

Industry projections 2022

Australian sheep – July update





MLA's Market Intelligence – globalindustryinsights@mla.com.au

KEY POINTS

- National flock to reach 76m and grow by 7.2% year on year
- Higher carcase weights and strong lamb slaughter volumes forecast to deliver record lamb production in 2022
- Lamb exports forecast to reach record levels of 308,000 tonnes



KEY 2022 NUMBERS

-  **Lamb slaughter:**
22 million head
-  **Lamb production:**
549,000 tonnes cwt
-  **Lamb exports:**
308,000 tonnes swt
-  **Sheep slaughter:**
6.12 million head

*Graphic illustrates year-on-year change

Summary

Favourable seasonal conditions have supported above average lambing percentages and a larger breeding ewe flock, which continue to drive the national sheep flock's growth.

A strong start to Western Australia's season coupled with above average rainfall patterns for most sheep regions of NSW and Victoria will see the national flock rise by 7.2% or 5.1m in 2022, to 76m head. On the back of this growth, lamb production is forecast to reach record levels in 2022 at 549,000 tonnes with higher carcase weights driving the increase.

On the global front, demand for Australian sheepmeat continues to remain robust with export markets outperforming year-to-date 2021 levels. The large 2021 lamb cohort, heavier carcase weights and firm slaughter rates in mutton, are delivering favourable supply.

Strong export growth in emerging markets such as Malaysia, Japan and South Korea demonstrate Australia's diverse range of export markets. On top of this, the United States' role in becoming Australia's largest lamb export market and China's continued support for frozen mutton reinforce that Australia is a diversified exporter of high quality sheepmeat protein. There are possible challenges on the horizon, both domestically and internationally, with above average weather patterns having the potential to impact on farm lambing percentages, weight gain and finished performance of sheep. Transportation of sheepmeat to processing facilities and both the domestic foodservice and retail sectors have been hampered by weather conditions. Processor capacity concerns continue as a result of the labour shortages, COVID-19 and influenza. Internationally, inflation and supply chain disruptions affecting the delivery of product to market are also occurring.

Despite these challenges, the Australian sheep flock is growing strongly and with carcase weights remaining at historic highs, the country is well positioned to continue supplying sheepmeat to both the domestic and international markets. Industry confidence has further been buoyed by favourable seasonal conditions, robust export demand and strong market prices.

Table 1: Situation and outlook for the Australian sheep industry

	2016	2017	2018	2019	2020	2021 ^e	% change 2021 ^e on 2020	2022 ^f	2023 ^f	% change 2023 ^f on 2020
Sheep and lamb numbers ('000 head)*										
As at 30 June	67,543	72,125	70,607	65,755	64,000	70,600	10%	76,024	78,751	23%
Percentage change	-1%	7%	-2%	-7%	-3%	10%		8%	4%	
Slaughterings ('000 head)										
sheep	6,965	7,536	9,521	9,344	5,956	5,100	-14%	6,120	7,589	27%
lamb	22,956	22,431	22,725	21,624	19,906	20,789	4%	22,036	22,587	13%
Total	29,921	29,967	32,246	30,969	25,862	25,889	0%	28,156	30,176	17%
Avg carcase weight (kg)										
sheep	24.4	24.8	23.7	24.2	25.2	25.6	1%	25.1	24.8	-2%
lamb	22.5	22.7	22.5	23.3	24.7	24.7	0%	24.9	24.6	0%
Production ('000 tonnes carcase weight)										
mutton	170	188	225	228	152	154	2%	154	188	24%
lamb	516	509	511	504	487	508	4%	549	557	14%
Total production	686	698	737	732	638	662	4%	702	745	17%
Live exports ('000 head)										
	1,838	1,887	1,176	1,118	811	575	-29%	500	650	-20%
Sheep exports** ('000 tonnes)										
mutton										
shipped weight	132	147	180	184	123	125	2%	125	153	24%
carcase weight	161	179	215	218	150	152	2%	152	187	24%
lamb										
shipped weight	242	251	267	282	264	283	7%	308	310	18%
carcase weight	290	302	324	337	320	340	6%	370	373	16%
Domestic utilisation ('000 tonnes c/c weight)**										
Lamb	226	207	187	167	166	168	1%	179	184	11%
kg/head***	9.3	8.4	7.5	6.6	6.5	6.4	-1%	6.6	6.7	4%

Source: ABS, DAWR, MLA forecasts

* From 2017 is an MLA estimate based on ABS Data - Figures as of 30th 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

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

On Tuesday 21st June, the Bureau of Meteorology (BOM) officially declared that the 2021-22 La Nina weather pattern had ended, after having delivered decile 7-10 rainfall across most of Australia's sheep grazing land, although, large parts of eastern and southern Australia are forecast to expect above average rainfall patterns out to September. These regions include Queensland, NSW, central and eastern Victoria and SA.

It must be noted that the forecast above average rainfall in northern parts of Australia (which are subject to wet and dry season conditions), means that any rainfall experienced during the dry season is above average.

From the February projections, forecasts of below average rainfall for south west areas of WA and western parts of Tasmania are expected to continue.

