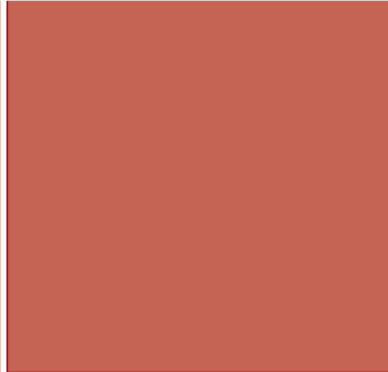


2008



Australian sheep

Industry projections

Mid-year update

Australian sheep

Industry projections

2008

Mid-year update

Author: Kara Jones and Peter Weeks

For more information call MLA on 02 9463 9163

Published by Meat & Livestock Australia Ltd

July 2008

© Meat & Livestock Australia Ltd, 2008

ISSN 1329-2994

While endeavouring to ensure that the information contained in this publication is correct, MLA makes no representation as to, and accepts no liability for, the accuracy of such information including, but not limited to, the forecasts.

Mid-year sheep update

1. Introduction	1
2. Overview	1
3. Lamb prices and income	1
4. Sheep prices	2
5. The sheep flock and sheep supply	2
6. Lamb slaughter	5
7. Lamb production	6
8. Domestic demand for Australian lamb	6
9. Lamb exports	8
9.1 North America	9
9.2 North Asia	10
9.3 Other lamb export markets	11
10. Mutton demand	12
11. Mutton exports	13
12. Live exports	14

Box 1 Financial year sheep and lamb supply forecasts	5
--	---

Box 2 Changes to MLA lamb forecasting methods	6
---	---

Box 3 Competitors	7
-------------------------	---

Appendix 1 Changes to the ABS livestock census and surveys	16
--	----

Tables

Table 1 Situation and outlook for the Australian sheep industry	3
---	---

Table 2 Australian lamb exports	9
---------------------------------------	---

Table 3 Australian mutton exports	13
---	----

Table 4 Australian live sheep exports	15
---	----

Table B1 Financial year supply outlook for the Australian sheep industry	5
--	---

Figures

Figure 1 Australian lamb prices	1
---------------------------------------	---

Figure 2 Australian lamb farm income	2
--	---

Figure 3 Australian mutton sheep prices	2
---	---

Figure 4 Australian sheep flock	2
---------------------------------------	---

Figure 5 Australian commodity prices	4
--	---

Figure 6 Australian sheep turn-off	4
--	---

Figure 7 Sheep slaughter and mutton production	4
--	---

Figure 8 Lamb slaughter	5
-------------------------------	---

Figure 9 Lamb production and carcase weight	6
---	---

Figure 10 Lamb demand and expenditure	7
---	---

Figure 11 Lamb consumption and retail prices	7
--	---

Figure 12 Australian lamb exports	9
---	---

Figure 13 Lamb exports to the US	10
--	----

Figure 14 Lamb exports to Japan	11
---------------------------------------	----

Figure 15 Lamb exports to Asia	11
--------------------------------------	----

Figure 16 Lamb exports to the Middle East and Africa	12
--	----

Figure 17 Mutton exports and domestic utilisation	13
---	----

Figure 18 Mutton exports by regional destination	14
--	----

Figure 19 Australian live sheep exports	14
---	----

Figure 20 Live sheep exports by destination	15
---	----

Figure B1 Retail prices for beef, lamb, pork and chicken	7
--	---

Figure B2 US lamb production	8
------------------------------------	---

Mid-year sheep update

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 and MLA's National Livestock Reporting Service (NLRS) and the newly formed industry Lamb Forecasting Advisory Committee.

The sources listed below are also duly acknowledged for the provision of statistical, analytical and forecast information used in this document.

Agriculture and Livestock Industry Corporation (ALIC), Japan

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

Australian Bureau of Agricultural and Resource Economics (ABARE)

Infoscan NZ

Australian Bureau of Statistics (ABS)

Meat New Zealand

Axiom Research

National Livestock Reporting Service (NLRS)

Commonwealth Bureau of Meteorology (BOM)

Telerate

United States Department of Agriculture (USDA)

Acronyms

ABARE – Australian Bureau of Agricultural and Resource Economics

ABS – Australian Bureau of Statistics

AQIS – Australian Quarantine and Inspection Service

CIF – Cost insurance and freight (export price at destination)

CIS – Commonwealth of Independent States

cwt – Carcase weight

DAFF – Department of Agriculture, Forestry and Fisheries, Australia

EU – European Union

FAS – Free alongside ship (export price before departure)

FOB – Free on board ship (export price loaded on ship before departure)

FMD – Foot and mouth disease

JFY – Japanese fiscal year (April to March)

lwt – Liveweight

MLA – Meat & Livestock Australia

NLRS – National Livestock Reporting Service (Meat & Livestock Australia)

NZ – New Zealand

OIE – Office International Des Epizooties (World Organisation for Animal Health)

PNG – Papua New Guinea

RVF – Rift Valley fever

swt – Shipped weight

TRQ – Tariff rate quota

UAE – United Arab Emirates

UK – United Kingdom

US – United States

USDA – United States Department of Agriculture

WTO – World Trade Organization

1. Introduction

This *Australian sheep industry projections 2008 mid-year update* covers calendar years 2008–2012 and is a revised edition of the sheepmeat component of the *Australian cattle and sheep industry projections 2008* report, released by Meat & Livestock Australia (MLA) in February.

The *2008 Australian Sheep Industry Projections Mid-year Update* has been drawn up with the assistance of a newly-formed MLA Lamb Forecasting Advisory Committee. This Committee is composed of producers, processor/exporters and industry experts from across the country. At the same time, MLA has discontinued its extensive annual quantitative MLA Lamb Survey, following recent deficiencies in predicting future lamb turnoff.

2. Overview

The Australian lamb industry is in a position to prosper going forward, despite having suffered another year compromised by drought. The prospect for tighter supplies, due to the significant shift away from sheep and into cropping over the past year, combined with strong demand, signals the prospect of higher prices to producers.

Seven years of drought and depressed wool prices have seen the Australian sheep flock plummet since 2000, falling to its lowest level in more than 80 years. While there has been some intention to rebuild the flock on the back of strong returns for lambs, drought has continually eroded sheep numbers and contributed to higher production costs. Adding to the exodus has been a sharp rise in the price and returns from grains relative to wool and lambs, leading to a shift to cropping.

As such, the liquidation of the Australian sheep flock seems set to continue in coming years, though at a declining rate, to a low point in 2011 – significantly tightening sheep turn-off, reducing mutton production and exports and constraining live shipments over the short to medium term. This will not prevent a further shift in investment from

medium and fine wool enterprises to prime lamb, but it is likely to constrain growth in lamb supplies.

Domestic and overseas consumers continue to look primarily to Australia to supply their growing demand for lamb. However, a temporary decline in Australian lamb supplies in 2008 and 2009 is likely to constrain both domestic consumption and export shipments. Over the medium term however, the underlying strong demand will see consumption and exports increase, supported by slowly rising production.

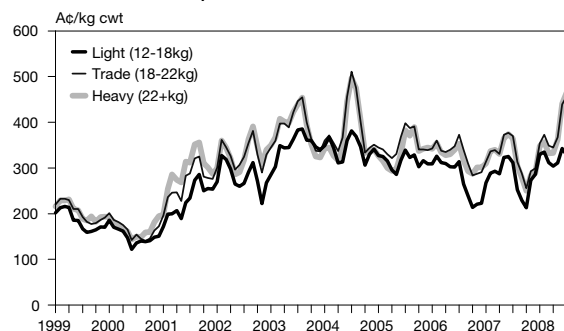
Lamb supplies are expected to tighten markedly during the second half of 2008 – the result of a previously poor lambing season and increased turnoff in the final months of 2007 and first half of 2008. Assuming an above average 2008-09 winter grain harvest and a fall in grain prices, lamb production is forecast to recover in 2009 and continue growing through to 2012.

