



# AUSTRALIAN SHEEP ANNUAL REVIEW

AUGUST 2017



# ABOUT US

## About the research

The Australian Sheep Annual Review includes data and outlooks on sheep flock, lamb and mutton production, seasonal conditions, prices and demand. Analysis is presented on the sheep industry in Australia and in significant global markets.

Effort has been taken to secure the most recent data available.

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## About Ag Answers

Ag Answers is a specialist insights division of Rural Bank. Recognising that good information is the key to making good business decisions, Ag Answers provides research and analysis into commodities, farmland values, farm business performance and topical agricultural issues to enable farmers to make informed decisions.

## About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010 and is the only Australian-owned and operated dedicated agribusiness bank in the country. From 1 July 2014, Victorian agribusiness lender, Rural Finance joined Rural Bank as a division of Bendigo and Adelaide Bank Limited. As a specialist rural lender, Rural Finance has been fostering the sustainable economic growth of rural and regional Victoria for 70 years.

Rural Bank is supporting farmers and farming communities by providing them with specialist financial tools, industry insights and investment into the future of the Australian agribusiness sector.

## The future for agriculture is bright

We provide exceptional financial services, knowledge and leadership for Australian farmers to grow.

## SUMMARY

The Australian sheep industry has been growing in strength over the past five to six years with year on year increases in prices, production and exports. The average annual national trade lamb price has increased for four consecutive years and is trending 17.4% higher in the first half of this year compared to 2016. To have both prices and production increasing for this period is quite remarkable, and signals that demand has grown at a rate faster than supply. Overall consumption of lamb in Australia has been relatively steady since the mid-1990s and provides a stable demand base, making growth of export markets the most significant driver of growing demand for Australian lamb.

It appears sheep meat production has turned the corner in 2017, with slaughter rates trending lower

than 2016 as conditions have allowed producers to retain stock and increase the size of depleted flocks following a period of drought. Tightening supply has provided a further boost to both lamb and mutton prices, which are averaging above 2016 and long term average levels.

This report provides analysis of historical trends of production, domestic and international demand and prices. It also investigates the outlook for the Australian sheep industry. The shift in production trends occurring in 2017 is expected to have implications for each of these factors, however demand from Australia's key export markets, combined with lower production from key competitors is suggesting that the positive long-term outlook will continue to for the Australian sheep industry.

Australian lamb slaughter  
increased by

**0.4%**

in 2016

Australian sheep slaughter  
decreased by

**18%**

in 2016

The El Nino Southern  
Oscillation Index remains

**neutral**

for winter and spring

Lamb export volumes in  
Jan-May 2017 are

**3%**

lower than 2016

Mutton export volumes in  
Jan-May 2017 are

**10%**

lower than 2016

In 2017, the NTLI price is  
averaging

**14%**

higher than 2016

# SEASONAL CONDITIONS

The El Nino Southern Oscillation Index remains

## neutral

for winter and spring

The southern half of Australia to have a

## drier

than normal winter

July to September is expected to be

## warmer

than average for southern Australia

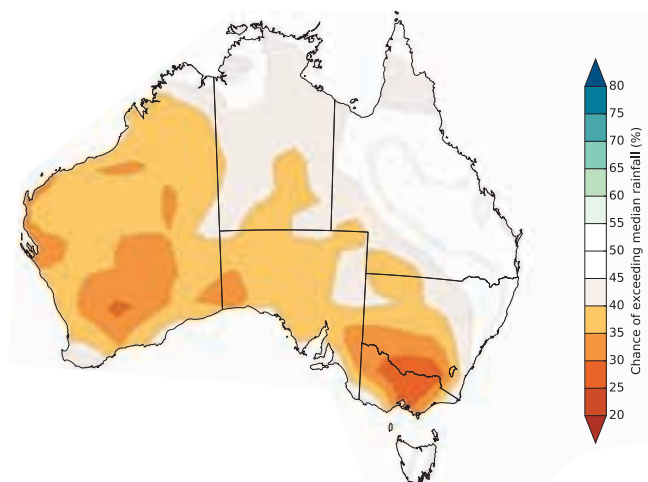
The period from 2012 to early 2016 was characterised by below average rainfall for much of Australia, including major grazing regions. A shift in the Pacific Ocean to neutral, borderline La Nina, occurred in May 2016 which produced the second wettest winter on record. As a result, many graziers entered 2017 with good soil moisture levels and pastures in excellent condition.

