **Lamb exports:**
288,000 tonnes swt
-  **Sheep slaughter:**
7.2 million head

* Graphic illustrates year-on-year change

Summary

The national flock continued to contract last year as conditions deteriorated in many key sheep production regions. On the back of the warmest and driest year on record, water and feed availability created heightened pressures for producers, particularly in NSW and northern Victoria, with many forced to offload core breeding stock. At 63.7 million head, the national flock is now estimated to be at its lowest level in more than a century.

The impact and severity of consecutive drought years will be felt across both sheep and lamb supply in 2020 and for a number of years to come. The strong prices being achieved across lamb and mutton are expected to provide plenty of incentive for producers to rebuild their flocks and, under the assumption of a return to average seasonal conditions, this will likely be achieved by retaining their core breeding stock and ewe lambs. Consequently, sheep slaughter is forecast to decline 22% to 7.2 million head in 2020 and lamb slaughter is anticipated to decline to 21 million head (8% below the pre-drought peak in 2016). This reflects the impact of the diminished breeding flock, generally lower marking rates and the expectation of greater retention of ewe lambs on-farm.

Lamb carcase weights are forecast to increase in 2020 due to the growing prevalence of supplementary feeding or lot feeding lambs, improved pasture availability and strong price incentives to finish lambs to heavier weights. As a result, lamb production is forecast to remain stable at 500,000 tonnes carcase weight (cwt), despite a decline in slaughter. The impact of the decrease in sheep slaughter will not be offset by the expected increase in sheep carcase weights, with mutton production forecast to fall 21% to 178,000 tonnes cwt.

Broadly, global demand for quality sheepmeat has outstripped supply in recent years, pushing prices in many markets to new highs. Australian lamb exports are forecast to break records again next year on the back of this robust international demand combined with a soft Australian dollar. There was a significant shift in the global meat trade dynamics last year, with the impact of African Swine Fever (ASF) causing a sizeable protein deficit in the China market, which drove up their already growing demand for imported lamb and mutton. The expectation is for many of these same dynamics to be at play again in 2020, with markets such as the Middle East and other Asian countries having to compete more fiercely with China for product. However the outbreak of the coronavirus at the start of 2020 has added a layer of uncertainty and caused disruption to the China and global market.

In the last two years, supply constraints during the winter have seen prices surge to new records. With the aforementioned demand unlikely to waiver and the expectation for fewer lambs available for slaughter, in particular out of NSW, lamb prices are expected to remain at historically high levels in 2020. Similarly, mutton prices, on the back of strong demand, limited international competition and an expected drop in supply next year, should see continued price support at or above recent levels.

Assumptions

Close to average seasonal conditions have been assumed for the majority of Australia's sheep producing regions until April 2020, with the assumption of a return to average seasonal conditions for the remainder of the projections period.

The latest three-month outlook from the Bureau of Meteorology (Figure 1) forecasts that Autumn (March through May) will see close-to-average rainfall in the majority of key production regions, with the exception of northeast NSW and a slight easing in the higher-than-average temperatures. Parts of southeast SA are expected to see above-average rainfall throughout this time.

Large parts of NSW, SA and Queensland have received some useful rainfall throughout January, however further widespread rain will be required to sustain pasture growth.

Critically, the improved outlook does not promise the above-average rainfall needed to fully and quickly reverse the impacts of the extreme conditions last year. 2019 was officially the warmest and driest year on record. The annual national mean temperature was 1.5°C above average and national rainfall was 40% below average. Soil moisture deficiencies in the root zone (from 0 to 100 cm deep) have depleted to a point where numerous sustained rainfall events are required to return it to adequate levels.

