

Industry projections 2018

Australian sheep

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KEY POINTS

- Lamb production to be similar in 2018
- Mutton production to decline with lower slaughter
- Strong international demand to continue to support prices
- NZ production and exports to remain steady



KEY 2018 NUMBERS



Lamb slaughter:
22.5 million head



Lamb production:
514,000 tonnes cwt



Lamb exports:
241,000 tonnes swt



Sheep slaughter:
7.2 million head

* Graphic illustrates year-on-year change

Summary

Stable lamb production and a decline in mutton production is forecast for 2018 as producers maintain intentions to expand their flocks and high wool prices provide an incentive to retain Merino wethers. With added stock retention and an improvement in marking rates, the national sheep flock is forecast to expand a further 2.5% in 2018.

Lamb and sheep slaughter are both expected to drop slightly in 2018, to 22.5 million head and 7.2 million head, respectively. A small increase in lamb carcase weights will help offset the lower slaughter, resulting in stable lamb production at 514,000 tonnes carcase weight (cwt). It is a slightly different story for sheep, with carcase weights expected to ease from record highs in 2017 back towards their longer term trend. This, combined with declining slaughter, suggests a small reduction in mutton production to 177,000 tonnes cwt.

There are currently many positive signals across the sheep industry, with producers' continued intention for flock rebuild and enhanced breeding efficiency apparent in a number of industry surveys. The latest ABARES figures are showing good returns in farm cash income and industry reports strong ram sales across the board. Consumer demand for sheepmeat has been robust with lamb exports hitting record highs, mutton exports up 11% and reasonably flat domestic consumption despite average retail prices rising further in 2017. If the three-month rainfall outlook comes to fruition, with a decent autumn break, the industry will be well-positioned for another strong year.

Looking ahead, it is expected that both lamb and mutton exports will continue to follow domestic production shifts. Exports are likely to plateau in 2018 before building up again in coming years.

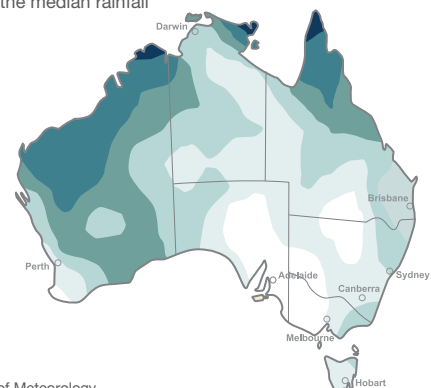
The increase in both sheepmeat production and prices in 2017 highlights the strength of the market. Current market signals are showing no significant change to international demand in 2018 and with the anticipated softer overall sheepmeat production, this year should see continued support for prices.

Figure 1: Australian rainfall outlook February to April 2018

Chance of exceeding the median rainfall

Legend

- Above 70% chance
- 65-70% chance
- 60-65% chance
- 55-60% chance
- 50-55% chance
- 45-50% chance
- Below 45% chance



Source: Australian Bureau of Meteorology

Slaughter

The MLA and AWI wool and sheepmeat survey results indicated improved lamb marking rates in 2017, with a larger spring lamb crop as a result.

However, after a slow start in 2017, lamb and mutton processing ramped up in the second half of the year due to an extremely dry winter and start to spring which deteriorated pastures and crops, particularly across NSW, WA, SA and Tasmania. In response, flock rebuilding efforts slowed, with producers having to turn off stock as conditions worsened. As a result, lamb and mutton slaughter for 2017 will have been higher than previously anticipated in the August update.

The number of lambs processed in 2017 will likely hit 22.65 million head – remaining below the highs of 2015 and 2016, although still a historically large number of lambs to come through the system.

A return to more favourable conditions after a late break in the season in spring 2017, particularly in Victoria, improved pastures and revived restocking activity. Given the flock rebuilding intentions, a fairly neutral rainfall outlook out to April and assuming average seasonal conditions for the remainder of the year, 2018 lamb slaughter is expected to trend back slightly towards 22.5 million head before building again from 2019 and beyond.

Similar to lamb, the dry weather induced a surge in sheep slaughter in the latter half of 2017. This led to an upward revision of the estimated number processed for 2017 overall, to 7.56 million head.

