mla market INFORMATION

2010

Australian sheep
Industry projections

Intentionally blank page

mla market INFORMATION

Australian sheep Industry projections 2010

Author: Kara Tighe

For more information call MLA on 02 9463 9301

Published by Meat & Livestock Australia Ltd
February 2010

ISSN 1329-2994

Intentionally blank page

Table of contents

Section 1 – Sheepmeats

Section 2 – Live sheep export

Figures

Tables

Intentionally blank page

Section 1 – Sheepmeats

1. Overview[1]

The outlook for the Australian prime lamb industry in 2010 is favourable, consolidating the remarkable achievements of 2009. Barring a return to widespread severe drought, sheepmeat prices and prime lamb farm profitability should remain high, seeing a further small growth in lamb supply. However, the expected high A$ will restrict the scope for further substantial rises in Australian lamb prices and exports to many markets in 2010.

The rate of decline in the national flock is forecast to slow further in 2010, to around 2% year-on-year, to 69.9 million head. Underpinning the smaller fall in the flock will be improved feed and pasture conditions in southern Australia (though still below historical averages), fewer enterprise shifts away from sheep, lower sheep turnoff and the favourable returns to lamb production.

Seasons permitting, the big flock liquidation is projected to end within the next few years, given the recent jump in lamb prices relative to beef and cropping.

Continued moves within the flock to prime lamb production and some increase in restocker activity should also prevent further major falls in the breeding ewe flock. Breeding ewe numbers are forecast to fall just 1% year-on-year in 2010, to around 43.3 million head.

These shifts within the flock are expected to reduce sheep supply, but lead to a small (2%) rise in lamb production in 2010 (largely during the second half of the year). This increase will be absorbed by both the export and domestic markets.

Supported by strong demand from the Middle East, improving economic conditions in other key export markets (which should lead to some recovery in consumer demand) and tight NZ and global sheep supplies, lamb export volumes are forecast to increase 2% in 2010, to a record 168,000 tonnes swt, despite the assumed higher A$.

Similarly, continued strong local demand, driven by the retail sector, is expected to result in a 2% increase in lamb consumption on the domestic market in 2010, despite the recent sharp rise in retail prices.

Overall, the Australian prime lamb industry is positioned to continue its steady expansion in 2010 and beyond, in line with trends over the past two decades. However, this will come with its challenges. The assumed high A$, combined with the high lamb prices, will continue to put pressure on exporter margins and price-sensitive customers.

Barring adverse changes in market access or major food safety incidents, intense buyer competition for lambs is expected to continue over the medium to longer term – driven by population and income growth, particularly in Muslim and Hispanic communities. A favourable outcome from the Doha multilateral trade negotiations could bring a further appreciable boost to global trade demand, particularly from Europe, with this five-year projection horizon.

Sheepmeat's main challenge remains supply, which continues to be constrained by historically low local and global sheep flocks. The ability of Australian and New Zealand producers to respond to the growing global demand is being hampered by below average seasons, low wool returns (the major co-product in all lamb enterprises) and ongoing intense competition from other enterprises for land – particularly cropping in Australia and dairy in New Zealand.

This is not expected to change over the coming five years, unless climatic conditions return to historical averages or better.

[1] Except where otherwise stated, this report refers to forecasts for calendar years 2010 to 2014.

2. Lamb prices and income

In 2010, average Australian saleyard and over-the-hooks lamb prices are expected to exceed the record highs of 2009. This will be due to strong demand from the domestic market, Middle East and parts of Asia, improving Japan and US economies and tight global lamb supplies. Also, the recent improvement in seasonal conditions in south east Australia, if sustained through autumn, is expected to lift restocker demand, as some producers move to expand prime lamb production and rebuild drought depleted flocks.

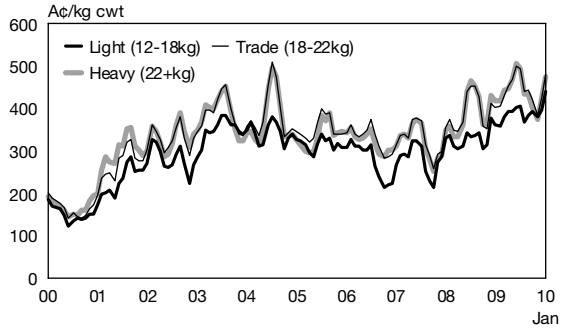
The main price constraints are likely to be the assumed high A$ throughout 2010 and the small forecast rise in Australian and New Zealand (NZ) lamb supplies.

The sharp rise in the A$ would normally have placed significant downward pressure on sheepmeat prices throughout the second half of 2009 and early 2010. The fact that this has not occurred is testament to Australia's dominant role in supplying the global sheepmeat market (except within the European Union market), buoyant demand and tight supplies (especially from New Zealand). Hence, unlike the situation for beef, the A$ rise has been fully passed through into higher sheepmeat prices to customers, without impacting overall sales.

One risk to this positive sheepmeat price outlook would be the demand/supply balance tipping towards buyers (due to say a major demand shock or emergence of a new major supplier, such as China), at which time more of the high A$ cost could be passed back in lower Australian lamb and mutton prices.

Over the medium term, global population expansion (especially in Muslim and Hispanic communities), recovering global economic growth and global supply constraints are expected to continue to put upward pressure on lamb prices.

Figure 1
Australian saleyard lamb prices



Source: MLA's NLRS

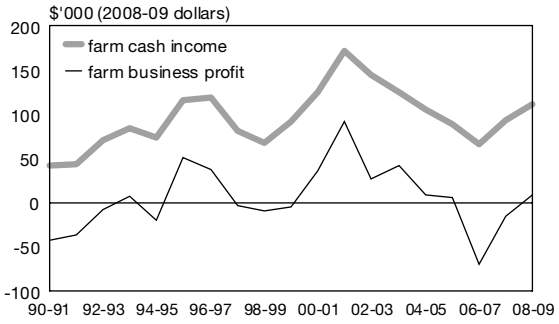
Saleyard lamb prices during the 2009 calendar year averaged 13-27% higher year-on-year and 23-31% higher when compared to the five year average, despite a marked improvement in lamb supply. With the exception of the trade lamb indicator, prices across all lamb categories reached record prices in 2009.

Fuelling the high lamb prices during 2009 was the lower A$ early in the year, robust lamb demand in key export markets (largely the Middle East and Asia), resilient domestic demand and reduced NZ export lamb supply. As a result of the overall strong demand, the benefit of the lower A$ (largely during the first half of the year when it averaged 0.71US¢, 23% below the same period in 2008) flowed through to saleyard and over-the-hooks lamb prices, resulting in the record high average prices for the year.

Both the trade and heavy lamb indicators increased 13% year-on-year, despite the predominance of these grades in yardings, to average 439¢/kg cwt. With the added competition from restockers in spring, Merino lamb prices averaged 21% higher, at 362¢/kg cwt, while restocker lambs increased 26%, to average 413¢/kg cwt. Both of these grades were assisted by a better season, mild winter and increased grazier demand.

The strong lamb prices in 2009 also contributed to an improvement in net returns to lamb producers. According to ABARE estimates, prime lamb producers' financial performance recovered in 2008-09, with profits averaging $8,300/farm (ABARE, *Australian lamb*, *June 2009*). This followed some relief from drought and lower cost of production than the previous two years.

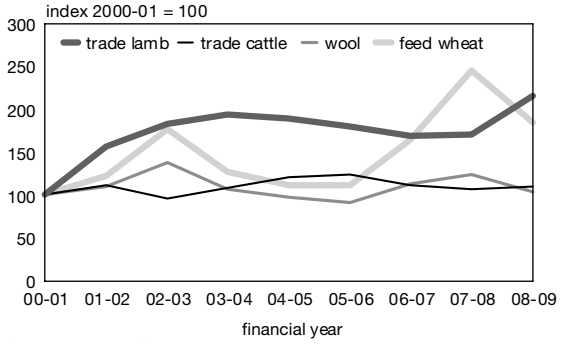
Figure 2
Australian slaughter lamb farm income



Source: ABARE

A further substantial improvement in prime lamb farm profitability is expected in 2009-10. This is due to higher prime lamb sales, higher lamb prices (taking into account the significantly higher prices paid during the second half of 2009) and a further fall in grain and fodder costs.

Figure 3
Australian commodity prices



Source: MLA's NLRS, ABARE, The Land

Box 1 Co-product prices

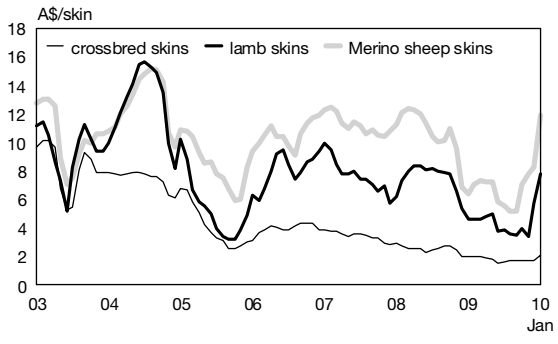
The impact of the global financial crisis and high A$ on Australian sheepmeat co-products was mixed in 2009. Skin prices were the hardest hit by the downturn in manufacturing and consumer spending, while sheepmeat offal gained from the tight Australian sheep supplies.

After the significant 2008 price falls, sheep and lamb skin prices continued their downward trend in 2009. In some cases the cost of processing was reportedly higher than the value of the skin.