3. Lamb prices and income

A forecast decline in lamb turnoff in 2008 (particularly during the third quarter of the year) and only slow growth beyond, combined with strong demand for lamb, is expected to underpin higher lamb prices in the short to medium term.

During 2007, saleyard lamb prices averaged slightly lower than the previous year due to record supplies, bringing the fall since the 2004 record to around 15%. The stronger A\$ also constrained lamb prices, particularly across the heavier grades, with the heavy lamb and trade lamb categories averaging 1-2% lower in 2007 (see figure 1).

Figure 1
Australian lamb prices



Source: MLA's NLRs

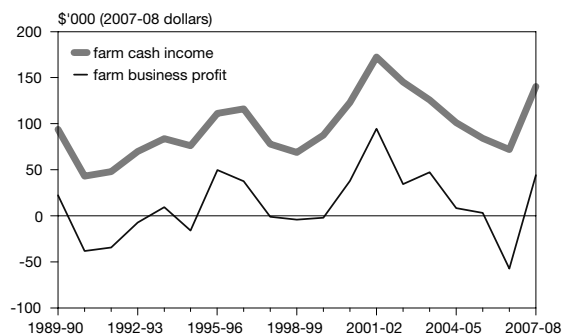
Mid-year sheep update

Lamb prices are forecast to rise significantly in 2008, as supplies become much tighter than 2007 throughout the second half of the year and demand remains at least steady. The highest prices are expected during the third quarter of the year. Despite only a small decline in lamb supply and a higher A\$ over the first half of 2008, lamb prices averaged 6-9% above the previous year, an indication of further growth in underlying demand.

Similarly, the tight global lamb supply and growing demand is forecast to continue over the medium term, with prices to remain favourable throughout.

Lamb producer farm incomes fell to a record low (after adjustment for inflation) in 2006-07 due to severe drought, lower lamb prices and crop incomes and higher input costs (see figure 2). Farm incomes should have partially recovered in 2007-08 – with the rise in lamb prices helping to offset the reduced turnoff and continued drought-related costs. Many mixed producers will also be looking to a better 2008-09 winter grain harvest to boost incomes.

Figure 2
Australian lamb farm income



Source: ABARE

Incomes to slaughter lamb production are projected to recover to high levels over the medium term, on the back of high lamb prices and rising output, providing seasons improve.

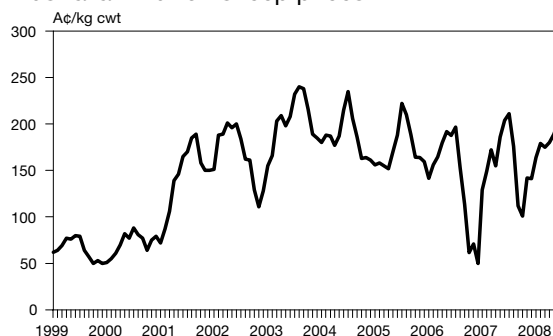
4. Sheep prices

Sheep prices are expected to remain at historically high levels over the remainder of 2008, due to a fall in turnoff and continued growth in demand from the Middle East (see figure 3).

Strong Middle East demand for mutton and live sheep, much lower sheep turnoff and a gradual increase in demand from restockers over the medium term should help saleyard prices reach record highs, with any sustained improvement in wool prices also likely to assist prices.

The high A\$ remains the major constraint on sheep prices in 2008. Any falls in the dollar over the medium term (as expected) could add to the expected price rises.

Figure 3
Australian mutton sheep prices

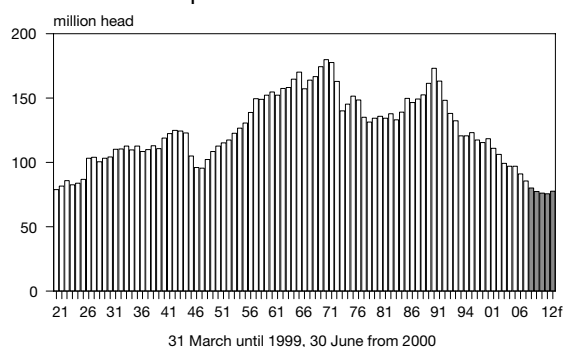


Source: MLA's NLRS

5. Sheep flock and supply

Seven consecutive years of drought, including two of the worst ever in 2002-03 and 2006-07, have seen the Australian sheep flock plummet, to its lowest level since the early 1920s (see table 1 and figure 4). Since June 2000, the sheep flock has dropped by more than 30 million head, from 118.5 million head to an estimated 85.7 million head at June 2007¹ (Australian Bureau of Statistics).

Figure 4
Australian sheep flock



Source: ABS, MLA forecasts

f = forecast

¹ The 2006 census incorporated a major change to the ABS survey framework, making it difficult to compare the 2006 results with that of previous surveys or censuses. Furthermore, the low 2006 result highlighted deficiencies in the survey frame used since the previous full census in June 2001 (ie from 2002 to 2005). On the basis of changes in turnoff and in seasonal conditions, MLA has estimated a flock of 97 million in both 2004 and 2005, around four million lower than ABS survey estimates for those years (see appendix 1).

Table 1 Situation and outlook for the Australian sheep industry

	2004	2005	2006	2007	2008 ^f	2009 ^f	2010 ^f	2011 ^f	2012 ^f	% change 2012 on 2007
Sheep & lamb numbers* ('000 head)										
at June 30	97,000	97,000	91,030	85,710	80,100	77,300	76,250	75,600	77,600	-9.5%
% change	2.1%	0.0%	-6.2%	-5.8%	-6.5%	-3.5%	-1.4%	-0.9%	2.6%	
Slaughterings ('000 head)										
sheep	11,144	11,636	13,113	12,042	10,960	9,030	8,110	7,660	7,610	-36.8%
lamb	16,509	18,228	19,483	21,155	19,230	19,450	20,050	20,400	21,000	9.2%
Avg carcase weight (kg)										
sheep	20.9	20.7	20.5	21.0	21.0	21.0	21.0	21.0	21.0	0.1%
lamb	20.6	20.6	20.6	20.8	21.0	21.2	21.4	21.6	21.8	5.1%
Production ('000 tonnes carcase weight)										
mutton	233	241	269	253	230	190	170	161	160	-36.8%
lamb	340	375	400	439	404	412	429	441	458	4.3%
Sheep exports ('000 head)	3,397	4,185	4,167	3,773	3,600	3,200	3,000	3,100	3,300	-12.5%
Exports ('000 tonnes)**										
mutton shipped weight	129	141	163	150	145	115	100	93	90	-39.6%
carcase weight	170	180	219	189	184	149	130	122	121	-35.7%
lamb shipped weight	112	142	147	161	148	152	158	162	168	4.6%
carcase weight	131	170	177	188	178	186	194	201	210	11.9%
Domestic utilisation ('000 tonnes carcase weight)										
mutton	63	61	50	64	47	41	40	39	39	-39.7%
kg/head	3.2	3.1	2.4	3.0	2.2	1.9	1.8	1.7	1.7	-44.7%
lamb	209	205	227	246	231	227	235	239	247	0.6%
kg/head	10.4	10.1	10.7	11.6	10.6	10.2	10.4	10.4	10.5	-9.5%

f = forecasts (indicated in italics)

Source: ABS, DAFF, MLA forecasts

* As at 31 March until 1999, 30 June from 2000

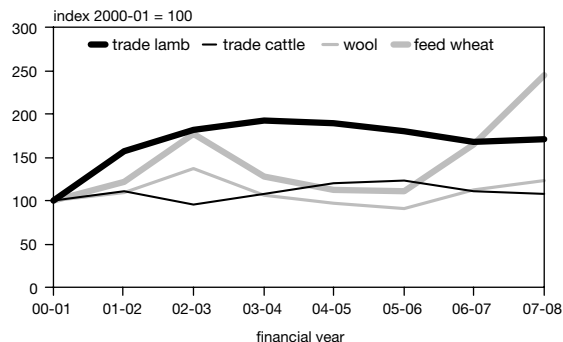
** excl. canned/mis cellaneous

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

Mid-year sheep update

The unexpected continuation of severe drought through another autumn/winter and further rises in global grain prices (see figure 5) have significantly altered prospects for the sheep flock since the release of the projections in February. There are now clear indications of a significant shift of resources from sheep to cropping.

