Australian sheep

Industry projections 2016
April update

KEY POINTS

- Lamb slaughter easing 3% year-on-year
- Lamb production down 3% year-on-year
- Mutton production down 8% year-on-year
- A$ and heat to test autumn lamb prices

KEY 2016 NUMBERS

Lamb Slaughter	Lamb Production	Lamb Exports	Mutton Slaughter
22 (million head)	488,400 (tonnes cwt)	235,000 (tonnes swt)	7.8 (million head)

* Graphic illustrates year-on-year change

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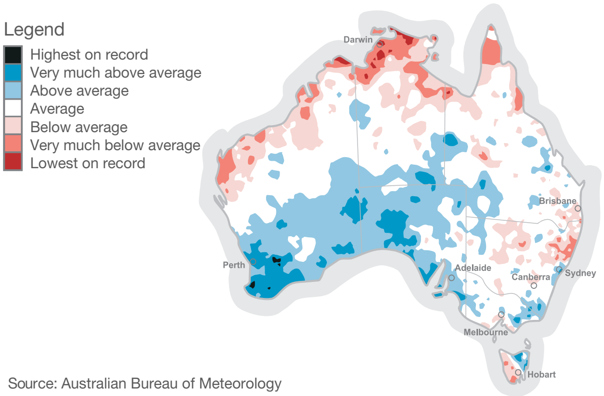
Introduction

The 2016 Sheep Industry Projections April Update encompasses some significant revisions to the December Projections. Most notably, there is a larger sheep flock and a 750,000 head increase in the number of lambs expected to be processed in 2016 (to 22 million head) - yet this will still be down 3% from the 2015 record. The higher revised slaughter will flow through to production and exports, which have also been adjusted higher than the December forecast.

Despite anticipated tighter sheep and lamb availability through the winter months, prices may be tested by the strengthening A$ and if there are prolonged hot and dry conditions.

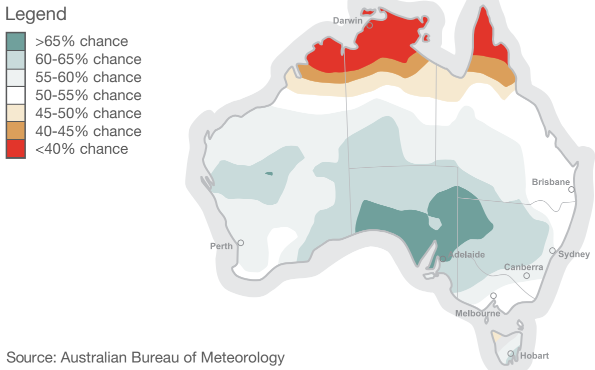
Figure 1 Australian rainfall: 1 January to 31 March



Source: Australian Bureau of Meteorology

Figure 2 Australian rainfall outlook: 1 April to 31 June

Chance of exceeding the median rainfall



Source: Australian Bureau of Meteorology

February MLA & AWI wool and sheepmeat survey results

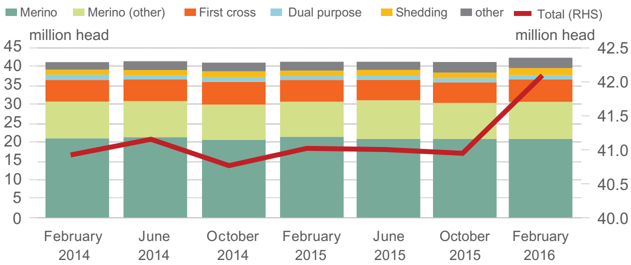
In a surprising result, the MLA and AWI wool and sheepmeat survey indicates that, as at 29 February 2016, the Australian breeding ewe flock lifted 3% from year-ago levels, to 42.0 million head. This has underpinned the upward revision in flock, slaughter, production and exports, especially in 2016 and 2017.

The rise in the national breeding ewe flock was largely driven by a 5% increase in NSW (15.5 million head) – particularly across northern NSW and the Monaro region – although numbers in Victoria, Tasmania, WA and Queensland were also higher year-on-year.

The total number of lambs on hand declined 4% year-on-year, to 23.9 million head, attributed to 7%, 10% and 3% decreases in the number of Merino lambs (14 million head), first cross (3 million head) and shedding lambs (1.2 million head), respectively. 'Other' breeds (pure meat, second cross and composite) and dual-purpose lambs, on the other hand, increased 10% and 12% year-on-year, to 4.8 million head and 914,283 head, respectively.

