

Economic Impacts of COVID-19 on the American Sheep and Lamb Industry

American Sheep Industry Association

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Key Points

- The COVID-19 pandemic has severely damaged food service sales and consumer demand for American lamb as food service dine-in sales account for more than 50 percent of the value of American lamb.
- Lost food service sales resulted in the second largest American lamb processing company filing for Chapter 11 bankruptcy and other processing plants have drastically reduced or suspended slaughter operations.
- The loss of consumer demand for American lamb is expected to result in a 40% decline in annual slaughter and feeder lamb prices compared to 2019.
- The expected direct losses at the farm level is estimated at \$125 million due to the decline in slaughter lamb prices.
- Using the IMPLAN multiplier, the estimated total economic impact to the American sheep and lamb industry is \$353 million.¹
- Due to the USDA Livestock Mandatory Price Reporting (LMR) confidentiality guideline, USDA is unable to report market data for live slaughter lambs and cannot offer the Livestock Risk Protection program for Lamb when it is desperately needed.
- The loss of market price data has eliminated market information and decreased market transparency available to sheep and lamb producers when producers need it most.
- The economic impact to the American sheep and lamb industry is the direct result of the projected loss in consumer demand and slaughter lamb prices.

Overview

The loss of the food service market due to the COVID-19 pandemic is devastating to the American lamb industry. More than 50 percent of the value of American lamb product is marketed through food service/dine-in outlets with the balance sold at retail. Mandated social distancing and quarantining has resulted in cancelations and uncertainty of future lamb sales to the dine-in food service sector. The food service industry has been severely damaged, and it is unknown when those food service sales will return.

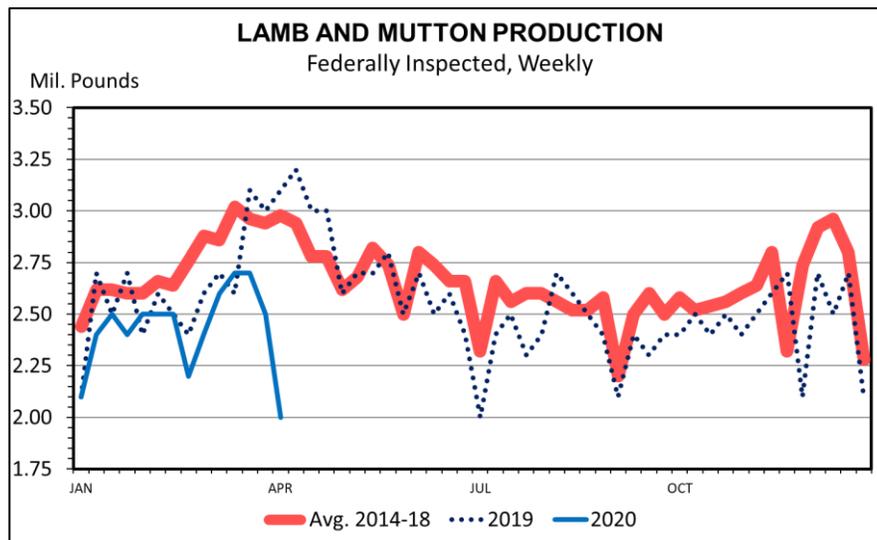
The loss of meat sales from COVID-19 forced the industry's second largest lamb processing company to file Chapter 11 bankruptcy on March 19, 2020. All other American lamb companies report weakening sales to their food service customers and distributors in response to government orders to close dine-in food service and as a result, have reduced or suspended operations. The American lamb processing sector is heavily concentrated and any disruptions to plant operations will have a significant impact on the lamb industry. The Easter/Passover season is traditionally the single largest lamb consumption period of the year. According to data

¹ American Sheep Industry Association U.S. Sheep Industry Impact Study, August 2017; IMPLAN (IMpact analysis for PLANning) owned by IMPLAN, LLC (formerly MIG, Inc.).

from 2009 – 2014, total sales volume were 359 percent higher than other times during the year with expenditures rising sharply during Easter from an average of \$6.5 million weekly to \$23.9 million.² Because this pandemic is occurring during the Easter/Passover season, it only further compounds the economic impacts on the American lamb industry.

