

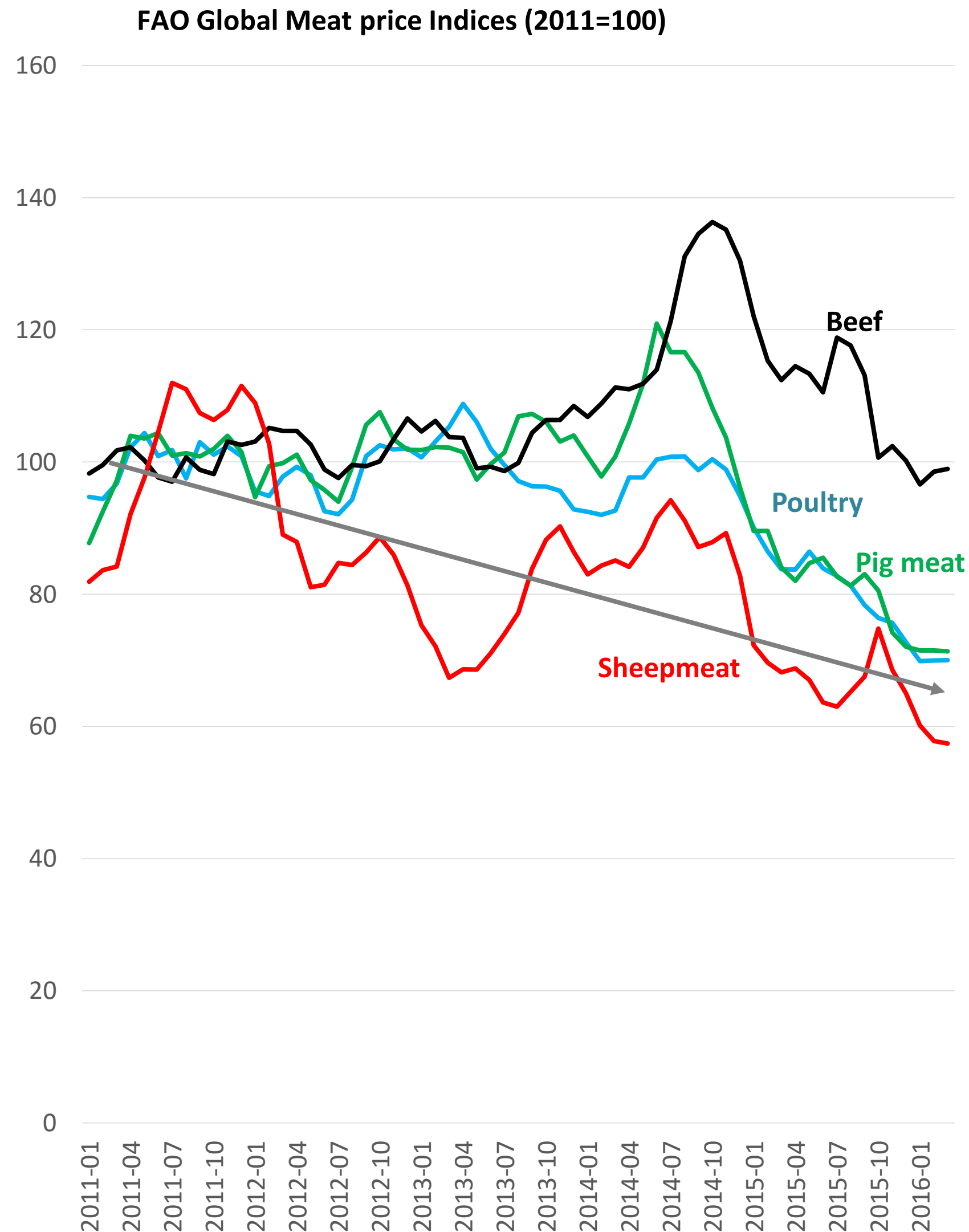
Prospects for global sheep markets & production



Peter Weeks – economic consultant

Presentation to *agri benchmark* global forum, Madrid 16 June 2016

Is sheepmeat on a long-term slide?



- ❖ The global sheepmeat price has halved since mid-2011
- ❖ Economic growth has slowed
- ❖ Population growth has slowed
- ❖ China's imports of mutton fell 20% & lamb fell 80% in the past year
- ❖ Production is hitting up against land, water & environmental constraints
- ❖ Competing meats are benefiting from lower feed grain prices

On the contrary the future for sheepmeat is bright!

- Sheepmeat's unique characteristics
- Latest global market demand and supply situation
- What is the future for sheepmeat?
- Issues critical to the future



<http://www.dailymail.co.uk/news/article-485262/Springtime-lamb-born-October-Ewe-got-joking.html>

The role of MLA

- MLA is a *producer owned, not-for-profit* company and not a political body.
- MLA is responsible for *research and marketing* in the Australian red meat industry
- MLA investing in initiatives that contribute to:
 - ✓ *Producer profitability*
 - ✓ *Sustainability*
 - ✓ *Global competitiveness*
- Includes Market Intelligence
- Funded by a levy on every animal sold
(1.3% of the price of lambs/0.3% price sheep/0.5% price goats/0.4% price cattle)

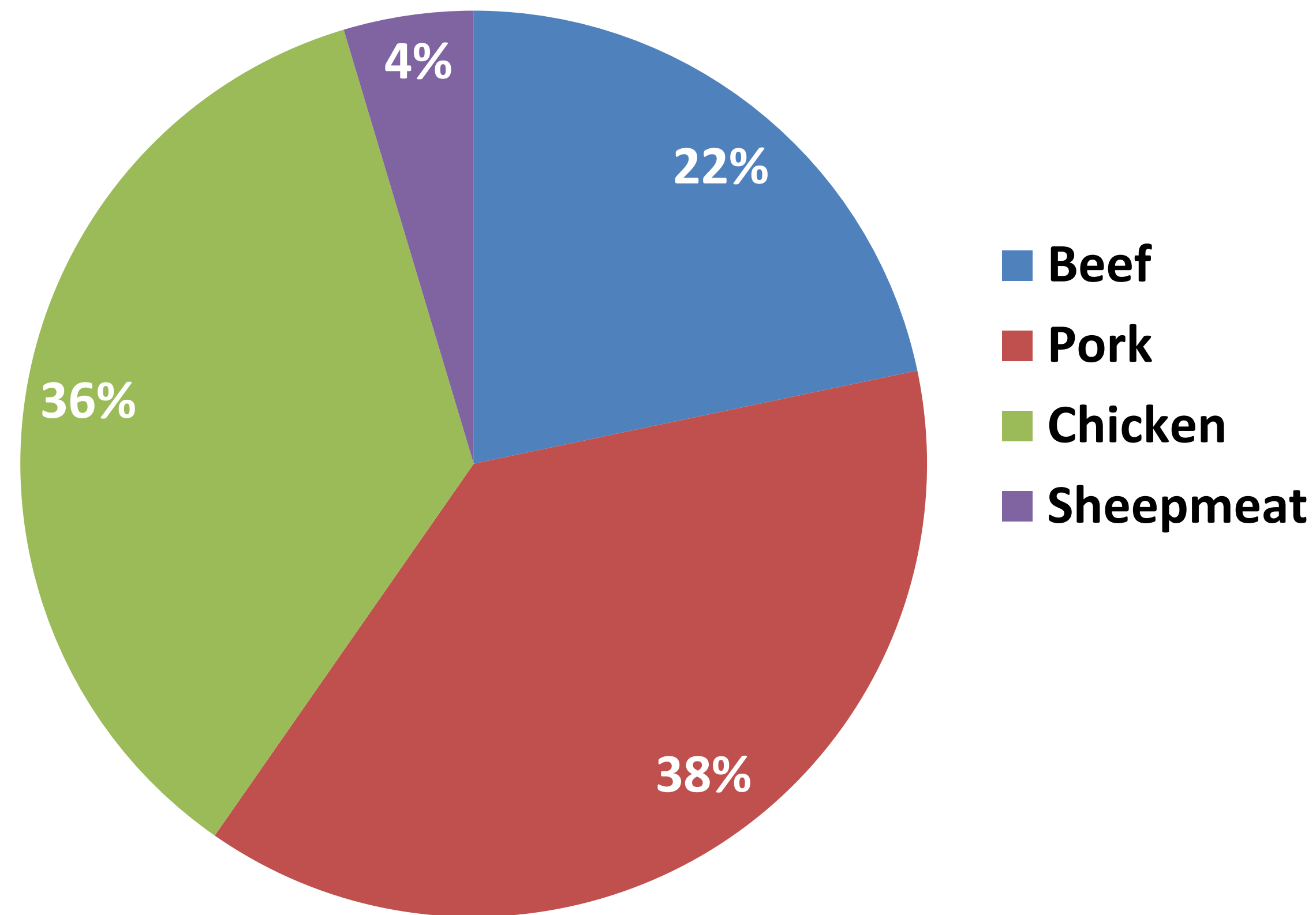


Sheepmeat's unique characteristics

- A niche product in the developed world & likely to become more niche
- Only 10% of production is traded internationally with only two significant exporters
- The producing and consuming countries are diverse
- A widely consumed & sometimes preferred product in the developing world
- Sheepmeat production is often tied to other products (wool, skins, milk, crops, cattle)

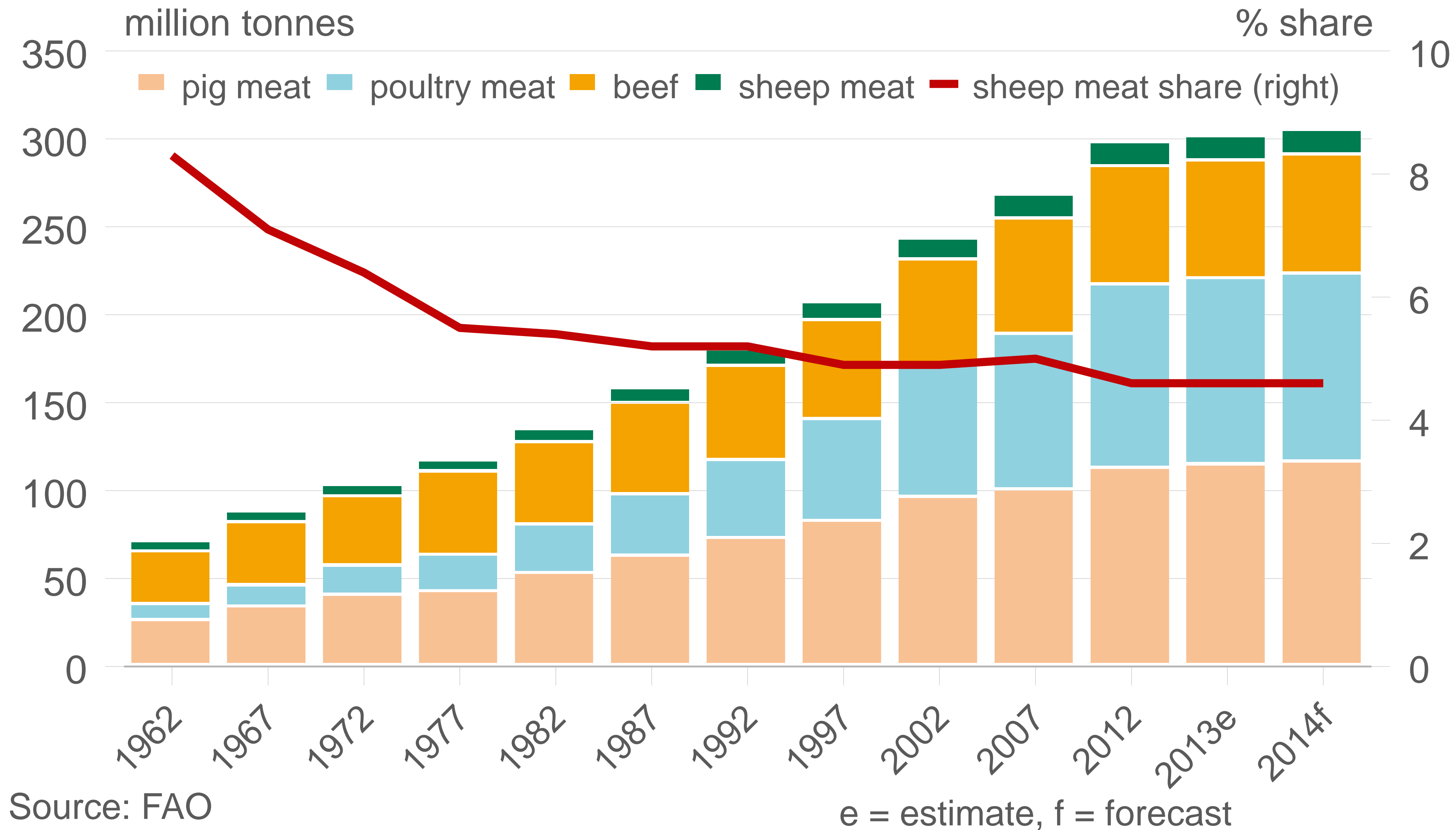
Sheepmeat has only a small share of world meat consumption

