

# Industry projections 2018

## Australian sheep – May update

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### KEY POINTS

- Lamb and mutton slaughter outlook revised higher due to dry conditions
- Strong international demand is helping to support prices despite increased supply
- Export growth being driven by Asia, particularly China



### KEY 2018 NUMBERS

- ➔ **Lamb slaughter:** 22.85 million head
- ➔ **Lamb production:** 524,000 tonnes cwt
- ➔ **Lamb exports:** 257,000 tonnes swt
- ➔ **Sheep slaughter:** 7.8 million head

\* Graphic illustrates year-on-year change

## Summary

A dry start to 2018 across most of Australia has limited many producers' ability to expand flocks, despite both wool and sheepmeat prices remaining near historical highs. The lack of rainfall has led to increased lamb and mutton slaughter across the country which, combined with a fairly neutral rainfall outlook, has led to 2018 slaughter forecasts being revised higher.

Despite increased slaughter, the Eastern States Trade Lamb Indicator (ESTLI) remains above the five-year average, albeit below the levels seen at the beginning of the year. Looking forward to supply and prices for the remainder of the year, winter rainfall will be pivotal. Parts of Victoria received some decent falls in late autumn, while conditions across key growing regions elsewhere continue to deteriorate – particularly in NSW.

## Seasonal

A very dry summer across eastern Australia has continued into autumn, with many producers either continuing to supplementary feed or opting to de-stock.

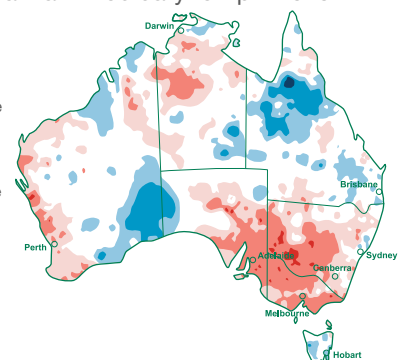
According to the Bureau of Meteorology's (BOM) rainfall records, the January to April period was the seventh-driest start to the year for south-eastern Australia as a whole. Areas in Victoria and south-east SA benefited from some much needed falls in early May, although a successful winter lambing season will be dependent on follow-up rain. Elsewhere, dry conditions persist in south-west WA, while record low April rainfall in parts of NSW has exacerbated an already critical situation.

Figure 1: Australian rainfall - February to April 2018

Rainfall decile ranges

#### Legend

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



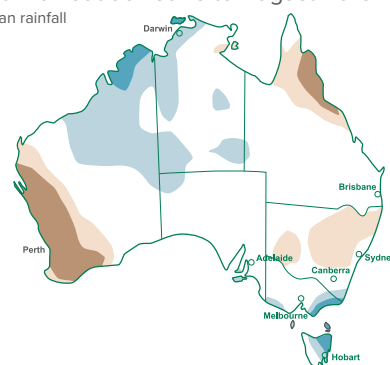
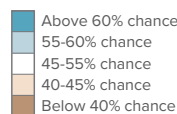
Source: BOM

BOM report the pattern of reduced cool season (April to October) rainfall in southern Australia has been a pronounced trend over recent decades. This year looks to be no different, with moderate chance of below-average rainfall heading into winter for inland NSW and a less-than 40% chance of above-median rainfall in key production regions in WA. Elsewhere, the outlook shows no strong indication of a wetter or drier July to August for most of southern Australia.

Figure 2: Australian rainfall outlook June to August 2018

Chance of exceeding the median rainfall

#### Legend



Source: BOM

## Slaughter

For the first quarter of 2018, national lamb slaughter tracked 4% higher than the same period last year, at 5.8 million head (ABS). The rise was driven by greater numbers processed in NSW (up 9%) and Victoria (up 14%) – partly the result of absorbing some of the lost capacity from a major plant closure in SA, but largely due to the tough growing conditions. The SA lamb kill was down 25% year-on-year for the quarter while WA slaughter lifted slightly (1%).

