

# Industry projections 2021

## Australian sheep – October update

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### KEY POINTS

- National flock transitions to growth, outpacing previous expectations to hit 76 million in 2023
- Lamb slaughter forecast to exceed 20.5 million head in 2021
- Large new season lamb cohort expected for remainder of 2021



### KEY 2021 NUMBERS



**Lamb slaughter:**  
**20.55** million head



**Lamb production:**  
**510,000** tonnes cwt



**Lamb exports:**  
**280,000** tonnes swt



**Sheep slaughter:**  
**5.1** million head

\* Graphic illustrates year-on-year change

## Summary

As the excellent season rolls on for many key sheep regions, the national flock is expected to grow by 10.3% to 70.6 million head in 2021, rising from its lowest national flock size in 100 years in 2020 of 64 million head. On the back of the current seasonal strength, the national flock is forecast to be even larger in 2023 at 76 million head, the largest national flock since 2008.

The eastern states have been the key drivers of this growth, with parts of NSW in particular experiencing two years of above-average conditions, driving increased stocking rates and higher retentions of females based on favourable mid-term market confidence. The pace of the national rebuild has occurred significantly faster than initially expected as a result of this.

In line with the flock rebuild, lamb slaughter is forecast to rise 3.3% in 2021 to hit 20.55 million head, a revision upwards of 250,000 head from the June projections. Sheep slaughter is forecast to soften again, hitting 5.1 million head in 2021, its lowest volume since 2011 – a year when another flock rebuild took place. Lower sheep slaughter volumes are aiding the pace of flock growth in 2021, similar to the way lower slaughter volumes contributed to the rebound in flock size between 2010 and 2011.

Due to the season, carcase weights for both sheep and lambs have been marginally revised upwards in 2021, to 25.6kg and 24.8kg, respectively.

Live exports are expected to fall, with tight supply following a strong season for WA and high livestock prices placing downward pressure on live export volumes. In 2021, live exports are expected to reach 650,000 head, falling from 811,000 head in 2020.

With a revised increase in slaughter and carcase weights, lamb production in 2021 is forecast to rise 5% to 510,000 tonnes, just shy of the all time record that occurred in 2016. On the other hand, sheep production will fall 14% to 130,000 tonnes this year, with carcase weight lifts not offsetting lower slaughter volumes.

A global protein shortage, increasing demand for Australian sheepmeat, a forecast continuation of strong seasonal conditions and domestic production fundamentals are underpinning a favourable mid-term market outlook for the sheepmeat industry. Analysis forecasts sheep and lamb prices to remain above the long-term averages on the back of the flock growth and aforementioned factors.

# Situation and outlook for the Australian sheep industry

	2015	2016	2017	2018	2019	2020	2021 <sup>e</sup>	% change 2021 <sup>e</sup> on 2020	2022 <sup>f</sup>	2023 <sup>f</sup>	% change 2023 <sup>f</sup> on 2020
<b>Sheep and lamb numbers ('000 head)*</b>											
As at 30 June	68,025	67,543	72,125	70,607	65,755	64,000	70,600	10%	73,300	76,200	19%
Percentage change	-1.9%	-0.7%	6.8%	-2.1%	-6.9%	-2.7%	10.3%		3.8%	4.0%	
<b>Slaughtering ('000 head)</b>											
Sheep	8,487	6,965	7,536	9,521	9,344	5,950	5,100	-14%	5,800	7,350	24%
Lamb	22,876	22,956	22,431	22,725	21,624	19,900	20,550	3%	21,800	22,200	12%
<b>Avg carcase weight (kg)</b>											
Sheep	23.7	24.4	24.8	23.7	24.2	25.2	25.6	2%	25.6	25.2	0%
Lamb	22.2	22.5	22.7	22.5	23.3	24.7	24.8	0%	25.3	25.0	1%
<b>Production ('000 tonnes carcase weight)</b>											
Mutton	202	170	187	225	228	152	130	-14%	150	185	22%
Lamb	509	516	509	511	504	487	510	5%	550	555	14%
<b>Sheep exports ('000 head)</b>											
	1,960	1,838	1,887	1,176	1,118	811	650	-20%	680	710	-12%
<b>Sheep exports** ('000 tonnes)</b>											
Mutton shipped weight	151	132	147	180	184	124	105	-15%	120	150	21%
Mutton carcase weight	181	161	179	215	218	152	130	-14%	145	185	22%
Lamb shipped weight	234	242	251	267	282	264	280	6%	310	310	17%
Lamb carcase weight	277	290	302	324	337	320	340	6%	370	375	17%
<b>Domestic utilisation ('000 tonnes c/c weight)***</b>											
Lamb	231	226	207	187	167	166	170	2%	180	185	11%
kg/head***	9.7	9.3	8.4	7.5	6.6	6.5	6.5	0%	6.7	6.7	3%

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 abs.gov.au

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

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

f = forecast  
e = estimate

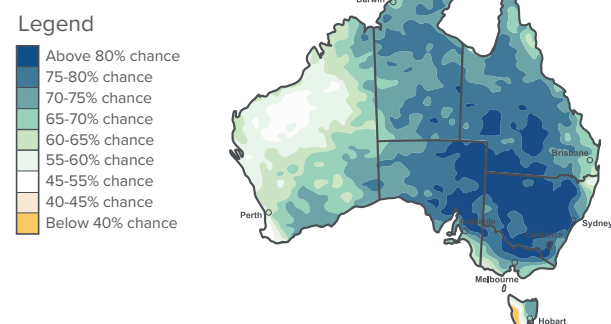
## Climate assumptions

The Bureau of Meteorology (BOM) is forecasting above-average rainfall for the last three months of 2021. If this eventuates, it will ensure that ground water supplies are available throughout summer. As Australia's main sheep producing regions are in autumn and spring dominated rainfall zones, this early summer rain will not impact pasture – in some cases it could leach nutrients. Overall, the forecast for increased rainfall for spring and early summer is generally encouraging and reinforces that pasture availability should be abundant.

