

Sheep meat

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Lamb prices expected to remain near record highs because of strong International demand, and dry seasonal conditions

Prices to remain high in the medium term

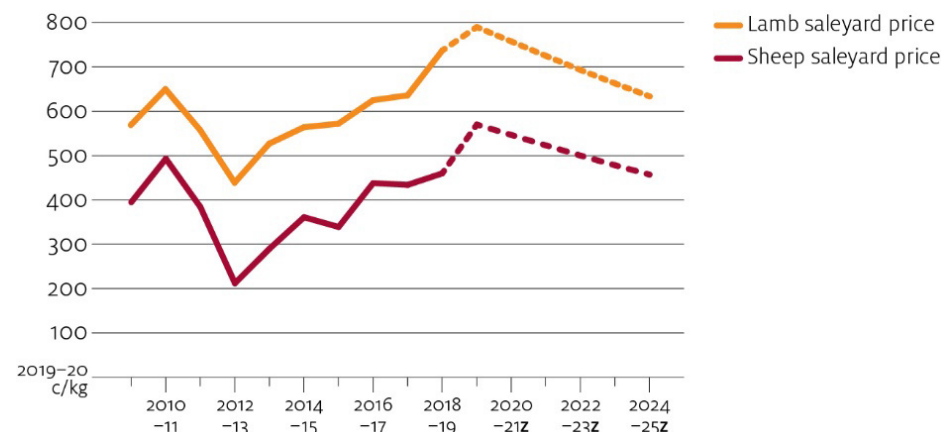
In 2019-20 saleyard lamb prices are forecast to reach record levels. Strong demand from China in response to consumers seeking a replacement for pork is likely to continue to place upward pressure on prices. Dry seasonal conditions across much of Australia are likely to continue to constrain lambing, restricting supply and reinforcing the upward pressure on prices.

Over the medium term, saleyard prices for lamb are expected to decline but remain historically high. Lamb prices are likely to continue to be supported by strong demand from China and supply constraints in Australia and New Zealand. Flock numbers in both countries are at historic lows. Flock rebuilding in Australia is likely to be slow because high prices encourage high rates of lamb turn-off. Demand in China is expected to remain strong as a result of the slow recovery of the pig herd from African swine fever (ASF) and gradual income-related increases in overall protein demand.

In 2019-20 the national sheep flock is expected to shrink to core breeding stock. This will limit turn-off and support elevated saleyard prices for sheep. Over the medium term, sheep saleyard prices are

expected to moderate in response to easing demand from China as the pig herd recovers and flock rebuilding commences in Australia and New Zealand.

Saleyard prices, lamb and sheep, 2009-10 to 2024-25



f ABARES forecast. z ABARES projection.

Sources: ABS; Meat & Livestock Australia

Flock rebuilding likely to be slow

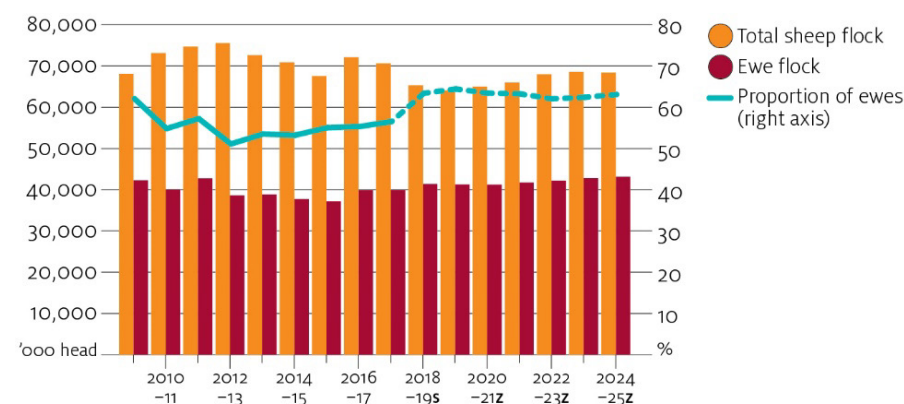
In 2019-20 the national sheep flock is expected to contract to a 115-year low, as dry seasonal conditions and high saleyard prices provide an incentive to maintain high rates of turn-off. In the medium term, flock rebuilding is projected to be gradual, assuming a return to more favourable seasonal conditions (see [Agricultural overview](#)).