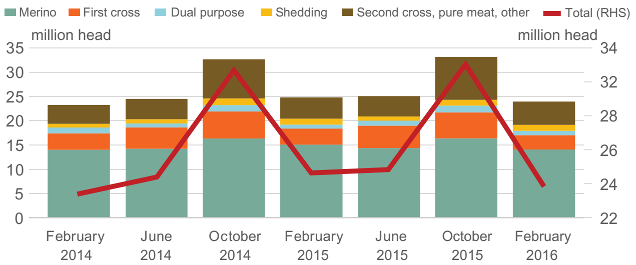
The national average Merino marking rate for the February survey period was 76% (down from 77% in February 2015), while for all other breeds the marking rate averaged 91% (down from 93% last year). It should be noted that lambs marked during the period captured by this survey is relatively low, compared with the June and October surveys.

Figure 3 Breeding ewes on hand



Source: MLA/AWI wool and sheepmeat surveys

Figure 4 Lambs on hand



Source: MLA/AWI wool and sheepmeat surveys

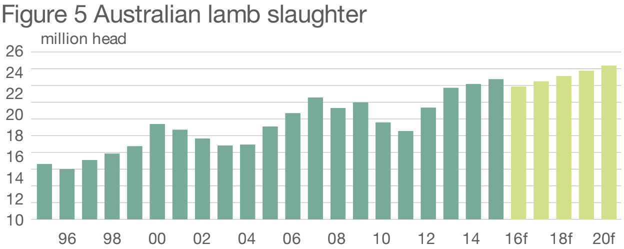
Lamb production and slaughter

After a faster than expected start to the year, Australian lamb slaughter has been revised 3% higher from the December forecast, to 22 million head – but still 3% below the 2015 record high. As a result of the higher throughput in the first quarter, tighter availability is anticipated during winter, before new season supplies ramp up in the final months of the year. Victoria, SA and WA are where this is expected to be most noticeable, while parts of northern NSW and the Monaro are projected to buck the trend as a result of better seasonal conditions.

In terms of production, national average lamb carcase weights have held up surprisingly well considering the hot and dry conditions endured by most over the summer months. This is expected to be challenged, during winter, especially if there is no autumn break in the key lamb producing regions. Despite averaging slightly heavier for the year-to-date, the average carcase weight for 2016 is likely to be level with last year, at 22.2 kg/head.

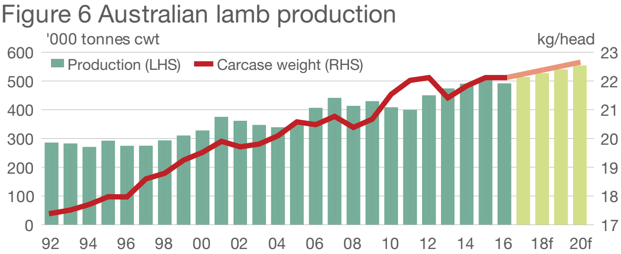
Lamb production is now forecast to decline 3% year-on-year in 2016, to 488,400 tonnes cwt.

Figure 5 Australian lamb slaughter



Source: ABS, MLA forecasts f = forecast

Figure 6 Australian lamb production



Source: DA, MLA forecasts f = forecast

Mutton production and slaughter

Australian sheep slaughter for 2016 has also been revised higher than the initial December forecast, to 7.8 million head – still 8% lower than the previous year. The MLA and AWI wool and sheepmeat February survey suggests that the number of breeding ewes on hand was 3% higher year-on-year – with increases reported across all states except in SA.

The national average sheep carcase weight has been steadily increasing over the past decade, largely due to advancing genetics and ewe management programs, and 2016 is no exception. Despite tough seasonal conditions across many of the key producing regions over summer, the Australian sheep carcase weight is forecast to average 23.7kg/head this year.

With more sheep to be processed than initially forecast, along with a slight lift in the average carcase weight, Australian mutton production for 2016 has also been revised higher, to 185,000 tonnes cwt – although this remains 8% below 2015.

Figure 7 Australian sheep slaughter

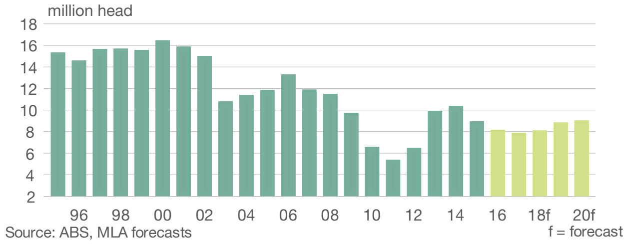
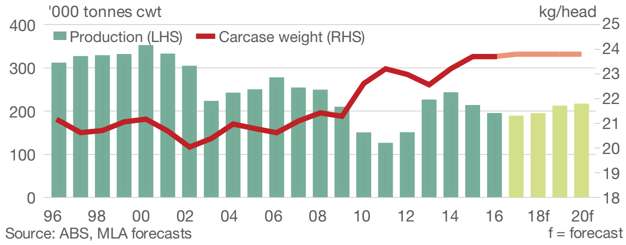


Figure 8 Australian mutton production



Trade environment

Australian lamb exports in 2016 are forecast to be fairly steady with the past two years, at 235,000 tonnes swt, before gradually growing with production to 280,000 tonnes swt by 2020.

