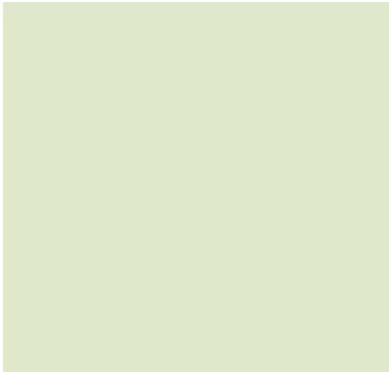
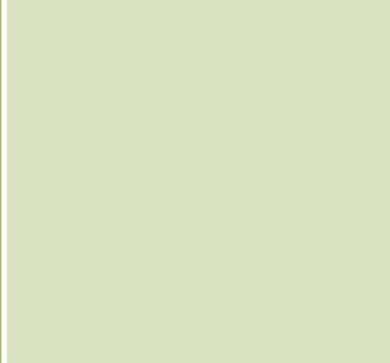
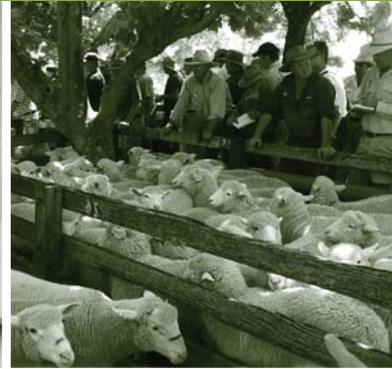


2012



Australian sheep
Industry projections
Mid-year update

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Australian sheep **Industry projections**

2012

Mid-year update

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Mid-year sheep update

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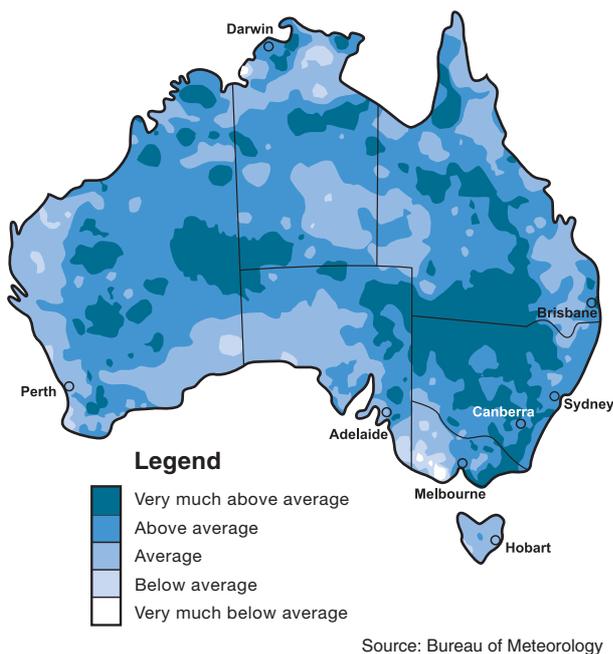
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1. Overview

The seasonal and price momentum that has propelled the expansion in the Australian lamb and sheep industry during the past two years has eased during the first half of 2012.

On some levels, this price fall and the toned-down price outlook for the Australian lamb and sheep industry for 2012 and 2013 should not come as a surprise, as producer prices throughout the previous two years were both unprecedented and largely unsustainable – driven by lower Australian and New Zealand supplies and restocker demand, fuelled by excellent seasons in most areas of Australia.

Figure 1
Australian rainfall analysis –
1 July 2011 to 30 June 2012

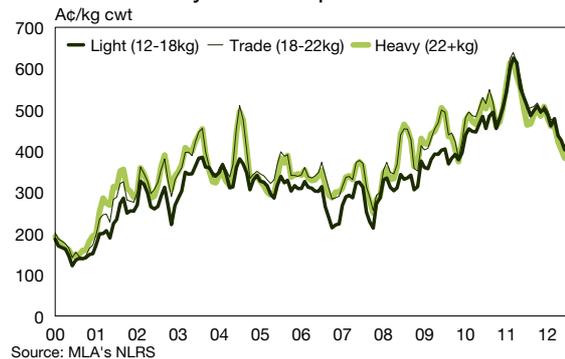


On the demand side, the high A\$ continues to be a concern, with its impact on returns for Australian exporters accentuated by weaker consumer demand in some major markets and a 2012 rebound in competition from New Zealand product.

Despite the lamb price decline, overall returns for slaughter lamb producers in 2012 and 2013 should continue to be favourable, underpinned by good prices and higher turnoff rates.

Any expectation for lamb prices in 2012 to replicate the record levels of the first half of 2011 were quickly dashed, as it became clear early in the year that lamb supply in 2012 was going to be up significantly on the very wet years of 2010 and 2011. Supported by the very high lambing rates in 2010 and 2011, producers pushed additional lambs onto the market for 2012.

Figure 2
Australian saleyard lamb prices



While not expected to reach the very high levels registered through 2010-11, lambing rates in 2011-12 are estimated to have again been favourable overall – leading to a forecast 1.5 million head, or 8.6% jump in lamb slaughter in 2012. This will continue to see turnoff rates rise into 2013, albeit at a slower rate than in 2012.

Additionally, with breeding numbers having improved after two years of rebuilding, both the numbers of lambs on the ground, combined with a reduced incentive to retain ewe lambs should boost slaughter levels over the medium term.

One of the main market signals to come through in 2012 has been the desire from processors for mid-weight lambs, with the additional supplies available enabling processors to resist paying premiums for extra heavy lambs. Combining this with the likelihood of a drier year in 2012-13, carcass weight averages are forecast to decline from the record highs of 2011, falling to 22kg/head in 2012, and averaging below 22kg/head in subsequent years.

This will provide only a minor offset to the impact of rising slaughter rates on total lamb production – forecast to rise 7.6% in 2012 and 21% by 2016.

Mid-year sheepmeat update

On the demand side of the market, while the fundamentals for the lamb industry continue to be bright, there are several hurdles confronting the industry in the short term. This includes the quick recovery in competition from New Zealand and compounding fallout from a sluggish EU market, consumers in many markets are becoming increasingly price conscious and the larger macro-economic issues of the high A\$ and volatile global economic conditions.

With higher production finally enabling the Australian industry to fulfil some of the recent growth in global and local demand for lamb, both export prices and Australian retail lamb prices are under downwards pressure in 2012 – impacting (along with lower skin prices) producer prices for lambs.

Overall Australian lamb exports are tipped to increase 11.2% in 2012, to 178,000 tonnes swt, and another 3% in 2013, but export value looks set to remain stable or decline modestly, as subdued global demand and New Zealand competition impacts on the willingness and ability of markets to pay.

The influence of the New Zealand industry upon Australian lamb export competitiveness in recent years has been substantial. Tight supplies from both nations in 2011 helped to underpin historically high export returns, and in turn, push lamb prices to record levels (despite appreciating currencies).

However, in 2012, slow trading conditions with the EU is having an accentuated impact on Australian exporters, as New Zealand product is redirected into the major lamb buying markets of the Middle East and China. While not reflected in volumes, the returns for Australian exporters have been impacted significantly.

A combination of lower lamb, sheep and wool prices throughout 2012; revitalised grain prices and a drier seasonal outlook for 2012-13 is expected to take some of the speed out of the Australian flock expansion.

The Australian sheep flock is estimated to have reached 75 million head at 30 June 2012, up over 4 million or 6% on the low in 2010 – despite a significant downwards revision of flock numbers in the final ABS Census results for 2011 and further flock declines in WA.

While further flock expansion is expected in coming years, it will be at a slower rate than in the last two years or those forecast previously, due to expected drier seasonal conditions, falls in lamb, sheep, wool and skin prices and rising crop returns.

For the adult sheep market, historically tight slaughter levels and mutton production in 2012 and 2013 should assist in underpinning returns, albeit below those seen throughout the major flock rebuilding years of 2010 and 2011. Additionally, the forecast for softer restocker demand, and a combination of larger breeding ewe flocks and drier seasonal outlook will also impact returns for sheep at the saleyards.

Australian sheep slaughter for 2012 is forecast to reach 5.5 million head, expanding by another 1 million head in 2013 and 4 million or over 80% by 2016 (on the 2011 low).

The outlook for the live sheep trade continues to be framed by the roll-out of the new regulatory requirements, combined with a 60-year low sheep flock in WA. Exports for 2012 are tipped to reach 2.6 million head, up 6% year-on-year, increasing to 2.8 million head in 2013 – still low relative to the last decade.

Key assumptions

As part of MLA's annual projections, several "key assumptions" need to be outlined. While many of these assumptions are outside of the expertise of MLA, they are key factors that must be considered in the delivery of an outlook for the industry. Assumptions are compiled from a range of sources.

- Seasonal conditions will become drier throughout 2012-13. This is based upon the prevailing outlook as at the end of July 2012, with many forecasts predicting the return of El Niño conditions for the year ahead. El Niño years are normally associated with below average rainfall. However, it must be pointed out, that this is not an assumption for a return to drought conditions – just that conditions will be drier than in the preceding two years.
- For 2012, it is assumed that the A\$ will trade between 95-110US¢.
- There are no major foreseeable alterations to market access conditions for Australian sheepmeat over the coming five years.

2. Lamb prices and income

The financial performance of Australian slaughter lamb producers remained favourable in the past fiscal year, despite farm cash incomes falling by 11% on the previous year. According to the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), *financial performance of slaughter lamb producing farms 2009-10 to 2011-12*, average farm cash incomes for slaughter lamb producers was an estimated \$170,200 per farm – down from \$191,270 per farm in 2010-11.

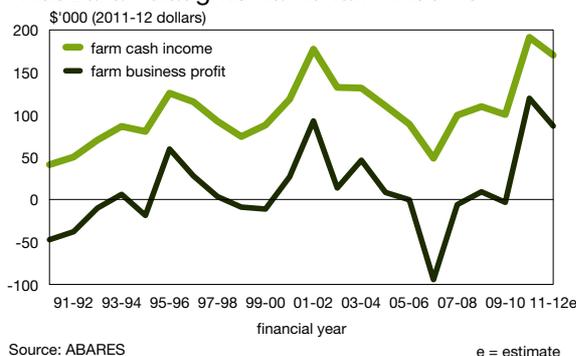
Part of the estimated decline in farm cash incomes for 2011-12 was due to the lower average lamb prices. For the past fiscal year, average lamb prices declined 10-14% on the previous year, with trade lambs (18-22kg cwt) averaging 479¢/kg cwt in 2011-12, compared with the record high 550¢/kg cwt for 2010-11. Partially offsetting the decline in prices for 2011-12 has been an estimated 6% increase in turnoff for the same period.

