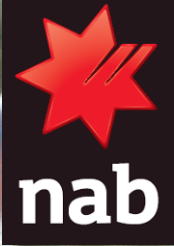


more give, less take



In Focus

Lamb Market Update – August 2015

Phin Ziebell, NAB Agribusiness Economist

agribusiness

Key points

- Lamb prices follow a generally seasonal pattern, rising early in the year before declining in spring as spring lamb supply becomes available. Nonetheless, monthly average trade lamb prices generally performed towards the upper end of the five year range in 2014-15 and have remained reasonably steady through July and into August this year. Prices are now well ahead of the same time last year. While we still expect that prices will come off as supply comes online in the spring, our overall forecast is that prices will increase moderately on average in 2015-16 – up 1.2% (AUD) for the period.
- We are still around a month away from the major spring flush of lambs. Our forecast for a 1.0% decline in lamb production in 2015-16 is in line with ABARES' estimate. Turnoff rates have been increasing over a number of years, which we see as ultimately unsustainable. There is a risk that dryness in Northern Victoria this season could see destocking and flock dispersal ahead of summer. Looking beyond the coming season, if breeding ewes continue to be slaughtered at elevated levels it will become harder to maintain lamb production levels.
- Export volumes of processed lamb remain strong however live sheep export volumes have contracted significantly since early 2000s.

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Price and production forecasts

July 2015 price change	2015-16 forecast price change	2015-16 forecast average price	2015-16 forecast production change
▲ 0.2%	▲ 1.2%	523.75c/kg	▼ 1.0%

Source: ABARES, Meat and Livestock Australia and NAB Group Economics. Note: production forecast as per ABARES June Quarter 2015 estimate. Average price level is based on the Eastern States Trade Lamb Indicator.

Price and national production outlook

Lamb prices follow a generally seasonal pattern, rising early in the year before declining in spring as spring lamb supply becomes available. Nonetheless, monthly average trade lamb prices generally performed towards the upper end of the five year range in 2014-15 and have remained steady through July and into August this year. While we still expect that prices will come off as supply comes online in the spring, our overall forecast is that prices will increase moderately in 2015-16 – up 1.2% (AUD) for the period.

These moderately higher prices have been sustained as supply has increased over the past five years, especially from Victoria. Slaughter rates were elevated for much of 2014 and into early 2015, especially in Victoria.

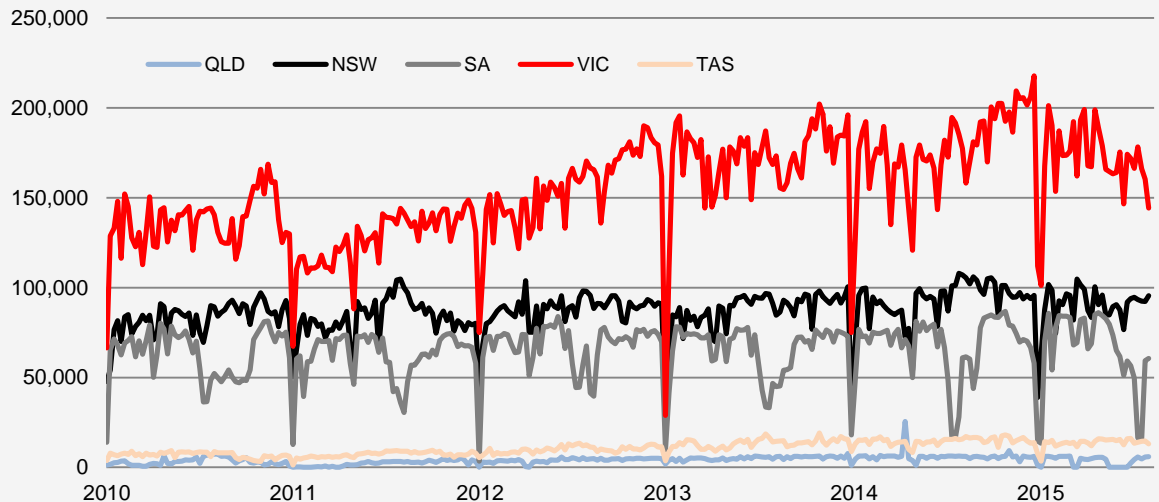
We have held the view for some time that these higher slaughter levels, underpinned by increasing turn off rates as a proportion of total flock, were not sustainable. Recent data lend support to this view, as slaughter has begun to contract faster than normal in Victoria ahead of the spring peak. We are still around a month away from the major spring flush of lambs. Our forecast for a 1.0% decline in lamb production in 2015-16 is in line with ABARES' estimate.