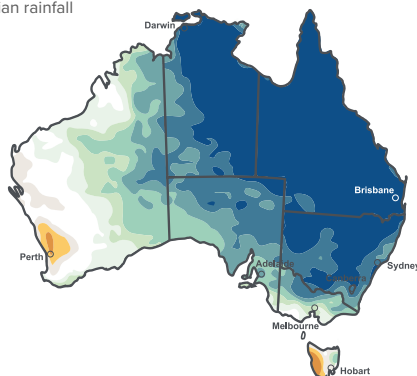
Furthermore, a negative Indian Ocean Dipole is increasingly likely to eventuate, which will contribute to the above average rainfall forecast for southern Australia out to October.

Figure 1: Australian rainfall outlook – Aug to Oct 2022

Chance of exceeding the median rainfall

Legend

- Above 80% chance
- 75-80% chance
- 70-75% chance
- 65-70% chance
- 60-65% chance
- 55-60% chance
- 45-55% chance
- 40-45% chance
- 35-40% chance
- Below 35% chance



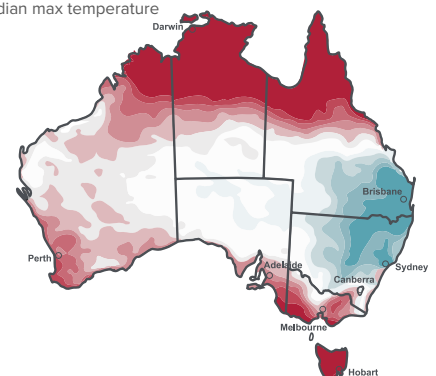
Source: Bureau of Meteorology

Figure 2: Australian temperature outlook – Aug to Oct 2022

Chance of exceeding the median max temperature

Legend

- Above 80% chance
- 75-80% chance
- 70-75% chance
- 65-70% chance
- 60-65% chance
- 55-60% chance
- 45-55% chance
- 40-45% chance
- 35-40% chance
- 30-35% chance
- 25-30% chance
- Below 25% chance



Source: Bureau of Meteorology

Australian dollar

On July 6, the Australian dollar to the US dollar exchange rate hit its lowest level in nearly two years at 67.84¢/\$1USD. With most of Australia’s exported sheepmeat traded in the United States dollar, this is a favourable outcome for the value and competitiveness of Australian sheepmeat on the global stage.

The Australian dollar has fallen 9% over the past 12 months and has been continually challenged by the strength of the United States dollar, placing downward pressure on the AUD’s performance. Further interest rate hikes are expected by the Federal Reserve to curb rampant inflation in the US, which hit its highest levels in 40 years in early June.

Figure 3: US/AU exchange rate

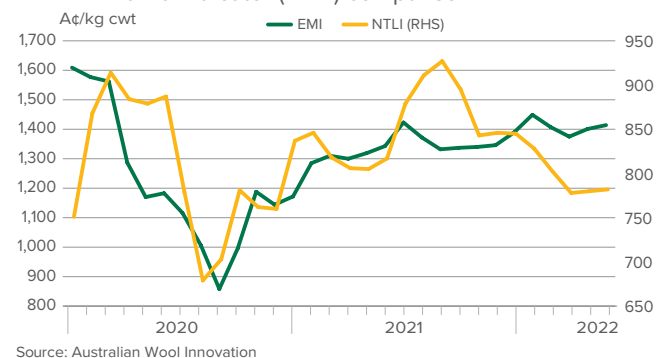


Wool

The Eastern Market Indicator (EMI) is currently sitting around 1,407¢/kg. These prices are 64% higher when compared to two years ago when prices were 858¢/kg. The premium for 18 micron wool compared to 19 micron wool has been growing since 2020. This premium has risen to 27% in July this year, lifting from a 16% premium in July 2020.

Wool and lamb prices are closely followed by industry, with the strength of both production systems supporting a strong overall sheep industry. The vast majority of the Australian ewe breeding flock is based on Merino genetics. Over time, however, it has been observed that the Merino breeding ewe base has declined, with the continued strength of lamb market performance incentivising the injection of first cross and prime lamb genetics into operations.

Figure 4: Eastern Market Indicator (EMI) and National Trade Lamb Indicator (NTLI) comparison



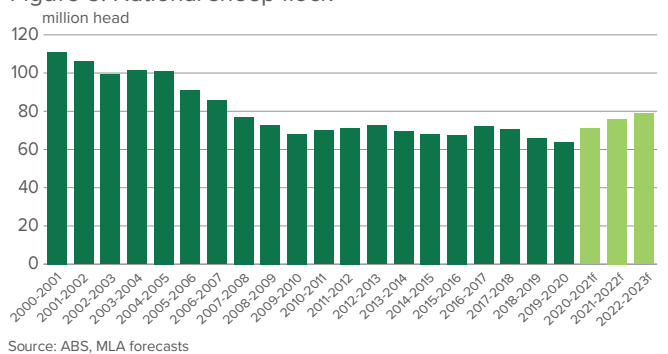
Supply

Flock

MLA has revised the sheep flock higher by 2.2% compared to the February release, with the national flock growing to 76m head in 2022. Out to 2023, MLA expects further growth to 78.75m, which is 23% or 14.75m head higher than the 100 year low in 2020.

