

LAMB MARKET SUMMARY – JANUARY ISSUE

FEBRUARY 3, 2023

In late January, USDA's National Agricultural Statistics Service (NASS) released the annual sheep inventory report which confirmed expectations for a smaller lamb supply going into this year. Live lamb prices have strengthened, wholesale values continue to adjust, and production costs remain high. Inflation appears to be moderating and supply chains are improving, but there are still concerns of a slowing U.S. economy in 2023. Cold storage inventories at the end of 2022 were above year ago levels. Expectations are for live lamb prices to move higher as the year progresses but will rely on consumer demand recovery.

Sheep Inventory

As of January 1st, the sheep and lamb inventory totaled 5.02 million head, falling 0.9% or 45,000 head below last year and the lowest on record. The number of breeding sheep was 3.67 million head and ewes one year and older at 2.87 million head, both down 1% from the prior year. Replacement lambs totaled 635,000 head, which is equivalent to 22% of the ewe flock. Market lambs were 3,000 head higher than a year ago at 1.28 million head with declines in the number of lambs under 65 lbs. (-2.9%) and 65-84 lbs. (-2.1%), while lambs 85-105 lbs. rose 4.9% and over 105 lbs. were up 0.8% from a year earlier. The lower number of ewes led to a 2% (50,000 head) decline in the 2022 lamb crop from a year ago to 3.11 million head, the lowest on record.

Lamb Trade

Imports of slaughter sheep from Canada totaled around 31,500 head in 2022, based on weekly data reported by USDA's Agricultural Marketing Service (AMS). This would be the largest number of slaughter imports since 2003 and more than 4,000 head larger than in 2021. There are five processing plants approved to accept Canadian slaughter sheep, four of which are in the eastern region of the U.S. Drivers behind larger slaughter imports are smaller domestic supplies and demand growth in the ethnic market.

A stronger U.S. dollar compared to Australian and New Zealand currencies leads to more lamb imports. Changing exchange rates lead to changing relative prices in each country. While the U.S. dollar is historically strong, over the past two months the Australian and New Zealand currencies have appreciated, 6% and 7%, respectively. While the U.S. dollar appreciation has moderated recently, it is expected to remain strong in 2023.

Sheep and Lamb Prices

Feeder lambs sold on video markets in January ranged from the mid-\$130's per cwt. to \$160's per cwt. Lighter-weight lambs were on the higher end of the price range of reported sales. Lightweight slaughter lambs sold at auction markets serving the ethnic market reported prices over \$200 per cwt. in January. The National Negotiated Live Slaughter Lamb has been trending upward since November,

with January prices in the low \$130 per cwt. range, prices not seen since last August, still about \$1.00 per lb lower than a year ago and 17% lower than in 2021.

Wholesale lamb values were lower in January compared to a year ago, but still well above 2020 and 2021 values. The National Lamb Cutout Value (Gross Carcass FOB, 5 Day Rolling Avg) averaged \$5.40 per pound, in January, a little stronger than December, but down \$1.35 pound from a year ago. For January, all major cuts were down from last year with the largest price declines seen in the shoulder at \$3.58 per pound down 26%, leg (trotter-off) down 25% at \$4.60 per pound, and the loin (1x1) down 24% at \$7.30 per pound, while the rack (8-rib medium) and ground lamb averaged 17% and 11% lower respectively. The average cost for processing and packing costs for firms covered under USDA's Livestock Mandatory Price Reporting program increased over the past year from \$62.00 per cwt. to \$77.00 per cwt.

Consumer Trends

Retailers and restaurants kept lamb prices high in 2022. Based on retail circular prices published by USDA/AMS, the retail lamb feature price averaged \$9.65 per pound in 2022, an annual increase of a \$1.00 per pound and more than \$2.00 per pound higher than in 2020. Featuring of lamb cuts in weekly circulars was down slightly from 10.6% to 10.1% of the sampled stores in 2022. Retail lamb prices have remained elevated in 2023.

The December IRI survey showed inflationary pressure on income is real: 43% of consumers say their current financial situation is worse than last year. This has triggered money saving measures when buying groceries among 82% of Americans, such as buying items on sale (53%), cutting back on non-essentials (45%), looking for coupons (35%) and switching to store brand items (31%).

According to Restaurant Dive, trends that will shape the restaurant industry in 2023 include experimenting with dynamic menu pricing and catering to diners that are trading down. There may be new opportunities as many diners are still wanting a premium experience from their restaurants.

Looking Ahead

There is optimism for higher live lamb prices in 2023, but lamb imports and cold storage stocks will most likely constrain price growth. The Livestock Marketing Information Center (LMIC) is forecasting live lamb prices to improve as the year progresses, with above year-ago prices expected in the latter half of the year.

