

Industry projections 2024

Australian sheep – September update

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KEY POINTS

- The sheep flock is expected to remain flat due to retained breeding ewes supporting a regular lamb cohort.
- 2024 lamb slaughter is projected to beat the 2023 record, climbing to 27.7 million head.
- Sheep slaughter will tip 10 million and continue to climb.



KEY 2024 NUMBERS

- ➔ **Flock:** 79.1 million head
- ➔ **Lamb slaughter:** 27.7 million head
- ➔ **Lamb production:** 665,000 tonnes cwt
- ➔ **Sheep slaughter:** 10 million head

*Graphic illustrates year-on-year change

Summary

In June 2024, the national sheep flock reached 79.1 million head, the largest figure since 2007. This follows four consecutive years of flock recovery and expansion and has been matched by increasingly high slaughter and production numbers, reaching new record highs in 2023.

After peaking in 2024, the sheep flock will begin to destock slightly, as seasonal conditions normalise closer to seasonal averages and the very large breeding ewe herd begins to turn-off at slightly higher numbers. This will translate into record or near-record slaughter volumes over the forecast period.

Structural changes to the genetic composition of the flock mean that carcase weights will remain at or near record highs. This means that higher slaughter will lead to record production volumes and record exports for both lamb and mutton over the forecast period.

Internationally, the continued decline of the New Zealand sheep flock will translate into lower export volumes over time. Australia's sheepmeat exports made up 50% of the global export total in 2023 and declines in New Zealand export volumes will provide opportunities for Australian exporters while also supporting demand for record sheepmeat production volumes.

Table 1: Situation and outlook for the Australian sheep industry

	2018	2019	2020	2021	2022	2023 ^e	% change 2023 ^e on 2022	2024 ^f	2025 ^f	2026 ^f	% change 2026 ^f on 2023 ^e
Sheep and lamb numbers ('000 head)*											
As at 30 June	70,607	65,755	63,794	70,885	76,024	78,751	4%	79,084	76,912	74,007	-6%
Percentage change	-2.1%	-6.9%	-3.0%	11.1%	7.2%	3.6%		0.4%	-2.7%	-3.8%	
Slaughterings ('000 head)											
sheep	9,521	9,344	6,142	5,804	6,640	9,773	47%	10,010	11,311	11,085	13%
lamb	22,725	21,624	20,421	20,791	21,495	25,025	16%	27,726	26,340	25,497	2%
Total	32,246	30,969	26,564	26,595	28,135	34,798	24%	37,736	37,650	36,581	5%
Avg carcass weight (kg)											
sheep	23.6	24.3	25.8	26.6	26.0	25.3	-3%	24.9	25.1	26.1	3%
lamb	22.5	23.3	24.5	24.4	25.0	24.1	-4%	24.0	24.3	24.5	2%
Production ('000 tonnes carcass weight)											
mutton	225	228	158	155	173	247	48%	249	284	289	17%
lamb	511	503	500	508	537	602	13%	665	640	625	4%
Total production	737	731	658	663	710	849	21%	915	924	914	8%
Live exports ('000 head)											
	1,214	1,118	811	576	503	651	26%	528	650	700	8%
Sheep exports** ('000 tonnes)											
mutton shipped weight	180	184	140	141	144	210	47%	211	239	244	16%
carcass weight	215	218	170	169	176	255	47%	258	292	298	17%
lamb shipped weight	267	282	264	265	284	326	16%	371	350	335	3%
carcass weight	324	337	320	328	351	394	13%	452	426	408	4%
Domestic utilisation ('000 tonnes c/c weight)***											
Total carcass weight	187	166	180	180	186	208	12%	213	214	217	4%
kg/head***	7.5	6.6	7.0	7.0	7.2	7.8	10%	7.9	7.8	7.8	0%

Source: ABS, DAFF, MLA forecasts

* From 2018 this is an MLA estimate on ABS data – Figures as of 30 June. Please note the 2023 flock is an MLA estimate with no ABS base. From 2024, forecasts are based of MLA data.

** Excl. canned/misc, shipped weight.

*** Domestic meat consumption is measured by removing the portion of exports (DAFF 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

Assumptions

Weather

Conditions for sheep producers have been varied and volatile over the past 12 months.

