

# The Merino Ewes A "must-have" Mum

Today more than ever, well bred and performing Merino ewes form the cornerstone of profitable sheep production enterprises in Western Australia. Due to the coming together of a number of important trends, the future looks very bright. Some facts:



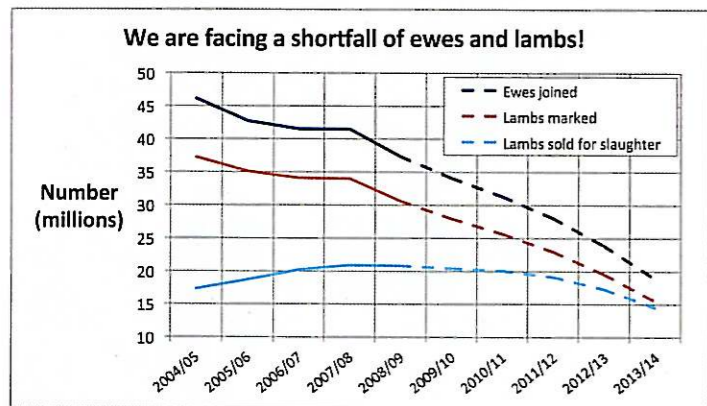
## 1 Ewe numbers are historically low

The national sheep flock is now at around 73 million sheep, down from the highs of the 1960's and 1980's. The steady decline over recent decades reflects shifts to competitive land uses, and in the recent decade, recurrent droughts. The number of ewes joined in Australia is now at a critically low level.

Based on an AWI-funded flock demographic model, WA's Kimbal Curtis has suggested that the national ewe flock is in danger of collapse.<sup>1</sup>

Based on this modelling approach, the chart shows how numbers of ewes joined is projected to decline, reducing the number of lambs marked, and thus able to be sold for slaughter.

MLA's projections are more positive in suggesting a levelling out of present declines. However, these are based on assumed significant increases in weaning rates, lamb live weights, and the proportion of prime lamb-bred breeding ewes within the flock.



## 2 Demand for sheep meat is projected to remain strong

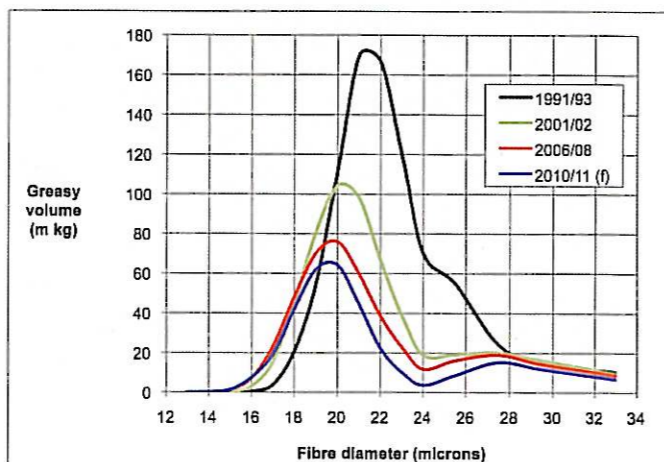
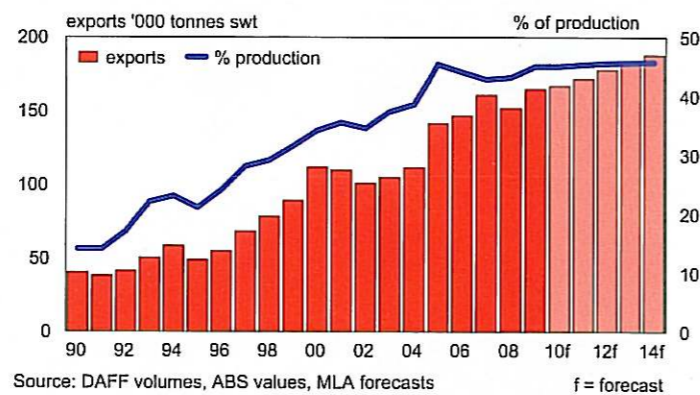
MLA forecasts<sup>2</sup> are for lamb and sheep meat prices to remain high and move up again over the medium term, due to:

- A small rise in local and international demand
- Limited sheep numbers.

