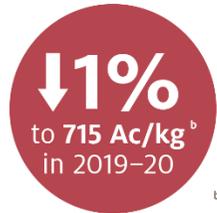
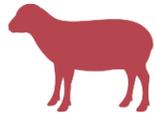


Sheep meat

Nathan Pitts



^b Australian weighted average saleyard price of lamb.



Sheep meat

Lamb prices to fall only slightly from historical highs because of strong saleyard competition.

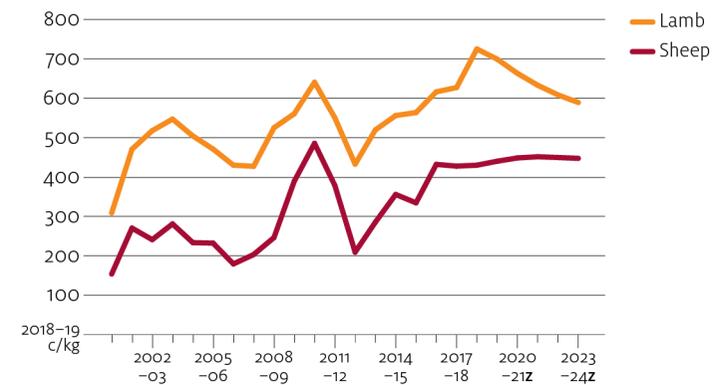
Prices to fall in the medium term

In 2018–19 saleyard lamb prices are forecast to increase significantly due to strong export demand. Dry conditions across large areas of eastern Australia reduced production, causing lamb prices to rise during 2018. From 2019–20 to 2023–24 lamb prices are projected to fall as production recovers, assuming a return to more average seasonal conditions.

However, lamb prices are expected to remain above historical averages due to strong demand from farmers for restocking and from processors for export. Restocker demand is expected to ease from 2020–21 onwards, but strong export demand for sheep meat will keep prices at historically high levels.

Despite high sheep slaughter, saleyard sheep prices in 2018–19 are expected to remain historically high as a result of strong global demand for sheep meat. They are expected to remain high in 2019–20 and throughout the medium term. This is due to ongoing strong demand and lower Australian mutton production as farmers rebuild flocks in eastern Australia.

Saleyard prices, lamb and sheep, 2000–01 to 2023–24



^z ABARES projection.

Sources: Australian Bureau of Statistics; Meat and Livestock Australia

Lamb production and sheep flock to rise

In 2018–19 total sheep meat production is estimated to increase because of higher sheep turn-off in response to dry seasonal conditions. This is expected to reduce the size of the national breeding flock and result in lower lamb production in 2019–20.

In 2019–20 the sheep flock is forecast to begin to recover as graziers prioritise flock rebuilding by reducing turn-off. The sheep flock is projected to expand throughout the outlook period to 2023–24. Growth is expected to be strongest early in the period, when a higher proportion of lambs are promoted to the breeding flock rather than turned off. Growth in the national flock is expected to be from both meat and wool producers, due to ongoing high prices for sheep meat and wool. However, high lamb prices will provide an incentive to maintain turn-off rates, extending flock expansion over the projection period to 2023–24.

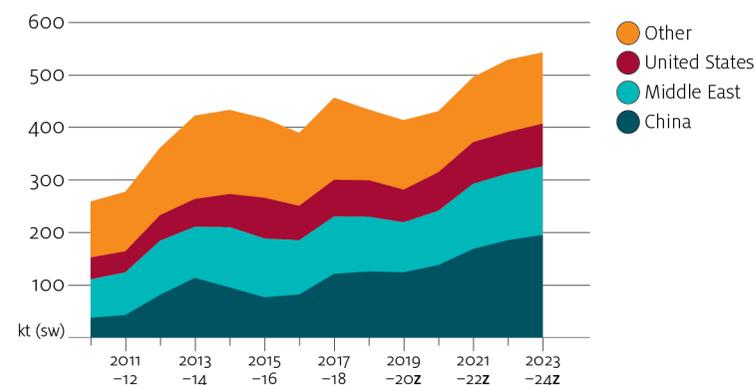
Strong export demand to continue

Australian lamb exports in 2018–19 and 2019–20 are expected to fall, in line with production. Mutton exports in 2019–20 are forecast to fall from high 2018–19 volumes due to lower mutton production. Almost all of Australia's mutton production is exported, and continued strong demand from China is expected.