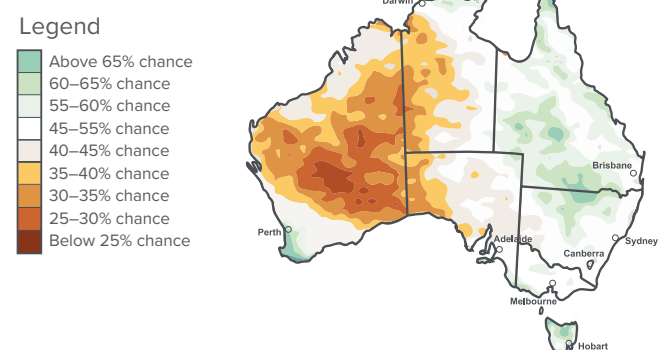
East of the WA border, producers were hit with unprecedented conditions. Queensland has been operating in a relatively neutral season alongside northern NSW. Alternatively, southern NSW, Victoria, South Australia and Tasmania experienced tougher conditions. They performed well over summer when breeding decisions were made, however moving into Autumn, conditions dried out which put pressure on regions that are traditionally stable. Border town areas in SA and Victoria, and northern parts of Tasmania have this year, experienced their lowest root zone soil moisture on record, severely impacting feed availability.

These conditions have placed pressure on ewes, significantly impacting scanning to marking percentages. Producers turning to supplementary feed are participating in early weaning and reassessing the stocking capabilities of their property.

Western Australia has been operating in a differing system to the rest of the country and has been impacted by dry conditions and a poor outlook since the spring season of 2023. Conditions remained dire to June, when the season finally broke and much of the sheep country received needed relief. Despite this break, many of the forward-looking decisions had already been made in the summer months, thus impacting joining rates and fertility.

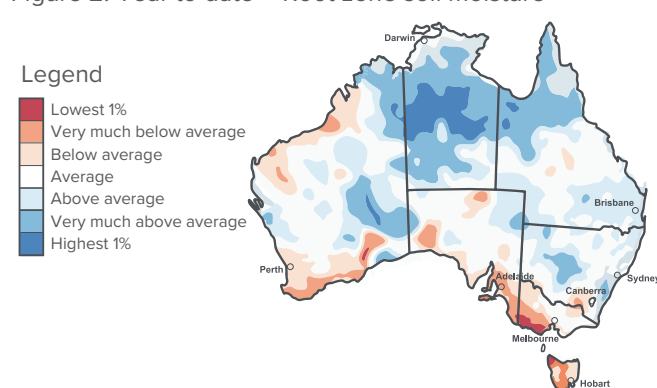
Figure 1: Australian rainfall outlook – Sep to Nov 2024

Chance of exceeding the median rainfall



Source: Bureau of Meteorology

Figure 2: Year to date – Root zone soil moisture



Source: Bureau of Meteorology

Looking forward

The Bureau of Meteorology (BOM) suggests there is an increased chance of a negative Indian Ocean Dipole (IOD) in spring which could bring some relief for sheep producers across the southern states. Improvement in the soil moisture will be essential in growing a feedbase for new season lambs. Moving forward, MLA has produced these forecasts on the assumption that the next three years will be relatively stable with no current indication of a drought-induced destock.

Wool

The primary wool market indicator – the Eastern Market Indicator – has continued to ease since February, falling 31 cents to 1,124¢/kg in July 2024. A continuing ease in prices will place pressure on producers when it comes to navigating forward business plans, likely encouraging movement towards the growing use of meat breeds.

Finances

Interest rates

As of August 2024, the Reserve Bank of Australia (RBA) has maintained the cash rate at 4.35%, which remains the highest rate seen since November 2011. Rates have now been at this relatively high level for the past 10-months, continuing to place pressure on agricultural businesses through land values and loan financing. The big four Australian banks expect interest rates to be at their peak and are forecasting an ease over the next 12 months.

- ANZ: 4.35% peak, with the first cuts to start around February of 2025.
- CommBank: 4.35% peak, first cut is likely to occur around November 2024.
- NAB: 4.35% peak, with the first cuts to occur around May of 2025.
- Westpac: 4.35% peak, first rate cuts to occur around November 2024.

