



ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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SHEEP AND LAMB: SITUATION AND OUTLOOK

During the second half of 2001 and well into the second quarter of 2002, lamb prices were depressed due to several factors. Since last summer, slaughter lamb prices have been well above a year earlier. Still, recent slaughter lamb prices have only matched longer-term (1996-2000) averages and feeder lamb prices remain below the previous 5-year average. Even though there are some recent positive trends in the industry, several negative factors have caused the persistent decline in the U.S. breeding flock to continue in 2002.

The outlook is for year-to-year increases in lamb prices for the balance of this year and likely into next year also. But, as is especially true in this industry, price pressure can return rather quickly. Two keys to prices in 2003 will be: 1) whether or not lamb feeders fall back into the trap of over finishing slaughter lambs and 2) the level of lamb imports from Australia and New Zealand.

Inventory Numbers and Slaughter

As of January 1, 2002, USDA's National Agricultural Statistics Service^{1/} reported there were 6.7 million head of sheep, 4 percent below 2001's. Since 1990, the last time the total U.S. sheep and lamb inventory posted a year-to-year increase, the number of sheep has been shrinking at an average rate of 4.3 percent per year (a decline of about 4.7 million head each year).

^{1/} For the balance of this article USDA will be used to refer to United States Department of Agriculture, National Agricultural Statistics reported data.

The inventory of ewes one year and older reported on January 1, 2002 was 3.98 million head, down 3 percent from 2001. As of July 1, 2002, USDA estimated the number of ewes one year and older at 2 percent below the previous year. The decline in the breeding herd has resulted in a smaller number of lambs available for slaughter. Total Federally Inspected (FI) sheep and lamb slaughter in 2001 was down 7 percent from 2000's. During the first eight months of 2002, FI slaughter was up less than one percent from the same period last year.

On January 1, 2002, the total number of market lambs and sheep reported was 1.7 million head; that was down 221 million head from 2001. The decline in the number of market lambs would be expected to translate into an 11 percent decline in the number of sheep available for slaughter. During the first six months of 2002, FI lamb slaughter was at 1.5 million head, less than one percent above the same period last year. In August, FI lamb slaughter was down 5 percent from the same month last year. The slight change in slaughter numbers in the third quarter coincided with normal seasonal slaughter patterns, but is also reflected in smaller supplies of market lambs.

Looking ahead to the January 1, 2003 inventory of sheep and lambs, forecasts suggest that recent trends will continue. Mature sheep disappearance, a key indicator of change in the breeding flock, includes two major factors: 1) cull ewe sales to Mexico (discussed below) and 2) mature sheep slaughter in the U.S. These factors indicated

reductions in the U.S. breeding flock continued in 2002. Also, timely marketings of slaughter lambs in late 2002 should result in fewer heavyweight market lambs carried over into 2003. So, as has been the case in recent years, USDA's reported year to-year percentage decline in breeding flock and market lambs will likely be larger as of January 1 than indicated in the prior mid-year (July 1) report. Preliminary estimates suggest that the U.S. total sheep and lamb inventory on January 1, 2003 may be down 4 to 5 percent from a year earlier. Regionally, improved pasture and range conditions in Texas during 2002 compared to a year earlier may result in smaller declines in sheep and lamb numbers in Texas compared to the drought stricken Western states.

Weights and Production Decline

Last year, beginning in the second quarter of 2001, the lamb industry was plagued with over-finished (excessively fat and old) slaughter lambs. Producers held back market ready lambs in anticipation of a summer price rally that never materialized. After September 11, 2001, over-finished lambs combined with difficulties in the "white table cloth" restaurants helped to perpetuate slow marketings and heavy weights.

Unlike the large dressed weights seen last year due to feeders holding lambs back in hopes of better prices, average dressed weights this year have fallen to a more normal level. The FI average dressed weight in 2001 was 70 lbs, two pounds above the prior year. During 2002, FI dressed weights have fallen from a high of 70 lbs in January to 64 lbs in August. So far this year, dressed weights on average are three pounds lower than for the same period last year. In a normal year, weights usually drop in July and August and then moderately increase for the remainder of the year. Given current pasture and range conditions, weights may not increase as sharply during the fourth quarter as seen in past years.

