

First-Quarter 2014 Sheep Industry Review

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ASI



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Executive Summary

Lamb markets rebounded strongly from last summer, but during the first quarter of 2014 price gains lost momentum in the feeder, slaughter and wholesale markets. Many markets saw prices weaken between February and March, an unseasonable surprise. By comparison, retail prices in features held relatively steady over the past year with minimal gains and beef prices continued to charge upward. The slowdown is a puzzle and explained perhaps by wavering consumer confidence in lamb quality and international pressures.

There was some concern by late March that weaker prices was a harbinger for a slow down in lamb marketing. Typically old crop lambs are “cleaned” up in late spring in a timely manner before the new crop (fall-born Californian lambs) are ready for market. In a seasonally slow period after Easter there is some concern that fresh lamb supplies might get backed up.

Feeder and Slaughter Lamb Prices Up Quarterly

The 3-market feeder lamb auction price saw a 20-percent quarterly jump to \$223.84/cwt., up 50% year-on-year. In direct trade, feeder lambs averaged \$190.68/cwt. in the first quarter, up 10% quarterly, and up 74% year-to-year. By March, however, prices in direct trade had fallen and auction gains slowed sharply.

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Live, slaughter lamb prices at auction gained 38% quarterly to \$162.06/cwt., 5-percent higher quarterly and 48% higher year-on-year. Slaughter lamb prices on a carcass-based formula averaged \$300.10/cwt. (\$150.05/cwt. live-converted), up 9% quarterly and up 33% year-on-year. Slaughter lambs in live, negotiated sales averaged \$159.56/cwt. in the first quarter, up 7% quarterly and up 38% year-on-year. Again, auction averages dropped and formula gains slowed in March.

In the Meat Market

The gross carcass value (wholesale composite) averaged \$368.39/cwt. in the first quarter, up 11% quarterly and 26-percent higher year-on-year. Sharp fourth-quarter gains in lamb primals moderated by the first quarter.

The rack surpassed \$8 per lb. in the first quarter for the first time since early 2012. The rack averaged \$817.17/cwt., up 21% quarterly and up 60% year-on-year. By the first quarter, the loins was still not breaking \$5 per lb. Loins, trimmed 4x4, averaged \$481.35/cwt., up 1% quarterly and up 5% year-to-year. The leg saw an Easter boost: it averaged \$376.79/cwt., up 6% quarterly and up 17% year-to-year. The shoulder, square-cut, hit a 4-year high in the first quarter. At \$296.85/cwt., it was up 11% quarterly and up 23% year-on-year. Ground lamb averaged \$535.75/cwt. in the first quarter, up 3% quarterly and down 1% year-on-year.

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Margins

Profits are made and lost in the margin. Packer price spreads between the purchase and sell price of lambs gained through the first quarter as slaughter lamb prices came down and meat prices continued to moderate. The live to cutout spread was \$45.55 per head in the first quarter, up 27% quarterly and down 32% year-to-year. In late 2013 the gain in slaughter lamb values outpaced the growth in the cutout, putting pressure on margins.

In March, feeder margins were likely eroded for some from the robust margins enjoyed late last year. Feeders bought high-priced feeders, but come to market, slaughter lamb prices had weakened. Overall, steady corn likely supported margins to some extent. Corn averaged \$4.44 per bu. in the first quarter, down 0.45% and down 37% year-on-year.

What's Ahead

In the second quarter, all eyes will be on the pace of marketings, lamb quality and import volumes. There is a concern that if slaughter slows, the already-slow demand period will create a back-up in market-ready lambs and a growing freezer inventory.