Inflation

According to the Australian Bureau of Statistics (ABS), the inflation rate dropped to 3.5% in July 2024 (down from 3.8% in June). This remains below the 2022 records, though it is still some way above the midpoint of the 2–3% target range, which remains the RBA priority. The persistent pressure put on industry by inflation will continue to impact producers, and those further down the supply chain, creating an uncertain environment for businesses.

Exchange rate

The current exchange rate between the Australian dollar and the US dollar remains at A\$1.53/USD as at the last RBA meeting in August 2024, making the Australian dollar considerably weaker than the five year average of A\$1.45/USD.

This has the effect of making exports cheaper overseas, while increasing the price of imports. Accordingly, the weak Australian dollar has reduced the price of Australian lamb and mutton in overseas markets, increasing competitiveness in price-sensitive markets, while at the same time increasing the cost of imported inputs such as fuel and fertiliser on-farm in Australia.

Cost of inputs

Employment

The labour market remains strong, with the unemployment rate at 4.1%, well below pre-pandemic levels. Australia's Department of Home Affairs 2024–25 migration program plans have increased the regional category of the program by 2,300 places. This further reinforces the importance of filling labour gaps in red meat industries that are concentrated in regional areas.

Council rates

Council rates are a growing cost for small business owners. Rates have risen significantly across jurisdictions, but in some areas are the fastest growing cost for producers. Rate rises can impact producers significantly and impact land holders by affecting operating costs and business profitability.

Electricity, fuel

With inflation outside the 2–3% target, fuel and electricity costs will increase operating costs. According to the ABS, electricity costs have increased by 4% compared to the beginning of the year, while national average diesel costs have eased 3%, and are operating 12% below the same time last year.

Supply

The Australian Bureau of Statistics (ABS) is currently working to develop a flock estimate model. As of the release of this document, the ABS has not published the 2023 flock number. MLA estimates have been used as the base figure in 2023. Moving forward, MLA will consider its approach as the ABS releases updated figures.

Flock

The 2024 estimated flock has changed on MLA's March forecasts. The national sheep flock as of June 30, 2024, is estimated to remain relatively stable on 2023 figures, lifting 300,000 or 0.4% to 79.1 million head.

Despite significant turn-off over the first two quarters, the current flock is operating in a different dynamic to the historic norm. Retention of older ewes over the rebuild, paired with regular joining practices over the generally positive summer period has caused stability, despite the disappointing seasonal conditions over the past three months.

Looking forward, the flock is expected to ease 2.7% in 2025 to 76.9 million head, and a further 3.8% to just above 74 million head in 2026. Producers are moving away from Merinos and wool producing breeds, and the recent adoption of shedding breeds has meant industry is shifting to a stronger turn-off rate from a smaller base. This means despite a projected flock constriction; the flock will not fall below the 10-year average of 70.3 million.

Slaughter

In the first half of the year processors lifted their capacity to process more animals than we have ever seen through the system, hence forecasted figures have been adjusted up from our initial 2024 release. MLA suggests industry has been operating at capacity for sheep and lamb, and if profitable, will continue at current levels for the forecasted period.

Lamb

Lamb slaughter is forecast to lift on last year's record to 27.7 million head. This is an increase of 11% or a further processing of 2.7 million head. This would reaffirm 2024 as the largest year on record for lamb slaughter. After a very strong first two quarters in 2024, and a small dip in volume over the third quarter, industry will lift in the final quarter, achieving this new record. Moving forward, slaughter in 2025 and 2026 will ease 5% and 3% to 26.3m, and 25.5m respectively.

Sheep

Sheep slaughter will remain strong in 2024, lifting 3% to 10 million head. In the following year, industry will move to turn-off their relatively elevated breeding ewe and wether flock, lifting sheep slaughter 13% to 11.3mm head in 2025. Despite a small decline, it will remain above 11m for 2026. This is under the assumption that the retained ewes over the rebuild period will need to exit the production system.

