



AUSTRALIAN AGRIBUSINESS GROUP

MARKET OVERVIEW – THE AUSTRALIAN LAMB INDUSTRY

Independent Assessment – January 2007

Industry Snapshot

- Lamb meat production operates in conjunction with wool production with meat production becoming an increasingly significant driver of the lamb/sheep industry (Section 1).
- Australia is the world's second largest exporter of lamb meat behind New Zealand with the US being our largest market and Japan and China rapidly increasing their demand for Australian lamb (Section 2).
- Australian consumer expenditure on lamb has increased by 80% over the past decade with the domestic market accounting for approximately 65% of Australia's total lamb production (Section 3).
- Recent poor seasonal conditions have constrained Australian lamb producers, increasing the turnoff of lambs and slaughterings and causing sheep numbers within Australia to decline (Section 3).
- Wool producers are increasingly turning their interest towards sheep meat production and Australian lamb production is forecast to increase 17% by 2010-11 (Section 5).

1 Introduction

Lamb meat is classified as sheep meat up to the age of 12 months old with no permanent incisor teeth ¹. It is a mild flavoured meat lean and low in cholesterol compared to other animal proteins. A 100g serve of grilled lamb steak provides 30% of iron, 39% of zinc and 127% of niacin of RDI ².

Lamb meat production is often taken in conjunction with wool production and is consequently influenced by factors affecting the wool industry. Historically wool production has been the driver behind the Australian sheep industry; however meat production is becoming an increasingly significant driver of developments within the industry. Over the period 1988/89 to 2001/02 sheep producers increased productivity on average by 1.2%. Farms which were more specialised in prime lamb production achieved average productivity growth of 1.6% per year over the same period ³. Reflecting the shift towards lamb meat production, the number of Merino ewes mated to produce first-cross lambs increased from 19% in 1996/97 to 26% in 2004/05 and average slaughter weights are rising for both sheep and lambs.

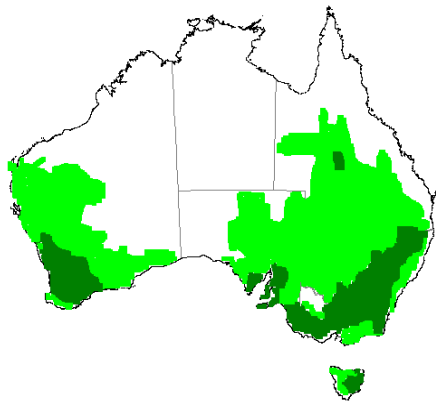
Lamb can be produced under a variety of grazing and finishing systems including dryland crop stubble grazing, irrigated pasture and feedlots ⁴. New retail cuts are continuously being developed and there is increasing demand for lamb carcasses to be larger and leaner, particularly from Australian export markets. In response to this, 'elite lamb production' has emerged over the past decade.

Elite lamb refers to high quality, export or food service lamb with a specification for carcass weight 22 kilograms and fat scores 2 or 3 out of 5 points, 5 being the fattest. Elite lamb can be produced in most regions of Australia and is limited only by regional environmental conditions affecting pasture quality and growing season ⁴.

2 Producing Regions in Australia

Victoria leads the nation as the largest lamb producing state accounting for 40% of total production. New South Wales (22%), South Australia (18%) and Western Australia (15%) are the other major producing states with Queensland and Tasmania making up the remaining 5% of the nation's production ⁵.

In 2005/06 the gross value of Australian Lamb production was A\$1.4 billion out of a total value of sheep meat production of A\$2.1 billion ³. Domestically lamb holds a 19% share of the fresh meat market ⁵.



■ Prime Lamb Production
■ Lamb Production

Figure 1 Lamb producing regions of Australia³.

Prime Lamb producers are predominately located in the Riverina, the wheat/sheep zone of NSW, the Victorian and NSW Murray region and the high rainfall areas in south-west Victoria and eastern SA⁵. General lamb meat production is spread throughout the country corresponding with wool production (Figure 1).