Figure 1: Eastern States Trade Lamb Indicator



Source: Meat and Livestock Australia

Figure 2: Weekly lamb and sheep slaughter by state



Source: Meat and Livestock Australia

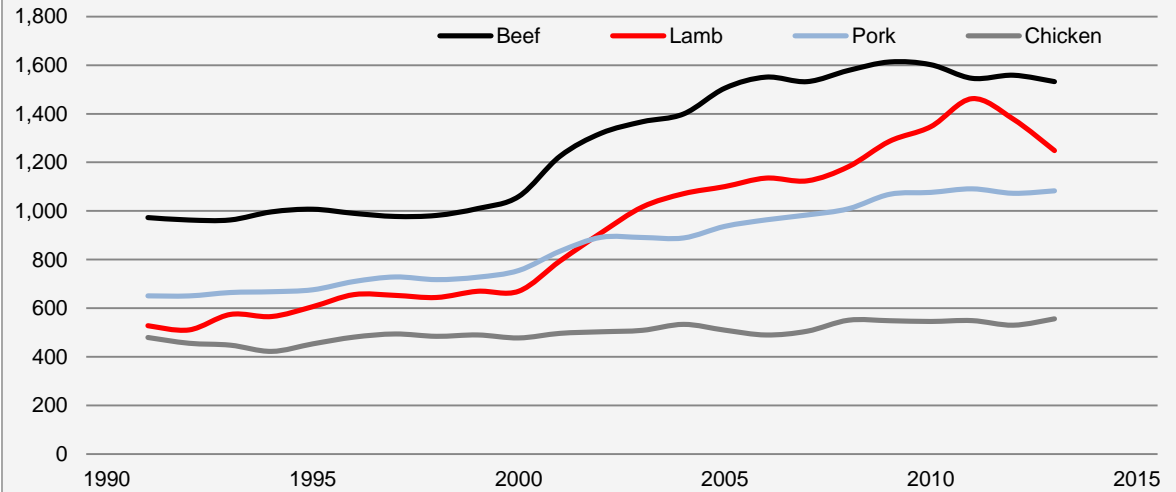
Domestic consumption

Despite higher lamb supply over the last five years, the long term trend in Australia is one of declining lamb consumption. 40 years ago, the average Australian consumed 21.1kg of lamb and mutton every year, the second most popular meat after beef (62.0 kg per year). By 2013, (the most recent data available) lamb had fallen to fourth place and per capita consumption had fallen to just 9.9kg per year.

Figure 4 shows that just as per capita consumption of lamb and beef has steadily declined, consumption of chicken, and to a lesser degree pig meat, has increased. We see price as the primary driver of this change: the nominal retail price of chicken meat has hardly risen since the early 1990s (479.7 AUc/kg in 1991 compared to 556.5 AUc/kg in 2013) and in real terms – a price decline in real terms. Pork has likewise seen slower price growth than red meat, at least since the early 2000s (see *Figure 3*).