Figure 3: National sheep flock

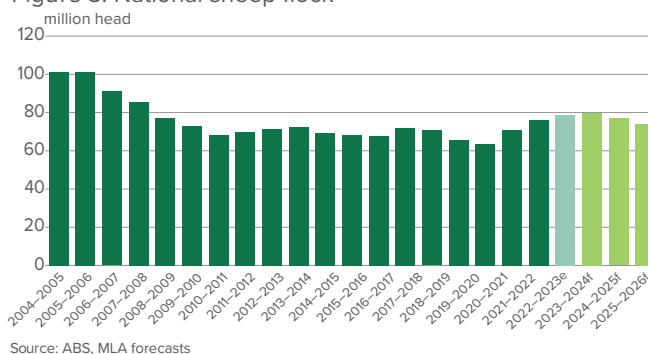
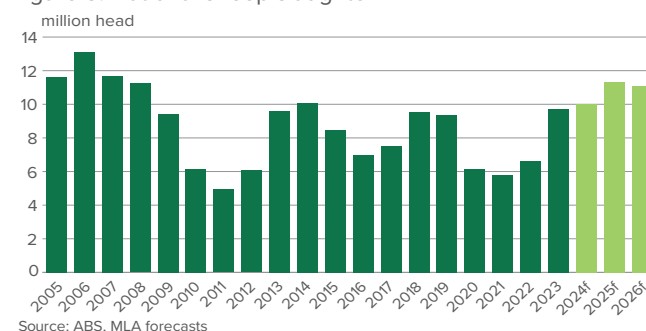


Figure 4: National lamb slaughter



Figure 5: National sheep slaughter



▶ Access MLA's NLRS weekly slaughter report: www.mla.com.au/prices-markets/slaughter

Carcase weight

The carcase weights of today are very different to those of 20 years ago. Genetic improvements in carcasses, a move toward meat-breads, and growing demand from new markets has led to a shift in the desire to grow out sheep to larger weights.

Assuming the decline in the flock will not be influenced by any significant weather events, carcase weights are expected to remain relatively stable into the forecasted period.

Lamb carcase weights in 2024 will ease slightly by 0.4% to 24kg. If buoyed by a decent spring this year, and neutral conditions over summer, carcase weights are forecast to lift to 24.3kg in 2025, and 24.5kg in 2026.

Sheep carcase weights are expected to follow a similar trend. In 2024 carcase weights are expected to be 24.9kg, followed by lifts in 2025 and 2026 to 25.1kg and 26.1kg respectively.

Production

MLA's sheep and lamb production figures have been adjusted up to account for the lift in the slaughter capability.

MLA is forecasting a lift to lamb production, once again breaking the 2023 record. With the slight decline in carcase weights, this will be driven by an extension of the elevated supply of lambs we have already processed through the year. Production will reach 665,000 tonnes in 2024, a further 11% lift from last year. Moving forward, production will ease 4% with slaughter to 640,000 tonnes in 2025, and down again to 625,000 tonnes in 2026.

Mutton production will grow over the forecast period, lifting only slightly in 2024 to 249,000 tonnes. Looking forward, as those sheep begin to exit the system, Australia will produce more mutton, lifting 13.8% in 2025 to 284,000 tonnes, and then slightly again to 289,000 tonnes in 2026, the largest mutton production year since 2001.

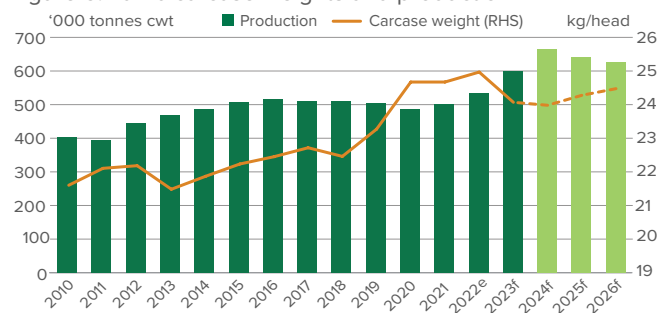
Live export

The 2024 forecast for Australian live sheep exports released last February was cautiously positive. However, the emergence of several external factors has influenced the trade and affected live sheep export volumes, which dropped by 31% in the first six months of 2024 compared with the same period in 2023.

A number of developments have significantly influenced trade volumes to our leading markets over the past two years. Heightened geopolitical tensions, particularly the Houthi rebels' assaults on cargo ships in the Red Sea, have escalated risks, especially for vessels considered to be linked to Israel. This situation has increased government scrutiny of voyage plans, including contingency plans for vessels destined for Israel. This reduced the number of vessels dispatched to this market and subsequent export volumes. While Israel has previously ranked as the second-largest export market for Australian live sheep, and despite robust demand, exporters anticipate ongoing complexities in regularly servicing this market.