A particularly interesting dynamic occurring in the lamb industry is generated by the demand for light lambs to be exported as whole carcases. Using an estimated 16kg lamb carcase weight, the number of lambs processed in 2015 for the trade was 3.3 million head, or 14.4% of the national kill. There was a significant rise in the proportion of the kill for this purpose in 2012, jumping from 6.3% to 10.7%. Since 2013, the annual total has hovered around 14%.

Across the states, the proportion of the lamb kill used for whole carcase exports varies considerably. In Victoria, 24% of lambs processed for the past three years contributed to the trade, while in WA, 19% were exported as full carcase in 2015. So far in 2016 this has actually increased to 22%. NSW is the only other noteworthy state contributing to the bagged lamb trade, where 4-5% of the lambs processed have contributed for the past five years.

Considering the majority (91%) of lamb carcase shipments were destined for the Middle East over the past five years, these trends highlight the growing influence of that region on, and importance to, the Australian lamb industry.

Across other markets, lamb sales to the US in the lead up to Easter were fairly strong (early Easter this year), but it will be worth monitoring how demand holds up through spring and into early summer. One indication is that cold storage levels dropped significantly in February, a good sign given exports from Australia and NZ appear to have started the year strongly.

Lamb shipments to China so far this year are slightly ahead of year-ago levels, but at the same time mutton exports have been sluggish. The Chinese sheepmeat market reportedly remains sluggish as the result of ongoing high stocks.

Mutton exports are on track to decline 11% year-on-year to 135,000 tonnes swt, following suit with production, while live export forecasts remain steady at 2.1 million head.

Figure 9 Australian lamb exports

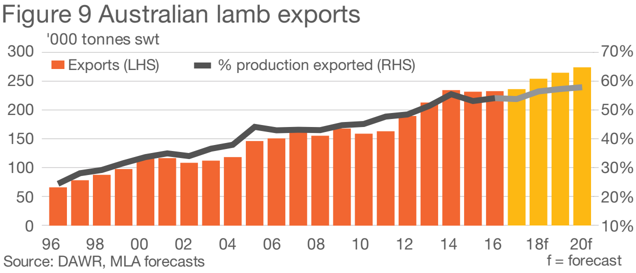
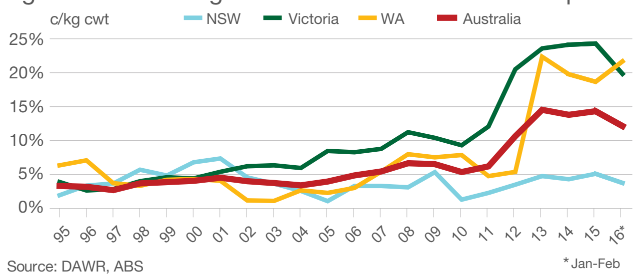


Figure 10 Percentage of lambs killed for carcase exports



Sheep and lamb prices

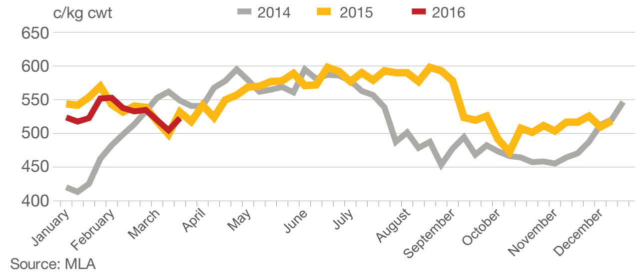
Australian lamb prices have followed a very similar trajectory to last year, and the national trade lamb indicator averaged 517¢/kg cwt in March - steady year-on-year.

