



# ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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## SHEEP AND LAMB SITUATION AND PRICE OUTLOOK

Until 2004, the U.S. sheep and lamb industry suffered from modest year-to-year declines in the total number of sheep and lambs despite industry efforts. However, strong feeder and slaughter lamb prices combined with improved pasture and range conditions, prompted modest flock rebuilding with a year-to-year increase as of January 1<sup>st</sup> in the total sheep inventory number in 2005 and again in 2006.

As of January 1, 2006, the USDA's National Agricultural Statistics Service reported that the U.S. sheep and lamb inventory totaled 6.23 million head, a yearly increase of 95 thousand head or 1.5 percent, with the number of breeding sheep up 2 percent from last year. The number of lambs held for replacement purposes was also above a year ago indicating continued expansion of the U.S. sheep flock into 2007.

Feeder and slaughter lamb prices are projected to weaken in 2006 and 2007. Of course, how much prices decline will depend on a variety of factors that influence supply and demand. Although the number of market lambs was reported at one percent below a year ago as of January 1, 2006, U.S. lamb slaughter is projected to increase in 2006. In addition, U.S. lamb and mutton imports are forecast to rise in 2006, while U.S. supplies of total red meat and poultry will also increase above a year ago. Demand for lamb by consumers in 2006 and 2007 will be challenged some by lower competing meat prices.

### A Review of 2005

Despite the modest increase in the breeding herd, commercial lamb slaughter in 2005 was smaller than a year earlier. Federally Inspected (FI) sheep and lamb slaughter in 2005 totaled 2.6 million head, down about 5 percent from 2004's and 19 percent below the prior five-year average (1999-2003). FI lamb and yearling slaughter at 2.4 million head was down 4 percent from 2004 and 9 percent below 2003. Mature ewe slaughter in 2005 totaled 130 thousand head, 12 percent lower than 2004's due to modest ewe retention in the U.S. sheep flock.

In 2005, lamb production posted another year-to-year decline, falling to the lowest tonnage level reported. However, lamb production did not decline as much as slaughter in 2005 due to heavier dressed weights. As expected, average dressed weights for lambs posted a yearly increase of one pound to 69 pounds in 2005. Dressed weights were actually down a pound in the first quarter but were heavier than 2004's for the remainder of the year. For calendar year 2005, commercial lamb production totaled 187.3 million pounds, down 3.6 percent from 2004's and 16 percent below the prior five-year average (1999-2003). On a quarterly basis, lamb production seasonally peaked in the first quarter in anticipation of the Easter holiday, then declined during the spring and summer quarters. Of note, on a percentage basis, lamb production posted the largest year-to-year decline in the first quarter.

For the year on a per person basis, U.S. lamb consumption (retail weight) totaled 1.06 pounds in 2005, down from 1.13 pounds in 2004. The decline in per capita consumption can be attributed to a smaller domestic lamb supply and larger year-end lamb stocks (i.e. cold storage). Per capita consumption (retail weight basis) in 2005 was the smallest on record, but was only slightly below 1997's (1.08 pounds per person).

The U.S. remained a net importer of lamb and mutton products on a meat tonnage basis in 2005. In response to continued declines in the U.S. sheep flock, imports from both Australia and New Zealand have continued to grow during the past decade. In fact, U.S. imports were equivalent to 94 percent of total U.S. lamb production in 2005. In 2005, U.S. imported a record 144.2 million pounds (carcass weight basis) of lamb meat, about one percent above 2004's. Lamb imports from Australia were record large in 2005, up 20 percent from the prior year whereas imports from New Zealand were down 24 percent from the record import tonnage set a year earlier. Australia accounted for a larger share of total lamb imports in 2005 at 68 percent versus 57 percent in 2004. U.S. imports of mutton in 2005 were down about 6 percent due to a significant yearly decline in imports from New Zealand.

U.S. exports consist primarily of live sheep (slaughter lambs, slaughter ewes and breeding sheep) to Mexico. Exports to Mexico consist mostly of slaughter ewes, which accounted for all live sheep exports in 2004 and in 2005. In 2005, the U.S. exported a totaled just over 78.4 thousand head versus 83.2 thousand head in 2004. That is a 6 percent yearly decline and not unexpected given producers modestly expanded the flock during 2004 and 2005.

For the calendar year of 2005, slaughter and feeder lamb prices set new price highs. On a quarterly basis, both feeder and slaughter lamb prices peaked in the second quarter and then seasonally declined with prices hitting a yearly low in the fourth quarter. Texas feeder lambs peaked at \$133.95 per cwt. in the second quarter but then declined to \$125.49 per cwt. in the last quarter. For the calendar year, feeder lamb prices averaged \$130.42 per cwt., 8.6 percent higher than 2004's and \$22.83 per cwt. above 2003's average price.