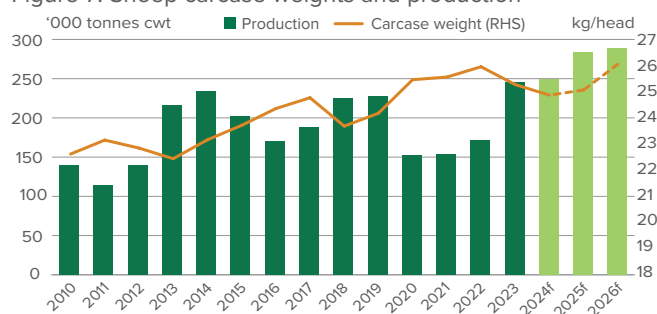
Australia's key export destination, Kuwait, has seen a notable decline in shipment volumes, falling well below target figures. This shortfall is largely attributed to unforeseen postponement in shipping due to unplanned maintenance activities. The difficulty in acquiring additional shipping options has disrupted the regular flow of sheep exports to Kuwait. Additionally, this disruption has also affected the supply chain to other Gulf markets, which depend on similar shipping routes and schedules. Consequently, during the first half of 2024, Kuwait's import volume was approximately one-third of the average seen over the past five years. Resumption of regular shipping is anticipated once maintenance is complete and the vessel returns to service.

Figure 6: Lamb carcase weights and production



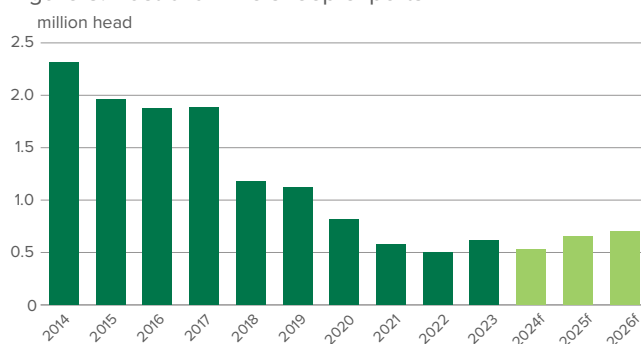
Source: ABS, MLA forecasts

Figure 7: Sheep carcase weights and production



Source: ABS, MLA forecasts

Figure 8: Australian live sheep exports



Source: ABS, MLA forecasts

▶ Access MLA's LiveLink interactive dashboard for export statistics: mla.com.au/prices-markets/Trends-analysis/liveline

The Australian government's commitment to discontinue live sheep exports by sea has introduced significant volatility and unpredictability for both domestic stakeholders and international trading partners. The recent legislation establishing a definitive timeline, culminating over the next four years by 1 May 2028, delineates a critical juncture for markets that are more dependent on Australia, as they commence development of substitute sourcing strategies. Australian sheep are well-regarded for their health, volume, quality and consistency; attributes highly sought after by markets, especially in Gulf countries. Presently, the absence of viable alternatives requires these markets to maintain imports from Australia in the coming years while they endeavour to develop alternative supply networks.

Despite the volatility of the trade, interest in Australian sheep is not waning. The resumption of exports to Saudi Arabia resulted in the market becoming Australia's number two market in the first half of 2024. With the development of new supply chains, this market holds potential for further growth. There is also strong interest from other markets, namely Morocco, to develop commercial trade, even now with a certain trade phase-out date in place. This is indicative of ongoing, steadfast demand for Australian sheep, regardless of future supply circumstances.

Key macro issues

Structural shift in the national flock

The Australian sheep sector has successfully advanced and moulded alongside global demand. Sheep were foundational in Australian history, starting with a strong Merino wool industry. In more recent times this has grown into a strong sheepmeat sector. As such, the compilation of the flock has shifted from a focus on predominantly wool breeds to a more recent focus on meat breeds.

MLA and Australian Wool Innovation's (AWI) Sheep Producer Intention Survey is run three times a year and collects data on flock composition by breed.

Based on the May 2024 survey results, the national breeding ewe flock remains predominantly Merino. The Merino breed is versatile and can allow for production changes between seasons. It is therefore the breed held by most producers, with 48% of producers stocking Merino ewes. Following Merinos, prime lamb ewes and first cross ewes make up 15% and 12% of the ewe flock respectively. After that, shedding, dual purpose and other breeds make up a combined 12% of the additional flock.