Also helping to underpin only an 11% decline in average farm cash incomes in 2011-12 was a decline in receipts for lamb and sheep purchases, with anecdotal evidence suggesting that producers preferred to rebuild numbers internally, as opposed to purchasing stock in.

While detailed more extensively in the ABARES document, it is interesting to note that the estimated financial performance of specialist¹ slaughter lamb producers in 2011-12 improved compared with the previous year – up 17%, to average \$118,700 per farm.

A review of lamb prices for the first seven months of 2012, compared with the same period in 2011, revealed the impact of an increase in supplies and deterioration in demand in export markets.

Figure 3
Australian slaughter lamb farm income

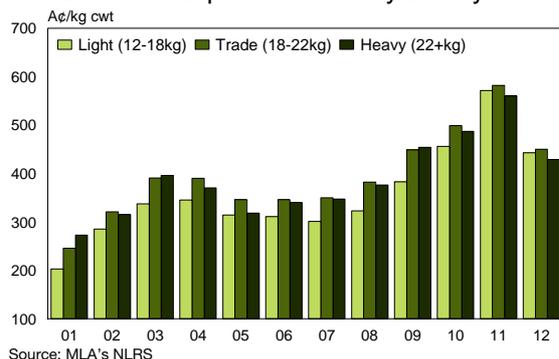


¹ Slaughter lamb producing farms that sold greater than 200 lambs per year for slaughter are classified as specialist lamb producers if they earned, on average, more than 20% of farm receipts from the sale of lambs for slaughter in the three-year period ending in the current year.

Mid-year sheepmeat update

For January to July 2012, saleyards lamb prices averaged 22-26% lower than the previous year, and also below the same period in 2010. During this period, lamb slaughter has increased an estimated 15%, and while the decline has been against record prices in 2011, the additional numbers have had a major influence.

Figure 4
Australian lamb prices - January to July



Given the impact of the increased lamb supply in 2012, lamb prices are anticipated to remain below 2011 levels for the remainder of the year – especially if the market sees a surge in lambs (as anticipated) in the final three months of the year.

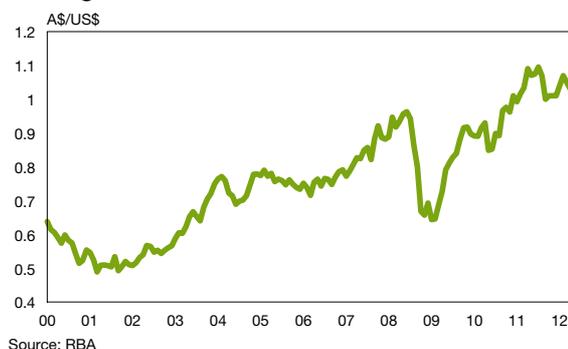
Adding to the reduction in lamb prices in 2012 has been a deterioration in export demand – largely hinged upon the very high A\$ and weaker consumer sentiment in many advanced markets, most notably in Europe. Indeed, while Australian lamb has only a small footprint in the European market, it is the “fall-out” from very sluggish EU demand and the redirection of New Zealand lamb into other markets which has increased the competition against Australian lamb in other major markets.

The redirection of New Zealand lamb away from the EU, and towards China and the Middle East has impacted returns for Australian exporters, which in turn has been reflected in the price exporters and processors are willing to pay for lambs at the saleyards. Accentuating the impact of a slow EU market for New Zealand exporters is a record high New Zealand dollar against the Euro, along with an increase in New Zealand lamb production for the first five months of 2012.

However, the demand downturn experienced for the first half of 2012 is forecast to taper as the year progresses, both due to lower New Zealand lamb output and sustained demand from the US, Middle East and China. Additionally, any improvement in EU demand would boost global demand, and help to attract New Zealand lamb away from markets where it competes against Australian product.

Indeed, the demand fundamentals for Australian lamb remain positive, as global demand improves, with Australia the only major lamb producing nation with an expanding production base. However, as always, the A\$ will remain crucial.

Figure 5
A\$ against US\$



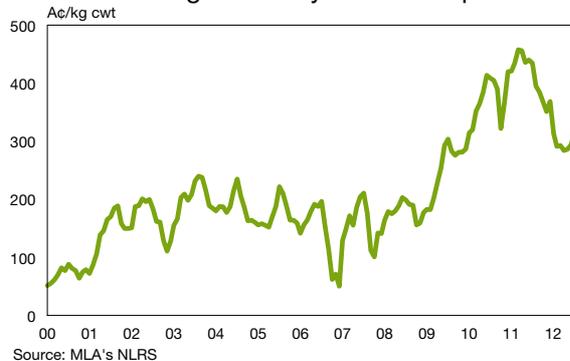
Partially countering the influence of expanding export demand on Australian lamb prices over the medium term is the growth forecast in lamb production and supplies.

In summary, while the prices received for lambs in late 2012 and into 2013 are expected to remain well below the unprecedented levels seen during the first half of 2011, they are anticipated to remain favourable. These favourable prices, combined with additional lambs for sale in the medium term, should help to underpin positive returns for Australian lamb producers over the next five years.

3. Sheep prices

The first half of 2012 has seen a significant decline in the weighted average mutton price, as reported by MLA's National Livestock Reporting Service (NLRS). However, any analysis of the decline in prices for 2012 must take into consideration the record high mutton prices in 2011 and historically high prices from 2010. For the 2011 calendar year, the national weighted average mutton price averaged 413¢/kg cwt – 11% above the previous year and 50% above the average for the previous five years (2006 – 2010).

Figure 6
Australian weighted saleyard mutton price



For the first half of 2012, mutton prices averaged 295¢/kg cwt – down 33% on the corresponding period in 2011. The combination of both higher lamb and mutton supplies and an easing in restocker intentions has contributed to the lower prices received in 2012. Additionally, while the supply of mutton into export markets remained very tight, the slowing global demand and higher A\$ also contributed to the decline in prices.

For 2012, it would appear that all major buying sectors have been weaker, including from restockers, processors and live export. For restockers, the patchier season across key sheep producing regions, especially in Victoria, has impacted demand, accentuated by many producers already having larger ewe flocks than in previous years.

For processors, the high A\$, subdued demand in some markets and the abundant supply of lambs at lower prices reportedly influenced demand for mutton. For the first five months of 2012, national sheep slaughter increased 9% year-on-year, while lamb slaughter jumped 14% for the same period.

For live exporters, demand has been more subdued following the rolling out of the Export Supply Chain Assurance System (ESCAS). While the new system should sustain long-term demand into key Middle Eastern markets for Australian live sheep, the cost and restrictions of the system are impacting sheep prices in 2012.

With steady turnoff expected for the remainder of 2012 and the growth in the sheep flock moderate over the medium term, sheep prices are expected to remain favourable on a historical basis, but are very unlikely to reach the levels seen throughout 2011. With a larger sheep and breeding ewe flock in 2012, restocker demand is unlikely to fuel the sharp price increases seen in 2010 and 2011 – even if very wet conditions returned to the eastern states (contrary to the current the BOM predictions).

The only exception to this price outlook could be in WA, with breeding ewes likely to become expensive if a widespread break in conditions is registered in late 2012 or throughout 2013.

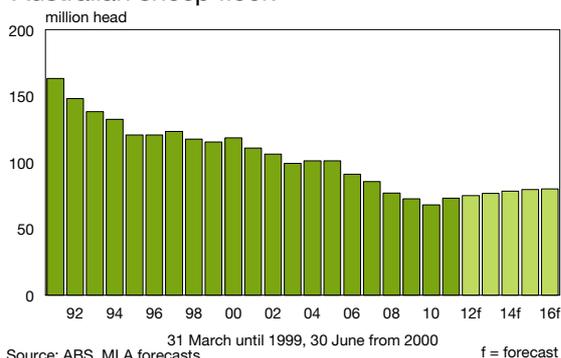
However, it should also be noted that the medium term prospects of the wool and cropping industries will also have a big impact on the supply and price outlook for mutton. Indeed, the decline in wool and lamb prices and jump in grain prices during the first half of 2012 has impacted the attractiveness of sheep enterprises – reducing the incentive for producers to purchase additional sheep.

4. The sheep flock and sheep supply

The Australian sheep flock is expected to continue its expansion in coming years, albeit at a decreasing rate through to 2016.

The starting point for these forecasts is the final 2011 ABS census results, with the Australian sheep flock now measured at 73.098 million head. Given the robustness of the 2011 ABS census results, along with the more detailed breakdown of the flock structure, previous annual flock numbers have been reviewed and revised where necessary². The initial flock estimate at 30 June 2011, released in late November 2011, was 74.28 million head – with the final result for the year (on the back of the census results) a downwards revision of 1.185 million head.

Figure 7
Australian sheep flock



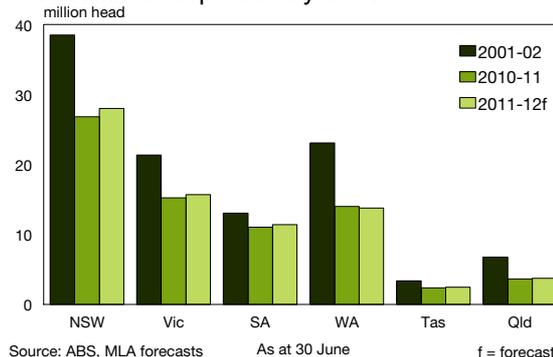
Given the flock of 73.098 million head as at 30 June 2011, the continuation of favourable seasonal conditions, the historically low sheep flock and high lamb marking rates in 2010-11, the Australian sheep flock is estimated to have expanded 2.6% to 30 June 2012, reaching 75 million head.

Largely reflecting the positive seasonal conditions in the east and in contrast the tougher conditions in WA, the growth in the national flock during the past two years has been dominated by NSW, Victoria and SA. Utilising the final 2011 ABS census results, and estimates for growth in the year to June 2012, NSW flock numbers are tipped to have increased 4.4% year-on-year, to 28 million head (as at 30 June 2012) – the largest NSW flock since 2007.

Of all the key sheep producing regions in eastern Australia for 2011-12, seasonal conditions had probably been the most consistent in NSW, with the continuation of above average rainfall – reflected in the fastest expected flock growth rate of any state for the past year.

Like NSW, flocks in both Victoria (15.75 million head) and SA are estimated to have expanded in the previous year, albeit at a slightly slower rate than in NSW. As at 30 June 2012, the Victorian sheep flock is estimated to have increased 3.5% year-on-year, 15.7 million head. Suppressing the flock expansion rate in Victoria during 2011-12 was below average rains across western districts of Victoria – which is one of the regions of Australia with the highest number of sheep (estimated to be running over half the Victorian flock). A dry finish to 2011, and a poor autumn and start to winter in 2012 have reportedly impacted lamb marking rates significantly, along with producer's intentions to increase ewe numbers. It should also be noted, that wet conditions in the central and eastern parts of the state will have maintained the momentum behind flock expansion in these regions – although they do have much smaller overall flocks than in the western half of the state.