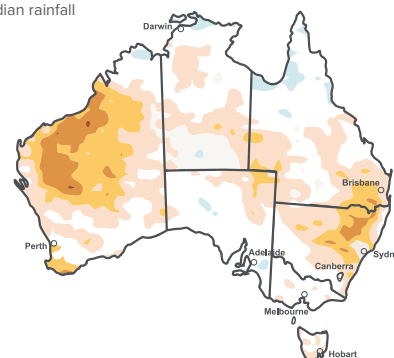
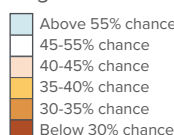
The Australian dollar depreciated to its lowest level in 15 years, averaging 69US¢ in 2019. This provided great support to Australian red meat exports and the major banks anticipate much of the same in 2020, with forecasts ranging from 67US¢ to 71US¢.

At this stage, the full impact on livestock from the devastating national bushfire crisis is unknown, but there have been some reported significant losses in specific regions, including Kangaroo Island, in north-east Victoria and southern NSW where a proportion of sheep producers have been affected. The current reported losses represent under 0.2% of the national flock.

Figure 1: Australian rainfall outlook – March to May 2020

Chance of exceeding the median rainfall

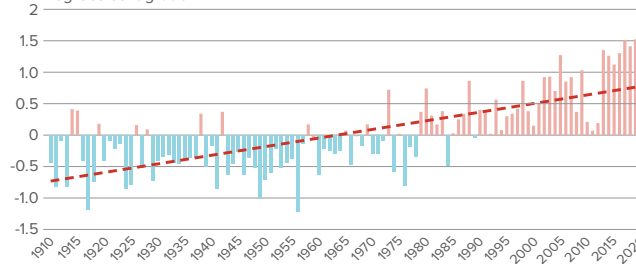
Legend



Source: Bureau of Meteorology

Figure 2: Australia's annual mean temperature is increasing

Degrees centigrade



Source: Bureau of Meteorology – Average 1961-90 (20.5)

Flock and slaughter

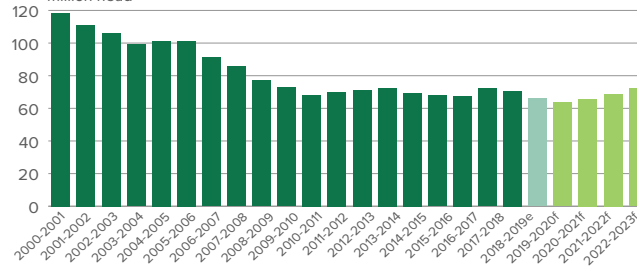
The national flock underwent a significant decline in 2019, as breeding ewes continued to be offloaded and marking rates were negatively affected by the ongoing drought, particularly in NSW. The national flock is forecast to fall 3.5% to 63.7 million head, as at June 2020. This would represent the lowest national flock since 1904 and a cumulative fall of 12% since June 2017, prior to the latest drought.

With extreme rainfall deficiencies across some of the major sheep producing areas of NSW, producers have been heavily destocking for the last 18 months, as has been the case in northern Victoria and Queensland. Critically, no improvement in conditions occurred through the NSW joining period – with a large number of breeding ewes not joined – which will limit the availability of early new season lambs out of the state.

Other regions in Victoria – South West, Wimmera and Central districts along with south-east SA received average to above-average rain during the southern wet season, allowing producers to maintain or, in some instances, grow their flocks. This will provide some support to lamb supply in 2020.

