

Australian sheep

Industry projections 2014



Mid-year update



Australian sheep industry projections 2014

Mid-year update

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While endeavouring to ensure that the information contained in this publication is correct, MLA makes no representation as to, and accepts no liability for, the accuracy of such information including, but not limited to, the forecasts.



Introduction

For the first half of 2014, the Australian lamb industry was again one of the shining lights of the Australian agricultural sector, with robust export demand absorbing historically high kill numbers – reflected in very favourable comparative returns to Australian lamb producers.

This healthy situation is expected to be maintained throughout the remainder of 2014 and into 2015, with the only major change to the current situation likely to be a tighter supply of lambs into 2015, albeit from historically high numbers in 2013 and 2014, along with a sheep flock back at around 72 million head as at 30 June 2014.

Demand from overseas markets is expected to remain very strong, with the proportion of production exported expected to rise again in both 2014 and 2015 – helping to underpin returns to producers. Maintaining the trend of the previous years, demand from China, the Middle East and the US will lead the pack for Australian lamb exports, while lamb is expected to maintain its favourable position with the Australian consumer.

While drought conditions will continue to plague northern NSW producers, one of the best autumn breaks in decades, followed by a wet start to winter was very well received by southern producers, including in WA. While forecasts for El Niño conditions for the second half of 2014 had weakened in late July, concerns about the potential for a dry finish to the year in southern Australia, with frustratingly low on-farm water supplies, continues to have a significant impact on producers' expectations and plans heading into 2015.

Adding to the very positive outlook for lamb demand over the medium term is a steady recovery in live export demand, underlined by the reopening of potentially large markets, especially in the Middle East. As has been the case in previous years, it is expected to be the available supply of suitable stock for the live trade that will be the main constraint on shipment totals over the projections period.

Given the confidence in the lamb industry, expansion in the flock is expected to return from 2015, pushing it back towards 75 million head over the medium term. However, despite the favourable price outlook, the desire for expansion has been tapered by a range of factors, including the continued competition from cropping, ageing demographics of the Australian producer and current subdued wool market.

Mid-year update



Meat & Livestock Australia's New Market Information App

The new 'MLA market information' app enables producers to stay informed of news updates and market intelligence across the beef, sheep and goat industries through an easy-to-use mobile format.

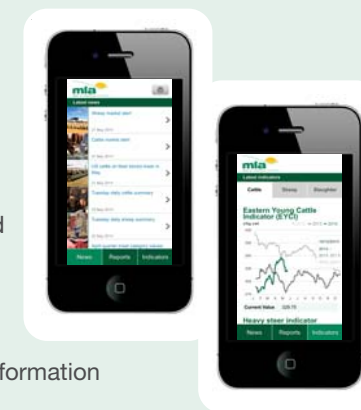
MLA collects and disseminates domestic and international market data relevant to the Australian livestock industry, which was a driving factor in the app's creation ensuring on-farm decision makers have high calibre information available on demand.

MLA is the largest supplier of market information for the Australian cattle, sheep and goat industries providing reports on price indicators from 90 livestock markets, as well as market analysis services, forward projections and detailed data on international trade flows.

The new app aims to tap into the increasing numbers of producers using smartphones and provide them with market information central to their day-to-day business decision-making

Using the app producers can access a range of market statistics including national indicators, feeder cattle, slaughter levels, over-the-hooks, skins and wholesale meat markets and read in-depth market analysis on Australia's key livestock and export meat markets.

The MLA market information mobile app is available now to download free from the Apple iTunes App Store or Google Play, by searching for 'MLA market information' or visit www.mla.com.au/marketinfoapp.



Overview of 2014 supply and demand projections – Mid-year update

- Australian lamb slaughter in 2014 is forecast to reach 21.2 million head – down 3.1% on the previous year's all-time high of 21.9 million head.
- Australian mutton slaughter for 2014 is forecast to total 8.9 million head. This is well above the initial forecast from January 2014, due largely to drought conditions in the first quarter of the year
- The national sheep flock at 30 June 2014 was estimated to be 72.2 million head, down 2.7% on the previous 12 months.
- Total lamb production in 2014 is forecast to be 462,000 tonnes cwt, down 1.6% on 2013, which was the highest year on record.
- Higher than expected turnoff throughout the first half of 2014 is forecast to see mutton production at 200,000 tonnes cwt.
- Australian live sheep exports in 2014 are forecast to reach 2.3 million head, up 16.6% year-on-year.
- Lamb exports are forecast to again set a calendar year record in 2014, despite slightly tighter supply, hitting 218,000 tonnes swt – up 2% on the previous record set in 2013.
- Australian mutton exports are forecast to contract 7% in 2014, to 160,000 tonnes swt – underpinned by high exports to the Middle East, China/Hong Kong, the US, Japan and Korea.
- The Eastern States Trade Lamb Indicator averaged 539¢/kg cwt for the first 6 months of 2014 – up 32% on the corresponding period last year.



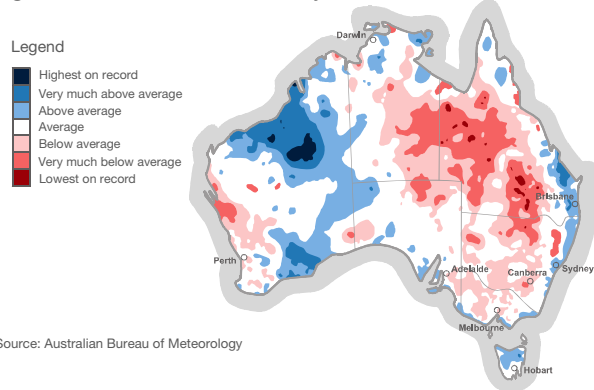
Key assumptions

- As part of MLA's Sheep Industry Projections, a series of "key assumptions" need to be outlined. Assumptions are compiled from a range of sources; each recognised experts in their respective area.
- Seasonal conditions are expected to be 'average' at best for the remainder of the year, especially given the Bureau of Meteorology's (BOM) continuous El Niño forecasts. El Niño's typically affect southern producers more so than those north of the Tropic of Capricorn, however, the prospect of another dry six months will be challenging for many producers.
- The latest BOM three month rainfall forecast for the August to October period has the majority of the southern regions tipped to be drier than normal, albeit after one of the best autumn breaks for producers in southern NSW, Victoria and SA for many decades. It has been assumed that there will be an overall dry finish to the year.

Mid-year update

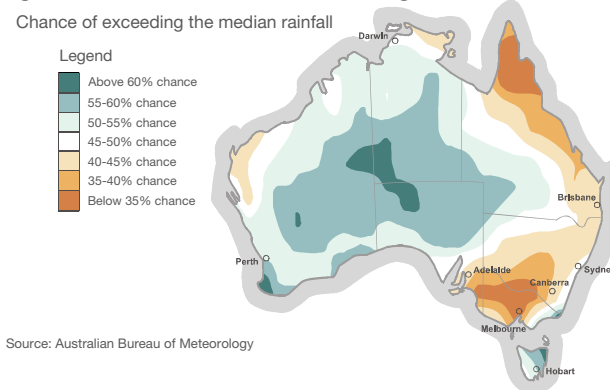
- Despite having strengthened somewhat in recent weeks, the A\$ has averaged 91US¢ for the first half of the year, which is 10% below the same period last year, and back in line with 2010 levels. Going forward, the majority of bank forecasts continue to have the A\$ buying between 80US¢ and 91US¢ at the end of 2014, and into 2015. While this is a wide range, the A\$ historically continues to trade at levels well above the long-term average.
- Overall, global economic conditions are expected to improve again in 2014 and into 2015, assisted by continuing recoveries in the advanced economies of the US, Japan and the EU, along with sustained performance in China and South East Asia.