Figure 8
Australian sheep flock by state



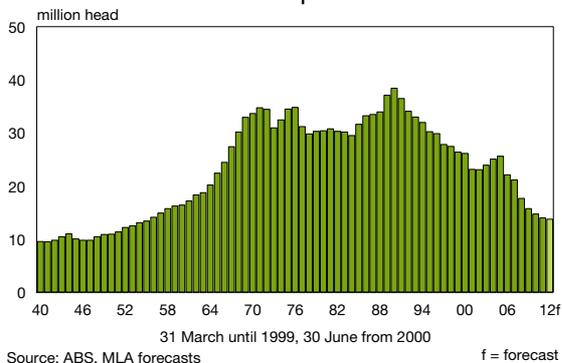
The drier conditions that impacted western Victoria in 2011-12, also spread into the eastern regions of SA, particularly across the south east. For the year ending 30 June 2012, the SA sheep flock is estimated to have increased 3.6% year-on-year, to 11.4 million head.

² ABS statistics indicated a 7.4% growth in the national sheep flock between 30 June 2010 (68.085 million head – Agricultural Survey) and 30 June 2011 (73.089 million head – 2011 Agricultural Census). This appears to be an over-estimate of the growth between the two years, suggesting that the ABS survey estimate for 2010 was too low. MLA analysis of flock turnover and productivity indicates that the actual flock as at 30 June 2010 was probably around 70.8 million head – at the high end of the ABS statistical error from the 2010 survey. This gives an annual growth of 3.2% between 2010 and 2011.

Mid-year sheepmeat update

In contrast to the eastern states, the persistence of below average rainfall in WA continued to drive the western flock lower, tipped to have fallen another 2% for the year ending 30 June 2012, to 13.7 million head. While there was some hope provided by welcome falls at periods during the past twelve months, a lack of crucial follow-up falls continued to place sheep producers in a bind. At an estimated 13.7 million head for 30 June 2012, the WA sheep flock is at its lowest level since 1954, and has fallen by over 10 million head since 2000.

Figure 9
Western Australian sheep flock



As has been the case for the eastern states since January 2010, sustained above average seasonal conditions for WA will be required for the flock decline to be halted and turned around. Adding to this issue is the recently brighter outlook for cropping, which could continue to place pressure upon the WA flock and shift focus towards further expanding cropping – one of the key reasons, along with drought and low wool returns, that has driven the rapid decline in the WA flock over the past decade.

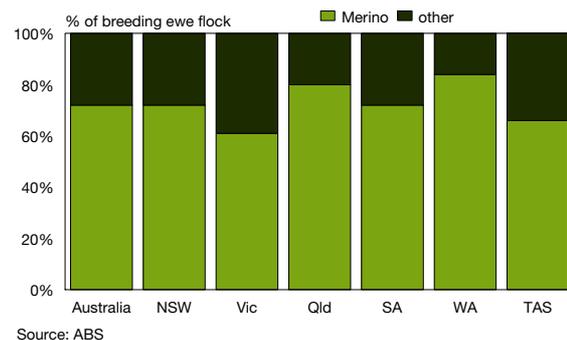
Beyond 2013, the Australian sheep flock is forecast to expand, but at a decreasing rate. Given the lower starting point for June 2011 (based on the census), feedback from the June 2012 MLA and AWI sheepmeat and wool survey and possibility for a drier season in 2012-13, the flock is expected to continue growing, but not reaching the levels forecast in the January edition of the projections.

By 2016, the Australian flock is forecast to reach 80 million head – which would be a 9.4% increase since the census results in June 2011 and 9.2 million head above the 90-year low at June 2010.

4.1 Breeding ewes

One feature of the 30 June 2011 ABS census results was a clearer breakdown of the national ewe flock (breeding ewes one year and older) – which stood at 41.822 million head. Making up the remainder of the national flock at that point in time was 21.758 million head marked lambs under one year, with another 9.519 million head falling into the “other sheep” category (wethers and rams).

Figure 10
Australian breeding ewe composition 2010-11



However, of the 41.822 million head of breeding ewes as at 30 June 2011, Merino ewes made up 30.179 million head, or 72% of the total breeding ewe flock and 41.2% of the entire national flock – reflecting its dual role as the foundation of the fine wool industry and as the ewe base for the first and second cross specialist meat lamb industry³. The remaining 11.642 million head was made up of all other breeding ewes.

When the ewe numbers are broken down on a state-by-state basis, the largest Merino breeding ewe flock (as a percentage of the total breeding ewe flock) is based in WA, at 84%.

³ Traditionally, the meat lamb industry in Australia has been based on a first cross Merino ewe/Border leister ram cross ewe, which is then mated with a meat-breed ram, principally Dorset or Suffolk. Increasingly, Merino ewes are also being crossed directly with meat breed rams to produce first cross meat lambs.

Mid-year sheepmeat update

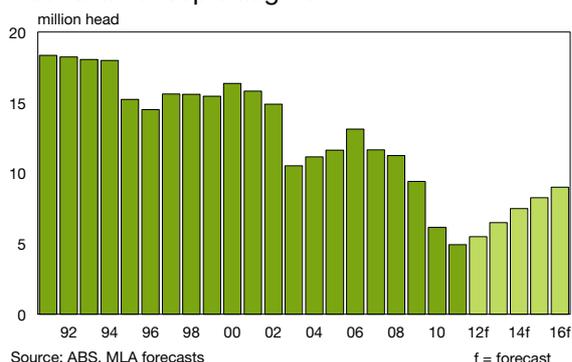
For Victoria, the Merino percentage of breeding ewes as at 30 June 2011 was 61%, while Tasmania was at 66%. The percentage of Merino ewes was 72% in NSW, the largest sheep state, while SA was also at 72%. In Queensland, the Merino breeding ewe percentage was 80%, at 1.9 million head.

Given the growth in the flock for the past year, the comparative low sheep slaughter rate for 2011-12 and indication that producers intended to maintain flock expansion (albeit at a forecast slower rate), the national breeding ewe numbers as at 30 June 2012 is estimated to have expanded 3%, to around 43.1 million head. Accentuating this growth in the breeding ewe flock as at 30 June 2012 is the aging of ewe lambs from the previous year, which would have been counted in lambs on hand in June 2011.

4.2 Sheep slaughter

2011 sheep slaughter was the lowest since recent ABS statistics began in 1970, at 4.933 million head, slaughter in 2012 only had one-way to go. While still historically low compared with all but 2011, sheep slaughter for 2012 is forecast to reach 5.5 million head – an increase of 11.5% year-on-year.

Figure 11
Australian sheep slaughter



The increase for 2012 reflects both the 9% rise in throughput for the first five months of the year, along with the expectation for producers to sustain higher year-on-year turnoff for the remainder of the year – based on the forecast of drier conditions and an easing in producer intentions to retain breeding ewes.

One of the key results from the June 2012 MLA and AWI sheepmeat and wool survey is that the intention to continue rebuilding flocks has slowed. While results vary from region-to-region and state-to-state, the survey results are most likely reflective of the lower lamb and wool prices so far in 2012, which has brought returns from sheep enterprises back closer to other farm options. In particular, the recent brighter grain outlook may have influenced producer intentions to slow their flock expansion.

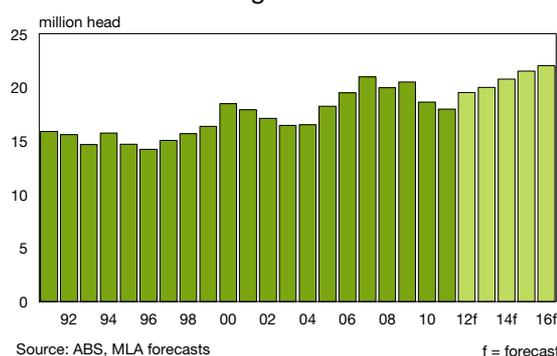
The overall results indicate that producers remain in a rebuilding phase, though some of the rapid momentum of the previous two years has been eroded. Following an 11% increase in 2012, to 5.5 million head, slaughter rates are forecast to rise by approximately 1 million head in the following years, reaching around 7.5 million head in 2014. By 2016, sheep slaughter rates are expected to be approaching 9 million head, over 80% higher than the low in 2011.

5. Lamb slaughter

After a sharp fall in lamb slaughter during 2011, totalling 17.952 million head (the lowest annual total since 2004) turnoff rates have increased sharply during the first half of 2012.

Reflecting the higher-than-expected slaughter rate for the first half of the year, total lamb slaughter for 2012 is forecast to reach 19.5 million head – up 8.6% on the previous year. For the first five months of 2012, lamb slaughter increased by almost 1 million head on the corresponding period in 2011 – albeit this was a historically low level.

Figure 12
Australian lamb slaughter



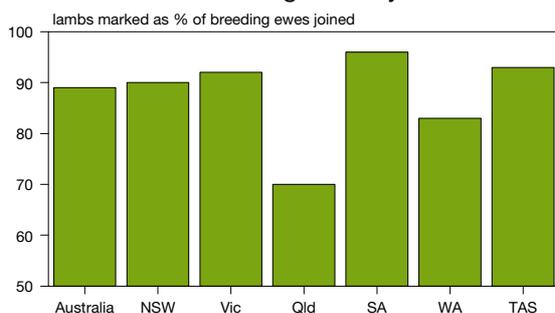
Mid-year sheepmeat update

With over two years of above average rainfall in almost all the key sheep and lamb producing regions of the eastern states providing significant flock rebuilding, lamb turnoff numbers were always expected to increase as 2012 progressed. Underpinning the increase in slaughter to 19.5 million head is a larger breeding ewe base, along with higher average lambing percentages throughout 2010 and 2011, which has delivered both additional breeding ewes and additional lambs for market – many entering the market in the first few months of the year.

According to the final ABS census figures for the year ending 30 June 2011 (released 29 June 2012); the number of lambs marked totalled 33.289 million head – up 4%, or 1.388 million head year-on-year. This gave a marking rate of 89% for 2010-11, which is up between 5-10% on the previous five years and easily the highest percentage for the past two decades.

According to the census results, lambing rates in 2010-11 in NSW, Victoria, SA and Tasmania exceeded 90%, while the continued drought in WA saw their rate at 83%.

Figure 13
Australian lamb marking rates by state 2010-11



Source: ABS

While some of the additional lambs dropped in the 2010-11 year would have been killed prior to the start of 2012, there were also many that were held for breeding, while some also entered the slaughter market in early 2012.

Additionally, the favourable seasonal conditions that underpinned a surge in the lambing rate for 2010-11 continued across many key lamb producing regions in 2011-12, probably ensuring another above-average marking rate for the past year.