2015 total: 311.3 million tonnes

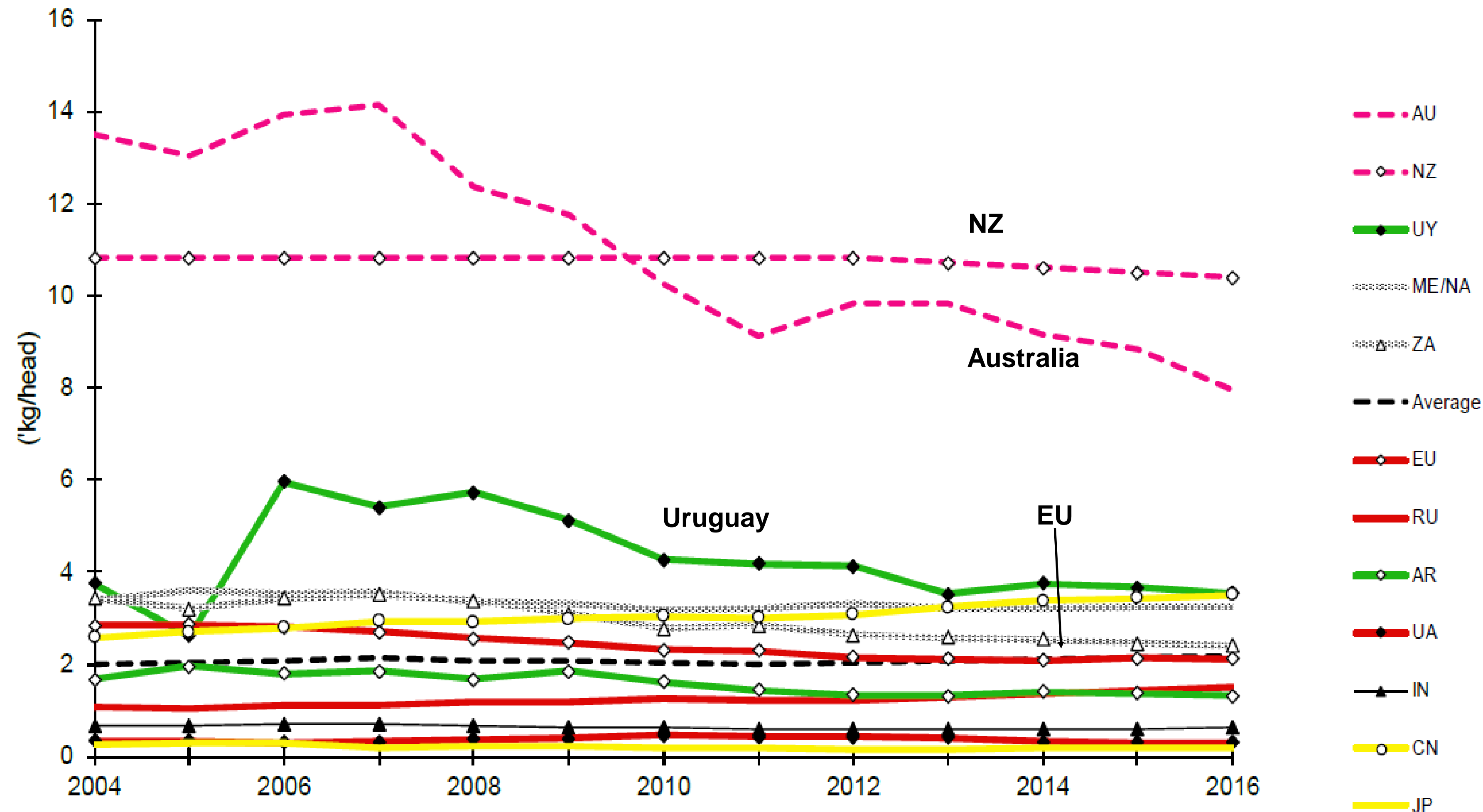


Source: OECD-FAO
(cwe; rtc for chicken)

While sheepmeat consumption has grown its share has declined further



The largest declines have been in the traditional sheep countries: Australia, EU & Uruguay

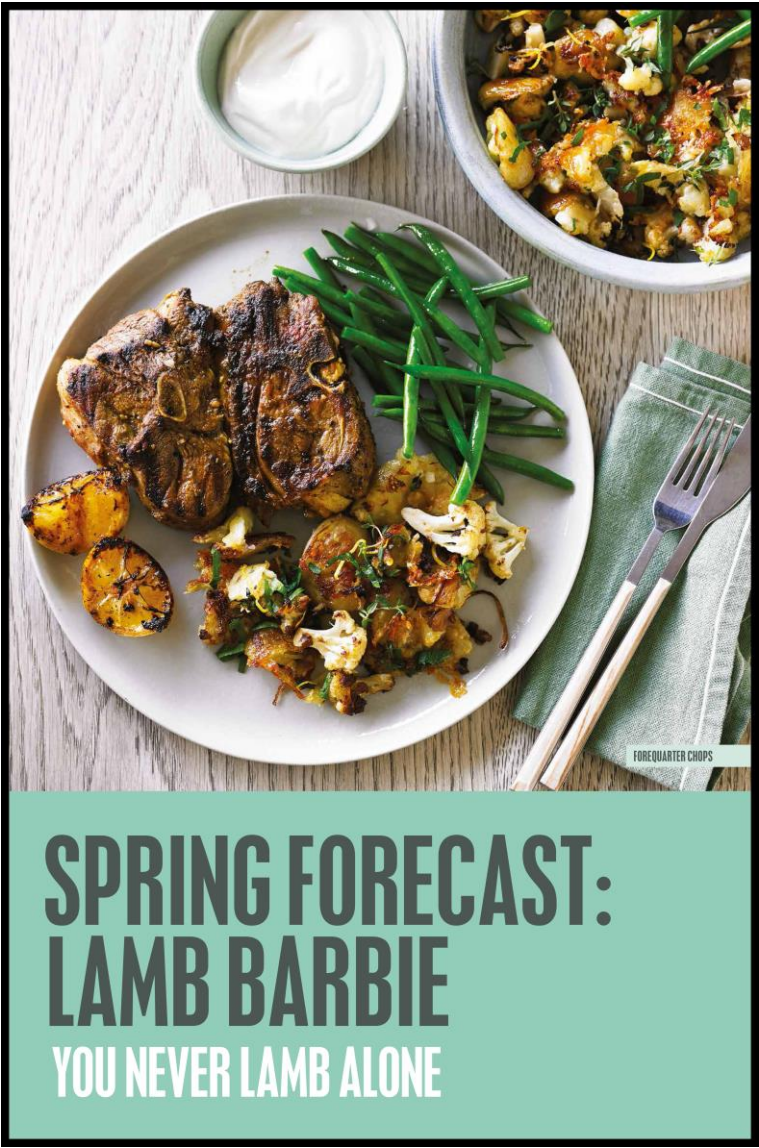
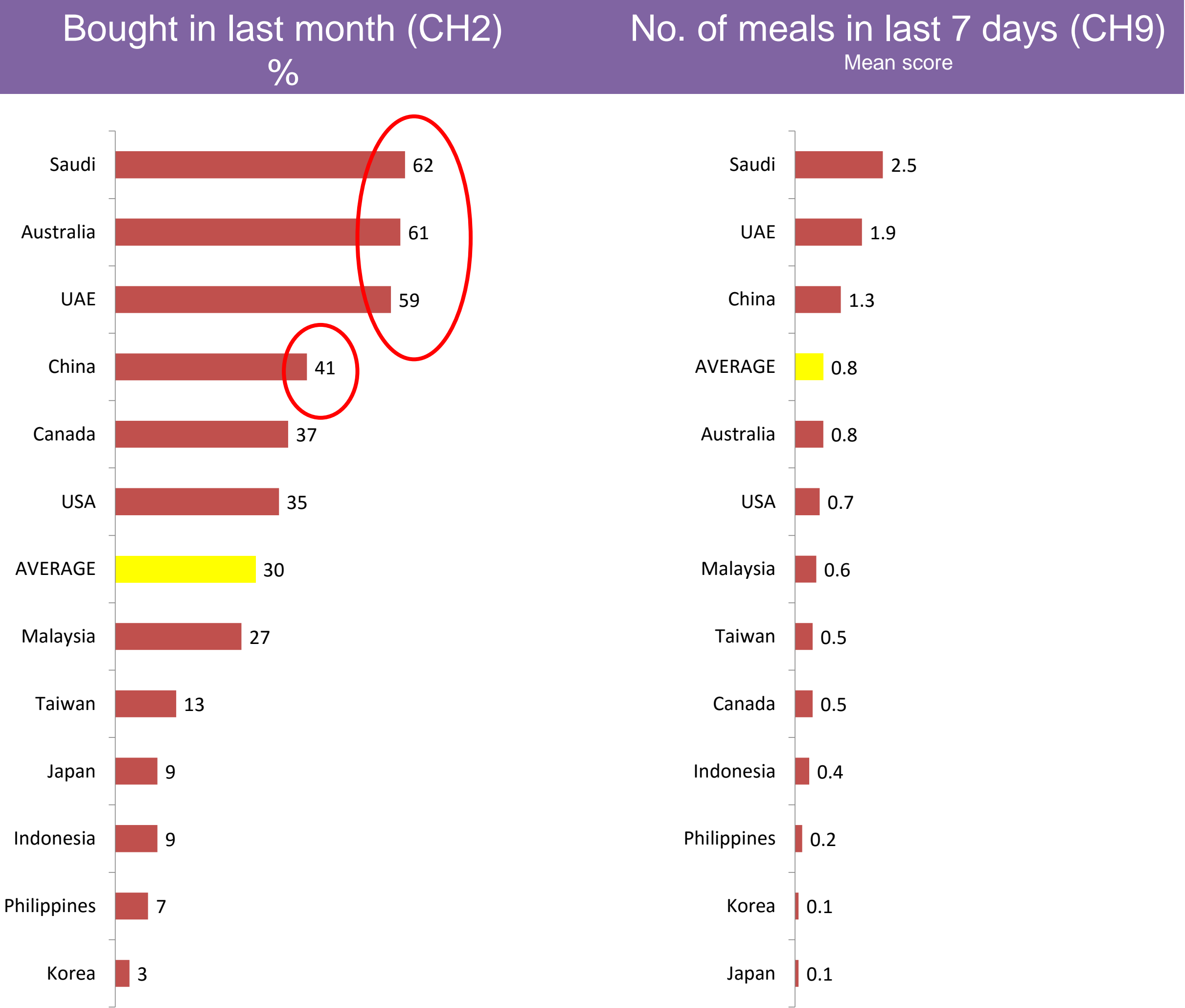