The widespread slowdown in leather processing, and the long-term trend away from leather products to other substitutes contributed to the weak buyer demand. Average lamb skin prices in 2009 declined 44% year-on-year, to A$4.24/skin, Merino sheep skin prices fell 40%, to A$6.57/skin, while crossbred sheep skins fell 31%, to just A$1.76/skin. Average annual prices were the lowest prices on record across each category.

Some improvement in skin prices is expected in 2010 due to the slow recovery in global economic growth and low stocks of skins. This improvement will only be small, however, as the assumed higher A$ will largely outweigh any benefit gained by improving economic conditions.

Figure 4
Average Australian sheep and lamb skin prices



Source: MLA's NLRS

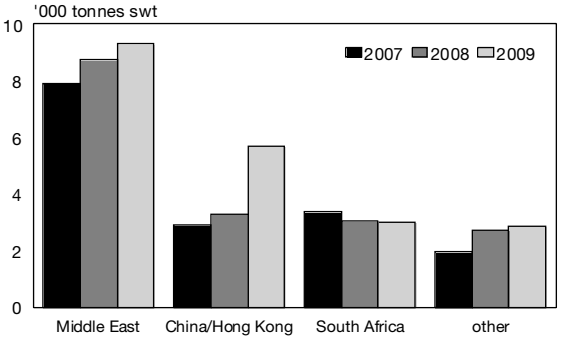
Box 1 Co-product prices continued

In stark contrast, sheepmeat offal prices were buoyant in 2009, as strong demand from a number of key markets (the Middle East, Hong Kong and China) elevated FOB prices and boosted returns to processors throughout the year. Sheepmeat offals with high collection rates (such as hearts, kidneys, livers and tripe) averaged between 10% and 47% higher year-on-year. Lamb and sheep runners were also in high demand, with prices increasing 51% and 105%, to $3.98/piece and $2.91/piece.

Exports of sheepmeat offal in 2009 increased 17% year-on-year, to 20,825 tonnes swt. Liver exports to the Middle East rose 8%, to 7,485 tonnes, as some substitution for mutton occurred due to the limited sheep supply and high prices. Tripe shipments to Hong Kong increased 79%, to 4,907 tonnes, while heart exports to South Africa were flat, at 2,340 tonnes.

Sheepmeat offal prices and exports are expected to remain steady throughout 2010 as the high A$ offsets the additional demand generated for offal due to the lower mutton supply.

Figure 5
Sheepmeat offal exports



Source: DAFF

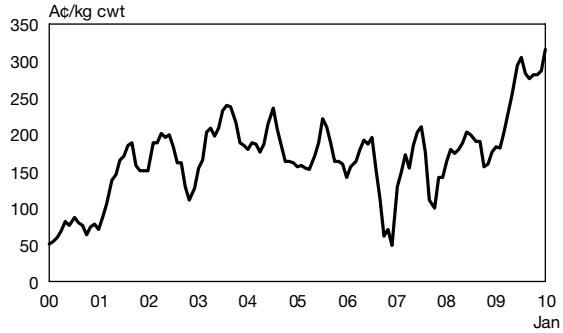
3. Sheep prices

The unprecedented upward pressure placed on Australian saleyard, live export and over-the-hooks sheep prices in 2009 is expected to continue throughout 2010.

Fuelling sheep prices will be the significantly reduced on-farm sheep numbers, an increase in restocker activity (albeit constrained by the higher sheep prices) and continued strong Middle Eastern demand for both sheepmeat and live sheep.

Any recovery in the wool market (early signs in 2010 indicate that this may occur), skins and/or other by-product prices would further assist sheep prices, via stronger restocker demand.

Figure 6
Australian saleyard sheep prices



Source: MLA's NLRS

However, sheep prices must eventually plateau, if not ease, as mutton prices itself out of the world protein market, or customers invest in new avenues of supply (for example, Saudi Arabia's investment in North Africa).

4. The sheep flock and sheep supply

Preliminary estimates released by the Australian Bureau of Statistics (ABS) indicate that the Australian sheep and lamb flock at June 2009 totalled 71.6 million head – a fall of 7% (or 5.4 million head) on the previous year (as predicted by MLA's *Australian sheep Industry Projections Mid-year update 2009*). This follows a 10% fall in the flock recorded at June 2008 – the largest annual flock decline since 1973.

Contributing to the latest flock decline were persistent dry conditions across a number of key sheep regions, the rising cost of wool production relative to returns to wool and continued enterprise shifts away from sheep and into cropping.

Eroding sheep numbers further was the strong mutton and live sheep export demand and associated high sheep prices. This led to an unsustainably high level of sheep turnoff in 2008-09, particularly in WA.

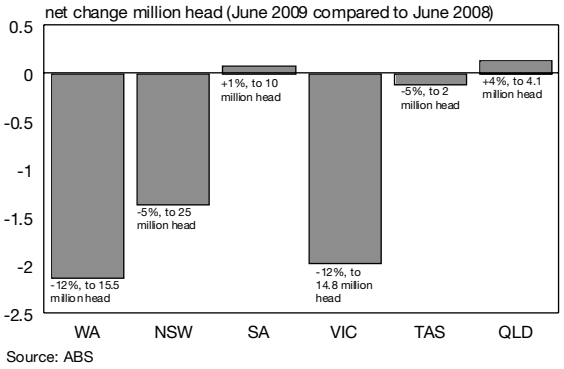
Similarly, the strong competition for sheep and lambs from the processing sector, and consequent record prices, provided strong incentive for producers to sell ewe lambs that may have otherwise been retained for breeding purposes. At the same time, the high prices discouraged producers from investing in replacement ewes and purchasing ewe lambs to rebuild flocks.

The WA flock recorded the largest decline (for the second consecutive year), falling 12%, or 2.1 million head, year-on-year, to 15.5 million head – down from the 3.5 million head fall recorded at June 2008. The WA flock has now fallen 40% in the space of just four years.

At June 2009, the NSW and Tasmanian flocks had both declined 5%, to just over 25 million head and 2 million head, respectively.

Of note were the South Australian and Queensland flocks, which both recorded an increase in sheep numbers – up 1%, to 10.1 million head, and 4%, to 4.1 million head, respectively.

Figure 7
State flock changes



Source: ABS

The national flock decline averaged 9% on an annual basis over the three years to June 2008. This rate of decline slowed marginally to 7% during the year to June 2009. In 2009-10 the decline in the national flock is forecast to slow further, and fall just 2% year-on-year, to around 69.9 million head. The slowing in the national flock decline, to a projected low point of around 69.5 million in 2012, is due to a number of factors.

Firstly, the significant reduction in the flock over the past four years has been underpinned by the high turnoff of Merino wethers and Merino breeding ewes in response to poor returns to wool relative to alternative land uses. The downsizing of the wool flock has reduced the availability of cull ewes and wethers to the extent that the record high sheep prices offered throughout 2009 failed to draw sufficient sheep to market to meet export demand for sheepmeat.

This was evidenced by the 15% year-on-year decline in sheep turnoff in 2009, the 40% year-on-year increase in average saleyard sheep prices (to 252¢/kg cwt) and 30% increase in live wether export prices to the Middle East (to $79/head).

The decline in sheep turnoff, despite the expected continuation of high sheep prices, is forecast to continue in 2010 and throughout the forecast period.

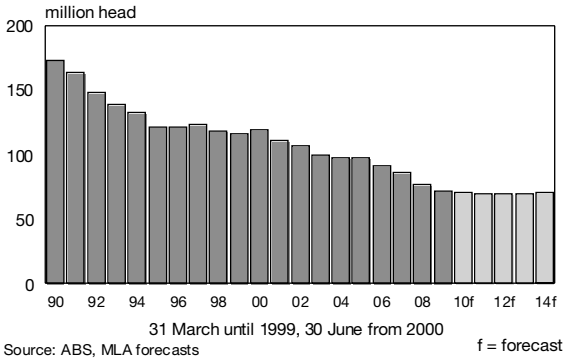
Secondly, the exodus out of sheep enterprises and into alternative enterprises (largely cropping) that occurred in recent years is expected to slow influenced by lower returns to cattle and crops relative to lambs and losses on crops in many areas (particularly in the eastern states).

Again, this is evidenced by the marked reduction in sheep turnoff in 2009 (as fewer sheep were turned off to accommodate enterprise changes), but also by the much slower increase in the land area dedicated to crops. According to the ABS, between June 2007 and June 2008, the land area dedicated to principal crops (including barely, canola, sorghum, lupins, oats and wheat) increased 12%, to 21.7 million hectares. In the most recent year, between June 2008 and June 2009, the land area dedicated to these crops increased just 1%, to 21.8 million hectares. In addition, results from the October 2009 MLA sheep and lamb producer survey also indicate that 50% of survey respondents (n = 1,415) intend to increase lamb production in 2010 at the expense of wool and other enterprises.

The favourable returns to lamb production are expected to continue in 2010 and throughout the forecast period due to the growing demand for lamb and declining global supplies, the continuation of strong lamb prices and higher slaughter lamb production. The favourable returns to lamb are expected to prevent major falls in the breeding ewe component of the flock over the forecast period. According to results from the October 2009 MLA sheep and lamb producer survey 57% of respondents with prime lamb enterprises recorded an increase in net financial returns in 2008-09 when compared to the previous financial year.