Given the requirement to market lambs before they become hoggets (and are significantly discounted), the previous year's marking rate provides an excellent gauge to the number of lambs that could enter the slaughter market in the following year. This is clearly evident for 2012, given the surge in turnoff and slaughter rates, and expectation for additional numbers in 2013.

The very low slaughter rate in 2011, at just below 18 million head, plus survey and anecdotal evidence, suggest that many producers chose to retain additional ewe lambs. The combination of a growing breeding ewe flock in past years, and this added retention of ewe lambs for breeding purposes since July 2010, is finally coming to bear upon turnoff rates in 2012 and beyond. Accentuating these factors was the very favourable season conditions, which allowed ewe lambs to reach joining weights relatively quickly, along with the ample pasture supplies which kept older breeding ewes in good conditions for joining.

The June 2012 MLA and AWI sheepmeat and wool producer survey indicated that at the end of June there was an estimated 24.6 million lambs on hand, which was 1.6 million head below the responses for the previous year (26.2 million head) – all in the two oldest categories of lambs on hand, between 5-9 months of age (down by 500,000 head) and older than 9 months of age (down by 1.1 million head).

However, the larger number of lambs on hand for the June 2011 survey response, compared with the most recent 2012 survey, was boosted by the high number of ewe lambs to be retained. This is reinforced by the larger number of older lambs on hand in 2011, compared with 2012, most of which would have been retained for breeding and joined in 2011-12. This, in turn, is supported by the higher intention of producers to rebuild flocks in 2011, compared with the 2012 result.

This suggests that, while there were less lambs on hand at the end of June 2012 than the previous year, more are likely to be destined for slaughter rather than held for breeding.

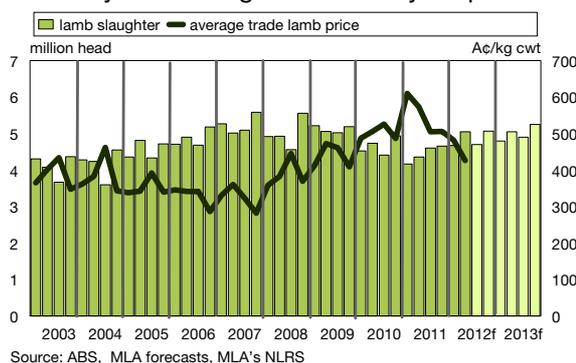
Mid-year sheepmeat update

One of the main factors influencing the higher forecast 2012 turnoff rate of 19.5 million head, and 2013 increase, is an expected surge in lamb numbers during the final three months of the year and into early 2013. Based on feedback from both the June 2012 MLA and AWI sheepmeat and wool survey and the MLA convened Australian Lamb Forecasting Advisory Committee (LFAC) July 2012 workshop, a very patchy season across key producing regions is expected to see the bulk of the new season lambs entering the market later than in previous years. The range from extremely wet in some regions, to a very dry autumn and winter in others, has impacted growth rates and left producers with a longer period required to get lambs to adequate specifications.

Additionally, a below average rainfall outlook from the BOM for August to October could create issues for regions that have had below average falls so far in 2012. The concern associated with this is the possibility that new season lambs in northern markets (which have been wetter than average) will be later, pushing them closer to the main marketing times for western Victoria (which has been drier), which could see a large increase in the number of lambs yarded across the eastern states, especially in October and November. While there are many possible ways this scenario could be avoided, with the season playing a major role, this was a clear concern expressed at the LFAC.

Further complicating the anticipated surge in lambs for the final three months of 2012 is the increasingly favourable crop prospects for Australian producers, which is a result of the rising prices. This could constrict the option of putting lambs onto increasingly valuable winter cereal crops. Additionally, a rise in canola production across many regions may put pressure upon lamb turnoff if the end of the year is drier (as forecast by the BOM).

Figure 14
Quarterly lamb slaughter and saleyard prices

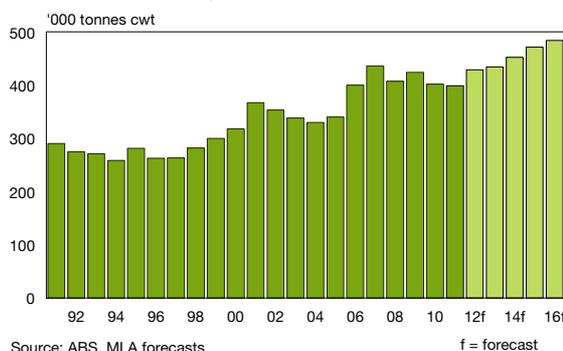


Beyond 2012, lamb slaughter is expected to increase further, largely the consequence of a growing breeding ewe flock and assumed favourable lambing rates (largely due to the shift in the flock demographics over the past decade from wool production to meat production). Anticipated to end 2012 at 19.5 million head, lamb slaughter in 2013 is forecast to reach 20 million head, expanding to 22 million head by 2016.

6. Lamb production

With lamb slaughter rates forecast to increase in 2012 and beyond, lamb production will increase, albeit without the additional momentum of climbing carcase weights. For 2012, Australian lamb production is forecast to reach 429,000 tonnes cwt – up 7.6% on the previous year and the second highest annual total on record behind 2007.

Figure 15
Australian lamb production



Mid-year sheepmeat update

For the first five months of 2012, Australian lamb production had increased 15% year-on-year, totalling 182,000 tonnes cwt, with average weights tracking at 22.65kg/head. Interestingly, in 2011 the average carcase weight for the full year was 22.1kg/head – but after the first five months of the year were averaging 22.6 kg/head. Thus, the forecast for 2012 weights to average 22kg/head is within reason, especially given some of the factors influencing the market for the second half of 2012, compared with the corresponding period in 2011.

The slightly lower weights for 2012 are based upon three key factors. Firstly, the seasonal conditions that helped to boost lamb weights in 2011 have been eroded in 2012, especially in key producing regions of SA and western Victoria. This is accentuated by the drier outlook for the second half of 2012, given the forecast return of El Niño conditions for 2012-13. In essence, while overall feed conditions and outlook is a long way from the drought conditions of pre-2010, they are nonetheless not as good as in 2011, which will most likely be reflected in final weights.

Figure 16
Lamb carcase weight



Secondly, with the improved price prospect for the winter harvest, producers will be increasingly protective of potential yields, thus limiting cereal grazing opportunities for lambs and sheep. On top of this, if the high grain prices remain, producers will be less likely to supplementary feed lambs on grain, as had been the case in previous years with the lower feed grain prices.

Thirdly, the price premium for extra heavy lambs has dissipated in 2012. This has seen the heaviest lambs not bringing producers the per head returns of the previous year, accentuated by the drop in skin returns. Indeed, there has been a clear indication from most processors that lambs in the heavier weight categories are not as highly sort after in 2012, while lambs fitting the 20-24kg cwt range are meeting the bulk of market requirements. This is most likely a combination of increased supplies of mid-weight lambs, as opposed to the very tight supplies in 2011 (which had processors purchasing lambs of any weight), along with market signals from both domestic and international buyers for mid-weight carcasses and cuts.

Forecast to average 22kg/head in 2012, average weights are expected to edge lower in 2013, to 21.7kg/head, as seasonal conditions and market signals continue to favour mid-weight lambs. From 2014 through to 2016, lamb weights are forecast to increase towards 22kg/head – largely due to productivity gains and the focus upon faster growth rates.

Given rising slaughter, and this forecast for little change in lamb weights, overall lamb production should continue to increase towards 2016, from a record 434,000 tonnes cwt in 2013, to a high of 484,000 tonnes cwt by 2016 (an aggregate growth of 21% on 2011).

Mid-year sheepmeat update

Table 1
Situation and outlook for the Australian sheep industry

	2008	2009	2010	2011	2012 ^f % change	2013 ^f	2014 ^f	2015 ^f	2016 ^f	% change 2016 on 2011
Sheep & lamb numbers* ('000 head)										
at June 30	76,938	72,740	70,800	73,098	75,000	76,750	78,500	79,500	80,000	9.4%
% change	-10.2%	-5.5%	-2.7%	3.2%	2.6%	2.3%	2.3%	1.3%	0.6%	
Slaughterings ('000 head)										
sheep	11,235	9,411	6,159	4,933	5,500	6,500	7,500	8,250	9,000	82.4%
lamb	19,970	20,493	18,609	17,952	19,500	20,000	20,750	21,500	22,000	22.5%
						2.6%	3.8%	3.6%	2.3%	
Avg carcase weight (kg)										
sheep	21.4	21.2	22.6	23.4	22.5	22.0	22.0	22.0	22.0	-5.9%
lamb	20.4	20.7	21.6	22.2	22.0	21.7	21.8	21.9	22.0	-0.9%
Production ('000 tonnes carcase weight)										
mutton	240	200	139	114	124	143	165	182	198	74.4%
lamb	407	424	402	399	429	434	452	471	484	21.4%
Sheep exports ('000 head)	4,215	3,568	2,969	2,450	2,600	2,800	2,900	3,000	3,100	26.5%
Exports ('000 tonnes)**										
mutton shipped weight	158	134	99	82	90	105	121	133	145	76.0%
carcase weight	200	171	126	108	118	136	157	172	188	73.8%
lamb shipped weight	152	165	156	160	178	183	191	200	208	30.0%
carcase weight	179	195	186	193	215	221	231	242	252	30.3%
Domestic utilisation ('000 tonnes carcase weight)										
mutton	40	29	13	5.5	6.2	7	8	9	10	81.0%
kg/head	1.9	1.3	0.6	0.2	0.3	0.3	0.4	0.4	0.4	69.4%
lamb	227	230	216	205	214	213	221	228	232	13.2%
kg/head	10.6	10.5	9.8	9.2	9.4	9.2	9.5	9.6	9.7	5.9%

f = forecasts (indicated in italics)

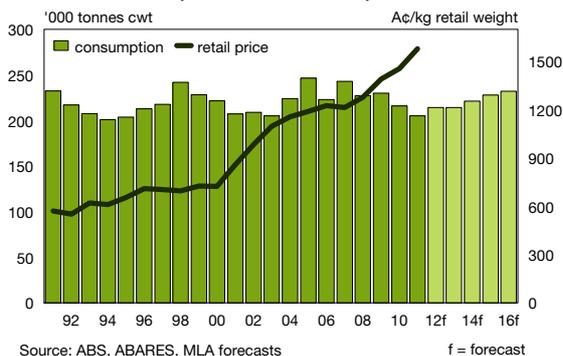
Source: ABS, DAFF, MLA forecasts
* As at 31 March until 1999, 30 June from 2000
** excl. canned/miscellaneous

7. Australian lamb market

Continued trend growth in export demand for Australian lamb is expected to gradually erode the share of production destined for the Australian market over the coming five-years, albeit at a slower rate than in previous years. 2012 is forecast to be the equilibrium point for the export versus local market share of production, with 50% of production forecast to be exported for the first time.