Lamb awareness & purchases

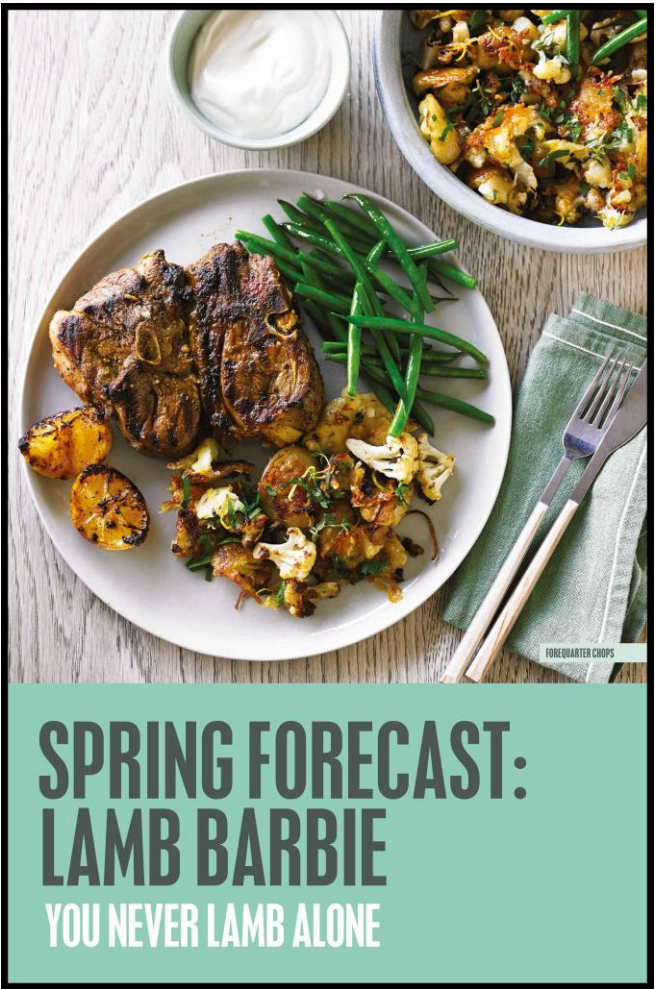
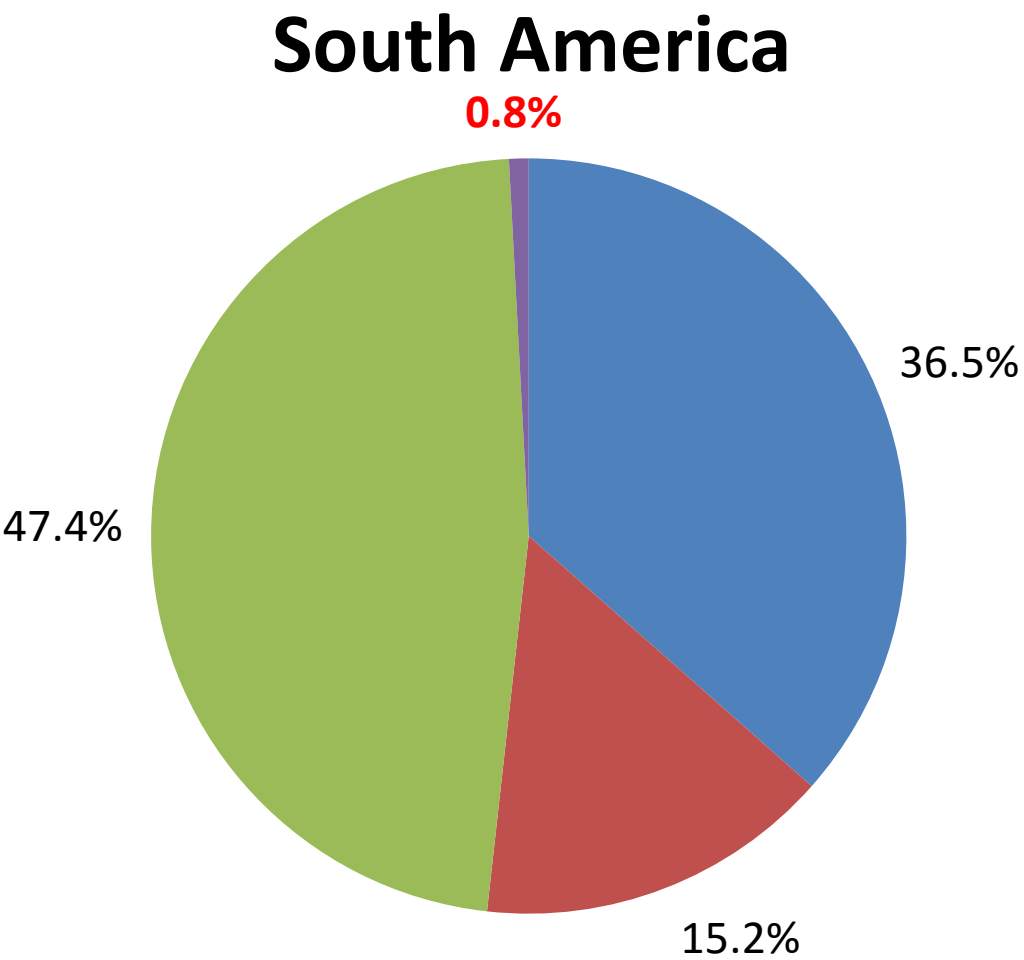
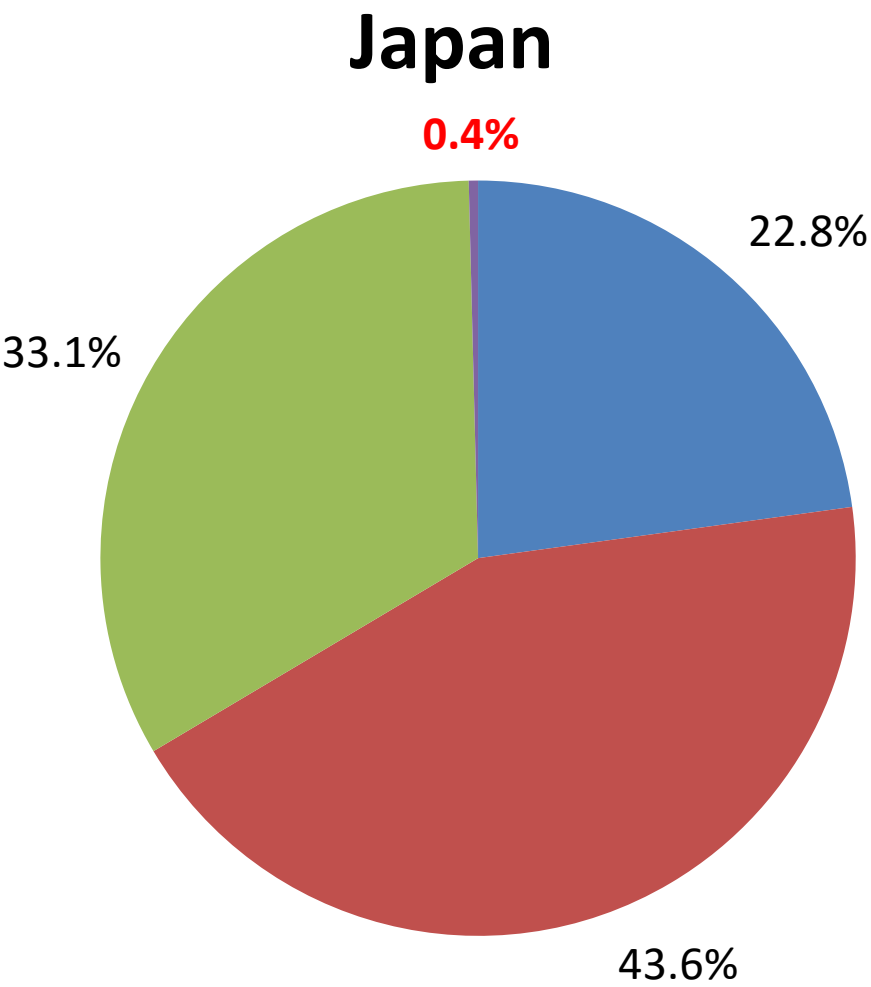
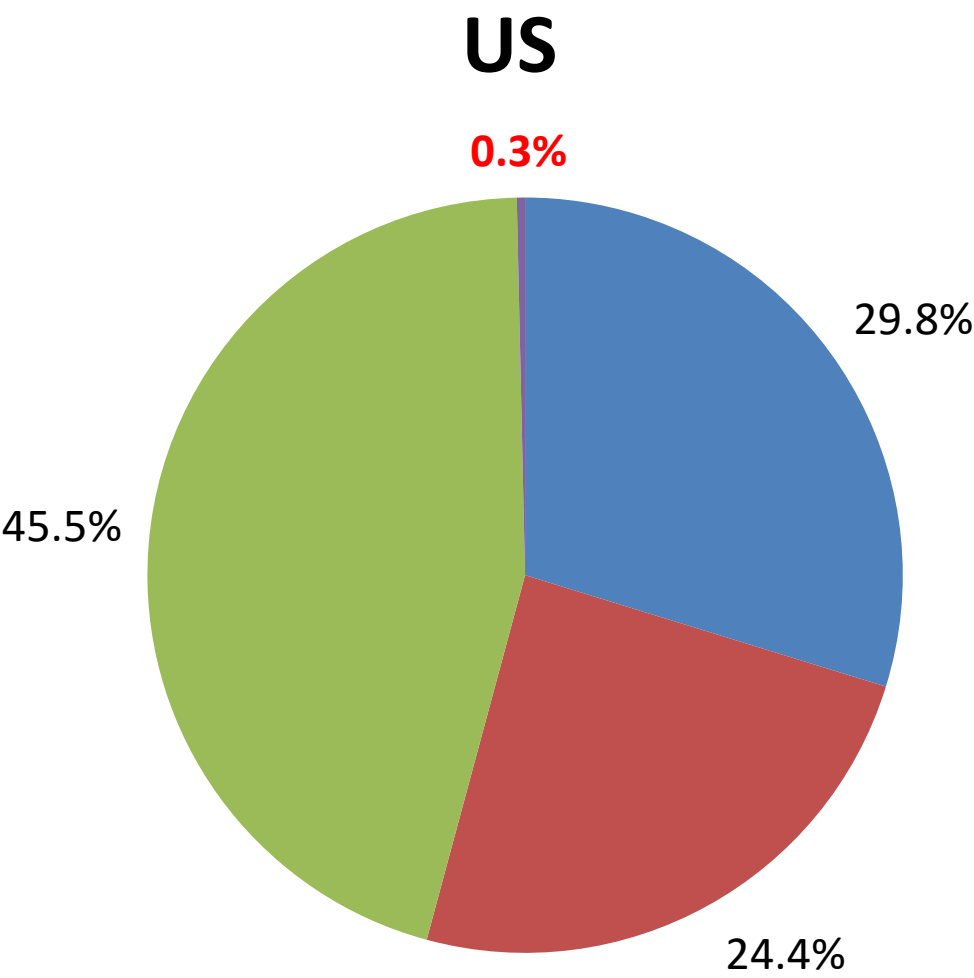
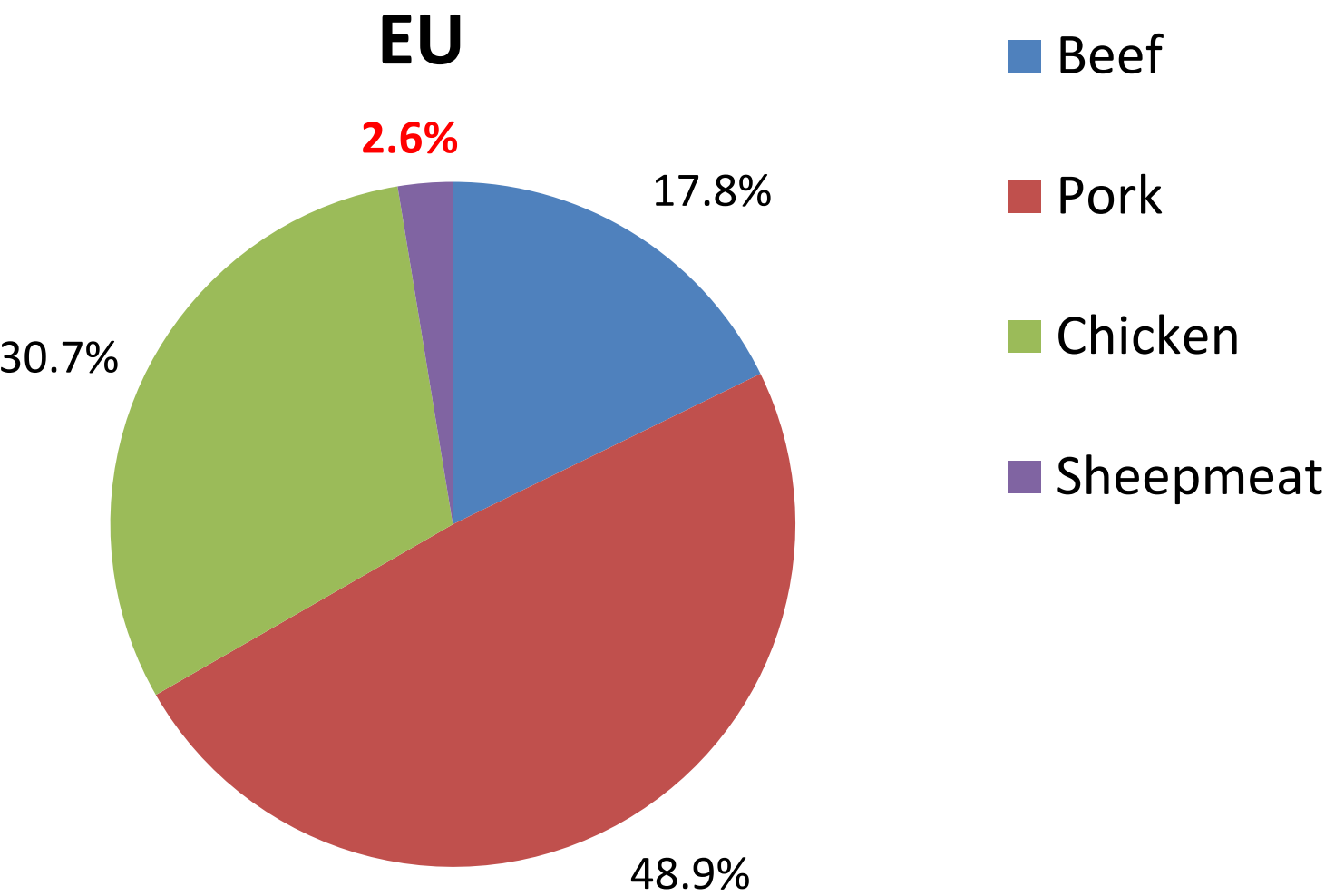