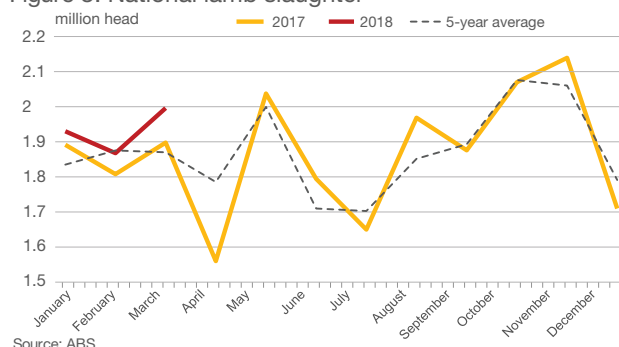
Sheep slaughter for the January to March period was up 9% from year-ago levels, to 2.1 million head. Volumes in NSW and Victoria increased 28% and 1%, respectively, and WA slaughter was 37% higher year-on-year. Similar to lamb, sheep processing in SA was down 25% in the March quarter compared to last year.

The strong wool and sheepmeat markets have been providing incentive for producers to retain stock and supplementary feed where possible. Industry survey results in February indicated that producer intent to maintain or expand the size of ewe flocks was strong. Since then, however, a tough summer and the absence of an autumn break, particularly across most of NSW, has challenged these intentions – NSW sheep slaughter for the first quarter was the highest it has been since 2009.

The projected flow-on effect is a delay in the expansion of the national flock – with numbers now expected to remain stable at around 72 million this year. Depending on an improvement in seasonal conditions, several years of increasing wool and sheep prices are likely to encourage flock-rebuilding efforts to ramp up again next year.

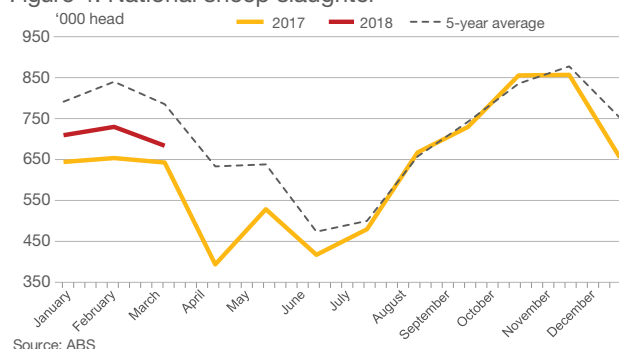
Taking the drier-than-anticipated first quarter and June to August rainfall outlook into account, the 2018 forecasts for Australian lamb and sheep slaughter have been revised higher. The forecast number of lambs to be processed is now 22.85 million head in 2018, up 2% year-on-year, with national sheep slaughter expected to lift 4% from 2017 levels, to 7.8 million head.

Figure 3: National lamb slaughter



Source: ABS

Figure 4: National sheep slaughter



Source: ABS

## Carcase weights and production

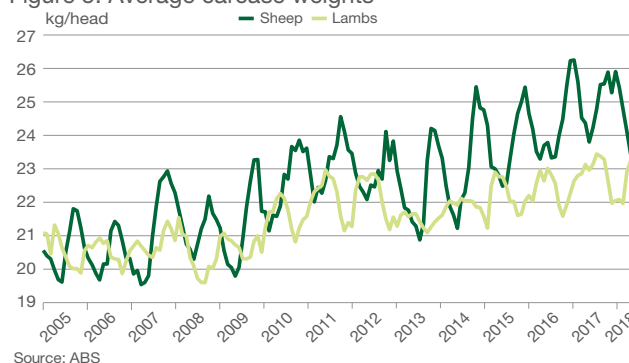
With many producers relying heavily on supplementary feeding, carcase weights for the first three months of the year have held up well, remaining firm on year-ago levels at 23.1kg nationally. Lamb carcasses in NSW, however, recorded a 5% increase year-on-year, offsetting declines in other states, averaging over 25kg in the first quarter of 2018.