Economic Impact on the Lamb Industry

Lamb slaughter is greatest at this time of year to satisfy the Easter/Passover season demand. The loss of food service and resulting reductions and suspensions at processing plants at this critical time has caused a slowdown in the marketing of slaughter ready lambs. This is resulting in heavier lamb weights and burdensome supplies of lamb product in the marketplace. As of early April, weekly estimated sheep and lamb slaughter was 35% below a year ago with the supply of slaughter ready lambs in feedlots building. As of April 1st, the number of lambs in Colorado feedlots was 15% higher than the prior month and 10,000 head larger than in 2019. The American lamb industry has become increasingly concentrated at all levels of the production system and does not have the infrastructure nor slaughter capacity to accommodate the potential closure of the second largest packing plant, reductions and suspensions in plant operations or a backlog of slaughter ready lambs in feedlots. As evidenced in 2012, the backlog of slaughter ready lambs and extremely larger product supplies (i.e. cold storage) negatively impacted lamb product quality and consumer demand. This drove slaughter and feeder lamb prices down substantially (2012 annual prices declined 20 – 30% compared to 2011). Any investments in infrastructure are long-term endeavors and will not be able to correct the damages to the lamb market from the COVID-19 pandemic.



Data Source: USDA-AMS, Compiled by Livestock Marketing Information Center

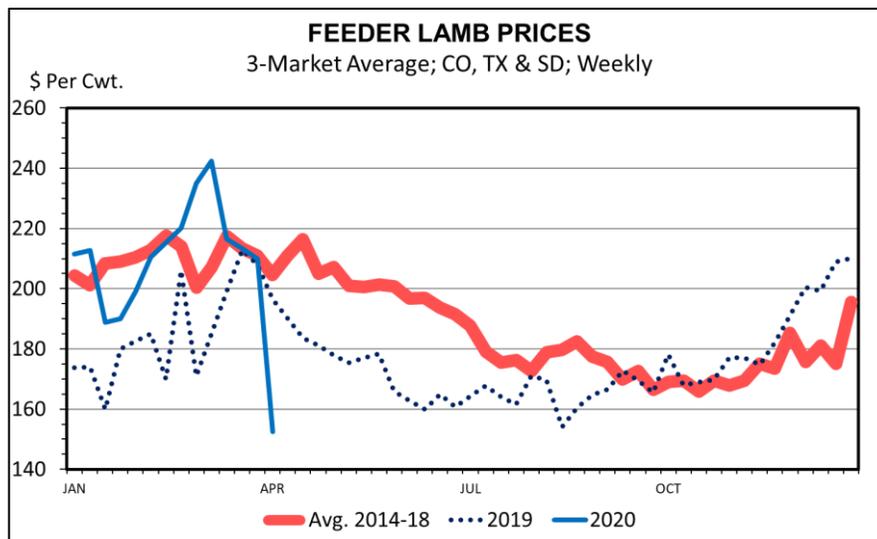
Lamb processors and distributors cannot as easily shift product from food service to retail as done in the beef and pork sectors. The most expensive lamb retail cuts generally come from the rib or rack primal and are mostly marketed through food service/dine-in outlets. Wholesale lamb prices are expected to decline considerably as the COVID-19 pandemic progresses and expectations for the U.S. economy to enter a recession. Currently high value middle meats, which are dominated by restaurant demand are being impacted. The wholesale value for the loin has declined 15% in value since early March. As a net importer, the American lamb industry

² Stepanek Shiflett, J., & Marsh, D. (2015). Lamb Demand Analysis.

must also compete with imported product, which further adds to the supply of lamb in the marketplace. The American lamb industry is unable to rely on export markets to accept the excess supply of lamb unlike other commodities.

Given the damage to food service sales, and the fact that this segment accounts for more than 50 percent of the value of American lamb, it is estimated the American sheep and lamb industry will experience an estimated 25% loss in consumer demand. Since early March, auction prices for feeder lambs and slaughter lambs have declined nearly 40%. According to the Livestock Marketing Information Center (LMIC), the loss in consumer demand is expected to result in at least a 40% decline in slaughter and feeder lamb prices for calendar year 2020 compared to 2019. Based on this significant year-to-year loss in slaughter lamb prices, the expected direct losses at the farm level is estimated at \$123 million. When this loss is factored into the IMPLAN multiplier, the estimated total economic impact to the American sheep and lamb industry is \$353 million.³ These economic losses are attributable to food service closures, loss of slaughter capacity, a build-up in lamb supplies, and damage to consumer demand for American lamb during the COVID-19 pandemic and post COVID-19 period.