Figure 3: National flock

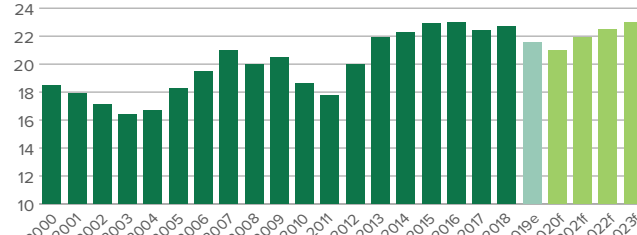
million head



Source: ABS, MLA forecasts

Figure 4: National lamb slaughter

million head



Source: ABS, MLA forecasts

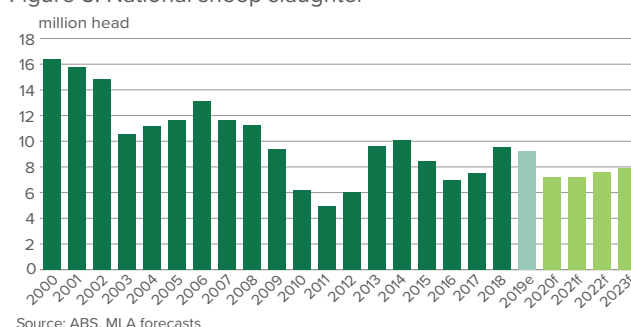
Overall there are still many producers that continue to face challenges regarding feed and water availability in the current lambing season. Nationally, it is anticipated lambing rates will ease, limiting the availability of lambs for slaughter during the year. Similar to 2018 and 2019, supply is expected to be particularly tight during the winter months. Processors may have to increase their winter shutdown period in 2020 in the absence of consistent lamb numbers and the anticipated decline in sheep slaughter. 2019 recorded a 5% year-on-year reduction to just below 21.6 million head, with this trend expected to continue in 2020.

Although lamb marking rates over the long-term continue to see improvements, largely attributed to genetic advances and producer adoption of ewe management programs, the impact of the prolonged drought has temporarily hindered the productivity of the national sheep flock.

Strong incentives to produce lambs and better seasonal conditions should see the parts of Victoria and SA expand their production, to somewhat mitigate the northern shortages. All-in-all, lamb slaughter is projected to decline by 3% in 2020 to 21 million head. A fall below 21 million head may occur should a solid autumn break come to fruition. However, price support during the winter months – similar to 2018 and 2019 – will likely incentivise producers with lambs on hand to offload.

Sheep slaughter, a notoriously seasonal metric, lifted towards the back end of 2019, as high prices and another wave of destocking saw sheep yardings and turn-off spike. The excess sheep slaughter in 2019 underpins the forecast fall in available lambs in 2020, with fewer breeding ewes joined. Under the assumption of a return to average seasonal conditions and the desire for producers to commence rebuilding their flocks, sheep slaughter is expected to decline 22% year-on-year to 7.2 million head.

Figure 5: National sheep slaughter



Carcase weights and production

Despite the poor conditions, average national carcass weights improved in 2019 and are anticipated to do so again in 2020, helping to offset the impact of reduced slaughter on sheepmeat production.

The average national lamb carcass weight for 2019 is estimated to have increased to 23.3kg from 22.5kg the year prior. Lamb carcass weights were supported by the prevalence of supplementary feeding or lot feeding in 2019, as producers looked to add weight due to the strong price incentives. This trend is anticipated to continue in 2020, with lamb carcass weights estimated to rise a further 2% to 23.8kg/head.

In the last 20 years, average national lamb carcass weights have progressed due to a range of factors including better genetics, a shift towards meat-producing breeds, flat pricing grids and evolving end-user specification. Many of these factors continue within the industry and, as such, weight gains are expected until the end of the current projections period, despite the challenge heavier carcass weights present in some customer markets.

Sheep carcass weights are expected to have increased to 24.3kg/head in 2019, a 3% increase year-on-year. Prolonged dry conditions saw elevated numbers being supplementary fed, supporting average sheep carcass weights. Sheep carcass weights are forecast to rise a further 2% to 24.7kg/head in 2020, supported by greater feed availability and strong mutton prices.

Despite the positive gains for sheep and lamb carcasses, the impact of a decline in slaughter will see mutton production contract sharply in 2020, while lamb production is forecast to remain stable compared to year-ago levels. Mutton production is forecast to fall to 178,000 tonnes carcass weight (cwt), a decline of 21% year-on-year with lamb production forecast at 500,000 tonnes cwt. However, production could fall further if average to above-average rainfall is experienced in the southern sheep producing regions in the first half of 2020, as producers look to rebuild, retaining more breeding ewes and ewe lambs.