Historically there has been a strong relationship (83% correlation) between the average export unit value and the national trade lamb indicator. The difference between the two usually ranges from $1 to $2/kg, with the wider gap (nearer $2/kg) often the result of low lamb prices, while a closer gap (nearer $1/kg) is when lamb prices are strong. The most recent data (reported by ABS) suggests that the difference was $1.75/kg in January, implying there may be some upward potential in lamb prices during the autumn months. This also coincides with the traditional autumn rise in lamb prices. However, the seasonal rise this year will be tested by the A$, which has been trending dearer over the past few months, rising from 71US¢ at the beginning of the year, to 76US¢ in March. Additionally, the hot and dry conditions across the key supply regions will continue to wither restocker interest if the positive April to June rainfall forecast does not come to fruition.

A significant factor to be mindful of is New Zealand (NZ) lamb production, which for the season-to-date is steady year-on-year, but forecast by Beef + Lamb NZ to be lower by season's end. This implies competitive pressures from NZ will alleviate as the year progresses.

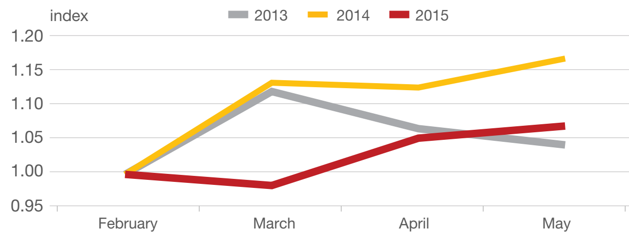
Last year, the national trade lamb indicator increased 85¢/kg cwt over the winter months. Despite having followed the same path for the year-to-date, and even though tighter supplies in Australia and NZ are anticipated as the year progresses, the market could be tested throughout autumn if the A$ remains strong and seasonal conditions remain poor.

Figure 11 Trade lamb prices



Source: MLA

Figure 12 Autumnal trade lamb movements



Source: MLA estimates

* February = 100

Situation and outlook for the Australian sheep industry

	2011	2012	2013	2014	2015	*2016f*	*% change on 2015f*	*2017f*	*2018f*	*2019f*	*2020*	*% change on 2016f*
Sheep & lamb numbers ('000 head)												
at June 30	73,099	74,722	75,548	72,612	*69,800*	*70,000*		*71,000*	*72,000*	*73,000*	*73,000*	*4.3%*
percentage change	-5.8%	2.2%	-0.9%	-3.2%	*-3.9%*	*0.3%*		*1.4%*	*1.4%*	*2.8%*		
Slaughterings ('000 head)												
sheep	4,933	6,063	9,614	10,086	*8,610*	*7,800*	*-9.4%*	*7,500*	*7,750*	*8,500*	*8,700*	*11.5%*
lamb	17,793	20,009	21,886	22,251	*22,727*	*22,000*	*-3.2%*	*22,500*	*23,000*	*23,500*	*24,000*	*9.1%*
Avg carcase weight (kg)												
sheep	23.2	23.0	22.5	23.2	*23.7*	*23.7*	*0.0%*	*23.8*	*23.8*	*23.8*	*23.8*	*0.4%*
lamb	22.1	22.2	21.5	21.9	*22.2*	*22.2*	*0.0%*	*22.3*	*22.4*	*22.5*	*22.6*	*1.8%*
Production ('000 tonnes carcase weight)												
mutton	114	140	217	234	*204*	*185*	*-9.3%*	*179*	*185*	*202*	*207*	*11.9%*
lamb	393	443	470	487	*505*	*488*	*-3.4%*	*502*	*515*	*529*	*542*	*11.1%*
Sheep exports ('000 head)	2458	2,279	1,973	2,300	*2,000*	2,100	*5.0%*	2,100	2,100	2,100	2,100	*0.0%*
Exports ('000 tonnes)*												
mutton shipped weight	82	107	172	186	*151*	*135*	*-10.6%*	*126*	*131*	*145*	*150*	*11.1%*
carcase weight	108	134	206	223	*181*	*176*	*-2.8%*	*164*	*170*	*189*	*195*	*10.8%*
lamb shipped weight	160	189	214	237	*234*	*235*	*0.4%*	*240*	*259*	*270*	*280*	*19.1%*
carcase weight	193	222	250	280	*277*	*274*	*-1.1%*	*280*	*302*	*315*	*326*	*19.0%*
Domestic utilisation ('000 tonnes carcase weight)												
mutton	6	5	10	11	*23*	*9*	*-60.9%*	*15*	*14*	*14*	*12*	*33.3%*
kg/capita	0.3	0.2	0.5	0.5	*1.0*	*0.4*	*-60.0%*	*0.6*	*0.6*	*0.5*	*0.5*	*25.0%*
lamb	200	222	220	207	*227*	*215*	*-5.3%*	*222*	*213*	*214*	*216*	*0.5%*
kg/capita	8.9	9.8	9.5	8.8	*9.6*	*8.9*	*-7.0%*	*9.0*	*9.0*	*8.5*	*8.5*	*-4.5%*