BOM is also forecasting lower maximum temperatures in eastern Australia for the remainder of 2021. This forecast for lower temperatures will reduce water evaporation and prevent pasture bases from drying out early.

Figure 1: Australian rainfall outlook – Oct to Dec 2021

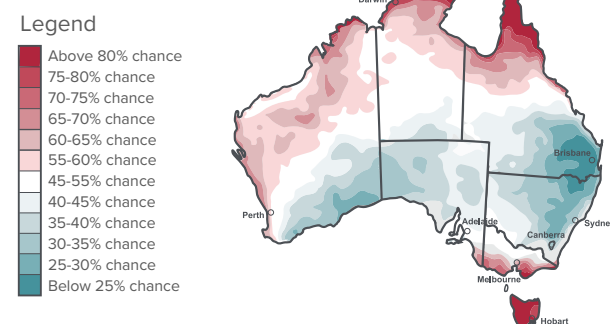
Chance of exceeding the median rainfall



Source: Bureau of Meteorology (issued 30 September 2021)

Figure 2: Australian maximum temperature – Oct to Dec 2021

Chance of exceeding the median maximum temp



Source: Bureau of Meteorology (issued 30 September 2021)

## Wool prices

In 2021, the Eastern Market Indicator (EMI), which tracks wool prices, has been relatively stable, sitting above 1,300¢/kg since March. It has since eased slightly by 7% since reaching a yearly high of 1,423¢/kg in July. The EMI price will remain dependent on demand from the major wool manufacturing countries of China, India, Czechia and Italy.

The wool price can have an impact on the demographics of the national flock given the current dependence on Merino ewes for breeding, which currently account for 74% of all breeding ewes.

Figure 3: Eastern Market Indicator (EMI)



[Click here to view Australian Wool Innovation's Weekly Price Reports](#)

## Exchange rate

As on the day of writing, 27 September, the Australian exchange rate sits at 0.726US\$. This is a 9% depreciation on the 0.797US\$ recorded in late February. This depreciation of the A\$ is being driven by falling iron ore prices due to reduced demand in China. The lower A\$ will make Australian sheepmeat more competitive in the global market.

## Slaughter restrictions

Since 15 August 2021, Victoria meat processors, including sheep, cattle and pork processors, have been subject to reduced 80% capacity restrictions. MLA has assumed that 30% of Victorian processors are located in metropolitan areas and will be subject to the restrictions. Last year, when similar restrictions applied, NSW shouldered an extra 6% of production.

Given that Victoria processes 50% of the national lamb slaughter and the restrictions are expected to apply across the peak spring processing months, slaughter reductions may range from 30,000 to 600,000 head in the last few months of 2021.

Figure 4: US/AU exchange rate



[Click here to read MLA's analysis on Victorian processor shutdown implications](#)

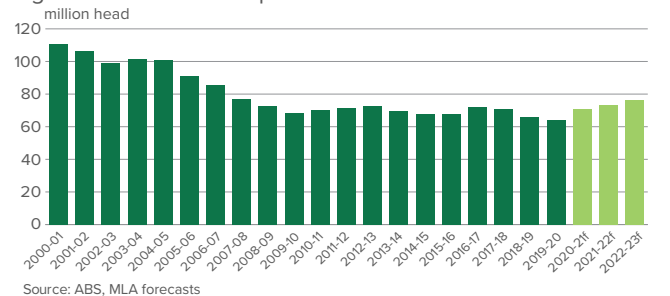
## Supply

### Flock

The national flock is expected to reach 70.6 million head in 2021, marking a 10.3% increase on 2020 levels and an upwards revision of 2.5 million head on MLA's June projections release. The increase in flock size is largely due to continuing favourable conditions in key sheep producing regions that have given producers the option to retain greater numbers of ewes and have supported higher marking percentages.

MLA forecasts that the national flock will reach 76.2 million in 2022, which would be its highest level since 2008.

Figure 5: National sheep flock



[Click here to view MLA's statistics database](#)

# MLA AWI sheepmeat survey

In the June release of the MLA AWI sheepmeat survey, 92% of producers intended to increase or maintain flock numbers in the next 12 months as the season rolls into a big spring.

In NSW, breeding ewe numbers have increased by 4% in 2021, or around 500,000 head, in line with the growing national flock. As ewe numbers on hand increase, lamb sales are expected to rise in line with expected slaughter and production volumes for the remainder of 2021.

As the favourable seasons have supported strong reproduction fundamentals, marking rates for Merinos and all other breeds in NSW have lifted by 3% and 7%, to 95% and 111%, respectively, compared with the same time 12 months ago.


In Victoria, producers are even more bullish than their NSW counterparts, expecting lamb sales to flourish. While overall breeding ewe numbers have declined by 3%, their commitment to lot finished lambs purchased interstate underpins this confidence, with lamb sales expected to lift by 400,000 head year-on-year. The marking rate for non-Merino breeds sit at 108%, a lift of 3% compared with June 2020.

While strong seasons have been patchy throughout parts of sheep regions in Queensland, market confidence has not been deterred. Producers in the state report breeding ewe numbers to have increased by 13% to 1.3 million head. Continual construction and utilisation of exclusion fences as a management tool to mitigate predation have also driven strong growth in marking rates. These increases have flowed onto lambs on hand and will impact expected sales for the next four months.

The survey results for WA show that breeding ewe numbers have increased by around 200,000 head, with lambs on hand also rising by 1.4% to reach 2.4 million head. On the back of this core breeding flock growth, expected lamb sales have risen 300,000 head in 12 months, following the massive west to east migration last year to meet eastern restocker demand. With favourable conditions throughout sheep regions of WA, the marking rates across all breeds have risen.