Figure 5
Australian commodity prices



Source: MLA's NLRs, ABARE, The Land

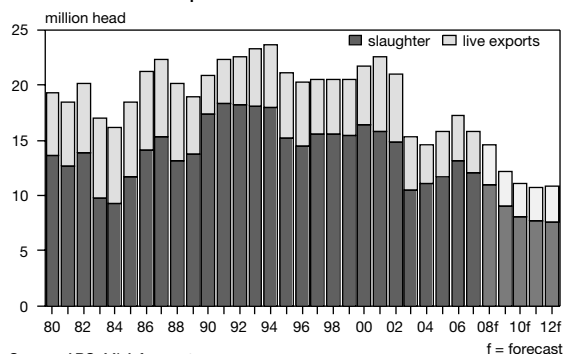
There has been a surge in winter grain planting for the upcoming 2008-09 by Australian grain producers – hopeful of capitalising on the continued high domestic and world wheat and coarse grain prices. Reports of producers shifting their focus to cropping at the expense of sheep and wool have been particularly prevalent in WA and, to a lesser degree, in SA and Victoria.

Hence, the sheep flock is now estimated to have fallen a further 5.6 million or 6.5% in the year to June 2008, to around 80 million head, and is forecast to fall a further 3.5% by June 2009, to 77.3 million head.

Barring above average seasons or a sudden recovery in wool prices and decline in grain prices, it is hard to see an early turnaround in the sheep flock. Some desire to rebuild flocks for lamb production and to complement wheat growing, particularly in NSW, is expected to see a slowing in the rate of decline by 2009-10 and stabilisation of the flock by June 2011, at around 76 million head.

During 2008, sheep slaughter is forecast to fall 9% on 2007, to 11 million head, with a larger fall to 9 million head forecast in 2009 (see figure 6).

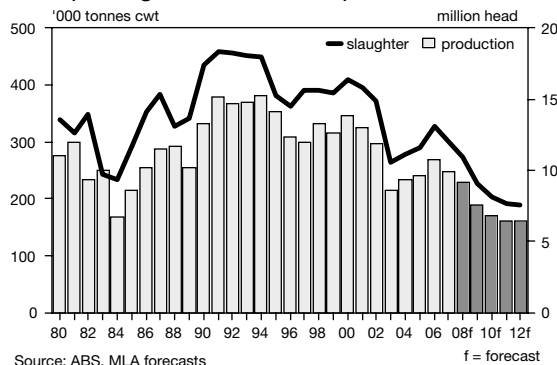
Figure 6
Australian sheep turn-off



Source: ABS, MLA forecasts

From 2010 to 2012 sheep slaughter is anticipated to fall back to more sustainable levels, of less than 8 million (37% below 2007), in order to end the flock liquidation (see figure 7).

Figure 7
Sheep slaughter and mutton production



Source: ABS, MLA forecasts

The move away from sheep production toward cropping, particularly in WA, will restrict the availability of sheep for live export to a larger degree than initially anticipated. Hence, despite continued strong Middle East demand, live export numbers are forecast to decline 5% in 2008, to 3.6 million head, and fall back to around 3.2 million head in 2009, before rebounding slightly to 3.3 million head in 2012.

The forecast decline in sheep slaughter should see mutton production decline by around 9% in 2008, to 230,000 tonnes cwt. The fall is forecast to continue at a declining rate between 2009 and 2011, before stabilising at around 160,000 tonnes cwt in 2012 (the lowest production volume on record).

Box 1 Financial year sheep and lamb supply forecasts

The MLA sheep and lamb projections are principally undertaken on a calendar year basis, to match with global market information and forecasting and with forecasting for other meats, particularly beef. However, the lamb supply year traditionally corresponds more closely to the financial year, with the predominant supply of new season lambs commencing in August and peaking by October before tapering off by late the following autumn (May).

Hence, table B1 below presents the underlying financial year sheep and lamb supply forecasts which were used to derive the calendar year projections presented in the remainder of this document.

Table B1 Financial year supply outlook for the Australian sheep industry

	2004-05	2005-06	2006-07	2007-08 ^e	% change	2008-09 ^f	% change ^f	2009-10 ^f	2010-11 ^f	2011-12 ^f	% change 2011-12 on 2007-08
Sheep & lamb numbers* ('000 head)											
at June 30	97,000	91,030	85,710	80,100		77,300		76,250	75,600	77,600	0.4%
% change		-6.2%	-5.8%	-6.5%		-3.5%		-1.4%	-0.9%	2.6%	
Slaughterings ('000 head)											
sheep	11,443	11,830	13,271	11,824	-10.9%	9,680	-18.1%	8,350	7,855	7,460	-36.9%
lamb	17,330	18,666	20,158	20,882	3.6%	18,915	-9.4%	19,895	20,190	20,575	-1.5%
Sheep exports ('000 head)											
	3,236	4,250	4,140	3,800	-8.2%	3,300	-13.2%	3,250	3,200	3,200	-15.8%
Total sheep and lamb turnoff ('000 head)											
	32,009	34,746	37,569	36,505	-2.8%	31,895	-12.6%	31,495	31,245	31,235	-14.4%

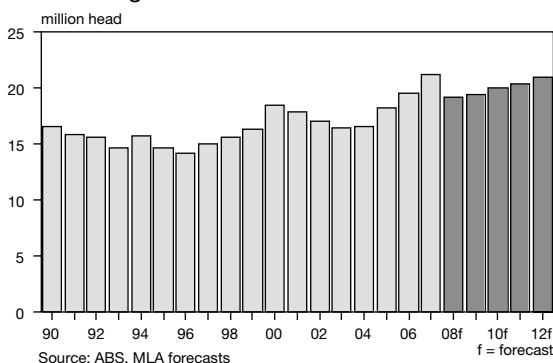
Source: ABS, MLA forecasts e = estimate f = forecasts (indicated in italics)

6. Lamb slaughter

Lamb slaughter is expected to fall in 2008, following a decline in ewe joinings in 2006-07 (due to severe drought in spring/summer), and record numbers of new season lambs slaughtered in 2007.

Lamb slaughter for 2007 reached a record 20.7 million head – up 6% on 2006. Assuming fewer new season lambs dropped in autumn/winter 2008 and tight numbers carried over from last season, lamb slaughter for 2008 is forecast to fall around 9% year-on-year, to 19.2 million head (see figure 8).

Figure 8
Lamb slaughter



Despite drought conditions lingering across lamb producing regions during the second half of 2007, producers' ability to finish lambs resulted in trade and heavy lamb turnoff increasing during spring. Slaughter rates during the final quarter of 2007 were up 3% on the same period in 2006, following an 11% jump in the third quarter.

The mild winter and availability of failed winter crops contributed to the increased turnoff during the final quarter of 2007, with lambs reaching marketable weights earlier than in previous years. Also, as grain feeding was not a viable option due to grain prices, producers marketed lambs earlier (but still in excellent condition), rather than feeding them to extra heavy weights.