Continued favourable forecasts and current seasonal conditions are underpinning this assumption. Headwinds for flock growth may occur from challenging on-farm production conditions related to lambing and mortality rates as a result of the weather.

Figure 5: National sheep flock

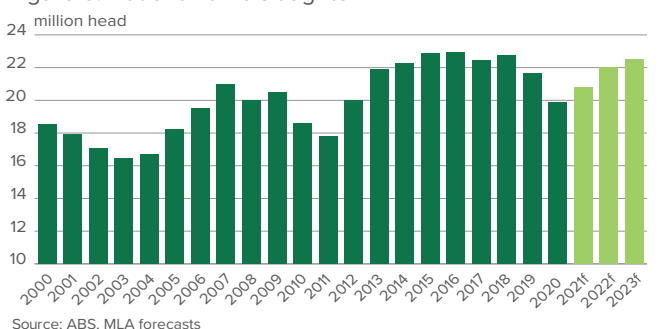


Slaughter

For 2022 lamb slaughter, MLA has revised figures higher by 2% or 400,000 on its February projections to reach 22m head and its highest level since 2018. Underpinning this increase is a second successive large lamb cohort delivering increased supply. Out to 2023, lamb slaughter will remain firm on February projections at 22.587m head.

In 2022, national sheep slaughter is forecast to experience strong growth of 20% to 6.12m head. Out to 2023, numbers are forecast to reach 7.58m, their highest level since 2019. Year-on-Year sheep slaughter growth is forecast to be 24%.

Figure 6: National lamb slaughter



[Click here to access the MLA’s NLRS Weekly Slaughter Report](#)

Carcase weights

Lamb

Average lamb carcase weights are forecast to remain firm on February projections, reaching 24.9kg/head in 2022. Out to 2023, MLA has revised carcase weights down 2% or 500g to 24.6kg/head with seasonal conditions expected to return to the long-term average. The implementation of improved genetics and on-farm production management will ensure that 2023 carcase weights remain historically high.

Sheep

Sheep carcase weights in 2022 and 2023 are forecast to soften slightly compared to February projections with seasonal influences expected to contribute to this. Average weights are forecast to remain well above the long-term average, however.

Production

Lamb

Historically high carcase weights and an increase in slaughter volumes are underpinning forecast record lamb production in 2022, rising 1% compared to the February release, to reach 549,000 tonnes in 2022. 2023 growth has been tempered slightly with a 2.2% downwards revision in lamb production compared to February forecasts, reaching 554,000 tonnes – expected to break the previous production record set this year.

Sheep

With sheep slaughter growing and carcase weights softening in 2022, sheep production will grow slightly to 154,000 tonnes. In 2023, due to lower forecast slaughter levels and softer carcase weights, MLA has revised down production levels compared to February, by 13,000 tonnes or 6.4%. The 2023 forecast is, however, 24% higher than the 2021 estimated production volumes.

Live exports

In 2022 to the end of May, Australian global sheep exports reached 281,750 head, 25% lower than the same period in 2021. Hence, our live sheep export volume projected for 2022 has been revised down 20% from 600,000 head to 500,000 head.

Key challenges for the Australian industry remain the impacts of the three month government prohibition on live sheep exporting to the Gulf during the northern summer months, as well as high sheep prices in Australia.

The prohibition has effectively been in force now for four consecutive years and over this time, importers have been compelled to develop alternative year-round supplies sourced from Europe (particularly Spain, Portugal and Romania) and North Africa (mainly Somalia and Sudan).

Overall, sheepmeat demand in Middle East North Africa (MENA) has been quite strong, with consumers benefiting from the trickle-down benefits of elevated oil prices coinciding with a post-pandemic economic recovery. Inflation in most live export markets in the Gulf, such as Jordan and Israel, has been low by global standards.

Several factors have strengthened MENA demand for live sheep over boxed sheepmeat. Australia's sheep carcase exports to the region have fallen sharply since 2019, mainly due to the Qatar government's removal of the significant subsidy on Australian sheepmeat, as well as ongoing pandemic impacts on air freight. Australian sheep carcase exports to MENA fell 68% from 2019 to 2021 and remain subdued in 2022. In addition, the lifting of many pandemic restrictions has seen some resumption of important Islamic religious celebrations, with associated increases of social gatherings and tourism.

Demand for animals from more geographically proximate suppliers is up due to reduced boxed product trade resulting from global shipping delays with uneven circulation of reefer containers, rising bunker oil prices and the ongoing pandemic impacts on air freight trade. In addition, inflation is comparatively high by global standards in most competitor supplier countries, encouraging them to export.