The decrease in dressed weights coupled with a modest decline in slaughter has resulted in a modest decrease in lamb production. Total lamb and mutton production

during the first eight months of 2002 was 1.38 million pounds, about 5 million (3 percent) pounds less than the same period in 2001.

International Trade

From January to July of this year, exports of live sheep (slaughter lambs, slaughter ewes, and breeding sheep) totaled 234 thousand head. That was a 22 percent increase over the same period in 2001. Almost all of the live sheep exported by the U.S are cull ewes for slaughter and were, as usual, shipped to Mexico. In fact, from January through July the U.S. shipped 233 thousand head of slaughter ewes to Mexico, an increase of 41 thousand head from last year. The greatest contributor to the export mix has been slaughter ewes. Based on preliminary weekly data, the total number of slaughter ewes exported by the U.S. to Mexico from January through September of this year was about 266,578 head, an increase of 10,679 head from a year ago. There is no question as to the importance of the Mexican market to the U.S. sheep industry as it is providing an outlet for those sheep that lack a demand in the U.S. market.

The live sheep import market is relatively small but it has experienced moderate growth over the past five years. In 2001, live sheep imports for the first seven months was around 60 thousand head. For the same period this year, imports were 80 thousand head, a 34 percent increase. All imports so far this year have been from Canada and given the current drought situation, it would not be a surprise to see a large increase in imports this year over last year.

On a different front, the U.S. international trade for lamb and mutton meat has increased both on the export and import side. From January to July, lamb and mutton exports were up 84 thousand pounds on a carcass weight basis (a little over 2 percent) compared to last year. Lamb and mutton imports continue to grow. From January through July of this year, U.S. imports from Australia and New Zealand totaled 73,193 thousand pounds on a carcass basis, over 7 thousand pounds (11 percent) more than

2001's. Overall, in terms of lamb meat tonnage in the domestic market, lamb and mutton imports have generally been compensating for the decline in U.S. production.

Recent Price Trends

For the week ending January 4, the lamb cutout value (carcass value less processing costs) was reported at 132.36 \$/carcass. During the first week of October the cutout value was at 163.51 \$/carcass. During mid-June, the cutout value jumped 6 percent from 134.42 to 142.46 \$/cwt, and has continued to remain strong since. This increase can be attributed to the seasonal decline in the supply of lamb available after the Easter holiday, in addition to lighter weight lambs.

The primal rib and loin are the main drivers behind the cutout value. As weights have dropped, the pounds available have also declined. In terms of price, this has resulted in a steady increase in the value of the primal rib. The primal loin has also seen a moderate increase, but it appears to be more sensitive to available supplies, dropping off recently due to an increase in poundage.

During the first and second quarters, the three-market average slaughter lamb price was down 21 and 12 percent from 2001. However, prices began to rise above 2001 prices late in the second quarter. For the third quarter, slaughter prices were on average 54 percent higher than last year for the respective period. This improvement in slaughter prices increased feeder lamb prices in the third quarter. On a live basis, the four-market average feeder lamb price during the first two quarters of this year were 23 and 22 percent below 2001, respectively. During the third quarter, slaughter prices on average were 12 percent higher compared to last year.

Another factor that has contributed to better slaughter lamb prices has been pelt prices. The August number 1 pelt price was \$12.47, \$2.54 (25 percent) greater than last years price. On average, pelt prices have been above 2001 prices being 11 percent higher during the first eight months, which has helped lamb prices this year. It is more than

likely pelt prices will be above last year in the fourth quarter, which should support lamb prices into next year.