The ratio of ewes in the national flock has strongly increased since 2012-13. This is a result of high lamb prices and dry seasonal conditions providing an incentive to turn off non-breeding stock. The high proportion of ewes in the national flock will help to maintain

lamb turn-off if prices remain high, and accelerate flock rebuilding when demand eases and seasonal conditions improve.

An end to drought conditions is likely to enable flock rebuilding, but high prices are expected to encourage high rates of turn-off. The national flock is expected to remain near century lows in 2020–21. Over the medium term, the national flock is expected to recover to 68.4 million head by 2024–25. However, prospects for flock rebuilding in Australia are heavily influenced by seasonal conditions. If dry conditions and high prices persist over the forecasting period, the national sheep flock is expected to continue to contract to levels not seen since the 19th century. Under this scenario, the national flock is expected to contract by a further 6.3% from 2018–19 levels, to 61.2 million head by 2024–25 (see alternative climate scenario). Similarly, if dry seasonal conditions persist, farm businesses may have few alternatives other than to sell breeding ewes. This would further constrain future flock rebuilding and meat production.

Total sheep and ewe flock, 2009–10 to 2024–25



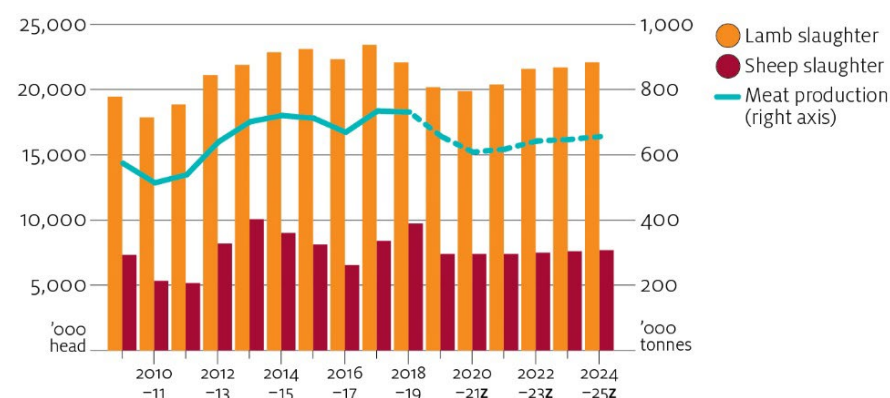
s ABARES estimate f ABARES forecast. z ABARES projection.
Sources: ABS; Meat & Livestock Australia

Slaughter to fall in the short term, then rise

Despite high prices, lamb slaughter is forecast to decline by 6.2% in 2019–20. This is because of a smaller flock and poor conception and marking rates, following dry seasonal conditions. Sheep slaughter is also expected to decline, assuming core breeding stock is retained and high prices continue to incentivise lamb production. Over the medium term, ABARES is expecting sheep and lamb slaughter to recover from a low of 27 million head in 2020–21 as the national flock rebuilds.

Total sheep meat production is expected to fall in line with decreased slaughter to 627,000 tonnes by 2020–21. Stable sheep and ewe carcase weights will provide some support to production volumes. Over the medium term meat production is expected to increase as the national flock recovers. Lower meat production and strong export demand is expected to result in high domestic prices and a decline in domestic consumption from 2018–19 levels.

Lamb and sheep slaughter and meat production 2009–10 to 2024–25



f ABARES forecast z ABARES projection.
Sources: ABS; Meat & Livestock Australia

Exports to moderate

Exports are expected to have peaked in both volume and value terms (489,000 tonnes, worth \$3.9 billion) in the 2018–19 financial year. This is because of an expected decline in sheep and lamb turn-off in 2019–20 and 2020–21 with a return to more favourable conditions and the depleted national flock. Growth in demand from China for Australian sheep meat is also expected to moderate as the Chinese pig herd gradually recovers over the 5 years to 2024–25. However, global demand for meat is expected to be supported by income growth and changing consumer preferences in China and other Asian markets.

Lamb and mutton

Exports of lamb and mutton are expected to fall year-on-year in 2019–20 to 414,000 tonnes in line with a depleted national flock and lower slaughter rates. With strong demand, this supply constraint will help export prices of lamb and mutton reach record highs. Over the medium term, exports of lamb and mutton are expected to recover in line with the gradual rebuild of the national flock and slaughter rates reaching 438,000 tonnes in 2024–25. Prices are likely to ease, but they will remain at close to record highs because of continued strong demand in China, and other Asian markets.

