



## Contemplating the future of the the sheep industry

by FNB agricultural solutions & marketing

Is it possible to predict the future? Of course not! If it were possible would we not all be millionaires - correctly choosing the lotto numbers or buying the stocks that will appreciate the most? We would avoid accidents and take precautions against only those threats that really will materialise – think of how that would put insurance companies out of business. But surely we can and do acquire some useful knowledge of the future because of the *continuity* between the past and the future. Continuity has a number of facets namely: continuity of *existence*, which refers largely to the physical world around us; continuity of *change* which refers to change which manifests itself in a trend which runs a particular course; continuity of *pattern* which refers to a pattern or cycle that is identifiable in nature or social behaviour and continuity of *causality* which is an action or event that can be anticipated on the basis of circumstances happening simultaneously or beforehand.

It is therefore possible to make some statements about the future that appear reasonable and the possibility that they could happen cannot be refuted.

For the sheep farmer, whether producing meat or wool, the economics of the industry is of prime importance, so we start with *expectations of demand for mutton*. Domestic and International markets are experiencing an increase in demand. SA is a net importer of mutton with the major exporting

countries being Australia and New Zealand. Higher prices are however being fetched in the faster growing economies of China and Russia resulting in a tendency of shorter supply locally which should support higher domestic prices. In contrast the SA consumer has had to absorb higher interest rates within a climate of inflation. Consumers will tend to substitute meat types in relation to relative prices which will tend to contain the higher price levels. In terms of seasonality, the demand and consequently higher prices of mutton will peak in the yearend festive and holiday season but the jolt back to reality will be swift in the New Year as compulsory new household spending and past holiday extravagances pinch the vulnerable areas of household budgets.

Structurally, the production of mutton is ticking up after the history of stock losses due to theft and other causes. As sheep farming is largely extensive and veld conditions improve after the past number of relatively dry seasons, domestic production should increase in the foreseeable future. The amount of suitable land for domestic sheep farming is limited as is the potential for higher density production processes (feedlots) due to the feed conversion ratio of sheep are not competitive compared to cattle and pigs and poultry. This must be read against a backdrop of higher feed commodity prices. Continuing on the production side of sheep it is unlikely that Land Reform will

severely affect the industry. The areas most suited to sheep production are considered low potential areas otherwise, and are seen to be overlooked for redistribution. With the exception of the Mpumalanga Highveld (which is fast getting a new coal mining identity) the other production areas in the Free State Northern and Eastern Cape are free of claims. Suitable agric enterprise types in low potential areas are not labour intensive. Whatever labour there is will increase in cost at a rate higher than inflation as legislated minimum wages are increased each year – the labour intensive agricultural enterprises will be comparatively worse off. The attractiveness of farming with sheep will depend largely on stock theft trends. As sheep production areas are remote, expect transport costs to be severely affected by drastic fuel price increases.

The international *demand for wool* is on an upturn – wool appears back in the fashion vogue and with less supply due to Australian droughts, wool prices are expected to increase. Another scenario affecting wool prices is however appearing: the international production of cotton (as a price competitor) may be on a decline as acreage is withdrawn in favour of oilseed production, and the price of polyester (also a substitute) may be increasing due to oil price increases. Both these developments bode well for the price upside of wool. It must still be borne in mind however that due to the comparative profitability a gradual swing to mutton production away from wool can be expected.

What can be expected from a *technology* viewpoint? The ideal technological contribution to the sheep industry would most certainly be in providing genetic material that would provide the optimum production in both meat and wool in the same animal. This might be a way off yet, but the fact that genes can now be read means that selective breeding will need far less generations to achieve the desired offspring. This could in the longer term also provide for increases in fertility and feed conversion ratio improvements to be more competitive in livestock industries. Technology will certainly, before long, impact on the storage and preparation of meat. Consumer friendly innovations (deboning and flavour enhancements) and logistics (longer shelf life, packaging and transport) will be to the consumer's benefit.

