

Sheep: 2002 in Review and Perspectives on 2003

Sheep inventory and lamb and mutton production declined further in 2002, despite efforts to rebuild the herd through the Lamb Industry Improvement Program, and the re-institution of the wool payment program. Drought conditions in the major sheep-producing regions contributed to an even greater decline in inventory than in recent years, despite the rebuilding effort.

Production Down and Prices Stable

Commercial lamb and mutton production in 2002 fell to 218 million pounds, a decline of 5 million pounds from 2001. Despite lower production, sheep and lamb slaughtered in 2002 exceeded the previous year's slaughter by 64,200 head. In 2002, there was less of a problem with overweight lambs than in 2001. This was evidenced by the lower average live and dressed weights in 2002. On average, live slaughter animals were more than 7 pounds lighter while dressed animals were nearly 2 pounds lighter than in 2001.

Despite low production throughout 2002, prices were steady. Choice slaughter lamb prices at San Angelo averaged \$72.31 per cwt, up 27 cents per cwt from the previous year. Prices ranged from \$64 per cwt to about \$87 per cwt and the price variability was less than the previous year. The lowest prices were seen in the first half of 2002. As supplies tightened in the third and fourth quarters, prices increased considerably. The West Coast dock strike in late September and early October may have contributed to the price increase in the second half of the year, as lamb and mutton imports from Australia and New Zealand were below normal during this period.

Lamb and Mutton Trade Gap Continues To Widen

The lamb and mutton trade gap continued to widen with net imports totaling 155 million pounds in 2002. Lamb and mutton imports were 162 million pounds, up 11 percent from the previous year and double from 1997. U.S. lamb and mutton imports have surged for the last several years, largely to

offset decreased lamb and mutton production. Australia and New Zealand supply 99 percent of all imported lamb and mutton to the United States. Imports of lamb and mutton from Australia and New Zealand increased by 0.5 percent and 23 percent over 2001. Australia experienced drought conditions, which resulted in flock liquidation and hindered their production of heavy prime lamb geared for the U.S. market.

On the other hand, U.S. exports of lamb and mutton in 2002 were 7.1 million pounds, up 7.4 percent over the previous year. Persistent drought conditions in the Western States resulted in higher than normal selloff and slaughter of breeding ewes, especially in the summer and early fall of 2002, which meant increased mutton exports. Mexico was the main recipient of U.S. exports of lamb and mutton.

Live Sheep Trade Gap Narrows

The United States remained a net exporter of live sheep in 2002, though the live trade gap is narrowing. Net exports decreased by 32,848 head or 11 percent to 266,543 head, a decline for 5 straight years. Interestingly, over those 5 years, both live sheep exports and imports have increased, but the rate of live import increase far outweighs the rate of live sheep export increase. In 2002, live sheep exports increased by 21,272 head, or about 6 percent, while live imports increased by 54,120 head or about 64 percent. Imports come primarily from Canada and are mainly slaughter lambs while exports go mainly to Mexico and are culled ewes. Most of the lambs from Canada go to U.S. slaughter facilities to utilize excess capacity. Mexico is an attractive market for U.S. culled ewes, which are a source of cheap protein.

Programs for Sheep Producers

The sheep industry has been involved in a number of improvement efforts. Among them is a 3-year, \$100 million, Lamb Industry Assistance Package, instituted by USDA in January 2000 to help the industry rebuild herds so as to better compete in the global economy. The package included four major elements: direct payments to producers; animal health; marketing and promotion; and government

purchase of lamb meat. The assistance package was designed to create a sheltered period during which the domestic lamb industry could make positive adjustments to import competition.

As part of the Lamb Meat Adjustment Payments, producers were provided with a ewe lamb incentive payment. The incentive payments were to help ewe lamb producers who were suffering financial losses from the poor market conditions. Eligibility required that producers purchase or retain new lambs to expand their herd from August 1, 2001, to July 31, 2003.

The Agricultural Marketing Service issued a final rule, effective April 12, 2002, on establishing a national industry Lamb Promotion, Research, and Information Order, under the commodity Promotion, Research, and Information Act of 1996. The Order provides for the industry-funded lamb promotion, research, and information program. The program will provide for an industry board to carry out promotion, research and information programs, designed to increase the demand for lamb and lamb products. Under the program, lamb producers, seed-stock producers, feeders, and exporters will pay an assessment of one-half cent per pound when live lambs are sold. The first handlers, primarily packers, will pay an additional 30 cents per head of lamb purchased for slaughter.

Also, with the signing of the new Farm Security and Rural Investment Act of 2002 on May 3, 2002, a wool and mohair program was re-instituted. The new program provides nonrecourse market assistance loans for the 2002 through 2007 crop years for wool and mohair. The loan rates are

\$1.00 per pound for graded wool and \$0.40 per pound for non-graded wool in the form of unshorn pelts. This provides an opportunity for producers to procure loans at reasonable rates using the wool they produce as collateral.