Through slower enterprise shifts away from sheep, declining sheep turnoff and strong market signals encouraging higher slaughter lamb production, the national flock is forecast to commence a slow rebuild by 2013.

Figure 8
Australian sheep flock



The recent rapid fall in the sheep flock has been principally in wethers for fine wool production, with smaller declines in ewe numbers and a rising lamb component. Hence, the breeding ewe proportion of the flock has risen from around 52% to an estimated 59% over the four years to 2008-09.

At June 2009, MLA estimates the number of breeding ewes on hand declined around 4%, to 43.7 million head – down from 45.4 million at June 2008. This fall was largely due to declining Merino breeding ewe numbers (due to destocking and enterprise shifts), the strong mutton and live export demand and the high sheep prices.

The number of breeding ewes is forecast to fall a further 1% in the year to June 2010, to just over 43.3 million head. Ewe numbers are projected to start rebuilding from 2011-12 (to 45.5 million in 2014), as the expansion in lamb enterprises continues (lifting the ewe proportion of the flock further), and the fall in fine wool flocks slows and eventually ceases.

This recovery will be achieved, seasons permitting, through further falls in adult breeding ewe turnoff (slaughter and live export), as the strong sheep and lamb prices signal the increasing value of breeding ewes and restocker lambs to producers.

Given the structural change within the flock towards greater prime lamb production, the productivity of the breeding ewe flock is expected to improve via higher lambing, marking, weaning

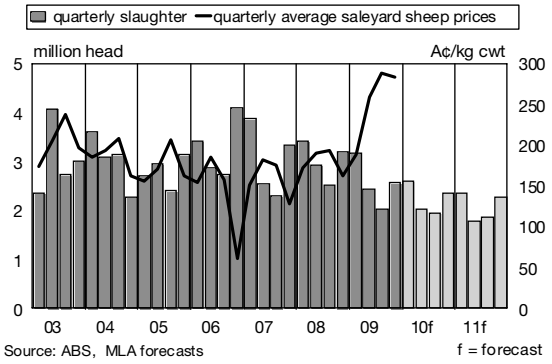
and growth rates over the forecast period. Net results (number of respondents intending to increase less the number of respondents intending to decrease) from the October 2009 MLA sheep and lamb producer survey indicate that 7% of respondents intended to increase the number of Merino ewes joined to terminal sires in 2010 relative to 2009, and 28% of respondents intended to increase the number of first cross or dual purpose ewes joined to terminal sires.

The continued shift within the flock to lamb production is also expected to result in more lambs turned off for slaughter over the forecast period, despite some decline in the unsustainably high Merino ewe lamb kills. The higher slaughter rate, combined with the previously mentioned gains in productivity, are expected to more than offset the decline in breeding ewe numbers (and consequently the number of ewes joined).

Hence, steady growth in lamb production is expected to be achieved over the period, despite the forecast for further small declines in the flock to 2012.

Any widespread, ongoing improvement in seasonal conditions could boost slaughter lamb production further.

Figure 9
Quarterly sheep slaughter and saleyard prices



In 2010, sheep slaughter is forecast to decline 13% year-on-year, to around 8.9 million head. Underpinning the forecast decline is the critically low Merino wether and ewe flock, moves to end the flock liquidation (and rebuild breeding ewe numbers for prime lamb production) and strong competition from the live export trade.

Table 1 Situation and outlook for the Australian sheep industry

	2005	2006	2007	2008	2009	% change	*2010*	*% change*	*2011*	*2012*	*2013*	*2014*	*% change 2014 on 2009*
Sheep & lamb numbers ('000 head)													
at June 30	97,000	91,030	85,710	76,938	71,564		*69,900*		*69,600*	*69,500*	*69,800*	*70,000*	*-2.1%*
% change	0.0%	-6.2%	-5.8%	-10.2%	-7.0%		*-2.3%*		*-0.5%*	*-0.1%*	*0.3%*	*0.4%*	
Slaughterings ('000 head)													
sheep	11,636	13,113	12,042	12,017	10,193	-15.2%	*8,915*	-12.6%	*8,275*	*7,995*	*7,880*	*7,890*	*-22.6%*
lamb	18,228	19,483	21,155	20,342	20,866	2.6%	*21,170*	1.4%	*21,705*	*22,230*	*22,720*	*23,180*	*11.1%*
Avg carcase weight (kg)													
sheep	20.7	20.5	21.0	21.3	21.1	-0.7%	*21.1*	0.0%	*21.1*	*21.1*	*21.1*	*21.1*	*-0.2%*
lamb	20.6	20.6	20.8	20.3	20.7	1.7%	*20.8*	0.6%	*20.9*	*21.0*	*21.1*	*21.2*	*2.5%*
Production ('000 tonnes carcase weight)													
mutton	241	269	253	256	215	-15.8%	*188*	-12.6%	*175*	*170*	*165*	*165*	*-23.3%*
lamb	375	400	439	414	432	4.3%	*440*	2.0%	*455*	*465*	*480*	*490*	*13.4%*
Sheep exports ('000 head)	4,185	4,167	3,773	4,215	3,568	-15.4%	*3,100*	-13.1%	*3,100*	*3,200*	*3,300*	*3,400*	*-4.7%*
Exports ('000 tonnes)*													
mutton shipped weight	141	163	150	158	134	-15.0%	*119*	-11.5%	*110*	*105*	*105*	*105*	*21.6%*
carcase weight	180	219	189	200	171	-14.6%	*153*	-10.7%	*140*	*135*	*135*	*135*	*-21.1%*
lamb shipped weight	142	147	161	152	165	8.9%	*168*	2.1%	*170*	*175*	*185*	*190*	*15.1%*
carcase weight	170	177	188	179	195	8.7%	*199*	2.3%	*205*	*210*	*220*	*225*	*15.4%*
Domestic utilisation ('000 tonnes carcase weight)													
mutton	61	50	64	56	45	-19.7%	*36*	-19.5%	*33*	*32*	*32*	*32*	*-28.8%*
kg/head	3.1	2.4	3.1	2.6	2.0	-21.2%	*1.6*	-20.7%	*1.5*	*1.4*	*1.4*	*1.4*	*-33.7%*
lamb	205	223	251	234	237	0.9%	*241*	1.8%	*248*	*255*	*261*	*267*	*12.8%*
kg/head	10.1	10.8	11.9	11.0	10.8	-0.9%	*10.8*	0.3%	*11.0*	*11.1*	*11.2*	*11.3*	*5.0%*

Source: ABS, DAFF, MLA forecasts

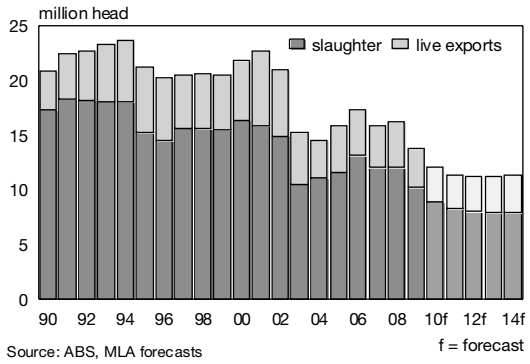
f = forecasts (indicated in italics)

e = estimate

* excl. canned/miscellaneous

Note: Domestic consumption is derived from production plus imports less exports (including processed exports) and change in stocks.

Figure 10
Australian sheep turn-off



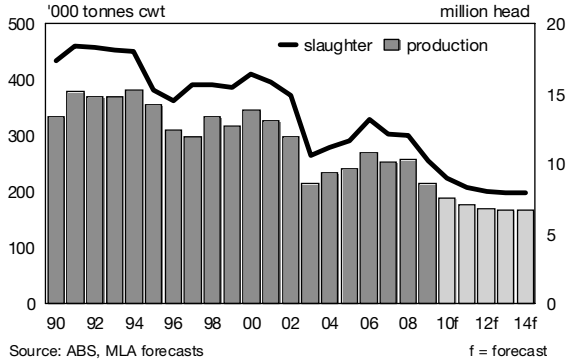
Source: ABS, MLA forecasts

With no change expected in average sheep carcase weights (21.1kg/head), the 13% decline in sheep slaughter will translate to a forecast 13% decline in mutton production in 2010, to around 188,000 tonnes cwt.

Beyond 2010, the decline in sheep slaughter is forecast to slow, reaching a base of around 7.9 million by the year 2013, as the flock stabilises at around 69-70 million head.

With lower slaughter, annual mutton production is forecast to fall to around 166,000 tonnes by 2014 – 23% lower than 2009.

Figure 11
Sheep slaughter and mutton production



Source: ABS, MLA forecasts

5. Lamb slaughter

Lamb slaughter in 2010 is forecast to increase 1% year-on-year, to around 21.2 million head – principally due to further shifts within the flock to prime lamb production. This will result in additional prime lamb slaughter and offset an anticipated fall in Merino lamb slaughter.

A larger proportion of Merino ewes are expected to have been joined to maternal and terminal sires for slaughter lamb production in 2010, combined with an increase in the proportion of self-replacing composite and meat breed ewes that make up the total breeding ewe flock.

