UNDERSTANDING THE LAMB MARKET –
THE NATIONAL PERSPECTIVE

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To say that the lamb market in 2001 was a disappointment would be a gross understatement. To provide a reference point, since June, 2001, the Virginia lamb market averaged 17.6% lower than average price received during the preceding five years. For much of the year, the Virginia market was at a premium to the national market, but was still held hostage by several issues that kept a lid on lamb prices nationally. The three most prominent issues with which the industry dealt in 2001 were excessive overfeeding of lambs, poor market information with the implementation of Mandatory Price Reporting rules, and increased lamb imports.

**Lamb Overfeeding**
Since 1994, during only one year have slaughter lamb prices not peaked during the May to August period. Many lamb feeders responded to this trend and planned for lamb marketing in the late spring and summer. As the graph below illustrates, the 2001 market was significantly lower from May into the summer months.

**SLAUGHTER LAMB PRICES**
3-Market Average, Weekly

![Graph showing lamb prices]

As the season developed into May and June, lamb feeders were still waiting on a stronger market to develop. While waiting for the market to improve, feeders held their lambs and the lambs and the feeders’ costs continued to grow. Holding lambs on feed beyond their optimal slaughter endpoint creates additional problems. Heavier lambs exacerbate the problem of excess production, because each lamb now generates more pounds of lamb per head.
slaughtered. The following table illustrates the extent of the increase in average lamb weights as the lamb feedlot became increasingly uncurrent.

### AVG. DRESSED WEIGHT - SHEEP & LAMBS
Federaaly Inspected, Monthly

![Chart showing average dressed weight of sheep and lambs.](chart)

The impact of lamb overfeeding was quite significant given the fact that commercial lamb and sheep slaughter during the second and third quarters of 2001 was down 17% and 14%, respectively when compared to the average of the previous five years. The total pounds of lamb produced during the first and second quarters of 2001 was down only 13% and 5% from the previous five year average. An additional issue encountered with the heavier lambs marketed was the increased percentage of overly fat lamb carcasses generated. Even when the external fat is trimmed off excessively fat retail cuts; the increased amount of seam fat present creates negative perceptions among consumers. The table below illustrates the extent of the fat lamb problem in 2001.

### Comparisons of Carcass Yield Grades in the Lamb Slaughter Mix

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<tbody>
<tr>
<td>Yield Grade 1 &amp; 2</td>
<td>47 – 55%</td>
<td>40%</td>
</tr>
<tr>
<td>Yield Grade 3</td>
<td>38 – 41%</td>
<td>43%</td>
</tr>
<tr>
<td>Yield Grade 4+</td>
<td>8 – 12%</td>
<td>17%</td>
</tr>
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</table>

As the number of market-ready and overfed lambs began to back up in the feed yards, the feeders simply lost bargaining position with the packers. The same plight affects the cattle feeding industry every two to three years. The pens become full of harvest ready and overly fat animals while the feeders wait for the market price to improve. Both the feeders and packers are typically aware of the degree of uncurrentness. Both parties know that the feeder
and all his neighbors need to sell animals and the buyer gains the higher ground in price haggling.

**Questionable Market Information**
Beginning in April of 2001, the Mandatory Price Reporting rules of USDA’s Agricultural Marketing Service were instituted. Several issues of concern pertaining to the availability and accuracy of several price data sets quickly surfaced.

Our national lamb production and pricing infrastructure may be viewed as an hour glassed shaped arrangement. Many producers and feeders must market their lambs through the bottleneck of an increasingly smaller set of packers. This small number of packers then markets their production to a larger set of processors and retailers. For much of the spring and summer of 2001, market information was hampered by the “3/60 provision” of the mandatory price reporting rules. The “3/60” rule requires that price information must come from at least three packers and no more than 60% of the transactions can be controlled by one packer. The intent of the provision was to provide that confidentiality would be maintained. Through much of 2001 the “3/60” provision could not be met and so price data availability was limited. Beginning in late August, the “3/60” rule was modified to permit more price data to be published.

Another issue encountered with the advent of MPR was the change in format of price series reported. Before April, USDA reported a lamb carcass cutout value which was based upon composite prices of the various lamb cuts that would equate back to a lamb carcass value. After April only a listing of boxed lamb cut prices was published which made direct comparisons to previous reports difficult. Additionally there were changes in the definitions of lamb carcass and weighted average lamb prices. Some of the newer price series were not directly comparable to previous data sets.

Again, the hourglass shape of the lamb industry infrastructure magnified the implications of the changes in price data. While not trying to bash packers, it is apparent that both the sellers of lambs and buyers of lamb product were dependent upon data derived at the packer/processor level. The scarcity and changes in price information made it difficult for lamb sellers to directly compare lamb prices and to be informed about the status of the meat market so they could effectively negotiate prices. At the same time, the limited and adjusted meat pricing reports made it more difficult for retailers to make informed decision regarding purchases and lamb featuring. The uncertainty of available price data led to historically wide live-to-wholesale margins during much of 2001.

