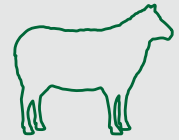


Australian sheep

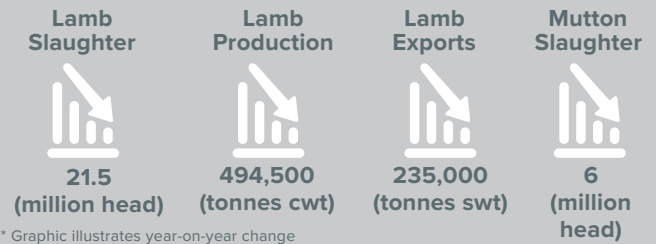
Industry projections 2017 August update



KEY POINTS

- Heavier lamb and sheep carcasse weights
- Lamb slaughter on track for 21.5 million head
- Mutton slaughter revised higher to 6 million head
- Uncertain market conditions

KEY 2017 NUMBERS



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Summary

Despite a strong first half of 2017, the outlook for the Australian sheep and lamb market for the remainder of the year is somewhat uncertain. It has been a very dry winter for many key supply regions across the country, and the prospect of receiving a break in the season before spring arrives is looking less and less likely.

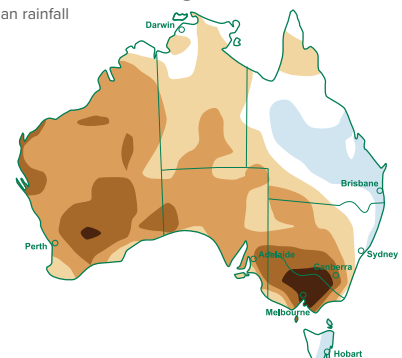
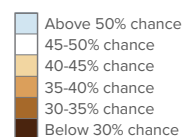
Furthermore, processor capacity has been reduced with temporary and permanent plant closures, due to limited supplies over the past year. This poses a risk for when lamb and sheep availability does begin to ramp up – particularly if seasonal conditions don't improve.

Many of the revisions to the August update of the Australian Sheep Industry Projections were influenced by heavier lamb and sheep carcasse weights in 2017, which have flowed on to increased production and export volumes.

Additionally, while there has been a strong intent to retain older and replacement ewes and wethers over the last 12 months, these animals are expected to start coming back through the system – resulting in an upward revision to sheep slaughter from what was forecast in the April update.

Figure 1: Australian rainfall outlook August to October 2017
Chance of exceeding the median rainfall

Legend



Source: BOM

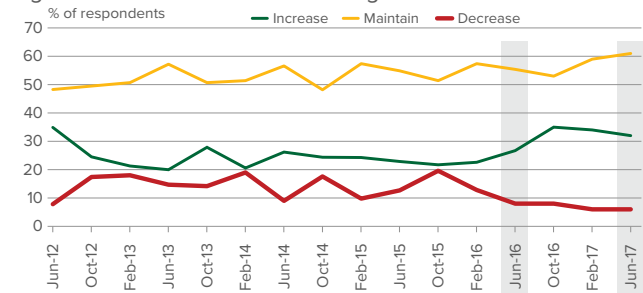
MLA and AWI wool and sheepmeat survey results

Results from the June 2017 MLA and AWI (Australian Wool Innovation) wool and sheepmeat survey indicate Australian producers still have a strong intent to increase or maintain the size of their breeding ewe flock for the next 12 months. This indicates strong producer confidence, despite some fluctuations in the market of late and unfavourable seasonal conditions in many areas.

Over the last year, particularly, the survey indicates a large proportion of these producers aim to lift numbers of breeding ewes by retaining more replacements. These signals of a rebuilding flock have played out in the higher number of breeding ewes on hand nationally in June 2017.

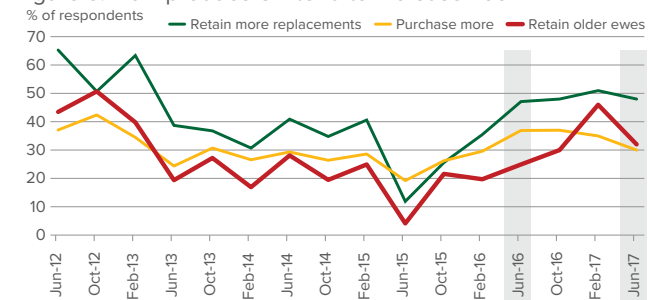
The June survey results demonstrate that, while still relatively high, the proportion of producers intending to retain older ewes over the next 12 months has eased slightly. This has led to an upward revision to the national sheep slaughter forecast for 2017 from what was predicted in the previous update, as discussed further below.