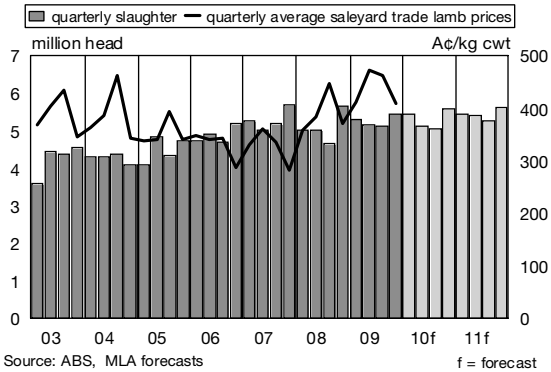
Also, according to ABS figures, the average lamb marking rate (lambs marked as a percentage of ewes joined) increased three percentage points between June 2007 and June 2009, to 85%. In 2009-10, MLA forecasts the lamb marking percentage to average slightly higher, at 86%.

As a result of the continued shift within the flock to slaughter lamb production and associated lamb productivity gains, lamb slaughter as a percentage of breeding ewes is forecast to increase from approximately 46% in 2008-09, to 48% in 2009-10.

However, partially offsetting the forecast for higher lamb slaughter in 2010 is the assumption that restocker activity will increase relative to 2009. That is, more producers are expected to retain ewe lambs or buy-in ewe lambs to maintain or grow future slaughter lamb turnoff. Hence, the slaughter lamb percentage (lamb slaughter as a percentage of lambs marked) is expected to increase only marginally on 2009.

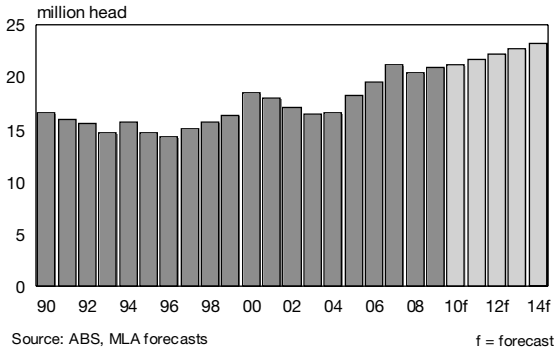
Combined, these factors should lead to a small increase in lamb slaughter in calendar year 2010 and an average of around 2% annual growth over the forecast period.

Figure 12
Quarterly lamb slaughter and saleyard prices



Source: ABS, MLA forecasts

Figure 13
Lamb slaughter



Source: ABS, MLA forecasts

f = forecast

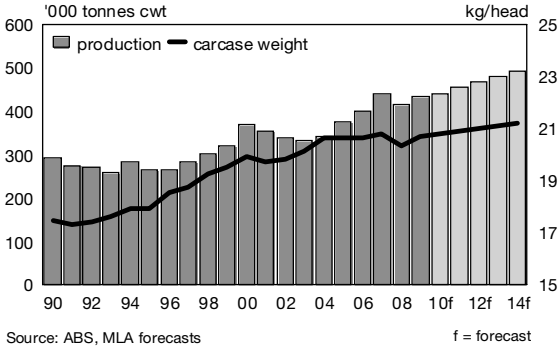
6. Lamb production

Assuming a continuation of improved pasture, fodder and feed grain availability in 2010, and with a higher proportion of prime lambs relative to Merino lambs in the slaughter mix relative to 2009, average lamb carcase weights are forecast to increase 0.6% year-on-year, to 20.8 kg/head.

In 2009, average lamb carcase weights increased close to 2% (to 20.7 kg/head) on the 2008 average despite the high prices drawing large numbers of light weight lambs to market early in the year. The mild winter and favourable season across the southern states in late 2009 allowed for an improvement in heavy lamb supply from spring and is expected to enable producers to carry lambs through summer.

The higher average lamb weights, combined with the 1% forecast rise in lamb slaughter, should lead to a 2% increase in lamb production in 2010, to around 440,000 tonnes cwt.

Figure 14
Lamb production and carcase weight



Source: ABS, MLA forecasts

f = forecast

From 2010 onwards, rising lamb slaughter and carcase weights combined should lead to annual growth in lamb production to around 490,000 tonnes cwt by 2014 – 14% above the 2009 lamb production record.

7. Domestic demand for Australian lamb

Consumer demand for lamb (as gauged by expenditure estimates) has been expanding continuously since the early 1990s, and looks set to continue growing, at least in the short term.

After a relatively flat 2008, domestic demand for lamb recorded strong growth in 2009, in spite of the economic slowdown and initial low consumer confidence. Early estimates put consumer expenditure on lamb at a record $2.3 billion in 2009, up 10% on 2008.

Domestic lamb consumption posted a remarkable 1% rise in 2009, despite a 9% jump in retail prices and strong competition from export markets.

The favourable household conditions supported this rise. The low interest rates, easing cost pressures and government stimulus enabled consumers to absorb the high lamb prices, albeit on lower cost products, such as chops, legs, shoulders, mince and sausages.

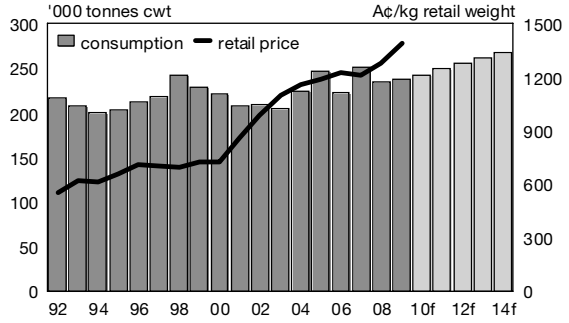
Domestic consumption of lamb is forecast to increase again in 2010, although marginally, as tighter disposable incomes are expected and the frugal consumer spending of 2009 continues through 2010.

Supporting the small rise in total consumption in 2010 is the recovery in consumer confidence, successful lamb promotions and changes in marketing and consumer purchasing patterns, particularly towards the provision and purchase of lower-priced lamb cuts and value-added options.

The high A$ in 2010 is expected to be largely offset by strong export demand and declining global lamb supplies, leading to a further rise in lamb prices and a small increase in the percentage of lamb production exported (45.2% in 2009, up to 45.3% in 2010).

As a result, the domestic market's share of lamb production is forecast to decline slightly to 54.7%. With a small improvement forecast in domestic lamb supply in 2010, the domestic lamb consumption is forecast to increase around 1.8% year-on-year, to 241,000 tonnes cwt.

Figure 15
Lamb consumption and retail price



Source: ABS, ABARE, MLA forecasts f = forecast

Domestic lamb consumption is forecast to expand modestly through to 2014, supported by growing lamb production and continued improvements in lamb quality, consumer satisfaction and marketing.

Rising export demand and lamb prices are likely to restrain the response in lamb consumption to growing underlying consumer demand – with a higher proportion of production exported.

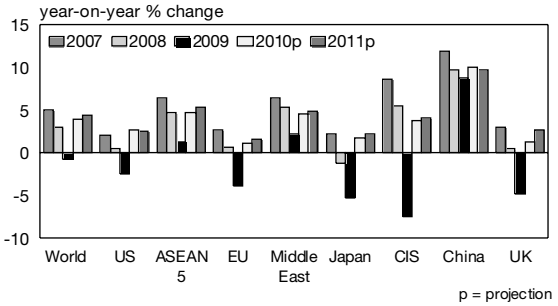
Total domestic lamb consumption is projected to increase to around 267,000 tonnes cwt by 2014, 13% higher than 2009.

8. Lamb exports

Export demand for Australian lamb is expected to strengthen further in 2010, due to tight global lamb supplies, robust demand in the Middle East and the expectation of economic recovery in Australia's key industrialised export lamb markets.

However, an higher A$ and continued strong lamb prices are expected to restrain this growth in export demand for Australian lamb.

Figure 16
Economic growth forecasts for key lamb export markets



Source: International Monetary Fund, *World Economic Update - January 2010*

As such, Australian lamb exports are expected to increase 2% in 2010, to 168,000 tonnes swt. Export volumes will also be capped by the relatively small growth forecast in lamb supply and continued strong domestic demand during the year.

Any decline in the A$ below the 85-95US¢ assumed, would intensify demand for lamb in export markets, fuel saleyard price rises and result in a greater proportion of domestic supply being exported.

Supported by steady growth in domestic lamb supply and continued expansion in demand across a range of markets, lamb exports are projected to continue an upward trend through to 2014, reaching around 190,000 tonnes swt – 15% higher than 2009 export volumes.