Conditions in the first half of 2017 have generally been drier and warmer than average. Southern parts of Australia have been particularly affected by below average rainfall.

Western Australia experienced some severe storms earlier in the year but the last couple of months have been very dry, with average temperatures.

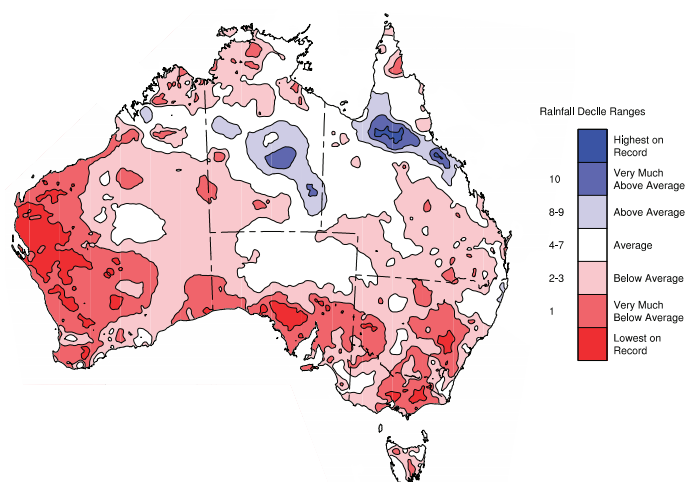
The Bureau of Meteorology's Normalised Difference Vegetation Index (NDVI) shows higher than normal autumn pasture density and greenness for eastern parts of Victoria, New South Wales and Queensland. This suggests that pasture growth was given a boost from above average rainfall and warmer than average temperatures in autumn. Areas further inland and most of Western Australia have been seeing declining greenness through autumn and into winter.

Chance of above median rainfall from August to October



Source: Bureau of Meteorology (BoM)

Recent rainfall deciles between 1 May and 31 July 2017



Source: BoM

## Outlook

The next three months are forecast to be drier than average for Western Australia and the south east, while Queensland and Tasmania are likely to receive average rainfall. The Bureau of Meteorology has downgraded its ENSO outlook to neutral for spring with none of the surveyed Pacific Ocean models predicting an El Nino. The Indian Ocean Dipole is moving towards a positive state which is associated with below average rainfall in southern Australia. For a monthly state specific forecast from meteorologist Jane Bunn please visit our website: [www.ruralbank.com.au/for-farmers/ag-answers](http://www.ruralbank.com.au/for-farmers/ag-answers)



# PRODUCTION – AUSTRALIA

The Australian sheep flock fell 3.6% to

# 68.4

million head in 2016

Australian lamb slaughter increased by

# 0.4%

in 2016

Australian sheep slaughter decreased by

# 18%

in 2016

A small year-on-year increase in Australian lamb slaughter to almost 23 million in 2016 was the fifth consecutive year of increased slaughter rates. A mix of poor seasonal conditions leading to liquidating flocks and increasing prices encouraged growth in lamb supplies.

Lamb slaughter for the year to May is 3.6% lower than 2016 due to lower marking rates and greater retention of stock. May saw a significant increase in supply with 31% more lambs slaughtered compared to April as dry conditions and a dry outlook have forced some turnoff of stock.

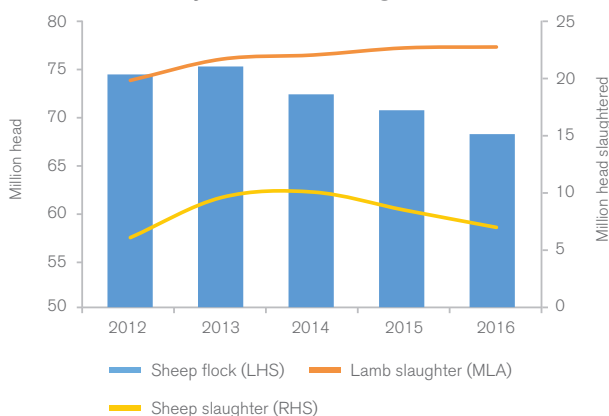
The trend of lower slaughter rates for the year to date is consistent across all states, with the largest year-on-year drop occurring in Queensland (-76%), followed by Tasmania (-34%),

South Australia (-10%), Western Australia (-9%), New South Wales (-7%) and Victoria (-1%).

