

LAMB MARKET SUMMARY

JULY 15, 2022

Consumer prices continued to rise in June with the Consumer Price Index (CPI) posting a higher than expected 9.1% year-over-year increase driven by higher prices for gasoline, housing, and food. The Food Index has steadily increased each month since January and has risen 10.4% over the past year. While prices for fuel have moderated some in recent weeks, prices are expected to remain at elevated levels which inevitably will increase the cost of food. Consumers appear to be managing food price inflation for now, but expectations for continued inflation and an impending economic slowdown are likely to challenge consumer demand.

Sheep and Lamb Slaughter

Federally Inspected (FI) lamb and yearling slaughter for the month of June is estimated at 125,000 head, 2% below last year with year-to-date slaughter down around 11%. Typically, dressed weights trend lower through the third quarter before rising in the fourth quarter. Since early May, weekly lamb and yearling dressed weights have been averaging about 70 pounds, a counter seasonal move and higher than the 63-pound average during the same period last year. In June, higher weekly dressed weights have partially offset the lower weekly slaughter levels resulting in lamb production above year ago levels. Mature ewe slaughter continues to trend well below a year ago, down about 33% in June and 22% lower year-to-date. FI lamb and mutton production in June is expected to be around 5% higher than last year.

Since the start of the year, Colorado lambs on-feed have been tracking well above the prior year. Each month this year has seen lambs on-feed at levels that have not occurred in nearly four years. On July 1, the number of lambs on-feed in Colorado feedlots was 103,032 head, a 75% or about 44,000 head increase from a year ago and well above the five-year average of about 77,000 head. The last time lambs on-feed were higher for the month of July was 2018. The higher lambs on-feed is likely due to drought related issues, poor pasture conditions pushing lambs on-feed, and a slowdown in feedlot marketings in response to demand.

Lamb Imports

In May, lamb imports totaled 25.2 million pounds (carcass weight basis), 25% larger than last year and 42% higher than the 2016 – 2020 average. Mutton imports in May increased relative to April but were down 2% from a year ago. Total imports of lamb and mutton in May were up 18% from last year with the year-to-date import volume 21% higher. Meat & Livestock Australia highlighted the notable shift in the storage mode with frozen lamb exports rising by 37% year-over-year while chilled lamb exports declined by 10% in May.

The U.S. has become Australia's most valuable overseas market for lamb and high lamb prices is one factor behind the shift in the Australian flock from wool breeds to meat breeds. According to the Livestock Marketing Information Center (LMIC) elevated lamb prices are likely to encourage further imports from Australia and New Zealand with levels expected to be near or slightly below 2021.

Sheep and Lamb Prices

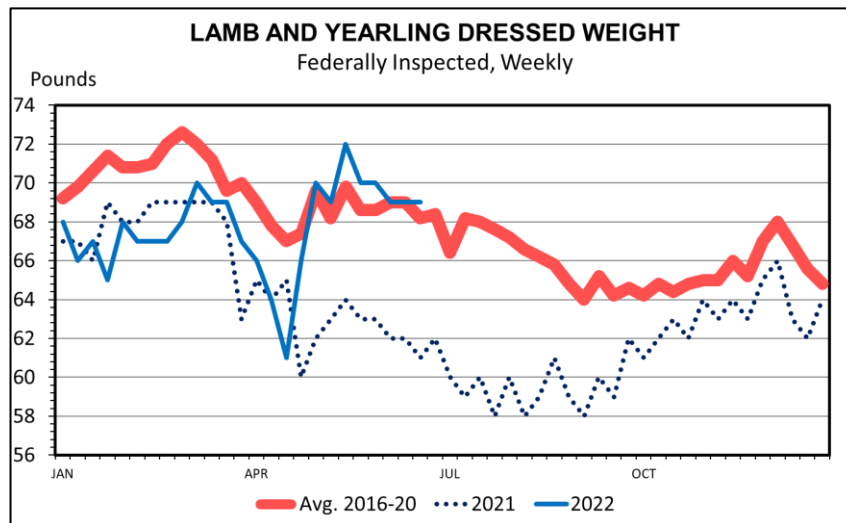
Feeder lamb prices (average of Colorado, South Dakota, and Texas) during the first half of 2022 averaged just over \$290 per cwt., 8% or \$22 per cwt. above the first half of 2021. Since June, feeder lamb prices have been on a seasonal decline with prices in June averaging at or above \$200 per cwt. a result of elevated lambs on-feed in Colorado and high feed costs. Continuing drought and reduced forage production is also having an impact. The National Negotiated Live Slaughter lamb price finished the first half of the year up 15% or \$29 per cwt. from a year earlier to \$218 per cwt. and averaged about \$200 per cwt. in June. Slaughter lamb prices trended lower into July but are still above historical levels.

The National Lamb Cutout Value (Gross Carcass FOB, 5 Day Rolling Avg) averaged \$629 per cwt. in June, down 2% from May, but still more than \$50 per cwt. higher than a year ago and well above the five-year average price. On a monthly basis, prices for the shoulder, leg, loin, and rack declined in June but remained at elevated levels compared to the prior year and well above the 2016 – 2020 average. On a monthly basis, the Foresaddle lost 1.5% in value from May to June, averaging \$656 per cwt. while the Hindsaddle declined nearly \$20 per cwt. averaging \$600 per cwt. in June.

According to the June *Consumer Food Insights* a monthly survey conducted by Purdue University, consumer food demand is more price sensitive than in previous months with consumer expectations for food price inflation to continue to rise gradually. As consumers spend more on groceries, they often offset the difference by dining out less. Given rising food prices, consumers may be more willing to pay higher prices for food at grocery stores to prepare at home because it is still less expensive than dining out at a restaurant. As to restaurants, according to the National Restaurant Association June survey, restaurant operators are growing more pessimistic about the economy.

Looking Ahead

The LMIC is forecasting 2022 sheep and lamb slaughter to decline nearly 6% or 132,000 head to 2.13 million head. The lower slaughter rate during the second half of the year is expected to be partially offset by higher dressed weights leading to about a 4% decrease in lamb production for the year. For the second half of 2022 feeder lambs prices are forecast to be between \$238 – \$250 per cwt. putting the annual price range at \$263 – \$273 per cwt., slightly below the prior year. For the second half of the year slaughter lamb prices are expected to ease lower ranging from \$193 – \$204 per cwt. with an annual price forecast of \$203 – \$213 per cwt., a decline of about 4% from 2021.



Source: USDA Agricultural Marketing Service, Compiled by LMIC