For South Australia, challenging seasonal conditions in its sheep producing regions have impacted its flock. In 12 months, producers have stated breeding ewes on hand have fallen by 4% to 6.3 million head. As dry seasonal conditions and a strong eastern states market forced producers to turn off lambs, lambs on hand fell by 13%, or 400,000 head, and expected lamb sales are 600,000 head lower than to the same time in 2020, with 900,000 head sold.

The state of Tasmania was reported in the survey to have experienced excellent flock growth since June 2020, with breeding ewe numbers rising by 7%, or around 100,000 head. There is reported to be 800,000 more lambs on hand in the state and as a result, lamb sales over the next four months are expected to hit an all time state record. Merino marking rates are firm at 125% and all other breeds have risen by 7% to sit at 134%.

 [Previous MLA AWI Sheepmeat survey results are available here](#)

## Slaughter

MLA has revised both national lamb and sheep slaughter from its June projections. In 2021, lamb slaughter is expected to reach 20.55 million head, rising 3.3% on 2020 figures and 600,000 head higher than the 20-year average. With close to 10.1 million lambs processed in the first six months of 2021, slaughter is expected to pick up on the back of a large lamb cohort and high lamb prices providing a strong incentive for producers to turn-off.

Ahead of a promising spring drop and with 2020 lambs still in circulation, processing capacity in Victoria and NSW will be critical to fulfill slaughter demand for both lambs and sheep.

Figure 6: National lamb slaughter

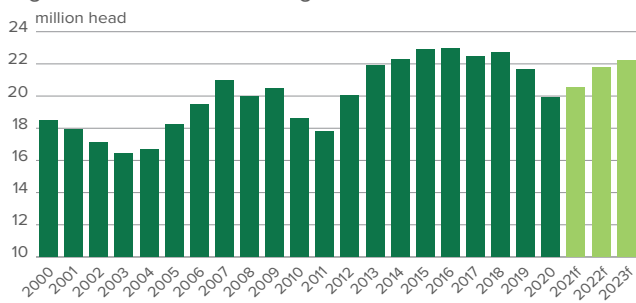
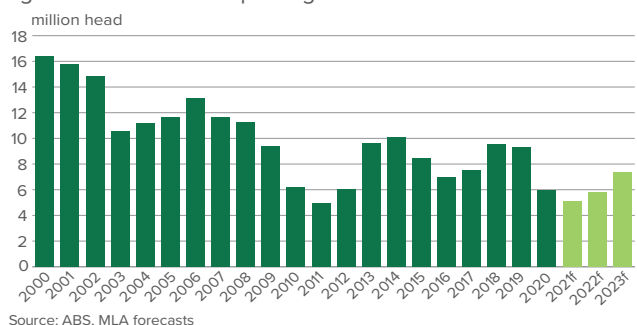


Figure 7: National sheep slaughter



Sheep slaughter has been revised down to 5.1 million head, its lowest level in 10 years. This is driven by strong producer sentiment to rebuild flocks largely through the retention of older ewes. Outlined in the latest MLA/AWI sheepmeat and wool survey, 92% of producers intend to increase or maintain flock numbers over the next 12 months, with 41% of those looking to increase their flock opting to retain older ewes.

[Click here to view the MLA's National Slaughter report](#)

## Victorian processor reduction scenario

This spring, Victorian processors within the metropolitan Melbourne area have been subject to capacity restrictions. The restrictions limit the capacity of processors to 80%. Given that Victoria traditionally process half of the nation's lambs, and that the restrictions coincided with the spring flush, this could have an impact on the total lamb slaughter volumes in 2021.

MLA has assumed that 35% of Victorian processors are located in the Metropolitan Melbourne area and that 2021 lamb processing has been tracking 4.5% above 2020 levels – all factors equal.

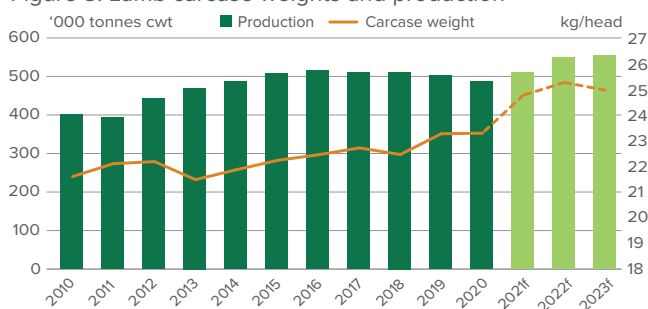
## Carcase weights and production

Following favourable seasonal conditions in 2020, MLA is not forecasting significantly increased carcase weights in 2021. The above-average seasonal outlook and price premiums for trade and heavy weight lambs are providing producers an incentive to add additional kilos to animals, with average lamb carcase weights expected to be 24.8kg in 2021.

Increasing carcase weights, combined with MLA lamb slaughter estimates, remain set to deliver record lamb production in 2022 of 550,000 tonnes cwt.

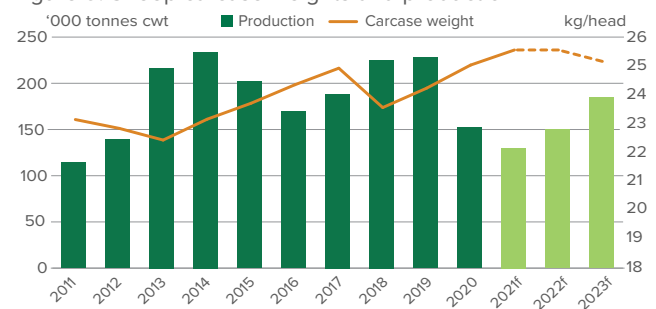
Sheep production in 2021 is set to fall to 130,000 tonnes cwt. Despite average sheep carcase weights for 2021 forecast to lift marginally to 25.6kg, up 0.4kg/head on 2020 levels, the concerted flock recovery efforts and lowerslaughter volumes will reduce overall production.