Lamb is most salient and bought most in Saudi, UAE and Australia.
Less prominent in Japan, Korea, Indonesia and Philippines

Countries included	
	Australia
	Canada
	China
	Indonesia
	Japan
	S. Korea
	KSA
	Malaysia
	Philippines
	Taiwan
	UAE
	USA

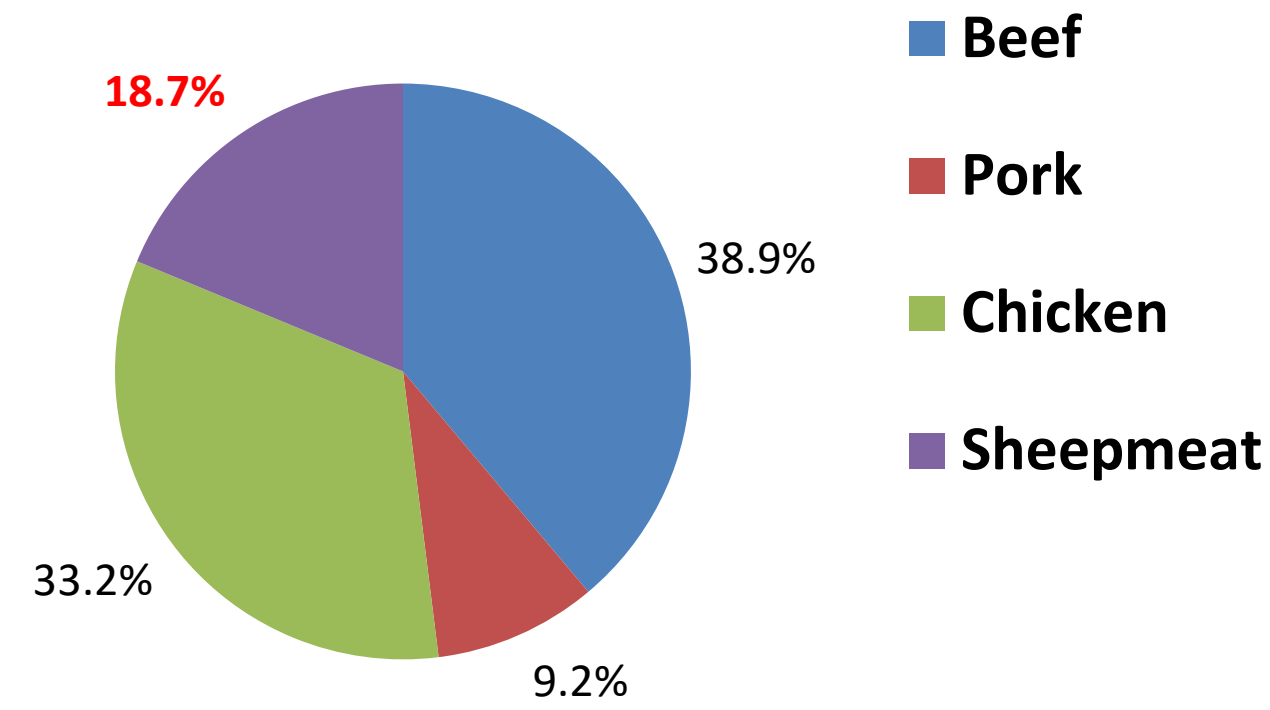


a niche product in many countries & regions

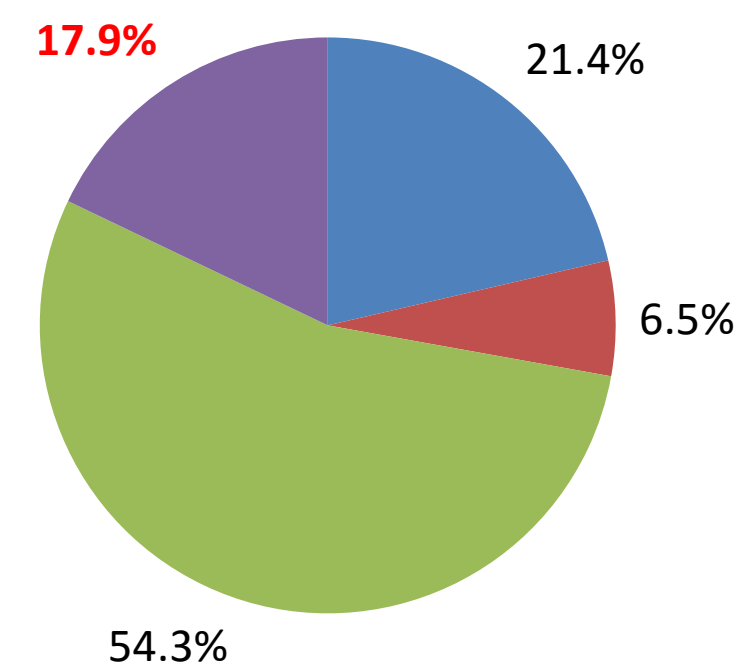


Sheepmeat important in Africa, India, the Middle East, Aust/NZ with small but significant shares in Spain and Asia (including China)