The retention of ewes and wethers for flock expansion and wool production is likely to see Australia's mutton slaughter also pull back slightly in 2018, towards 7.2 million head.

Encouragingly, industry survey results signal producers are intending to retain more replacements and expand their operations, and there is a strong price incentive to do so. An unprecedented run of wool price rises over the last year has also enticed producers to retain more Merino wether lambs for wool production.

Figure 2: Australian lamb slaughter

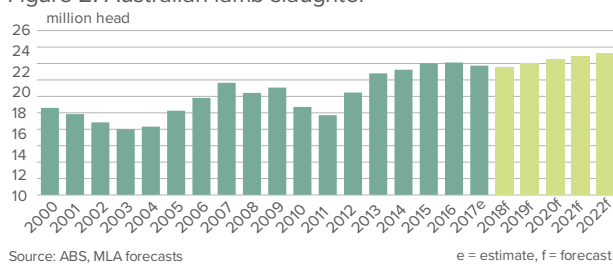


Figure 3: Australian sheep slaughter



Carcase weights and production

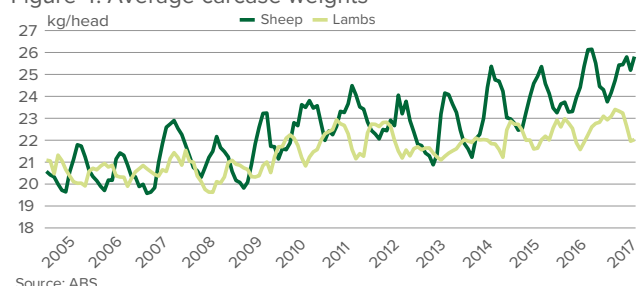
Over the last 10 years, lamb carcase weights have increased an average of 190g/year, with sheep carcase weights up on average 370g/year. While seasonal conditions have a significant influence on carcase weights in the short-term, the long-term growth has been underpinned by a combination of several factors; the shift in the flock towards meat and dual-purpose breeds, improved genetics and better livestock management. In 2017, strong saleyard prices, as well as several major processors maintaining fairly wide grid 'sweet spots', encouraged producers to grow lambs and sheep to heavier weights to take advantage of the attractive returns.

As a result, the average national lamb carcase weight for 2017 is expected to reach close to 22.7kg – which would be up 1% year-on-year and the highest calendar year average on record. Heavier carcasses helped to offset the slight decline in slaughter in 2017, resulting in estimated lamb production of 514,000 tonnes cwt – fairly steady with the previous year.

Owing largely to the improved seasonal conditions in many sheep producing regions, and the expectation that price drivers will remain in place, it is anticipated lamb carcase weights in 2018 will average 22.9kg. The volume of lamb produced is forecast to be fairly similar to 2017 levels, with the small year-on-year decrease in slaughter counterbalanced by a slight lift in carcase weights.

Mutton carcase weights are estimated to have averaged 25kg in 2017. With heavier carcase weights and greater numbers processed for the year, mutton production is estimated to have lifted 11% year-on-year, to 189,000 tonnes cwt for 2017.

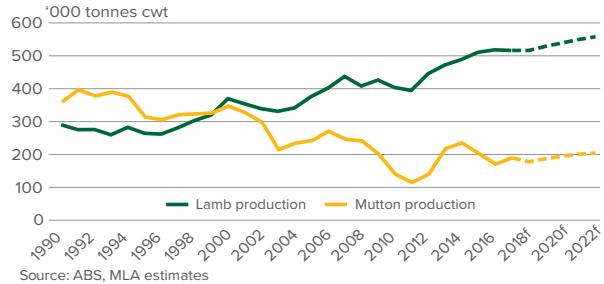
Figure 4: Average carcase weights



Forecasts for 2018 are for mutton carcase weights to trend back towards the mid-24kg range, which is in line with long-term trends. This, as well as a reduction in slaughter, leads to a lower mutton production forecast for 2018 at 177,000 tonnes cwt.