Figure 8: Lamb carcase weights and production



Source: ABS, MLA forecasts

Figure 9: Sheep carcase weights and production



Source: ABS, MLA forecasts

## Demand

### Domestic consumption

Competition between domestic consumers and international buyers for Australian lamb has become increasingly intense in recent years. The domestic market consumed 51% of total production in the first quarter of 2013, but it dropped to only 29% in the June quarter 2019. After 2019, domestic consumption bounced back, with the market share fluctuating around 35%. Lamb consumption per capita in Australia is expected to rise in 2021 and the coming years.

Australian consumers' preference for lamb shows strong resilience against the retail price rise. Over the last two years, lamb retail price has increased by 9.5%, with a compound annual growth rate (CAGR) of 4.7%. This price movement keeps pace with the price growth of the meat and seafood category, in which the price of beef was up by 18%, followed by a 10.8% growth in pork prices. The price of poultry rose slightly by 2.5%.

Lockdowns and social distancing measures continue to change the landscape of the retail sector and accelerate the penetration rate of online shopping. In 2020, the value of online grocery shopping increased by 53.2%, in contrast to the 11.9% value growth of total grocery sales and 7.5% increase for supermarkets. Online stores, other outlets and discounters are chipping away the market share of supermarkets (Nielsen Homescan).

The domestic market is also characterised by the coexistence of businesses with different abilities to weather COVID-19. Despite the slow recovery of the foodservice and hospitality sector, fresh meat for cooking at home had a fast-growing year last year, from a volume decline of -2.2% in 2019 to volume growth of 8.4% in 2020. Lamb continues to be regarded as premium meat when cooking more at home. Leading the growth in retail sales were lamb legs, cutlets, chops and shoulders. Shanks and lamb sausage, however, experienced a decline (Nielsen Homescan).

Population growth and household income will strengthen the domestic demand for Australian lamb in the long run. As consciousness about nutrition and health rises in the post-COVID-19 world, demand for lamb is expected to surge. Additional demand will also be released as restaurants and hotels are reopened.

# In-market analysis

## Lamb

### China – established

China has become one of the most significant destinations for Australian lamb. Import volumes have grown threefold since 2010 and peaked in 2019, with 71,223 tonnes of lamb exported to China. While overall volumes have fallen since, China remains a top two destination for volumes and value.

New Zealand is Australia's biggest competitor to China, and currently has greater market access. Australian importers are operating under sheepmeat tariffs that are set to go to zero in 2023. New Zealand is already running at zero tariffs due to the China-NZ free trade agreement, enabling them to procure greater value from sheepmeat. A downturn in New Zealand exports could improve Australia's trade lamb in the future, however, political tensions may still inhibit growth.

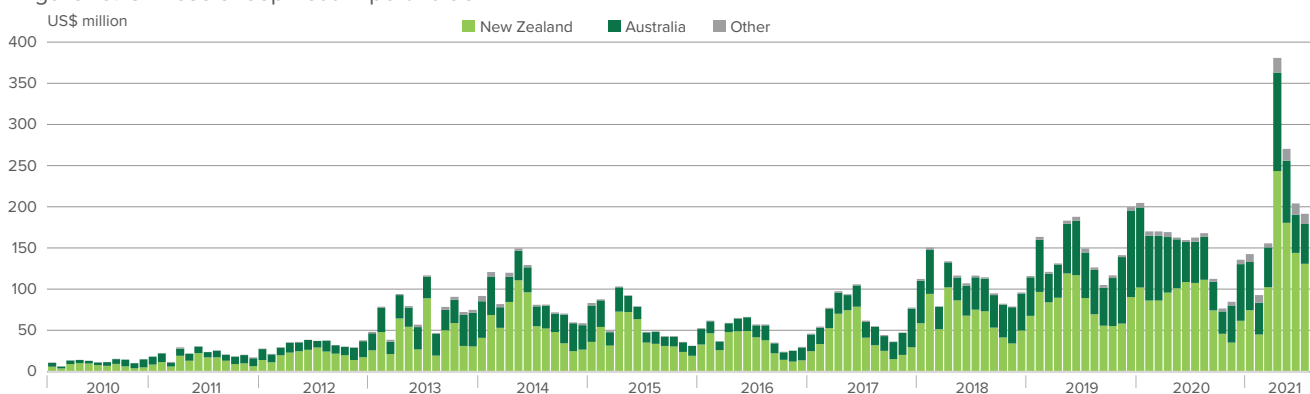
There is uncertainty whether the Chinese pig herd has recovered after the impact of African Swine Fever (ASF). Demand for non-pork proteins remains high, and while fish and poultry have been the most popular substitutes for pork, the intake of lamb has improved among middle-class consumers. Even with the pig herd size improving, ASF has likely contributed permanent structural changes to consumer diet preferences towards a higher mix of proteins.

Australian lamb exports to China have recovered since MLA's last sheepmeat projections. In April, lamb exports to China were down 22% compared to 2020 levels, however, by August volumes had recovered to be unchanged compared to August last year. Australia had exported 44,248 tonnes of lamb up to August. Chinese consumers have been predominantly interested in breast and flap meat, however, other import categories have been growing recently – particularly shoulder and whole carcasses.