Figure 6: Average carcass weights

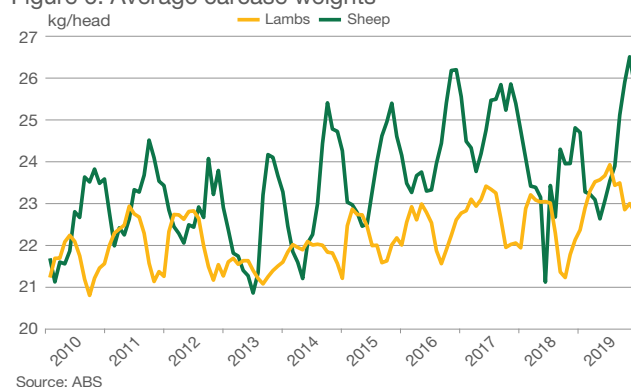
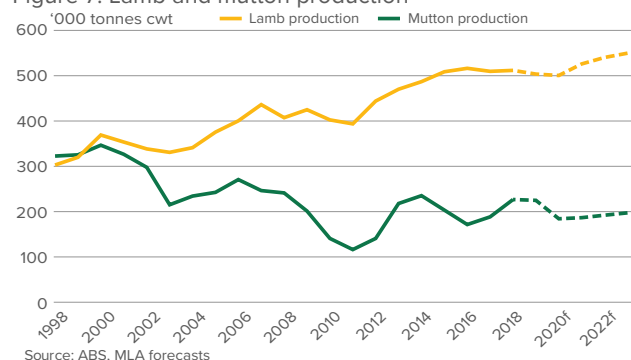


Figure 7: Lamb and mutton production



Domestic demand

A combination of supply and price pressures led to a drop in Australia's consumption of lamb in 2019, as more product was directed into the attractive export market. Lamb consumption has been resilient in the face of constantly rising prices and 2019 was no different, as drought-impacted supply, strong global demand and low exchange rates drove domestic prices into record territory. A combination of a soft Australian economy, historically stagnant wage growth and rising living costs has driven more affordability pressure on lamb's role in Australian diets. That being said, per capita lamb consumption is still around the 6–7kg mark and lamb captured a 12% share of fresh meat retail sales value last year, meaning Australia remains one of the largest per capita consumers of sheepmeat in the world.

Pricing remains the biggest driver of falling lamb consumption and this reached new heights in 2019, with the retail price of lamb jumping \$2/kg, or 12% to reach an average of \$17.53/kg. All of the major proteins experienced a jump in retail prices in 2019, as the drought impacted feed costs for all suppliers, with beef up 6%, pork up 3% and poultry increasing 4%. Lamb, beef, pork and poultry all increased to their highest prices on record. Lamb remains 1.5 times the price of pork and 3 times the price of chicken and with the growing price differential to these other major proteins, it means justifying and delivering value to the consumer has become even more critical. Despite the price pressure, lamb's share of retail fresh meat dollar sales remained stable in the last year, with growth in lamb legs and fillet/steak offsetting the decline in cutlets and chops (AC 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 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 prices and lead to a growing spread against 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.

Figure 8: Australian retail prices

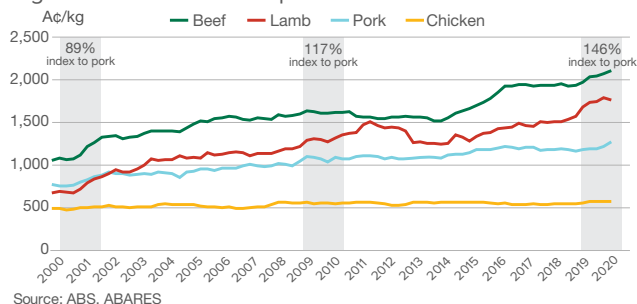
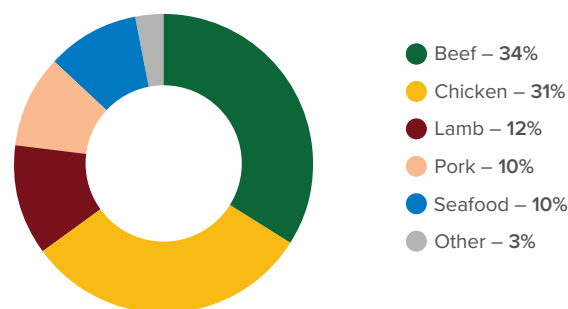