Figure 7: National sheep slaughter

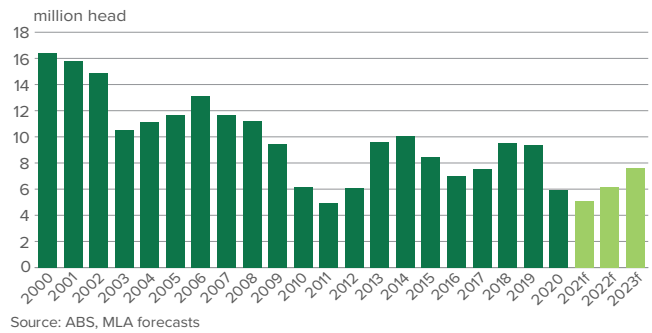


Figure 8: Lamb carcase weights and production

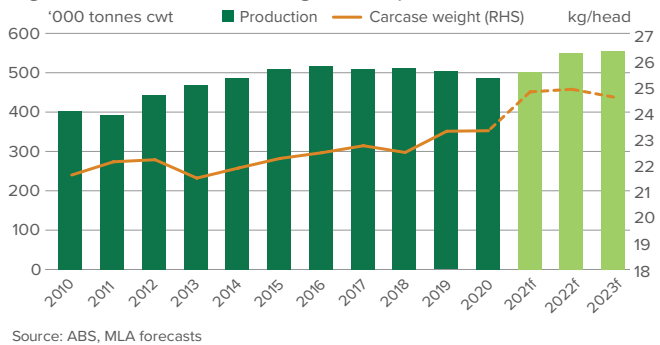
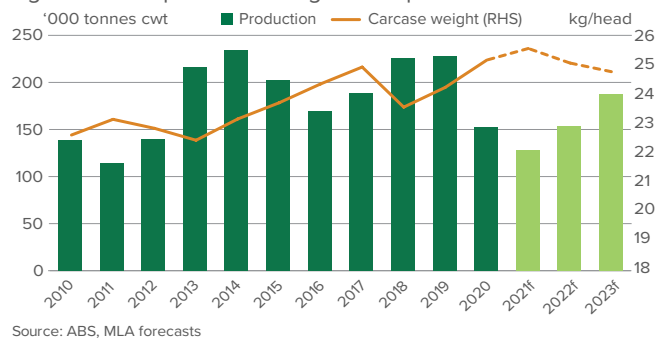


Figure 9: Sheep carcase weights and production



The Qatar protein market is still adjusting to the subsidy removal on Australian sheepmeat, which has seen no live shipments from Australia since December 2020. Importers have compensated for this with ad hoc live import shipments and an increase in various boxed meat imports from a more diverse range of suppliers, including notable increases from lower cost suppliers out of Africa, South America and Southern Asia.

Looking ahead, there are some key developments that industry is monitoring which could open opportunities for the Australian industry. Large areas in the Horn of Africa region are currently dealing with severe drought conditions which have been intensifying for several years and are further compounded by conflict, putting pressure on producers to sell-off livestock in the short-term. This points to a longer-term supply shortage for a period in this region. If supply were to fall significantly for a sustained period, unmet growing demand in Saudi Arabia could trigger a re-commencement of Australian exports – for the first time since August 2012.

Sustained inflationary impacts on rising costs, exacerbated by on-going conflict in Europe, may see competitor sheep prices rise. If Australian sheep prices continue their recent downward trend, there may be more demand for Australian sheep in 2023. If WA experiences good seasonal conditions for the next 6-12 months, and processing and shipping capacity increase, the WA flock rebuild could support greater export volumes in 2023 and 2024.

The current unusual level of volatility in global meat and livestock markets makes it particularly difficult to forecast Australian live export numbers, with industry facing added uncertainty following the recent change of government in Australia. To keep up-to-date with monthly live export trade, please see MLA's LiveLink report.

[▶ Click here to visit MLA's LiveLink interactive Dashboard for export statistics](#)

Demand

Domestic consumption

Australian demand for lamb saw domestic consumption account for 38% of total Australian production in the most recent quarter, with strong demand for Australian sheep meat from international markets continuing to drive export volumes.

In addition to increased export demand for Australian lamb, factors such as shifts in the Australian demographic and price relativity to other proteins has seen domestic lamb consumption gradually decline in recent years. Despite this, Australian consumption of lamb remains amongst the strongest in the world, with Australia ranking second highest amongst OECD countries at 5.9kg/person/year (Source: OECD).

In the most recent quarter, lambs' share of total fresh meat volume remained constant at 8.5% (also reflected in lamb volume per eating occasion remaining stable); lamb value share of total fresh meat increased to 11.5% over the previous quarter (Source: NielsenIQ*).

With increasing inflationary pressures and the tightening of consumer discretionary spending, pricing is one of the biggest factors contributing to shifts in demand for lamb cuts as consumers seek out more economical options. Lamb chops remained the leading cut by value, increasing from \$68m to \$75.8m AUD in the most recent quarter, a growth of 11%. Sales of lamb sausages and mince also grew, increasing by 13% and 9%, respectively, over the previous quarter (Source: NielsenIQ*).