Sheep carcase weights, on the other hand, tracked below 2017 levels across all states for the March quarter. The national average was 2% lower than last year, at 23.6kg.

For 2018, lamb carcase weights are projected to lift slightly on year-ago levels, to average 22.9kg. The national average sheep carcase weight for the calendar year is expected to be lower year-on-year at 24.6kg.

The adjustments to slaughter and carcase weights flow on to increased production volumes. Lamb production for 2018 is forecast to reach 524,000 tonnes carcase weight (cwt), up 3% year-on-year. Mutton production is expected to lift 2%, to 192,000 tonnes cwt.

Figure 5: Average carcase weights



## International markets

For the first four months of 2018, Australian sheepmeat exports grew 11% year-on-year on the back of higher lamb and mutton production. The upward revision of the annual lamb and sheep slaughter outlook will flow onto exports with lamb shipments likely to surpass 2017's record-breaking year and mutton exports to reach a three-year high.

Lamb exports were up 9% for the year-to-April, with the growth seen in all major markets including the Middle East (20%), Greater China (5%), US (3%) and Japan (47%). Most of this growth has come from the chilled segment, which lifted 14%, while frozen volumes were up 5% year-on-year. Subsequently, the average export unit value so far this year (January-March) increased 8% to \$8.00/kg, up from \$7.41/kg over the same period in 2017 – confirming that the export growth reflects not only a rise in supply, but also stronger market demand. This is the highest ever unit value (per kg) received in the March quarter and 20% above the five-year average.

Mutton exports have seen a larger fluctuation in volumes across Australia's major destinations, but overall were up 14% for the year-to-April period. Volumes to China were more than 75% higher than the same period in 2017, with Malaysia, Europe, Japan and Korea also contributing to the overall growth. It is not all positive, though, with declines recorded to the Middle East and US. Export unit values have also performed well for mutton, registering a 5% increase, from \$5.45/kg for the year-to-March in 2017, to \$5.73/kg for the same period in 2018 – the highest ever value per kg received in the first three months of the year and 32% above the five-year average. The combination of growing volume and price has meant the value of mutton exports has increased 20% year-on-year, to A\$252 million for the January to March period – a clear indication of strong overseas demand.

The 2018 outlook for sheepmeat exports remains positive due to import demand growth in China and subdued competition from New Zealand.

While the 2017-18 New Zealand lamb crop reflected some growth (1.9%), underpinned by record lambing rates thanks to favourable weather conditions, supply through the remainder of 2018 is not expected to increase considerably year-on-year. Much of the surplus lamb crop was processed earlier in the New Zealand season (October to September) – lamb production in the last three months of 2017 jumped 16% year-on-year, thanks to dry conditions and attractive prices, but subsequently contracted 14% in the first quarter of 2018. Sheep slaughter and mutton production has followed a similar trend.

The contraction in supplies out of New Zealand has resulted in a jump in their domestic lamb prices with 17.5kg carcase weight lambs averaging nearly 670A¢ in April, up 140A¢ year-on-year and increasing to an 80A¢ price premium to Australian lambs. Ongoing tight New Zealand supplies and high prices will continue to support export demand for Australian product.

However, much still depends on the level of Australia's supply over winter/spring, the Australian dollar remaining competitive and China's domestic sheepmeat production.