Figure 1 Australian rainfall 1 July 2013 to 30 June 2014



Source: Australian Bureau of Meteorology

Figure 2 Australian rainfall outlook - August to October 2014



Source: Australian Bureau of Meteorology

Figure 3 A\$ against US\$



Source: RBA

Situation and outlook 2014-2020 Mid-year update

Table 1 Situation and outlook for the Australian sheepmeat industry

	2010	2011	2012	2013	2014 ^f	% change	2015 ^f	2016 ^f	2017 ^f	2018 ^f	2019 ^f	2020 ^f	% change 2020 ^f on 2013
Sheep & lamb numbers ('000 head)													
at June 30	70,085	73,099	74,700	74,200	72,200		72,000	72,800	73,900	75,200	76,250	77,000	3.8%
percentage change	-3.6%	4.3%	2.2%	-0.7%	-2.7%		-0.3%	1.1%	1.5%	1.8%	1.4%	1.0%	
Slaughterings ('000 head)													
sheep	6,159	4,933	6,063	9,615	8,900	-7.4%	7,000	7,120	7,250	7,350	7,600	8,000	-16.8%
lamb	18,609	17,793	20,009	21,886	21,200	-3.1%	20,700	20,500	21,000	21,300	21,500	21,800	-0.4%
Avg carcase weight (kg)													
sheep	22.6	23.2	22.9	22.5	22.4	-0.4%	22.5	22.6	22.7	22.8	22.9	23.0	2.0%
lamb	21.6	22.1	22.2	21.5	21.8	1.5%	21.9	22.0	22.0	22.0	22.0	22.0	2.5%
Production ('000 tonnes carcase weight)													
mutton	139	114	140	217	200	-7.8%	158	161	165	168	174	184	-15.1%
lamb	402	393	445	470	462	-1.6%	453	451	462	469	473	480	2.1%
Sheep exports ('000 head)													
	2,969	2,458	2,279	1,973	2,300	16.6%	2,800	2,900	3,000	3,050	3,075	3,100	57.1%
Exports ('000 tonnes)*													
mutton shipped weight	99	82	107	172	160	-7.0%	126	129	132	135	140	148	-14.0%
carcase weight	126	108	134	206	192	-6.8%	151	155	158	162	168	178	-13.8%
lamb shipped weight	156	160	189	214	218	2.0%	215	218	220	225	231	238	11.4%
carcase weight	186	193	221	250	256	2.5%	253	256	259	264	271	280	11.9%
Domestic utilisation ('000 tonnes carcase weight)													
mutton	13	6	6	11	8	-27.7%	6	6	6	6	6	6	-40.0%
kg/capita	0.6	0.3	0.2	0.5	0.3	-35.1%	0.3	0.2	0.2	0.2	0.2	0.2	-47.8%
lamb	215	200	224	220	206	-6.4%	201	195	204	204	202	200	-9.1%
kg/capita	9.7	9.0	9.9	9.5	8.8	-10.0%	8.2	7.9	8.1	7.9	7.8	7.6	-19.6%

Source: ABS, DA, MLA forecasts

f = forecast (in italics)

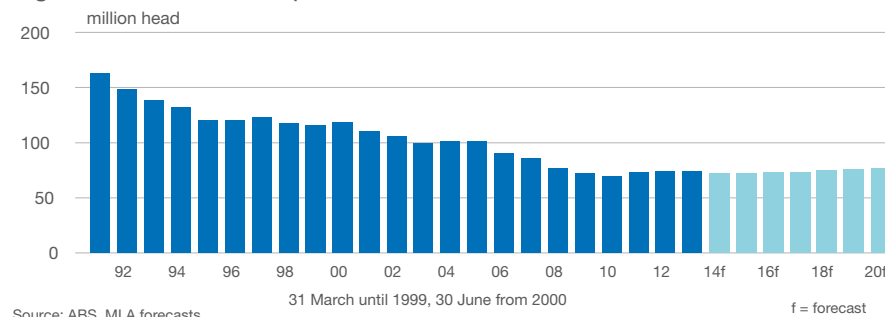
* excl. canned/miscellaneous



Australian sheep flock

- As at June 2014, the Australian sheep flock was estimated to have been 72.2 million head – a 2.7% decline from the preceding 12 months.
- The overall decline in the flock since 30 June 2013 is primarily attributed to the higher sheep slaughter for the 2013-14 fiscal year – which was the result of drought conditions across many regions. While drought conditions in northern and western NSW and Queensland will continue to impact flock numbers into 2014-15, survey results and producer feedback point to a desired flock expansion for southern producers throughout 2014-15 – albeit balanced with cropping intentions.
- For the WA flock, improved seasonal conditions in 2014 and attractive prices have reportedly encouraged producers to consider retaining breeding numbers in order to boost lamb sales in coming years. However, such a consideration is still overshadowed by the move towards cropping, especially when seasonal conditions permit – as has been the case in 2014.

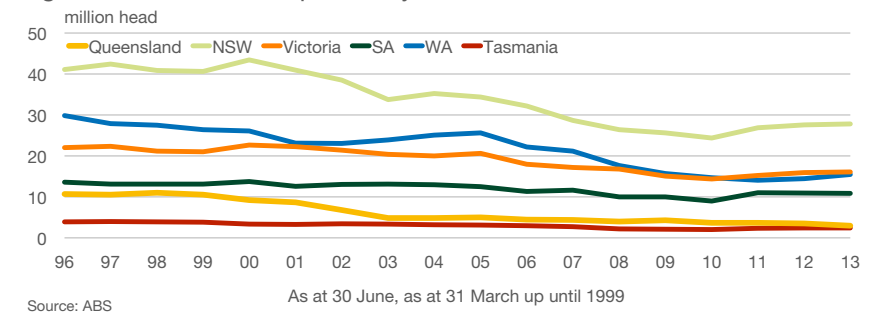
Figure 4 Australian sheep flock



Mid-year update

- Historically, the size of the Australian sheep flock has been very reactive to seasonal conditions, with a clear trend of declining numbers in dry periods and flock growth during wetter periods. After recording the lowest sheep population in over a century in 2010 (70.1 million head), on the back of a lengthy dry spell since 2005, the Australian sheep flock grew to 74.7 million head, as at June 2012, following back-to-back wet years in 2010 and 2011.
- Producer flock intention information collected in the MLA and AWI wool and sheepmeat survey (June 2013 to June 2014) clearly illustrates producer intentions to increase flocks. In the latest June survey period, the majority of respondents reported that it was a better season overall, compared to the corresponding period last year, with 27% of producers intending to increase their ewe flock size in 2015 – up 31% year-on-year.
- Through to 2020, the sheep flock is forecast to increase gradually, based on the assumption of “average” seasonal conditions from 2015 onwards and comparatively favourable returns against other on-farm options. By June 2020, the Australian sheep flock is forecast to reach 77 million head.

Figure 5 Australian sheep flock by state



MLA and AWI wool and sheepmeat survey

Survey results – Mid-year update

Surveys are performed tri-annually, in February, June and October and attract an average of 2,000 responses per survey.

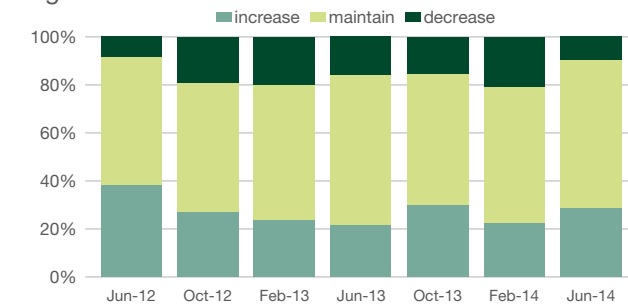
There is strong representation from all states and from both Merino and non-Merino flocks.

Survey results highlight current flock numbers and future supply intentions.