Western Direct slaughter lamb prices (carcass basis) were above \$200 per cwt. during the first three quarters of the year, with a high price of just under \$211 per cwt. in the second quarter. However, prices seasonally declined in the fourth quarter, falling to \$186.44 per cwt., which was still 3 percent above 2004's. For the calendar year, slaughter lamb prices averaged \$204.02 per cwt. compared to \$188.38 per cwt. in 2004, 8.3 percent higher and 34 percent above the prior five-year (1999-2003) average.

The lamb cutout (wholesale) value was also quite strong in 2005, not falling below the prior year until the end of December. Below year ago slaughter numbers were key in supporting wholesale lamb values in 2005. On a weekly basis, the lamb cutout value averaged \$251.79 per cwt. in 2005 versus \$224.29 per cwt. in 2004, a 12 percent year-to-year gain in value. Compared to the prior five-year average (1999-2003) the lamb cutout value averaged 29 percent or about \$57 per cwt. higher in 2005. The cutout value seasonally peaked in late March in the low \$270's per cwt. range, and then modestly declined throughout the remainder of the year. The lamb cutout value is primarily supported by the primal loin and rib. In 2005, the rib was well above a year ago, up 28 percent and the key driver behind the cutout value. However, the loin was actually down about 5 percent in 2005, despite improvement in the second half of the year. In fact, all carcass primals except for the loin and foreshank averaged well above 2004's.

## **Outlook for 2006**

Looking ahead, the key factors that will impact the sheep and lamb industry in 2006, will be an annual increase in U.S. lamb slaughter, lamb imports particularly from Australia, and consumer demand. The larger supply of lamb combined with larger competing meat supplies will negatively impact feeder and slaughter lamb prices in 2006, both forecast to be well below the record high prices of 2005.

U.S. commercial lamb slaughter in 2006 is expected to increase 2 percent from 2005's. On a quarterly basis, lamb slaughter will seasonally post the largest yearly increase in the first half of the year with both first and second quarter slaughter 2 to 3 percent higher than 2005's. Lamb slaughter is forecast to seasonally decline in the second half of 2006, but still average 1 to 2 percent above 2005's. The yearly increase in lamb slaughter combined with an increase in lamb weights suggests domestic lamb production could post a 2 to 3 percent annual gain in 2006. Lamb production is forecast to be up about 4 percent in the first quarter in anticipation of the Easter holiday. Lamb production will moderate in the remainder of the year, with quarterly production increases expected to be in the 2 to 3 percent range.

Lamb prices in 2006 are projected to be below 2005's due to larger supplies of both domestic and imported lamb. Preliminary forecasts call for Texas feeder lambs to be down 14 to 15 percent below the record prices set in 2005. On a quarterly basis, Texas feeder lamb prices are projected to be down about 14 to 16 percent from 2005's in each quarter for 2006. Feeder lamb prices will be strongest in the first half of the year and then post modest seasonal declines for the duration of 2006. Nonetheless, feeder lamb prices will likely average above \$100 per cwt. in 2006.

Western Direct slaughter lamb prices (carcass basis) are expected to post similar price declines in 2006. Slaughter lamb prices are projected to be down 11 to 13 percent from the record prices set in 2005 during the first half of the year. The largest year-to-year decline in slaughter lamb prices is forecast in the second and third quarters with a more modest 4 to 6 percent drop in the fourth quarter. For the year, slaughter lamb prices are forecast to be 10 to 11 percent below 2005's; the first time prices have posted a yearly decline since 2001.

### **Looking Ahead into 2007**

The U.S. sheep industry is expected to have achieved consecutive year-to-year increases in slaughter and production in 2007, following two years of modest flock expansion. The last time the sheep industry was in this situation was in the early 1990s, when sheep slaughter and production posted year over year increases in 1989, 1990 and 1991. As in 2006, larger supplies of lamb combined with expectations for further yearly increases in competing meat supplies will dampen slaughter and feeder lamb prices in 2007. Increasingly, a key to domestic competing supplies will be how much U.S. beef, pork, and chicken exports change in response to outside factors in 2007.

In 2007, commercial lamb slaughter is forecast to post a modest one percent yearly increase, with production up 2 to 3 percent due to heavier average lamb dressed weights. Preliminary forecasts call for Texas feeder lamb prices to be about 6 percent lower in 2007. In fact, feeder lamb prices may fall below \$100 per cwt. in 2007. Western Direct slaughter lamb prices are forecast to also average about 6 percent below 2006's.