The ability to grow and finish lambs in the second half of 2007, and lack of interest in feeding over summer, effectively brought lamb supplies forward to the final quarter of 2007. As such, lamb slaughter for the first quarter of 2008 was back 5% on the drought-inflated level in early 2007.

Mid-year sheep update

Despite the year on year decline, slaughter for this period was still historically high at 6% above the average for the past five years. Slaughter during the second quarter of 2008 is estimated to have been back 2% on the record 2007 levels, and is expected to tighten sharply in the third quarter.

Also contributing to the decline in lamb slaughter during the first half of 2008 was the poor 2006-07 breeding season due to the drought. The *MLA 2007 lamb survey* (since discontinued – see box 2) forecasted lambs marked between summer 2007 and summer 2008 to be 9% lower than the previous year.

Lamb slaughter in the 2009 calendar year is forecast to lift 1% on 2008, but remain 8% below the record in 2007. Slaughter is projected to rise steadily from 2008 onwards, reflecting a further shift towards prime lamb production within the sheep flock. However, the downward revision of the breeding flock and need to hold more lambs to halt the liquidation is likely to constrain the rate of lamb supply growth, with slaughter reaching 21 million head by 2012 – slightly below the 2007 record.

Box 2 Changes to MLA lamb forecasting methods

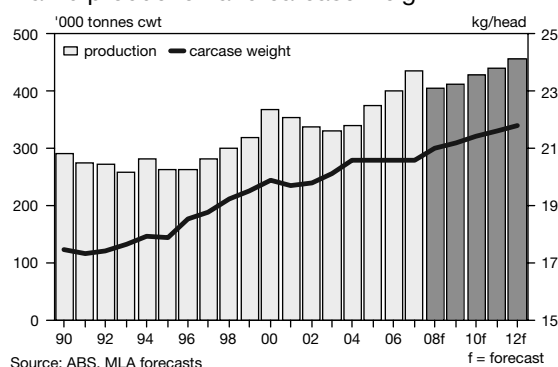
In an effort to improve the performance of industry lamb forecasting, MLA has replaced its previous reliance on one-to-one industry consultations and an annual national quantitative MLA Lamb Survey with an MLA Lamb Forecasting Advisory Committee, backed up modelling and with a smaller, qualitative in-house survey of MLA members and prime lamb groups.

The previous MLA lamb survey proved to be accurate at accessing current conditions, eg. lambs on hand at the time of the survey, but not at predicting lamb numbers to be sold over the coming year.

7. Lamb production

Assuming a better 2007-08 winter grain harvest, which would see increased supplies of, and lower prices for, feed grain by the second half of the year, average lamb carcase weights in 2008 are forecast to increase 1% on 2007, to 21kg/head. This is expected to partially offset the 9% decline in slaughter, causing lamb production for the year to be down 8%, to 404,000 tonnes cwt (see figure 9).

Figure 9
Lamb production and carcase weight



Source: ABS, MLA forecasts

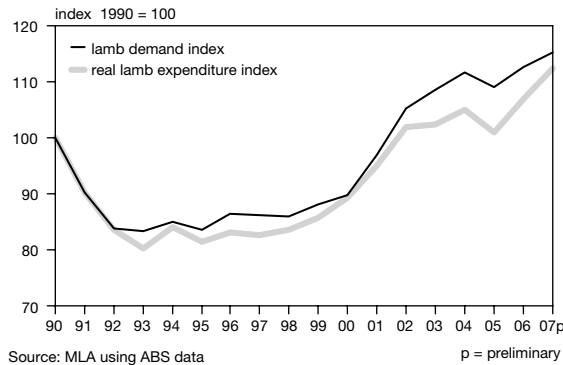
From 2009 onwards, increased lamb slaughter and carcase weights are expected to contribute to a steady growth in lamb production, with annual volumes progressing towards 458,000 tonnes by 2012 – 13% above 2008 production and 4% above the 2007 record.

8. Domestic demand for Australian lamb

Australian demand for lamb is expected to remain strong in 2008, but with overall consumption limited by tighter supply. Domestic demand for lamb has grown steadily since 2000 (see figure 10), assisted by robust economic growth, improved quality and marketing, successful promotions and an overall lift in consumer appreciation of the product.

Domestic lamb consumption is estimated to have increased 8% in 2007, to 246,000 tonnes cwt (see figure 11). The jump in consumption was underpinned by record production, strong consumer demand and an increase in the price competitiveness of lamb relative to other meats.

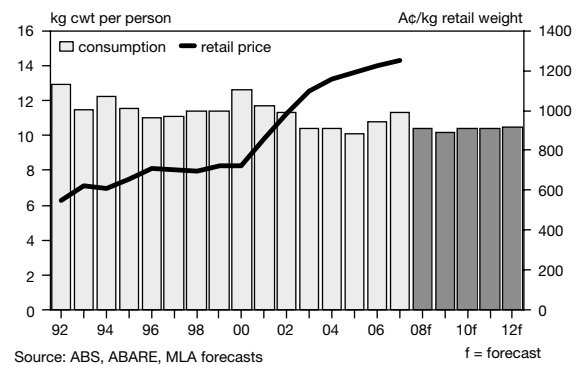
Figure 10
Lamb demand and expenditure



With continued strong demand and a drop in lamb production in 2008, lamb retail prices are expected to lift. Though the retail price rise is likely to be less than that already experienced for poultry, it could exceed the rises for beef and pork.

Rising retail prices and slower growth in consumer spending generally (as the economy slows) is likely to impact on lamb consumption, which is forecast to decline 6% to 231,000 tonnes cwt in 2008. After reaching 11.6kg/head in 2007, per person consumption in 2008 is expected to decline to 10.6kg/head – back in line with consumption levels in 2006.

Figure 11
Lamb consumption and retail price



Domestic consumption of lamb is expected to rise slowly between 2009 and 2012, with continued developments in lamb quality, marketing and positive dietary trends largely offsetting the impact of higher retail prices (compared with beef, chicken and pork). Hence, total consumption is forecast to increase 7%, reaching 247,000 tonnes cwt by 2012, while per person consumption falls 1%, to 10.5kg.

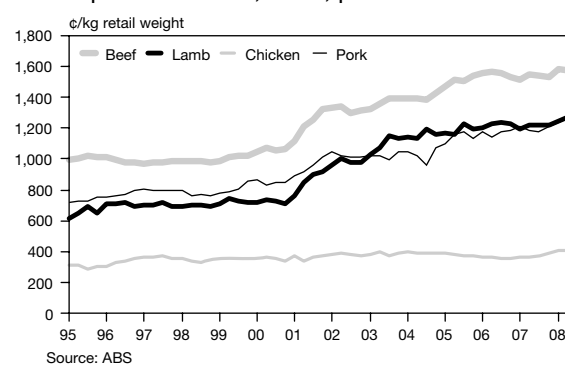
Box 3 Competitors

The Australian lamb industry faces competition in both the domestic and export markets. Domestically, this competition is mainly from other protein sources, principally beef, pork and chicken. Internationally, while also facing competition from other meats, demand for Australian lamb will be primarily influenced by lamb production from the other major world producers, namely New Zealand, the US and China. While Australian lamb is forced to be competitive in both domestic and

international markets, the global supply of sheepmeat has been trending down (except in China), unable to match the steady growth in global demand. This situation seems set to continue. Australia remains the main lamb producer capable of responding to increased demand from the world market.

Domestically, with feed grain prices expected to remain high throughout the remainder of 2008, retail prices for grain-intensive meats are expected to increase. In the final quarter of 2007 the higher production costs for chicken began to flow through to consumers, while the rise in domestic pork costs were partly offset by cheaper imports. The higher production costs, and resultant rise in retail prices, are likely to constrain lamb's loss of price competitiveness in 2008, as reduced lamb supplies lift retail prices faster than for other meats, except for chicken (see figure B1).

Figure B1
Retail prices for beef, lamb, pork and chicken



Box 3 (continued) Competitors

Beef will remain lamb's main competition in the domestic market. Lamb and grainfed beef are expected to experience similar trends throughout 2008, with tight supplies set to lift saleyard and retail prices. However, any rise in grassfed beef retail prices is expected to be constrained by the impact of higher grassfed beef supplies and an easing in export demand – due principally to a high A\$ and US return to North Asia.

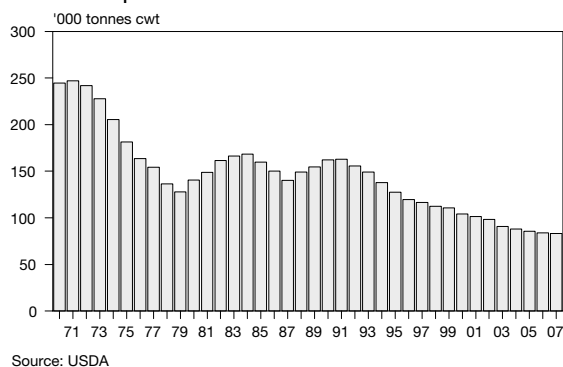
Australian lamb is likely to face reduced competition from New Zealand lamb during 2008, with New Zealand's export production forecast to be back 4% in 2007-08 (October 2007 to September 2008). Poorer conditions throughout autumn, including drought across the North Island, have seen a decline in the expected number of lambs available in 2007-08. New Zealand lamb exports were back 4% year-on-year in 2007-08, at 332,428 tonnes swt, with shipments to the EU comprising 48% of total exports.

US lamb production continues to decline, with supplies in 2008 forecast to fall another 1%. Lamb production in the US has been on a declining trend for the past 40 years, reducing competition for

imported product in this market and assisting the growth of Australian exports (see figure B2).

China has the potential to be a major player in the world lamb market, with a production base of 172 million sheep. However, almost all of China's lamb production is consumed domestically, with only minor shipments recorded during 2007. Indeed, China is a net importer of lamb, with imports from Australia increasing steadily in recent years.

Figure B2
US lamb production



9. Australian lamb exports

Australia's lamb exports have grown remarkably over the past decade (trebled since 1995), as production responded to strong demand from a wide range of markets, led by the US. Despite the constraints imposed by drought, strong domestic demand, a declining flock and a rising A\$, lamb exports jumped by over 50% between 2003 and 2007.

The markets for lamb are numerous and most are expanding, with Australia and China the only major producers to have significantly increased lamb supplies in recent years, with production falling further in the US and Europe and only modest growth recorded from New Zealand.

Australian lamb exports surged to record levels in 2007 – on the back of increased production and strong demand – rising 10%, to 161,037 tonnes swt (see table 2 and figure 12).

Figure 12
Australian lamb exports

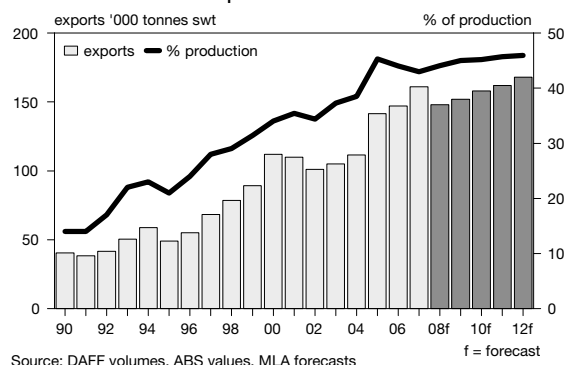


Table 2 Australian lamb exports

	000 tonnes shipped weight				2008 ^f % change ^f		2009 ^f % change ^f	
	2004	2005	2006	2007				
To:								
US	32.0	40.7	39.8	44.5	<i>36.5</i>	<i>-18%</i>	<i>37.5</i>	<i>3%</i>
Canada	2.5	3.8	4.2	4.5	<i>4.6</i>	<i>2%</i>	<i>4.9</i>	<i>7%</i>
Mexico	5.0	7.1	5.3	7.4	<i>6.3</i>	<i>-15%</i>	<i>6.0</i>	<i>-5%</i>
Japan	7.2	10.9	11.9	8.5	<i>9.0</i>	<i>6%</i>	<i>9.2</i>	<i>2%</i>
South Korea	1.1	1.0	1.6	1.9	<i>2.0</i>	<i>7%</i>	<i>2.1</i>	<i>5%</i>
Taiwan	1.5	1.5	1.1	1.1	<i>0.8</i>	<i>-29%</i>	<i>0.7</i>	<i>-13%</i>
China	9.4	13.5	11.8	14.5	<i>17.0</i>	<i>17%</i>	<i>18.5</i>	<i>9%</i>
Hong Kong	0.5	0.6	2.5	4.1	<i>5.0</i>	<i>22%</i>	<i>5.5</i>	<i>10%</i>
South-East Asia	4.0	5.3	4.5	5.5	<i>5.5</i>	<i>1%</i>	<i>5.8</i>	<i>5%</i>
EU	11.9	10.5	11.8	12.7	<i>11.4</i>	<i>-10%</i>	<i>12.0</i>	<i>5%</i>
Other Europe	2.4	3.4	3.3	3.9	<i>5.2</i>	<i>33%</i>	<i>5.7</i>	<i>10%</i>
Pacific	11.5	14.1	12.9	12.2	<i>9.0</i>	<i>-26%</i>	<i>8.5</i>	<i>-6%</i>
Middle East	10.3	14.1	17.7	22.3	<i>24.0</i>	<i>8%</i>	<i>24.8</i>	<i>3%</i>
South Africa	2.9	4.4	5.8	4.7	<i>4.0</i>	<i>-14%</i>	<i>3.7</i>	<i>-8%</i>
Other Africa/Mauritius	7.1	7.3	9.8	10.2	<i>5.0</i>	<i>-51%</i>	<i>4.6</i>	<i>-8%</i>
Other	2.3	3.1	2.7	3.0	<i>2.7</i>	<i>-11%</i>	<i>2.5</i>	<i>-7%</i>
Total	111.6	141.5	146.7	161.0	<i>148.0</i>	<i>-8%</i>	<i>152.0</i>	<i>3%</i>

Source: AFFA, 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 and Thailand

Overseas demand for Australian lamb remains generally strong in 2008, however, shipments over the second half of the year are expected to be restricted by tighter supplies. Also, the rising A\$ continues to impact on demand, particularly to the US and some of the more price sensitive markets. Exports of Australian lamb are therefore forecast to decline 8% in 2008, to 148,000 tonnes swt, despite a 2% rise over the first half of the year.

Australian lamb exports are projected to increase in line with production from 2009 onwards, albeit at a slower rate than initially forecast. Exports in 2009 are forecast to reach 152,000 tonnes swt (up 3%), and increase to 168,000 tonnes swt by 2012 (4% above the 2007 record).

Underpinning the growth in demand for Australian lamb over the medium term will be a combination of population and income growth, particularly concentrated in the Muslim and Hispanic populations. Constrained (if not falling) supplies in

Europe and North America will also assist demand for Australian product, and the growth in lamb's popularity in the upper foodservice sectors of Asia is expected to continue.

North America and Asia will remain Australia's main markets for lamb exports, with some growth also expected to the Middle East.

Rising global grain costs are not expected to negatively impact on lamb's competitive position, with an upward price trend forecast for all competing meats. In fact, with a predominantly grass-based production system, Australian lamb could be in a position to expand market share, at least against grainfed beef.

9.1 North America

Demand for Australian lamb in the US has been impacted in 2008 by a backlog of frozen racks, principally from New Zealand, and the tightening of consumer spending, particularly in the middle

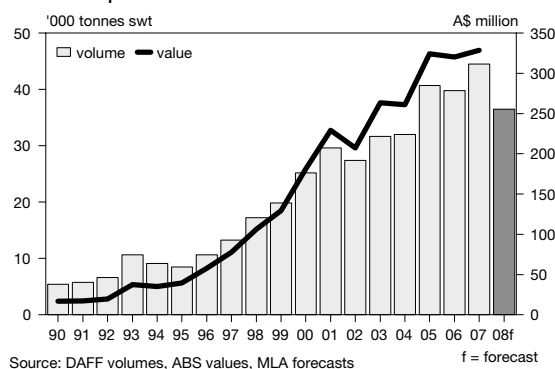
Mid-year sheep update

restaurant and retail sectors. Furthermore, the high A\$ has kept the cost of Australian lamb high while, at the same time, squeezing exporter margins on this trade.

Hence, despite lower supplies of US and New Zealand lamb and Australian mutton in the market, lamb exports to the US declined 12% in the first half of 2008. A tightening supply of heavier lambs is also impacting on shipments to the US market.

With supplies of heavier lambs expected to remain below year ago levels, US consumer spending flat and a continued high A\$, lamb exports to the US are now expected to fall 18% in 2008, to 36,500 tonnes, the lowest shipments since 2004 (see figure 13).

Figure 13
Lamb exports to the US



Australian lamb exports to this market are forecast to commence a recovery by the second half of 2009, with a forecast rise of 3% for the year, to 37,500 tonnes, as supplies of Australian heavy lambs increase and the US market stabilises, though the high A\$ will remain a major constraint.

Lamb exports to the US should resume the upward trend over the medium term, as population and income growth (especially in the Hispanic community – see *MLA Market brief: US Hispanic population report, February 2008*) improve demand for lamb and competition from the US, and possibly New Zealand, recedes. However, as this market takes the heaviest lambs, supplies and shipments will remain dependent on seasonal conditions.

While the US is the largest market for Australian lamb, both Canada and Mexico remain important markets in North America. Shipments to Canada are forecast to lift 2% in 2008, to 4,600 tonnes swt. The A\$ has not appreciated significantly against the Canadian dollar over the past year, and remains around 5% below five years ago.

Exports to Mexico are expected to come under greater pressure from higher prices in the second half of 2008 and into 2009, while competition from New Zealand is also likely to remain strong. Hence, shipments to Mexico for 2008 are forecast to fall back from the 39% jump made in 2007 – declining 15% to 6,300 tonnes swt and a further 5% in 2009, to 6,000 tonnes.

New Zealand lamb exports to Canada increased 3% during the first half of 2008, while shipments to Mexico slipped 15%, to 10,500 tonnes and 11,400 tonnes, respectively. New Zealand lamb exports to both markets were five times greater than lamb exports from Australia over the period.

9.2 North Asia

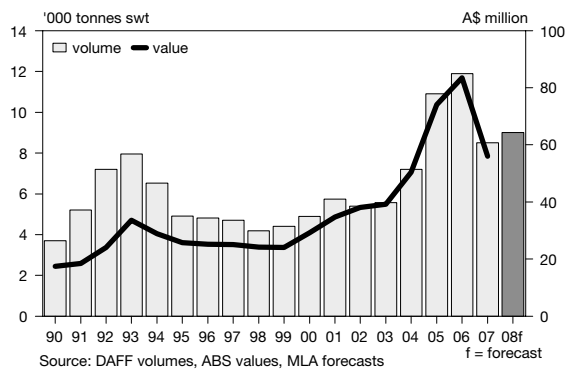
Australian lamb exports to North Asia are forecast to increase in 2008, due to strong demand from Japan, China and Hong Kong.

North Asia, including Japan, South Korea, Taiwan, China and Hong Kong, was Australia's second largest export market in 2007, receiving 30,100 tonnes swt of Australian lamb – almost double the volumes sent in 2003. In 2008, lamb exports to North Asia are forecast to increase 12%, to 33,800 tonnes swt.

After two years of significant growth in 2005 and 2006, fuelled by lower beef and pork supplies in 2007, Australian lamb exports to Japan declined 28% to 8,500 tonnes swt (see figure 14). Exports lifted 11% over the first half of 2008, assisted by record Australian lamb supplies, weaker US competition for supply, reduced stocks in the market and a growing acceptance of the product in retail stores.

However, the trade is expected to slow over the remainder of the year, due to much tighter supplies of Australian heavy lambs (and associated higher prices), and subdued Japanese consumer spending. Hence, lamb exports to Japan are forecast to rise only 6% in 2008, to 9,000 tonnes swt.

Figure 14
Lamb exports to Japan



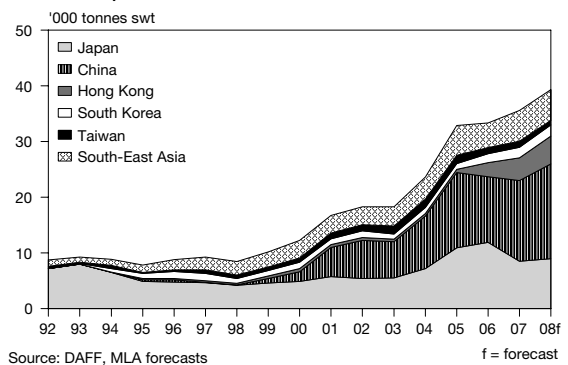
Whilst consumption of lamb is not likely to increase significantly from current levels, lamb exports to Japan are forecast to expand by 2% in 2009, as supplies recover and prices ease.

China/Hong Kong has emerged as a very important market for Australian lamb, particularly for lower priced cuts. Underlying demand for lamb in China is expected to expand further this year due to strong economic growth and tight, though recovering, pork supplies. Disease issues within the Chinese pig herd and importation bans on US product assisted demand for Australian lamb during 2007, with exports to China and Hong Kong jumping 30%, to 18,600 tonnes swt.

Supported also by the upcoming Beijing Olympics and sharp rises in beef prices, Australian lamb exports to this market jumped by a further 47% in the first half of 2008, to 10,900 tonnes. Despite an expected slowdown in the second half of 2008, due to higher Australian lamb prices and the end of the Olympic purchases, lamb exports to China/Hong Kong are forecast to increase 18% on 2007, to 22,000 tonnes swt (see figure 15).

Strong economic growth and further expansion in hot pot restaurants is likely to see an ongoing rise in exports to China and Hong Kong, with exports forecast to increase 9% in 2009, to 24,000 tonnes.

Figure 15
Lamb exports to Asia



Australian lamb exports to Taiwan declined 20% over the first half of 2008 – replaced by lower priced New Zealand product (with New Zealand exports to this market up 14% over the same period) during Taiwan's seasonally low consumption period. Shipments to Taiwan are forecast to continue declining in 2008 with tighter supplies expected to keep Australian lamb less competitive through the remainder of the year. Exports are forecast to fall 29% in 2008, to 800 tonnes swt, and further in 2009, to 700 tonnes swt.

Underlying demand remains strong through South East Asia, with lamb exports to the region during 2008 forecast to remain similar to the 2007 volume, at 5,500 tonnes swt, despite Australian supply constraints over the second half of the year (exports rose 6% over the first quarter). The majority of shipments are again expected to go to Malaysia and Singapore.

Growth in shipments to this region is expected to resume from 2009, with a 5% increase projected, to 5,800 tonnes swt.

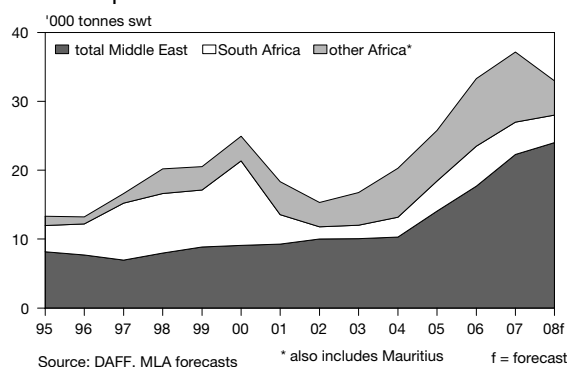
9.3 Other lamb export markets

Strong economic growth, limits on competition from China, New Zealand and local product, and record supplies of light lambs in Australia (partly due to the drought) have seen a doubling in Australian lamb exports to the Middle East over the past three years.

Mid-year sheep update

Shipments to the Middle East for 2007 totalled a record 22,300 tonnes swt – up 26% on 2006 (see figure 16). Underpinning these record shipments was strong demand from the United Arab Emirates (up 52%), Jordan (up 70%) and Kuwait (up 110%), while shipments to Saudi Arabia declined 5%.

Figure 16
Lamb exports to the Middle East and Africa



Growth in lamb shipments slowed to 14% in the first half of 2008, despite a 43% jump to Saudi Arabia (15% of the total shipments to the region). Exports are expected to slow over the second half of the year, as supplies of lighter Merino lambs tighten and the rising A\$, lifts the cost of Australian lamb. Hence, exports to the Middle East for 2008 are expected to rise 8% on the 2007 record, to 24,000 tonnes swt (in line with the forecast in January).

With high oil revenues fuelling local economic growth and with tourism increasing, the Middle East market is likely to continue expanding in the foreseeable future, commencing with a further 3% expansion in 2009, to 24,800 tonnes swt. The main restraint is expected to be the supply of light lamb carcasses, given the recent liquidation of Merino ewes.

Australian sheepmeat exports to the European Union (EU) are restricted by a small (18,786 tonne) fiscal year import quota and prohibitive above-quota tariffs. Hence, the rise in lamb exports to this market in recent years has been the result of a shift in the proportion of lamb to mutton in shipments.

This trend had been expected to continue in 2008, as the availability of Australian mutton fell (and prices rose) faster than lamb. However, mutton supplies have remained high and, with demand for lamb strong elsewhere, there has been a small swing back to mutton in the EU quota.

With lamb supplies expected to be tighter for the remainder of 2008, and the sheep liquidation continuing, lamb shipments are now forecast to fall 10% this year, to 11,400 tonnes swt. Shipments to the EU are expected to resume the upward trend from 2009, with falling Australian mutton production (and rising prices) and rising lamb supply.

Reduced supplies, higher prices and increased competition from cheaper protein sources over the remainder of this year are all expected to contribute to lower lamb exports to Africa, one of Australia's most price-sensitive markets. Exports to South Africa in 2008 are forecast to fall 14% on 2007, to 4,000 tonnes swt, with shipments to Mauritius and other African countries down 51%, to 5,000 tonnes swt. A further, more modest decline of around 8% for both markets is predicted for 2009 due to higher Australian lamb prices, and despite expected growth in local meat demand.

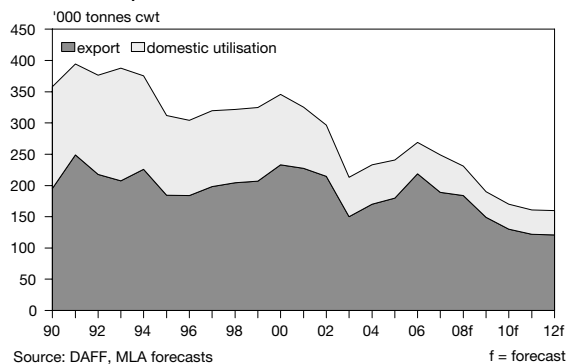
10. Mutton demand

A significant decline in mutton production during the second half of 2008 is expected to see both mutton exports and domestic usage fall. The tighter sheep supply will see mutton prices increase and remain at historically high levels through the medium term, bolstered by any improvement in seasonal conditions or decline in the A\$.

Demand for Australian mutton is largely determined by its price relative to other cheap protein sources and by local processing demand. Hence, higher prices are expected to see a substantial fall in demand in the most price-sensitive markets, such as the Pacific, Africa and Russia. Contributing to this decline in export demand, particularly through 2008, will be the strong A\$, which will further decrease the price competitiveness of Australian product.

Mutton usage locally has been on a downward path over the past decade, being progressively replaced by other proteins, particularly beef. Domestic utilisation stabilised at around 60,000 tonnes over the past three years, but is forecast to decline significantly this year, due to the combination of falling supplies and strong export demand raising the cost of mutton for processing. Further, smaller declines are projected over the next few years to a new base of around 40,000 tonnes, as mutton supplies tighten further and prices rise relative to beef, pork and chicken for processing (see figure 17).

Figure 17
Mutton exports and domestic utilisation



11. Mutton exports

The sharp decline in mutton production and the high A\$ (and associated increased sheep prices) are likely to have a significant impact on mutton exports to all markets during the second half of 2008.

Prolonged drought conditions over recent years have slowly eroded sheep numbers, with producers reportedly offloading older breeding ewes over the past year. The smaller breeding flock and any efforts to rebuild flocks, combined with competition from live exports and cropping, will significantly limit mutton production going forward.

Hence, despite the 11% rise in mutton exports during the first half of the year, to a record 85,123 tonnes cwt, mutton exports for 2008 are forecast to decline 3%, to 145,000 tonnes swt, with exports to the more price-sensitive markets the hardest hit (see table 3 and figure 18). The low flock and moves to hold back additional ewes to eventually end the flock liquidation is expected to restrict sheep supplies and reduce mutton exports through to 2012.

Table 3 Australian mutton exports

	000 tonnes shipped weight							
	2004	2005	2006	2007	2008 ^f	% change ^f	2009 ^f	% change ^f
To:								
Japan	8.7	8.2	6.8	7.0	6.0	-14%	4.5	-25%
South Korea	0.7	0.7	0.8	0.8	1.0	29%	0.8	-20%
Taiwan	12.6	11.1	9.5	7.7	7.5	-2%	6.0	-20%
China/Hong Kong	0.4	0.4	1.0	1.8	5.0	181%	4.5	-10%
South-East Asia	13.1	11.6	14.0	12.8	10.5	-18%	8.0	-24%
Middle East	29.1	36.1	43.1	48.4	53.0	10%	49.0	-8%
USA	11.5	16.3	18.8	17.3	13.0	-25%	10.0	-23%
Mexico	9.2	9.8	10.7	5.9	6.0	2%	4.0	-33%
Other North America	5.7	6.4	7.5	5.6	4.5	-19%	3.0	-33%
South Africa	11.2	13.7	19.6	14.9	9.5	-36%	6.0	-37%
Other Africa/Mauritius	11.0	7.4	6.0	4.8	5.5	15%	3.5	-36%
EU	6.8	7.5	6.7	7.0	6.5	-7%	6.0	-8%
Other Europe	3.3	6.4	12.9	9.2	12.0	31%	6.0	-50%
Pacific	4.6	4.4	4.3	4.9	4.0	-18%	3.0	-25%
Other	1.2	1.2	1.3	1.8	1.0	-44%	0.7	-30%
Total	129.1	141.3	162.9	149.7	145.0	-3%	115.0	-21%

Source: AFFA, MLA forecasts

Pacific = PNG, New Zealand & Pacific Islands

Other North America = Canada and the Caribbean

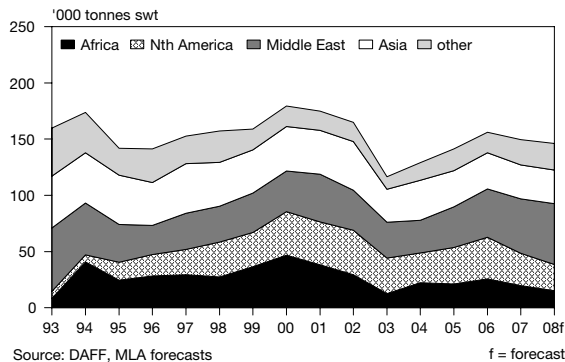
North Asia = Japan, Korea, Taiwan, China and Hong Kong

Other Europe = CIS, Poland, Eastern Europe and Western Europe other than EU

*f = forecasts
(indicated in italics)*

Mid-year sheep update

Figure 18
Mutton exports by regional destination



Mutton exports to the Middle East during 2008 are forecast to rise 10% on 2007 levels, to 53,000 tonnes swt, with strong economic growth in the region driving demand.

After falling 12% during the year to June, Australian mutton exports to the US in 2008 are forecast to continue the fall – dropping 25% on 2007, to 13,000 tonnes swt, with the shortage of mutton likely to narrow the price gap between mutton and lamb.

Shipments to Mexico are expected to slow down significantly during the second half of 2008, after rising 27% during the first half of the year, as higher sheep prices and higher A\$ curb demand. As such exports are forecast to rise 2% in 2008, to 6,000 tonnes swt.

Unable to absorb the higher sheep prices and A\$, mutton exports to South Africa, being one of Australia's most price sensitive markets, fell 26% during the year to June, pushing forecast exports back 36% for 2008, to 9,500 tonnes swt.

Strong economic growth in Russia, coupled with restricted supplies and higher prices for protein from the EU and South America, have boosted Australian mutton exports to this market. Shipments to Russia (accounting for the bulk of exports to 'Other Europe') during the year to June jumped 136% year-on-year (to 6,367 tonnes swt). Despite some slowing in shipments in the second half, due

to tight sheep supplies and increased competition from South American beef in Russia, exports to 'Other Europe' for 2008 as a whole are forecast to increase 31%, to 12,000 tonnes swt.

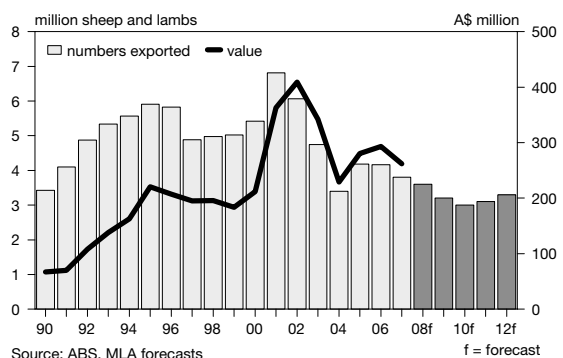
Australian mutton exports are projected to fall over 20% in 2009, due to the expected sharp fall in production, rather than any weakening in export demand. While demand is likely to remain strong in some regions, particularly the Middle East and China, exports are forecast to decline across all major markets, as mutton prices rise. The largest falls again, are likely to be in the price sensitive markets, such as Africa, Russia and Mexico.

12. Live exports

Australian live sheep exports are still forecast to fall a modest 5% in 2008, to 3.6 million head (see figure 19), as strong meat demand growth in the Middle East largely offsets the impact of a significant drop in sheep turnoff, rising A\$, shipping constraints and increased competition from local sheep. Exports are projected to fall faster in 2009, down 11%, to 3.2 million head, in the aftermath of the significant downsizing of the sheep flock, particularly in WA.

The smaller Australian sheep flock, and moves to halt the liquidation, will limit sheep supplies for the live trade in the medium term. This, together with strong competition and shipping constraints, is projected to see sheep exports fall to around 3 million head by 2010, before commencing a recovery.

Figure 19
Australian live sheep exports



Mid-year sheep update

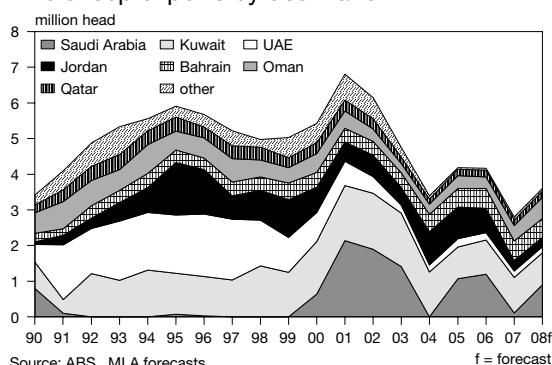
Demand for Australian live sheep in the Middle East is forecast to remain strong through the second half of 2008, particularly in the less price sensitive markets of Bahrain, Kuwait, Oman and Qatar, with economic conditions throughout the region remaining buoyant.

While a surge in the supply of sheep in WA may have alleviated short term supply issues and helped boost exports so far in 2008 – up 18% during the first half of the year – a robust A\$ and higher sheep prices will contribute to a sharp decline in price competitiveness of Australian sheep over the remainder of the year.

In addition, competition from North African countries is likely to remain strong in the Middle East, especially given the higher price of Australian sheep and strong A\$. African sheep supplies are expanding, particularly from Somalia, with continued efforts to establish imports from Sudan (which has a large sheep flock). In addition, sheep trades from China and South America have commenced, albeit intermittently.

Shipments to Saudi Arabia in 2008 are forecast to fall 13%, to 900,000 head, with the majority of sheep to be shipped during the September quarter, in preparation for Ramadan and the Haj. The decline in shipments during 2008 will largely be due to constrained sheep supplies and the associated higher prices (see figure 20).

Figure 20
Live sheep exports by destination



Kuwait has been one of Australia's most reliable markets in recent years, consistently taking large shipments each month, with annual totals between 900,000 and 1 million head for the past three years.

Table 4 Australian live sheep exports

To:	head				2008 ^f	% change ^f	2009 ^f	% change ^f
	2004	2005	2006	2007				
Saudi Arabia	0	1,072,089	1,193,635	1,032,395	900,000	-13%	750,000	-17%
Kuwait	1,259,904	890,545	962,163	930,178	900,000	-3%	830,000	-8%
UAE	196,095	230,775	209,000	185,754	170,000	-8%	145,000	-15%
Jordan	930,343	884,886	685,000	267,829	260,000	-3%	200,000	-23%
Oman	289,170	358,972	320,000	539,556	590,000	9%	550,000	-7%
Bahrain	490,210	521,455	556,000	561,522	530,000	-6%	510,000	-4%
Qatar	137,406	179,885	191,700	191,850	180,000	-6%	160,000	-11%
Other	94,012	46,313	50,000	63,945	70,000	9%	55,000	-21%
Total	3,397,140	4,184,920	4,167,034	3,773,029	3,600,000	-5%	3,200,000	-11%

Source: ABS, MLA forecasts

*f = forecasts
(indicated in italics)*

Changes to the ABS livestock census and surveys

The method used by the Australian Bureau of Statistics (ABS) to conduct the five-year Australian livestock census, and the survey in the intervening four years, underwent a significant structural and methodological change in 2006-07, making the direct comparison to historical analyses imperfect.

During 2006-07, ABS changed the source of flock inventory data from using their own register of agricultural establishments as the frame² – based on Australian census information – to a new frame using the Australian Taxation Office's Australian Business Register (ABR).

Together with a number of concurrent amendments to the methodology used to define an agricultural business, this has made direct comparison of June 2006 census data with past collections infeasible.

Impact of the frame change

The change in the frame and methodology has highlighted that in previous years, at least back to the previous census (June 2001), the sheep flock was probably overestimated. The total sheep flock appears to have been overestimated by around 4 million head in 2004 and 2005.

The impact of the ABS change is that any previous analysis based on ABS flock data (eg branding/lambing rates or turnoff rates) may have been slightly incorrect.

² Refers to the population of farms used to conduct the survey. For more detailed information on the new frame and the previous frame visit www.abs.gov.au.



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