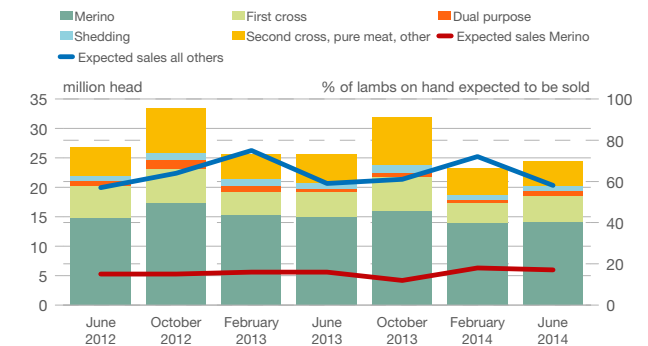
- MLA and AWI wool and sheepmeat survey results suggest that, as at 30 June 2014, the total number of lambs on hand in Australia was back 6%, or 1.6 million head, on the corresponding survey period last year, at 24.5 million head (Note: June results for 2013 were very high, which has been reflected in record slaughter numbers for the fiscal year). This was underpinned by 6% and 20% fewer Merinos and ‘other’ varieties (pure meat, second-cross and composite breeds), respectively, along with 27% fewer shedding lambs reportedly on hand in June. Despite the overall decline in the lamb crop, there were 5% more first-cross lambs on hand reported in June.
- In line with the lower number of lambs on hand, the total number of intended lamb sales in the four months following June 2014 (July to October) is back 5% on the same period last year, at 8.5 million head. Despite sales of Merino lambs expected to lift 6% year-on-year, this was not enough to offset the 8% fall in the number of non-Merino sales, compared to last year.
- The June survey results suggest that seasonal conditions improved considerably across all states except Queensland, with 54% of the total respondents reporting above-average seasonal conditions, and 67% reporting that it was a better season overall, compared to last year. On the back of a more positive season, ewe flock intentions for 2015 were also more encouraging than the same time last year, with 27% of producers intending to increase their ewe flocks, up 31% year-on-year. Producers planning on maintaining their ewe flock size remained fairly steady on last year, at 57%, while the proportion of producers looking to decrease their ewe flock size in the next year declined 39%, to 9% of the total respondents.

Figure 6 Ewe flock size intentions



Source: MLA and AWI sheepmeat and wool surveys

Figure 7 Lambs on hand and expected lamb sales - Australia



Source: MLA and AWI sheepmeat and wool surveys



Lamb slaughter

- Following the record drought-induced lamb slaughter in 2013, the hot and dry conditions over summer saw producers turning off lambs earlier and at lighter weights. This also had significant impacts on joining and scanning rates, which will impact turnoff in later 2014 and into 2015. As a result, the total Australian lamb slaughter for 2014 is forecast to be 3.1% lower year-on-year, at 21.2 million head.
- The first five months of 2014 saw total Australian lamb slaughter at 9.1 million head – fairly similar to the corresponding period in 2013 (Australian Bureau of Statistics). A combination of survey results and industry feedback indicate lamb numbers will tighten year-on-year into the second half of 2014 – against the record throughput in late 2013.
- Mild conditions across SA and Victoria in autumn and winter last year supported sufficient pasture growth, assisting lamb survival and marking rates in spring, and enabling ample lamb supplies to continue to come through during the start of 2014. Moving into winter 2014, conditions have been cold and wet across the southern regions, with anecdotal evidence of some areas in South Australia being too wet, although lamb growth rates have reportedly been very strong.

- In NSW, water resources have been a major concern throughout 2014, and as a result, lamb turnoff has been seasonally high, with minimal restocker activity and many producers opting not to finish lambs to heavier weights – especially throughout northern and western NSW. An excellent autumn break assisted conditions across central and southern NSW. Despite the timing of the break favouring cropping, many producers increased sheep and lamb sales, lured by favourable prices.
- In WA, producers experienced a very dry summer, putting water resources under pressure. Conditions improved markedly for the first six months of 2014, with mild temperatures and widespread rainfall across the Wheatbelt assisting pasture and crop sowing. Anecdotal evidence suggests that an increased number of producers offloaded greater numbers of stock to focus on cropping operations. As is normally the case in winter, lamb supply tightened considerably, which resulted in fierce competition for the limited supplies.
- Australian lamb slaughter is forecast to continue contracting to a low in 2016, before numbers begin to gradually rebuild out to 2020, to 21.8 million head – still 0.4% lower than the record level in 2013. This increase in slaughter will largely be in line with the expansion of the sheep flock, assisted by more favourable returns compared to other farming options.

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Figure 8 Australian lamb slaughter

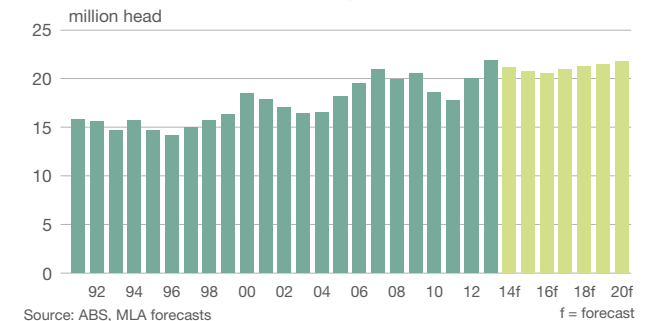


Figure 9 Monthly Australian lamb slaughter

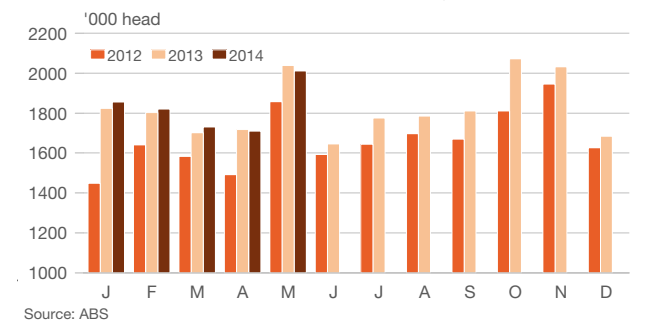
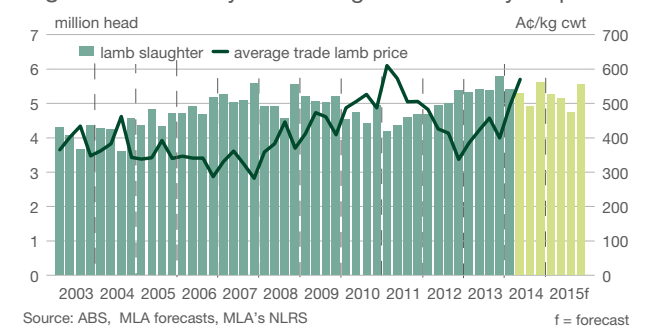


Figure 10 Quarterly lamb slaughter and saleyard prices



Mutton slaughter

- Given the surge in sheep slaughter in 2013, with many producers actively reducing their older ewe flocks which were retained through previous wet years, slaughter levels in 2014 are expected to tighten, albeit not as sharply as first forecast in January 2014. The forecast for total Australian sheep slaughter in 2014 is 7.4% lower than last year, at 8.9 million head.
- For the first five months of 2014, national sheep slaughter (ABS) was up 10% year-on-year, at 4.53 million head.
- During the first quarter of 2014, sheep slaughter levels across the eastern states (NSW, Queensland, SA, Victoria and Tasmania) were consistently high, increasing 24% year-on-year. However, numbers started to contract as the very welcomed autumn break gathered momentum in April. The hot and dry conditions during summer, particularly in NSW, stimulated high sheep turnoff, with low feed and water stocks available across the western and northern parts of the state impacting joining rates.
- Despite an improvement in conditions for WA throughout the first half of 2014, sheep slaughter remained higher than anticipated – largely due to the renewed vigour in expanding cropping operations given the timing and extent of the rain throughout autumn.
- Australian sheep slaughter is expected to decline to 7.12 million head in 2016, and slowly climb back to 8 million head by 2020, which is 16.8% lower than the high levels seen in 2013. While the slaughter levels are largely in line with flock rebuilding efforts over the longer term, any sustained period of drought will again put pressure on turnoff rates.