Live exports

In 2019–20 exports of live sheep are expected to remain stable, operating within the limits set by regulations designed to improve animal welfare outcomes. In the medium term, consumer preferences for refrigerated cold cuts and ongoing seasonal restrictions on live exports are likely to limit growth opportunities. Strong global meat demand will ensure that high prices for chilled and frozen cuts are maintained. This may lead to some substitution away from live exports as the national flock recovers. Live exports of sheep are expected to

remain unchanged at between 900,000 and 1 million head per year to 2024–25.

Medium-term opportunities and challenges

Demand from China is uncertain

The recovery from ASF is likely to be slow as China's pork industry adjusts from smallholder to large-scale production. A slow recovery is likely to sustain export opportunities for Australia's lamb and sheep producers and keep prices historically high. Sustained high prices will constrain flock rebuilding, and create an incentive to maintain high turn-off. This is expected to lead to the national flock stabilising at century lows, even when favourable seasonal conditions return.

A faster than expected recovery of the Chinese pig herd from ASF in line with Chinese Government aspirations (a return to 80% of 2018 production in 2020) would reduce exports to China and result in lower than forecast saleyard and export prices. This scenario of rapid recovery in China's pork industry would also accelerate flock rebuilding in Australia as a result of lower export prices and decreased turn-off over the projection period.

The recent outbreak of coronavirus (COVID-19) in China is unlikely to significantly affect demand for sheep meat because of ongoing meat supply shortfalls resulting from ASF. However, disruptions to the supply chain and logistics are possible as the Chinese Government seeks to contain the outbreak. If supply and logistics disruptions eventuate, export prices, saleyard prices and export volumes may decline over the short term. Longer term impacts are difficult to predict given the uncertainty around the length and severity of the outbreak.

Competition from New Zealand and United States in China to increase

New Zealand is Australia's largest competitor in world sheep meat markets. Competition from New Zealand in China is likely to increase because high prices provide an incentive for flock rebuilding and increased lamb production. Australia's national flock is significantly larger than New Zealand's, but New Zealand's flock productivity (measured in lamb production per ewe) is significantly higher because of the greater prevalence of meat breeds and a more favourable climate for pasture growth. Any expansion of the New Zealand sheep flock is likely to remain constrained by the profitability of dairy production.

Australia has benefited from US–China trade tensions through substitution away from US agricultural products. Thawing trade relations and the signing of the phase one trade deal on 15 January could reduce China's demand for Australia's agricultural products. For example, the Chinese commitment to purchase an additional US\$12.5 billion of US agricultural products above 2017 levels in 2020 and US\$19.5 billion above 2017 levels in 2021 could lead to import substitution away from Australian sheep meat. Recent tariff reductions on US beef, pork and poultry in China are likely to increase competition for Australian sheep meat over the medium term.



Outlook for sheep meat

	unit	2017–18	2018–19 s	2019–20 f	2020–21 f	2021–22 z	2022–23 z	2023–24 z	2024–25 z
Prices									
Lambs									
nominal	c/kg (cw)	614	723	790	774	759	744	729	714
real a	c/kg (cw)	636	737	790	758	725	693	663	634
Sheep									
nominal	c/kg (cw)	419	452	570	559	547	536	526	515
real a	c/kg (cw)	434	460	570	547	523	500	478	457
Sheep numbers									
Total sheep b	million	70.6	65.3	64.1	65.0	66.0	68.0	68.6	68.4
Slaughterings									
Lambs	'000	23,432	22,086	20,200	19,900	20,400	21,600	21,700	22,100
Sheep	'000	8,396	9,730	7,400	7,400	7,400	7,500	7,600	7,700
Production									
Sheep meat	kt (cw)	735	732	634	627	638	668	673	684
Exports									
Sheep meat c	kt (sw)	457	489	414	401	408	427	431	438
Sheep meat value									
nominal	\$m	3,282	3,865	3,719	3,446	3,359	3,369	3,251	3,159
real a	\$m	3,400	3,939	3,719	3,371	3,210	3,141	2,957	2,803
Live sheep	'000	1,975	925	950	950	950	950	950	950
Live sheep value									
nominal	\$m	259	121	146	143	140	138	135	132
real a	\$m	268	123	146	140	134	128	123	117
Consumption per person									
Sheep meat	kg (cw)	7.6	6.2	5.6	5.8	5.8	6.0	5.9	6.0

a In 2019–20 Australian dollars. b At 30 June. c Fresh, chilled and frozen, shipped weight. f ABARES forecast. s ABARES estimate. z ABARES projection.

Sources: ABARES; ABS; MLA