Notably, the most recent quarter has seen consumers make a shift toward cuts offering greater convenience and ease of use such as pre-prepared and semi-prepared cuts of lamb, with 'pre-prepared' lamb increasing by 13% to \$15.8m, and 'stir-fry/diced/casserole cuts/strips' lamb increasing 20% to \$6.9m AUD (Source: NielsenIQ*).

Australian retail shelves are getting more competitive each year as our population demographics shift with growing migration (30% of Australians are born overseas) and the exposure to new cuisines expands. Capturing the consideration of 'new Australians' to strengthen domestic demand for Australian lamb in the long run, represents a significant opportunity as demographics continue to evolve. This last quarter has also shown the strengthening demand returning to food service, with Australian's spending more in restaurants, cafes and pubs (+5.3%) and less on purchases of food from supermarkets and other retailers (-2%) (Source: ABS).

* MLA calculation based in part on data reported by NielsenIQ through its Homescan Service for the fresh meat category to 19 June 2022, for the Total Australia market, according to the NielsenIQ standard product hierarchy. Copyright © 2021, Nielsen Consumer LLC

Key export markets

Global market snapshot

Sheepmeat exports have been strong in the first half of 2022, as higher supply has allowed Australian producers to meet strong demand in key markets. From January to May, Australia exported 110,775 tonnes of lamb and 57,655 tonnes of mutton, 5% and 7% more respectively, than the same period in 2021.

33% of exports were chilled, falling by 3% year-on-year, while frozen exports made up 67% of the total and rose by 10%. The largest markets were China, the United States, and Malaysia. In the face of widespread disruption related to COVID-19, exports to China fell by 19% for the year-to-date to 38,803 tonnes, remaining the largest market by volume. Slightly more mutton was exported than lamb in the year so far, as lamb exports fell by 28% to 18,184 tonnes and mutton exports fell by 9% to 20,619 tonnes. Exports so far are entirely frozen, and averaged AU\$7.50/kg between January and April.

The second largest market was the United States, which imported 35,053 tonnes of sheepmeat from January to May, 3% higher than 2021, year-on-year. 87% of exports were lamb, and lamb exports grew by 13%, while mutton exports fell by 38% year-on-year.

49% of sheepmeat exports overall were chilled lamb, which improved the relative value of exports. Between January and April, US export revenues totalled AU\$414 million, 28% of total value, despite only making up 19% of exports by volume.

Exports to South-East Asia grew by 38% year-on-year to 30,774 tonnes. The largest markets in the region were Malaysia, which imported 14,851 tonnes of sheepmeat, Papua New Guinea, which imported 9,158 tonnes, and Singapore, which imported 4,323 tonnes.

Malaysian imports were primarily mutton; 9,187 tonnes of mutton compared to 5,664 tonnes of lamb. Sheepmeat exports to Malaysia grew by 34% year-on-year, with lamb exports growing by 52% and mutton exports growing by 25%.

Exports to Papua New Guinea grew by 69% year-on-year, largely driven by a large increase in lamb exports; 8,543 tonnes were exported, a 72% increase on 2021. 93% of exports are lamb, and exports are entirely frozen.

Exports to MENA grew by 11% to 23,360 tonnes. This topline figure conceals considerable shifts in the region. Exports to Qatar fell by 42% year-on-year to 2,650 tonnes, while exports to the UAE grew by 16% to 9,038 tonnes. Exports to Saudi Arabia grew to 5,723 tonnes, a 57% increase year-on-year.

Overall, lamb exports fell by 2% to 14,595 tonnes, while mutton exports grew by 42% to 8,765 tonnes. Unit values have risen by 23% to AU\$10.49 in the year-to-April, and prices are relatively consistent across the region, though they are marginally higher in the UAE due to a higher proportion of chilled exports.

Overall, the first half of 2022 has been strong for sheepmeat, as recovering volumes are meeting high prices on the global market for very strong revenue figures. Although volumes have not grown beyond what we saw in 2018-20, revenues have been at record levels as changing consumer preferences and high global demand keep prices for Australian sheepmeat high.

[Click here to read MLA's Global sheepmeat industry and trade report](#)

Korea

Korea's sheepmeat imports continue on their upward trajectory, with volume in the year ending May 2022, reaching a record high of 19,000 tonnes swt, despite COVID-19 challenges. Shifting consumer eating habits and preferences towards a high-protein diet, coupled with the growing popularity of lamb among young Koreans, have underpinned this steady import demand growth. More than 90% of sheepmeat imports to Korea are from Australia, out of which lamb accounts for approximately 88%.

Lamb is not a traditional part of the Korean diet. It has grown in popularity in recent years, partly boosted by foodservice operators in their quest to maintain revenue growth, given the highly competitive foodservice environment and fast-paced consumer trends in Korea. Lamb has been primarily offered through BBQ restaurants due to consumers' lack of familiarity and confidence in cooking lamb at home. Its presence has increased across retail channels, including various online platforms since the COVID-19 outbreak, as retailers race to capitalise on growing in-home consumption and camping trends.

The shift in consumption habits and channels has driven demand growth for lamb cuts that are deemed to be easy, convenient and joyful to cook at home or on camping trips. The market has seen a rapid growth in imports of lamb shortloin, rack and leg from Australia.