The total sheepmeat production for 2017 is estimated to be 703,000 tonnes cwt, exceeding the 700,000 tonne mark for only the third time in the last 15 years. As outlined above, this is expected to drop back slightly in 2018, before rising again in 2019 and beyond. This will be driven predominantly by anticipated increasing lamb production.

Figure 5: Lamb and mutton production



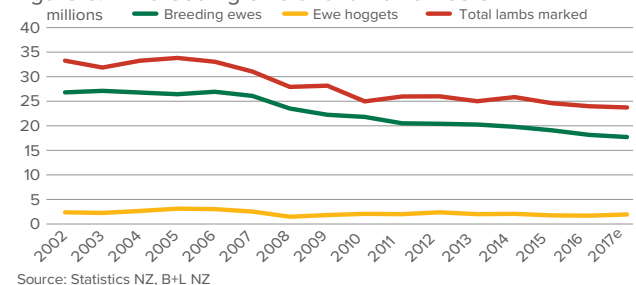
New Zealand

New Zealand (NZ) and Australia are the world's largest exporters of sheepmeat, accounting for approximately 71% of global exports in 2016-17 (OECD-FAO). As such, the supply situation in NZ is an important factor in Australia's competitiveness in the global market.

NZ breeding ewe and lamb numbers have been in decline over the last decade, as many producers transition out of sheep to other land use options, particularly dairy production. In spring 2017, NZ's lamb crop was estimated at 23.7 million head, down 1.1% year-on-year, while breeding ewes were down 2.4%, to 17.7 million head (Statistics NZ, Beef + Lamb NZ).

NZ's lamb slaughter for 2017-18 (October to September) is forecast to lift marginally from the previous season to 19.27 million head, restrained by producers retaining replacement lambs to maintain flock numbers. Lighter carcase weights are expected to see production and exports remain relatively flat.

Figure 6: NZ breeding ewe and lamb numbers



Given NZ's capacity for export growth remains constrained, Australia is competitively positioned to supply growing demand in the global market.

Domestic demand

The volume of lamb consumed domestically has remained quite resilient, despite the increases in retail prices of lamb in recent years. Per capita lamb consumption has stabilised recently around the 9kg mark and Australia continues to be one of the largest per capita consumers of sheepmeat in the world.

The average retail price of lamb for the first nine months of 2017 was \$14.82/kg – exceeding the previous record highs seen in 2011. Lamb's price relative to chicken has increased significantly in the last 17 years, from being at an average 140% index in 2000 to an average 278% index in 2017 (to September). Lamb's retail price has more than doubled since 2000, while chicken's has only gone up by 12%. During this time, the absolute volume of lamb consumed has remained stable despite these competitive pressures, highlighting the strength lamb has in the minds of Australian consumers.

Lamb continues to capture the third largest value share of fresh meat protein in the retail space ahead of pork and seafood, but behind beef and chicken. Per capita lamb consumption is forecast to remain steady in coming years, provided there is no economic downturn or unexpected leap in pricing.

Please read the *Australian Sheepmeat Snapshot* for more information on the opportunities and challenges for the industry.

Figure 7: Domestic lamb consumption

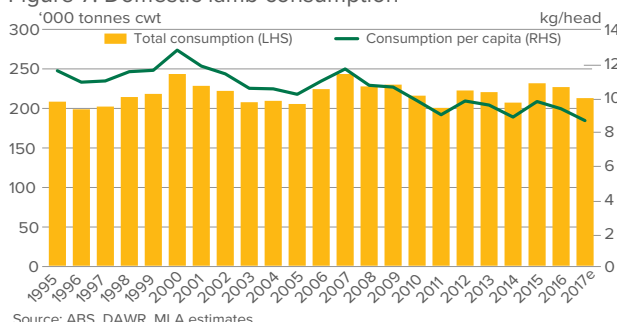
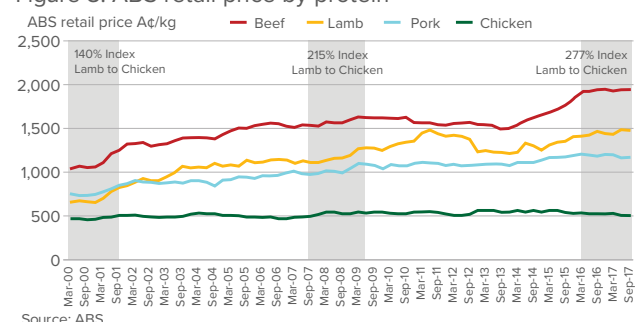