Supply constraints will also reduce mutton supply and live sheep exports

The combination of short supply and strong demand augers well for the price of breeding ewes – as seen in very strong saleyard prices for restocker ewes.

**Australian lamb exports to grow 2% in 2010**



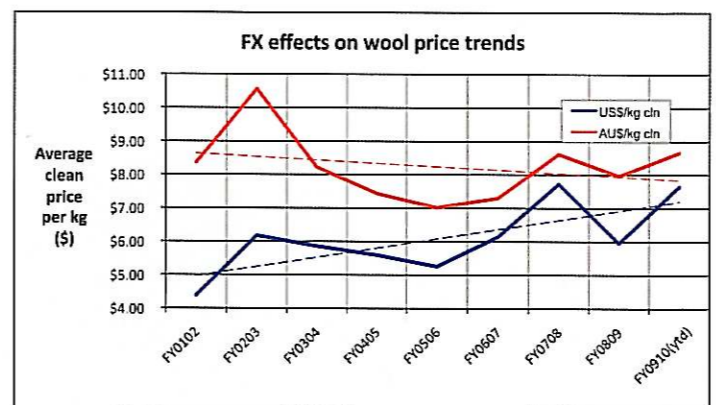
## 4 Currency trends do assist

Since around 98% of the Australian wool clip is exported, and around 50% of sheep meat, foreign exchange rates have a major impact on the price for wool and sheep meat in Australia – especially for wool, since almost all wool export contracts are denominated in US\$.

Fortunately for Merino producers, US:Australian currency exchange rate appears to have stopped its inexorable 2000-2008 climb, which saw it appreciate by 45% over 8 years – or at 5.5% per annum.

As a result, even though the US\$ price for Australian clean wool increased by on average 3.4% per annum for the period 2001/02 to 2008/09, the average AU\$ price received by growers fell by 2.5% per annum, simply due to the currency trend.<sup>3</sup> So, while the world has been paying on average 3.4% more per kg of out wool per annum, the massive rise in the AU:US\$ exchange rate has effectively reversed this rise.

Since market expectation is that the AU:US\$ exchange rate will occupy the low-mid 90's till well into 2012<sup>4</sup>, the prospects are that the AU:US\$ foreign exchange rate will effectively plateau in the short to medium term. With tight supply, this suggests that the average price of wool received by Australian Merino growers should now start to rise.



## 5 Comparative profitability of the Merino

Due to the recurrent droughts this decade, and the adverse impacts this has had on many cropping enterprises and their lenders, sheep enterprises within cropping systems are increasingly seen as a sensible cash income risk management strategy.

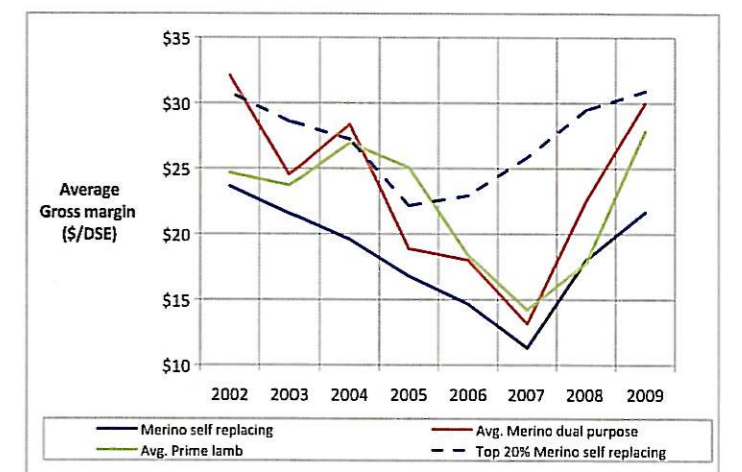
In providing the foundation of the self-replacing and dual purpose Merino enterprises, the Merino ewe underpins gross-margin the majority of Australia's sheep enterprises. Enterprise benchmarking confirms this role.

