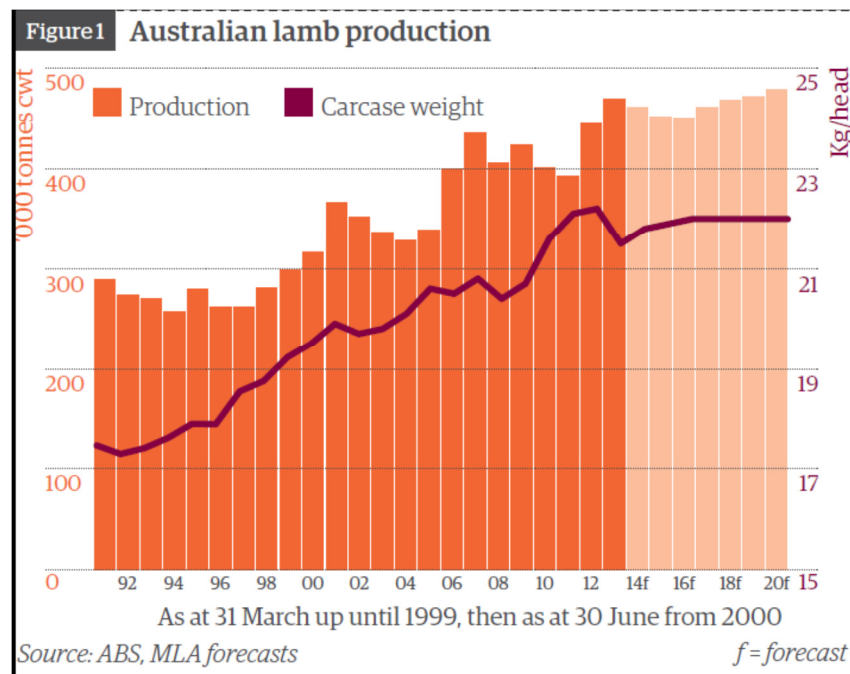


Lamb outlook remains bright

For the first six months of 2014, the Australian lamb industry was, once again, one of the shining lights of Australian agriculture.

Meat & Livestock Australia's (MLA) sheep industry projections mid-year update, released in August, suggested that strong export demand had absorbed historically high kill numbers, reflecting in favourable comparative returns to Australian lamb producers.

The record drought-induced lamb slaughter in 2013, combined with lower joining rates, is expected to tighten lamb supplies this year and into 2015. As a result, lamb production in 2014 is forecast to decline 1.6% year-on-year, to 462,000 tonnes cwt (see figure 1).

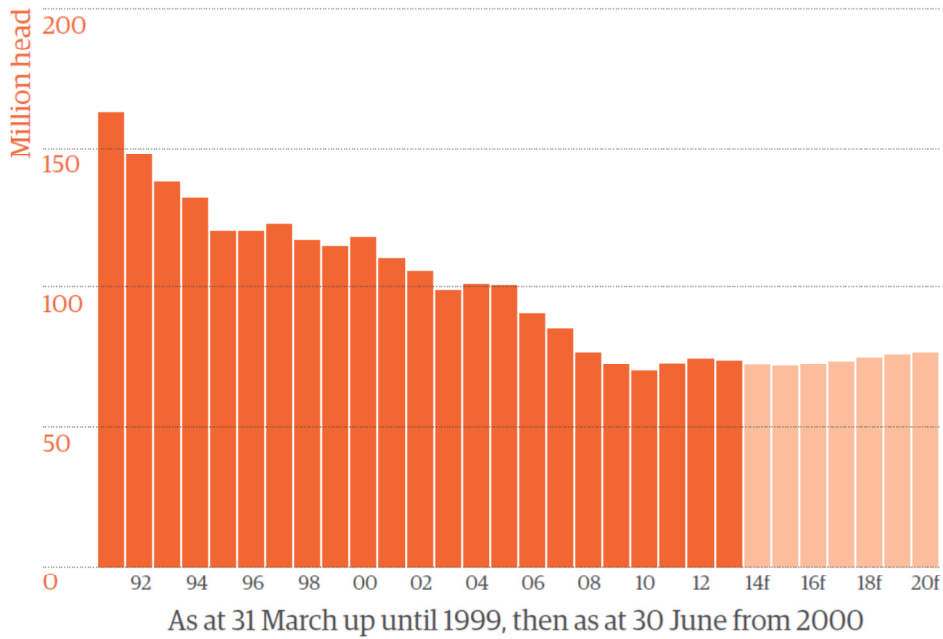


The lower production is underpinned by a forecast 3.1% decrease in lamb slaughter for the year – slightly offset by an increase in carcass weights.