An economic recession is expected to follow the COVID-19 pandemic. Economists are forecasting a 5 – 10% decline in the Gross Domestic Product during the summer and fall quarters. Lamb is a higher priced protein when compared to beef, pork and poultry. During recessionary periods, consumers are faced with reduced incomes and purchase lower priced protein products. Consumer demand for lamb is more price-sensitive than other proteins. The recession will prolong the impacts of COVID-19 to the American sheep and lamb industry as weakness in consumer demand for lamb will continue to dampen lamb product sales. This will further add to the onerous supply of lamb in the marketplace and pressure slaughter and feeder lamb prices even lower.



Data Source: USDA-AMS, Compiled by Livestock Marketing Information Center

³ American Sheep Industry Association U.S. Sheep Industry Impact Study, August 2017; IMPLAN (IMpact analysis for PLANning) owned by IMPLAN, LLC (formerly MIG, Inc.).

Impact on USDA Market Information and Livestock Risk Protection Program

The American lamb industry has become increasingly concentrated at all levels of the production chain. Currently, the industry is now at a point where a significant portion of the lamb market data cannot be reported under USDA's Agricultural Marketing Service (AMS) Livestock Mandatory Price Reporting (LMR). LMR was developed to support markets by facilitating open, transparent price discovery, provide all market participants with comparable levels of market information, and encourage market competition. Not having LMR data has eliminated price discovery and is no longer providing a more than ever vital tool used by livestock producers, feeders, packer-processors, and others when making risk management and marketing decisions.

The impacts from the Chapter 11 bankruptcy filing of the industry's second largest lamb processing company coupled with suspension of operations at some processing plants and reductions in lamb slaughter is preventing USDA-AMS from reporting market price data under LMR. Over time, LMR has evolved to be the sole source of market information regarding sales to packer-processors in the lamb industry. These data are a critical tool used by livestock producers, feeders, packer-processors, and others when making marketing decisions. Due to the COVID-19 pandemic, slaughter lamb market data cannot be reported due to the agency's own LMR confidentiality guidelines. Unless the Secretary of Agriculture modifies or waives the LMR confidentiality guideline for lamb, USDA-AMS cannot report market data for negotiated live and/or formula purchased slaughter lambs. The loss of market price data will eliminate market information and decrease market transparency available to sheep and lamb producers, leading to potential market manipulation.

The USDA Livestock Risk Protection Insurance Plan for Lambs (LRP-Lamb) is designed for producers to insure against unexpected declines in market prices and periods of market uncertainty. The LRP-Lamb Program is dependent on LMR market price data reported by USDA. Since USDA is now unable to report market lamb prices under LMR, the LRP-Lamb program cannot be offered to sheep and lamb producers. Unlike other livestock sectors, the lamb industry does not have any other means to offset production risk during this heightened time of uncertainty. Now that LRP-Lamb cannot be offered, this further compounds the economic impact and sustainability of the American lamb industry.