While rising overall total production in 2012 is likely to see a recovery in domestic lamb utilisation from the fall in 2011, the Australian lamb market appears to have reached a plateau of 205,000-215,000 tonnes cwt in recent years. The stagnant size of the Australian market since 2010 has more to do with the rapid growth in export opportunities for Australian lamb, combined with tighter production, rather than a downturn in demand in Australia. Indeed, given the significant rise in the average retail price of lamb in recent years in the Australian market, expenditure on lamb has apparently increased further, indicating that demand in the Australian market has been remarkably robust.

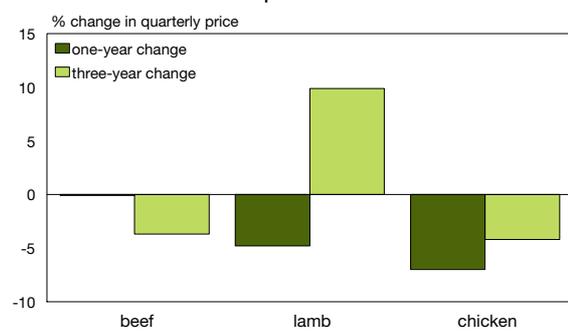
Figure 17
Lamb consumption and retail price



For 2012, Australian lamb utilisation is forecast to reach 214,000 tonnes cwt – up 4% on the previous year’s 205,000 tonnes cwt, but still below the 230,000 tonnes cwt registered in 2009. The 2011 utilisation was constrained by a slight decline in lamb production and higher exports. Of the 30,000 tonne increase in production forecast for 2012, only 30%, or 9,000 tonnes cwt, is anticipated to be sold through the Australian market.

One feature that has impacted lamb consumption in the Australian market since 2010 is the rapidly rising retail price of lambs, especially when compared to the other competing proteins of beef, chicken and pork. According to quarterly average retail prices collected by the ABS, in the first quarter of 2010, lamb averaged \$14.16/kg rwt. Over the following 18 months, lamb surpassed beef as the most expensive mainstream protein option at retail, peaking at \$16.19/kg rwt in the June quarter of 2011 – an increase of 14% since the start of 2010. Over the same 18-month period, average retail beef prices decreased 3%, while chicken and pork prices increased 3% and 1%, respectively.

Figure 18
Australian retail meat prices*



However, after peaking in the June quarter of 2011, average retail lamb prices declined 5% through to June 2012, averaging \$15.41/kg rwt – the lowest quarterly price since the end of December 2010 and back below the corresponding price for beef (\$15.60/kg rwt). Much of the decline in the average price during the 2011-12 fiscal year was associated with an increase in production, especially into 2012, along with a general decline in retail meat prices – associated with efforts by the major supermarket chains to lower prices to consumers.

Contributing to the conscious lowering of lamb prices at retail outlets in the past 12 months was the deterioration in Australian consumer sentiment – a wider symptom of the continued economic turmoil globally and “two-speed” Australian economy. In Australia, retail spending tightened throughout the 2011-12 period, with many consumers looking to minimise expenditure, helping to foster the efforts by major retail outlets to reduce prices to consumers.

Mid-year sheepmeat update

Additionally, the gloomier outlook from consumers had seen many consumers reducing discretionary spending, which included eating-out and favouring cheaper protein items. Given the rise in lamb prices in the previous years, the situation did not favour lamb, and its comparative higher retail prices.

However, even with the recent slowdown in consumer spending and drive for lower prices at retail, the outlook for lamb in the Australian market remains bright. Sustained improvements in the quality and variety of lamb over the past decade have helped to sustain demand, even as retail prices increased, while lamb has clearly established new peak consumption periods (such as Australia Day and at Easter). Lamb will continue to be a major player in the very crowded Australian protein marketplace, though it must also remain price competitive.

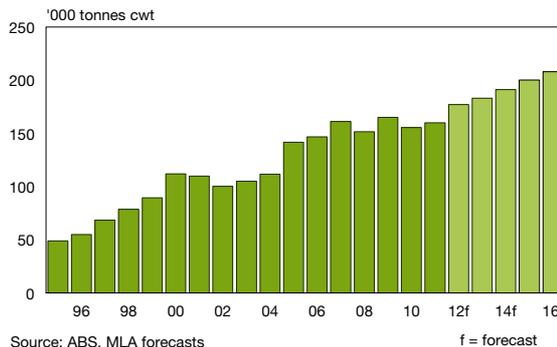
Beyond 2013, Australian lamb consumption is expected to increase gradually – forecast to reach 232,000 tonnes cwt by 2016, up 13% on 2011 and accounting for approximately 48% of all lamb produced. The key factors in this modest rise are higher lamb production, and some recovery expected in overall consumer spending.

Any slowdown in export markets during this time could see additional product remaining on the Australian market. However, this seems unlikely, given the very tight global supply of lamb and growth prospects for major markets, especially the Middle East and Greater China.

8. Lamb exports

Facilitated by increased production and steady import demand for lamb, Australian lamb exports for 2012 are forecast to increase 11% year-on-year, to 178,000 tonnes swt. However, while the volume of lamb departing Australia continues to push into uncharted territory, with the previous record calendar year high at 165,000 tonnes swt in 2009, the price received for Australian lamb overseas has taken a step back in 2012.

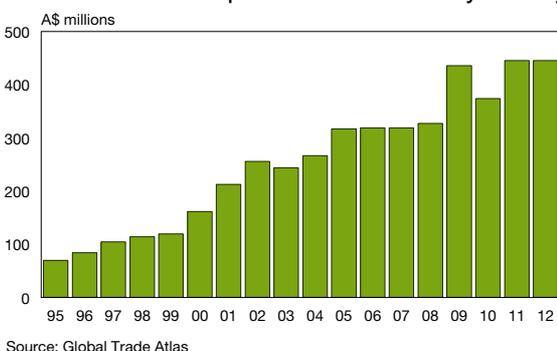
Figure 19
Australian lamb exports



Australian exports have been hit by a range of factors that has impacted the ability to maintain returns. While the high A\$ has been a factor impeding Australian returns for several years, it was offset to some extent throughout 2010 and 2011 by the very tight supply of both Australian and New Zealand product. However, the sustained high A\$ during 2012, higher Australian production, combined with increased competition in key markets from New Zealand product has influenced the price Australian exporters have received.

For the first five months of 2012, while export volumes increased 19% year-on-year, the value of exports was unchanged (A\$445 million FOB). Adding to the pressure on export prices is the high A\$, which averaged 104.7US¢ – equal to the same period in 2011, but 16% higher than the corresponding period in 2010.

Figure 20
Australian lamb exports value - January to May



Mid-year sheepmeat update

While Australian lamb exporters have a limited exposure to the EU market, at 18,786 tonnes swt for lamb and mutton combined, it is having an indirect impact on demand and prices for Australian product. The very weak consumer demand in the EU in recent years, coupled with a record high NZ\$ against the euro, saw New Zealand exporters redirecting product to other markets – most notably China and the Middle East. This has seen more New Zealand product competing with additional Australian shipments to both markets – resulting in lower returns per tonne.

For the Middle East, while Australian exports were up 55% year-on-year for the first five months of 2012, total export returns only increased 37%. Similarly, volumes to Greater China increased 16%, while values were slightly lower year-on-year, at \$48.3 million FOB.

Overall, the tough economic environment (and weak consumer sentiment) that has plagued advanced economies seems set to continue for the remainder of 2012. While these economies are forecast to slowly improve, and remain volatile into 2013 and beyond (IMF), there remains a major risk of an extended and deeper downturn in Europe and the US – both major global importers of sheepmeat.

From the context of the global lamb market, this will continue to hinder prices received, for what is a relatively expensive product compared to chicken and pork, at a time when consumers have heightened price awareness.

For 2012, overall growth in Australian lamb shipments will likely be to the Middle East and China, consolidating on a rapid start (in volume terms) to the year and sustained growth over the past decade.

Table 2
Australian exports of lamb ('000 tonnes shipped weight)

To:	2007	2008	2009	2010	2011	2012 ^f	% change ^f	2013 ^f	% change ^f
North America	56.4	44.7	46.5	39.5	39.4	40.0	2%	41.5	4%
US	44.5	36.9	38.3	34.1	34.3	35.0	2%	37.0	6%
Canada	4.5	4.1	5.1	3.7	3.9	4.5	17%	4.0	-11%
Mexico	7.4	3.7	3.1	1.8	1.2	0.5	-58%	0.5	0%
Middle East	22.3	25.4	35.9	36.7	34.9	45.0	29%	47.0	4%
Greater China	19.7	20.2	25.7	25.8	29.6	34.0	15%	36.0	6%
China	14.5	14.0	13.9	15.7	21.2	28.0	32%	31.0	11%
Hong Kong	4.1	5.4	10.4	8.1	6.2	5.0	-19%	4.0	-20%
Taiwan	1.1	0.8	1.4	2.0	2.1	1.0	-53%	1.0	0%
South East Asia	5.8	6.3	7.0	9.3	9.6	9.0	-6%	8.5	-6%
Japan	8.5	9.9	8.3	7.7	7.4	8.5	15%	9.0	6%
South Korea	1.9	2.0	1.2	2.1	2.7	2.8	2%	3.0	7%
EU	12.7	11.6	13.7	12.0	13.0	11.0	-15%	12.0	9%
Other Europe	3.9	3.8	3.3	3.7	3.5	0.3	-91%	1.0	233%
Pacific	12.2	11.0	11.2	9.5	10.9	12.5	14%	11.5	-8%
South Africa	4.7	4.0	2.9	3.0	3.2	2.0	-38%	3.5	75%
Other Africa/Mauritius	10.2	10.1	6.5	4.0	3.4	6.5	93%	6.0	-8%
Other	2.7	2.6	2.8	2.3	2.6	6.4	148%	4.0	-38%
Total	161.0	151.6	165.0	155.5	160.0	178.0	11%	183.0	3%

Source: DAFF, MLA forecasts

Pacific = PNG, New Zealand & Pacific Islands

Other Europe = CIS, Eastern Europe and Western Europe other than EU

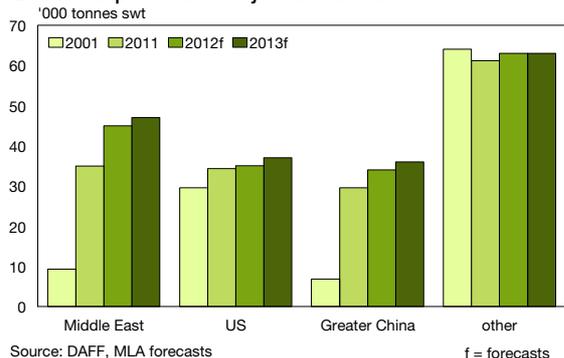
South East Asia = Indonesia, Singapore, Philippines, Malaysia, Thailand and Vietnam

f = forecasts (indicated in italics)

Mid-year sheepmeat update

The third major export destination for Australian lamb, the US, is expected to register mild growth in 2012 – but only edging back towards the higher volumes shipped prior to 2010. Growth across smaller markets is likely to be patchy, with exports expected to decline to the EU and some South East Asian markets.