For example, the Holmes Sackett AgInsights series represents perhaps the largest sample of agricultural enterprises in Australia, concentrated in Eastern Australia.

Their enterprise benchmarking data<sup>5</sup> shows that:

- Dual-purpose Merino (first cross lamb) enterprises have averaged a higher gross margin than self-replacing Merino enterprises, or Prime Lamb.
- With the strengthening of wool and sheep meat markets from 2008, the gross-margins for all sheep enterprises have rebounded dramatically.
- While there has been so much focus on prime and first cross lamb enterprises in recent years, it is important not to lose sight of the potential for a well-run self-replacing Merino enterprise. As shown, high-performing (e.g. top 20%) self-replacing Merino enterprises outperformed average prime lamb or dual purpose enterprises most years.

The keys to having high performing Merino enterprises are the combination of right genetics and management – especially that which generates high weaning rates, fast lamb growth rates, heavy cuts of high value wool, and resistance to internal and external disease threats.



## 3 Wool supply is tight

With falling sheep numbers, the supply of wool has also declined and changed in composition.

As shown, since the end of the Reserve Price Scheme, the volume of the Australian clip has halved, and the clip has effectively split in two, comprising around:

- 200 million clean kilograms less than 24 microns
- 40 million clean kilograms above 24 microns

The Merino component of the clip now averages less than 20 microns.

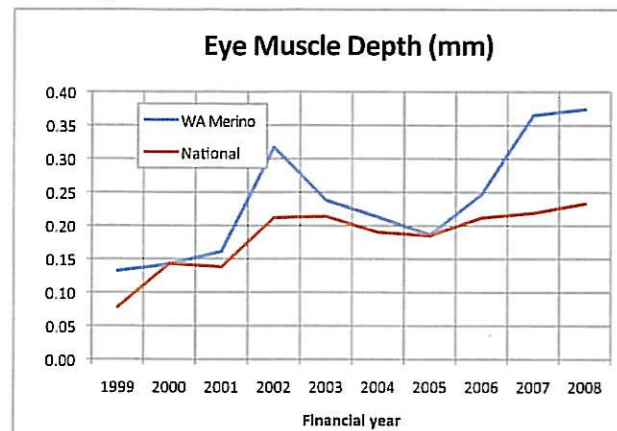
With the decline in production in the 20-26 micron range, the Australian supply of wool is now much more aligned with global clothing demand trends.

## 6 Genetic trends underpin the value of the Merino

Genetic trends analysis shows that the Australian Merino is adapting to the challenges of the current production environment.

For example, genetic trends since 2000 within the MERINOSELECT database<sup>6</sup> show that the contemporary Merino yearling is:

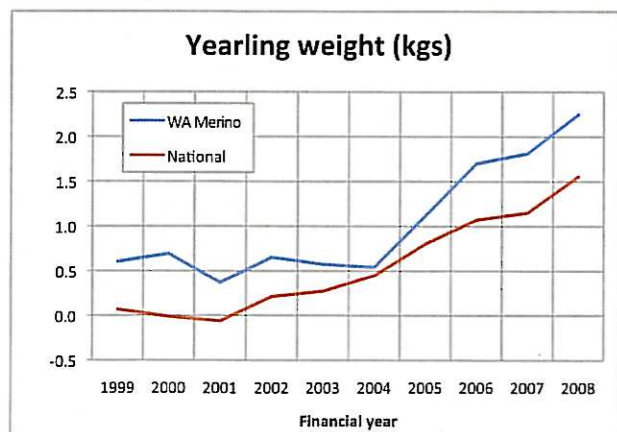
- Cutting more wool with longer staples
- Growing much faster
- Producing wool of lower CV of diameter
- Producing fewer worm eggs (WEC)
- Showing fewer breech wrinkles



West Australian Merino studs are at the forefront of this genetic revolution.