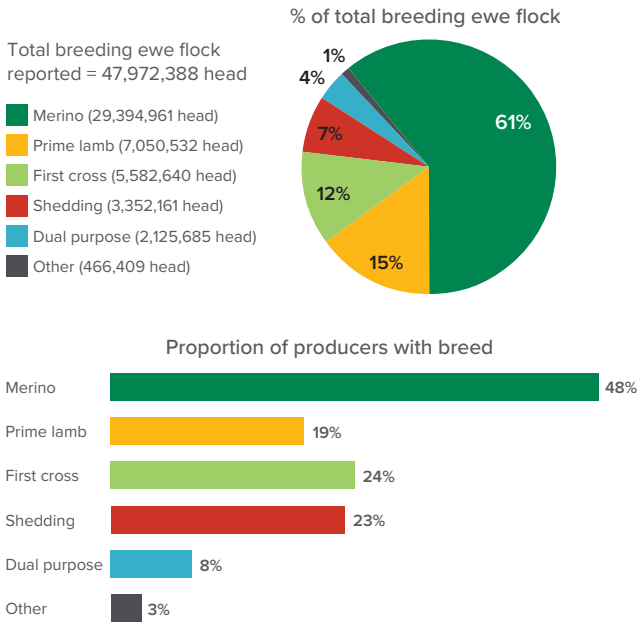
Shedding breeds are a popular and emerging breed in the industry and essential to the changing dynamic of the national flock. Shedding sheep are managed differently to other breeds and present an opportunity to support the growth in lamb production. Businesses that adopt shedders are able to reduce touchpoints and labour investments with the sheep having no need for shearing, mulesing or crutching. Additionally, there are producers experiencing high success rates with accelerated breeding and the ability to rear lambs from an early age. Because of these factors, we are seeing huge growth in pastoral areas adopting shedding genetics.

Shedders currently make up only 7% of the breeding ewe flock. They did, however, experience the largest growth year-on-year in the survey. Importantly, nearly one quarter of producers are stocking shedding ewes, highlighting the significant potential for growth in shedding breeds.

Current lamb slaughter and production is reaching never before seen levels. Lamb turn-off in reference to the size of the breeding ewe flock is growing, creating a new normal for lamb production in Australia. Continual investment in genetics has improved fertility, marking rates, twins and the opportunity for accelerated and year-round breeding, inspiring a new level of productivity in the industry.

Supporting industries will need to adjust to the changing sector as they have done before. History has shown that processors and exporters are more than capable of absorbing structural changes and additional production.

Figure 9: Sheep Producer Intention Survey results 2024



Definitions of breeds presented to producers:

- Merino – Main breed of sheep for wool production
- Prime lamb – Animal entirely focused on meat (lamb) production eg. Composite, Terminal, Suffolk or Dorset
- First cross – Merino crossed with a long-haired sheep of a different breed
- Shedding – Breeds of sheep that shed their wool without shearing eg. Australian White or Dorper
- Dual purpose – Animal with no more than 50% Merino content geared towards both meat and wool production equally
- Other – Any breeds that do not fit into the definitions above

Source: MLA Sheep Producer Intention Survey

Consumer confidence

Consumer sentiment remains below long-run averages across most major economies, despite persistently strong employment figures and slowly falling inflation.

The initial driver of lower consumer sentiment was a sharp lift in inflation in early 2022, driven by post-Covid supply shocks and the conflict between Russia and the Ukraine. Increased prices and interest rates reduced consumer income across most major economies, and the prospect of slower economic growth depressed consumer sentiment.

Since then, while inflation has remained above central bank targets in most advanced economies and interest rates have risen, economic growth has been resilient and unemployment has remained low (the 4.2% unemployment rate in Australia remains well below historic averages).

Consumer spending has held reasonably firmly over this period, but consumer confidence remains well below trend.