Figure 2: Ewe retention remains high



Source: MLA AWI wool and sheepmeat survey

Figure 3: How producers intend to increase flock



Source: MLA AWI wool and sheepmeat survey

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



Slaughter

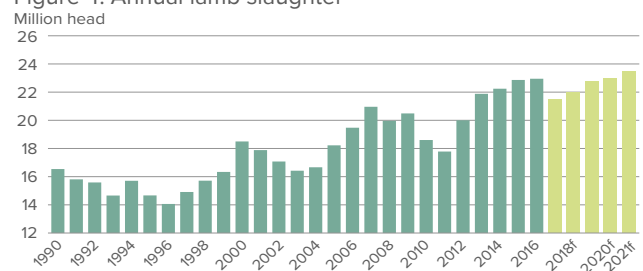
After five months of 2017, Australian lamb slaughter was at 9.2 million head (latest ABS data available at time of publishing) – down 7% from year-ago levels. Although coming off a high base year-on-year, the number of lambs processed during this period remained 1% above the five-year average.

Fewer lambs processed so far this year, compared to 2016, is in line with expectations from the April update. Following back-to-back years of record breaking lamb kills, the forecast contraction in 2017 is underpinned by a strong incentive from producers to retain ewe lambs for breeding and Merino wether lambs for wool production, as well as lower lamb markings in the latter half of 2016.

As a result, there have been no revisions since the April update to the national lamb slaughter forecast for 2017, to reach 21.5 million head. While this is a 6% decline year-on-year, processing levels are anticipated to increase in 2018 to 22 million head, and continue on the long-term growth trajectory.

Sheep slaughter for the year-to-May was down 14% year-on-year, to 2.9 million head. Historically high lamb, wool and sheep prices have underpinned producers' strong intent to retain ewes and wethers – evident in consecutive MLA and AWI wool and sheepmeat survey results over the last year. The survey results have signalled that, after high turnoff in 2014, many producers are rebuilding their flocks. As a result, there has been a reduction in stock available for slaughter over the last few years.

Figure 4: Annual lamb slaughter



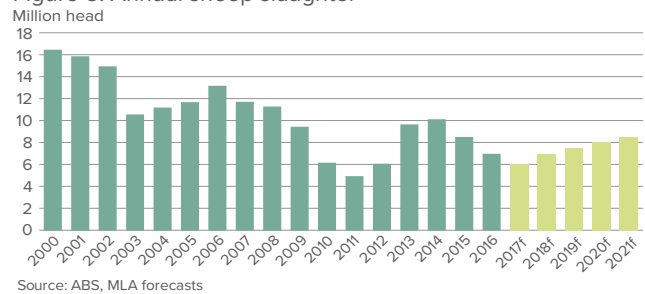
Source: ABS, MLA forecasts

Slaughter continued...

However, the ewes and wethers that have been retained this year and last are predicted to start coming back through the system. As mentioned in the survey results above, the intent to retain older ewes has eased since the February survey wave. As a result, there was a slight upwards revision from the April update to the 2017 forecast, to 6 million head (the previous forecast was 5.8 million head). This will still be almost one million head less (14%) sheep processed in 2017, compared to last year.

For 2018, there has been considerably greater revision to the projected number of sheep to be processed, to 6.9 million head.

Figure 5: Annual sheep slaughter



Source: ABS, MLA forecasts

Carcase weights and production

Lamb

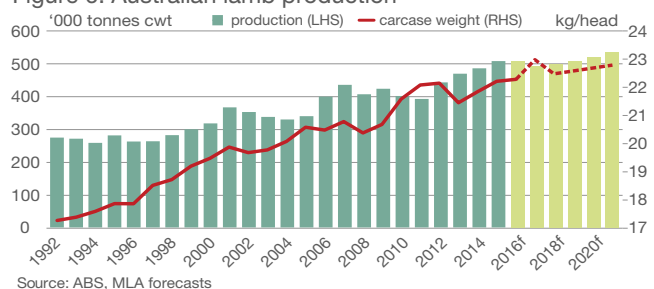
Over the last 10 years, Australian lamb carcase weights have increased at an average rate of 190g/year. In 2007, lamb carcasses averaged 20.75kg/head nationally. Fast forward to 2017, and the average lamb carcase weight for the first five months of the year was 23.08kg/head – 1% higher than the corresponding period last year and 3% above the five-year average.