Figure 21
Lamb exports to major destinations



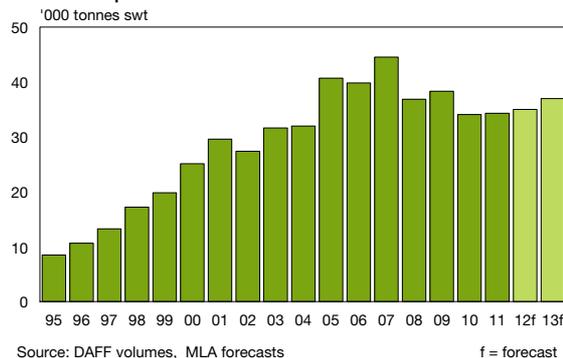
For 2013, lamb exports are forecast to increase 2.8% year-on-year, to 183,000 tonnes swt, with the comparatively smaller expansion related to the small forecast increase in production and slower growth to the Middle East, China and the US.

With Australia remaining as the only major lamb producing nation forecast to increase its production significantly over the medium term, the offshore outlook for the industry remains bright – provided economic conditions improve. Australian lamb exports are forecast to increase to 208,000 tonnes swt by 2016 – further underpinned by the big three regions of Greater China, the Middle East and the US.

8.1 United States

As Australia's single largest export destination, demand from the US is expected to remain hindered by the sluggish consumer conditions that have plagued the market for the past few years. For 2012, Australian lamb exports to the US are forecast to increase 2% year-on-year, to 35,000 tonnes swt – but still well below the 44,500 tonnes swt sent to the US in 2007.

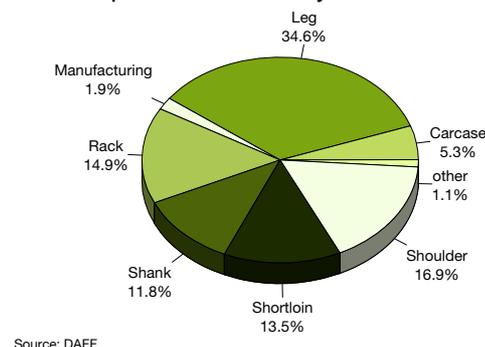
Figure 22
Lamb exports to the US



Underpinning the forecast 2% rise in shipments for 2012 is a faster than anticipated first half of the year. For January to June, Australian lamb exports to the US increased 2% year-on-year, to 18,500 tonnes swt. Assisting the higher shipments throughout the first half of the year was a surge in lamb production, along with the increased proportion of heavier lambs being offered in the first three months of the year.

A review of Australian lamb exports to the US for the 2011-12 fiscal year, which totalled 34,738 tonnes swt (up 4% on the previous year), illustrates that the trade is largely dominated by five cuts. The main cut of lamb shipped to the US in 2011-12 was legs (12,010 tonnes swt), which increased 4% on the previous year and made up 34.6% of total shipments. The next four main cuts were closer together in volume, including shoulders (5,876 tonnes swt), rack (5,178 tonnes swt), shortloins (4,699 tonnes swt) and shanks (4,088 tonnes swt).

Figure 23
Lamb exports to the US by cut - 2011-12

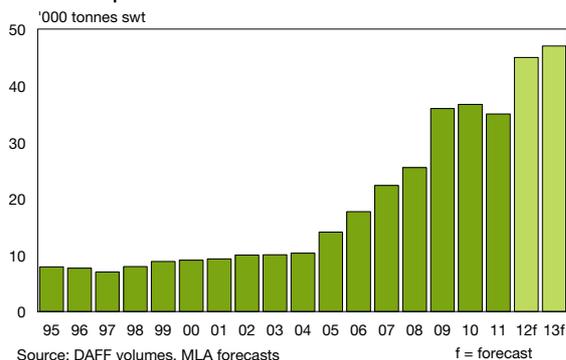


According to the USDA, lamb imports for 2013 are forecast to increase 12% on 2012 estimated levels, to 165 million lbs (74,843 tonnes cwt) – returning closer to 2010 levels. As part of this, Australian lamb exports for 2013 are forecast to increase 3% year-on-year, to 37,000 tonnes swt, as the high A\$ continues to impact returns to exporters.

8.2 The Middle East

The growth in Australian lamb exports to the Middle East registered during the past decade is forecast to continue in 2012 and 2013, albeit at a lower rate than previous years. With exports to the region for the first half of 2012 up 57% year-on-year, at 22,167 tonnes swt, total shipments for the current calendar year are expected to come in 29% higher year-on-year, at 45,000 tonnes swt.

Figure 24
Lamb exports to the Middle East

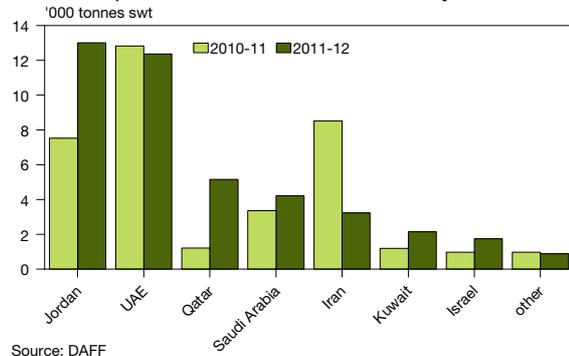


The rapid expansion in Australian lamb exports to the region has been due to several factors, including the restricted supply of mutton and live sheep from Australia. It has also been one of the main markets underpinning the Australian lamb carcass trade, largely preferring lighter lambs, making up 81.5% of total Australia carcass exports. On the demand side of the market, sustained economic growth, rising incomes and expanding populations across many of the wealthier gulf countries has fuelled the rise in lamb exports.

The largest of the Middle Eastern markets for the past fiscal year was Jordan, at 13,015 tonnes swt – which was up 73% on the previous year. The major cuts to Jordan included carcasses (5,072 tonnes swt), forequarters (3,991 tonnes swt) and shoulders (2,806 tonnes swt).

Closely behind Jordan for 2011-12 was the United Arab Emirates (UAE), at 12,367 tonnes swt, with the carcass trade (7,661 tonnes swt) making up over half of total exports for the year. Large shipments of legs (2,009 tonnes swt) and shoulders were also sent to the UAE in 2011-12 (1,510 tonnes swt).

Figure 25
Lamb exports to the Middle East - by market



The other major market for Australian lamb in the Middle East for 2011-12 included Qatar (5,169 tonnes swt – again dominated by the carcass trade), Saudi Arabia (4,228 tonnes swt), Iran (3,223 tonnes swt) and Kuwait (2,160 tonnes swt).

However, Australian lamb has faced increased competition from New Zealand product during the first half of 2012, with total New Zealand shipments up 33% year-on-year. Unlike the unprecedented growth that Australia has witnessed to the Middle East for lamb in the past decade, New Zealand volumes for the first six months of 2012 remain below the volumes registered in the early and mid-1990's.

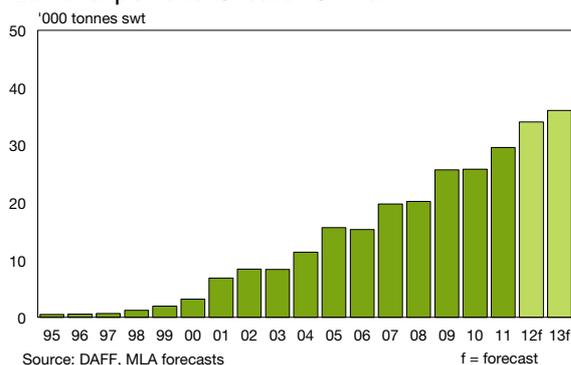
Mid-year sheepmeat update

For 2013, Australian lamb exports to the Middle East are forecast to increase another 4% year-on-year, taking total exports to the region to 47,000 tonnes swt. This would take the Middle East share of Australia lamb exports annually to a forecast 25.7%, a significant jump compared with the 13.9% in 2007.

8.3 Greater China

Given the very fast start to the 2012 year, Australian lamb exports to Greater China for the current year are forecast to reach 34,000 tonnes swt – up 15% year-on-year. Making up the forecast is 28,000 tonnes swt to China, with another 5,000 tonnes swt to Hong Kong and 1,000 tonnes swt to Taiwan.

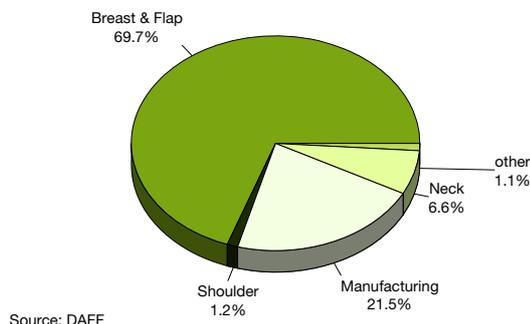
Figure 26
Lamb exports to Greater China



As a market largely for lower valued, frozen cuts, Australian exports to China have increased steadily in recent years. For the past 2011-12 fiscal year, Australian exports to China totalled 24,561 tonnes swt, with the majority of shipments either breast and flap meat (17,111 tonnes swt) or manufacturing meat (5,272 tonnes swt). The remainder of exports for the year included necks (1,619 tonnes swt), shoulders (300 tonnes swt) and very small volumes of legs, carcasses and racks.

For Hong Kong, exports for 2011-12 totalled 5,416 tonnes swt, and like China, were largely made up of breast and flap meat and manufacturing cuts.

Figure 27
Lamb exports to the Greater China by cut - 2011-12

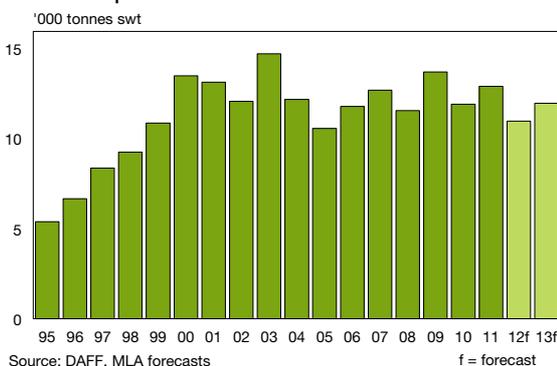


Australia's lamb trade to Greater China is expected to be underpinned by strong demand for frozen lamb, which is suited to traditional cooking methods. Additionally, the sustained economic growth in China and rising consumer incomes will help to maintain demand for imported lamb. For 2013, Australia's lamb exports to China are forecast to expand a further 6%, to 36,000 tonnes swt.