Over the medium term to 2023–24, Australian sheep meat exports are projected to grow due to higher production and continued strong global demand. Strong export demand is expected to maintain upward pressure on prices, causing some substitution to other sources of protein in Australia's domestic market. Export growth is expected to be strongest for shipments to China, where income and population growth are expected to result in consumption increasing faster than domestic production. Exports to the United States are expected to increase marginally due to population growth. Export volumes to the Middle East are expected to fall slightly as consumer preferences shift from mutton to lamb. However, the total value of sheep meat exports to this market is expected to rise given the relative price of lamb to mutton.

In 2019–20 Australian live sheep exports are forecast to be largely unchanged from the disrupted levels of 2018–19. This is because new regulatory restrictions are assumed to limit shipments to the cooler months in the northern hemisphere (November to April). Over the projection period, live export volumes are expected to remain largely unchanged at around 1.0 million head per year.

Australian exports, sheep meat, 2010–11 to 2023–24



z ABARES projection.

Source: Australian Bureau of Statistics

Opportunities and challenges

Risks to herd rebuilding

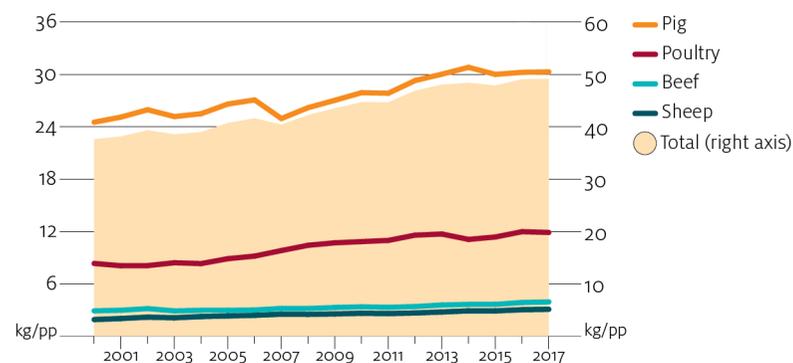
Despite high prices for sheep meat and wool in 2018–19, the national breeding flock is estimated to fall because of dry seasonal conditions and high supplementary feed costs. Over the medium term, the breeding flock is assumed to recover in response to high lamb and wool prices. Due to drought-related elevated turn-off in 2018, a significant proportion of rebuilt breeding flocks are likely to be sourced from lambs born in autumn 2019. However, climatic conditions as of late February 2019 in eastern Australia have been mixed and supplementary feed costs have remained high. If seasonal conditions remain unfavourable in 2019, flock expansion may not achieve assumed levels. This represents a significant downside risk to production and upside risk to prices over the projection period.

Chinese import demand

China is the largest global producer, consumer and importer of sheep meat. Nearly all Chinese imports are from Australia and New Zealand.

China's sheep meat imports are a very small proportion of its total supply, accounting for around 5% in 2017. This means that Australian imports are highly sensitive to developments in Chinese sheep meat markets. Per person Chinese sheep meat and beef consumption have both grown at around 3% per year over the 5 years to 2017. In contrast, poultry and pig meat consumption have increased by less than 1% per year but from much higher levels. Growth in Australia's future exports to China are highly contingent on evolving Chinese preferences for sheep meat and its price competitiveness relative to other meats. For more information, see the [meat consumption article](#).

Per person meat consumption, China, 2000 to 2017



Source: Organisation for Economic Co-operation and Development

New Zealand flock

Sheep meat production in New Zealand declined over the 20 years to 2016–17 as a result of increased dairy production. This enabled Australia to expand its share of world exports, particularly to China.

Over the medium term, New Zealand sheep meat production is forecast to increase only marginally because of ongoing competition from beef, dairy and forestry production. However, if NZ farmers adjust flock size in response to changes in relative prices, this could affect global sheep meat prices. Projections of [falling dairy prices](#) add to this risk.

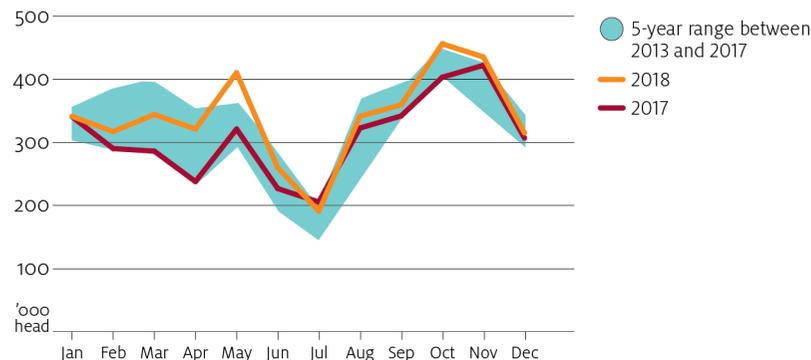
Live exports

In May 2018 the Australian Government accepted all 23 recommendations of the [Independent review of conditions for the export of sheep to the middle east during the northern hemisphere summer](#)—subject to consultation and research.