[Click here to read MLA's China sheepmeat market snapshot](#)

Figure 10: Chinese sheepmeat import value



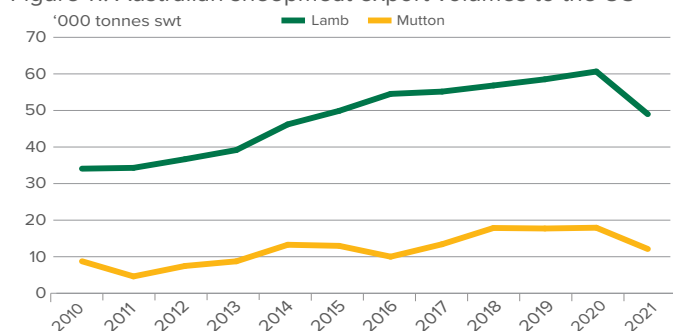
Source: IHS Markit  
Note: Data current to July 2021

### United States – established

Across the last decade, the United States has been Australia's largest market for lamb exports. This has continued in 2021, with the US importing 48,995 tonnes up to August, overtaking China as the largest destination for Australian lamb in July. The volume of lamb exported to the US has grown 26% compared to this time last year, spurred on by growth in leg meat, which is up almost 50%. Other cuts are also becoming popular, with all categories growing except whole carcasses.

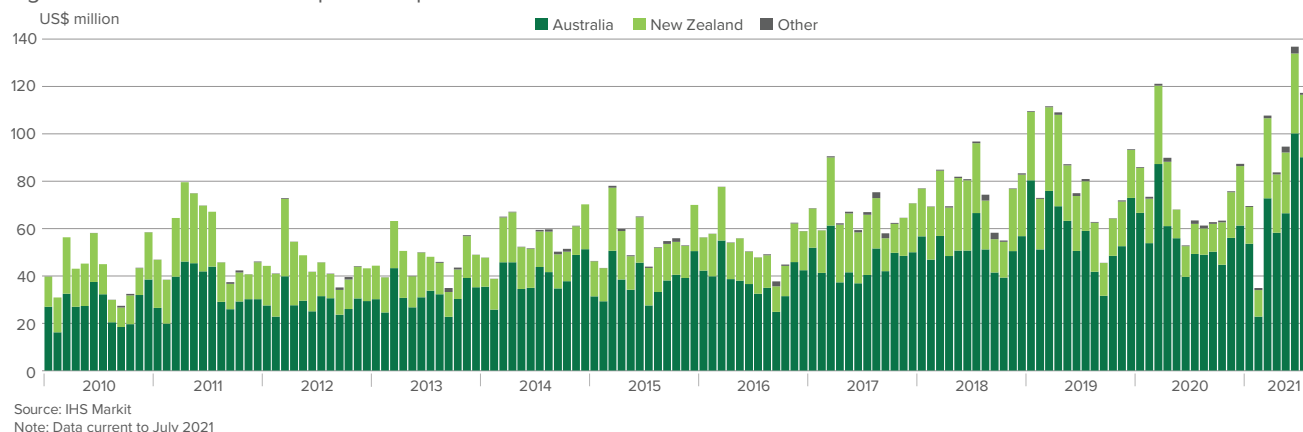
Australia is the dominant supplier of lamb to the US, contributing approximately 80% of lamb imports in 2021, with NZ supplying the remainder. This positions Australia well to supply growth in lamb consumption. Lamb is still an unfamiliar protein to a large proportion of US consumers, however, their willingness to try it has been increasing over time. With foodservice continuing to reopen after COVID-19, Australian lamb has an opportunity to establish itself as a part of the US dining experience.

Figure 11: Australian sheepmeat export volumes to the US



Source: DAWE  
Data current to August 2021

Figure 12: United States sheepmeat import value



[Click here to read MLA's US sheepmeat market snapshot](#)

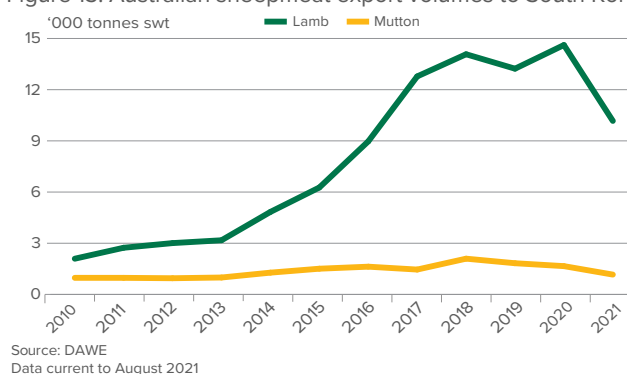
### South Korea – established

In the last decade, Australian lamb exports to South Korea have grown almost six-fold. In 2010, 2,094 tonnes of lamb were imported, compared to 14,616 tonnes in 2020. Up to August, South Korean imports of Australian lamb were up 14% compared to the same time last year, importing 10,168 tonnes so far.

Almost all lamb being consumed in South Korea is coming from Australia, which represented 93% of imports in 2020.

South Korea prefers lamb shoulder while rack, breast and flap are also popular. Lamb is considered a trendy protein in South Korea, with consumption being pushed by new novel experiences. For foodservice, lamb is often served at Korean BBQ, while retail consumption tends to be associated with outdoor activities such as camping. However, there are still barriers to entry in home consumption due to the unfamiliar smell of the cooked meat.

Figure 13: Australian sheepmeat export volumes to South Korea



[Click here to read MLA's South Korea sheepmeat market snapshot](#)

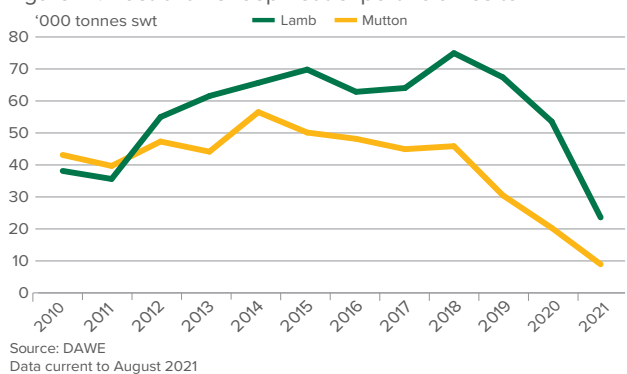
### Other markets of interest for lamb

Papua New Guinea is currently the fifth largest importer of Australian lamb for the year-to-date. Papua New Guinea represents 5% of the market share and has grown 48% since this time last year, reflecting a reversal of recent trends. In 2015, it imported 15,716 tonnes of Australian lamb, which decreased to 10,300 by 2020. Year-to-date, Papua New Guinea has imported 8,364 tonnes, mostly in the form of breast and flap, all of which is being exported frozen.

The MENA region, which traditionally imported large volumes of lamb, has remained subdued. High prices, reduced air freight, shipping delays and a variety of COVID-19-related impacts have disrupted exports, along with reduced volumes due to the removal of food subsidies in key importing regions.

For Australian lamb, up to August this year the UAE had imported 9,838 tonnes, Qatar had imported 4,714 tonnes, Saudi Arabia had imported 2,917 tonnes and Kuwait had imported 2,208 tonnes. MENA volumes are currently 32% lower compared to this time last year. Sheepmeat is still a popular protein choice for the region, however, a lot of the volume is coming from cheaper sources nearby including Eastern Europe and North Africa.

Figure 14: Australian sheepmeat export volumes to MENA



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# Mutton

Up to August, Australia had exported 79,139 tonnes of mutton, which represents approximately 30% of sheepmeat exports for the year. Over the long-term, mutton has accounted for 38% of sheepmeat exports. The lower current ratio can be explained by the significant fall in sheep slaughter, in-comparison to lamb turn-off.

China is Australia's largest market for mutton exports, having imported 31,390 tonnes up to August. Aggregating volumes over the past decade, MENA has traditionally been Australia's largest export region. However, since 2018 mutton exports to China have exploded while MENA has experienced a significant downturn.

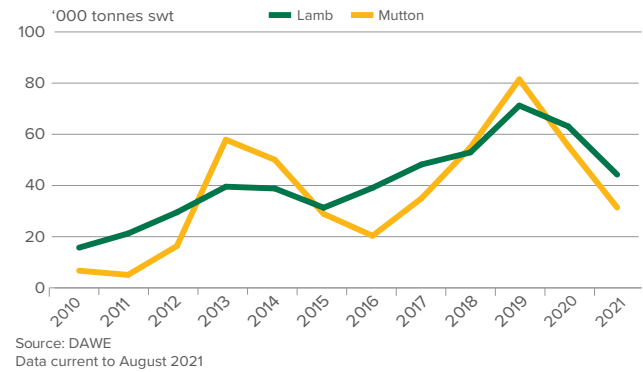
There was an overall downturn in Australian mutton exports in 2020, including to China. However, in 2021 mutton exports to China for the year to August have rebounded – up 27%. This contrasts with the global trend where year-to-date mutton exports are 6% lower compared to 2020. China accounts for 40% of the market, with the next largest importer being the US (importing 12,120 tonnes), or as a whole region, South-East Asia (importing 15,898 tonnes).

## Other markets of interest for mutton

South-East Asia has slowly become the second largest import destination for Australian mutton. The region accounts for approximately 20% of mutton exports and has grown by approximately 13% since 2010. Almost all the volumes go to Malaysia and Singapore, which take up 64% and 33%, respectively. South-East Asia has a particularly high ratio of mutton to lamb, with 61% of sheepmeat exports to the region being mutton. This can be attributed to lower costs and more familiarity with the methods for cooking mutton meat, which tends to be lower in fat.

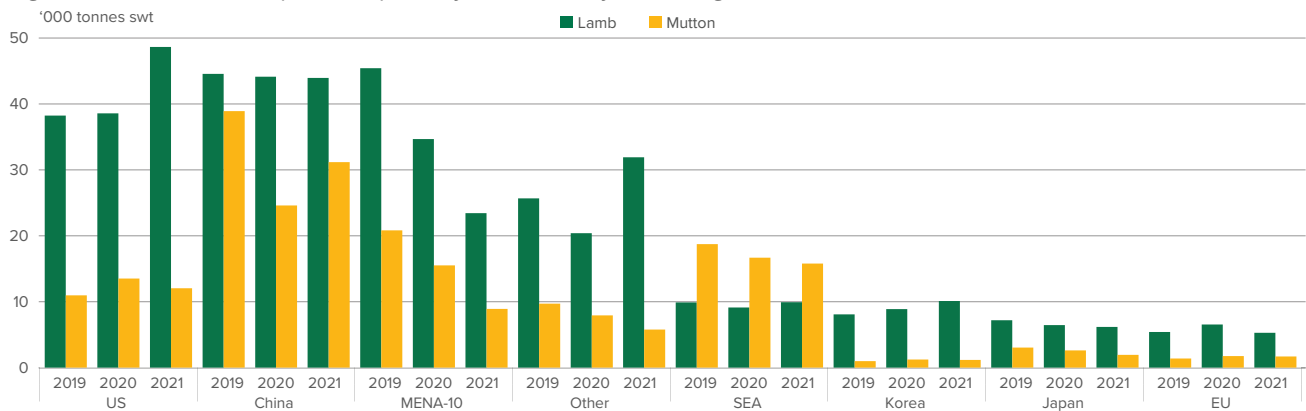
So far in 2021, the MENA region has only accounted for 11% of mutton exports, while in 2010 it made up 44%. MENA consumers are primarily interested in fresh whole carcass meat, but low air cargo availability and unpredictable shipping times have made mutton exports logistically difficult and expensive.