8.4 Europe

While Australian exports to the EU are limited by the 18,786 tonne swt sheepmeat quota, it is the very tough consumer environment in the EU, combined with the high A\$ that are the main factors behind the forecast decline in exports to this market in 2012.

Figure 28
Lamb exports to EU

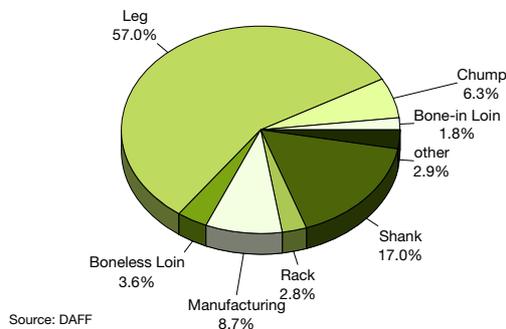


Australian lamb exports for 2012 to the EU are forecast to decline 15% year-on-year, to 11,000 tonnes swt. Illustrating the very tough trading conditions within the EU market for 2012 has also been the decline in exports from New Zealand,

which has a massive quota advantage to the market compared to Australia. For the first six months of 2012, New Zealand exports to the EU declined 17% year-on-year, to 67,813 tonnes swt – the lowest start to the calendar year in over two decades.

In 2011-12, the major market for Australian lamb in the EU was the United Kingdom, at 8,210 tonnes swt. To the UK for 2011-12, lamb legs (4,945 tonnes swt) made up the majority of shipments, followed by shanks (1,590 tonnes swt).

Figure 29
Lamb exports to EU by cut - 2011-12



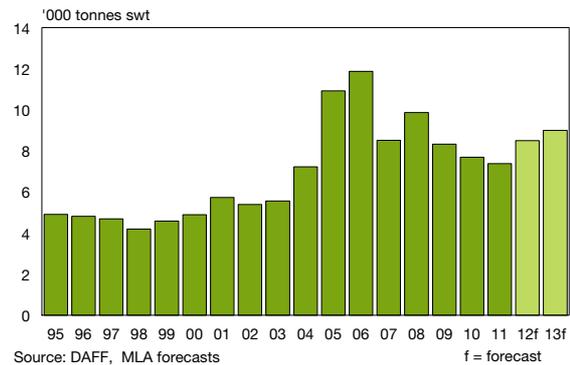
With the parlous economic conditions in the EU forecast to slowly improve into 2013, assisting a slow recovery in consumer demand, total Australian lamb exports for 2013 are forecast to increase 9%, to 12,000 tonnes swt – back to 2010 and 2011 levels.

8.5 North Asia

While not traditional markets for Australian sheepmeat, exports to Japan and Korea are forecast to expand in 2012 and 2013. Australia's lamb exports to Japan are often overshadowed by the much larger beef trade, but it should be noted that for the past fiscal year Japan was Australia's seventh largest lamb export destination, behind the United Kingdom and ahead of Hong Kong and Qatar.

The expansion of specialised cuisine types, along with the recovery in demand across northern Japan will help to boost demand for Australian lamb in Japan, with exports for 2012 forecast to reach 8,500 tonnes swt – up 15% year-on-year, and the highest annual level since 2008.

Figure 30
Lamb exports to Japan



For the past fiscal year, Australian lamb exports to Japan totalled 7,846 tonnes swt – with shoulders (3,247 tonnes swt) and manufacturing lamb (3,008 tonnes swt) making up the majority of the shipments. Making up the rest of the annual total for 2011-12 was an increase in both legs (571 tonnes swt) and racks (642 tonnes swt).

With consumer demand in Japan anticipated to improve into 2013, albeit slowly, total exports in 2013 are forecast to reach 9,000 tonnes swt.

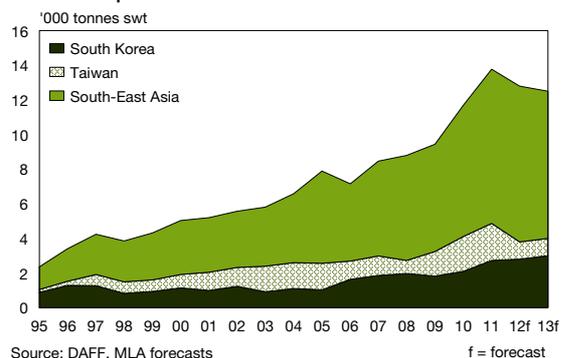
A much smaller market for Australian lamb, exports to Korea in 2012 are forecast to increase 2% on the previous year, to 2,800 tonnes swt, rising to 3,000 tonnes swt in 2013.

8.6 Other markets

With Australian lamb exports to the major markets for the US, Greater China and the Middle East expected to expand in 2012 and 2013, the ability for other smaller markets to grow will be constrained.

Lamb shipments to South East Asia in 2012 are forecast to decline 6% on the previous year, to 9,000 tonnes swt. The largest market in the region for Australian lamb during the past fiscal year was Malaysia, at 4,950 tonnes swt – with the majority of shipments made up of shoulder, carcasses and legs.

Figure 31
Lamb exports to other Asia

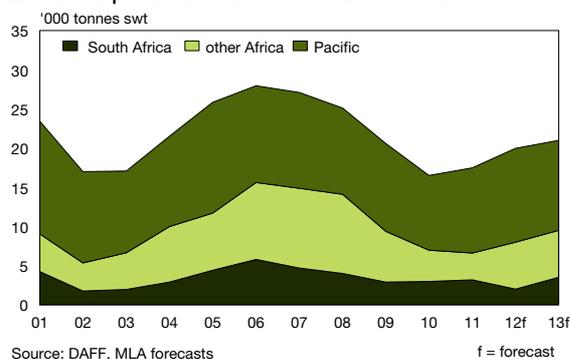


A relatively fast start to 2012 for exports to Papua New Guinea (PNG) has final exports for the year to the Pacific reaching 12,500 tonnes swt – up 14% on the previous year. While dominated by PNG, the Pacific forecasts for 2012 also comprise of exports to New Zealand and other Pacific Islands. For the past fiscal year, Australian exports to PNG totalled 11,738 tonnes swt, with breast and flap meat making up almost 78% of total exports.

In 2013, exports to the Pacific are forecast to shed some of their forecast growth from 2012, easing 8% year-on-year, to 11,500 tonnes swt.

The higher price point for Australian lamb has impacted exports to South Africa in recent years. For 2012, exports are forecast to decline 38% year-on-year, to only 2,000 tonnes swt. For the first six months of 2012, exports to the market have been down 33% on the corresponding period in 2011, at only 852 tonnes swt.

Figure 32
Lamb exports to Africa and the Pacific

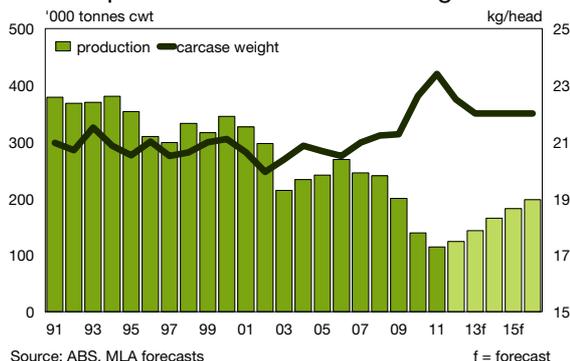


In contrast to exports to South Africa, Australian lamb volumes to Mauritius and other Africa are forecast to increase 93% year-on-year, to 6,500 tonnes swt – exports for the first half of 2012 are up 74% on the previous year, at 3,351 tonnes swt.

9. Mutton

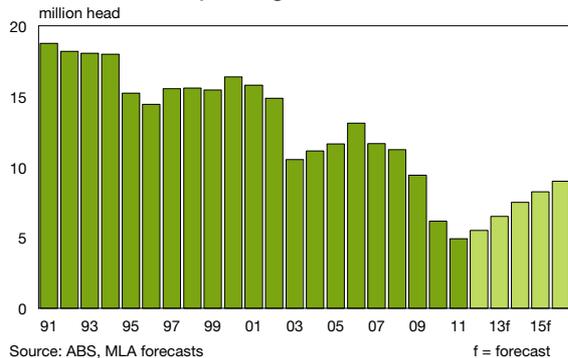
With rising sheep slaughter rates in 2012 and carcass weights remaining historically high, Australia's mutton production is forecast to increase 9% in 2012, to 124,000 tonnes cwt. However, this increase is from a very low base in 2011, when Australian sheep slaughter fell to only 4.9 million head – the lowest annual total in over three decades.

Figure 33
Mutton production and carcass weight



With sheep slaughter for the first five months of 2012 up 9% year-on-year, at 2.2 million head, total throughput for 2012 is forecast to approach 5.5 million head. While the increase for 2012 is largely due to the larger sheep flock and easing in rebuilding intentions, it is still a very low annual total. However, any comparison of today's sheep slaughter levels to those of the previous decade can be misleading, as the very high sheep slaughter levels that were registered in the 2000's were on the back of drought, increased cropping and poor wool returns.

Figure 34
Australian sheep slaughter



With the flock still forecast to register growth through the next five years, sheep slaughter levels will gradually increase. In 2013, sheep throughput is forecast to increase to 6.5 million head, expanding to 9 million head by 2016.

9.1 Mutton markets

Out of the three major red meats produced in Australia, beef, lamb and mutton, it is mutton that is the most export focussed – with an estimated 95% of total production leaving Australian shores for 2012. Given the higher price of sheep, and subsequently, mutton in recent years, the export trade continues to sway towards the higher priced markets, dominated by the Middle East.