Sheep slaughter has been in a long term downwards trend, largely due to declining demand for mutton. Annual slaughter in 2016 was just under 7 million sheep as producers looked to retain breeding ewes. Sheep slaughter has continued to trend lower this year, currently 14.3% below 2016.

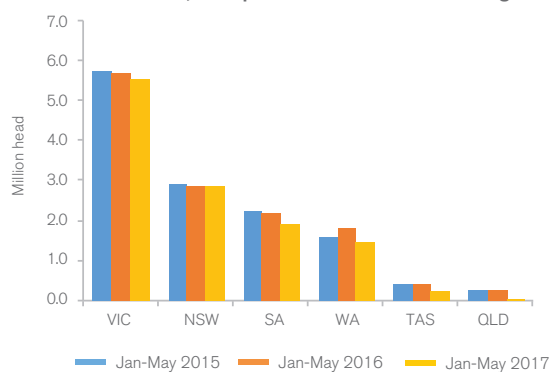
Slaughter and flock trends have been changing since the 1990s to create a different looking industry today. In 2000, the flock had an extra 50 million sheep and lamb slaughter was only 13% greater than sheep slaughter. Since then, sheep slaughter has fallen 57% and lamb slaughter has increased 24% to now be 230% higher than sheep slaughter.

The Australian sheep flock has declined in the last three years as lamb slaughter increased



Data: Meat and Livestock Australia (MLA)

Sheep and lamb slaughter is trending lower than 2016 in all states, except NSW where it is 0.6% higher



Data: MLA

## Outlook

Lamb slaughter always trends upwards in spring as new season lambs hit markets. Conditions are not ideal for retaining stock or putting on weight with below average rainfall looking set to continue through spring and grain prices rallying back to long term average levels. It is likely that lamb slaughter in spring will not only trend upwards from current levels, but trend higher than levels seen during the same period in 2016. Continued strength in wool markets will continue to encourage the retention of ewes and wethers but poor seasonal conditions may force some reduction in flock sizes and increase mutton supplies.

# PRODUCTION – WORLD

New Zealand lamb  
production fell by

**7.8%**

in 2016

New Zealand's sheep  
flock is expected to

**decline**

in 2017

USA sheepmeat  
production fell by

**0.7%**

in 2016

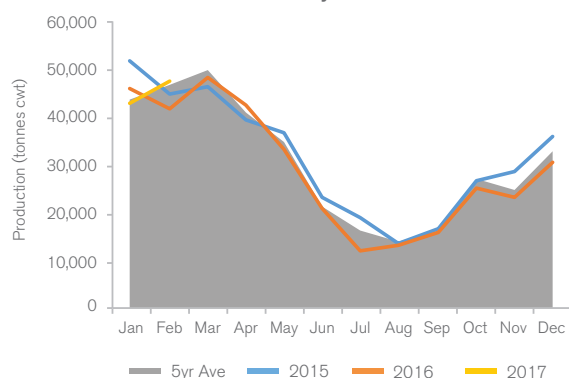
Lamb production has been trending lower in New Zealand due to poor seasonal conditions and expansion of the dairy industry in grazing regions of the country. In 2016, lamb production fell 7.8%, to 359,618 tonnes. By comparison, Australia produced 515,950 tonnes of lamb. Despite lower production than Australia, New Zealand is the world's largest lamb exporter, with 290,080 tonnes of lamb exported in 2016, 12% more than Australia.

New Zealand's main export markets are vastly different to Australia's. The European Union is the largest market for New Zealand lamb, accounting for 34% of total export volumes in 2016, followed by China which accounted for 31%. New Zealand benefits from trade agreements with both these markets allowing them to hold the majority of market share for

imported lamb. New Zealand also accounts for 25% of imports into the United States, however this only represents 7% of their exports.