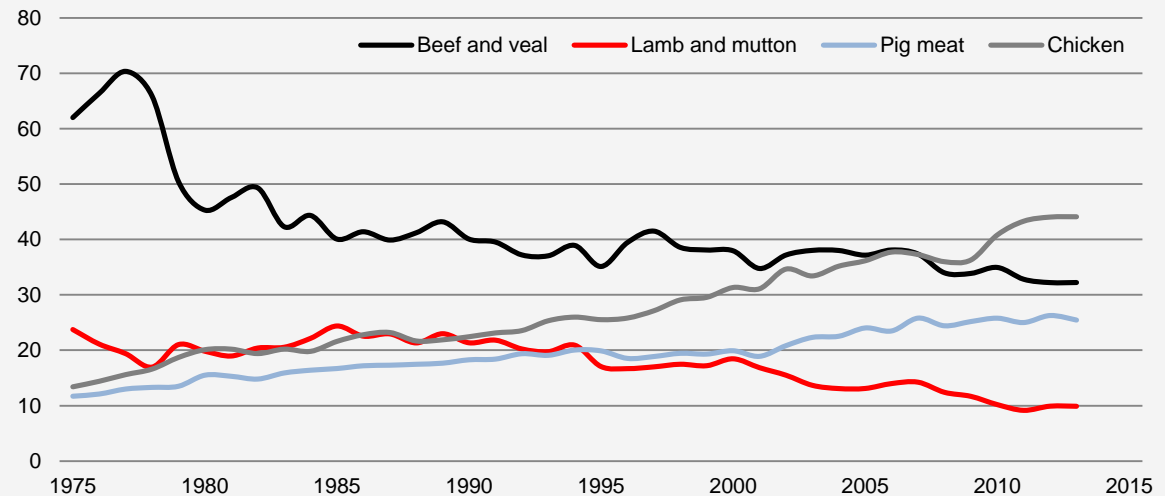
The lower price growth and increased popularity of chicken and pork at the expense of lamb and beef reflects the relative ease and stability of production costs for intensive chicken and pigs compared to extensive rangeland lamb and beef. The higher prices also reflect the export market opportunities for Australian lamb and beef producers.

Figure 3: Nominal retail price, selected meats (AUc/kg)



Source: ABARES

Figure 4: Per capita meat consumption, Australia (kg per annum)



Source: ABARES

Exports

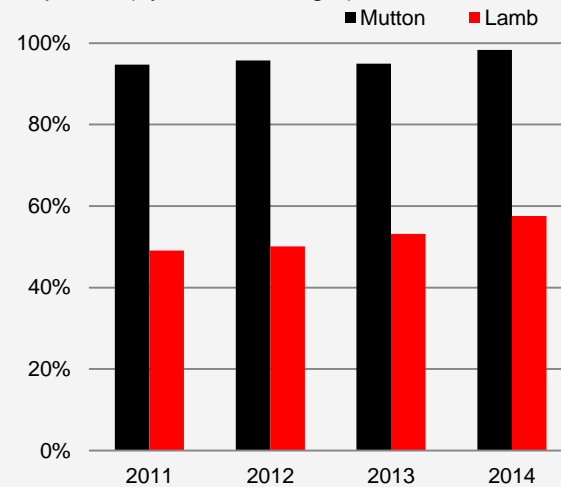
While domestic per capita consumption of lamb has been falling, exports of processed lamb have been generally on the rise and have been the destination for much of the additional lamb supply over the last five years.

Export growth has been strong to China, the Middle East, and to a lesser degree the US, over the last five years.

Live exports, however, have generally trended downwards since the early 2000s, although experienced an upturn in 2014. MLA estimates that 2.3 million sheep were exported last year, of which 83% were from Western Australia. While this is a recovery from the 1.97 million sheep exported in 2013, it is well down from the almost 7 million in 2001. MLA forecasts the moderate recovery to continue, reaching around 3 million by 2018.