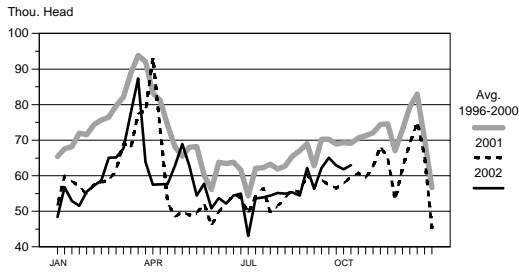
Outlook

Several factors have improved for the U.S. sheep industry compared to earlier this year: 1) wool prices have improved significantly; 2) lamb feeders have seen the huge positive impacts of not over finishing lambs; and 3) pork and poultry production prospects for the balance of 2002 and 2003 have moderated significantly. In terms of feeder lamb prices, a positive factor, is that feed grain prices may not be as high as projected just a few weeks ago. Still, the U.S. industry faces uncertainty about competition from overseas and the quantity of imported lamb.

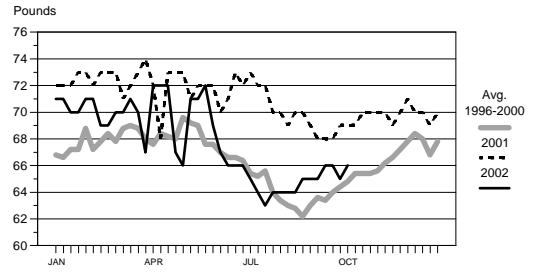
Projections into 2003 and 2004 suggest that the number of mature ewes should decline modestly (about 2 percent) each year. As the sheep industry consolidates, the industry will continue to gain in efficiency as evidenced by above 100 lambing percentages over the past five years. However, despite this trend, the overall decline in numbers will tighten the supply of market lambs available for slaughter by 3-5 percent in 2003.

Given smaller supplies of slaughter lambs, if lamb feeders continue to market lambs at normal weights, and favorable conditions in the pelt market hold, prices should at least hold steady for feeder and slaughter lambs. On a year-to-year basis, the largest lamb price increases for slaughter lambs are expected to be much larger in the first half of 2003 than in the second half of the year. In contrast, feeder lamb prices may post rather consistent year-to-year price increases throughout 2003 if feedstuff prices do not skyrocket. In the first half of 2003, slaughter lamb prices, on a dressed basis, are forecast to be in the \$140's and \$150's (up 15 to 25 percent from a year earlier). In most of 2003, feeder lamb prices, on a live basis, may average in the \$80's and low \$90's in the Texas auctions (70 to 90 pound).

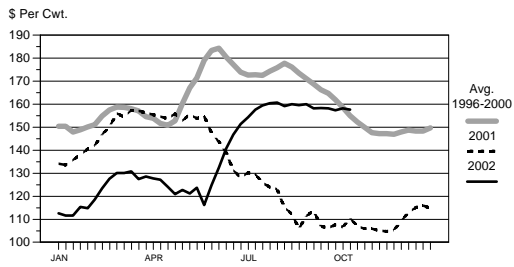
SHEEP AND LAMB SLAUGHTER
Federally Inspected, Weekly



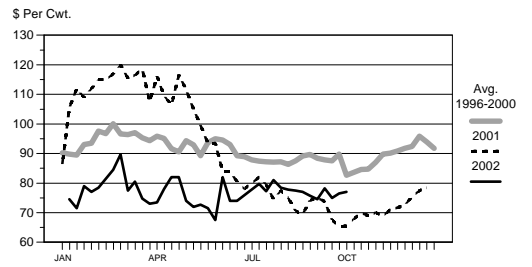
LAMB AND YEARLING DRESSED WEIGHT
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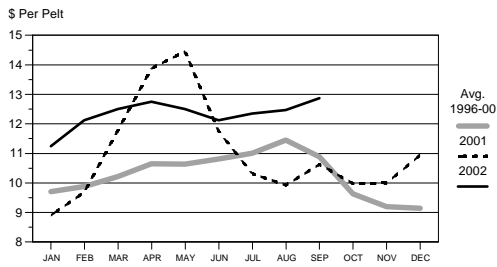
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Western (Colorado) Direct, Hot Carcass, Weekly



FEEDER LAMB PRICES
70-90 Lbs., San Angelo, TX Auction, Weekly



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COMMERCIAL LAMB AND MUTTON PRODUCTION
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