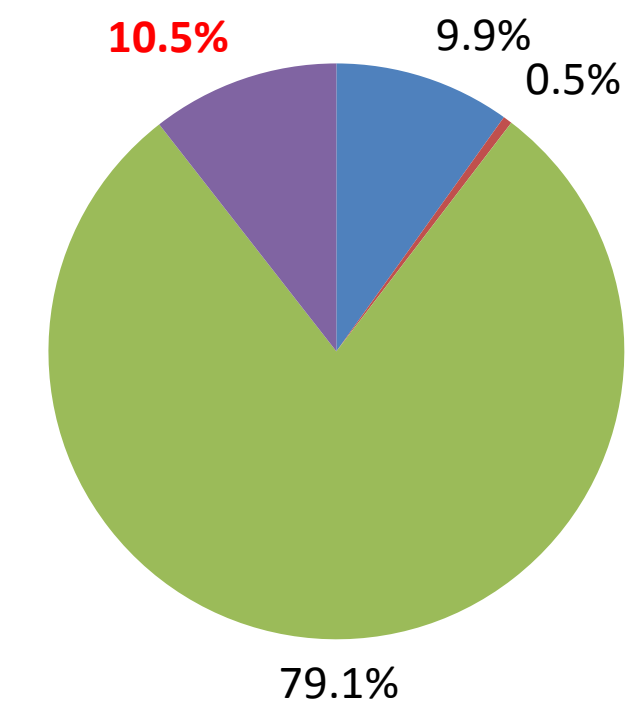
Africa



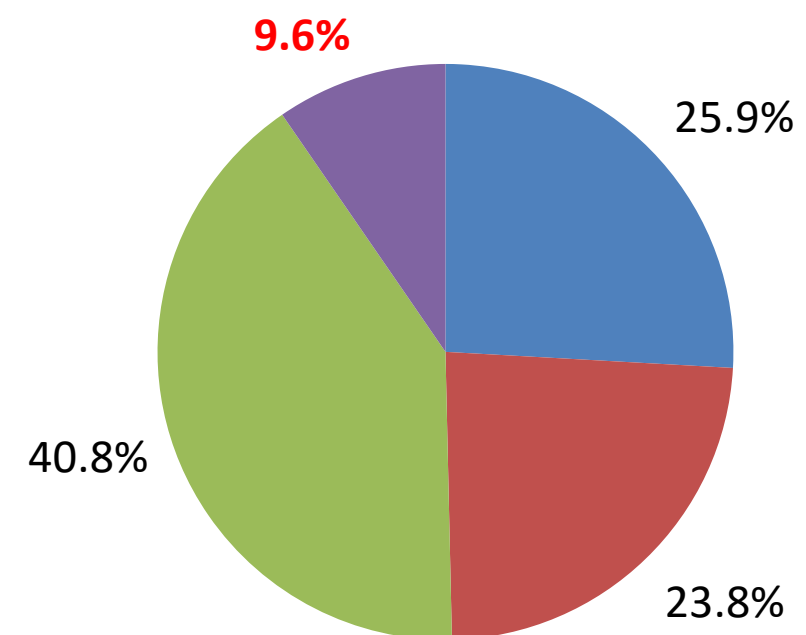
India



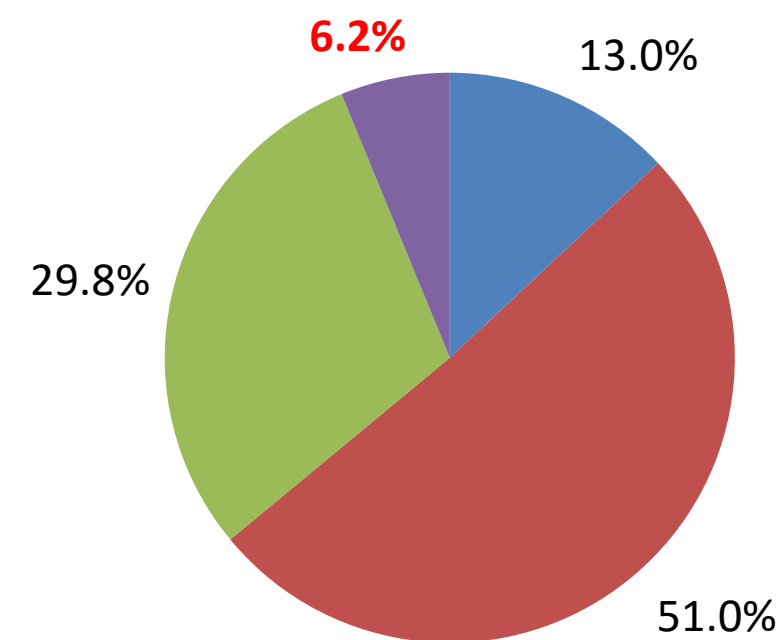
Saudi Arabia



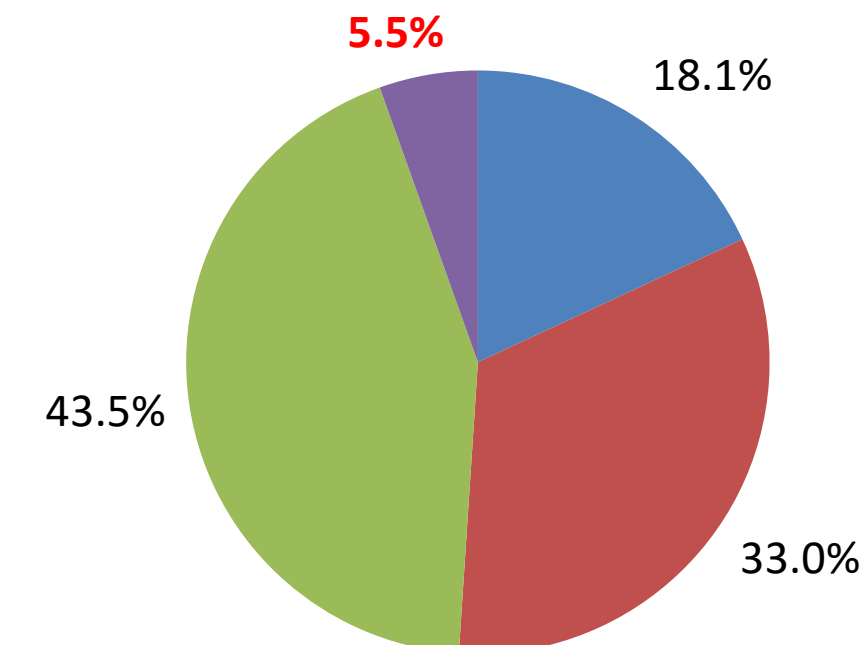
Australia



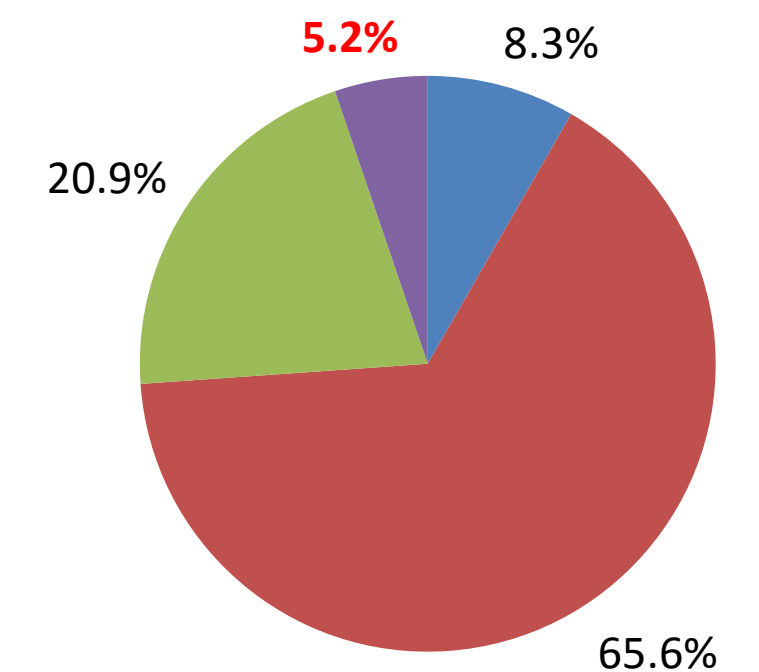
Asia



Spain



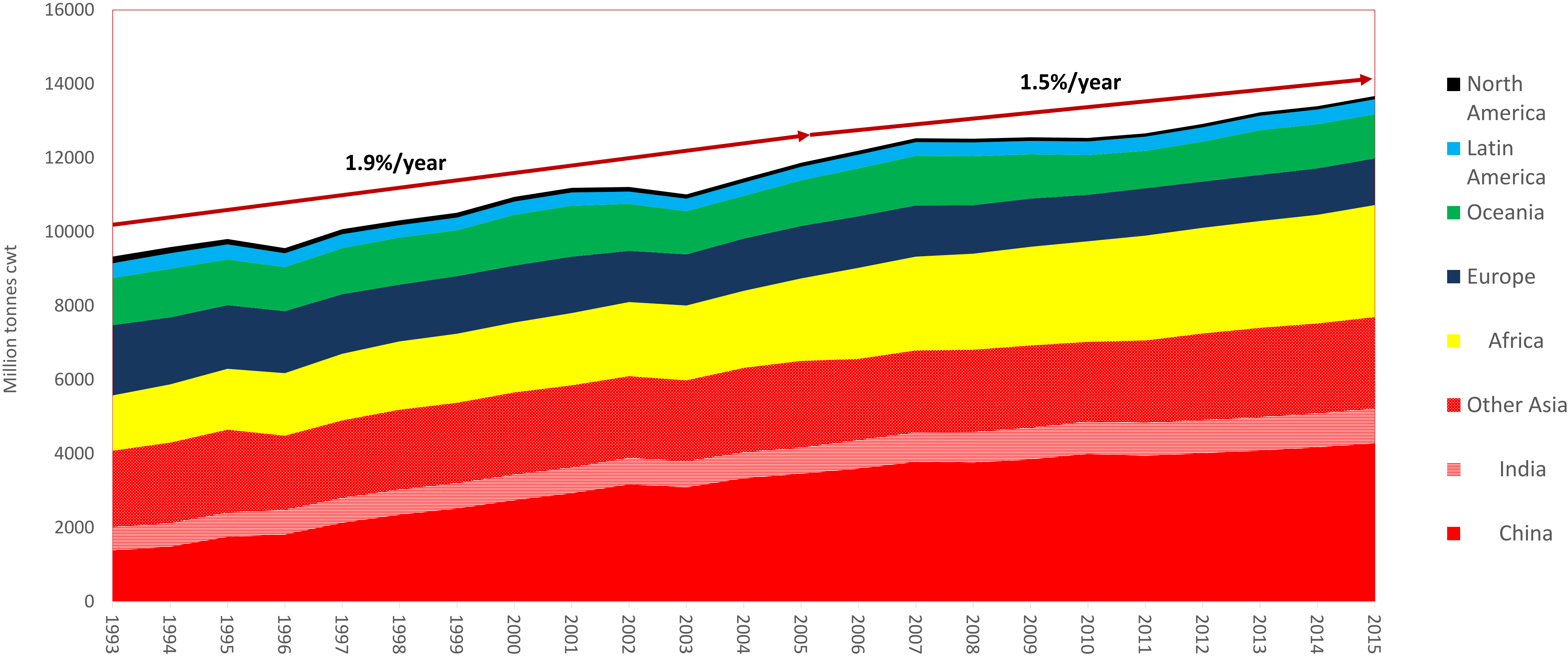
China



Sheepmeat's unique supply characteristics



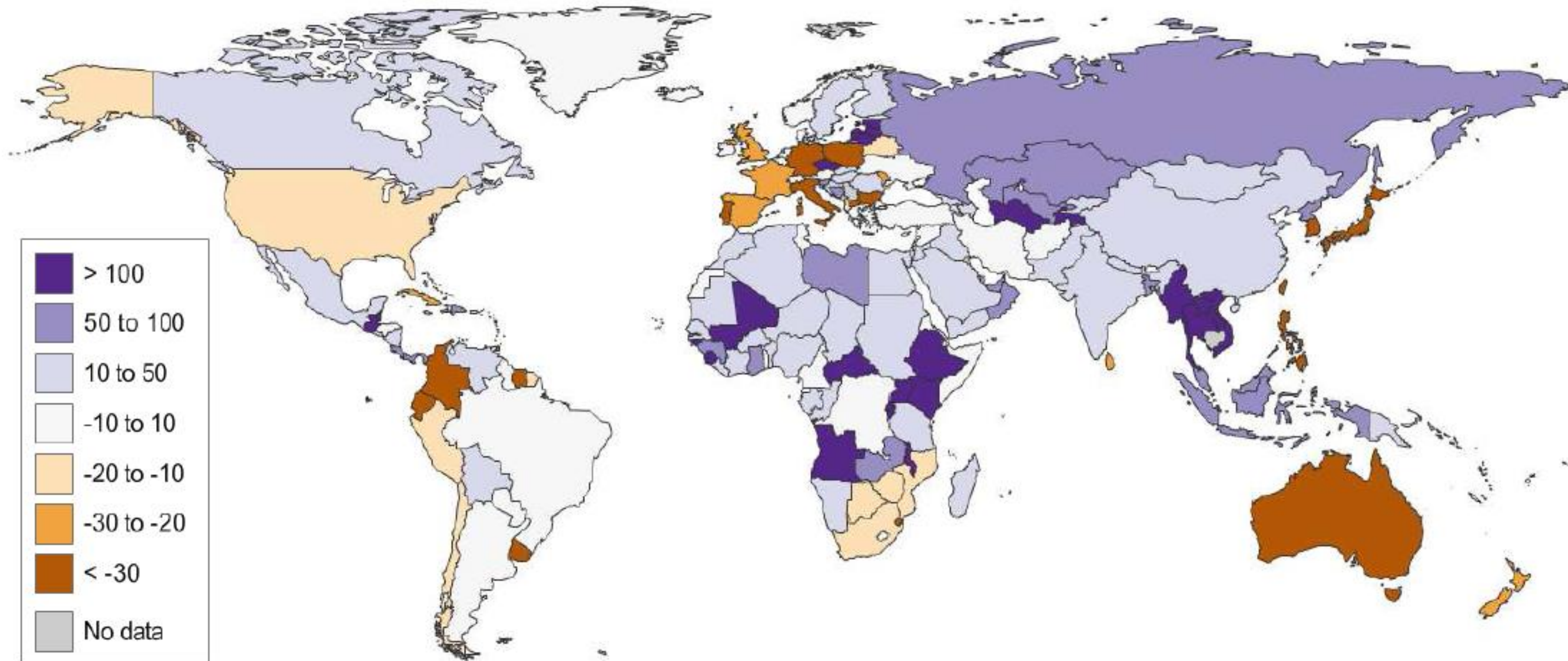
Global sheepmeat production rising only slowly



Source: FAO

Flocks falling through professional sheep farming countries but rising in Asia, Africa & the Middle East

Sheep flock % growth 2000 to 2013



Why have sheep flocks been decreasing in many countries – despite high prices?