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Figure 11 Australian sheep slaughter

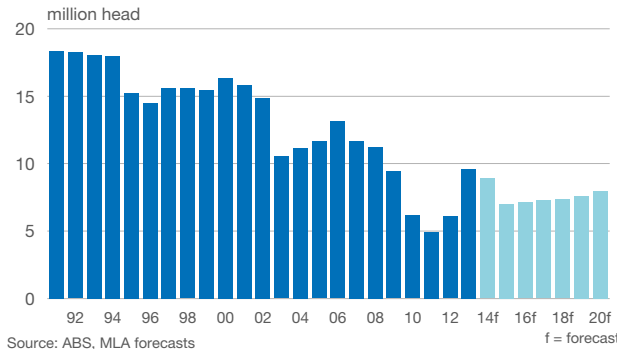


Figure 12 Monthly Australian sheep slaughter

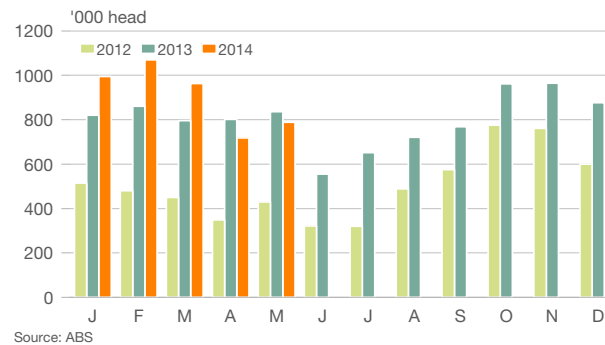
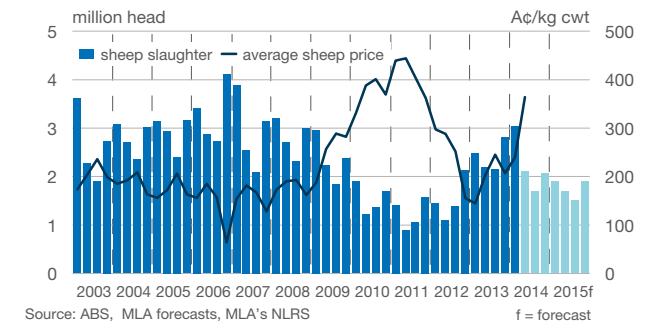


Figure 13 Quarterly sheep slaughter and saleyard prices



Lamb and mutton production and carcase weights

Mid-year update

- Australian lamb production in 2014 is forecast to fall 1.6%, or 8,000 tonnes cwt, year-on-year, to 462,000 tonnes cwt. The lower production is underpinned by a forecast 3.1% decrease in lamb slaughter for the year, which was slightly offset by an increase in carcase weights.
- Drought conditions throughout 2013 saw the average carcase weight drop to a low of 21.5kg/head cwt, as diminished feed and water stocks, especially in NSW, pressured producers to turn off lambs earlier and at lighter weights. Following the autumn break in 2014, seasonal conditions improved markedly across most of the country, which is expected to push the national average carcase weight for the year back up to 21.8kg/head cwt, as producers have been able to finish lambs through to heavier weights. For the first five months of 2014, average carcase weights have reached 21.9kg/head cwt.
- Through to 2020, the average national lamb carcase weight is expected to remain fairly stable at 22.0kg/head cwt, from 2016 onwards. This stability is both a combination of the clear market signals from processors for consistency in weights and an ever increasing ability of producers to meet specifications.

- Australian mutton production is forecast to contract 7.8%, or 17,000 tonnes cwt, on last year, to 200,000 tonnes cwt. As is the case with lamb, the expected decline in production is underpinned by tighter available supplies, following the high levels of drought-driven slaughter in 2013.
- The average national sheep carcase weight is forecast to fall further in 2014, back 0.4% year-on-year, to 22.4kg/head cwt.
- Out to 2020, the national average sheep carcase weight is forecast to gradually increase each year, climbing to 23.0kg/head cwt in 2020.



Figure 14 Australian lamb production

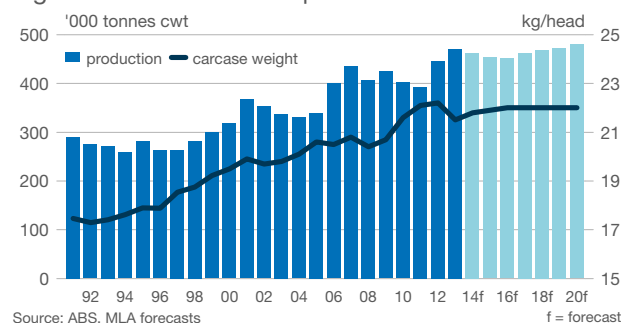
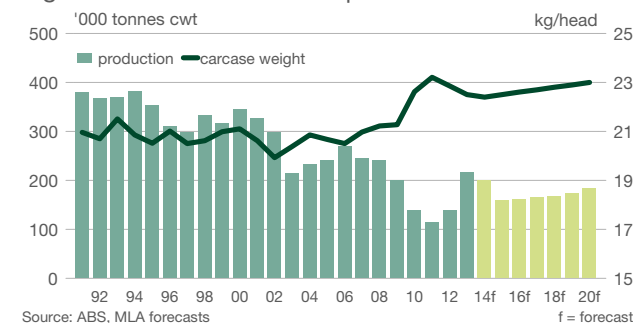


Figure 15 Australian mutton production



Sheep farm income

- According to 2013-14 ABARES results, the average farm cash income for specialist slaughter lamb producing farms in 2013-14 was estimated to have increased 30% year-on-year, to \$91,000 per farm. This recovery is largely attributed to an expected increase in crop receipts, assisted by high winter crop production and favourable grain prices.
- ABARES forecast lamb receipts to increase in 2013-14, despite expected similar lamb sales to the previous sales by specialist lamb producers are expected to decline slightly, in an effort to rebuild their flocks. These results demonstrate the projected rise in lamb prices due to a reduced breeding flock size and restocking activity restricting supplies and, therefore, boosting demand. Similarly, adult sheep prices are expected to be higher in 2013-14, and along with a forecast rise in average adult sheep sales, this is expected to support a 12% increase in sheep receipts for specialist producers.
- Crop receipts, on the other hand, are estimated to account for 28% of total cash receipts of specialist slaughter lamb producing farms (180 ha sown to crop), at \$88,000 in 2013-14 – up 24% year-on-year. Similarly wool and beef cattle sale receipts are expected to increase in 2013-14, at \$55,000 per farm and \$30,000 per farm, respectively.

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- National saleyard lamb indicators were stronger across all categories in 2013-14, compared to the previous fiscal year. The national trade lamb indicator lifted 23% year-on-year, averaging 483¢/kg cwt. With improved seasonal conditions and strong lamb prices in 2014, producers have been able to finish lambs to heavier weights and meet market specifications, which have assisted the growth in farm incomes during the fiscal year.



Figure 16 Australian slaughter lamb farm income

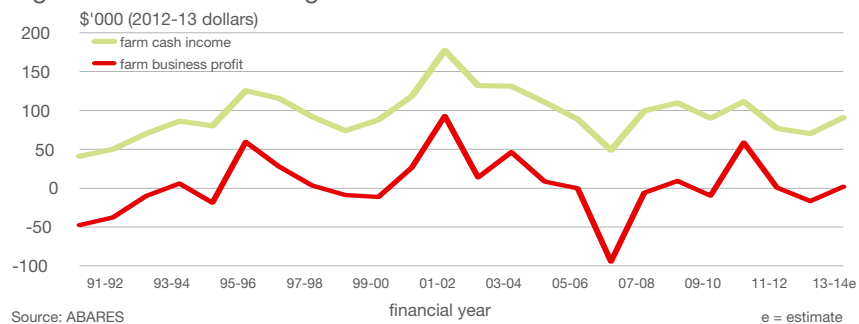
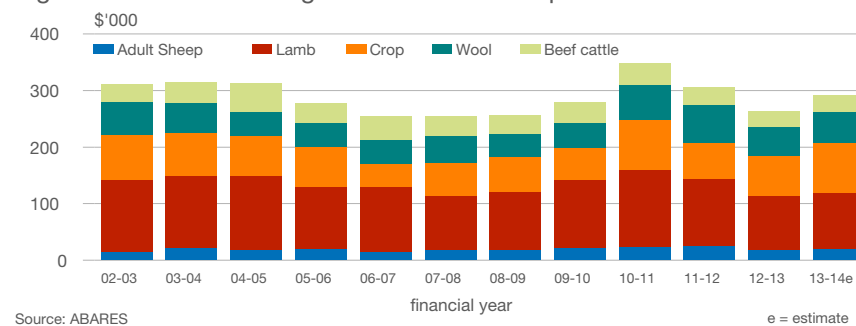