Figure 6: January to April lamb exports by destination

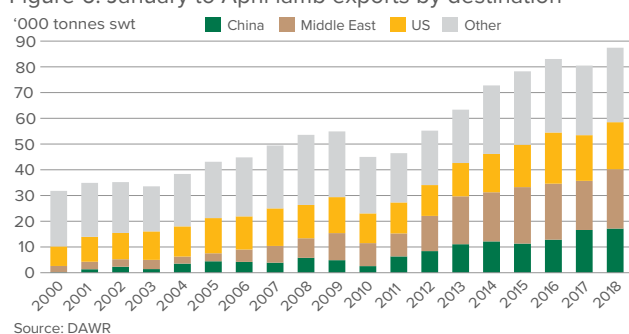
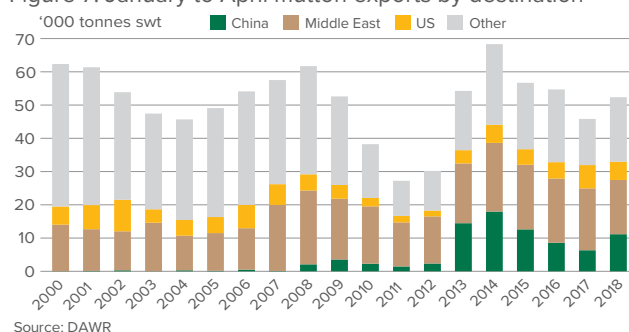


Figure 7: January to April mutton exports by destination



# Prices

Poor rainfall across many key supply regions so far in 2018 has been reflected in the Eastern States Trade Lamb Indicator (ESTLI). The Indicator dropped from close to 650¢/kg cwt in January to below 600¢/kg cwt in mid-April – the lowest levels since late 2017. Some long-awaited rainfall in Victoria and parts of southern NSW in mid-May did see the ESTLI increase back above 600¢/kg.

The ESTLI averaged 613¢/kg cwt for the year-to-April, back 4% on year-ago levels. However, at these levels, the Indicator remains historically high, up 17% on the five-year average for the period. Considering slaughter levels have been significantly higher than the same time last year, the performance of the ESTLI so far in 2018 has been quite resilient. Driven by strong international demand, as evidenced by record first quarter export values, the market for lambs remains positive. Historically, prices tend to increase over winter ahead of the spring lamb flush, although gains may be tempered this year if the current seasonal conditions continue. However, if key supply areas do receive some decent rainfall and there is sufficient pasture growth, it will likely see a sharp rise in prices.

Lamb prices in the west have outperformed the eastern states so far in 2018, with the WA trade lamb average price for the year-to-April up 6% or over 30¢/kg on year-ago levels. In fact, trade lambs in WA have traded at a premium to those in the east for only the second time since 2015.

The eastern states mutton indicator has tracked below 2017 levels since late March and has felt the impact of the higher slaughter numbers, with prices down 6% for the year-to-April compared to year ago levels. However, the indicator is still historically high – up 105¢/kg, or 34%, on the five-year average. Despite similar year-to-date slaughter levels to 2016, the indicator this year has averaged 37% higher in comparison. Mutton prices also experienced a rain-induced lift in May, with the eastern states indicator gaining up to 50¢/kg cwt. Prices typically ease in the back half of the year and, without decent rain, it will be up to strong international demand to help support the market.

Figure 8: Eastern States vs WA

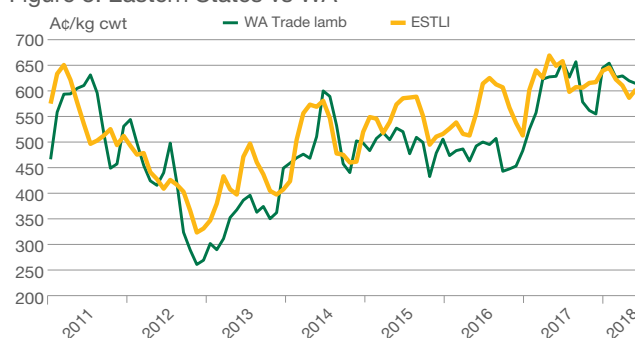
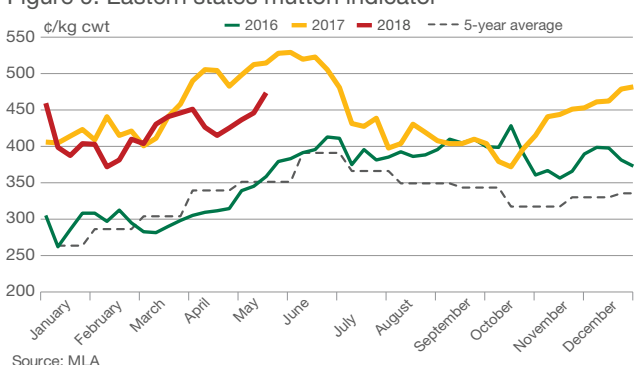