Figure 15: Australian sheepmeat export volumes to China



[Click here to read MLA's South-East Asia sheepmeat market snapshot](#)

Figure 16: Australian sheepmeat exports by destination: year-to-August



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## Live export

The outlook for Australian live sheep export volumes for the rest of 2021 has led to a further revision down of 12% on the previous June projection figures. However, trade for 2022 looks somewhat more positive, with numbers revised up 4%.

The revision down for 2021 has been made in large part due to the compounding impacts of the summer export prohibition on the trade, in conjunction with high Australian sheep prices and tight supply of sheep suitable for live export. However, with the forecast recovery of consumption and import demand in the MENA region, the potential resumption of exports to Saudi Arabia and a somewhat more rapid rebuild of the sheep flock than expected, the outlook for 2022 and 2023 exports is slightly more positive than previously forecast.

The absence of Australian sheep exports to MENA markets for three months of the year (from June to September) for three consecutive years has forced importers to seek alternative year-round supply. This has resulted in increased supplies of live sheep into the region from various countries including Spain and Romania, as well as Horn of Africa countries, none of which have ESCAS requirements. The Qatar subsidy removal on Australian sheepmeat has seen no live sheep exported to the country so far in 2021, compared to the 180,000 head exported in 2020.

Western Australian supply of sheep for live export is starting to rebound, following a sustained period of large transfers of sheep to the eastern states, as improved seasonal conditions support the flock rebuild. As the rebuild progresses, the possible flow-on to easing sheep prices may help begin to revive demand.

Overall, MENA demand for live sheep imports is gradually recovering as high vaccination rates in Gulf countries facilitate the resumption of social gatherings and tourism (business, leisure and hajj), both international and domestic. Expo 2020, held in Dubai for six months from October 2021, and the FIFA World Cup in Doha in 2022 are anticipated to accelerate the region's tourist recovery.



[Click here to use MLA's interactive LiveLink export statistics dashboard](#)

## Key issues

### Freight disruption reshaping Middle East sheepmeat trade

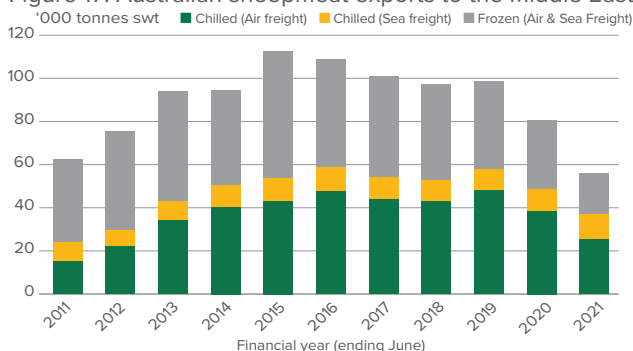
Australia is unrivalled when it comes to shipping large volumes of high quality chilled sheepmeat, supported by an ability to deliver extended shelf life. However, disruptions across air and sea freight over the last eighteen months has had a profound impact on the market mix of Australian sheepmeat and made it increasingly difficult to export chilled product. While impacting all markets, nowhere has the disruption to freight been more evident than in the chilled lamb carcass trade into the Middle East.

The lamb carcass trade into the Middle East has historically been reinforced by several underlying factors. Firstly, the Middle Eastern consumer, particularly at retail, has traditionally preferred a fresh carcass, due to the region evolving from a live export and locally slaughtered trade. Many consumers value seeing a carcass behind the butcher's counter which they can assess for freshness and country of origin.

Secondly, short shelf-life requirements across the Middle East for lamb carcasses meant that the trade was heavily dependent on air-freight, but growth was facilitated by the emergence of the UAE and Qatar as major international air hubs and the expansion of Australian-origin flights via the region.

The Australian Government has stepped in to support air-freight exports via the creation of the International Freight Assistance Mechanism (IFAM), which was recently extended through to mid-2022. While IFAM has brought air-freight rates closer to pre-pandemic levels and kept many business relationships alive during this difficult period, it is not able to replace the massive hole in capacity – that will only come with the return of international air travel and planes departing Australia.

Figure 17: Australian sheepmeat exports to the Middle East



Source: IHS Markit

In normal times, the decline in lamb carcase air-freight exports would have triggered a partial shift to vacuum-packed chilled sea-freight primals, further supported by many markets in the Middle East recently extending the shelf-life requirement on imported vacuum-packed chilled sheepmeat to 90 days. However, widespread disruption to global shipping, especially in the last three months, has reduced the viability and appeal of this alternative route to market.

Sea-freight capacity to the Middle East has been reduced as carriers have repositioned ships to more lucrative trans-Pacific routes and global freight rates have skyrocketed. Moreover, backlogs at ports and delays to shipping schedules have blown out the time it takes to land product in markets and wiped off the time gains from shelf-life extensions.

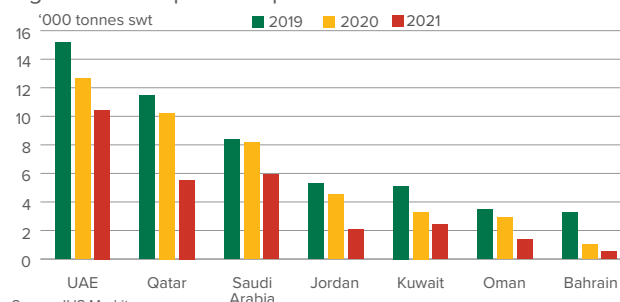
Across all export markets, shipping delays are making it increasingly difficult to ship chilled sheepmeat, triggering a shift to lower-risk frozen product – but at reduced premiums. Moreover, some chilled exports, which have incurred significant delays in transit, are being frozen on arrival at port to avoid product running past expiry dates.

While new ship orders will bolster future freight capacity, this will not address the immediate capacity crunch, while port-side backlogs and congestion will continue to create chokepoints in supply chains.