Figure 17 Australian slaughter lamb farm receipts

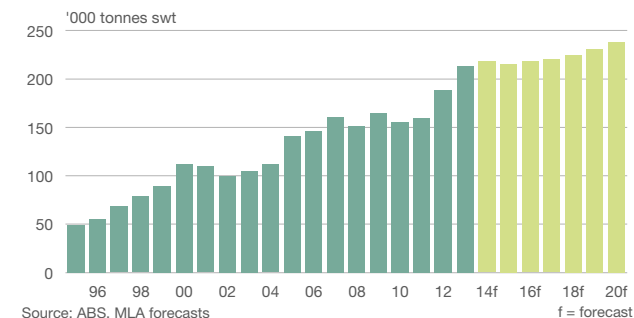


2014 demand outlook

- The demand outlook for the Australian sheep industry in 2014 looks very positive, attributed to growing global demand from major markets coupled with reduced available supplies from New Zealand throughout the year – our primary competitor in the sheepmeat trade.
- Following the record high volumes of Australian lamb shipped in 2013, at 213,714 tonnes swt, total Australian lamb exports are forecast to set a new calendar year record in 2014, at 218,000 tonnes swt, up 2% year-on-year.
- Mutton shipments are forecast to decline 7% in 2014, compared to the previous year, to 160,000 tonnes swt, underpinned by lower available supplies.
- Strong growth in export demand, especially from Asia, the US and the Middle East, is drawing lamb away from the domestic market, with consumption forecast to fall between 2014 and 2016. Consequently, the export share of lamb produced has risen from 46% in 2010 to a forecast 55% in 2014 and 58% by 2020.

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Figure 18 Australian lamb exports



2014 lamb demand outlook

Mid-year update

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

	2010	2011	2012	2013	2014 ^f	% change ^f	2015 ^f	% change ^f
To:								
US	34.1	34.3	36.7	39.2	42.5	8%	43.5	2%
Canada	3.7	3.9	4.7	5.6	5.8	4%	5.0	-14%
Mexico	1.8	1.2	0.8	0.8	0.6	-28%	0.5	-17%
Middle East	36.7	34.9	51.8	59.8	61.0	2%	62.0	2%
China	15.7	21.2	29.5	39.5	40.0	1%	42.0	5%
Hong Kong	8.1	6.2	3.5	7.5	10.0	33%	10.0	0%
Malaysia	4.5	5.4	5.0	6.3	6.0	-4%	5.0	-17%
Singapore	1.6	1.8	1.7	1.4	2.2	52%	2.0	-9%
Japan	7.7	7.4	7.7	7.7	9.5	23%	9.0	-5%
South Korea	2.1	2.7	3.0	3.2	4.8	51%	4.5	-6%
EU	12.0	13.0	12.1	11.7	12.8	9%	12.5	-2%
Other Europe	3.7	3.5	3.5	3.1	2.8	-9%	2.5	-11%
Pacific	9.5	10.9	14.0	13.3	8.5	-36%	7.0	-18%
South Africa	3.0	3.2	2.0	1.8	1.2	-32%	0.9	-25%
Other Africa/Mauritius	4.0	3.4	5.7	4.4	4.0	-8%	3.5	-13%
Other	7.5	7.1	7.0	8.4	6.3	-25%	5.1	-19%
Total	155.5	160.0	188.6	213.7	218.0	2.0%	215.0	-1%

Source: DA, MLA forecasts

Pacific = PNG, New Zealand & Pacific Islands

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

f = forecasts (indicated in italics)



2014 mutton demand outlook

Mid-year update

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

	2010	2011	2012	2013	2014 ^f	% change	2015 ^f	% change
To:								
Middle East	42.9	39.5	46.7	40.9	44.0	8%	38.0	-14%
China	6.7	5.1	16.4	57.9	48.0	-17%	41.0	-15%
Taiwan	4.2	3.6	4.9	6.6	7.6	14%	4.0	-47%
Hong Kong	0.8	0.5	0.9	6.6	2.5	-62%	2.0	-20%
Malaysia	7.0	3.5	5.6	11.1	9.5	-15%	7.0	-26%
Singapore	5.4	5.3	5.8	7.4	8.5	15%	6.0	-29%
Japan	3.8	4.5	3.2	3.8	4.8	27%	4.5	-6%
South Korea	1.0	1.0	1.0	1.0	1.1	11%	0.7	-36%
US	8.7	4.5	7.5	8.7	10.0	14%	7.0	-30%
Mexico	1.0	0.2	0.4	2.9	2.6	-10%	1.0	-62%
EU	4.9	3.5	3.7	5.0	5.0	0%	4.6	-8%
Other Europe	4.5	3.2	4.5	4.7	4.0	-15%	3.5	-13%
Pacific	1.6	2.0	1.0	2.5	2.6	4%	2.0	-23%
South Africa	1.6	1.9	1.3	1.2	0.7	-42%	0.5	-29%
Other Africa/Mauritius	2.2	1.6	1.6	4.8	5.0	5%	1.0	-80%
Other	2.7	2.3	2.4	6.9	4.1	-40%	3.2	-22%
Total	99.1	82.2	106.7	172.0	160.0	-7%	126.0	-21%

Source: DA, MLA forecasts

Pacific = PNG, New Zealand & Pacific Islands

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

f = forecasts (indicated in italics)



Australian market

- In 2014 to date, the Australian market has been able to consume a larger volume of lamb than initially anticipated in the January 2014 projections. As a result, lamb consumed in the Australian market is now expected to fall 6.4% year-on-year, to 206,000 tonnes cwt in 2014, instead of the 8.3% fall initially forecast.
- The revision is the result of a smaller than expected decline in Australian lamb production (driven by sustained high levels of slaughter), with exports still expected to account for 55% of production in 2014.
- In the last week of July 2014, ANZ-Roy Morgan forecast general Australian consumption growth to remain moderate this year, before improving in 2015. ANZ-Roy Morgan Consumer Confidence rose a further 2.4% to 116.2 in the week ending July 27, with ANZ noting the recovery from the sharp deterioration seen in the weeks around the Commonwealth Budget. The 'shock' from the Budget was temporary, with the improvement in house prices, employment, and signs of a pick-up in activity in the global economy most likely supporting confidence at long-term average levels, according to ANZ-Roy Morgan. ANZ-Roy Morgan also reported that the weakness in retail sales growth in May in part reflected the hit to confidence; they note that retail spending should strengthen going forward.

Mid-year update

- At retail level in Australia, total lamb volumes sold in the 12 months to June 2014 eased 1.7% year-on-year (Nielsen Homescan), and like all fresh meat, a continuing trend of supermarket share growth and slower volumes through butchers was registered.
- Nielsen Homescan data also indicates that the non-supermarket share of sales for lamb stood at 20.3% compared with 22.7% the same time in 2013. Pricing trends from the Nielsen Homescan data also indicate that in the 12 months to June, the average unit price for lamb fell 2.1% for supermarkets, but increased 2.8% for butchers, clearly influencing segment sales through the period.
- General foodservice trends reported by BIS Foodservice Foresight in their May forecasts also suggest some growth in the commercial segment this year. In their May quarterly report, BIS Shrapnel has revised up the forecast for the commercial foodservice sector for 2014 as well as 2015, to 2.9% and 3.0%, respectively, in constant prices. The report also notes that the revision is due to the recent strength in domestic catering expenditure, which has been higher and sustained for longer than expected. BIS Foresights note that it is the highest quarterly growth registered since mid-2011 after a long period of flat growth. The record low interest rates which are expected to be lasting have also been an important factor supporting expenditure.