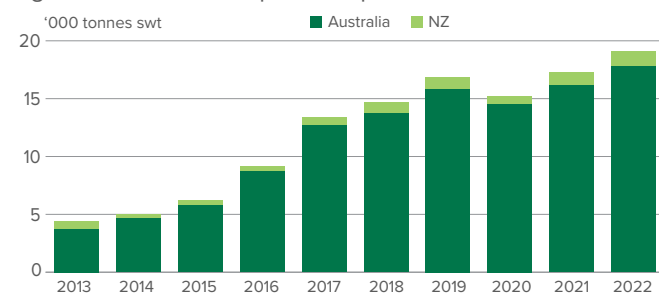
Lamb plays an 'adventurous' role in the expanding meat repertoire of Korean consumers. It is particularly popular among younger consumers (in their 20s to 40s), who look to lamb as a treat for special occasions. This evolving consumer trend is expected to provide the Australian sheep industry with further growth opportunities within the retail-ready cuts or offerings space, alongside conventional products typically catered to the foodservice sector.

Figure 10: Korea's per capita meat vs rice consumption



Source: Fitch Solutions, meat includes beef, pork and chicken

Figure 11: Korea's sheepmeat imports*



Source: IHS Markit. *year ending May

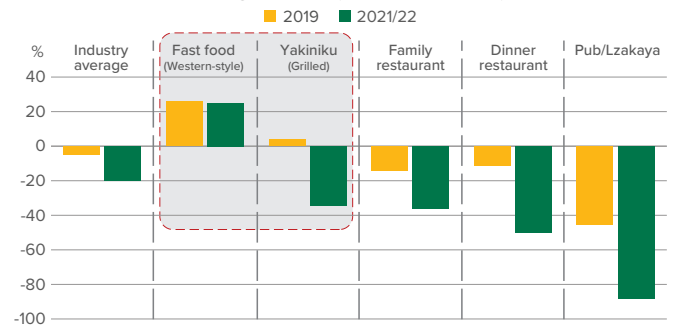
[Click here to access MLA's latest Korea market snapshot](#)

Japan

Total Australian sheepmeat exports to Japan in the year to May 2022, grew by 43% to 7,400 tonnes swt, exceeding pre-COVID-19 levels. This trend was driven by a gradual recovery in the foodservice sector and retail expansion of lamb. Except for Western-style quick service restaurants, most foodservice sectors in Japan were heavily impacted by the pandemic, which subsequently weakened import demand for Australian lamb and mutton to Japan in 2020 through to 2021. However, demand for Australian lamb and mutton is set to rebound as dine-in restaurant sectors begin to recover. Although the entire foodservice sector is still far from pre-COVID-19 levels, recent lifts of many COVID-19 quasi-emergency measures, including the extension of operating hours and resumption of alcohol sales at bars and restaurants, herald positive signs of recovery.

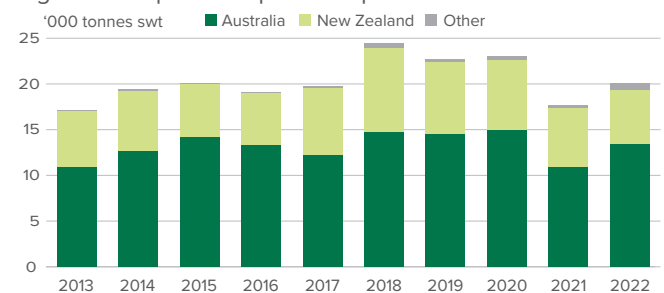
Like many other Asian markets, lamb is a niche protein in the Japanese diet. It is typically consumed in specialty restaurants – known as Genghis-khan. Most Japanese consumers are not familiar with lamb and do not know how to cook it. While lack of familiarity and confidence in cooking remains a key barrier to in-home consumption, lamb has gained more popularity in Japan, especially among younger generations. It is often chosen as a treat for special occasions, including camping, and when there is need for a health boost – as lamb is perceived to have high health and nutritional values. The pandemic has accelerated retail sales for lamb, with more consumers looking for ways to enjoy food and life either at home or outdoors with healthy food choices. Similar to the Korean market, evolving lamb eating habits in venues other than restaurants indicate potential demand growth for retail-ready cuts or offerings (for example: camping-ready set, home-meal/party-ready set) in the near future.

Figure 12: Japan foodservice sales in May
Change % YOY (2019 vs 2021/22)



Source: Japan Foodservice Association, sales data comparison May 2021 & May 2022 vs May 2019, MLA

Figure 13: Japan sheepmeat imports



Source: IHS Markit

[Click here to access MLA's latest Japan market snapshot](#)

Malaysia

Malaysia is an important market for Australian sheepmeat and is projected to see strong volume and value growth in coming years.