Figure 8: ABS retail price by protein



International demand

In 2017, Australian sheepmeat exports had their biggest year since 2014, with lamb recording a new high at 251,000 tonnes shipped weight (swt). Mutton reversed two years of decline and recorded growth on the back of a significant increase in domestic supplies, especially in the second half of the year, reaching an annual total of 147,000 tonnes swt.

Despite the increase in pricing across lamb and sheep in 2017, international demand remains robust, resulting in a 20% rise in the export value of lamb and 45% for mutton (calendar year to November) – both to record levels. The two key markets of US and China both achieved significant growth in value.

Overall, the global economy has a much more positive outlook than this time last year with many key regions, including the US and large parts of Asia, registering improvements in key economic indicators. Many developing markets are also marked for some significant improvements in household wealth, which generally flows through to an increase in protein consumption.

While current supplies of lamb remain tight, placing pressure on price for overseas customers, the long-term fundamentals remain positive for the Australian sheepmeat industry. Australian lamb exports in 2018 are anticipated to be down slightly year-on-year, to 241,000 tonnes swt – although still 4% above the five-year average.

However, shipment volumes are expected to build back to new highs for 2019 and beyond as production increases and demand grows in developing countries in Asia and the Middle East, as well as developed economies like the US and Korea. Exports will continue to be impacted by any movements in the Australian dollar or NZ production.

Mutton exports will likely be lower in 2018 as a fall in slaughter flows through to reduced production. The export market now accounts for above 95% of mutton production and this is only expected to increase in future years. Our main export destinations continue to be China, Malaysia and Saudi Arabia, which together account for over 40% of Australia's mutton exports.

Maintaining favourable access conditions and reducing both economic and non-tariff barriers will continue to be a key lever in improving Australian sheepmeat's global competitiveness. In the year ahead, Australia is engaged in a number of trade talks globally – priorities include the EU, in anticipation of the launch of the Australia-EU FTA, and UK, regarding the upcoming 'Brexit'.

Figure 9: Lamb exports by destination

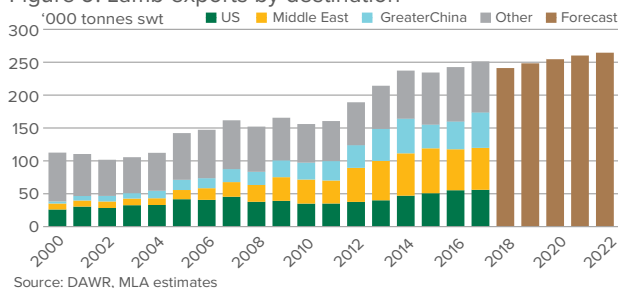
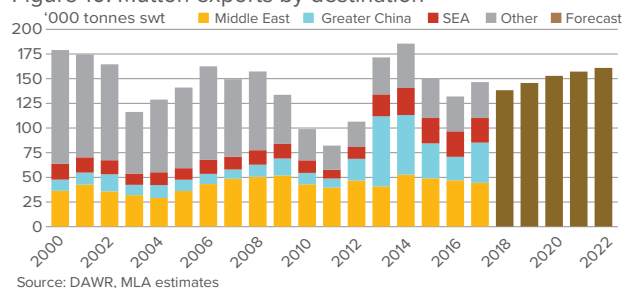