Figure 19 Domestic lamb utilisation

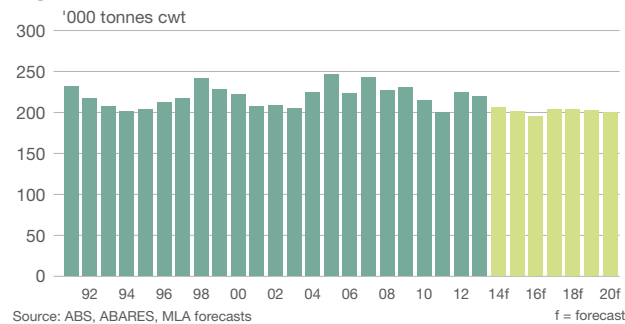


Figure 20 Mutton exports and domestic utilisation

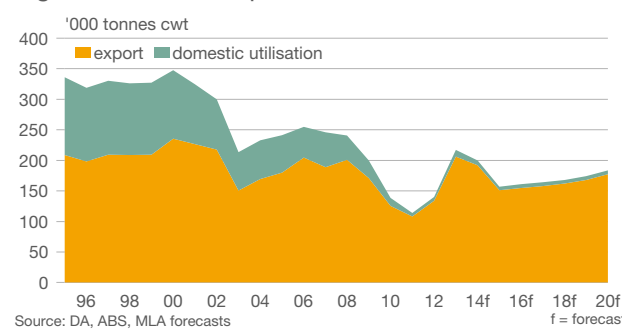
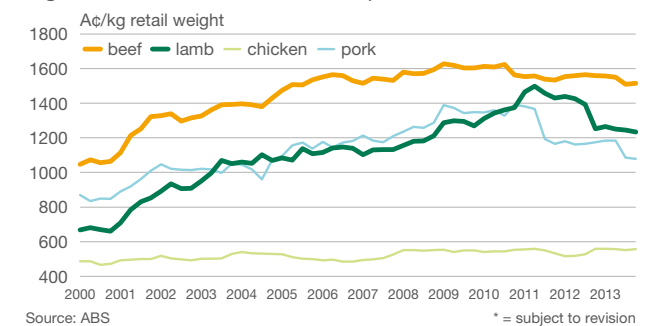


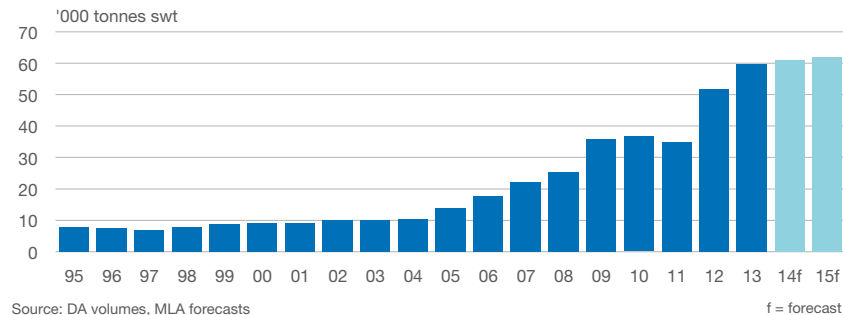
Figure 21 Australian retail meat prices*



Middle East

- There has been no change to the forecast export volume of lamb to the Middle East since the beginning of 2014, with shipments projected to reach 61,000 tonnes swt, an increase of 2% on last year. Most Middle Eastern markets have maintained a strong buying pattern in the face of rising prices and competition from other markets, as well as the A\$ continuing to trade at historically elevated levels. Similar growth is forecast for 2015, to 62,000 tonnes swt.
- During the first half of 2014, Australian lamb exports to the Middle East were 2% higher than the same period last year, although the mix of destinations has shifted markedly. The UAE remains the largest individual market, with 8,553 tonnes swt, up 10% from last year, while shipments to Bahrain (6,527 tonnes swt) and Jordan (5,283 tonnes swt) declined on 2013.
- Lamb exports to Qatar have increased in line with a large jump in demand, with live animal processing facilities reaching close to capacity at times. Exports to Iran have all but stopped in 2014, with certification issues hindering access.

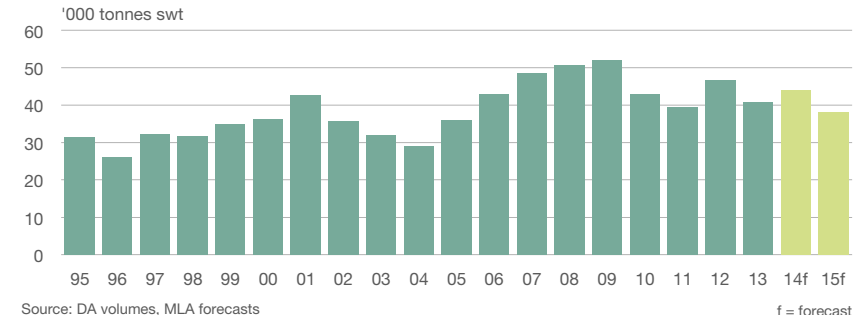
Figure 22 Lamb exports to the Middle East



Mid-year update

- The mutton trade to the Middle East increased during the opening half of 2014, growing 11% year-on-year, to 27,644 tonnes swt – largely due to relatively high sheep slaughter during this period. As a result, the forecast for 2014 has been increased to 44,000 tonnes swt (up from 34,100 tonnes swt at the beginning of the year), with a 14% drop projected for 2015, to 38,000 tonnes swt.
- Most mutton markets have had increased trade volumes so far in 2014, including Saudi Arabia, Oman, Egypt and Qatar, while the trade to the UAE was steady and there were lower shipments to Kuwait and Iran.
- Australia's lamb and mutton exports to the Middle East remain dominated by whole carcasses, although legs and shoulders are popular in the supermarket trade, and higher value racks and loin cuts continue to generate interest in high-end foodservice.

Figure 23 Mutton exports to the Middle East



United States

Mid-year update

- In the first six months of 2014, Australia's lamb exports to the US increased 16% compared with 2013, to 22,434 tonnes swt. Shipments are expected to slow, somewhat, in the second half of the year, resulting in an annual total of 42,500 tonnes swt – an 8% increase on the 2013 total. This is in line with all Australian lamb exports being slightly lower over the next six months, compared with the opening half.
- This would be the highest annual total to the US since 2007, and volumes are also forecast to increase a further 2% in 2015, to 43,500 tonnes swt.
- The relatively large increase in lamb exports to the US so far this year has been across a wide range of cuts, most notably legs, racks, shortloins and mixed bone-in primals.
- A positive development in the US lamb trade so far in 2014 has been the increasing proportion of chilled lamb in the export mix. This has tended to be in the higher value portion of the trade, including shortloins and legs, as well as mixed bone-in primals.
- In the US, lamb remains a relatively high-priced protein, but has generally been less affected by the price rises associated with beef, pork and poultry in the US this year. This improves the price competitiveness of lamb at the wholesale level, encouraging foodservice use, and at the retail level, encouraging home consumption. Lamb does, however, remain a very low proportion of the average US protein consumption.
- Australia's mutton exports to the US have also increased so far in 2014, lifting 35%, to 6,684 tonnes swt. Most of this growth has been in the carcase trade, which has jumped 112% year-on-year, to 4,265 tonnes swt.



Figure 24 Lamb exports to the US

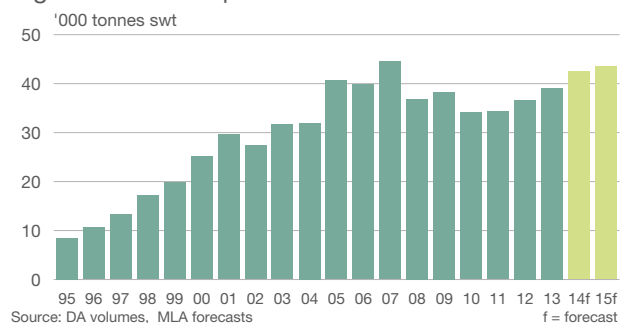
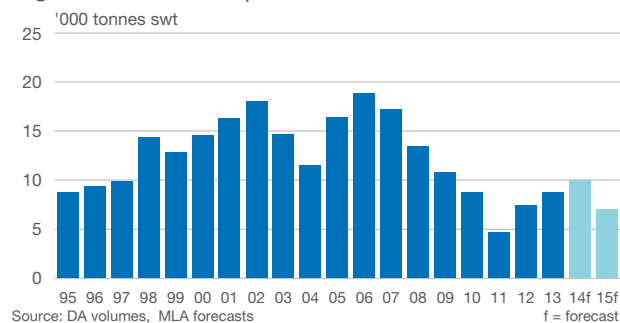