**Increased Lamb Imports**
Fueled by the strong U.S. dollar as compared to other foreign currencies, lamb imports surged during much of 2001. During the March-July, 2001 period, lamb imports ran roughly 24-25% ahead of the same time frame in 2000. During the second quarter of 2001, U.S. lamb production was down approximately 7% from 2000. The increased volume of 2001 imports during the second quarter had the effect of increasing total available lamb supplies by 4%. The higher volume of lamb imports continued into mid-summer with July imports running
25% ahead of July, 2000. The strong volume of imports during the spring and early summer largely explains why the price improvement expected by lamb feeders never materialized.

Until November 15, 2001, the U.S. placed a tariff rate of 3% on imports up to 74 million pounds and a rate of 24% on all pounds above that level. A ruling by the World Trade Organization in late summer lifted the tariffs charged on lamb imports into the U.S. Given the strong currency exchange rate, the tariffs probably had little impact upon lamb imports.

**US LAMB IMPORTS**
Monthly, Carcass Weight

![Graph showing US lamb imports](image)

**The September 11 Effect**
Though at this time much of the information regarding impacts of the terrorist attacks on lamb demand is anecdotal, there were certainly some temporary disruptions. The attacks in the New York area clearly impacted both restaurant dining and lamb distribution in the nation’s highest lamb consumption area. Much of lamb is consumed away from home and it was clearly evident that upscale restaurant dining took a serious hit during the weeks immediately following the attacks.

**Long Term Issues**
The American lamb industry will continue to face two very serious issues in the next several years. The dramatic shrinking of the U.S. sheep industry and the apparent loss of demand for lamb will continue to be serious obstacles to overcome.

The reduction of the U.S. sheep flock down to roughly 4 million ewes has created a myriad of problems. Today it is somewhat hard to imagine the flock of over 30 million ewes that existed during the 1940’s. Within just the last two decades, the industry has been cut in half. The loss of industry volume has led to the loss of infrastructure such as packing and processing capacity, reduced availability of specific animal health products, limited market price information, intermittent availability of lamb at the retail level, limited consumer exposure to lamb, and reduced capital with which to make industry investments. It would
seem improbable that circumstances would change to encourage a significant resurgence in the U.S. sheep industry.

**JANUARY 1 EWES, 1 YEAR AND OLDER INVENTORY**

U.S., Annual

![Graph showing ewe inventory](image)

Of additional concern to the sheep industry should be the apparent loss of consumer demand for lamb at the retail level. The Lamb Price-Quantity Relationship graph below should paint a very clear picture regarding the lost of demand for lamb since the late 1980’s. The graph plots the annual per capita consumption of lamb against the average retail price per pound of lamb for that year. The two digits representing each year identify the intersection of the two factors for each year.

**LAMB PRICE-QUANTITY RELATIONSHIP**

Annual, Retail Weight, Deflated Choice Retail Prices

![Graph showing price-quantity relationship](image)
During the period of 1978-1986, the data points define a fairly normal demand curve. In years of higher per capita supplies, such as 1982, 1983, and 1984, the average price was lower to move product off the shelves. Conversely, during 1978-1980 more limited supplies of lamb resulted in higher retail prices.

Signs of deteriorating demand for lamb began to appear in 1987 when lower supplies of lamb did not result in higher prices. During 1988 through 1991, essentially identical supplies of lamb were sold at increasingly lower prices in each successive year. It appears that until 1994 demand continued to erode with smaller supplies of lamb bringing only static prices per pound. Since 1984 it would appear that lamb demand has stabilized, creating a new demand curve though at a significantly reduced level. Both lamb supplies and retail price seemed to have settled into a very narrow range.

It is unclear whether the erosion in lamb demand is the result of lack of promotion, a limited line of convenience oriented or value added products, lack of consumer confidence in lamb preparation, or other factors. Given both the shrinking size of the industry and the absence of a national producer checkoff program, it is doubtful that financial investments will be made to either identify demand issues or address those concerns.
UNDERSTANDING THE LAMB MARKET

Mike Carpenter
Virginia Department of Agriculture and Consumer Services

To understand the lamb market, I thought it might be helpful to provide the dictionary definitions of some words I feel describe the lamb market and lamb buyers.

**INTRICATE** - 1. Having many complexly arranged elements; elaborate. 2. Solvable or comprehensible only with painstaking effort.

**FINICKY** - Extremely fastidious in tastes or standards; difficult to please.

**FASTIDIOUS** - Difficult to please, exacting. Excessively scrupulous or sensitive, especially in matters of taste or propriety.

**SENSITIVE** - Responsive to external conditions. Easily irritated. Readily altered by the action of an agent. Fluctuating or tending to fluctuate.

What causes the lamb market to fluctuate?