Genetic trend analysis shows that WA Merino studs lead the way in the growth and reproduction traits which underpin dual purpose Merino production systems:

- Eye muscle depth
- Yearling and hogget body weight
- Lambs weaned per ewe joined
- 7% Dual purpose index



### References

- <sup>1</sup> Kimbal Curtis (2009) - <http://www.sheepcrs.org.au/industry-tools-and-information/declining-sheep-flock.php#Kimbal>
- <sup>2</sup> Meat and Livestock Australia, "2010 sheep and lamb industry projections - 18th February 2010" <http://www.mla.com.au/files/48eea4ea-9b1d-43d3-894c-9d6300c14d5/Sheep-industry-overview-April-2010.pdf>
- <sup>3</sup> Data sources: Gross wool production data from Australian Wool Production Forecasting Committee, Wool GVP and EMI data courtesy of AWI Limited, Foreign exchange rate data from Reserve Bank of Australia.
- <sup>4</sup> Global Economic Research, "Foreign Exchange Outlook - April 2010", Scotiabank Group ([http://www.scotiacapital.com/English/bns\\_econ/fxout.pdf](http://www.scotiacapital.com/English/bns_econ/fxout.pdf)).
- <sup>5</sup> Data taken from Holmes Sackett Pty. Ltd. "Aglinsights" 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009. Holmes Sackett Associates, PO Box 5757, Wagga Wagga NSW 2650.
- <sup>6</sup> Genetic trend analysis data supplied by SheepGenetics on 29th June 2010. The data for 2009 drop animals has not been included since phenotyping for key traits is incomplete (its too early).

### For more information about the contents of this publication:

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## 7 Opportunities

The coming together of a number of very positive trends means that there are real opportunities for those who have or who might wish to invest in Merino ewes.

### a. Wean as many lambs as possible

- It is critical to wean as many Merino ewe lambs as possible – replacement ewe numbers will be low for years to come;
- So for the coming months – scan ewes to identify single and multiple bearers, but also dries (for exiting);
- Make sure twin bearers and dries have permanent ear marks to record their history, and are managed suitably – dries run as wethers, and twin ewes need to be in around CS2.5-3 at lambing.

### b. Maximise growth rates in your Merino ewe weaners

Merino weaners can grow at better than 175 gms per days. Since Merino ewes can be successfully joined once they have reached 75% of adult body weight, some Merino breeders are moving toward joining the majority of their pure Merino ewe lambs at 8 months.

### c. Learn and apply wrinkle scoring

Plainer Merino types are known to have higher reproductive success rates, as well as being more naturally immune to breech fly strike. Can your stud stock suppliers supply you with genetic information about wrinkle score in their flocks?

### d. Don't abandon cut and wool quality

While taking advantage of the reproductive potential of the Merino ewe, and the growth rate potential of Merino lambs, do not abandon wool quality and productivity - this is the critical platform on which fleece income and the Industry is based.

With tight supply, expect price discounting to increase for those wool traits which lead to low processing potential, such as low staple strength.