Figure 35
Mutton exports and domestic utilisation

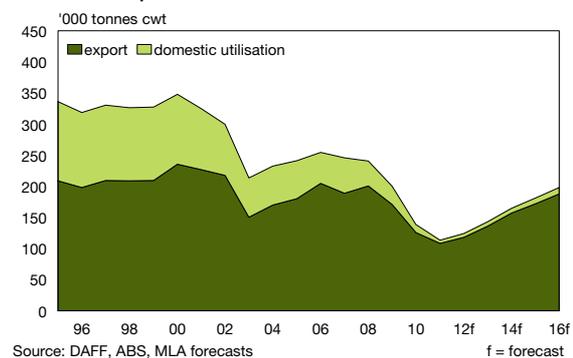


Table 3
Australian exports of mutton ('000 tonnes shipped weight)

To:	2007	2008	2009	2010	2011	2012 ^f	% change ^f	2013 ^f	% change ^f
Middle East	48.4	50.5	51.9	42.9	39.5	45.5	15%	52.0	14.3%
Greater China	9.5	12.3	17.2	11.7	9.2	12.5	31%	14.5	16.0%
China	1.6	4.3	8.5	6.7	5.1	7.0	38%	8.0	14.3%
Hong Kong	0.1	0.5	1.0	0.8	0.5	1.0	115%	1.1	10.0%
Taiwan	7.7	7.5	7.7	4.2	3.6	4.5	23%	5.5	22.2%
South East Asia	12.9	14.5	14.6	12.6	9.1	9.5	5%	10.0	5.3%
Japan	7.0	7.1	5.6	3.8	4.5	3.3	-27%	3.5	6.1%
South Korea	0.8	1.2	0.7	1.0	1.0	0.8	-18%	1.0	25.0%
North America	28.7	25.8	17.9	11.7	6.1	6.5	7%	10.5	61.5%
US	17.3	13.4	10.8	8.7	4.5	6.0	33%	8.0	33.3%
Mexico	5.9	7.6	4.2	1.0	0.2	0.6	173%	1.0	66.7%
Other North America	5.6	4.8	3.0	2.0	1.3	0.8	-40%	1.5	87.5%
EU	7.0	7.4	5.4	4.9	3.5	2.8	-21%	3.5	25.0%
Other Europe	9.2	11.6	5.5	4.5	3.2	3.4	5%	4.0	17.6%
Pacific	4.9	5.8	5.5	1.6	2.0	1.2	-40%	1.8	50.0%
South Africa	14.9	13.7	4.4	1.6	1.9	1.1	-42%	1.3	18.2%
Other Africa/Mauritius	4.8	6.5	4.2	2.2	1.6	1.9	16%	2.0	5.3%
Other	1.7	1.3	1.0	0.5	0.6	0.6	1%	0.8	33.3%
Total	149.7	157.7	134.0	99.1	82.2	90.0	9%	105.0	16.7%

Source: DAFF, MLA forecasts

Pacific = PNG, New Zealand & Pacific Islands

Other North America = Canada and the Caribbean

North Asia = Japan, Korea, Taiwan, China and Hong Kong

Other Europe = CIS, Eastern Europe and Western Europe other than EU

South East Asia = Indonesia, Singapore, Philippines, Malaysia, Thailand and Vietnam

f = forecasts (indicated in italics)

Mid-year sheepmeat update

Constrained by the falling amount of mutton shipped in recent years, exports in 2012 are anticipated to increase 10%, to 90,000 tonnes swt. For the first half of 2012, total Australian mutton exports increased 18%, to 44,451 tonnes swt. Over half of the shipments for the first half of 2012 were sent to the Middle East (22,268 tonnes swt, up 17% year-on-year), while higher volumes were also registered to China (6,339 tonnes swt, up 103%), South East Asia (5,179 tonnes swt, up 37%), the US (2,361 tonnes swt, up 7%) and other Europe (1,779 tonnes swt, 31%).

Breaking the Middle Eastern market down into single markets for the past 2011-12 fiscal year, Saudi Arabia (9,935 tonnes swt), UAE (9,867 tonnes swt) and Bahrain (8,202 tonnes swt) were the three largest markets, with Kuwait (5,616 tonnes swt) fifth, just behind China (6,514 tonnes swt). The carcass trade dominates the Middle East, with the exception of Saudi Arabia, where manufacturing mutton is the largest proportion of exports.

Like the lamb breakdown, China predominantly takes Australian breast and flap meat, making up 75% of all shipments.

Looking ahead to 2013, Australian mutton exports are forecast to increase 17% year-on-year, to 105,000 tonnes swt – facilitated by higher mutton production and sustained demand from the Middle East and China. With rising sheep slaughter and mutton production, mutton exports are forecast to reach 145,000 tonnes swt by 2016 – back to around the volumes shipped in 2008 and 2009.

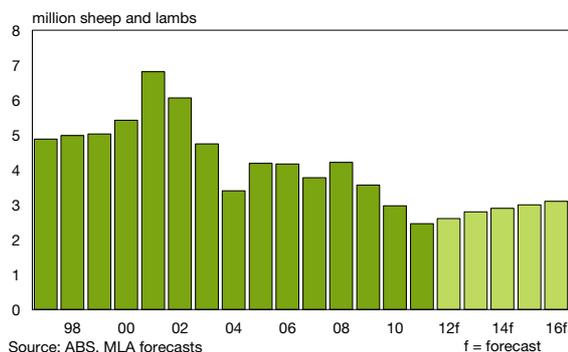
10. Live sheep exports

The combination of the historically low WA sheep flock and the application of the Export Supply Chain Assurance System (ESCAS) are expected to keep Australia's live sheep exports at historically low levels for 2012. With exports for the first five months of 2012 at 1.039 million head – total exports for the current calendar year are forecast to approach 2.6 million head.

As mentioned in the January 2012 edition of the projections series, the main influence upon live sheep volumes in the short term will be the implementation of ESCAS, which will trace the movement of live sheep to the point of slaughter. The implementation date for the first tranche of markets was 1 March 2012, which included Kuwait, Bahrain, Qatar and Turkey.

According to ABS statistics for the first five months of 2012, Australian live sheep exports to Kuwait were down 19% year-on-year, at 344,220 head, while shipments to Bahrain surged 49% over the same period, to 148,500 tonnes swt. For the other first tranche markets, exports to Qatar increased 45%, to 262,517 head for January to May 2012, while exports to Turkey were at 120,000 head. These four markets made up 83% of all exports over the five month period.

Figure 36
Australian live sheep exports



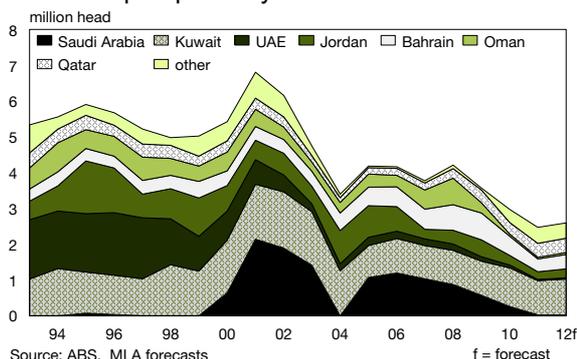
Tranche two markets include Israel, Japan, Jordan, Malaysia, Oman, Philippines, Saudi Arabia, Singapore, United Arab Emirates (UAE), with an implementation date of 1 September 2012. For the first five months of 2012, Jordan was the major market for sheep out of these markets, at 124,900 head – an increase of 140% year-on-year. The third and final tranche of markets have an implementation date of 31 December 2012, which will cover 100% of the trade.

Mid-year sheepmeat update

With the vast majority of Australia's live sheep trade sourced out of WA, the ongoing decline forecast for the WA sheep flock will continue to place supply pressure upon the trade. For the first five months of 2012, WA sheep accounted for 79.4% of all live sheep exports, which was up from the 71% for the corresponding period in 2011. With the WA sheep flock estimated to be at a 60-year low as at June 2012, exporters may be forced to look east for any additional supplies, especially if seasonal conditions improve in WA and producers start to retain numbers.

While the indicative prices for live wethers out of WA has fallen below the corresponding period last year, which should assist trade, it remains at historically high levels – largely underpinned by the very low availability of sheep. For July 2012, the indicative price was A\$102/head – below the July 2011 average (A\$129/head), but still 9% above the July average for the past five years (2007 – 2011).

Figure 37
Live sheep exports by destination



For 2013, Australian live sheep exports are forecast to increase another 200,000 head, totalling 2.8 million head. While live sheep export numbers are historically very difficult to forecast, the trade will continue to be constrained by the low availability of sheep in WA.

Table 4
Australian live sheep exports ('000 tonnes shipped weight)

To:	2006	2007	2008	2009	2010	2011	2012 ^f	% change ^f
Kuwait	962,163	930,178	956,276	948,271	1,076,455	956,642	1,000,000	5%
Qatar	191,669	191,850	269,116	352,695	321,415	395,752	450,000	14%
Bahrain	556,843	561,522	716,040	747,827	535,731	344,450	350,000	2%
Turkey	0	0	0	0	215,038	352,352	350,000	-1%
Jordan	684,940	267,829	383,943	470,511	265,986	217,067	250,000	15%
Israel	19,840	35,000	36,834	23,400	42,000	56,600	60,000	6%
Oman	320,030	539,556	741,106	289,223	69,073	41,025	50,000	22%
UAE	209,373	185,754	175,629	130,312	78,748	37,385	40,000	7%
Saudi Arabia	1,193,635	1,032,395	873,937	576,147	262,500	24,000	25,000	4%
Other	28,541	28,945	62,108	29,223	101,625	32,675	25,000	-23%
Total	4,167,034	3,773,029	4,214,989	3,567,609	2,968,571	2,457,948	2,600,000	6%

Source: ABS, MLA forecasts

^f = forecasts (indicated in italics)

Mid-year sheepmeat update

Sources and acknowledgements

This document was produced and compiled by Meat & Livestock Australia (MLA), with the help of market specialists in MLA's international and domestic marketing divisions, MLA's National Livestock Reporting Service (NLRS) and the Lamb Forecasting Advisory Committee.

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The sources listed below are also duly acknowledged for the provision of statistical, analytical and forecast information used in this document.

Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)

Australian Wool Exchange

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Commonwealth Bureau of Meteorology (BOM)

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Infoscan NZ

International Monetary Fund (IMF)

Millward Brown

Penfold Research

Roy Morgan

The Land newspaper

United States Department of Agriculture (USDA)

World Bank

Mid-year sheepmeat update

Acronyms

ABARE	– Australian Bureau of Agricultural and Resource Economics
ABS	– Australian Bureau of Statistics
AWPFC	– Australian Wool Production Forecasting Committee
CIE	– Centre for International Economics
CIS	– Commonwealth of Independent States
cwt	– Carcase weight
DAFF	– Department of Agriculture, Forestry and Fisheries – Australia
EMI	– Eastern Market Indicator (wool price)
EU	– European Union
FAO	– Food and Agriculture Organisation
FOB	– Free on board ship (export price loaded on ship before departure)
FTA	– Free Trade Agreement
IMF	– International Monetary Fund
lb	– Pounds weight
lwt	– Liveweight
MLA	– Meat & Livestock Australia
NLRS	– National Livestock Reporting Service (Meat & Livestock Australia)
NZ	– New Zealand
PNG	– Papua New Guinea
swt	– Shipped weight
UAE	– United Arab Emirates
UK	– United Kingdom
US	– United States
USDA	– United States Department of Agriculture

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