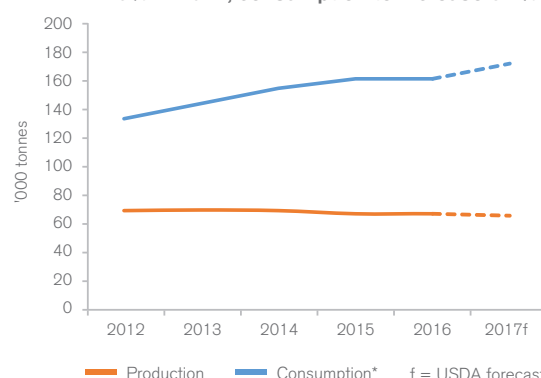
Sheep meat production and consumption is relatively insignificant in the United States accounting for only 0.15% of total meat production. However, the US is a key export market for Australian lamb, accounting for 23% of export volumes in 2016. In 2016, US lamb and mutton production declined 0.7%, the fourth consecutive year of declining production with producers exiting the industry. Domestic production accounts for approximately 40% of consumption in the US. This proportion has been trending lower as consumption volumes increase, creating a growing dependence on imports.

**New Zealand lamb production  
declined by 7.8% in 2016**



Data: MLA

**US lamb and mutton production to decrease by  
1.3% in 2017, consumption to increase 6.2%**



Data: United States Department of Agriculture  
\*consumption estimated based on production and trade data

## Outlook

A declining sheep flock in New Zealand is expected to be an ongoing trend as enterprises shift to beef and dairy production. With fewer breeding ewes, lamb numbers and production are expected to decline further in 2017. Sheep meat production in the US is trending lower than 2016 and is expected to continue to decline for the remainder of the year. USDA estimates currently expect further tightening of domestic production in 2018. This is expected to increase import demand for lamb.

# DEMAND

Domestic lamb consumption is equivalent to

**42%**

of production

Lamb export volumes in Jan-May 2017 are

**3%**

lower than 2016

Mutton export volumes in Jan-May 2017 are

**10%**

lower than 2016

Domestic consumption is the largest market for Australian lamb. However, the percentage of lamb consumed domestically has been trending downwards due to production increases and relatively stable consumption since 1990, at just under 220,000 tonnes per year.

The quantity of lamb exported has increased for six consecutive years and was 62% higher in 2016 than 2010. At the same time, the price paid for Australian lamb has increased leading to four consecutive years of growth in the value of lamb exports. Growing demand and a depreciating Australian dollar have been significant factors driving this trend.

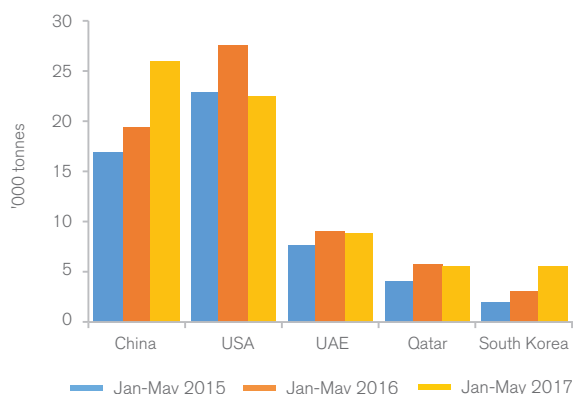
Growing reliance on imported lamb in the US has made it a key market for Australia which supplies 75% of the country's

lamb imports. Although volumes to the US are down 19% year-on-year, a 26% increase in the unit price to \$11,906/t has meant a 2.6% lift in value.

The Chinese market is quite different. Strong domestic production means imports make up only 6% of lamb consumed, with Australia supplying 36% of imports. Whilst China accounts for 24% of Australia's lamb exports by volume in 2017, by value it only accounts for 13%, due to a low unit price of only \$4,059/t.