Figure 25 Mutton exports to the US



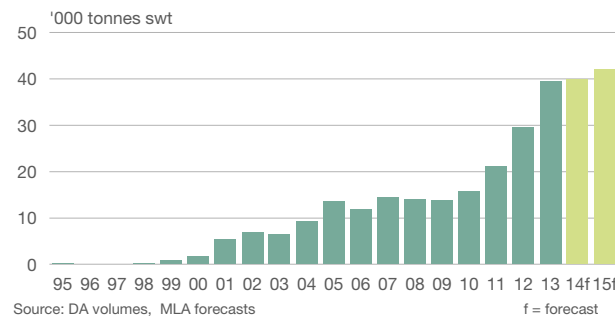
China

Lamb

- Australian lamb exports to China have consistently remained above year-ago levels during the first six months of 2014, and lamb shipments are forecast to be 1% higher than the record volume registered in 2013, at 40,000 tonnes swt.
- In 2000, lamb breast and flap exports to Greater China accounted for 8% of the total Australian lamb breast and flap exports. In 2007, the percentage increased to 42%, and by 2014 (January to June), it jumped to 69%. Lamb breast and flap exports to China and Hong Kong in recent years have seen China rapidly surpass volumes sent to other markets.
- The growth in lamb shipments has been attributed to the booming demand for hot pot in Chinese foodservice. Breast and flap is a relatively large cut from a lamb carcass (12.1% of the carcass weight), and was traditionally one of the lowest value items exported, along with manufacturing lamb (rack cap).
- While Australian lamb saleyard prices have increased 74% over the past seven years, the value per kilogram of Australian lamb exports to China increased 147% over the same period. Even throughout a period of tight supplies and high prices in 2011 and 2012 in Australia, lamb exports to China continued to rise. China will continue to be an important market for Australian sheepmeat, both in volume and value terms.

- China became the largest single export market for New Zealand (NZ) lamb in 2012, and has maintained this position into 2014. NZ lamb exports to China during January to June 2014 reached the highest level on record, accounting for 30% of the overall NZ shipments for the period, yet were only marginally above the same period last year.
- Further growth in NZ lamb exports to China is forecast to be limited due to the expected tighter supplies. Although Uruguay lamb exports to China have accelerated over recent years, shipments from Uruguay are from a low base and are likely to remain constrained by a relatively small flock.

Figure 26 Lamb exports to China

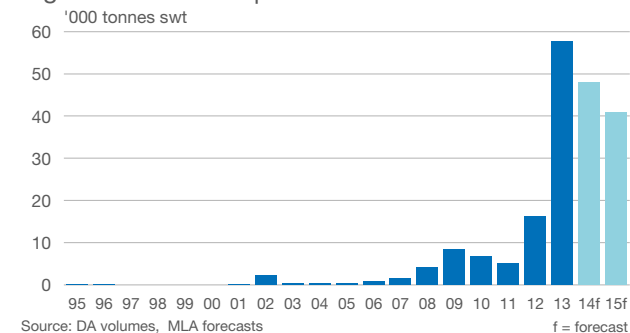


Mid-year update

Mutton

- Sheepmeat consumption is known to be highly seasonal in China, with a trough in summer through to early spring, and an acceleration from late spring to peak in winter.
- For 2014, Australian mutton exports to China are forecast to decline 17%, to 48,000 tonnes swt. While mutton exports to the market in the first half of 2014 were 7% above the same period last year, tighter supplies from Australia towards the end of 2014 are expected to influence 2014 shipments.
- As summer approached, reduced demand impacted mutton carcass shipments, which saw volumes to the market ease for the first time in two years. Wholesale domestic sheep prices in China also reported year-on-year declines during the three months to June, including a dip in prices reported in May (averaging RMB22.78/kg lwt – A\$3.92/kg lwt), before edging up to RMB23/kg lwt (A\$3.93/kg lwt) in June, back 14% year-on-year.

Figure 27 Mutton exports to China

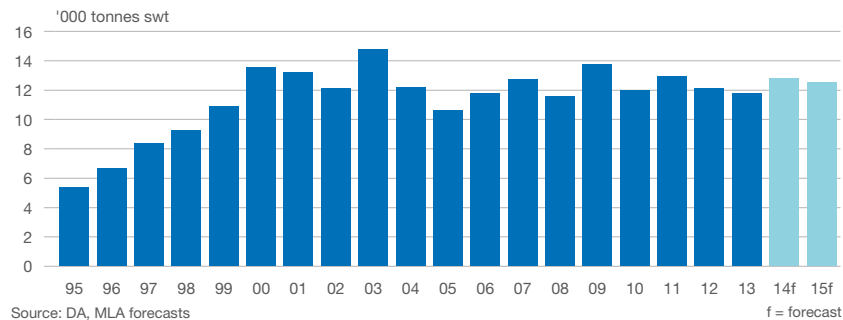


European Union

- Australian lamb shipments to the EU are forecast to increase 9% year-on-year, to 12,800 tonnes swt in 2014, while exports to other Europe* are expected to reach 2,800 tonnes swt, a decline of 9% on the previous year. Australian sheepmeat exports to the EU are constrained by a small country-specific calendar year quota allocation of 19,186 tonnes swt.
- The improved economic sentiment throughout Europe, particularly in the UK, combined with tight supplies in New Zealand (NZ), has made for a positive year so far for Australian sheepmeat exports to the EU in 2014.
- Australian sheepmeat exports to the EU during the first half of 2014 totalled 9,714 tonnes swt, up 36% year-on-year, underpinned by lamb shipments increasing 45% over the same period, to 7,080 tonnes swt – the highest volume for the period since 2004. Mutton exports also rose 17% year-on-year, to 2,633 tonnes swt.

*Other Europe: CIS, Eastern Europe and Western Europe other than EU

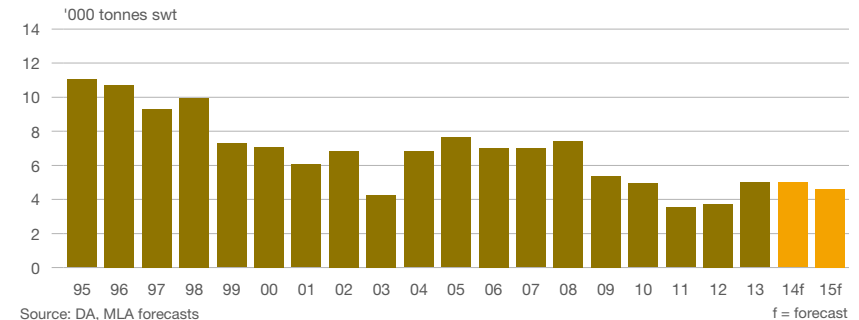
Figure 28 Lamb exports to EU



Mid-year update

- After being hit by a double-dip recession since 2008, there are genuine signs that a stable recovery is now taking place in the EU, with the moderate recovery in consumption forecast to gain strength as consumer confidence improves and disposable incomes rise, as a result of mild labour market conditions. UK GDP growth is forecast to rise 2.7% in 2014 and 2.5% in 2015 (European Commission Forecast – Spring 2014).
- The reduction in NZ lamb and mutton supplies, along with strong demand from other markets, such as China, have been reflected in lower shipments to the EU. NZ lamb exports to the UK, NZ's major destination within the EU, dropped 9% year-on-year, to 40,097 tonnes swt, with mutton also down 41%, to 2,824 tonnes swt.
- Sheepmeat production in the EU increased slightly in 2013, driven by the good growing conditions in the northern regions, combined with lower cereal prices, which implied lower production costs. However, the current drought conditions affecting pasture growth, particularly in Spain, may limit further rises in production in 2014.