Figure 10: Mutton exports by destination

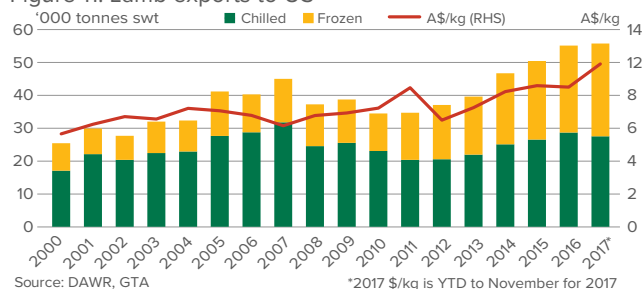


The US

The US remains Australia's largest destination for lamb, recording its sixth consecutive year of growth in 2017. Lamb exports have jumped from 39,000 tonnes swt in 2013 to 55,000 tonnes swt in 2017. Lamb is a niche protein in the US, which means small changes in per capita consumption can result in significant shifts in total consumption volumes. Australia, the dominant supplier to the US, is currently benefiting from the strong growth in demand for lamb in fast food and casual dining. This is being driven by changing demographics, a strong US economy supporting a growing foodservice channel and a shift in demand for more convenient and affordable lamb options such as lamb burgers, meatballs and kebabs.

Please read the *US Sheepmeat Snapshot* for more information on the opportunities and challenges for the industry.

Figure 11: Lamb exports to US



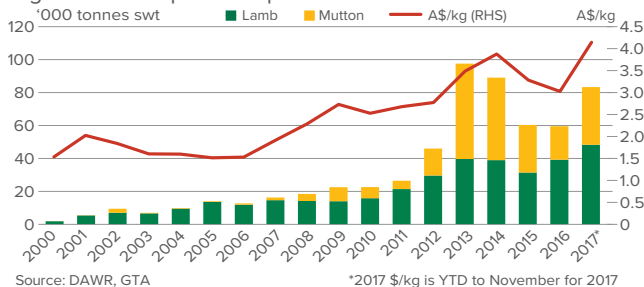
China

After three years of decline, sheepmeat exports to China returned to significant growth in 2017, climbing 40% to 83,000 tonnes swt, with value also up a massive 90% year-to-November, on the back of short domestic supplies. This increase was partly being driven by lamb, which recorded its biggest year of exports to China with a 26% increase in breast and flap shipments. Chinese consumers perceive lamb to be a superior protein of high nutritional value (versus chicken and pork), but find it more difficult to prepare and cook, which means lamb is mostly 'eaten out'. A large proportion of Australian exported lamb is breast and flap consumed in the foodservice sector, particularly in hot pot restaurants. There is a long-term opportunity to increase the demand for a wider variety of cuts into the retail sector as it matures and Chinese consumers become more familiar with the protein.

China remains a key market for Australian sheepmeat, however the price-sensitive nature of the market, ongoing market access challenges (including cold chain infrastructure) and the performance of the Chinese sheep flock will dictate the size of future growth.

Please read the *China Sheepmeat Snapshot* for more information on the opportunities and challenges for the industry.

Figure 12: Sheepmeat exports to China



Middle East

Sheepmeat exports to the Middle East in 2017 tracked in line with the previous year, reaching 108,000 tonnes swt, with stability across all major market destinations in the region. Chilled product to the region edged above 2016's record, at 60,000 tonnes swt, with Dubai and Qatar maintaining strong demand, and Australia exporting chilled product to Iran for the first time since 2013.

2017 saw a continuation of the recent trend towards premium products to the Middle East that has seen Australia's export price per kilogram almost double in the last 10 years, reaching A\$6.70/kg in 2016-17. This has been driven by a combination of increasing disposable incomes, westernisation, large expat professional populations and developing tourism sectors across the Middle East. It is likely that 2018 will see ongoing demand for high quality chilled carcasses, underpinning demand from the region. The Middle East will remain a significant market for Australian sheepmeat, but will face competition from Australian restockers for light lambs next year and increased competition from the growing presence of cheaper product from Romania and North Africa.

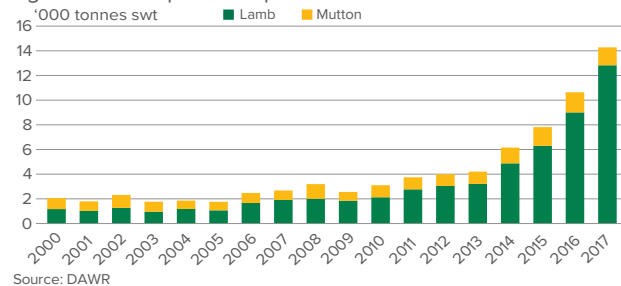
Please read the *MENA Sheepmeat Snapshot* for more information on the opportunities and challenges for the industry.