Even though the forecast for El Niño conditions for the second half of 2014 has weakened, concerns about the potential for a dry finish to the year in southern Australia continue to have a significant impact on producers' expectations and plans heading into 2015.

However, given the underlying confidence in the lamb industry, the national flock is forecast to increase gradually from 2015 to 77 million head by 2020, following a reduction of 2.7% to 72.2 million head at 30 June 2014 (see figure 2).

Figure 2 Australian sheep flock

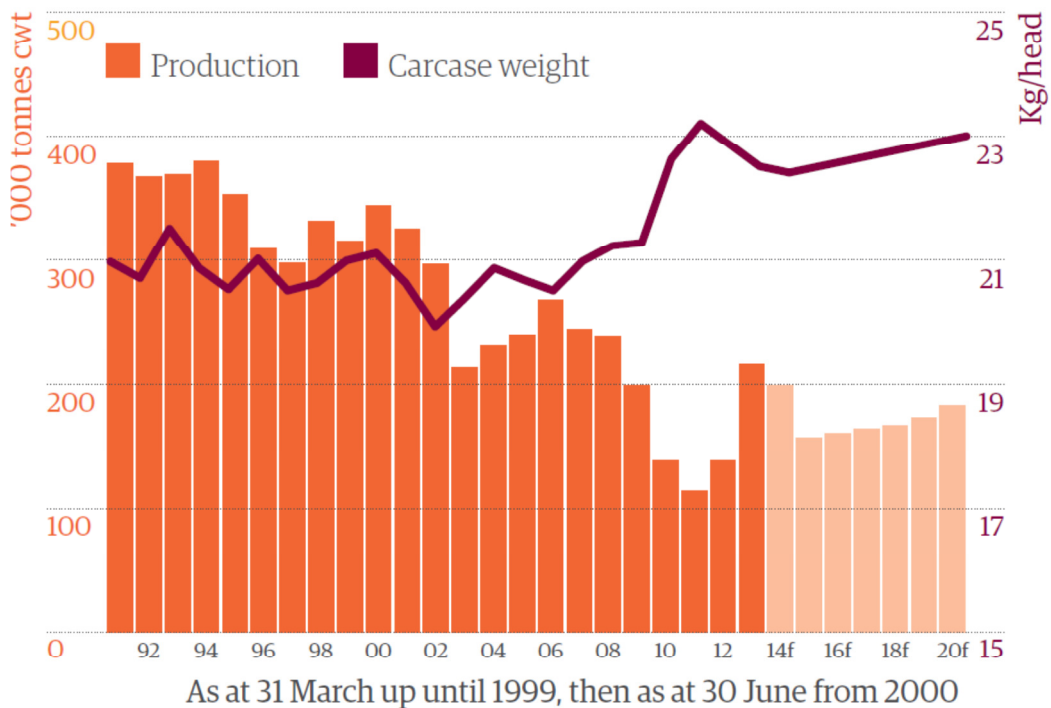


Source: ABS, MLA forecasts

f = forecast

Sheep slaughter is expected to be lower in 2014, given the surge in slaughter levels in 2013; forecast to be back 7.4% year-on-year, at 8.9 million head. In line with tightened supplies, mutton production is forecast to contract 7.8% on last year, to 200,000 tonnes cwt (see figure 3).