In 2005/06 Australia exported 146,000 tonnes of lamb meat, an increase of 14% from 2004/05 shipments⁶. The USA has historically been Australia's largest lamb export market both on a volume and value basis and accounts for 10% of Australia's total lamb production by volume and 27% of exports⁶. The EU and Japan are Australia's next two largest lamb export markets in terms of value⁷.

North Asia (21%) and the Middle East (11%) were the next largest export markets for Australian lamb in 2005-06 (Figure 3).

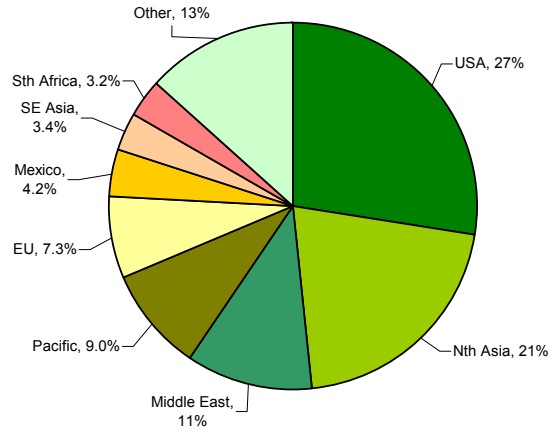


Figure 3 Volume of Australian lamb exports by destination 2005/06⁵

3 International Supply and Demand

Australian lamb exports have continuously risen both in value and quantity in line with domestic production over the past decade reflecting the increasing demand overseas for Australian lamb (Figure 2). The increase in global demand for Australian lamb has recently been enhanced due to tight supplies of sheepmeat and beef throughout the world lifting the need for lamb in a wide range of markets⁶.

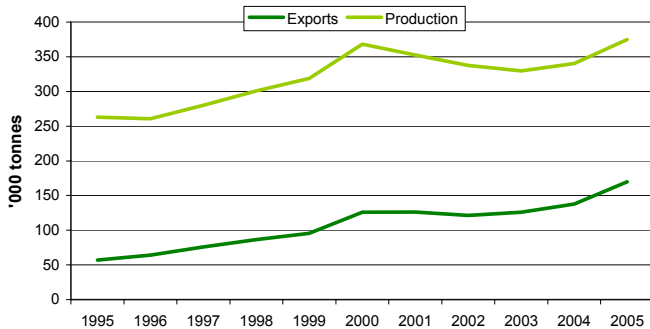


Figure 2 Australian lamb exports vs production: 1995 to 2005⁷

New Zealand closely leads Australia as the world's leading lamb exporter with both countries clearly dominating lamb and mutton export markets. China and India are the next two largest exporting countries of lamb and mutton⁵.

4 Australian Supply and Demand

Despite the proportion of lamb being exported more than doubling since 1990, the domestic market still accounts for approximately 65% of Australia's lamb production⁸.

Australian's are large consumers of lamb by world standards eating 10.3kg of lamb per person per year⁹. Like beef, Australian lamb and mutton consumption has declined over the past 50 years due to growing consumer preference for white meats, particularly poultry. However the gap between consumer preferences for mutton vs lamb is widening in favour of lamb. Between 1995/96 and 2005/06, domestic mutton consumption fell by 51% whilst lamb consumption increased by 14%³.

Domestic consumer expenditure on lamb is estimated to have been \$1.8 billion in 2005/06 with fresh lamb consumption throughout Australia being around 25.6 million servings per week⁵. It is estimated that Australian expenditure on lamb has risen by 80% over the past decade.

Australian lamb production has been relatively stable increasing on average by 1.5% per annum over the past 30 years¹⁰. Sheep numbers in Australia have continuously fallen since 1990 primarily in response to low wool prices. This fall in numbers greatly reduced the number of stock available for slaughter at a time of growing world demand for sheep meat. However it provided a powerful catalyst in boosting the lamb meat industry in Australia due to high global demand coupled with low supplies. This resulted in a high return to Australian producers boosting the attractiveness of the industry⁸.