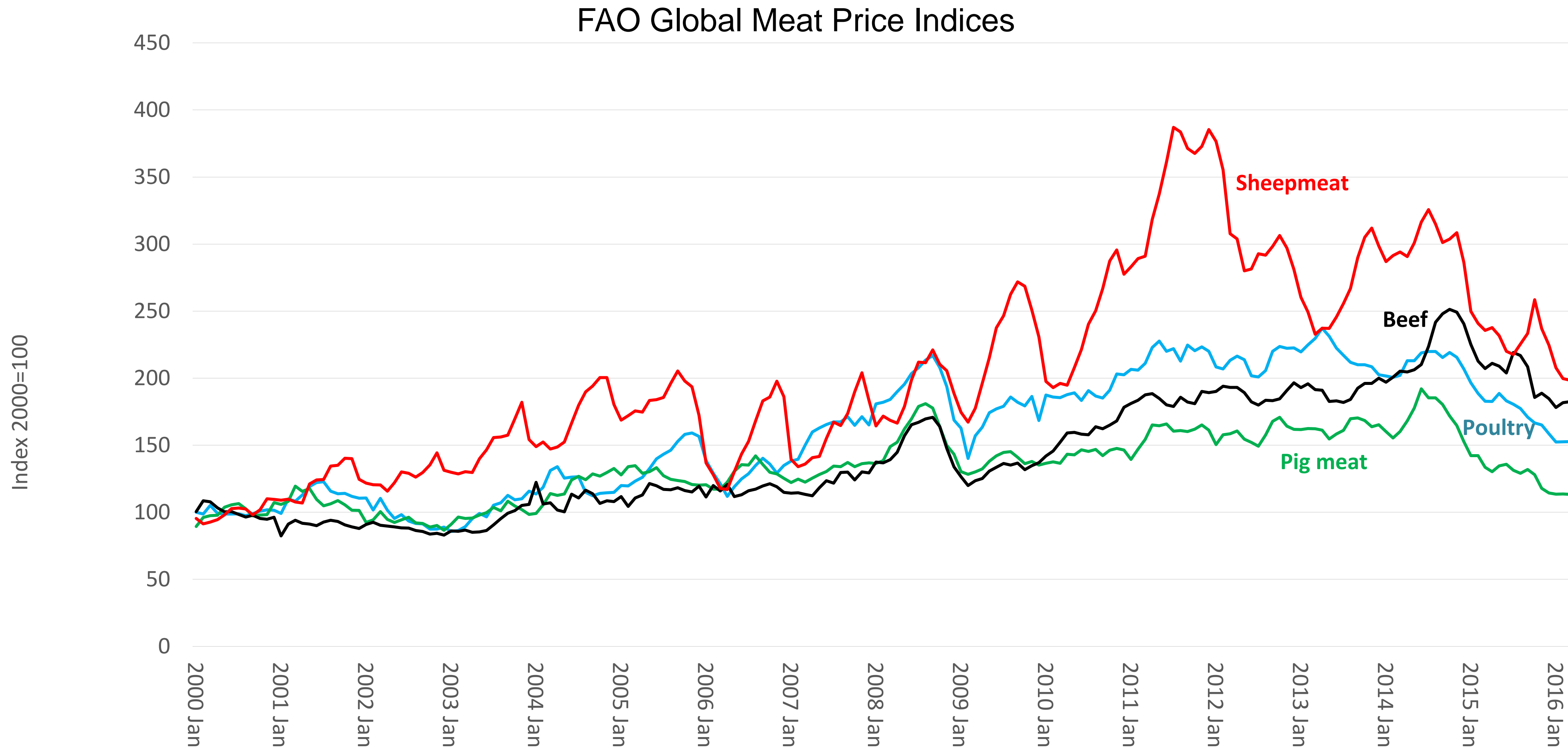
- Competition for land – dairy in NZ, cropping in Australia
- Severe droughts on almost every continent
Oceania, Africa, Asia, China, South America, North America & even in Europe, including Spain
- High & volatile feed costs
- Falling prices for companion products: wool, skins, crops & cattle
- Labour costs – challenge for a high labour use enterprise
- Environmental constraints & other government policy changes – especially in China
- Predators, especially in Africa & Australia
- Aging farmers & lack of ‘generational replacement’

