

media release

4 August 2008

Lowest flock for over 80 years but lamb prices to stay strong

Australia's prime lamb producers can expect to receive strong prices over the next few years, however the nation's flock is set to shrink to a size not seen since the beginning of last century.

The forecasts were included in Meat & Livestock Australia's *2008 Sheep Industry Projections mid-year update*, released today.

The MLA report also notes that a further decline in the breeding flock, a build up in farm debt and rising costs are likely to limit the prime lamb industry's expansion over the coming five years.

In releasing the report, MLA's chief market analyst Peter Weeks said the future of the lamb industry looks bright, however the continuation of the drought through a seventh winter and further rises in global grain prices have caused a lowering of projections for the sheep flock and supply.

"Drought, and a noticeable shift of resources from sheep to cropping, is likely to have seen the national sheep flock fall a further 6.5 percent in the year to June 2008, to around 80 million head; making it the lowest Australian sheep flock since 1920. Smaller declines in the flock are now anticipated, resulting in a base of around 76 million head by 2011," Mr Weeks said.

"With another poor breeding season and high lamb turnoff at the end of 2007, lamb slaughter in 2008 is forecast to decline nine percent from the 2007 record, to 19.2 million head and production by eight percent, to 404,000 tonnes – still the second highest production on record.

"After suffering a sharp fall in real farm cash incomes in 2006-07, with rising costs and debts, many lamb producers were simply not in a position to meet the very high cost of fodder and grain required to carry lambs over into 2008. Hence, supply is expected to be particularly tight through this winter, leading to a high seasonal spike in lamb prices.

"However, the local and global demand/supply balance for lamb continues to tighten, providing the prospect of higher lamb prices and attractive returns to lamb producers once seasons improve."

The positive price outlook, combined with stagnant wool prices, is expected to lead to a further shift within the remaining sheep flock from fine wool Merinos to dual purpose breeds and cross breeding for meat lambs.

Providing seasons improve, lamb production is still expected to expand by 13 percent between 2008 and 2012, to a record 458,000 tonnes (carcase weight).

Demand for lamb this year remains solid, but is not as strong as initially anticipated, with growth locally and in overseas markets blunted by a sharper-than-expected economic slowdown in the US, Australia and Japan and a lower US dollar.

Rising retail lamb prices (reflecting tighter supply) and slower growth in consumer spending generally is expected to impact on lamb consumption in 2008, with a fall of six percent anticipated, to 231,000 tonnes (carcase weight).

Lower Australian lamb supplies, high US stocks, a decline in consumer spending and the low US dollar has squeezed exporter margins to the US, Australia's largest overseas market, with exports to that country expected to fall 18 percent this year, to 36,500 tonnes (shipped weight).

Lamb exports are also expected to decline across a host of other export markets this year, as lower year-on-year supply through winter and the coming spring sees total exports fall eight percent for 2008, to 178,000 tonnes – led by price sensitive markets in the Pacific, Africa, Taiwan and Mexico.

However, despite higher prices, demand for lamb continues to lift in the Middle East, China, Japan and elsewhere in Asia.

Over the medium term, the underlying strong demand for lamb, and consequential production growth, should see both local consumption and exports increase, particularly to North America and Asia.

“Perhaps the most significant change in this mid-year update to the projections released in February is on the sheep side, with the ongoing drought and sudden lift in the lure of cropping causing a shift in resources out of sheep, particularly in WA and, to a lesser degree, South Australia and Victoria,” Mr Weeks said.

This will keep sheep (as opposed to lamb) slaughter and production much higher than anticipated in 2008, but will probably result in further falls in supplies in 2009 and beyond, as producers slow and eventually end the long flock liquidation; with a 30 percent fall in sheep slaughter and mutton production projected between 2008 and 2012.

Sheep slaughter and mutton production and exports are all projected to fall by around 20 percent in 2009 and 30 percent by 2012.

Mr Weeks stressed that these declines are purely supply-driven, as global demand for sheepmeat, and Middle East demand for sheepmeat and live sheep in particular, continues to grow.

“Buoyant Middle East economies, driven by oil revenues, construction and tourism, are expected to keep Australia's live sheep exports from falling precipitously, with only a five percent decline in 2008, to 3.6 million head, reaching a base of around 3 million by 2010,” Mr Weeks said.

Mr Weeks said that with global food prices on the rise, demand for sheepmeats steadily growing and global supplies in decline (including in the US, Europe and New Zealand) the future of the Australian sheepmeat, and particularly the lamb, industry remains bright.

“All that is missing is a run of reasonable seasons in southern Australia – as they say, just add water,” Mr Weeks said.

Ends

Released by: Damon Whittock, MLA Media Affairs Manager – ph. 02 9463 9368.
Media contact: Peter Weeks – ph. 02 9463 9167.