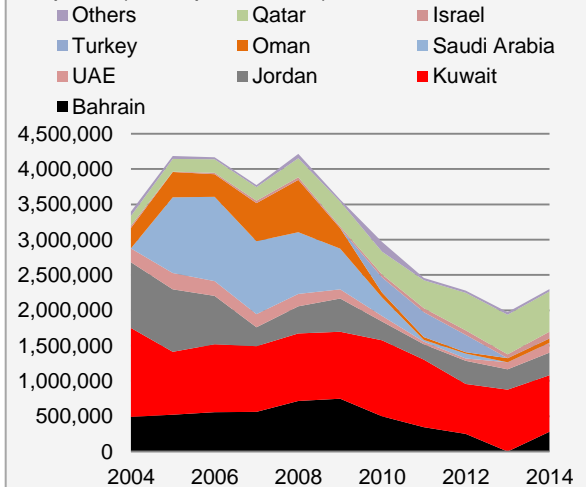
We forecast the AUD to bottom out in Q1 2016 at 68 US cents. This represents an upside for local prices and is good news for Australian agricultural producers.

Figure 5: Share of Australian production exported (by carcase weight)



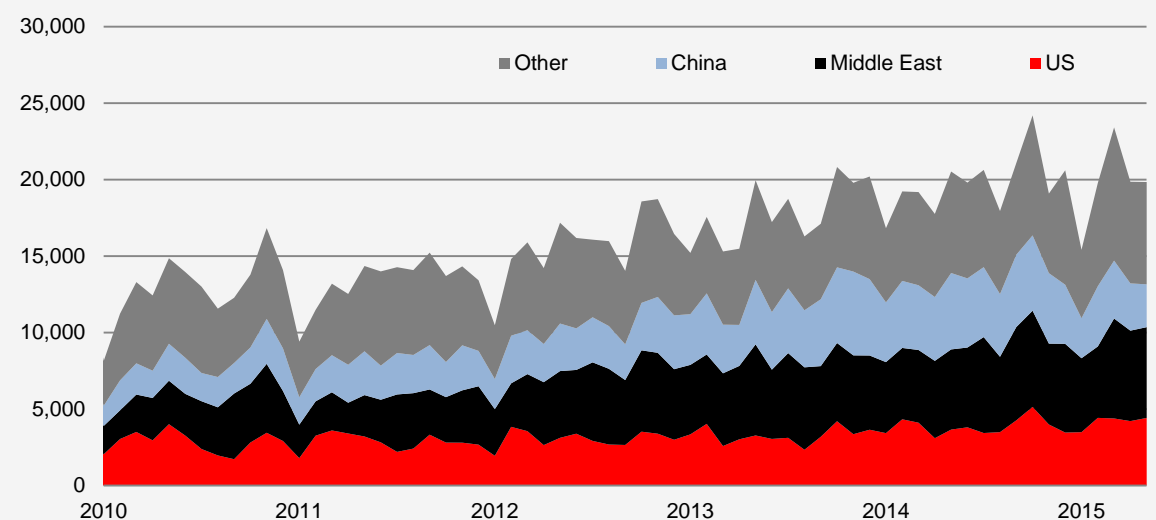
Source: ABARES and NAB Group Economics

Figure 6: Volume of Australian live sheep exports (head per annum)



Source: ABARES and NAB Group Economics

Figure 7: Volume of Australian lamb exports by destination (tonnes per month)



Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics

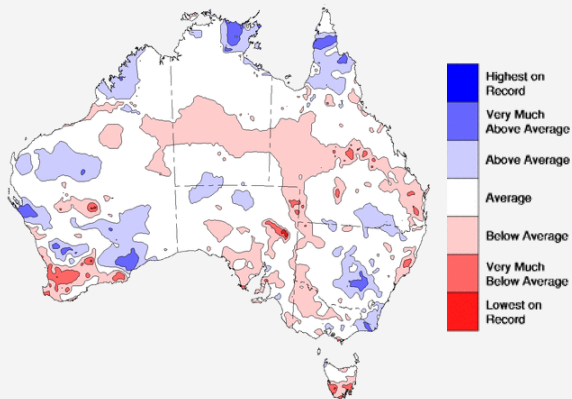
Climate update

Many parts of Australia saw a disappointing autumn break, with autumn rainfall patchy and below average in many regions. Better rainfall in the past month has improved confidence somewhat but challenges remain, compounded by the presence of El Niño since May this year.