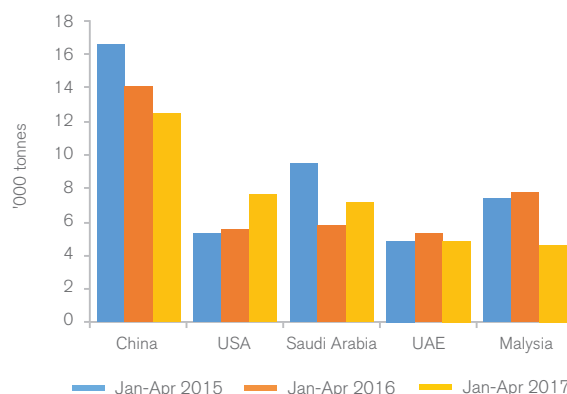
Domestic consumption of mutton is low, equivalent to 5% of production. It has predominately been an export product with consumption declining in Australia. Mutton exports have declined in the last two years and are trending 10.3% lower in 2017 as supplies have tightened.

**Lamb export volumes to China are 38% higher than 2016, but 18% lower to the USA**



Data: Global Trade Information Services

**Mutton export volumes to China are down 11% compared to 2016, but up 39% to the US**



Data: GTIS

## Outlook

The volume of exports from Australia is expected to be lower in 2017 compared to 2016 due to forecast declines in production. US demand is set to continue an upward trend as local production declines while consumption increases. Declining production from New Zealand, Australia's main competitor in the US, means demand should continue to outstrip available supply, providing further support for prices. Growth in the Chinese market seems unlikely with consumer demand cooling and domestic production growing. However, a continued decline in New Zealand exports could create opportunities for more Australian product in this market. Improved market access to the United Kingdom and European Union post Brexit will be important to watch in the coming years.

# EXPORT MARKETS – COUNTRY DETAIL

Destination Country	2014	2015	2016	YoY % Change	2016 % Share	2016 Jan-May	2017 Jan-May	YoY % Change
<b>Lamb exports ('000 tonnes swt)</b>								
World	248.3	249.9	259.8	4.0%		111.7	108.4	-3.0%
USA	46.2	57.7	59.4	2.9%	22.9%	27.2	22.1	-18.6%
China	47.5	38.1	47.3	24.2%	18.2%	19.5	26.0	33.4%
UAE	16.9	18.7	20.9	11.7%	8.0%	9.0	8.8	-2.0%
PNG	10.2	16.2	16.9	4.1%	6.5%	6.5	5.0	-23.1%
Qatar	9.4	13.2	15.1	14.9%	5.8%	5.8	5.6	-3.8%
<b>Mutton exports ('000 tonnes swt)</b>								
World	193.7	161.4	141.6	-12.3%		67.7	60.8	-10.3%
China	60.3	36.4	30.8	-15.3%	21.7%	14.1	12.5	-11.1%
Malaysia	16.1	16.1	15.8	-1.7%	11.2%	7.8	4.6	-40.2%
Saudi Arabia	18.0	17.0	11.8	-30.3%	8.4%	5.7	7.1	24.0%
USA	13.7	14.1	10.0	-28.9%	7.1%	5.5	7.6	38.5%
Singapore	9.5	10.2	10.0	-1.8%	7.0%	4.1	4.4	8.3%
<b>Live sheep exports ('000 head)</b>								
World	2,310.2	1,959.8	1,870.3	-4.6%		741.0	733.8	-1.0%
Kuwait	744.7	633.2	635.4	0.3%	34.0%	272.8	268.7	-1.5%
Qatar	539.3	387.2	561.0	44.9%	30.0%	218.0	263.0	20.6%
UAE	118.0	249.6	191.0	-23.5%	10.2%	81.3	45.5	-44.1%
<b>Lamb exports (A\$millions)</b>								
World	1,693.3	1,774.3	1,799.0	1.4%		725.5	836.2	15.3%
USA	458.4	597.6	609.7	2.0%	33.9%	256.9	263.4	2.6%
China	218.3	141.2	162.6	15.1%	9.0%	62.1	107.1	72.5%
UAE	116.6	137.9	153.0	11.0%	8.5%	63.8	73.1	14.7%
Qatar	58.9	92.8	101.7	9.6%	5.7%	36.9	39.7	7.6%
Japan	88.1	72.9	77.4	6.1%	4.3%	33.0	36.6	11.1%
<b>Mutton exports (A\$millions)</b>								
World	868.5	750.9	640.8	-14.7%		281.7	342.0	21.4%
China	206.5	107.7	77.9	-27.7%	12.2%	32.3	43.9	36.2%
Malaysia	75.9	72.9	70.7	-3.0%	11.0%	32.0	24.1	-24.8%
USA	79.0	92.8	69.0	-25.6%	10.8%	32.3	65.9	104.2%
Saudi Arabia	79.0	73.1	50.9	-30.4%	7.9%	23.1	37.8	63.6%
Singapore	46.9	50.3	49.1	-2.5%	7.7%	19.0	23.9	25.5%
<b>Live sheep exports (A\$millions)</b>								
World	234.6	246.0	217.5	-11.6%		79.0	95.8	21.2%
Kuwait	71.2	75.7	69.2	-8.6%	31.8%	28.1	34.1	21.4%
Qatar	52.6	46.5	60.0	28.9%	27.6%	21.1	34.1	61.7%
UAE	11.9	27.7	20.5	-26.1%	9.4%	8.2	4.9	-39.9%