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

	2005	2006	2007	2008	2009	% change	*2010 f*	*% change f*
To:								
US	40.7	39.8	44.5	36.9	38.3	4%	*39.0*	*2%*
Canada	3.8	4.2	4.5	4.1	5.1	23%	*5.2*	*2%*
Mexico	7.1	5.3	7.4	3.7	3.1	-16%	*3.0*	*-4%*
Japan	10.9	11.9	8.5	9.9	8.3	-16%	*8.0*	*-4%*
South Korea	1.0	1.6	1.9	2.0	1.2	-40%	*1.2*	*1%*
Taiwan	1.5	1.1	1.1	0.8	1.4	90%	*1.5*	*5%*
China	13.5	11.8	14.5	14.2	13.9	-2%	*14.1*	*2%*
Hong Kong	0.6	2.5	4.1	5.4	10.4	93%	*10.8*	*4%*
South-East Asia	5.4	4.6	5.8	6.3	7.0	10%	*7.2*	*3%*
EU	10.5	11.8	12.7	11.6	13.7	19%	*14.3*	*4%*
Other Europe	3.4	3.3	3.9	3.8	3.3	-12%	*3.0*	*-10%*
Pacific	14.1	12.9	12.2	11.0	11.2	2%	*11.5*	*3%*
Middle East	14.1	17.7	22.3	25.4	35.9	41%	*38.9*	*8%*
South Africa	4.4	5.8	4.7	4.0	2.9	-28%	*2.4*	*-16%*
Other Africa/Mauritius	7.3	9.8	10.2	10.1	6.5	-36%	*5.6*	*-14%*
Other	3.0	2.6	2.7	2.6	2.8	6%	*2.3*	*-18%*
Total	**141.5**	**146.7**	**161.0**	**151.6**	**165.0**	9%	***168.0***	*2%*

Source: DAFF, MLA forecasts
f = forecasts (indicated in italics)
Pacific = PNG, New Zealand & Pacific Islands
Other Europe = CIS, Poland, Eastern Europe, Western Europe other than EU, Switzerland
South-East Asia = Indonesia, Singapore, Philippines, Malaysia, Thailand and Vietnam

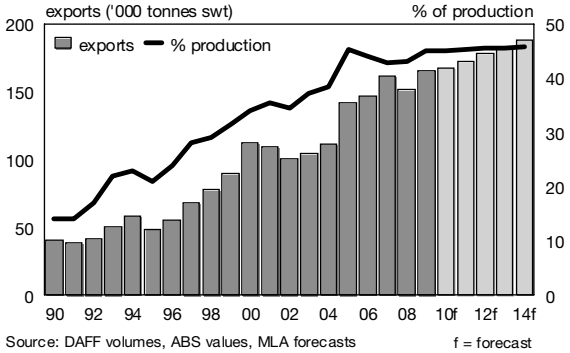
Box 2 The impact of the global financial crisis on lamb demand

The impact of the global financial crisis on export lamb demand in 2009 varied across export markets. The softer consumer demand in markets such as the US and EU was offset by higher export volumes during the first half of the year due to the low A$, tighter NZ supply throughout the year and, by extension, higher sales volumes (albeit at lower prices).

Other markets, including the Middle East and Hong Kong, were strong growth markets for Australian lamb in 2009, in both terms of export volumes and underlying consumer demand.

The value of Australian lamb exports during the 2009 calendar year increased 17% year-on-year, to a record A$977 million. Much of this increase was achieved during the first half of 2009 due to the export favourable A$ and higher export volumes. A significant proportion of the benefit from the low A$ also accrued to Australian exporters and sheepmeat producers. The per kg price of lamb exports in 2009 increased 7%, to average A$5.73.

Figure 17
Australian lamb exports



Source: DAFF volumes, ABS values, MLA forecasts f = forecast

Australian lamb export value to the US increased 10% year-on-year, to A$326 million, and represented 33% total Australian lamb export value (down from 36% in 2008 and 39% in 2007). This increase was achieved during the first half of 2009, as the high A$, persistent US recession and weak consumer lamb demand during the final six months of the year saw the average per kg export value fall 16% year-on-year, to A$7.56/kg. In 2009, the average per kg price of lamb exported in US$ terms fell 3% year-on-year, to US$6.52/kg.

Box 2 The impact of the global financial crisis on lamb demand continued...

Similarly, lamb demand in the EU also suffered from the global financial crisis. While export volumes increased 19% year-on-year and contributed to a 9% rise in export value, to A$101 million, the average price per kilo exported declined, to A$6.91/kg.

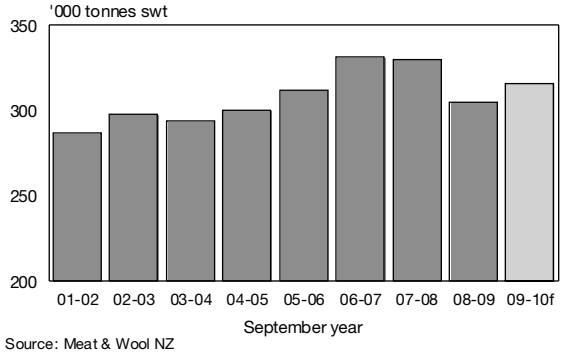
In contrast, strong consumer demand, combined with higher export volumes, led to lamb export value to the Middle East increasing 54% year-on-year, to A$179 million. In per kg terms, lamb exports increased 3% year-on-year, to average A$4.99/kg. In Hong Kong, a two-fold increase in lamb export value, to A$29 million was achieved via a 93% rise in export volumes and 3% increase in unit export value, to A$3.38/kg.

Box 3 Competitors

New Zealand

According to Meat & Wool New Zealand, the NZ sheep flock at 1 July 2009 declined 2.8% year-on-year, to 33.14 million head – the lowest level in 50 years. In line with this fall was a 3.6% decline in breeding ewe numbers, to 22.7 million head. The decline in the NZ flock was due to several years of enterprise shifts across to dairy production, poor returns to sheep, increasing costs of production and changing climatic conditions.

Figure 18
NZ lamb exports



Source: Meat & Wool NZ

Despite the decline in the NZ breeding ewe flock, export lamb slaughter in the 2009-10 NZ fiscal year (October through to September) is forecast to rise 4.4% year-on-year, to 23.5 million head. This is an increase on 2008-09, the lowest lamb kill in 20 years, and brings lamb slaughter up to 2004-05 levels. Contributing to the rise will be higher ewe conception rates (due to lower stocking rates and good pasture coverage at joining) and favourable seasonal conditions at early lambing, which boosted lamb survival and marking rates.

Average NZ lamb slaughter weights in 2009-10 are forecast to decline 0.9% year-on-year, to 17.5kg/head, as the cold wet weather in October and November limited grass and lamb growth rates. Combined with the increase in slaughter, export lamb production is forecast to increase 3.4% (or 13,600 tonnes cwt) year-on-year, to 411,600 tonnes cwt. While this increase is anticipated to result in a similar rise in NZ lamb exports for the year, it will be a rise on the lowest export volume since 2004-05. Hence, NZ lamb exports are expected to remain tight when compared to recent years.

Negotiations on a New Zealand – Gulf Cooperation Council (GCC) Free Trade Agreement (FTA) successfully concluded on 31 October 2009. The FTA secures improved access for NZ into the GCC, which includes Bahrain, Oman, Kuwait, Saudi Arabia, the UAE and Qatar. It is likely that the agreement will be signed in the first half of 2010 and come into force from 2011. Details of the agreement will be made public upon signature.

The GCC tariffs on sheepmeat imports are currently 5% on frozen or processed sheepmeat (and beef) and offals and no tariff on chilled sheepmeat. Australia is currently also negotiating a FTA with the GCC.

Box 3 Competitors continued...

South America

Uruguayan sheepmeat (both lamb and mutton) exports in 2009 increased 37% year-on-year, to 25,478 tonnes swt – the highest export volume on record. This increase was supported by a an 18% rise in sheep and lamb slaughter, to 2.1 million head.

Uruguay's largest export market was the Middle East and North Africa, which accounted for 39% of total exports during the year. Brazil was the second largest market, taking 24%, followed by China at 8%.

Similarly, Argentinean sheepmeat exports in 2009 increased 26% year-on-year, to 7,513 tonnes swt. This increase was achieved through a fall in domestic consumption as Argentinean sheepmeat production declined 2% year-on-year, to 75,553 tonnes cwt.

8.1 North America

Australian lamb exports to North America in 2010 are forecast to remain essentially steady, rising just 1% on 2009 volumes, to 47,200 tonnes swt, with a small rise to both the US and Canada.

8.1.1 US market

With soft consumer demand, only marginally lower lamb prices and the higher A$ in 2010, another tough trading year is expected for exports to the US. However, tight local and New Zealand lamb supplies and slow US economic growth are expected to push export volumes up just 2% (or 700 tonnes) year-on-year, to 39,000 tonnes swt.

Lower NZ lamb exports to the US are expected again in 2010, due to continued tight NZ lamb production (albeit slightly higher than 2009 levels) lowering competition with sales of Australian lamb.

The North American trade will also be supported by a small increase in Australian heavy lamb supply relative to 2009. Furthermore, the slow US economic recovery (according to the IMF, the US economy is forecast to recover 2.7% GDP growth in 2010) and Australia's strong presence in the retail sector are factors that should favour a small increase in export volumes during the year.

Assisting US purchases of Australian lamb further in 2010 will be tight US lamb and mutton supply.

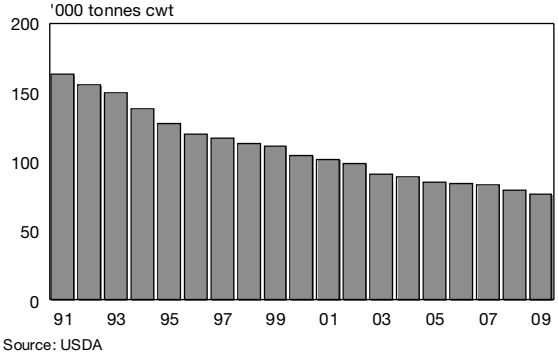
According to the latest United States Department of Agriculture (USDA) *Livestock, Dairy, and Poultry Outlook*, the high rate of sheep slaughter in the US

in 2009 suggests that the breeding flock will be down significantly in 2010 and, by extension, so too would be the number of market animals.

An economic recovery and a rebound in lamb demand in 2010 will tighten the domestic sheepmeat market further. This bodes well for a recovery in the US domestic lamb prices, and imports could increase significantly to make up for the shortfall in domestic lamb supplies.