Figure 9: Retail fresh meat value share in Australia – 2019



International markets

Global markets continue to reflect strong demand and constrained supplies from Australia and New Zealand, the two dominant sheepmeat exporters. The environment through 2020 is expected to remain much the same, keeping pressure on prices, but uncertainty regarding global trade policy and China's appetite for meat imports due to ASF and coronavirus should not be disregarded.

In 2019, Australia exported a record 282,000 tonnes shipped weight (swt) of lamb, up 5% year-on-year, and an elevated 184,000 tonnes swt of mutton, up 2%. Boosted by African Swine Fever (ASF) and a swelling affluent consumer class, demand from China applied competitive buying pressure, drawing product away from other markets. Australian sheepmeat exports to China surged 42% in 2019 to an unprecedented 152,700 tonnes swt. Australian lamb exports to the US fared well, up 3% at 58,500 tonnes swt, while the sheepmeat shipments to the Middle East were mixed.

Looking ahead, Australian lamb exports are expected to lift slightly in 2020, up 2% to 288,000 tonnes swt, supported by higher carcase weights and a greater portion of product shifting to export markets. Mutton shipments are forecast to decline 22% to 143,000 tonnes swt.

Figure 10: Australian sheepmeat exports

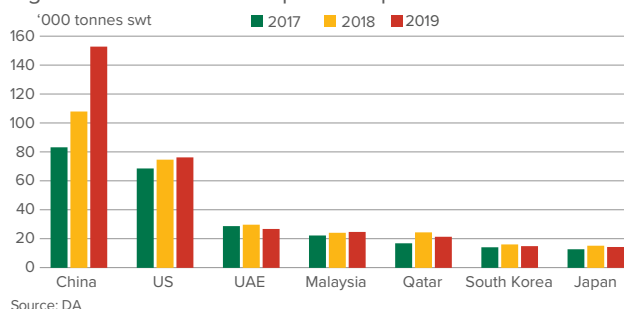
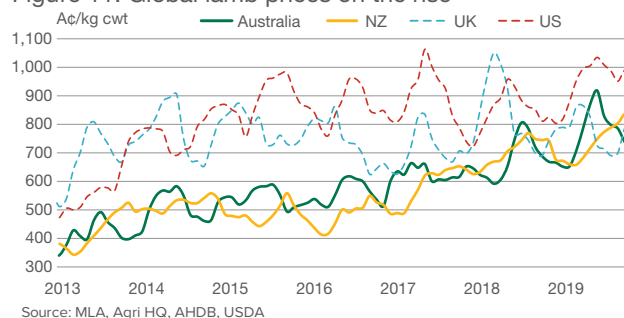


Figure 11: Global lamb prices on the rise



United States

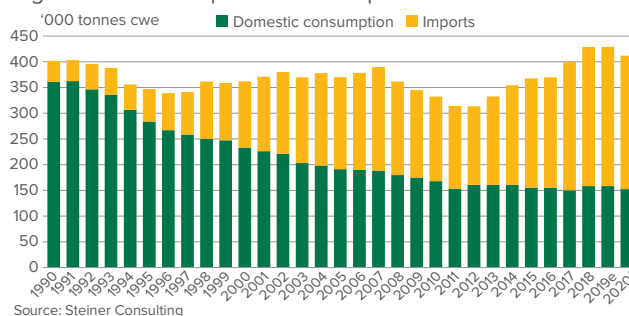
While lagging on total tonnage, the US is on par with China in terms of overall market value as it takes a greater portion of high value lamb cuts, notably leg roasts and loin cuts. In fact, legs are the only major lamb category where the two markets directly overlap.