El Niño causes generally lower winter and spring rainfall in northern and eastern Australia. The impact of “classic” El Niño patterns is shown in *Figure 9*. This can hamper spring pasture growth in major sheep regions in eastern Australia. Moreover, the increase in clearer skies associated with lower rainfall can lead to an increase in frost events, potentially causing higher lamb mortality rates.

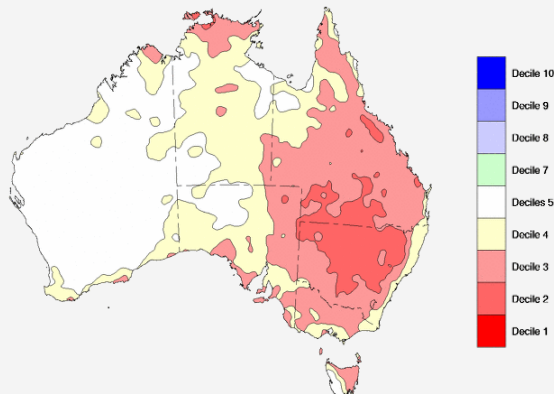
Figure 10 shows the three-month rainfall outlook to November, which forecasts below average rainfall in Cape York and parts of the Kimberley but above average falls in most of Western Australia, South Australia, western New South Wales and south-west Queensland. The east coast is expected to experience around average conditions. The impacts of El Niño events are disparate and difficult to forecast, substantially clouding the outlook.

Figure 8: Australian rainfall deciles –July 2015



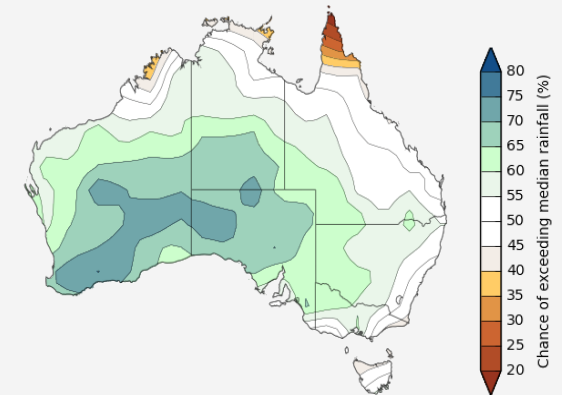
Source: Bureau of Meteorology

Figure 9: Winter-Spring Mean Rainfall Deciles for 12 moderate-strong classical El Niño events



Source: Bureau of Meteorology

Figure 10: Australian rainfall outlook – September to October 2015



Source: Bureau of Meteorology

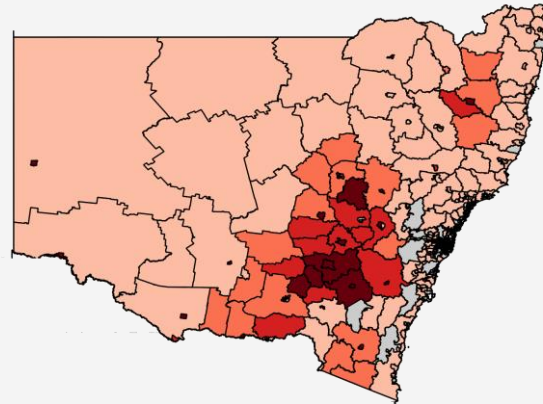
Regional update: New South Wales

New South Wales has Australia's largest sheep flock, accounting for 26.7 million sheep and lambs across 15,760 farms in 2013-14. Flocks are concentrated mostly in the southern highlands, central west, Riverina, south coast and New England.

Across much of the state the season has seen generally colder than average temperatures but around average to above average rainfall with expectations of a good spring break.