Data: GTIS



# PRICES

In 2017, the NTLI price is averaging

# 14%

higher than 2016

In April the NTLI hit a peak of

# 680

cents per kilogram

In 2017, mutton prices are averaging

# 38%

higher than 2016

The National Trade Lamb Indicator (NTLI) has shown an increase in the average annual price for the past four years. The strength in lamb prices is impressive given the growth in production over the same time period, indicating that growth in demand has outstripped growth in supply.

Lamb prices trended upwards in the first half of 2017 as slaughter rates trended lower and producers focused on increasing flock sizes. The NTLI has averaged 639c/kg cwt compared to 544c/kg cwt for this time last year. This is also 29% above the five year average price of 497c/kg

cwt for the first half of the year. The end of June and start of July has seen prices decline as dry conditions prompted turnoff of some stock.

The largest falls in price since the beginning of June have been for light lambs (-21%), followed by trade (-14%) and heavy (-12%).

National mutton prices are averaged 457c/kg cwt in the first half of 2017, up 43% on 2016 and 46% on the five year average price for January to July. The main driver of exceptional prices is very tight supply with producers retaining breeding stock. Strong prices on offer for wool are also encouraging producers to hold onto stock.

National trade lamb indicator



Data: MLA

National mutton indicator



Data: MLA

## Outlook

Prices have begun to trend lower much earlier than usual this year and are likely to continue falling as supply increases through spring and trend below levels recorded in 2016. Poor seasonal conditions should also weaken demand for light and restocker lambs, adding further downwards pressure on prices. Longer term prices will depend in the balance of the likely ongoing growth in demand and recovery in production set to occur following current flock rebuilding activity. Mutton prices are also likely to weaken in the short term with supplies likely to increase slightly, but strong wool prices will still play a role in limiting supply somewhat.

# LAMB AND MUTTON PRICES - STATE DETAIL

State	Type	Current Price 28th July	June 2016	5 year average	80th percentile	20th percentile
Saleyards indicators (c/kg cwt)						
NSW	Restocker 0-18kg	665	644	511	611	388
	Light 12-18kg	526	573	478	567	366
	Trade 18-22kg	577	636	516	593	428
	Heavy 22kg+	576	643	522	601	437
	Mutton 18-24kg	396	385	316	392	221
SA	Restocker 0-18kg	476	559	523	618	410
	Light 12-18kg	589	513	471	548	382
	Trade 18-22kg	560	576	493	557	419
	Heavy 22kg+	549	560	501	570	424
	Mutton 18-24kg	346	366	289	367	190
TAS	Restocker 0-18kg	533	693	516	604	401
	Light 12-18kg	530	588	492	568	408
	Trade 18-22kg	549	626	509	573	431
	Heavy 22kg+	532	598	503	569	444
	Mutton 18-24kg	388	411	313	379	236
VIC	Restocker 0-18kg	638	568	502	583	388
	Light 12-18kg	543	563	491	569	390
	Trade 18-22kg	579	640	514	590	427
	Heavy 22kg+	580	651	519	598	434
	Mutton 18-24kg	413	395	321	405	223
WA	Restocker 0-18kg	455	526	423	506	327
	Light 12-18kg	605	468	451	506	363
	Trade 18-22kg	648	494	464	524	378
	Heavy 22kg+	612	491	460	521	371
	Mutton 18-24kg	390	285	267	322	200
Retail price (\$/kg)						
Lamb	Aus	14.5	14.29	13.54	14.4	12.53

Data: MLA

## Primary sources:

Australian Bureau of Agricultural and Resource Economics and Sciences, 2016, Agricultural commodity statistics 2016, accessed June 2017.