The steady growth can be attributed to a number of factors, and is a key reason behind the majority of forecast revisions in this August update. Largely underpinning the long-term rise in carcase weights has been the transition from Merinos to meat-producing breeds. In 2017, a drier autumn and winter has seen a greater number of producers supplementary feeding their lambs. This has pushed carcase weights even further.

The outcome is an upward revision to the average lamb carcase weight forecast for 2017, to 23kg/head (the April prediction was 22.4kg) – a 3% rise from the 2016 average. This adjustment, in turn, flows on to production and export volumes.

Lamb production for the year-to-May was 212,484 tonnes carcase weight (cwt) – down 5% from the same period last year (albeit that was a record production year), but remains 4% above the five-year average. With heavier carcasses being processed, production expectations for 2017 have been revised higher since the April Update, to 494,500 tonnes cwt – though remaining 3% lower year-on-year.

Figure 6: Australian lamb production



Source: ABS, MLA forecasts

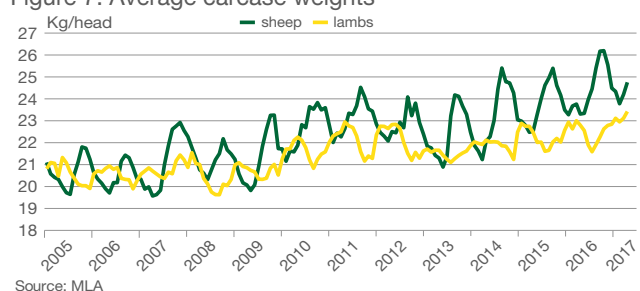
Mutton

For the year-to-May, Australian mutton production totalled 69,682 tonnes cwt – a decline of 11% from year-ago levels. Similarly to lamb, heavier sheep carcasses this year have pushed production expectations for 2017 higher than initially anticipated in April (although still considerably lower year-on-year).

For the first five-months of this year, the national sheep carcase weight has averaged 3% higher than last year, and 8% above the five-year average for the period, at 24.19kg/head. The rise in carcase weights is in line with the long-term trend that is largely due to advances in genetics and improved management practices.

Australian sheep carcasses are expected to average 24kg/head for 2017 – up 1% year-on-year. As a result, there has been an upward adjustment to mutton production from the April Update – to 144,000 tonnes for 2017. This will be a 13% decline on 2016 levels.

Figure 7: Average carcase weights



Source: MLA

Exports

Australian lamb exports for 2017 are anticipated to be higher than forecast in the previous update due to the increase in projected lamb production. The revision is an increase of 10,000 tonnes shipped weight (swt), to 235,000 tonnes swt for 2017 – albeit 3% lower than last year's record total.

Six months into 2017, Australian lamb shipments are tracking 2% lower than last year, at 123,695 tonnes swt.

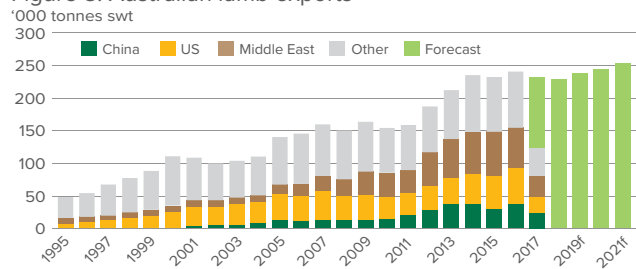
Lamb exports to the Middle East for the year-to-June eased 10% year-on-year, to 30,503 tonnes swt. Volumes to the US were down to a slightly lesser extent (6%) over the same period, to 26,304 tonnes swt.

In contrast, shipments to China for the year-to-June have recorded 16% growth year-on-year, to 24,748 tonnes swt. Furthermore, lamb supplies from New Zealand (China's largest supplier of lamb) will start to tighten as the end of their production season approaches, offering Australian exporters a competitive advantage over the coming months.

The Australian domestic market share is anticipated to be 45% this year. Per capita consumption of lamb is expected to remain in the 9-9.5kg range out to 2020.

Australian mutton exports have also been revised higher than the previous forecast, in line with the rise in production. For 2017, mutton shipments are projected to be 110,000 tonnes swt – down 12% year-on-year.