Figure 3 Australian mutton production



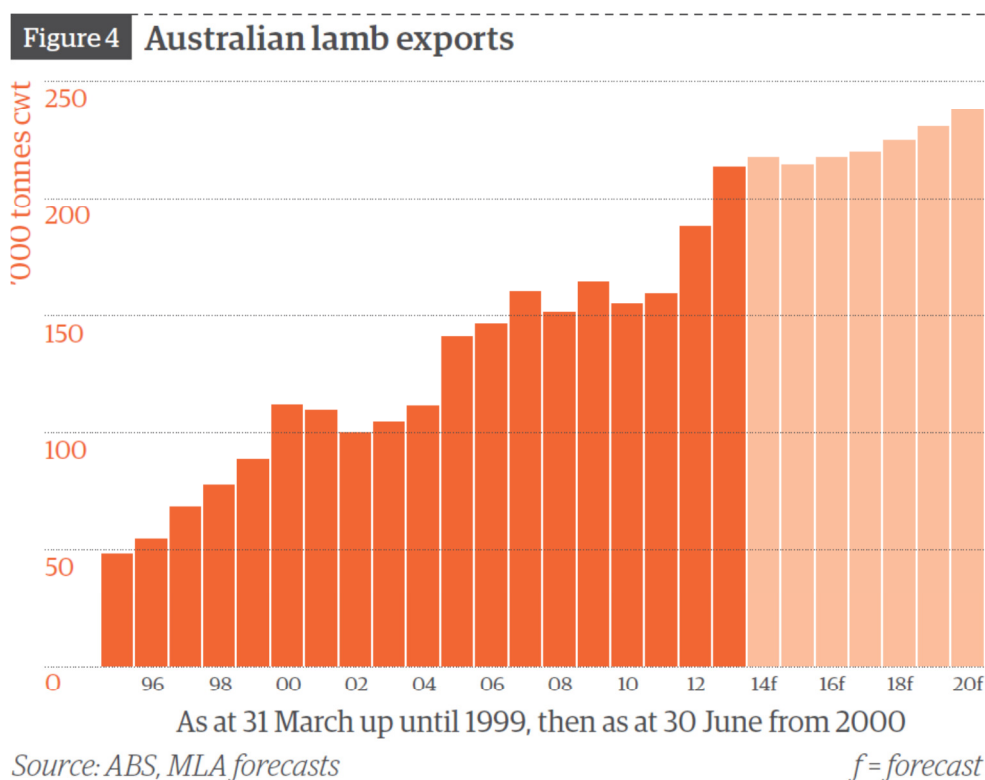
Source: ABS, MLA forecasts

f = forecast

While Australian sheepmeat supplies are forecast to be lower, the demand outlook looks positive, with strong growth in export demand, especially from Asia, the US and the Middle East drawing lamb away from the domestic market.

Domestic lamb consumption in the Australian market is forecast to fall 6.4% year-on-year, to 206,000 tonnes cwt in 2014.

Growing global demand, coupled with reduced available supplies from New Zealand throughout the year, is expected to see total lamb shipments set a new calendar year record in 2014, at 218,000 tonnes swt, up 2% year-on-year – accounting for 55% of Australia’s lamb production for the year (see figure 4).



Shipments to the Middle East are projected to reach 61,000 tonnes swt in 2014, up 2% on last year, with most markets in the region maintaining a strong buying pattern despite rising prices and robust competition, as well as a strong Australian dollar.

Similarly, lamb exports to the US are forecast to increase in 2014, up 8% year-on-year, to total 42,500 tonnes swt – the highest annual total to the US since 2007. A positive development in the US lamb trade so far in 2014 has been the increasing proportion of chilled lamb in the export mix.

During the first part of the year, lamb exports to China were consistently above year-ago levels, with the growth in shipments largely attributed to the booming demand for hot pot in the foodservice sector. Lamb exports to China for 2014 are forecast to total 40,000 tonnes swt – 1% higher than the record volume of 2013.

Mutton shipments are projected to decline 7% in 2014, to 160,000 tonnes swt, underpinned by lower available supplies.

Similar to lamb, most mutton markets in the Middle East have had increased trade volumes so far in 2014, with total shipments to the region forecast at 44,000 tonnes swt for 2014 – 8% higher than the previous year. In contrast, mutton exports to China are expected to be 17% lower year-on-year, to 48,000 tonnes swt in 2014, with tighter supplies from Australia impacting shipment volumes.

Adding to the positive outlook for lamb demand over the medium term is a steady recovery in livestock export demand, helped by the reopening of potentially large markets, particularly in the Middle East. Australian live sheep exports are forecast to reach 2.3 million head in 2014, up 16.6% on the 1.97 million head exported in 2013.

Read the *2014 Sheep Industry Projections – mid-year update* at www.mla.com.au/sheepprojections

Source: Meat & Livestock Australia