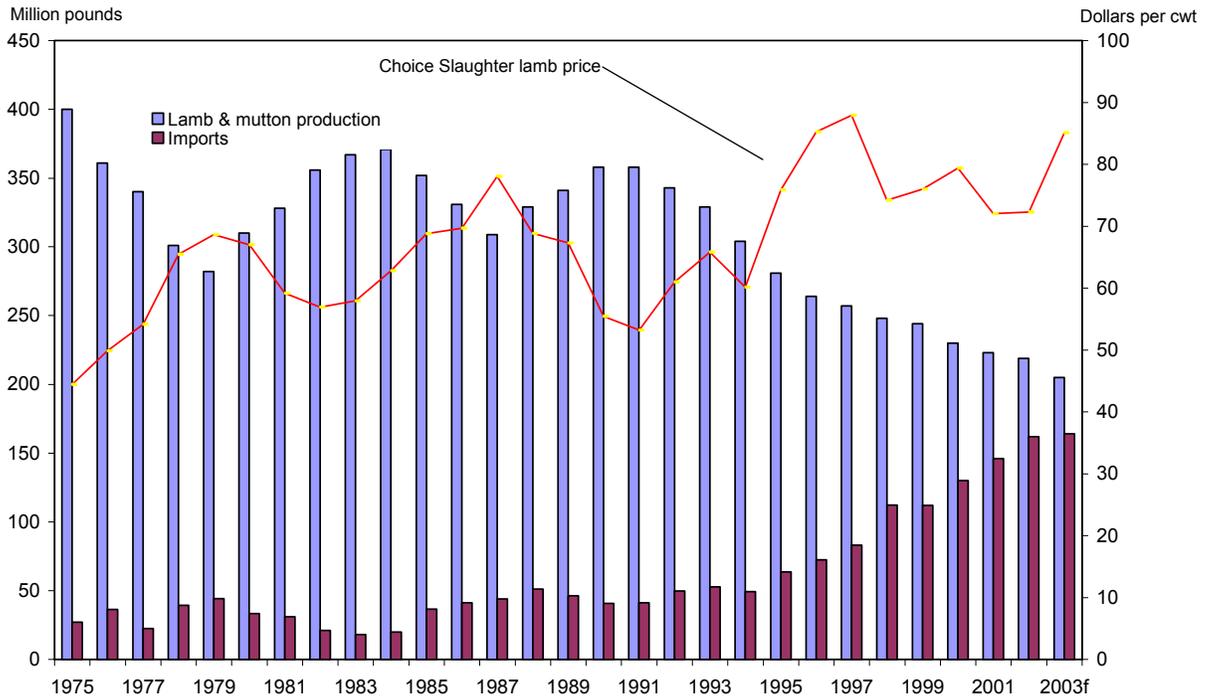
Outlook for 2003

The U.S. sheep industry is forecast to continue its long-term trend of declining lamb and mutton production, with an expected drop of nearly 8 percent in 2003. Fairly stable U.S. lamb demand, coupled with low supply from Australia, the largest supplier to the U.S. market, will continue to support lamb prices. Lamb prices in 2003 are expected to average \$83-\$85 per cwt, compared with \$72 last year.

After declining by 5 percent from the previous year to an estimated 6.35 million head in January 1, 2003, sheep numbers are projected to continue to decline throughout 2003. The drought conditions of 2002 will continue to delay flock rebuilding efforts.

Imports are expected to increase by nearly 2 percent. The slowdown in the rate of increase over the past 2 years (12.5 percent in 2001 and 11.2 percent in 2002) is largely due to the drought conditions in Australia throughout much of 2002. This resulted in stock liquidation in Australia and the inability to produce extra-heavy lambs for the U.S. market. As a result, even with improved weather conditions in 2003, it will be difficult for Australia to rebuild its stock in time to significantly increase its depressed supply. Australia supplies nearly 60 percent of the lamb and mutton imported into the U.S.

Production, imports, and Choice slaughter lamb prices, 1975-2003



Monthly Lamb and Mutton, 2001 and 2002

	Mean		Minimum		Maximum		Coefficient of Variation	
	2001	2002	2001	2002	2001	2002	2001	2002
Prices								
Prices received by farmers for lamb (\$/cwt)	67.56	73.34	51.4	64.4	84.3	87.2	18.29	10.05
Slaughter lambs, Choice price, San Angelo (\$/cwt)	72.04	72.31	54.47	64	87	86.88	16.85	9.85
Production								
Commercial sheep and lamb slaughter (1000 head)	269	274	233	231	329	324	10.15	8.26
Commercial lamb and mutton production (million pounds)	18.58	18.16	16	15.1	23	22.2	10.64	9.74
Avg. dressed wt. of sheep and lambs slaughtered (pounds)	70.33	67.58	68	64	72	70	1.77	3.28
Imports								
Lamb imports from Australia (million pounds)	5.648	5.675	3.771	3.941	8.252	9.598	22.98	24.39
Lamb imports from New Zealand (million pounds)	3.298	4.042	1.801	3.078	5.023	5.011	29.53	15.78
Total lamb imports (million pounds)	9.014	9.751	5.606	7.065	12.146	14.668	22.61	19.26
Exports								
Total lamb and mutton exports (1000 pounds)	543.33	591.75	226	269	893	998	33.96	35.21