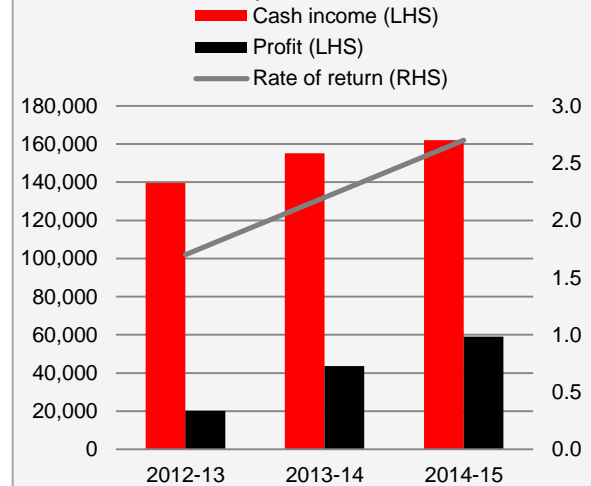
ABARES farm survey data show that last season was a stronger year on average for New South Wales lamb producers. Cash income rose to \$162,000 while profit jumped to \$59,000. The rate of return (excluding capital appreciation) was 2.7%.

Figure 13: Head of sheep per square kilometre –2011 Agricultural Census



Source: Australian Bureau of Statistics

Figure 14: Farm income and profit – New South Wales lamb producers



Source: ABARES, excludes capital appreciation

Conditions on the Southern Tablelands and South Coast

Conditions are almost as good as they could possibly be for this time of year. Rainfall has been good and pasture is plentiful. The winter has been colder than usual and the first warm days will see a strong spring break. It would be hard for things to be much better than they are at present.

Lambing percentages have been good and prices are holding up well. The wet conditions have caused some issues with foot rot in the Monaro Region (Cooma, Jindabyne, Berridale and Bombala).

Paul Barnes, Ben Simmons and Trisha O'Connor
NAB Agribusiness
Southern Tablelands and South Coast

Regional update: Victoria

Victoria has Australia's second largest sheep flock, accounting for 15.4 million sheep and lambs across 10,365 farms in 2013-14. The Western District and south-west Victoria is the state's biggest lamb region, although northern and north-east Victoria are also important areas for lamb production.

Across much of the state the season has seen generally colder than average temperatures and below average rainfall in many areas. However, the impact on the industry has been more disparate – conditions have been generally more favourable in the south-west than in northern and north-east Victoria.

Turnoff rates have been increasing over a number of years, which we see as ultimately unsustainable. There is a risk that dryness in Northern Victoria this season could see further destocking and flock dispersal ahead of summer to avoid flogging paddocks. Looking beyond the coming season, if breeding ewes continue to be slaughtered at elevated levels it will become harder to maintain lamb production levels.

ABARES farm survey data show that last season was a weaker year on average for Victorian lamb producers. However, this largely reflects a disappointing cropping season, hitting profits for mixed lamb and cropping producers rather than weakness in lamb. Cash income fell 25.4% to \$104,000 while profit crashed 90.2% to just \$4,000. The rate of return (excluding capital appreciation) was off 50.0% to 1.1%.