## Key Messages

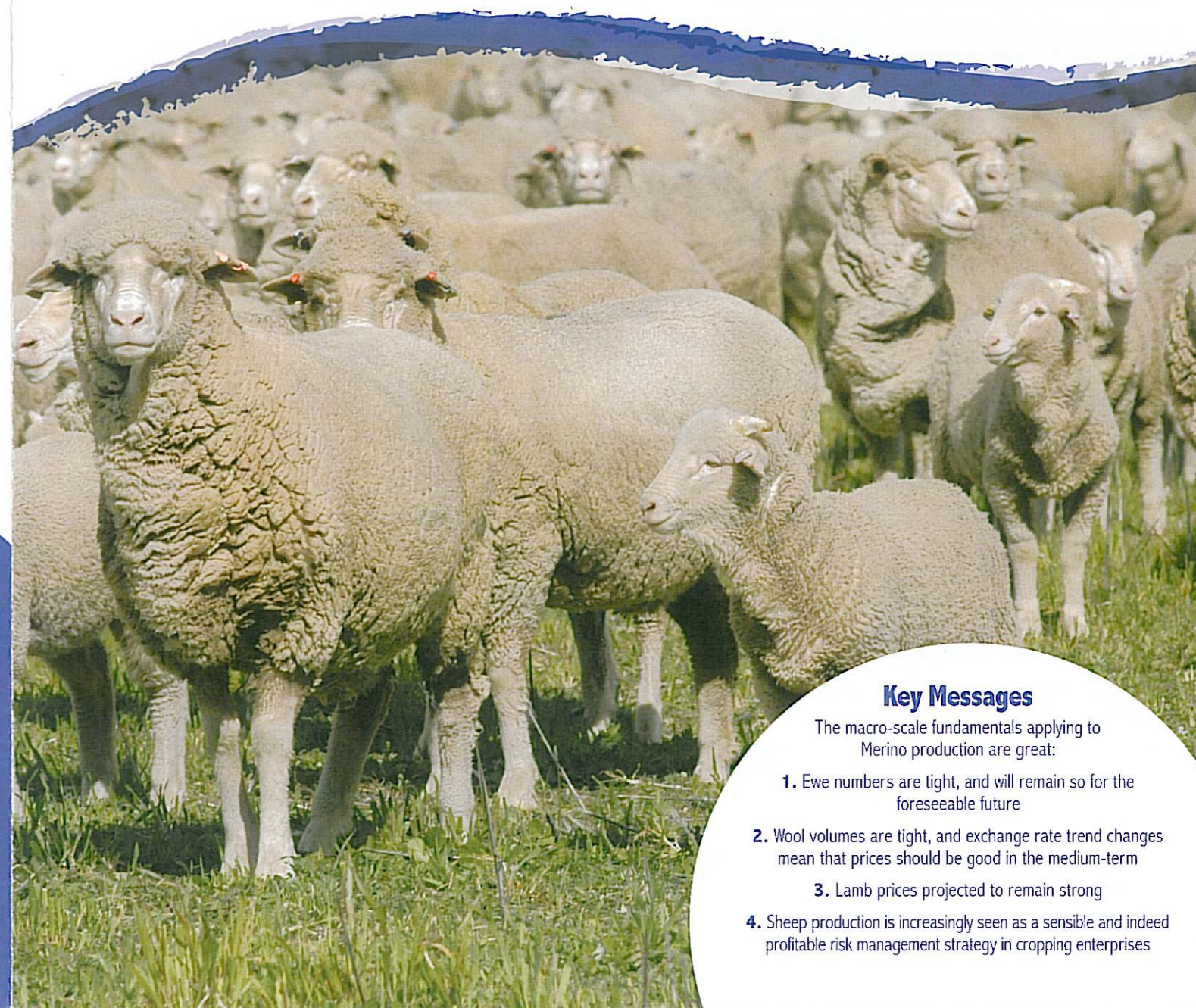
For the first time for many years, the macro-scale fundamentals applying to Merino production are great:

5. Ewe numbers are tight, and will remain so for the foreseeable future
6. Wool volumes are tight, and exchange rate trend changes mean that prices should be good in the medium-term
7. Lamb prices projected to remain strong
8. Sheep production increasingly seen as a sensible and indeed profitable risk management strategy in cropping enterprises

For these reasons, Merino ewes should be seen as the 'must-have' mums. Enterprises which have stuck with productive and fertile Merinos, and can wean and grow lambs efficiently, are very well placed

# Presenting the Business Case for the Merino Ewe

**merino**  
Stud Merino Breeders' Association of WA



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