The USDA has forecast US per capita sheepmeat consumption to remain flat at 1lb/person in 2010, and sheepmeat imports to increase 8%, to 184 million lbs (or 83,600 tonnes).

Figure 19
US lamb production

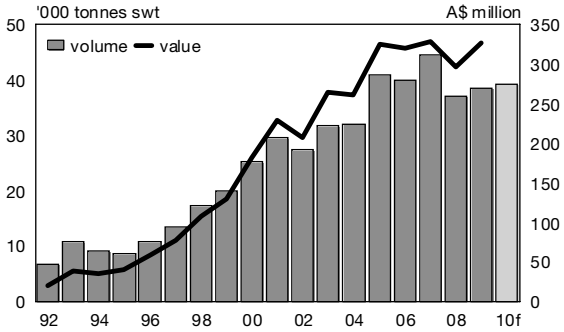


Source: USDA

In 2009, Australian lamb exports to the US recovered 4% year-on-year, to 38,300 tonnes swt – still 12% below the record of 44,500 tonnes swt in 2007. Much of this increase was achieved during the first half of the year through higher sales at lower prices due to the favourable A$ which offset the weak consumer demand in volume terms.

In contrast, the high A$ and high lamb prices during the latter half of the year substantially limited export volumes. Only a 1% increase in lamb exports was recorded when compared with the same period in 2008.

Figure 20
Lamb exports to the US



Source: DAFF volumes, ABS values, MLA forecasts f = forecast

8.1.2 Canada

Australian lamb exports to Canada in 2010 are forecast to increase 2%, to a record 5,200 tonnes swt. This is primarily due to the expectation of continued tight NZ supply again in 2010. This, combined with some improvement in economic growth in Canada, is expected to offset the higher A$ and result in higher export volumes for the year.

8.1.3 Mexico

Strong competing markets for Australian lamb (including the Middle East and Asia for shoulder cuts), the high A$ and high lamb prices, are expected to see a further 4% year-on-year decline in lamb exports to Mexico in 2010, to 3,000 tonnes swt.

This is a small decline relative to the 16% fall in 2009 and 50% decline in 2008 from the record 7,400 tonnes in 2007. Mexico is one of the most price sensitive markets for Australian lamb, and has been unable to pay the higher prices resulting from strong global lamb demand and a rising A$.

8.2 The Middle East

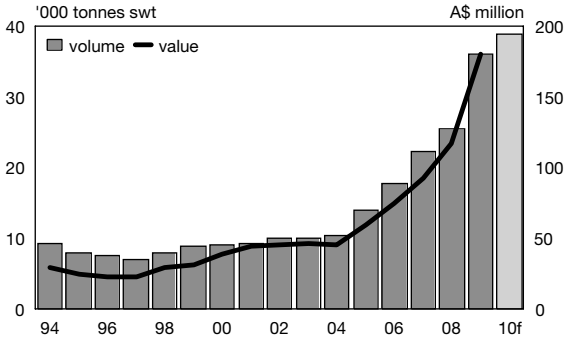
The Middle East is expected to be a strong growth market for Australian lamb again in 2010. Lower NZ supply, stronger economic growth and declining Australian live sheep and mutton supply are expected to offset the impact of the higher A$ on lamb exports to the region. As such, lamb exports to the Middle East are forecast to increase 8% year-on-year to 38,900 tonnes swt.

The Middle East was the strongest growth market for Australian lamb in 2009, with exports surging 41% (or 10,502 tonnes swt) year-on-year, to 35,871 tonnes swt. Reduced competition from NZ, China and local product contributed to the record export volume to the region, in addition to continued population and income growth.

The strength of the Middle East economies relative to other lamb export markets (including the US and Japan) hit by the global financial crisis, also contributed to more lamb being diverted to the Middle East market.

Throughout the forecast period, Middle East demand for Australian lamb is expected to remain strong and increase in line with population and income growth and rising Australian lamb supply. In 2010, with demand forecast to continue growing, the main limiting factor for lamb export volumes to the region is likely to be Australian lamb supply.

Figure 21
Lamb exports to the Middle East



Source: DAFF volumes, ABS values, MLA forecasts f = forecast

8.3 North Asia

Australian lamb exports to North Asia (including Japan, South Korea, Taiwan, China and Hong Kong) are forecast to increase 1% year-on-year, to 35,500 tonnes swt. Growth in lamb demand is expected in China, Hong Kong, Korea and Taiwan partly offset by a decline in export volumes to Japan.

8.3.1 Japan

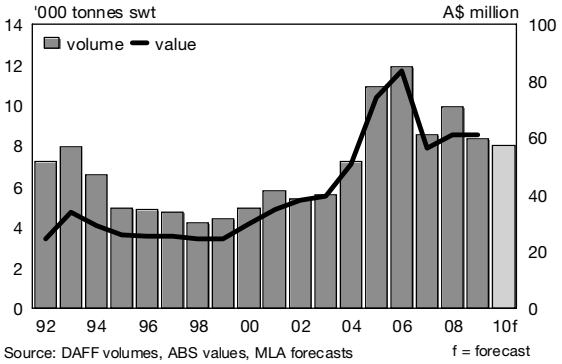
Lamb exports to Japan in 2010 are forecast to decline 4% year-on-year, to 8,000 tonnes swt.

Australia shipped 8,336 tonnes swt of lamb to Japan in 2009 – 16% below the 2008 export volume. This fall was primarily due to the high A$ during the second half of the year, high lamb prices and the stagnant foodservice demand (due to the economic recession). In addition, strong competition from cheaper proteins (including chicken, pork and discounted beef) at the retail level reduced Japanese lamb consumption during the year.

These factors are expected to curb Japanese demand for lamb again in 2010, with any improvement largely dependent on exchange rate movements and the recovery of the Japanese economy.

In addition, with only a small increase in Australian lamb supply in 2010, competition from the Middle East for shoulder cuts seems likely to limit export volumes further.

Figure 22
Lamb exports to Japan



Source: DAFF volumes, ABS values, MLA forecasts
f = forecast

8.3.2 China and Hong Kong

Australian lamb exports to China in 2010 are forecast to increase 2%, to 14,100 tonnes swt. This will be supported by stronger economic growth (with the IMF forecasting economic growth at 10% during 2010), growing underlying demand for lamb and tight NZ supply (largely offsetting the favourable trade conditions associated with the China-NZ free trade agreement).

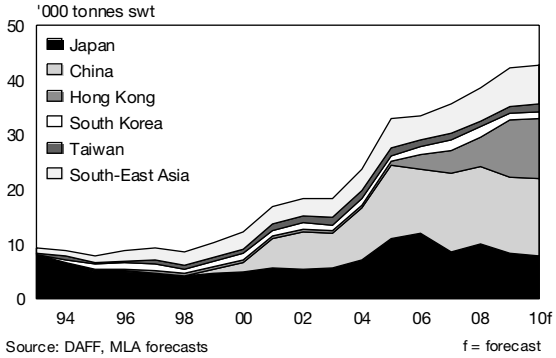
Over the medium term, Australian lamb exports to China are projected to rise. This is due to an overall increase in Chinese demand for lamb, driven by the emerging middle class in China, population growth, the shift away from wet markets to retail sales and strong economic growth.

Similarly, Australian lamb exports to Hong Kong in 2010 are forecast to increase 4% year-on-year, to 10,800 tonnes swt.

Demand for lamb in Hong Kong has grown significantly over recent years due to the growing popularity of the lamb hot pot, population expansion (especially ex-pat populations) and increase in high-end foodservice outlets. Interestingly, demand for lamb in Hong Kong weathered the impact of the global financial crisis and high A$ in late 2009, to record a 93% year-on-year increase in Australian lamb exports during the 2009 calendar year, to 10,400 tonnes swt.

The strong demand for lamb is expected to continue in 2010, tempered only by the high $A and slower growth in Australian lamb supply relative to demand.

Figure 23
Lamb exports to Asia



Source: DAFF, MLA forecasts
f = forecast

8.4 South East Asia

Australian lamb exports to South East Asia are forecast to rise 3% in 2010, to 7,200 tonnes swt. The higher export volumes will be supported by population growth, higher average incomes, expanding foodservice and retail sectors, tight NZ supply and the price competitiveness of lamb relative to mutton.

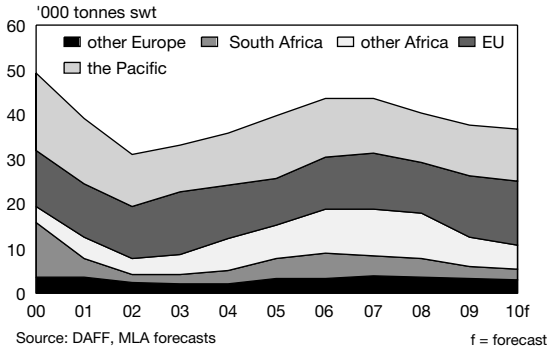
8.5 Other lamb export markets

8.5.1 Africa

Australian lamb exports to South Africa, other African nations and Mauritius are forecast to decline again in 2010. Due to the relative economic strength and growing demand for lamb in China, Hong Kong and Papua New Guinea (PNG), the African region is likely to be outbid for common, cheaper lamb cuts (largely breast and flap).