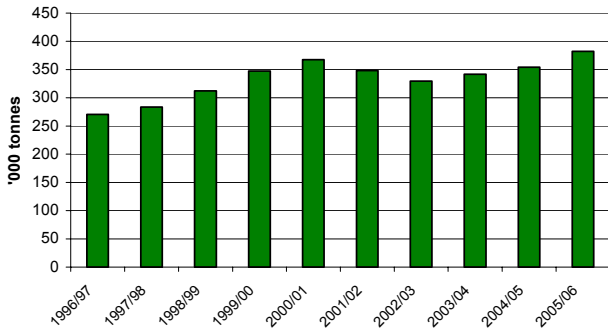


Figure 4 Australian lamb production 1996/97 to 2005/06 ¹⁰.

Poor seasonal conditions in 2002/03 reduced stock numbers and productivity with lamb producers rebuilding flock numbers since then. However the recent continuation of poor seasonal conditions has resulted in significant increases in yardings of both sheep and lambs throughout the nation. This has increased slaughterings above the predicted level for the immediate time period and a decline in lamb production is expected for the remainder of 2006/07 ⁶.

2006 saw record high levels of Australian lamb exports increasing by 3.6% compared to 2005 to total 146,700 tonnes. Most of the growth in shipments came from increased demand predominately from Japan, the Middle East and China ¹¹. Lamb exports to Asia have recently expanded rapidly with exports to China and Japan (the two largest destinations for lamb in Asia) having both doubled over the past five years ¹².

5 Price and Yield

Due to the current high level of slaughterings and low slaughter weights in lieu of the drought, lamb prices fell towards the end of 2006. Prices are however expected to rise over the remainder of the 2006/07 season in response to an expected 3% fall in lamb production to 370,000 tonnes ⁶. The total price effect for 2006/07 is forecast to be a 15% decrease in lamb prices to 290 cents per kilogram (saleyard price) ¹³. If seasonal conditions improve moving into 2007, current high levels of lamb turnoff and slaughterings maybe reversed.

Due to lower production and prices, the value of lamb exports in 2006/07 is expected to fall by 21% to \$621 million with a decline in export volumes of 4%. This fall in export volume is largely a result of reduced demand for lamb by the US due to lower beef prices ⁶.

6 Future Outlook and Conclusions

It is expected that many wool producers will continue to turn their focus towards sheep meat production, maintaining the expansionary trend of the lamb industry. Lamb production is forecast to reach 446,000 tonnes by 2010/11, an increase of 17% on 2005/06 production figures. However the rate at which the industry is growing is expected to slow from the 6% growth per annum recorded over the past three years to 2% per annum from 2008 to 2010 ¹⁴. This decline in growth is due to the drought of the past five years having eroded ewe numbers in conjunction with falling wool prices.

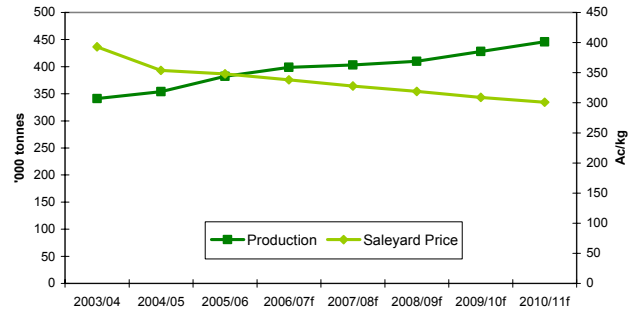


Figure 5 Australian Lamb Outlook to 2010/11 – Production and Saleyard Price in 2005/06 dollars ¹².