Economic Impact on the Wool and Sheepskin Industry

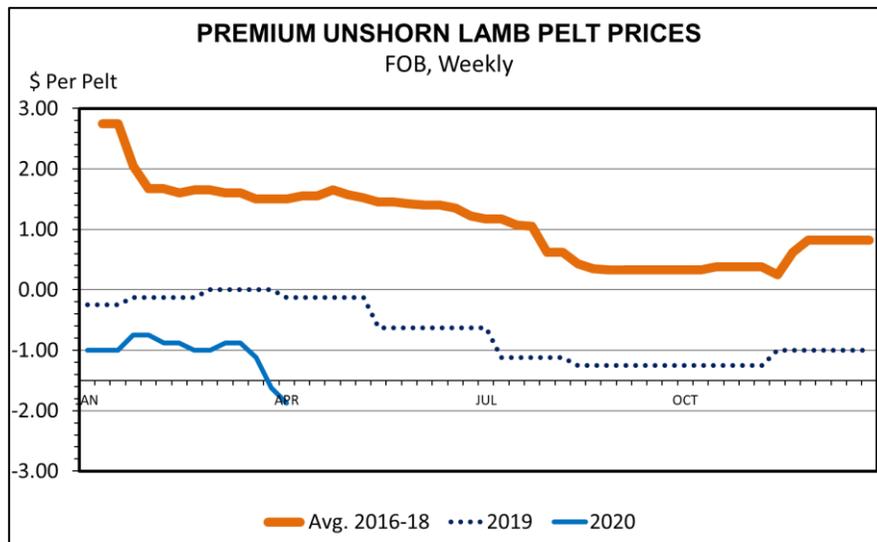
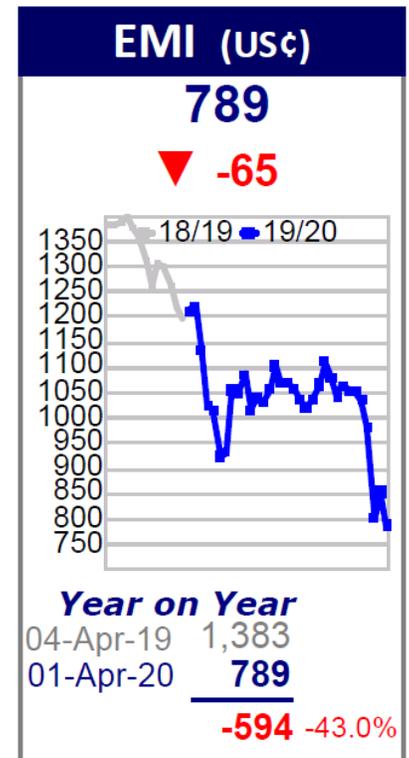
The COVID-19 pandemic has added further injury to the American wool and sheepskin market which is already suffering major losses from prior trade disruptions with China. Both, the American wool and sheepskin markets are dependent on exports. Since the implementation of trade tariffs, wool and sheepskin exports have declined 88% and 76 % in value, respectively. As a direct result of the COVID-19 pandemic, wool and sheepskin sales in both the U.S. and internationally have plummeted. Reduction in processing and consumer markets at this time only further adds to the devastation to the American raw wool and sheepskin industries.

Border closures have not only obstructed raw wool sales, but also caused raw wool customers, which are wool fabric and apparel companies, to cancel orders around the world. Key markets such as Italy and India's border closures have resulted in the cancellation of sales contracts, drastically impacting wool prices and mill consumption. Uncertainty regarding consumer demand and buyer confidence in the market is weighing heavily on the wool and sheepskin market. As a result, American wool warehouses, which are already storing millions of pounds of the 2019 wool clip due to the tariff interruption, are now faced with having to store this year's

wool harvest as well. The inability to market the 2019 and 2020 wool clips has resulted in a burdensome supply of wool in the marketplace, pressuring wool prices even lower and a stockpile is building. Tariffs on wool and pelts to China greatly affected U.S. demand, but now with COVID the world wool demand has collapsed. U.S. wool prices follow the Australian prices, and since early March, the average Eastern Market Indicator (EMI) price has continued to decline.

Like lamb, wool products are higher priced than synthetic made products. With a domestic and global recession forecasted during the summer and fall quarters, consumers faced with reduced incomes will purchase lower priced apparel products and luxury goods (e.g. leather apparel and car seats). The recession will prolong the impacts of COVID-19 on the American wool and sheepskin industry due to weakness in consumer demand dampening wool and sheepskin product sales. This will further add to the onerous supply of wool and sheepskins in the marketplace and pressure prices even lower.

Due to prior trade disruptions with China and the loss of an export market for sheepskins, American sheep producers are in the second year of receiving deductions for the cost of rendering this product. Like the conditions in the lamb and wool market, the COVID-19 pandemic is adding further losses to the industry. Since early March, pelt prices or the deductions producers have paid has increased by a dollar. For premium unshorn pelts, producers are now paying close to \$2.00 per pelt to have rendered in response of the absence of a market and uncertainty regarding consumer demand from the COVID-19 pandemic.



Data Source: USDA-AMS, Compiled by Livestock Marketing Information Center

Concluding Comments

The American sheep industry is in a state of heightened uncertainty and concern given the COVID-19 pandemic. Unlike other livestock industries, the American sheep industry is facing significant impacts and losses in the food service/dine-in sector, potentially long lasting impacts on consumer demand for American lamb, infrastructure loss in the packing sector, and the loss

of market information and risk management opportunities. The prior China trade impacts on the wool and sheepskins have been further exacerbated by the COVID-19 pandemic. Losses caused by cancelled apparel and textile contracts are reducing the demand for raw wool. This analysis is not the final assessment of the impacts from the COVID-19 pandemic as further losses are expected given all the unknowns. Nonetheless it is evident that the overall impact of the COVID-19 pandemic is having long term economic impacts on the sustainability of the American sheep industry.