US demand has remained strong due to a humming consumer market and high foodservice traffic throughout 2019. Imports have also been supported by limited availability from domestic sheepmeat production, which Steiner Consulting estimates declined 2% in 2019 and forecast will contract another 1% in the year ahead. Tight domestic supplies may become particularly acute in the first quarter this year, ahead of the peak Easter demand. Lambs on feed in Colorado – a key finishing state – were back 18% year-on-year in December.

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 also remain large consumers of lamb, an area where it has traditionally featured on menus and now hosts a large and expanding population of consumers from Middle Eastern background.

Demand from the US is expected to remain strong in 2020 however a slowdown in the economy – which remains a high risk – would dampen this outlook.

Figure 15: US sheepmeat consumption



Middle East

Exports to the Middle East were mixed in 2019, with trade shifts complicated by disruptions to the live trade over the northern hemisphere summer and demand from China drawing lower value product away from the market.

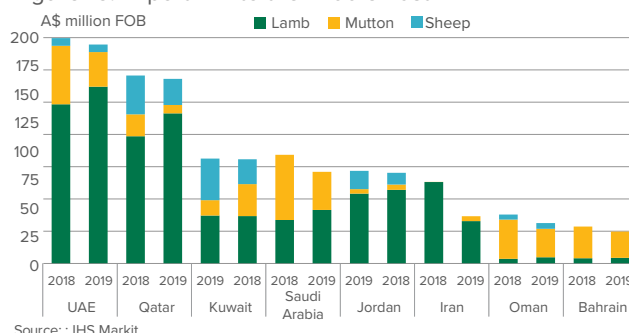
Mutton exports, with a greater exposure to Chinese demand, recorded the largest decline to the region, particularly apparent in the second half of 2019 as prices lifted to record levels. Mutton, which typically goes into channels such as institutional catering, was replaced with cheaper poultry or Indian buffalo as prices rose. Mutton exports to Saudi Arabia were particularly affected, with new government initiatives reducing the size of the expatriate work force in the country.

Lamb exports to the region proved more resilient, but were bolstered by some markets covering the live sheep shortfall with chilled carcasses. The United Arab Emirates and Qatar, the two largest lamb markets, maintained their lamb volumes and, between them, they now account for over 60% of Australian lamb exports to the region.

Iran, which became a 11,000 tonnes lamb carcass market in 2018, virtually ceased buying from June 2019, as US sanctions returned and the currency collapsed. These trading conditions are not expected to reverse in the near future given the current political climate.

The Middle East hosts a growing young, urban population whose food demand cannot be met by the limited agriculture capacity of the region. While this will underpin a need for imported meat, the market remains vulnerable to political instability, conflict and the price of oil – all of which will continue to shape demand across the region in 2020.

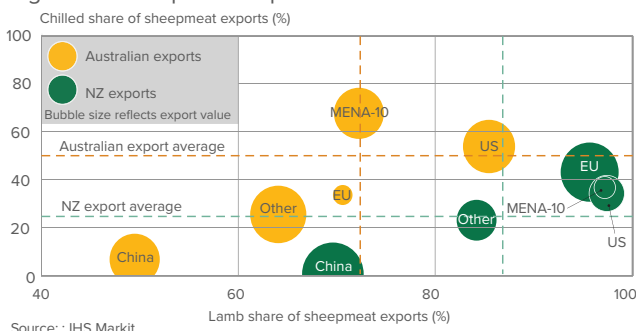
Figure 16: Export mix to the Middle East



New Zealand

At 27.4 million head in June 2019, the New Zealand sheep flock has remained relatively stable over the last few years. However, the 2019 spring lamb crop was estimated to be back 2.4% year-on-year due to fewer hoggets mated and some ewes joined in poorer condition, according to Beef + Lamb NZ. The smaller lamb kill is expected to be offset by slightly heavier carcass weights, and lamb exports in 2019–20 (ending September) are expected to be steady at 305,000 tonnes swt. Mutton exports in 2019–20 are expected to increase 8.7% to 90,000 tonnes swt, as older ewes are replaced with younger breeders.