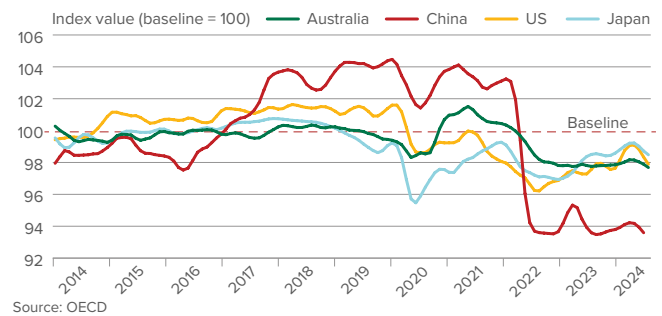
Low consumer confidence has the effect of dampening spending, especially for higher-value or discretionary items. This can be seen in how consumers in the US spend money on food. Even though total spend remains reasonably consistent (in inflation-adjusted terms), there has been a marked shift away from foodservice and into retail over the past two years, as consumers cook at home more often and eat out less.

Despite persistently low consumer confidence, numbers have been holding steady or lifting slightly since lows in mid-2022 in most economies. In South Korea, confidence is now back to trend, while in the US confidence is only two points below historic norms.

The exception to this is China, which saw a sharp drop in confidence over the first half of 2022 and has remained well below trend since then. The growth target of 5%, set at the National People's Congress in March 2024 is well below the routine 8–10% economic growth seen a decade ago. In addition, most growth is expected to come from increased production rather than domestic consumption.

Outside of China, consumer confidence is affecting consumer decision making, but not total spend. The mixed picture globally for consumer confidence demonstrates the resilience of consumer expenditure and offers upside to Australian lamb exporters if and when the economic picture improves more broadly.

Figure 10: OECD Consumer confidence index 2014–2024



Global supply and forecast

New Zealand

The New Zealand sheep flock has been in decline for decades due to a variety of factors. Land use has shifted away from sheep, first into dairying and then towards forestry. The past season's drought conditions in the South Island have encouraged earlier lamb turn-off and lower retention than historic averages.

This continued in 2024, with the total sheep flock on June 30, 2024 estimated to be 23.2 million head by Beef + Lamb New Zealand, a 4.3% decline from the 2023 flock. Over the same period, the breeding ewe flock was estimated at 14.7 million head, 2.9% lower than 2023.

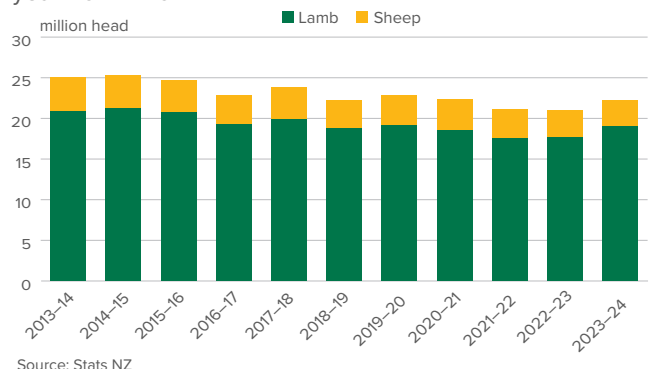
Drought across most of the South Island and parts of the North Island contributed to higher turn-off over the past financial year, with lamb slaughter rising by 8% year-on-year to 19 million head despite an historically small flock.

At the same time, carcase weights fell slightly as producers sold lambs earlier than usual to improve cashflow in the face of on-farm inflationary pressures. While the decline was marginal, it impacted production levels, which only rose by 5% over the financial year to 446,606 million tonnes carcase weight (mt cwt).

New Zealand routinely exports 85–95% of sheepmeat production, so this increase in slaughter was born out in export numbers. Over 2023–24, New Zealand exported 414,893 mt carcase weight equivalent (cwe) of sheepmeat, 4% more than the previous year.

Although there was an increase in exports, the numbers were slightly weaker than expected. This was due largely to lower exports to China, which is the biggest sheepmeat market for New Zealand. Exports to China fell by 14% over 2023–24, meaning the increased production largely went to the United Kingdom, the United States, and New Zealand itself, while domestic consumption rose by 12% to 34,713 mt cwe.

Figure 11: New Zealand lamb slaughter by financial year 2014–2024



Looking forward, the smaller breeding ewe flock will have an impact on the lamb crop, and consequently on lamb slaughter and production. Beef + Lamb New Zealand forecast a 4.8% decrease in the spring lamb crop to 19.3 million head. Upwards of 85% of the New Zealand lamb crop is slaughtered as lambs, so the smaller lamb crop is likely to translate into lower slaughter.