I. Supply and Demand

Ethnic Holidays
Muslim - causes a short-lived spurt in demand and increase in price – *Timing is critical!*

- Eid al-Adha - 2-22-02 (most significant)
- Ramadan - 11-06-02/12-05-02
- Eid al-Fitr - 12-05-02

Jewish and Christian - While some holidays cause an increase in demand - Christmas and Easter, others cause prices to decrease. In September the Jewish holidays of Yom Kippur and Rosh Hoshanna cause the Kosher lamb plant in Baltimore, MD to close for 2 - 3 days per week for four weeks in a row. That is where most of the Virginia 100 - 125 pound lambs are slaughtered. Combine this with normally higher numbers sold and that’s why our lamb market bottoms in the September - October period.

Up until 1999, Virginia production in this period was much more than the east coast slaughter capacity. As a result, thousands of Virginia lambs were purchased by Ohio and Michigan firms and placed into feedlots. Virginia prices were generally below western and mid-western prices due to trucking and shrinkage. Now, Virginia production has decreased so much that this year, production was about equal with demand here in our area. (See graph #1). As a result, Virginia prices have stayed above western prices - Thank Goodness!!
II. Weights

Some lamb buyers may be very weight sensitive. We have generally packaged all lambs weighing 100 - 125 pounds of equal quality together. Within this range, if the average of the group approaches 120 - 125 pounds, some buyers may decrease the price they are willing to pay simply because that is what their market is dictating. In general, with lambs of equal quality, prices will be slightly higher for each 10 pounds lighter: 90 - 100, 80 - 90; 60 - 70. Lambs weighing 50 - 60 pounds have to be high quality to be suitable for slaughter.

III. Quality

Many buyers are becoming more sensitive to the quality of lighter lambs that enter the Ethnic market. Five years ago, a "bag of bones" may bring as much per pound as an average quality lamb just because they were the correct weight for that buyer. Now, light lambs that will grade Choice demand a higher price - mostly $2-5/cwt. with instances of up to $10/cwt.

To illustrate how sensitive buyers may be to weight and quality, here are some actual sale results.

<table>
<thead>
<tr>
<th>AVG WGT.</th>
<th>$ CWT</th>
<th>$ HEAD</th>
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<tbody>
<tr>
<td>110</td>
<td>60.50</td>
<td>66.55</td>
</tr>
<tr>
<td>95</td>
<td>64.25</td>
<td>61.04</td>
</tr>
<tr>
<td>87</td>
<td>66.50</td>
<td>57.86</td>
</tr>
<tr>
<td>82</td>
<td>72.00</td>
<td>59.04</td>
</tr>
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The 82 pound lambs were a medium framed, thick-muscled set of high quality lambs in the lighter end of that 80 - 90 pound weight range.
At another sale, the following happened:

<table>
<thead>
<tr>
<th>AVG. WGT.</th>
<th>$ CWT</th>
<th>$ HEAD</th>
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</thead>
<tbody>
<tr>
<td>86</td>
<td>59.00</td>
<td>50.74</td>
</tr>
<tr>
<td>68</td>
<td>89.00</td>
<td>60.52</td>
</tr>
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</table>

These were lambs of equal quality, in fact from the same producers. What caused this? A buyer from PA had a load started and he and another buyer needed high quality lambs in the 60 - 70 pound range. This is extreme and won't happen often, but does occasionally.

On another occasion the following results occurred with slaughter ewes - last February just prior to Eid al-Adha:

<table>
<thead>
<tr>
<th>AVG. WGT.</th>
<th>$ CWT</th>
<th>$ HEAD</th>
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</thead>
<tbody>
<tr>
<td>141</td>
<td>55.50</td>
<td>78.25</td>
</tr>
<tr>
<td>115</td>
<td>65.25</td>
<td>75.03</td>
</tr>
</tbody>
</table>

A small volume buyer needed the set of lighter ewes.

IV. Numbers

There are days when a lamb buyer may need only a certain number of lambs or sheep and he may select a group based on that number. Or if a buyer fills his order and there are not sufficient buyers to take up the slack, prices may decline.

V. Trends and Forecasts

The September 11 attacks and resulting economic slowdown caused the lamb market to decline about $5/cwt. more than it normally does at this time of year.

Lamb prices in Virginia will peak the week prior to Eid al-Adha (2-22-02) and during the period 1st - 3rd week of May -- not Easter. (See graphs 2 & 3)

Prices will bottom in the September - October period. (See graphs 2 & 3)

If you have the production flexibility try to market lambs in the January - May (maybe June) period and stay away from the August - October period.

Reminder--at an auction, anything can happen. I generally recommend to sell livestock at auction to the highest bidder. It's always wise to call the market to check market conditions before you sell. If you have a buyer come calling, check the most recent price information (not last week's) and if you receive a good bid, accept it. Just remember that there is a reason for a lamb buyer to be anxiously looking for lambs: higher demand, higher price forecasts.
There are more issues affecting the sheep industry this year than in any other year in memory.

Lamb Meat Adjustment Assistance Program (LMAAP)
- Feeder and slaughter lamb payment program
- Ewe lamb retention payment program

Proposed National Lamb Check-off

New Scrapie Regulations