The saleyard price of lamb is predicted to decline by around 14% in real terms leading up to 2010 (Figure 5). This is largely due to increased global competition within the red meat market. However demand for high quality Australian lamb within the global market is expected to continue expanding whilst the recent increase in local demand is expected to be maintained ¹⁴.

Total Australian lamb export volumes to the USA have been rising steadily by an average of 15% p.a. over the past five years. Further increases are expected in the medium term with exports to the US predicted to reach 47,000 tonnes by 2010/11 ¹². Japan is continuing to grow as a large export market for Australian lamb along with China. South Africa is also emerging as a significant market for Australian sheep meat, increasing its 2005 imports of Australian lamb by 34% in 2006 ¹⁵.

Australia's future within the lamb export market is very strong with our 'clean and green' image appealing to the global market, particularly high value export markets such as Japan. Meat and Livestock Australia actively works to promote and market Australian lamb both domestically and internationally with successes having been reaped in recent campaigns such as the Australia Day Lamb campaign.



7 References

1. Aus-Meat Limited, 'Sheepmeat Language'
2. Australian Lamb, 'Australian Lamb: 5 Things to Know', Retrieved January 2007 from www.australian-lamb.com
3. ABARE, (2006) 'Agricultural economies of Australia and New Zealand, Sheep meat', August 2006, Retrieved January 2007 from www.abare.gov.au
4. DPI, (2000) 'Lamb', Agricultural Notes, Farm Diversification Information Service Retrieved January 2007 from www.dpi.vic.gov.au
5. Meat & Livestock Australia, (2006) 'Australia's Sheepmeat Industry', Retrieved January 2007 from www.mla.com.au
6. Meat & Livestock Australia, (2005) 'MLA Annual Report 2004-05', Retrieved January 2007 from www.mla.com.au
7. ABARE, (2006), 'Australian Commodity Statistics', Retrieved January 2007 from www.abare.gov.au
8. Meat & Livestock Australia, (2004), 'Prime Lamb Industry', Retrieved January 2007 from www.mla.com.au
9. Meat & Livestock Australia, (2005) 'Australia's Sheepmeat Industry', Retrieved January 2007 from www.mla.com.au
10. Meat & Livestock Australia, (2006), 'Australian Lamb Production', Statistical database, Retrieved January 2007 from www.mla.com.au
11. Meat & Livestock Australia, (2007), 'Record Australian lamb exports', Retrieved January 2007 from www.mla.com.au
12. O'Donnell, V., Dickson, A., Wood, A., (2006), 'Sheep Industry Outlook to 2010-11', Retrieved January 2007 from www.mla.com.au
13. Wood, A. (2006) 'Sheep Industry', Australian Commodities, ABARE, Retrieved January 2007 from www.abare.gov.au
14. Meat & Livestock Australia, (2006) 'Sheep Industry Projections', Retrieved January 2007 from www.mla.com.au
15. Meat & Livestock Australia, (2007) 'Record Australian lamb exports' MLA Market News, Retrieved January 2007 from www.mla.com.au

Disclaimer

This document has been prepared for use by Financial Planners. Australian Agribusiness Group (AAG) has received no fee for undertaking this report. AAG notes that this report is for information purposes only; it does not constitute stand-alone advice. The user must undertake their own research prior to any investment decision and such investment decision is made entirely on the recognisance of the investor. This report is not a warranty, express or implied, of any outcome. AAG makes every reasonable effort to ensure that this report is accurate and reasonably reflects the facts. Information is sourced from industry experts, private and public sector research, public domain sources and the web, as well as from the substantial in-house resources of AAG. AAG and its employees disclaim any liability for any error, inaccuracy or omission from the information contained in this report and disclaim any liability for direct or consequential loss, damage or injury claimed by any entity relying on this information, or its accuracy, completeness, currency or reliability. AAG point out that this industry and all commercial activity is affected by the passage of time, income, yield and expense factors. In reading this report the user accepts this statement and sole responsibility for the impact of such change on their investment decisions.