Bureau of Meteorology, 2017, Australian rainfall decile map, accessed July 2017.

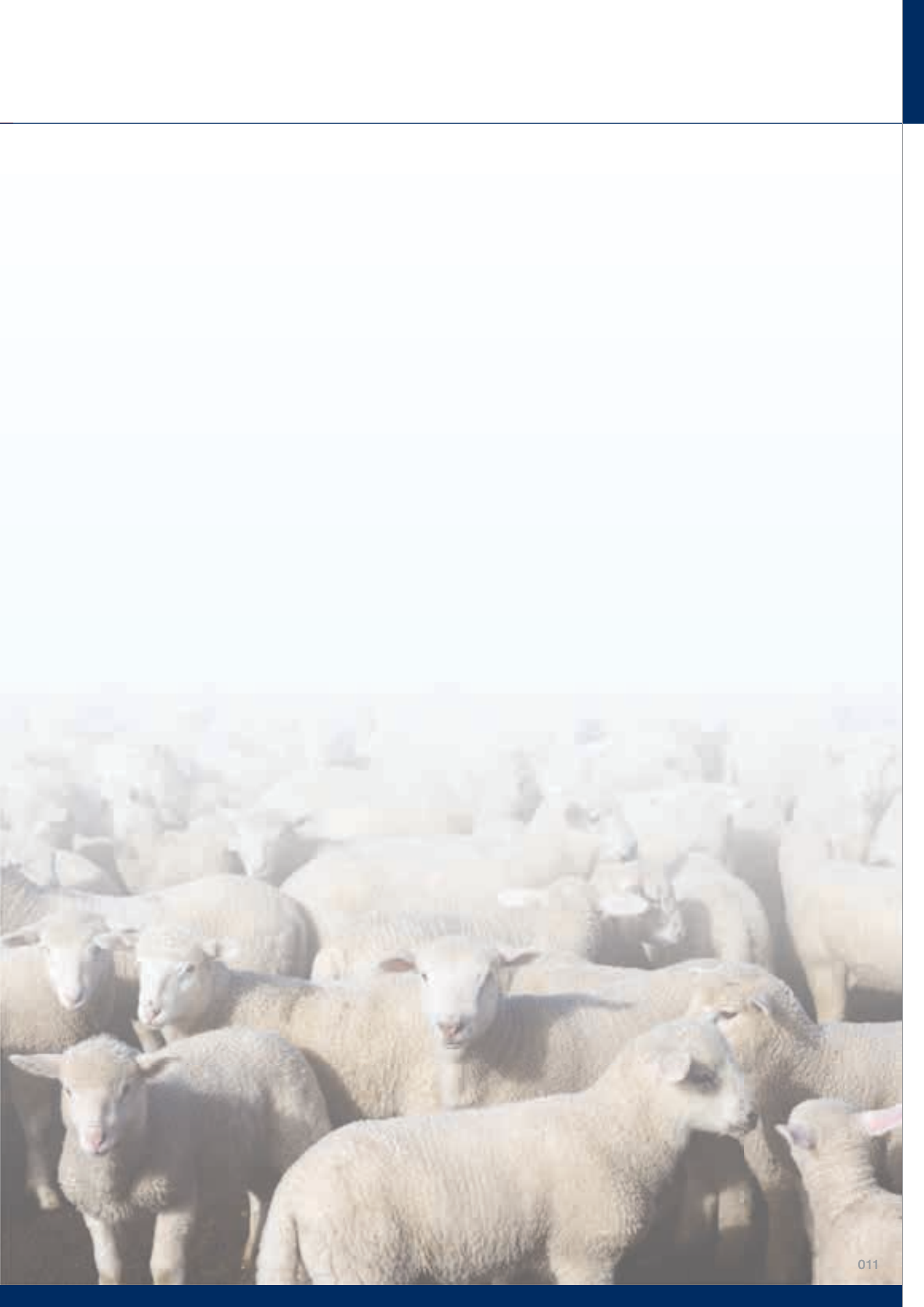
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