Figure 17: Sheepmeat export market mix 2018/19



In most markets New Zealand product is the principal competitor (other than domestic supply) to Australian sheepmeat. However, Australia has a relatively stronger presence in the US and Middle East while New Zealand has greater share in China and the EU. Due to a prime lamb-gear production base and smaller domestic market, New Zealand exports a greater portion of sheepmeat as lamb in comparison to Australia. However, due to its market mix and favourable freight linkages, Australia is able to export a greater volume of sheepmeat in chilled form in comparison to New Zealand.

While New Zealand is Australia's principal competitor, neither supplier to the global market is in a position to outstrip rising demand. Nowhere has strong demand been more evident than in China, which has pulled product away from the EU and increased its share of New Zealand sheepmeat exports from 35% in 2015 to over 50% last year. While New Zealand has benefited from the surge in Chinese demand, it would be quite exposed to the market if demand cooled. In comparison, Australia has a more balanced export portfolio.

Global sheepmeat snapshot

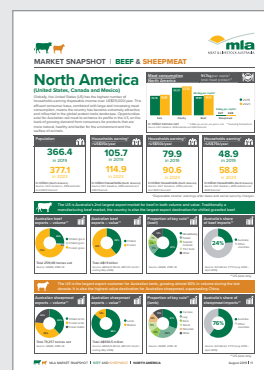
This report offers a comprehensive overview of the global sheepmeat industry and Australia's trade relationship with the world.



► To view the Global Sheepmeat snapshot click here

Market snapshots

MLA's market snapshots aim to give a better understanding of Australia's main red meat markets along with insights into what's driving consumer demand.



► To view market specific snapshots click here

Live exports

Sheep exports have contracted significantly over the last two years, as trade during the northern hemisphere summer ceased from June to September, during which typically half a million sheep would be shipped. In 2019, sheep exports reached 1.1 million head, up 1% year-on-year.

The live sheep export trade has become increasingly concentrated on three markets: Kuwait and Qatar, via the Arabian Gulf, and Jordan, via the Red Sea, which accounted for a combined 81% of shipments in 2019. Other markets have either switched to increased carcase trade, such as the United Arab Emirates, or sought animals from other alternate suppliers in eastern Europe, central Asia or Africa.

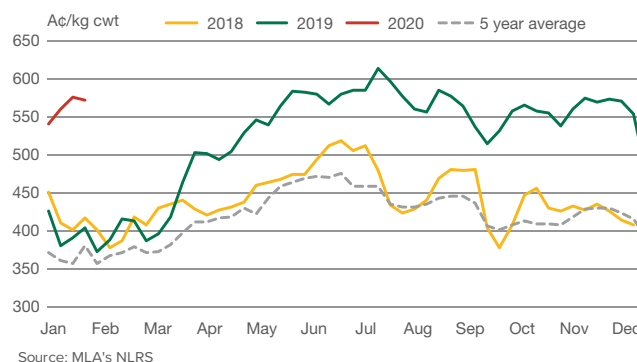
Demand for freshly slaughtered sheep will remain in key markets across the Middle East, especially during religious festivals, however future sheep exports from Australia will hinge on the regulatory environment the trade operates under. Pending changes to such, Australian sheep exports are expected to remain around one million head per annum in coming years.

Prices

The overarching factor driving lamb and mutton prices to record levels in 2019 was the strength of demand in international markets for Australian sheepmeat. In a year of sustained drought, and given the elevated sheep slaughter, the mutton market was perhaps the standout as demand, led by China, pushed prices to record levels.

The national mutton indicator outperformed all lamb categories in 2019, increasing 17% over the course of the year to average 518¢/kg cwt, 37% above the five-year average. Mutton prices exceeded 600¢ at the end of May, before climbing to a record high of 620¢/kg cwt in July. Despite easing back below the 600¢ mark in subsequent weeks, prices remained elevated for the remainder of the year.