The current global sheepmeat market

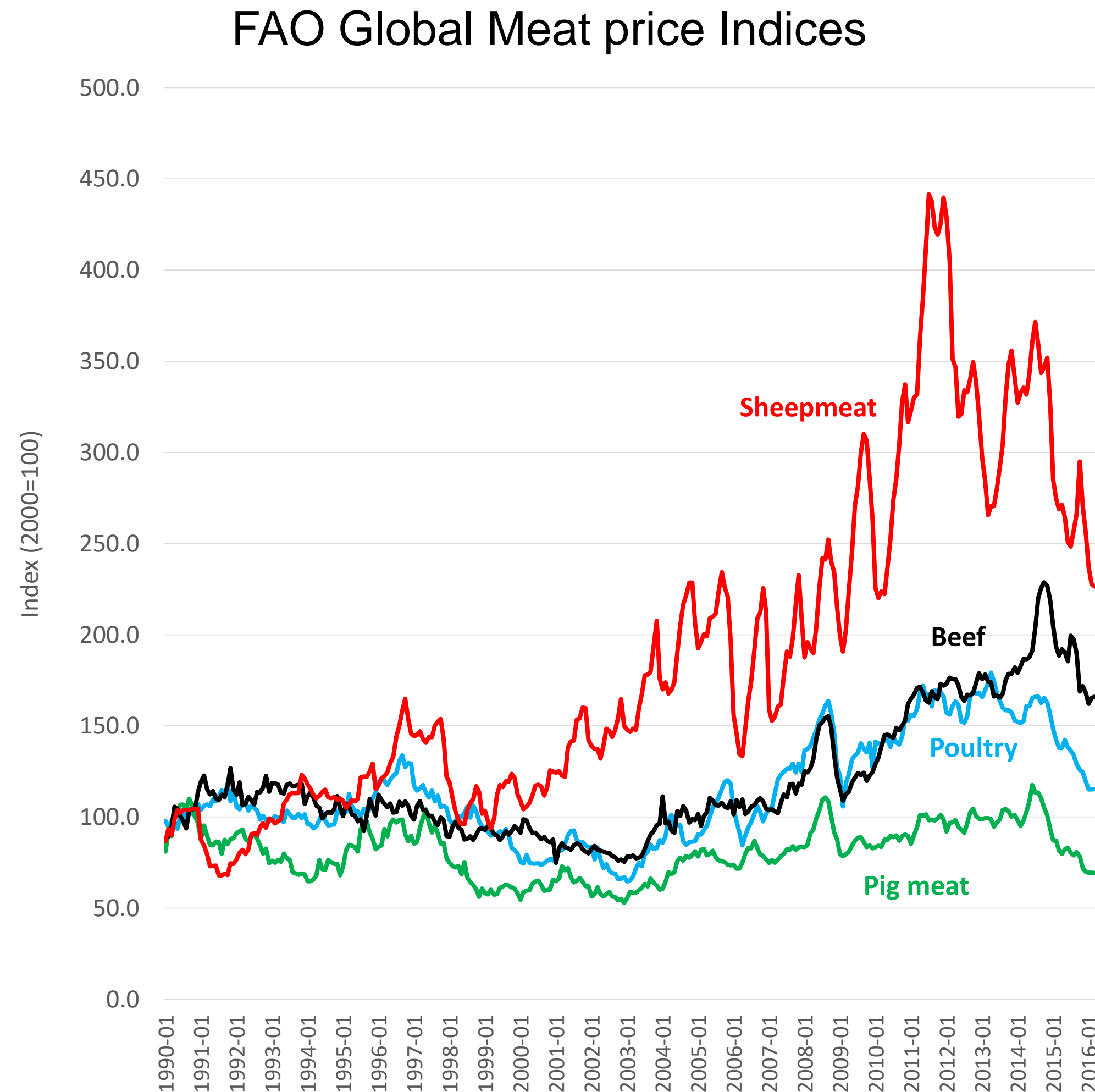


Spain

Sheepmeat trade prices have risen over time but have fallen since 2011

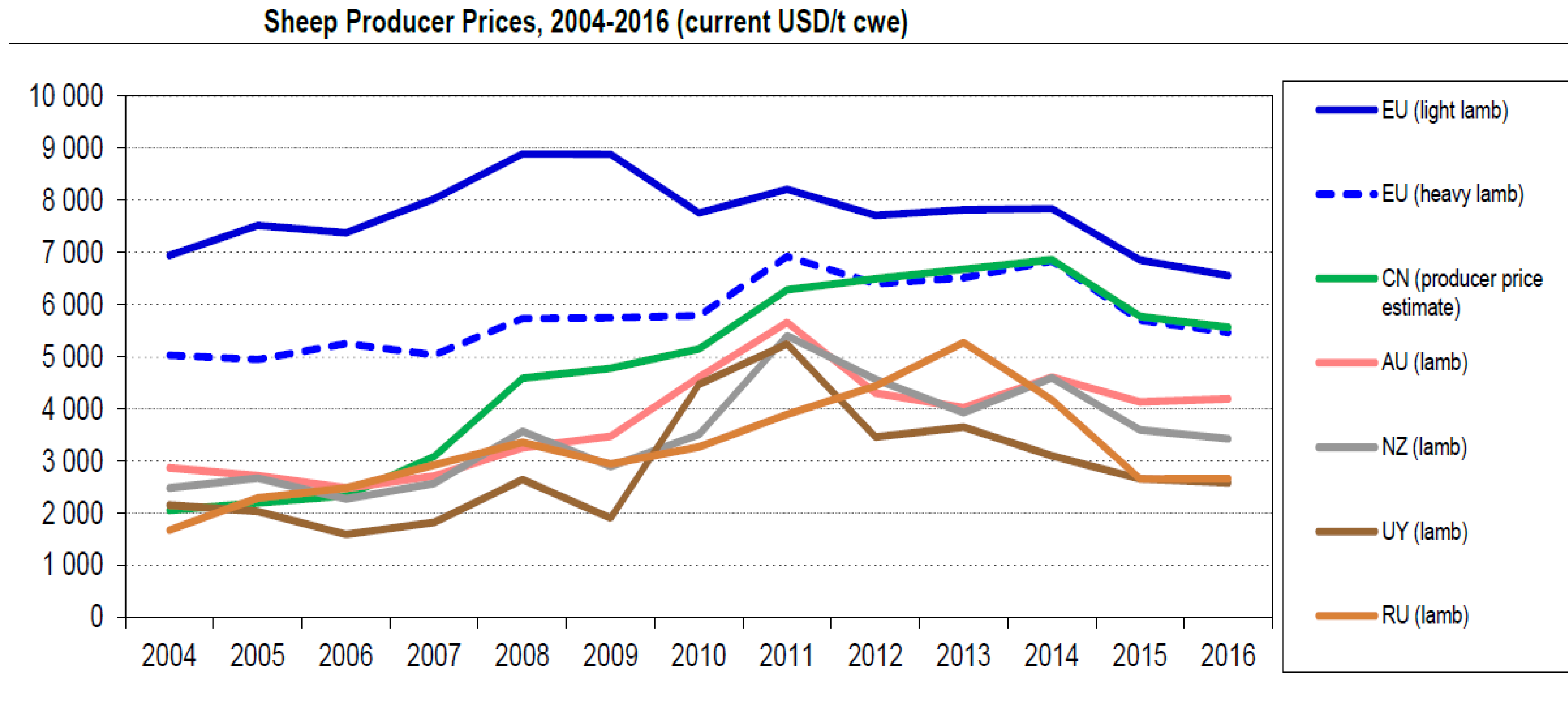


Why the major fall in sheepmeat prices?



- Consumer resistance to higher prices
- Lower feed costs have dropped cost of competing meats
- Demand in developed countries flat (30% battling deflation)
- China's import demand well down in 2015
- Production has risen in Australia & developed world

The fall in prices has been across all regions



Source: Gira compilations

A photograph of a flock of sheep grazing on a grassy hill. In the background, the Mont Saint-Michel abbey is visible, partially obscured by a light blue haze. The scene is captured during the golden hour, with warm light illuminating the sheep and the landscape. The text "Sheepmeat still has a bright future" is overlaid in the center of the image.

Sheepmeat still has a bright future

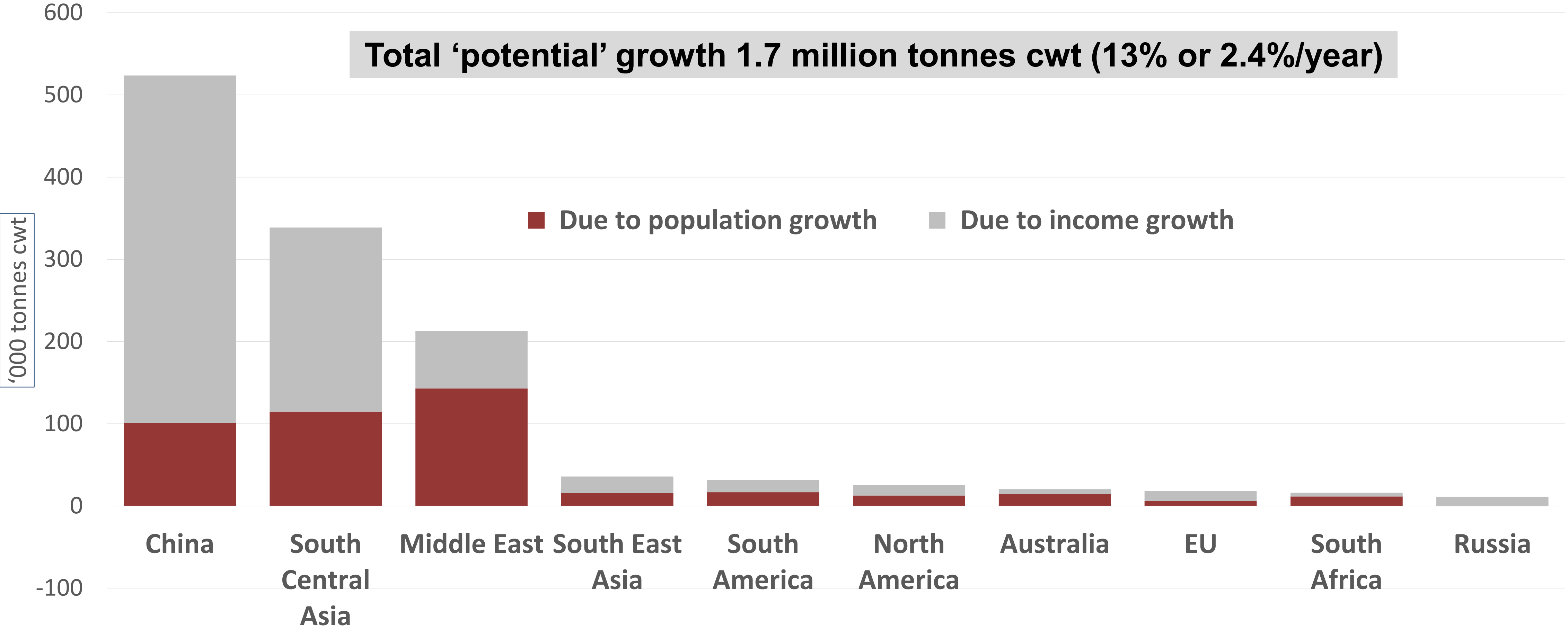
Global sheepmeat still has a bright future

1. Steady demand growth

- Population growth (though slower) and some recovery in income growth

'Underlying' growth in sheepmeat consumption 2015-2020

Due to projected population & income growth alone (if no price rise)



Source: Weeks Consulting Services



Global sheepmeat still has a bright future

1. Steady demand growth (>2.4%/year)

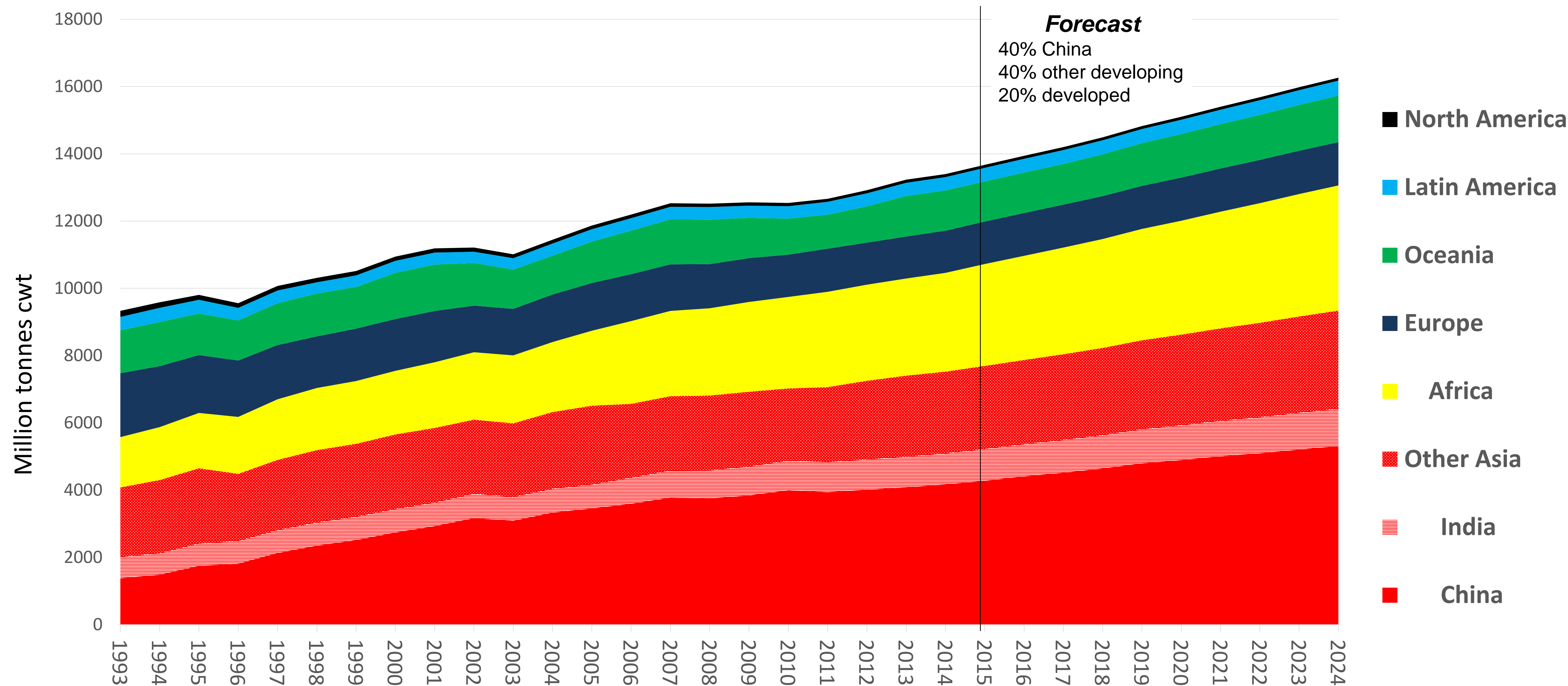
- Population growth (though slower) and some recovery in income growth
- Especially in developing world led by China & India
- Faster growth in Muslim & Hispanic populations
- Expansion of modern retail, foodservice & cold storage in developing countries
- The recent easing of import barriers (especially into China)



Can global sheepmeat supply keep up with demand?