Some respite to shipping disruption may come as China's factories close over the Lunar New Year in February and merchandise exports to rich economies slow. However, the solution to stretched global shipping primarily lies in the return to 'normal' consumer spending patterns in places like the US and Europe, and a rebalancing of goods and services consumption as economies emerge from COVID-19.

As this is the case, until spending patterns and international air-travel track closer to pre-pandemic levels, the sheepmeat trade to the Middle East will continue to be squeezed by limited freight options. As the full force of this year's spring lamb crop hits the market, the impact of supply chain disruption may become more acute.

Figure 18: Sheepmeat exports to the Middle East\*



Source: IHS Markit

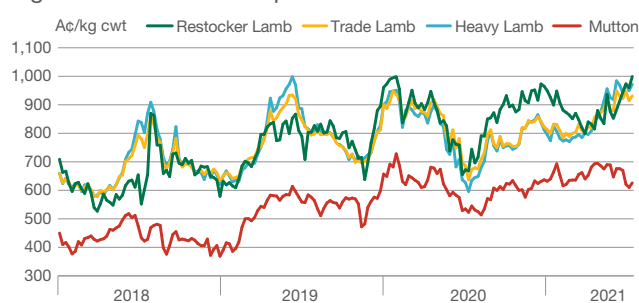
\* Jan-Jul volume

## Prices

Domestic sheep and lamb prices have performed historically well in 2021 due to a continuation of great seasonal conditions and solid support from key export markets. The demand for quality sheepmeat has evidently been supported by the rebuild and growing export demand, as lamb continues to grow as a premium niche product in key markets.

Demand for young lambs has maintained upwards price intensity this year and recently surged in September, ensuring a premium for heavier animals on a carcase weight basis. The National Restocker Lamb Indicator achieved a new record of 1,034¢/kg cwt on 1 September, 282¢ above year-ago levels, with the previous record set in March 2020. The recent uptick in prices has certainly helped to bolster the restocker and feeder lamb markets, boosting positive sentiment for producers. However, as the season has progressed and more product is shipped overseas, the margin for heavier animals has narrowed as more new season lambs hit the market.

Figure 19: National sheep indicators



Source: MLA

Trade lambs have also seen an uptick in yardings in recent weeks, signaling the 'spring flush' is occurring, with prices maintaining near record levels. The National Trade Lamb Indicator (NTLI) hit a new record of 951¢/kg cwt on 23 August, 324¢ above year-ago levels. It was at this time last year prices started to lift after the market was crippled by the effects of COVID-19. The Trade Lamb Indicator has typically upheld a strong supply and demand relationship, meaning that strong increases in numbers usually translates to softening prices. The recent uptick in supply as the new season flush hits saleyards has brought softening prices from the recent highs in August.

Heavy lamb prices are also performing strongly, evidenced by a new national record set on 20 August of 984¢/kg cwt, 384¢ above year-ago levels when prices were significantly impacted by the bottoming out of the export and foodservice trade. Declining throughput of heavy lambs going through the saleyard has helped place upward pressure on prices, with current throughput still in line with the five year average. The aggregated industry price forecast (the aggregation of leading industry participants' forecasts of the NTLI, its upper range and lower range price as at 31 December 2021) forecast the NTLI falling away from current levels to 836¢/kg cwt by the year's end.

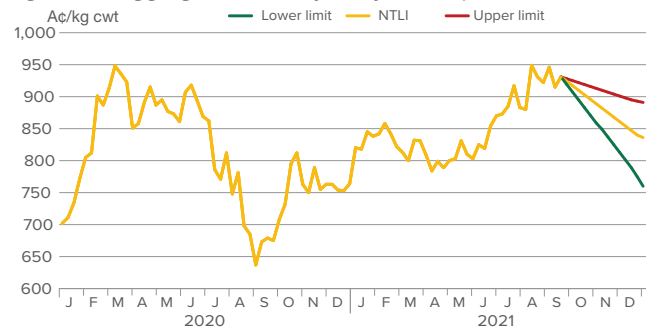


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## Looking ahead

Prime lambs for the spring flush are well and truly starting to come through in higher numbers, particularly out of the Riverina, central west NSW and northern Victoria. These volumes are expected to continue to build as south-west Victorian and South Australian lambs come onto the market. There is usually a winter price peak in August where this is expected, meaning that prices aren't likely to exceed current levels and will likely soften as more lambs come onto the market. This seems to have been the case so far, furthered by industry analysts projecting the National Trade Lamb Indicator to achieve an average of 835¢/kg cwt by the end of 2021. This forecast sits 10% below current levels. The upper and lower bounds were 760¢/kg cwt and 891¢/kg cwt, respectively. It must be noted that COVID-induced restrictions or closures for major lamb processors are likely to negatively impact prices for producers, particularly if there is a bottleneck of product that cannot be processed as efficiently with heightened volumes of lambs coming onto market. This was the case in 2020.

Figure 20: Aggregated industry analyst NTLI price forecast



Source: NAB, Rabobank, AuctionsPlus, TEM, Mecardo, ABARES

While the eastern states are forecast to have a strong positive weather outlook looking forward, supporting high prices, WA may experience drier conditions, which may subdue prices. Excessively wet conditions in western Victoria may also add concern for choosing when to sell and muddying expected returns.

Improving demand for lamb has been evident and should continue to strengthen, helping to provide a strong baseline of prices for the remainder of the year. The US have been the major driver of sheepmeat prices, with China's demand coming off the boil in the past few months after a strong climb since January.

The UAE, a smaller but key importer, is expected to see demand improve, as typically experienced during this time of year. On top of that, New Zealand, Australia's key export competitor, isn't exporting as much product in proportion, assisting Australia's export trade.

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