Figure 29 Mutton exports to EU

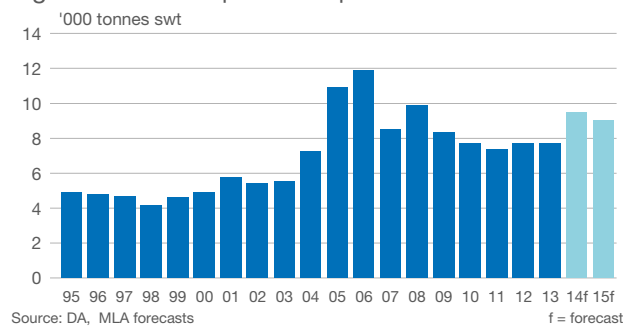


Other

Japan

- Australian lamb exports to Japan are forecast to total 9,500 tonnes swt in 2014 – up 23% year-on-year. So far in 2014 (January to June), lamb shipments to Japan have totalled 5,262 tonnes swt, and of this, 58% was chilled. The most popular lamb cuts to Japan so far this year have been shoulder (3,027 tonnes swt) and manufacturing lamb (1,318 tonnes swt).
- Mutton shipments to Japan in 2014 are forecast to be 27% above 2013 levels, at 4,800 tonnes swt. In the year-to-date (January to June), export volumes have reached 2,621 tonnes swt – almost all of which were frozen. Manufacturing mutton (983 tonnes swt), backstrap (614 tonnes swt) and leg (790 tonnes swt) have accounted for the largest volumes by cut in 2014 so far.

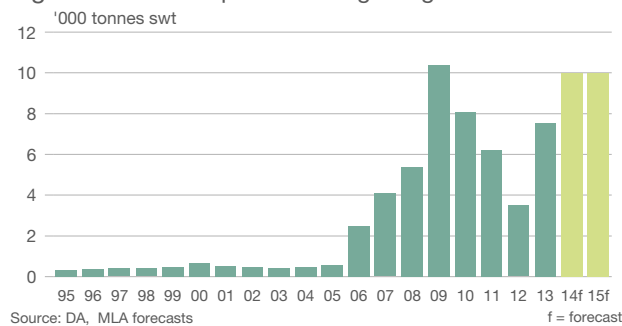
Figure 30 Lamb exports to Japan



Hong Kong

- In 2014, Australian lamb exports to Hong Kong are projected to be 33% higher year-on-year, at 10,000 tonnes swt. For January to June, Hong Kong is maintaining its market share from the previous year (4%), with volumes totalling 4,908 tonnes swt. Almost 97% of lamb exports in the year to June have been frozen, with breast & flap (2,217 tonnes swt) and manufacturing lamb (1,228 tonnes swt) making up the majority of shipments.
- After a record year of Australian mutton export volumes to Hong Kong in 2013, shipments are forecast to contract 62% in 2014, to 2,500 tonnes swt. Mutton exports in the first six months of 2014 have totalled 1,375 tonnes swt, with mutton carcasses accounting for 904 tonnes swt.

Figure 31 Lamb exports to Hong Kong

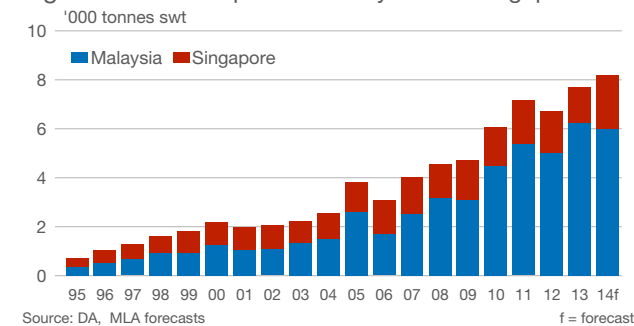


Mid-year update

South East Asia

- Following a record volume of Australian lamb shipments to South East Asia (SEA) in 2013, SEA is maintaining its market share (5%) in 2014, with shipments totalling 5,857 tonnes swt in the year to June, and frozen cuts making up 91%. Malaysia is the primary export destination in the region in 2014, with 3,140 tonnes shipped so far this year, while 1,053 tonnes swt have been sent to Singapore. Shoulder (2,735 tonnes swt) has been the most popular cut during the first six months followed by breast (664 tonnes swt) and leg (797 tonnes swt).
- Australian mutton exports to SEA have reached 13,188 tonnes swt in the year to June. Similarly to lamb, Malaysia and Singapore are the major destinations for Australian mutton in SEA, with 7,869 tonnes swt and 4,571 tonnes swt shipped in the year-to-date. Carcase exports have reached 7,550 tonnes swt in the first half of 2014, while leg and manufacturing mutton have totalled 2,284 tonnes swt and 1,864 tonnes swt, respectively.

Figure 32 Lamb exports to Malaysia and Singapore



Live exports - summary

- Australian live sheep exports are forecast to reach 2.3 million head in 2014, up 16.6% on the 1.973 million head exported in 2013.
- Improved market access in key markets in the Middle East is likely to underpin the forecast rise; however, this will likely impact the recent growth in other live sheep markets.
- Under the assumptions and outlined numbers projected, a significant challenge for exporters will be in securing adequate numbers of suitable sheep. A better than expected seasonal finish to 2014 could tighten sheep supplies further into 2015, making available supplies tighter, especially for WA, where the majority of sheep are sourced.
- Market access will continually be sought after across all countries, and ongoing negotiations regarding ESCAS standards with Middle Eastern markets, in particular, Bahrain, Turkey, Libya and Saudi Arabia, will likely see further increases in live sheep exports in 2015.

Mid-year update

Figure 33 Australian live sheep exports

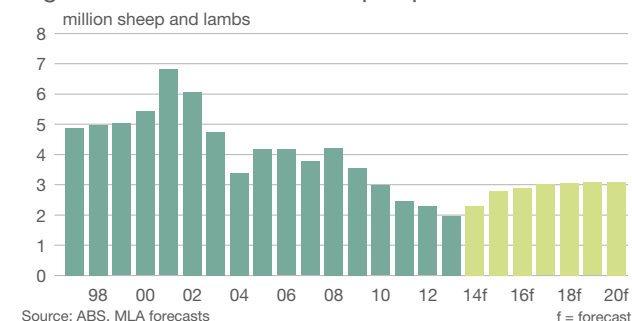


Table 4 Australian live sheep exports (head)

	2010	2011	2012	2013	2014 ^f	% change	2015 ^f	% change
To:								
Kuwait	1,076,455	956,725	706,644	876,004	900,000	3%	1,050,000	17%
Qatar	321,415	395,728	531,894	560,762	500,000	-11%	550,000	10%
Bahrain	535,731	354,450	249,741	0	225,000	-	250,000	11%
Turkey	215,038	352,352	245,147	120	0	-	150,000	-
Jordan	265,986	217,067	327,960	287,792	300,000	4%	300,000	0%
Israel	42,000	56,600	64,007	54,164	70,000	29%	85,000	21%
Oman	69,073	41,025	19,892	58,076	85,000	46%	100,000	18%
UAE	78,748	37,385	33,211	99,795	145,000	45%	150,000	3%
Saudi Arabia	262,500	24,000	69,000	0	0	-	75,000	-
Other	101,625	23,145	31,120	36,705	75,000	104%	90,000	20%
Total	2,968,571	2,458,477	2,278,616	1,973,418	2,300,000	17%	2,800,000	22%

Source: ABS, MLA forecasts

f = forecasts (indicated in italics)



Sources and acknowledgements Mid-year update

This document was produced and compiled by Meat & Livestock Australia (MLA), with the help of industry participants in the annual cattle projections workshop.

Baseline forecasts were also provided by the Centre for International Economics' Global Meat Industries (GMI) model.

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
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Australian Wool Exchange (AWEX)

Australian Wool Production Forecasting Committee (AWPFC)

Australian Bureau of Statistics (ABS)

Beef + Lamb New Zealand

Centre for International Economics (CIE)

Commonwealth Bureau of Meteorology (BOM)

Department of Agriculture (DA), Australia

Eurostat

Infoscan NZ

International Monetary Fund (IMF)

Millward Brown

Nielsen Homescan

Roy Morgan

United States Department of Agriculture (USDA)

Weeks Consulting Services

World Bank

Acronyms

- ABARES** – Australian Bureau of Agricultural and Resource Economics and Sciences
- ABS** – Australian Bureau of Statistics
- AWPFC** – Australian Wool Production Forecasting Committee
- CIE** – Centre for International Economics
- CIS** – Commonwealth of Independent States
- cwt** – Carcase weight
- DA** – Department of Agriculture – 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

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- 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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