Source: ABS, DA, MLA forecasts

* excl. canned/miscellaneous

f = forecast (in italics)

Australian lamb exports ('000 tonnes swt)

	2011	2012	2013	2014	2015	% change	2015 Jan-Mar	2016 Jan-Mar
To:								
North America	39.4	42.1	45.6	53.5	58.2	17%	14.2	17.5
US	34.3	36.7	39.2	46.2	49.9	18%	12.3	15.3
- Canada	3.9	4.7	5.6	6.2	7.1	11%	1.8	1.8
- Mexico	1.2	0.8	0.8	1.0	1.2	26%	0.2	0.4
Middle East	34.9	51.8	59.8	64.2	68.4	7%	16.0	15.8
Greater China	29.6	34.6	48.9	53.0	36.1	8%	10.3	10.2
- China	21.2	29.5	39.5	38.8	31.3	-2%	8.7	9.4
- Hong Kong	6.2	3.5	7.5	10.6	1.6	41%	0.9	0.3
- Taiwan	2.1	1.6	1.8	3.6	3.2	94%	0.7	0.6
South East Asia	8.9	8.7	9.7	11.5	13.3	18%	3.3	3.4
Japan	7.4	7.7	7.7	10.1	8.0	32%	2.3	2.6
South Korea	2.7	3.0	3.2	4.8	6.3	52%	1.3	1.9
EU	13.0	12.1	11.7	14.0	10.7	20%	3.0	2.8
Other Europe	2.2	1.9	1.6	2.1	1.7	31%	0.6	0.4
Pacific	10.9	14.0	13.3	10.7	19.9	-19%	4.6	5.0
South Africa	3.2	2.0	1.8	1.4	2.9	-22%	0.4	0.8
Other Africa/Mauritius	3.4	5.7	4.4	4.8	4.1	10%	1.4	0.9
Other	4.5	5.0	6.0	6.7	4.4	11%	1.2	1.0
Total	**160.0**	**188.6**	**213.7**	**236.9**	**234.0**	**11%**	**58.6**	**62.3**

Source: DA
Pacific = PNG, New Zealand & Pacific Islands
Other Europe = Eastern Europe and Western Europe other than EU
South East Asia = Indonesia, Singapore, Philippines, Malaysia and Thailand

Australian mutton exports ('000 tonnes swt)

	2011	2012	2013	2014	2015	% change	2015 Jan-Mar	2016 Jan-Mar
To:								
Middle East	39.5	46.7	40.9	52.8	48.9	29%	15.1	14.2
Greater China	9.2	22.1	71.2	60.5	35.6	-15%	12.0	7.0
- China	5.1	16.4	57.9	50.1	28.9	-14%	10.0	5.8
- Hong Kong	0.5	0.9	6.6	2.4	0.2	-64%	0.2	0.0
- Taiwan	3.6	4.9	6.6	8.1	6.5	22%	1.8	1.1
South East Asia	9.0	11.7	19.0	25.7	25.4	35%	7.1	8.4
Japan	4.5	3.2	3.8	5.1	3.7	35%	0.8	1.8
South Korea	1.0	1.0	1.0	1.3	1.5	29%	0.4	0.6
North America	6.1	8.1	12.2	17.9	17.6	47%	4.6	5.6
- US	4.5	7.5	8.7	13.3	13.0	52%	3.9	4.1
- Mexico	0.2	0.4	2.9	3.7	3.7	28%	0.5	1.2
- Other North America	1.3	1.3	0.6	1.0	3.3	71%	0.7	1.0
EU	3.5	3.7	5.0	4.7	5.9	-5%	1.8	1.2
Other Europe	3.2	4.5	4.7	3.8	1.5	-20%	0.1	0.7
Pacific	2.0	1.0	2.5	3.3	2.7	34%	0.7	0.7
South Africa	1.9	1.3	1.2	0.9	1.3	-27%	0.4	0.5
Other Africa/Mauritius	1.6	1.6	4.8	2.2	3.6	-54%	1.0	0.9
Other	0.7	1.9	2.6	7.7	3.6	195%	0.5	0.5
Total	**82.2**	**106.7**	**172.0**	**186.0**	**150.9**	**8%**	**44.5**	**42.1**

Source: DA
Pacific = PNG, New Zealand & Pacific Islands
Other North America = Canada and the Caribbean
Other Europe = CIS, Eastern Europe and Western Europe other than EU
South East Asia = Indonesia, Singapore, Philippines, Malaysia and Thailand