Figure 18: National saleyard mutton indicator

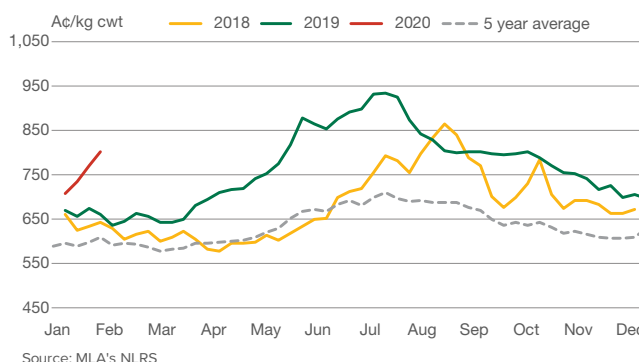


Source: MLA's NLRS

However, in early February 2020 mutton prices have once again surpassed 600¢/kg. Sheep supplies have started to diminish and the prospect of further rain will likely reduce the volume of sheep entering saleyards. Producer intentions to rebuild are lifting and with further rain and strong global demand, mutton prices will likely enter uncharted territory in 2020.

The aforementioned demand also supported lamb prices. However, as was the case in 2018, the contraction in lamb supply through winter created challenges for processors looking to source finished lambs. As a result of tightened supply, national saleyard indicators all recorded significant year-on-year increases, with light lambs improving 13% to average 731¢/kg cwt for the year. The national trade lamb indicator (NTLI) gained momentum throughout winter and surpassed 900¢ at the beginning of July before setting a new record of 950¢/kg cwt on 23 July. Soon thereafter, prices dropped back below 900¢ for the remainder of the year, and averaged 763¢/kg cwt across 2019, an increase of 12% from 2018 levels.

Figure 19: National saleyard trade lamb indicator



Finished lambs were in high demand, especially during the winter months. As such, the heavy lamb indicator maintained its premium over trade lambs and increased 11% on year-ago levels to average 770¢/kg, while restocker lambs saw a 16% improvement from 2018, averaging 749¢/kg cwt.

Prices across all categories have opened the year strongly, supported by some useful rainfall in key production regions. Restockers in particular have provided significant support to the market. With the potential for an extended winter shortage, the market starting the year at a high base and lamb prices typically finding support from Autumn onwards, prices could peak earlier and remain elevated for longer in 2020.

Demand fundamentals should continue to provide support to prices and when combined with the aforementioned supply dynamics, it would not be out of the question for lamb and mutton prices to reach new records in 2020.

Situation and outlook for the Australian sheep industry

	2015	2016	2017	2018	2019e	2020f	% change 2020f on 2019	2021f	2022f	2023f	% change 2023f on 2020
Sheep and lamb numbers ('000 head)*											
As at 30 June	68,025	67,543	72,125	70,607	66,034	63,700	-3.5%	65,700	68,750	72,200	13%
Percentage change	-1.9%	-0.7%	6.8%	-2.1%	-6.5%			3.1%	4.6%	5.0%	
Slaughterings ('000 head)											
Sheep	8,487	6,965	7,536	9,521	9,250	7,200	-22%	7,200	7,600	7,900	10%
Lamb	22,876	22,956	22,431	22,725	21,550	21,000	-3%	21,900	22,500	23,000	10%
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	23.8	2%	23.9	24.0	24.1	2%
Production ('000 tonnes carcase weight)											
Mutton	202	170	187	225	225	178	-21%	180	191	198	11%
Lamb	509	516	509	511	502	500	0%	523	540	554	11%
Sheep exports** ('000 tonnes)											
Mutton shipped weight	151	132	147	176	184	143	-22%	145	154	160	12%
carcase weight	181	161	179	215	224	174	-22%	177	188	196	12%
Lamb shipped weight	234	242	251	270	282	288	2%	303	317	330	15%
carcase weight	277	290	302	324	339	345	2%	364	381	395	15%
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

* 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
e = estimate