Figure 11: Head of sheep per square kilometre –2011 Agricultural Census

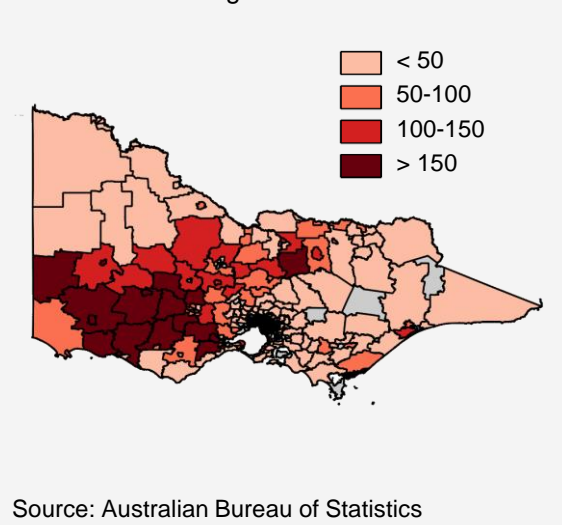
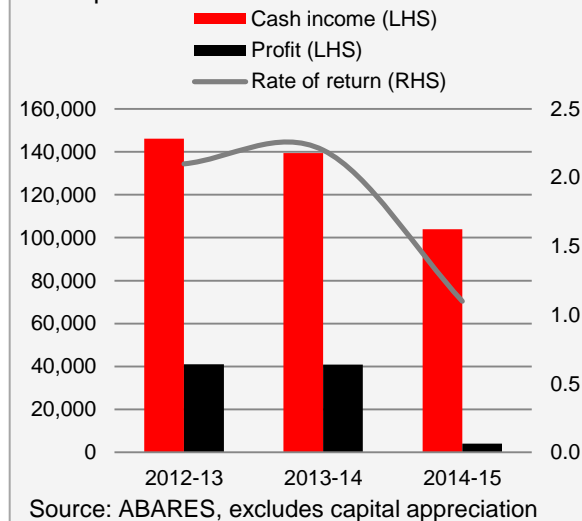


Figure 12: Farm income and profit – Victorian lamb producers



Conditions in South-West Victoria

People are generally optimistic about the season. Sheep health is sound, lambing percentages are strong, pastures are looking good for this time of year and although it's been a cool winter the lower rainfall has limited lamb losses.

Looking ahead, we're hoping to get a strong season but El Niño is probably the biggest worry at this point. If we see decent spring rain we should do well but if the tap turns off lower pasture growth may be a concern.

Liz Duncan
Regional Agribusiness Manager
South-West Victoria

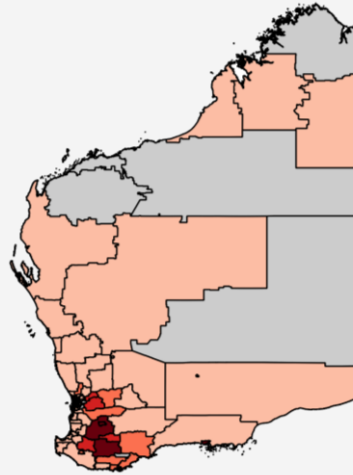
Regional update: Western Australia

Western Australia has Australia's third largest sheep flock, accounting for 14.4 million sheep and lambs across 5,651 farms in 2013-14. The Great Southern and South West have the highest sheep densities, along with parts of the Wheatbelt closer to Perth.

The Western Australian market is heavily focussed on export. MLA estimates that of the 2.3 million sheep exported last year, 83% were from Western Australia.

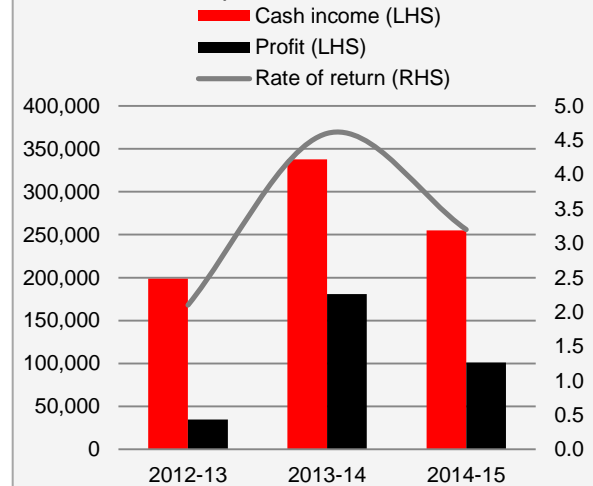
ABARES farm survey data show that last season was weaker on average for Western Australian lamb producers after a particularly strong season in 2013-14. Cash income fell to \$255,000 while profit slumped to \$101,000. The rate of return (excluding capital appreciation) was 3.2%.