Beyond the current season, there is some prospect for an increase in the flock. As of August, the New Zealand Drought monitor does not currently have any areas listed as in 'drought' or 'severe drought', a substantial change from late 2023 and early 2024. Farmgate prices have lifted over the winter as supply becomes less available.

For the 2024–25 season however, it is likely that lamb exports from New Zealand will be lower than in 2023–24. A smaller lamb crop and an historically small sheep flock suggest lower slaughter, lower production and lower exports.

Prices

After sustained price declines and marked volatility in saleyard prices over 2023, saleyard lamb prices are now well above year-ago levels and are moving more in line with seasonal trends than in the recent past.

Processor-weight lambs have recovered to near 2022 averages with trade and heavy lamb prices responding to strong overseas protein demand and increased slaughter capacity. Restocker lambs have also lifted, though not as high; the size of the flock and dry conditions in Southern Victoria have constrained demand for restocker animals. Instead, much of this price lift has been driven by increased carcase export volumes to Middle East markets, which typically accepts lighter animals than the domestic trade market or North American lamb exports.

Analyst aggregations

MLA's sheep projections include an aggregate analyst price estimate (exc. MLA) for the National Trade Lamb Indicator (NTLI), and the National Heavy Lamb Indicator (heavy lambs) for the three months to 31 December.

Based on current prices, varied responses from analysts have resulted in an easing NTLI price out to the end of the year, falling only 25¢ or 3% to 782¢/kg cwt. Despite this, the upper forecast is 3%, with the lower range 15% below, reflecting the unpredictable nature of the lamb market.

Analyst forecasts for heavy lambs, which cover our export weight animal, show a similar story. Aggregated analysts' forecasts show a 7% decline or 61¢ ease to 756¢/kg cwt.

The success of the upcoming spring will be the largest driver of the lamb market. Producers across southern Australia will rely on a break in the current conditions to reach target weights.

Figure 12: Aggregated industry average heavy lamb price forecast

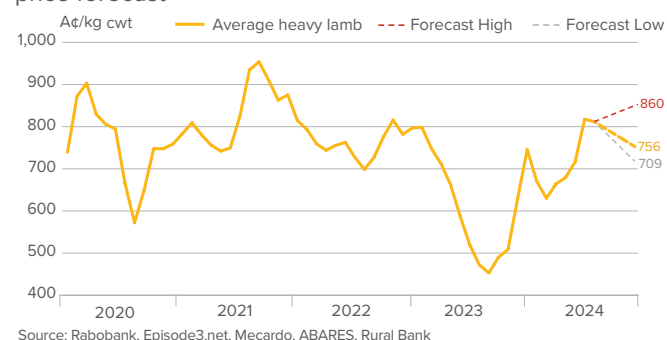
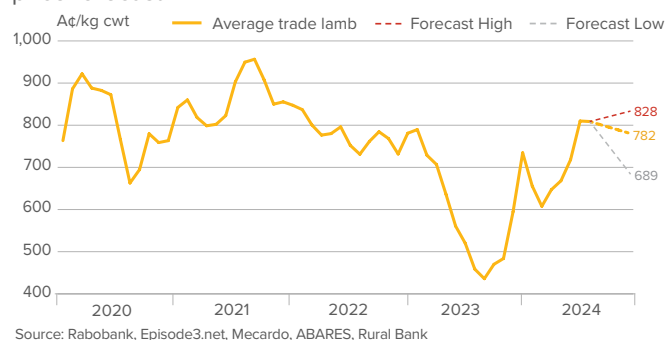


Figure 13: Aggregated industry average trade lamb price forecast




Looking ahead

Australian lamb slaughter is forecast to set a new record in 2024, beating the previous record set in 2023. The flock size will moderate but remain well above the 10-year average, as average seasonal conditions allow for stocking rates to remain stable.

While input cost pressures domestically have posed a challenge for producers, demand for lamb and mutton overseas has been strong, and the likely reduction in New Zealand lamb slaughter will improve Australia's position in the global market.

The Australian sheepmeat industry has shown resilience over the past several years and is now in a strong position to produce and market historically large volumes of lamb and mutton, both in Australia and around the world.

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