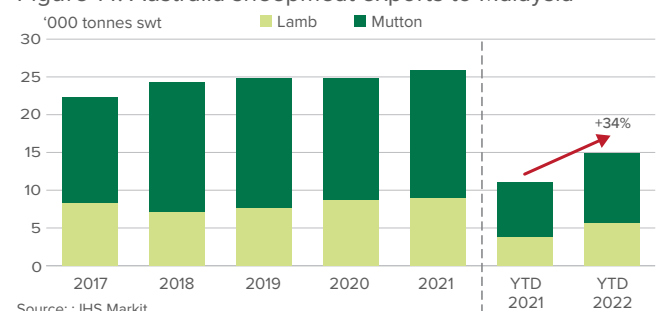
The country's multicultural population has a strong tradition of using sheepmeat and hence has higher per capita consumption than most regional neighbours. Consumption has been steadily increasing, driven by economic growth and rising numbers of young and affluent consumers, keen to enjoy a range of quality proteins. Malaysia is the second-largest imported sheepmeat market in Asia after China (estimated at around 35,000 tonnes cwe in 2021), supported by its large domestic and tourist visitor populations. Importantly, consumption is forecast to continue to grow over the next several years (*Fitch Solutions, GIRA*).

Malaysia is the largest destination for Australian sheepmeat in the region, accounting for around 60% of the total volume shipped to Southeast Asia, and Australia is by far the country's largest supplier, contributing to 75% of imports in 2021. Australian exports have achieved all-time record highs in recent times, with a volume of over 29,000 tonnes swt valued at just under A\$270 million for the 12 months ending April 2022, despite on-going pandemic impacts and all-time high global sheepmeat prices. While the volume of Australian product increased three fold in the decade from 2011 to 2021, value increased five fold (*IHS Markit*).

The easing of restrictions and resumption of normal economic activity has further accelerated demand for Australian product. In the first five months of 2022, Australia exported 52% more lamb and 25% more mutton to Malaysia than in the same period in 2021.

The recent uptick in demand growth in Malaysia is driven by a range of factors, linked strongly to post-pandemic economic recovery and the resumption of dine-in foodservice. Foodservice restrictions during lockdowns increased consumer interest in enjoying lamb at home and retailers responded by increasing availability of sheepmeat products in store, including an expansion in ready-to-cook offerings. This has led to on-going elevated interest in sheepmeat dishes for both at home and dining out occasions, which Australia is well-positioned to satisfy.

Figure 14: Australia sheepmeat exports to Malaysia



Source: IHS Markit

[Click here to access MLA's latest Malaysia market snapshot](#)

Key issues updates

Airfreight market recovery

Over the past several years, Australian red meat exporters have been exposed to huge disruptions, which have led to changes in export patterns and practices. As patterns of trade continue to change, opportunities exist in market segments that could be missed in top line figures. In 2019, airfreight accounted for 14% of total sheepmeat exports, with 58,146 tonnes of lamb and mutton shipped by airfreight. In 2022, this has dropped to 10% of exports by volume, despite fast-growing revenues on offer from the channel.

Much of this was due to COVID-19. Most freight is carried in the hull of commercial flights, and widespread flight cancellations impacted the ability of freight forwarders to provide reliable transit services over 2020 and 2021.

Less obviously, policy shifts from the government of Qatar substantially affected the airfreight channel. Between 2015 and 2020, the government of Qatar subsidised imports of lamb and mutton from Australia. At the same time, strict age requirements hampered the import of shipped goods, with these limits posing a considerable barrier to shipped, frozen exports.

This incentivised Australian exporters to fly chilled lamb into Qatar, leading to disproportionately large export volumes. In 2020, Qatar was the destination for 47% of airfreight lamb, while being the destination for 5% of exports overall.

After this subsidy was withdrawn at the end of 2020, airfreight exports to Qatar declined by 60% in 2021, and a further 50% in 2022. Given the size of Qatari exports relative to the overall airfreight channel, this had an outsized impact on the volume of exports overall.

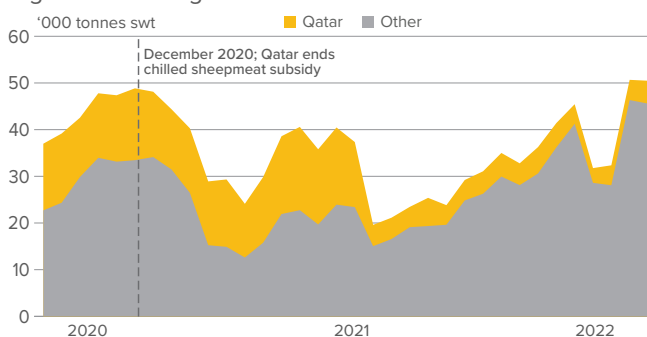
This impact can distort perceptions regarding airfreight over the past few years, masking what is otherwise a reasonably strong recovery. 9,811 tonnes of sheepmeat have been exported by plane in the year-to-April, a 15% increase year-on-year. However, if we exclude Qatar from the sample, exports have risen by 54%, and are now close to 2020 levels.

In particular, exports to the United States (US) have increased dramatically; in the year-to-April they are up 452% from 2021, to 3,937 tonnes. The US is now Australia's largest market for airfreight lamb overall, being the destination for over 33% of exports.