Korea

Korea was a notable market for Australian sheepmeat exports in 2017 with previous record volumes being shattered, driven by lamb (chilled and frozen) growing at 42% to 13,000 tonnes swt. This growth in demand has been heavily dependent on Chinese-influenced lamb barbecue/skewer outlets. The number of non-skewer venues serving lamb is gradually increasing, and further usage by these restaurants will remain a key driver for future growth.

Please read the *Korea Sheepmeat Snapshot* for more information on the opportunities and challenges for the industry.

Figure 13: Sheepmeat exports to Korea



Live Export

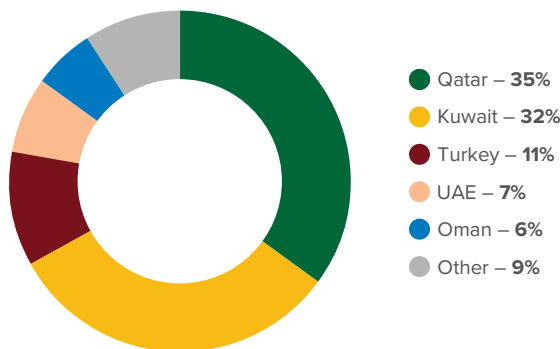
Live sheep exports for 2017 lifted 3% year-on-year, to 1.89 million head. Exports to Qatar and Oman drove the overall increase, while exports to Kuwait, Jordan and UAE were lower. In addition, Malaysian importers increasingly looked to sheep and goat suppliers in Thailand and Myanmar due to high Australian prices.

One bright spot was the recommencement of shipments to Turkey in August 2017. The government in Turkey is importing sheep from Romania and Australia, with a preference for the quality of Australian sheep. For 2017, exports to Turkey were just above 198,000 head – meaning it has become the third largest recipient of Australian sheep.

Looking ahead, there is a possibility of Saudi Arabia and Iran both taking their first exports of Australian sheep under Export Supply Chain Assurance System (ESCAS). How active either of these markets become will obviously be determined by the supply and pricing out of Australia.

Overall live sheep exports are expected to be flat in 2018 at 1.9 million head. Despite the strong demand and the potential of new markets, any major growth is being limited by the ongoing flock rebuilding and continuing high local prices.

Figure 14: Live exports in 2017



Source: DAWR

Prices

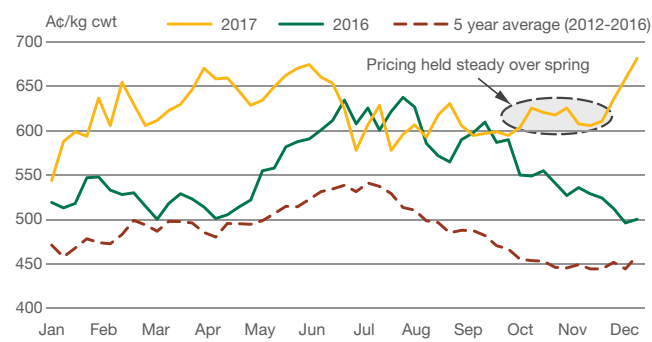
Lamb, mutton and wool prices had an unprecedented run during 2017, with strong support from both the domestic and global markets – even during spring when supplies typically increase, prices remained well-supported.

The increase in production and rise in prices in 2017 demonstrates the strength of the market. This is being driven by a number of factors including the strong international demand, resilient domestic consumption and constrained NZ competition.

The lack of growth in sheepmeat production for 2018 should continue to assist prices across both lamb and mutton throughout the year. There is still some upside potential if improved seasonal conditions continue to bolster restocker activity. Furthermore, any downward change in New Zealand's exports or any significant movements in the exchange rate will also have a significant impact on local prices, considering that close to 65% of Australia's sheepmeat is exported.