Figure 8: Australian lamb exports



Source: DAWR

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



Prices

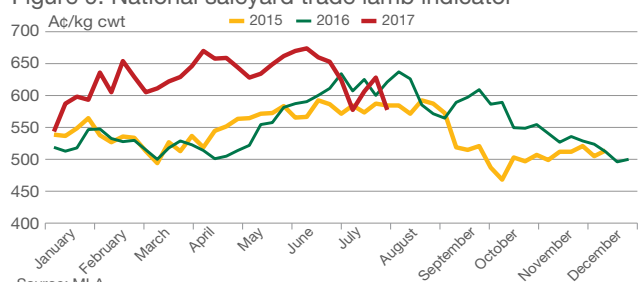
For the year-to-July (as at 27 July), Australian lamb and sheep saleyard indicators averaged well above year-ago levels as a result of the more limited pool of available supplies. Restocker lambs tracked 144¢ above the same period last year, at an average of 687¢, while light lambs were 96¢ higher, at 625¢/kg cwt. Trade lambs were up 77¢, averaging 630¢ nationally, while heavy lambs lifted 66¢ from year-ago levels, to 625¢/kg cwt. The national mutton indicator followed a similar trend, up 125¢ year-on-year, to average 452¢/kg cwt for the year-to-July.

Dry seasonal conditions in many key supply regions, along with a poor rainfall outlook to October, has seen volatility in the market more recently, however. In the first week of July, the national trade lamb indicator lost 93¢ from where it started June, settling at 579¢/kg cwt. Subsequently, it bounced back somewhat to 630¢/kg cwt mid-July, before finishing the month averaging 580¢/kg cwt.

Limited supplies have seen several processing plants forced to close – some temporarily, others permanently. Reduced processor capacity poses a concern for when the number of sheep and lambs available for slaughter starts to pick up. If capacity does not increase with supply, this could put significant downward pressure on prices.

Looking ahead, the market will largely hinge on seasonal conditions and feed availability coming into spring, along with the extent to which processing capacity can absorb the eventual recovery in supplies.

Figure 9: National saleyard trade lamb indicator



Source: MLA

To visit the interactive Prices & Markets online tool, click here.



Situation and outlook for the Australian sheep industry

	2012	2013	2014	2015	2016	2017 ^f	% change on 2016	2018 ^f	2019 ^f	2020 ^f	2021 ^f	% change on 2017 ^f
Sheep & lamb numbers ('000 head)												
at June 30	74,722	75,548	72,612	70,909	67,543	71,000		72,000	72,000	70,500	68,500	-3.5%
percentage change	2.2%	-0.9%	-3.2%	-2.3%	-4.7%	5.1%		1.4%	0.0%	-2.1%	-2.8%	
Slaughterings ('000 head)												
sheep	6,063	9,614	10,086	8,487	6,965	6,000	-13.9%	6,900	7,500	8,000	8,500	41.7%
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%
Avg carcase weight (kg)												
sheep	23.0	22.5	23.2	23.7	23.7	24.0	1.3%	23.9	24.1	24.2	24.3	1.3%
lamb	22.2	21.5	21.9	22.2	22.3	23.0	3.1%	22.5	22.6	22.7	22.8	-0.9%
Production ('000 tonnes carcase weight)												
mutton	140	217	234	201	165	144	-12.7%	165	181	194	207	43.8%
lamb	443	470	487	508	512	495	-3.3%	495	514	522	536	8.3%
Sheep exports ('000 head)												
	2,279	1,973	2,298	1,959	1,870	2,000	7.0%	2,000	2,000	2,000	2,000	0.0%
Exports ('000 tonnes)*												
mutton	shipped weight	107	172	186	151	110	-12.0%	125	132	147	157	42.7%
	carcase weight	134	206	223	181	143	-11.2%	163	172	191	204	42.7%
lamb	shipped weight	189	214	237	234	235	-2.9%	230	240	245	255	8.5%
	carcase weight	222	250	280	277	274	-5.5%	268	280	285	297	8.4%
Domestic utilisation ('000 tonnes carcase weight)												
mutton		5	10	11	20	4	-75.0%	2	9	3	2	100.0%
	kg/capita	0.2	0.5	0.5	0.8	0.2	-100.0%	0.1	0.4	0.1	0.1	0.0%
lamb		222	220	207	231	221	-0.5%	227	235	237	239	8.1%
	kg/capita	9.8	9.5	8.8	9.7	9.2	-2.2%	9.2	9.3	9.3	9.2	2.2%

Source: ABS, DAWR, MLA forecasts

^f = forecast (in italics)

* excl. canned/miscellaneous

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