Moreover, the US is a premium market for lamb, with higher prices than many other export markets. Airfreight lamb exports have been selling at \$22.46/kg so far this year, over twice as much as average lamb export prices.

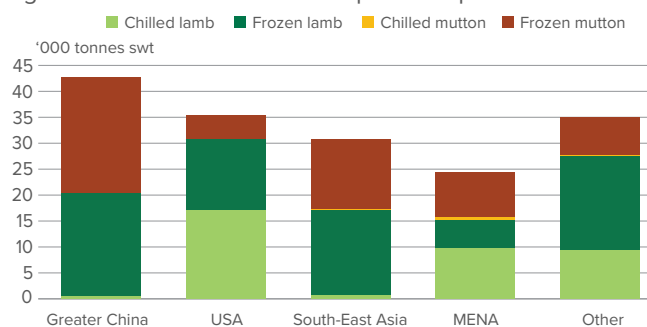
These price premiums go some way to explaining why airfreight exports generate 16% of sheepmeat revenue, while only making up 10% of exports. As consumer taste for sheepmeat grows, Australia is well positioned to deliver high quality lamb and mutton through different channels to accommodate different regulatory requirements and consumer preferences.

Figure 15: Airfreight Lamb – Qatar vs all others



Source: IHS Markitt, MLA Calculations

Figure 16: Australian 2022 Sheepmeat exports*



Source: DAFF, MLA Calculations *Year-to-May

Prices

In the first half of this year, all sheep and lamb prices tracked lower than 2021 prices as increased supply overflowed from 2021. This has continued into the end of the financial year with lamb slaughter reaching its second highest level in three years at 413,000 head in week 26 of 2022.

This large and continued volume of supply throughout the first half of 2022 and a significant level of producers subscribing to favourable forward contracts from processors has impacted demand from buyers at saleyards who are being more selective and therefore more subdued.

All indicators are operating softer than 12 months ago, although heavy lamb prices were the best performing category, driven by the strength of international market flowing through to higher exports for the first six months of the calendar year. Similarly, the mutton market has performed similarly to lamb, operating lower than 12 months ago as increased supply impacts buyer propensity and demand.

[Click here to access MLA's suite of domestic sheep market price and supply reports](#)

Looking ahead

Actual lamb supply for the remainder of winter is expected to continue to be unseasonably high as processors work through the 2021 backlog and cohort. This is to address processor throughput issues, logistical challenges and on-farm transportation which hindered lamb supply earlier this year.

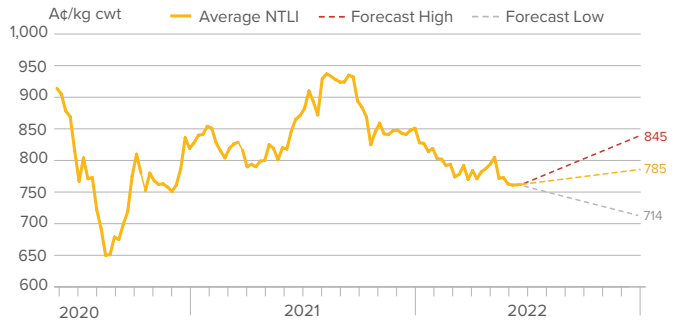
If supply continues to remain unseasonably high, prices may not reach their traditional 'winter peak' period that is due to the supply lull that occurs from June to August.

Another large lamb cohort is expected for the 2022 lamb drop with optimal breeding conditions and increased breeding ewe numbers underpinning this assumption.

With sheepmeat production reaching record levels and international demand for Australian product remaining strong across key established and emerging markets, the outlook for the Australian sheepmeat industry is relatively bright. It is evident in both production and export terms that the national flock has recovered from COVID-19 events and that the rebuild is well and truly maturing.

For the remainder of 2022, 5 industry analysts are forecasting the National Trade Lamb Indicator (NTLI) to reach 785¢/kg cwt by the end of 2022. This signals a marginal increase from where the indicator is currently operating at but would show a 7% or 61¢/kg cwt decline from where the indicator finished 2021.

Figure 17: Aggregated industry average NTLI price forecast



Source: NAB, TEM, Mecardo, AuctionsPlus, Rabobank

Sheepmeat production remained extraordinarily profitable around the world in 2020 underpinned by strong growth in demand: *agri benchmark*

The *agri benchmark* network results for 2021 are now available.

This report presents the *agri benchmark* network's perspectives on recent global sheepmeat developments, the economics and drivers facing producers around the world, farm profitability (globally and in network countries) and views on likely future developments and challenges.

It then asks 'how competitive are Australian sheepmeat producers and what are the main areas where our productivity differs from other countries?'

What is *agri benchmark*?

agri benchmark is a global, non-profit and non-political network of agricultural economists, advisors, producers and specialists in key sectors of agricultural value chains. It has been producing the results of comparative analysis over the last 15 years. The full 2022 *agri benchmark* report entitled *How are global and Australian sheepmeat producers performing?* can be found on the MLA website at: www.mla.com.au/prices-markets/Trends-analysis/agribenchmark



[Click here for the 2021 *agri benchmark* report](#)