These are particularly price-sensitive markets with high tariffs. When this is combined with the high A$, strong demand from other markets and high lamb prices, lamb exports to the region are likely to remain under pressure. Australian lamb exports to the African region, especially South Africa, are forecast to decline 15% in 2010, to 8,000 tonnes swt.

Figure 24
Lamb exports to Europe, Africa and the Pacific



Source: DAFF, MLA forecasts
f = forecast

8.5.2 The Pacific

Following a year of recovering lamb demand, led by PNG, Australian lamb exports to the Pacific region in 2010 are forecast to increase 3%, to 11,500 tonnes swt.

The recovery in lamb exports to PNG in 2009 was largely driven by the growth in the mineral resources sector, improvement in economic management and lower interest rates. With favourable economic conditions expected in PNG again in 2010, modest growth in Australian lamb exports is expected. This growth will be capped by PNG's sensitivity to the rising cost of lamb and slower Australian supply growth.

8.5.3 The EU

Australian lamb exports to the EU in 2010 are forecast to increase 4% on 2009 export volumes, to 14,300 tonnes swt.

Australian lamb exports to the EU in 2009 rose 19% year-on-year, to 13,722 tonnes swt. This increase was due to a 39% increase in lamb exports to the UK, while shipments to the rest of the EU declined 19%.

The increase in lamb exports to the UK in 2009 was driven by declining UK and EU lamb supplies and the export favourable pound to euro exchange rate. This resulted in high UK imports of Australian lamb and increased exports of UK lamb to the EU. This rise was achieved despite the soft demand for lamb across the bloc due to the global financial crisis.

For the second consecutive year, there was a sharp decline in EU sheep production in 2009. Spain recorded the largest fall of 11% and a further fall in the EU member states in 2010 is likely.

Also contributing to the higher Australian lamb exports to the EU in 2009 were the lower Australian mutton supplies and the 8% (or 13,220 tonne) fall in NZ lamb exports (compared to the 2,145 tonne increase in Australia lamb exported during 2009).

Australian lamb export growth to the EU is limited by the sheepmeat import quota (18,786 tonnes cwt) and high out of quota tariffs. As such, rises in lamb exports are usually at the expense of mutton exports. This was the case in 2009, when mutton exports to the region fell 28% (or 2,063 tonnes swt) year-on-year.

A small increase in NZ export lamb supply (relative to 2009) is forecast in 2010. This is expected to narrow the supply gap created by the lower NZ supply in 2009, thereby softening sales demand for Australian lamb.

9. Mutton demand

The usage of Australian mutton in 2010 is expected to fall sharply in both export and domestic markets, due to very tight sheep supplies and higher prices.

Domestic demand for Australian mutton in 2010 is expected to be reduced by the high saleyard mutton prices, while total consumption falls due to the significantly lower Australian sheep supplies.

Middle East demand is forecast to expand further in 2010, with this market remaining attractive relative to domestic processing demand and offsetting the high A$. Export sales of Australian mutton are expected to be lower in 2010, due to the low supply and high A$.

10. Domestic mutton consumption

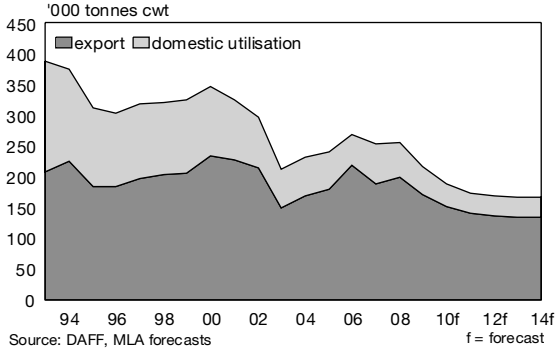
With lower supply, strong Middle East demand and high prices, domestic mutton consumption is forecast to decline 20% in 2010, to around 36,000 tonnes cwt.

Mutton usage on the domestic market has been on a declining trend over the past decade, progressively replaced by lamb and beef. The sharp decline forecast for 2010 is due to strong Middle East export demand for mutton and significantly reduced sheep supplies, increasing the cost of mutton relative to all other meats.

As such, domestic mutton consumption as a percentage of domestic production is forecast to decline one percentage point in 2010, to 19%.

Further, smaller declines in domestic mutton utilisation are forecast through to 2014. This will be due to sheep supplies falling further and prices rising relative to beef, pork and chicken for processing. Furthermore, the export of mutton is gradually becoming more attractive relative to domestic utilisation, due to strong overseas demand.

Figure 25
Mutton exports and domestic utilisation



Source: DAFF, MLA forecasts
f = forecast

11. Mutton exports

Australian mutton exports in 2010 are forecast to decline 12% on 2009, to 119,000 tonnes swt. Underpinning the significant decline in mutton export volumes for the second consecutive year will be the limited Australian sheep supply, with sharper falls to some export markets expected due to the assumed high A$, and sheep prices.

Shipments to the most price sensitive markets, such as Mexico, Africa, the Pacific and Russia, will be the hardest hit. However, these markets now account for only 18% of mutton exports (compared with 29% in 2008), following a 47% fall in shipments in 2009 – suggesting that falls will also be necessary to other markets in 2010, with few (if any) likely to expand.

Mutton exports are expected to decline through to 2014 due to the large, consecutive falls in the Australian sheep flock over recent years and as the flock stabilises to a new, lower base over the period.

If any growth can be achieved in mutton export markets over the medium term, it is expected that this would occur in the Middle East and the Chinas.

11.1 Middle East

Australian mutton exports to the Middle East in 2010 are forecast to decline 6% year-on-year, to around 48,900 tonnes swt. The key driver of the decline is expected to be limited Australian sheep supply.

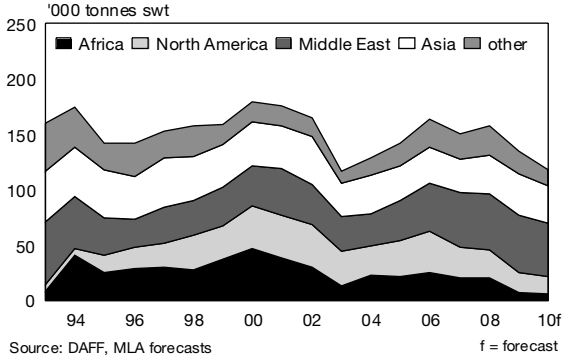
In 2009, mutton exports to the Middle East increased 3% year-on-year, to 51,894 tonnes swt.

The strong consumer preference for mutton in the Middle East and the resilience of the Middle East economy in the wake of the global financial crisis prevented the high mutton prices and A$ from impacting on export volumes to the region. In many cases, the Middle East was able to outbid other markets for Australia's limited supply of mutton during the year.

Over the remainder of the projection period (beyond 2010), Middle East mutton demand will be driven by population growth and continued strong economic expansion. Australian exports to the region however, are expected to be capped by Australian sheep supply.

Continued Middle East investment in sheep production in North Africa is also expected to soften demand for Australian mutton. The extent to which demand softens will be determined by the speed and capacity with which North Africa can supply the Middle East market.

Figure 26
Mutton exports by regional destination



Source: DAFF, MLA forecasts

11.2 South East Asia

Mutton exports to South East Asia are forecast to fall 9% in 2010, to around 13,300 tonnes swt.

Mutton exports to the region in 2009 increased 1% year-on-year, to 14,646 tonnes swt. This increase was achieved through a 1% rise in shipments to Malaysia (to 7,073 tonnes swt) and 3% increase to Singapore (to 7,284 tonnes swt) during the year, while exports to all other countries declined.

Demand for mutton in Malaysia and Singapore has been rising over recent years, due to the expansion of Indian Muslim foodservice outlets and reduced demand for Chinese sheepmeat (due to quality concerns and higher prices). Also driving the rise in export volumes over the period was a surge in mutton carcases and also a move to ship assorted cuts (particularly breast and flap).

However, tight Australian sheep supplies, reduced mutton export volumes and associated higher prices are expected to have a greater impact on exports to the region in 2010.

11.3 China and Hong Kong

Following a record year for mutton exports to China and Hong Kong in 2009, shipments to the region in 2010 are forecast to decline 8%, to 8,700 tonnes swt.

Mutton exports to China/Hong Kong increased 98% in 2009, year-on-year, to 9,496 tonnes swt. Population and income growth continue to drive demand for Australian sheepmeat in the region.

The relative strength of these economies during the year resulted in mutton flowing to these markets away from the more prices sensitive markets such as South Africa and the Commonwealth of Independent States (CIS). This trend is expected to continue in 2010, only capped by the tight Australian sheep supply.

11.4 The US

Australian mutton exports to the US in 2010 are forecast to decline 14%, to 9,300 tonnes swt. After declining 19% year-on-year, to 10,800 tonnes swt in 2009, volumes are expected to fall again in 2010 as sheep supply tightens further and the high A$ (relative to the US$) pushes up import prices.

11.5 Other mutton export markets

Australian mutton exports to all other markets are forecast to decline in 2010, due to limited Australian sheep supplies, associated higher prices and the high A$.

Shipments to South Africa are forecast to decline 32% in 2010, to 3,000 tonnes swt, to the Pacific region by 17%, to 4,600 tonnes swt, by 25% to 'other Europe' (including Eastern Europe, the CIS and Switzerland), to 4,100 tonnes swt and 11% to Japan, to 5,100 tonnes swt.