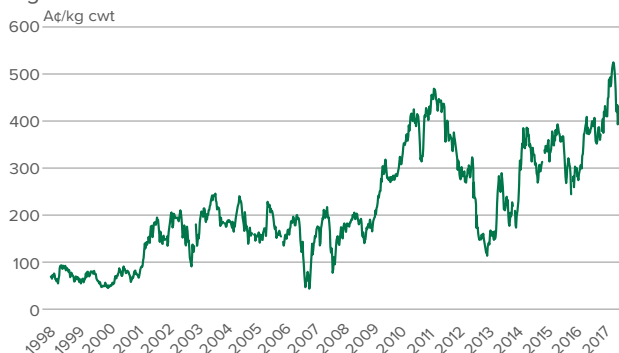
A key watchout leading into 2018 will be the reactions of consumers domestically and internationally to any significant changes in pricing. Domestically there is a strong relationship between saleyard lamb prices and retail pricing – so naturally any further changes in trade lamb pricing will impact what the consumer ends up seeing on the shelf. Considering the domestic consumer still accounts for close to 45% of lamb production, maintaining domestic preference for lamb will be crucial.

Figure 15: National saleyard trade lamb indicator



Source: MLA

Figure 16: National mutton indicator



Source: MLA

Situation and outlook for the Australian sheep industry

	2013	2014	2015	2016	2017*	2018 ^f	% change 2018 on 2017	2019 ^f	2020 ^f	2021 ^f	2022 ^f	% change 2022 ^f on 2017 ^f
Sheep and lamb numbers ('000 head)*												
As at 30 June	72,394	69,361	68,025	67,543	69,800	71,400		72,400	72,900	73,300	73,500	6%
Percentage change		-4.2%	-1.9%	-0.7%	3.1%	2.5%		1.4%	0.7%	0.5%	0.3%	
Slaughtering ('000 head)												
Sheep	9,615	10,086	8,487	6,965	7,555	7,200	-5%	7,500	7,800	8,000	8,100	7%
Lamb	21,886	22,251	22,876	22,956	22,650	22,500	-1%	22,900	23,250	23,600	23,850	5%
Avg carcase weight (kg)												
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%
Production ('000 tonnes carcase weight)												
Mutton	217	234	202	170	189	177	-6%	186	194	200	203	8%
Lamb	470	486	509	516	514	514	0%	527	537	548	556	8%
Sheep exports ('000 head)												
	1,973	2,298	1,960	1,870	1,887	1,900	1%	2,000	2,000	2,000	2,000	6%
Sheep exports** ('000 tonnes)												
Mutton shipped weight	172	186	151	132	147	138	-6%	145	153	158	161	10%
Mutton carcase weight	206	223	181	161	179	169	-6%	177	186	193	197	10%
Lamb shipped weight	214	237	234	242	251	241	-4%	249	254	260	264	5%
Lamb carcase weight	250	280	277	290	302	289	-4%	298	305	312	317	5%
Domestic utilisation ('000 tonnes c/c weight)***												
Lamb	220	207	231	226	212	225	6%	228	232	235	239	12%
kg/head***	9.5	8.8	9.7	9.3	8.6	9.0		9.0	9.0	9.0	9.0	

Source: ABS, DAWR, MLA forecasts

* From 2017 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

** excl. canned/misc, shipped weight

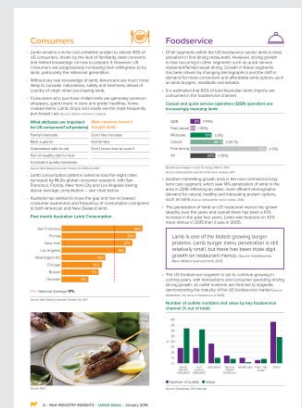
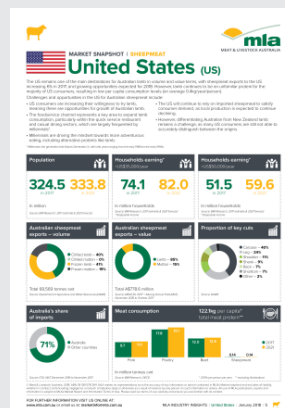
*** kg/head consumption calculated from total carcase weight divided by Australian population

f = forecast (in italics)
e = estimate

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



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