Figure 9: Eastern states mutton indicator



## Market snapshots

MLA's market snapshots aim to give producers a better understanding of what's driving demand in the main markets where Australian red meat is consumed. These will enable producers to be more informed when having discussions with their supply chain partners and – armed with a better understanding of where their product is going – make more informed business decisions about their own production and on-farm investments.

To view market specific snapshots click here



# Situation and outlook for the Australian sheep industry

	2013	2014	2015	2016	2017	2018 <sup>f</sup>	% change 2018 on 2017	2019 <sup>f</sup>	2020 <sup>f</sup>	2021 <sup>f</sup>	2022 <sup>f</sup>	% change 2022 <sup>f</sup> on 2017 <sup>f</sup>
<b>Sheep and lamb numbers ('000 head)*</b>												
As at 30 June	72,394	69,361	68,025	67,543	72,123	72,220		74,070	74,920	75,690	76,200	6%
Percentage change		-4.2%	-1.9%	-0.7%	6.8%	0.1%		2.4%	1.1%	1.0%	0.7%	
<b>Slaughtering ('000 head)</b>												
Sheep	9,615	10,086	8,487	6,965	7,536	7,800	4%	7,400	8,100	8,500	8,800	17%
Lamb	21,886	22,251	22,876	22,956	22,431	22,850	2%	22,700	23,200	23,600	23,900	7%
<b>Avg carcase weight (kg)</b>												
Sheep	22.4	23.2	23.7	24.4	25.0	24.6	-2%	24.8	24.9	25.0	25.1	0%
Lamb	21.5	21.9	22.2	22.5	22.7	22.9	1%	23.0	23.1	23.2	23.3	3%
<b>Production ('000 tonnes carcase weight)</b>												
Mutton	217	234	202	170	188	192	2%	183	202	213	221	17%
Lamb	470	486	509	516	509	524	3%	522	536	548	557	9%
<b>Sheep exports ('000 head)</b>												
	1,973	2,298	1,960	1,870	1,874	1,900	1%	2,000	2,000	2,000	2,000	7%
<b>Sheep exports** ('000 tonnes)</b>												
Mutton shipped weight	172	186	151	132	147	154	5%	146	162	170	177	21%
carcase weight	206	223	181	161	179	187	5%	179	197	208	216	21%
Lamb shipped weight	214	237	234	242	251	257	3%	253	262	269	274	9%
carcase weight	250	280	277	290	302	309	3%	304	315	323	329	9%
<b>Domestic utilisation ('000 tonnes c/c weight)***</b>												
Lamb	220	207	231	226	207	215	4%	218	221	225	228	10%
kg/head***	9.5	8.8	9.7	9.3	8.4	8.6	2%	8.6	8.6	8.6	8.6	

Source: ABS, DAWR, MLA forecasts

\* From 2018 is an MLA estimate based on ABS Data - Figures as of 30 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](http://www.abs.gov.au)

\*\* excl. canned/misc, shipped weight

\*\*\* kg/head consumption calculated from total carcase weight divided by Australian population

*f = forecast (in italics)*

The ABS recently released flock numbers for the 2016-17 financial year, which have shown a higher than anticipated year-on-year increase of 6.8% – mostly attributed to stronger marking rates. This significant increase in the flock has led to some adjustments to MLA's forecasts, setting the scene for flock expansion and higher turn-off in coming years.

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