Figure 11: Head of sheep per square kilometre –2011 Agricultural Census



Source: Australian Bureau of Statistics

Figure 12: Farm income and profit – Western Australian lamb producers



Source: ABARES, excludes capital appreciation

Conditions in southern Western Australia

The season so far has seen reasonable rain which has sustained crops and pastures however generally not heavy enough yet to see the required run-off into dams. Some parts of the wheatbelt have experienced good rain recently however certain regions in the Great Southern are still a little dry.

That said, pastures are looking pretty good at present, we are just looking for some good rains to replenish dams coming into summer.

David Wallace
Regional Agribusiness Manager
Western Australia – South

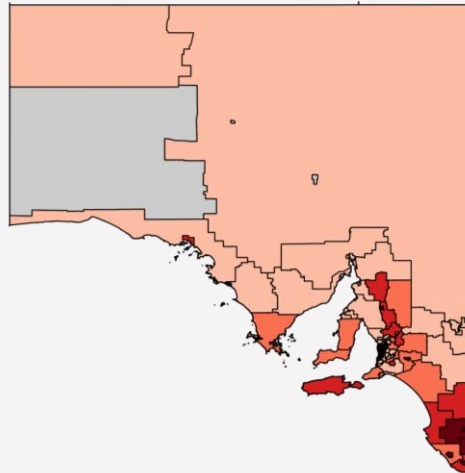
Regional update: South Australia

South Australia has Australia's fourth largest sheep flock, accounting just shy of 11 million sheep and lambs across 6,314 farms in 2013-14. Most production is concentrated in the south-east of the state.

Like parts of Victoria, this season has been characterised by colder than average temperatures and below average rainfall in many areas. The season has seen higher lamb losses and slower weight gain and is likely to push the timing of spring lamb supply back a few weeks this year.

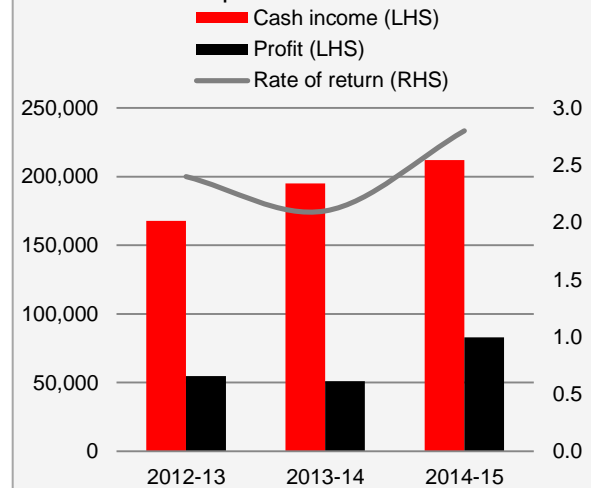
ABARES farm survey data show that last season was a strong year on average for South Australian lamb producers. Cash income continued to rise to \$212,000 and profit was up to \$83,000 on average. The rate of return (excluding capital appreciation) rose from 2.1% in 2013-14 to 2.8% in 2014-15. Evidence of more hand feeding this season points to an increase in costs which may see margins under some pressure this season.

Figure 15: Head of sheep per square kilometre –2011 Agricultural Census



Source: Australian Bureau of Statistics

Figure 16: Farm income and profit – South Australian lamb producers



Source: ABARES, excludes capital appreciation

Conditions in South Australia

It's been a colder than average season across most of south-east South Australia and rainfall has been generally below average.

Losses are up somewhat because of the cold but more importantly weight gain has been more difficult and we're seeing increased hand-feeding to get the weight gains.

We're around three to four weeks from the major flush for spring lamb although that could come a little later due to the slower weight gains this season.

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