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

	2005	2006	2007	2008	2009	% change	*2010*[f]	*% change*[f]
To:								
Japan	8.2	6.8	7.0	7.1	5.6	-21%	*5.0*	*-11%*
South Korea	0.7	0.8	0.8	1.2	0.7	-40%	*0.5*	*-29%*
Taiwan	11.1	9.5	7.7	7.5	7.7	3%	*7.0*	*-10%*
China/Hong Kong	0.4	1.0	1.8	4.8	9.5	98%	*8.7*	*-8%*
South-East Asia	11.6	14.0	12.9	14.5	14.6	1%	*13.3*	*-9%*
Middle East	36.1	43.1	48.4	50.5	51.9	3%	*48.9*	*-6%*
USA	16.3	18.8	17.3	13.4	10.8	-19%	*9.3*	*-14%*
Mexico	9.8	10.7	5.9	7.6	4.2	-45%	*3.2*	*-23%*
Other North America	6.4	7.5	5.6	4.8	3.0	-37%	*2.5*	*-16%*
South Africa	13.7	19.6	14.9	13.7	4.4	-68%	*3.0*	*-32%*
Other Africa/Mauritius	7.4	6.0	4.8	6.5	4.2	-36%	*3.1*	*-26%*
EU	7.5	6.7	7.0	7.4	5.4	-28%	*4.8*	*-11%*
Other Europe	6.4	12.9	9.2	11.6	5.5	-53%	*4.1*	*-25%*
Pacific	4.4	4.3	4.9	5.8	5.5	-5%	*4.6*	*-17%*
Other	1.4	1.3	1.7	1.3	1.0	-23%	*0.5*	*-49%*
Total	**141.3**	**162.9**	**149.7**	**157.7**	**134.0**	-15%	***118.5***	*-12%*

Source: DAFF, MLA forecasts

f = forecasts (indicated in italics)

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, Poland, Eastern Europe and Western Europe other than EU

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

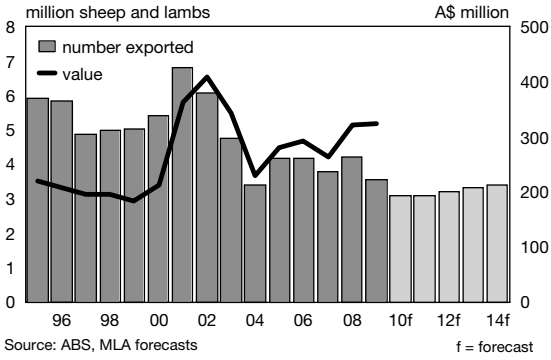
1. Live exports

Australian live sheep exports are forecast to fall 13% in 2010, to around 3.1 million head. Tight Australian sheep supplies will result in increased domestic prices and the high A$ will make Australian sheep more expensive for overseas customers.

Providing sheep for live export that met the specifications of the Middle East markets and in the volumes required was extremely challenging in 2009.

This is expected to remain the case in 2010, as markets struggle to maintain required volumes at higher prices during the year, despite the strong preference for Australian live sheep.

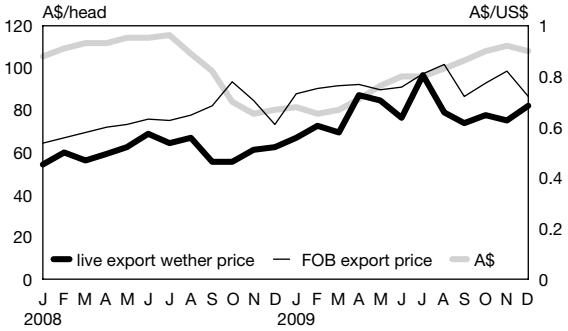
Figure 27
Australian live sheep exports



Source: ABS, MLA forecasts
f = forecast

The second half of 2009 clearly demonstrates the strong demand for Australian live sheep in the region, but reduced capacity to supply. While sheep consignments during the latter six-month period fell 25% year-on-year, to 1.8 million head, live wether export prices increased 33%, to average A$81/head, The A$ averaged 12% higher, at 87US¢, and the per unit export value of live sheep (FOB export price) exported to the Middle East increased 17%, to average A$95/head.

Figure 28
Live sheep export prices and the A$

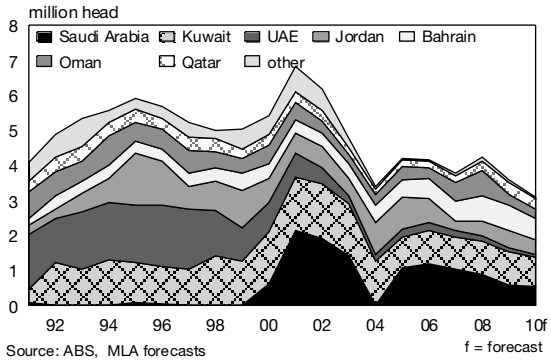


Source: ABS, Landmark

The significant reduction in volume exported to Saudi Arabia in 2009 was caused by two key issues. The first was the full allocation of the Islamic Bank tender for Haj supply being secured by suppliers from Sudan, Somalia and Georgia. The second was the retirement of a vessel that over the past four years had been dedicated to the Saudi Arabian trade.

As mentioned previously, to meet the shortfall in Australian supply, key Middle East markets (such as Saudi Arabia) are investing in the development of sheep supply chains in northern Africa. This is expected to lead to a shift in live export volumes from Saudi Arabia to the Gulf countries (including Bahrain, Kuwait and Qatar).

Figure 29
Live sheep exports by destination

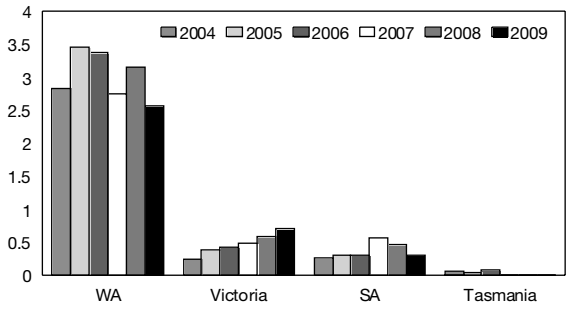


Source: ABS, MLA forecasts
f = forecast

In addition, as the decline in the WA flock continues, sheep for live export (particularly wethers) are expected to be increasingly sourced from the eastern states. In 2009, the number of sheep exported from

the eastern states fell 5%, to just over one million head. However, the eastern states accounted for 28% of total sheep exports during the year – three percentage points higher than 2008, while WA accounted for the remaining 72%.

Figure 30
Live sheep exports by state*



* live sheep exports out of NSW, Queensland and the NT were insufficient to highlight on this scale

Source: ABS

Over the medium term, any increase in live sheep export volumes will be dependent on a recovery in Australian sheep numbers. This could be achieved through a recovery in the wool flock or producers committing to sheep production specifically for the live export trade.

A substantial recovery in the wool flock to support growth in the live trade is not expected during the projection period and live export numbers will take time to rebuild. With reduced breeding stock any improvement in sheep numbers will be a slow process and shipping capacity will likely be diverted to other markets.

Importers are also expected to supplement low Australian live sheep supplies with sheep from other countries.

Table 4 Australian live sheep exports (head)

	2005	2006	2007	2008	2009	% change	*2010[f]*	*% change[f]*
To:								
Saudi Arabia	1,072,089	1,193,635	1,032,395	873,937	576,147	-34%	*565,000*	*-2%*
Kuwait	890,545	962,163	930,178	956,276	948,271	-1%	*805,500*	*-15%*
UAE	230,775	209,000	185,754	175,629	130,312	-26%	*100,000*	*-23%*
Jordan	884,886	685,000	267,829	383,943	470,511	23%	*387,000*	*-18%*
Oman	358,972	320,000	539,556	741,106	289,223	-61%	*270,000*	*-7%*
Bahrain	521,455	556,000	561,522	716,040	747,827	4%	*634,500*	*-15%*
Qatar	179,885	191,700	191,850	269,116	352,695	31%	*297,500*	*-16%*
Other	46,313	50,000	63,945	98,142	52,623	-46%	*40,500*	*-23%*
Total	**4,184,920**	**4,167,034**	**3,773,029**	**4,214,189**	**3,567,609**	**-15%**	***3,100,000***	***-13%***

Source: ABS, MLA forecasts

f = forecasts (indicated in italics)

Notes

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.

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 Resource Economics (ABARE)

Australian Bureau of Statistics (ABS)

Argentinean Agriculture, Livestock, Fisheries and Foodstuff Secretariat (SAGPYA)

Centre for International Economics (CIE)

Commonwealth Bureau of Meteorology (BOM)

Department of Agriculture, Fisheries and Forestry (DAFF), Australia

Dirección National de Mercados Agroalimentarios (DN de MA) – the Argentine Department of Agriculture

Infoscan NZ

International Monetary Fund (IMF)

Landmark

Meat & Wool New Zealand

Steiner Consulting Group, USA

The Land newspaper

United States Department of Agriculture (USDA)

Uruguayan National Meat Institute (INAC)

Acronyms

ABARE – Australian Bureau of Agricultural and Resource Economics
ABS – Australian Bureau of Statistics
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

Intentionally blank page

Level 1, 165 Walker Street
North Sydney NSW 2060
Ph: 02 9463 9333
Fax: 02 9463 9393
www.mla.com.au