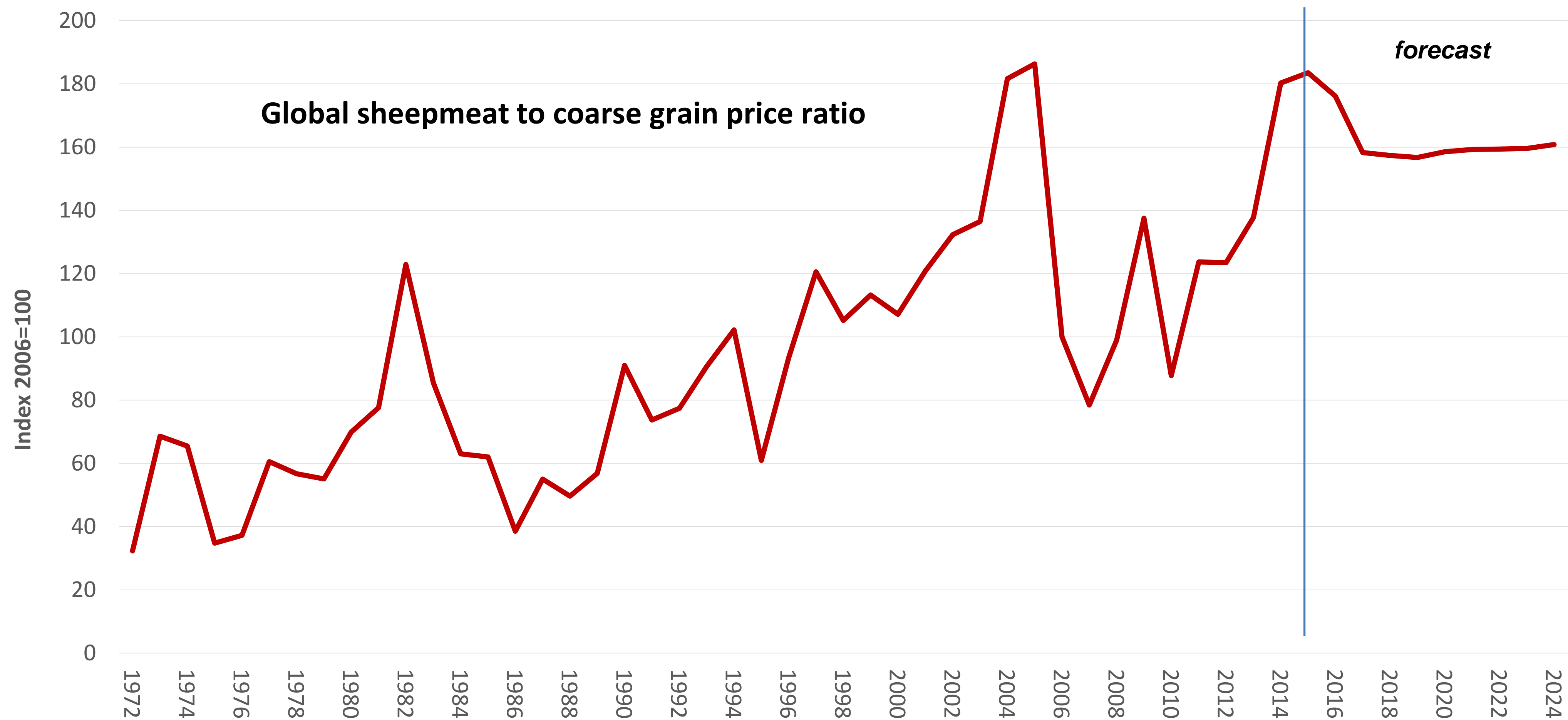
Production growth is expected to improve to 1.9%/year

(OECD-FAO 2015-2024)



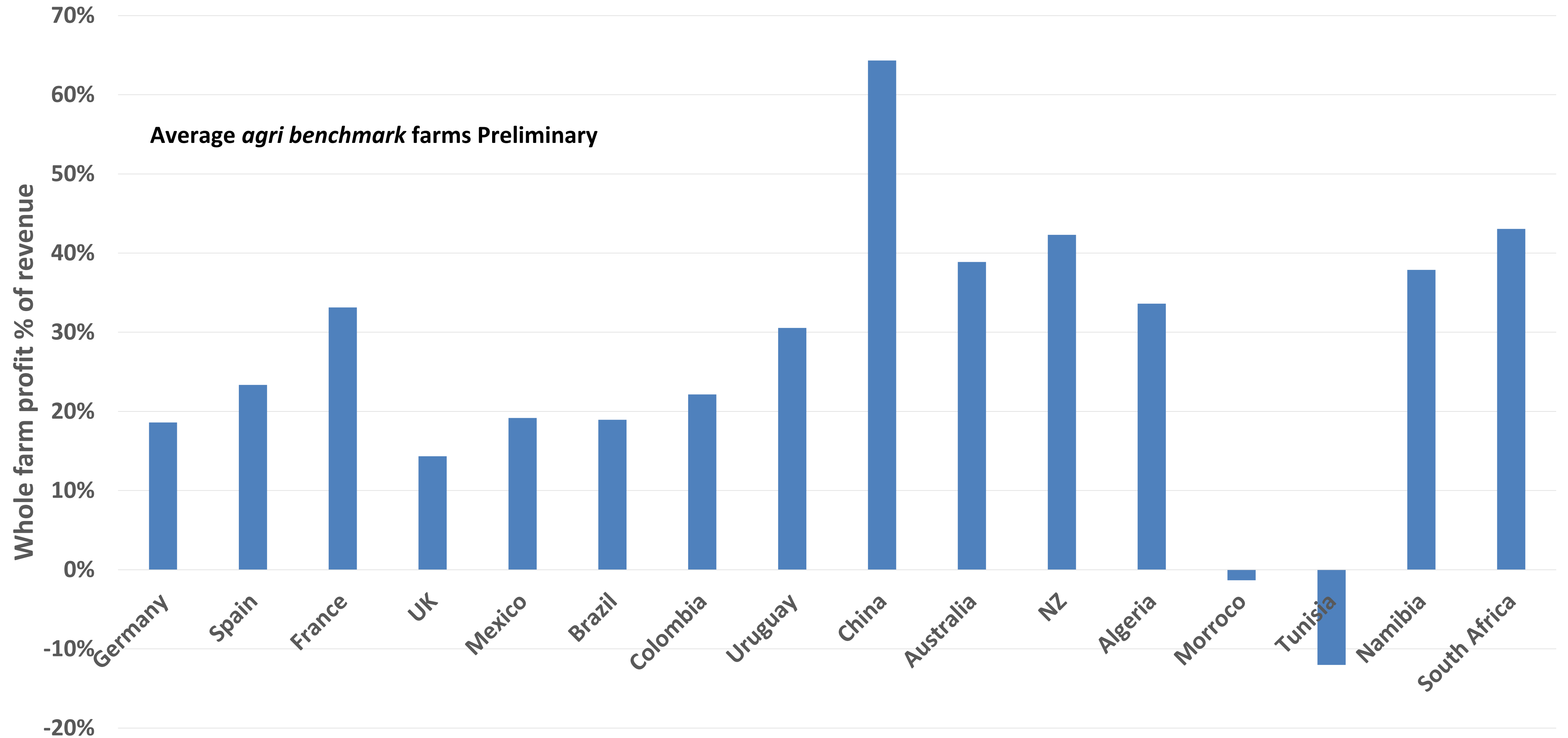
Source: OECD-FAO Agricultural Outlook 2015-2024 database

Sheepmeat to grain price ratio to remain high



Source: OECD-FAO Agricultural Outlook 2015-2024 database

Sheep farms still profitable in 2015

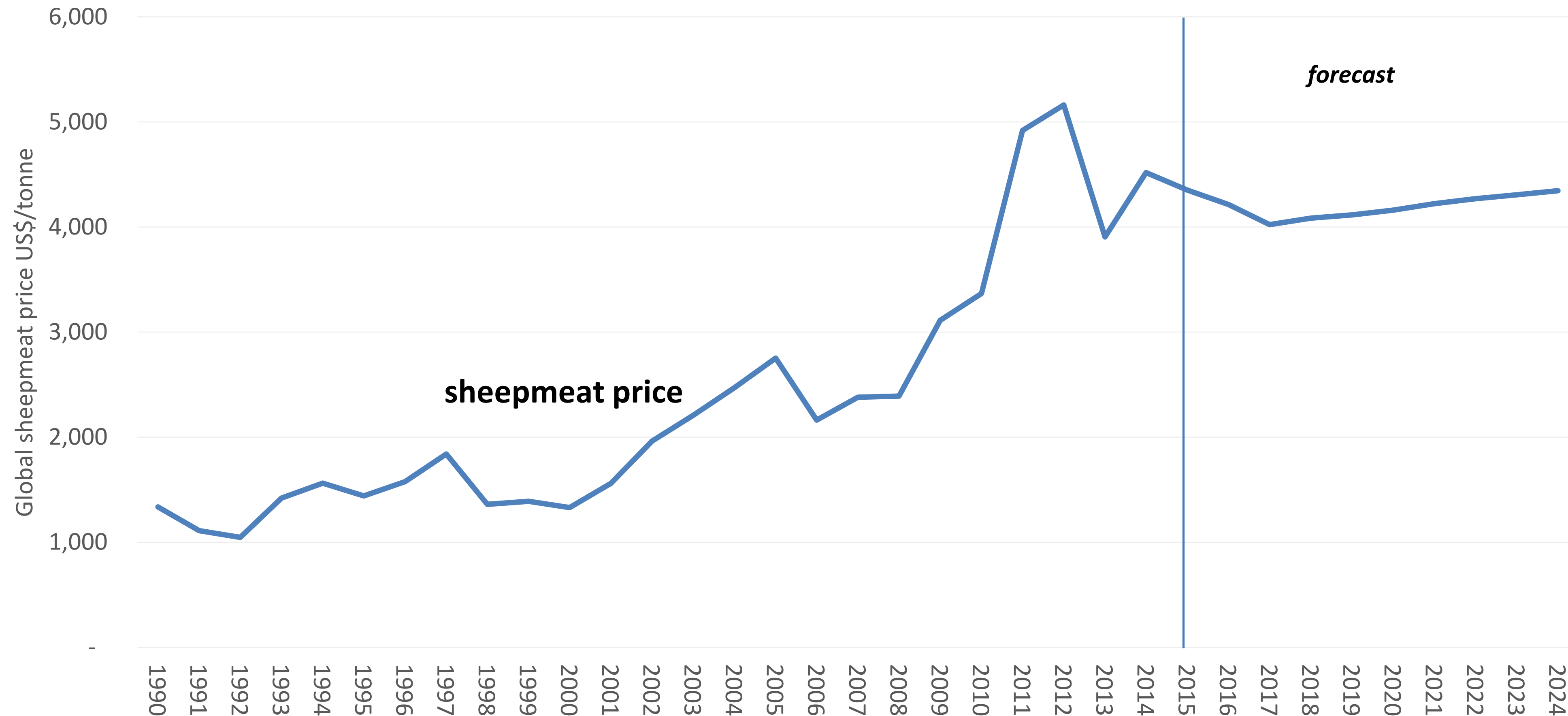


Global sheepmeat still has a bright future

1. Steady demand growth (>2.4%/year)
 - Population growth (though slower) and some recovery in income growth
 - Especially in developing world led by China & eventually India too
 - Growth in Muslim & Hispanic populations
 - Expanding modern retail, foodservice & cold storage in developing countries
 - The recent easing of import barriers (especially into China)
 - Price resistance to lower consumption (per person) in developed world
2. Improved growth in global sheepmeat supplies (OECD-FAO 1.9%/year)
 - Due to good profitability
 - Productivity growth
 - Only slow production growth in China, and well short of demand rise
 - Resource constraints & environmental restrictions mentioned earlier
 - Modest growth in exports from Australia, and little prospect of significant export expansion from NZ or elsewhere

Sheepmeat prices to remain historically high

though not in real terms



Source: OECD-FAO Agricultural Outlook 2015-2024 database

Critical issues and threats

- Consumer affordability, especially relative to poultry & pork
- Climate change
 - Is the last 15 years of extremes an aberration or the new norm?
- Environmental constraints/restrictions
- Food safety and animal health
- Political and religious upheavals
- The China factor

China imports critical

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WORLD

SUNDAY, MAY 29, 2016
THE SUN-HERALD

China urges citizens to eat less meat

■ **Chelsea Harvey**

An updated set of dietary guidelines released by the Chinese government and applauded by environmentalists could affect Australian exports.

The new recommendations have the potential to reduce China's meat consumption, or at least slow its growth, which could help save land and water resources and put a substantial dent in global greenhouse gas emissions.

Australian beef sales to China surged sixfold in three years to a

record \$917 million in 2015, data from Meat & Livestock Australia shows. The volume of beef shipped to China rose more than four times over the same period while the price received for the exports is up 37 per cent in the past 12 months.

China's annual meat consumption is about 62 kilograms per capita; the dietary guidelines would limit it to about 27 kilograms.

Yet according to the UN's Food and Agriculture Organisation, meat and dairy consumption in China is expected to keep increasing over the next few decades.

SHEEPMEAT: unique, niche with a bright future

Questions?