As a result, live exports were restricted to the cooler months in the northern hemisphere (November to April). Ongoing reviews of the Australian Standards for the Export of Livestock and heat stress risk assessments will help inform changes to live export regulations.

Regulatory restrictions are assumed to continue to constrain live exports to small numbers airfreighted over the northern summer months. However, numbers of live exports by ship in other months are assumed to be similar to monthly export volumes in the last undisrupted season in 2016–17. The mobility of ships will enable their deployment in the next most profitable market around the world when not needed for Australian live sheep.

Monthly slaughter, lamb and sheep, Western Australia, January 2013 to November 2018



Source: Australian Bureau of Statistics

In 2018 the impact of live export restrictions on farm incomes was mitigated by favourable seasonal conditions. During winter 2018 WA saleyard prices were below the very high prices of the eastern states, before they reconverged in late 2018 once live exports resumed. However, favourable WA seasonal conditions allowed for lambs to be retained on farm rather than being turned off when prices were depressed. This resulted in WA slaughter rising significantly during spring, when lambs reached prime specifications and prices were converging.

Over the projection period to 2023–24, demand by exporters is assumed to be minimal during winter months, which will depress WA prices over the season. During these months, it is expected that producers will attempt to bring lambs to prime specifications. If WA seasonal conditions are unfavourable, slaughter over winter will rise from expected seasonal lows, reducing annual farm incomes.

EU imports

Australian sheep meat exports to the European Union are subject to relatively low tariff-rate quotas and high out-of-quota tariffs.

Australia's tariff-rate quota is significantly lower than New Zealand's. The Australian quota was almost fully utilised between 2012 and 2017, limiting potential growth to this high value export market.

The majority of Australia's exports to the European Union are sent to the United Kingdom but a significant proportion are re-exported to other European countries.

Ongoing uncertainty over Brexit creates uncertainty about Australia's sheep meat exports to the European Union. Given the EU's policy priority of protecting European farmers, Brexit is unlikely to result in higher Australian exports of sheep meat to either the United Kingdom or the European Union.



Outlook for sheep meat

	unit	2016–17	2017–18 s	2018–19 f	2019–20 f	2020–21 z	2021–22 z	2022–23 z	2023–24 z
Prices									
Lambs									
– nominal	c/kg (cw)	592	614	725	715	695	680	670	665
– real a	c/kg (cw)	616	627	725	699	663	633	608	589
Sheep									
– nominal	c/kg (cw)	415	419	430	450	470	485	495	505
– real a	c/kg (cw)	432	428	430	440	448	451	450	447
Sheep numbers									
Total sheep b	million	72.1	68.8	66.1	68.5	70.8	73.0	73.7	74.2
Slaughterings									
Lambs	'000	22,344	23,432	23,000	20,600	21,900	23,000	23,100	23,300
Sheep	'000	6,553	8,396	8,800	7,400	7,600	8,000	8,200	8,500
Production									
Sheep meat	kt (cw)	670	735	729	648	685	722	731	745
Exports									
Sheep meat exports c	kt (sw)	390	457	445	376	408	439	448	458
Sheep meat export value									
– nominal	\$m	2,653	3,282	3,420	2,752	2,840	2,892	2,789	2,711
– real a	\$m	2,761	3,351	3,420	2,692	2,710	2,692	2,533	2,402
Live sheep exports	'000	1,851	1,975	1,100	1,085	1,100	1,125	1,150	1,150
Live sheep export value									
– nominal	\$m	233	259	138	136	139	143	147	148
– real a	\$m	242	264	138	133	132	133	134	131
Consumption per person									
Sheep meat	kg (cw)	8.3	7.6	7.8	7.8	7.6	7.5	7.4	7.3

a In 2018–19 Australian dollars. b At 30 June. c Fresh, chilled and frozen, shipped weight. f ABARES forecast. s ABARES forecast. z ABARES projection.

Sources: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia