Third-Quarter 2008

Sheep Industry Review

Prepared by the

American Sheep Industry Association

for the American Lamb Board

October 2008

Executive Summary

Summary

The lamb industry has been in the unique position of having opposing forces playing on prices. Contracting supplies coupled with higher feed and fuel costs have pushed prices upwards in some sectors. However, the economic slowdown, hampering retail sales, might be placing downward pressure on prices.

In the fourth quarter, however, the winds changed. Softer corn prices and continued lower imports might help support a strong holiday season.

In the third quarter, we saw a period of higher lamb prices, perhaps as supplies tightened and some of the higher production costs were passed onto consumers. However, by September, meat prices weakened, likely as the economy edged toward a recession and consumer spending slowed.

In months to come, the lamb industry will be challenged to stabilize demand so as not to lose critical producers, infrastructure and consumers that will ease industry expansion when the economy rebounds.

Executive Summary, page 2

On a more positive note, the lamb industry might be insulated to some extent from a downturn in consumer spending. “Although consumers are spending less on dining out, foodservice consultancy Technomic found many are willing to spend more on higher-quality menu items if they include premium ingredients, including premium meat,” (meatingplace.com, Accessed 10/15/08).

Total lamb availability – including imports – was 169 mill. lbs. in the seven months to July, down 7 percent year-on-year. In the same period, wholesale lamb averaged $261.22/cwt., up 6 percent from a year ago.

However, sobering news quickly followed the price highs. In September the meat complex began to slide. Retail sales were down 0.6 percent (excluding auto sales). The Livestock Market Information Center (LMIC) forecasted in early October that disposable income is expected to fall 0.12 percent between the third and fourth quarters.

LMIC forecasted in early October that total lamb and mutton supply in the United States will likely continue to contract.

Executive Summary, page 3

Total supply will likely be down 4 percent this year to 433 mill. lbs., down another 6 percent in 2009 and down yet another 3 percent to 393 mill. lbs. in 2010. The contraction is due to forecasted lower import levels and almost as sharp declines in domestic production.

Feeder, Slaughter & Wholesale Lamb Review

Feeder-lamb prices in direct trade fell 8 percent to $101.59/cwt. in the third quarter while weights fell 1 percent to 98 lbs. Third-quarter feeder lamb placements were perhaps slow due to fewer supplies and fewer offers from feeders, given high corn prices.

Slaughter-lamb prices strengthened in the third quarter, contrary to the seasonal slowdown often observed. The relatively high meat market and lower imports might have played a role in supporting prices.

Live, auction slaughter-lamb prices averaged $97.57/cwt. in the third quarter, up 6 percent from the second quarter and up 6 percent from the third quarter a year ago.

Executive Summary, page 4

Slaughter-lamb prices on a formula carcass basis increased 11 percent from the second quarter to $225.91/cwt. in the third quarter – up 11 percent year-on-year. Formula slaughter-lamb prices on a live basis rose from $100.98/cwt. to $111.59/cwt. in the third quarter – up 11 percent from the second quarter and up 6 percent year-on-year.

Wholesale values, or the gross carcass value, averaged $276.06/cwt. in the third quarter, 7 percent higher than the second quarter and 7 percent higher from the third quarter 2007.

In the third quarter, both the loin and shoulder shot up about 30 percent. The leg fell 6 percent and the rack fell 1 percent between quarters. The USDA lamb purchase program likely helped support the shoulder and the leg from falling further.

Recent strengthening of the U.S. dollar against the Australian dollar and New Zealand dollar likely helped lamb importers. The U.S./Australian exchange rate fell 6 percent between the second and third quarters – from 0.9437 to 0.8865 US$/A$. It takes fewer U.S. dollars to buy one Australian dollar.

Executive Summary, page 5

Third-Quarter Lamb Supplies Down

Although the exchange rate has moved in the favor of importers, Australia is having severe supply constraints. In the fourth quarter, LMIC forecasted that imports could total 53 million lbs., down from 59.1 million lbs. a year ago.

Tight supplies in Australia prompted the fourth-consecutive monthly declines in lamb production to August. Production in August was 25-percent less year-to-year.

Meat & Livestock Australia explained that reduced lamb production is because of “increased turnoff earlier in the year and poorer breeding season, which saw an overall decline in the number of lambs marked, (10/2/08).

Lamb and mutton production was down 4 percent year-to-year to 124.4 million lbs. through September. The 4.6-percent drop in slaughter numbers most likely explained the production contraction because live weights were up 1 percent to 139.9 lbs.

Imports have historically kept lamb availability about constant, but this year, imports have slowed and thus so has total lamb marketed in the United States.

Executive Summary, page 6

Between January and July, lamb and mutton imports fell to 111.9 million lbs. – down 5 percent year-to-year. Lamb alone was down 9 percent year-to-year to 82.6 million lbs. through July. Imports from both and Australia and New Zealand were down 9 percent.

For the year ending July, 6.4 million lbs. were exported, up from 6.1 million lbs. during the same period in 2007. Live ewe exports to Mexico were down for the year through September to 83,914 head compared to 99,949 head a year ago.

Fourth-Quarter Forecasts

In the fourth quarter, LMIC forecasted that slaughter-lamb prices (Western direct by carcass weight) could fall up to $7/cwt. seasonally from the third quarter to about $215/cwt.—much higher than $201/cwt. last year, fourth quarter.

Feeder-lamb prices (Texas, 60-lb. to 90-lb.) could rise from $99.15/cwt. in the third quarter to $101.15/cwt. in the fourth quarter – down from $102.23/cwt. a year ago fourth quarter.

Executive Summary, page 7

Feeder-lamb price offerings might be even higher given the recent news of lower corn prices. Between the second and third quarters corn prices fell from $5.30/bu. to $5.22/bu.

However, the real news occurred in the first couple weeks of October when corn fell sharply on the back of increased production and lower demand. Forecasts were quickly revised downward following a sharp down-turn in the futures market. On October 20, the Chicago Board of Trade reported $4.18/bu. for the December corn future and $4.36/bu. for March.

Twenty-seven thousand fewer lambs are forecasted for slaughter in the fourth quarter of this year, down to 685,000 head. Domestic production is therefore likely to be down 2.5 million lbs. year-to-year to 45.4 million lbs.

Per capita lamb consumption is likely to fall from 0.31 lbs. per person to 0.29 lbs. Lower production calls for higher prices at retail, but the current economic slowdown might put a check on upward price trends.

I.
Feeder and Slaughter Lamb Market Trends

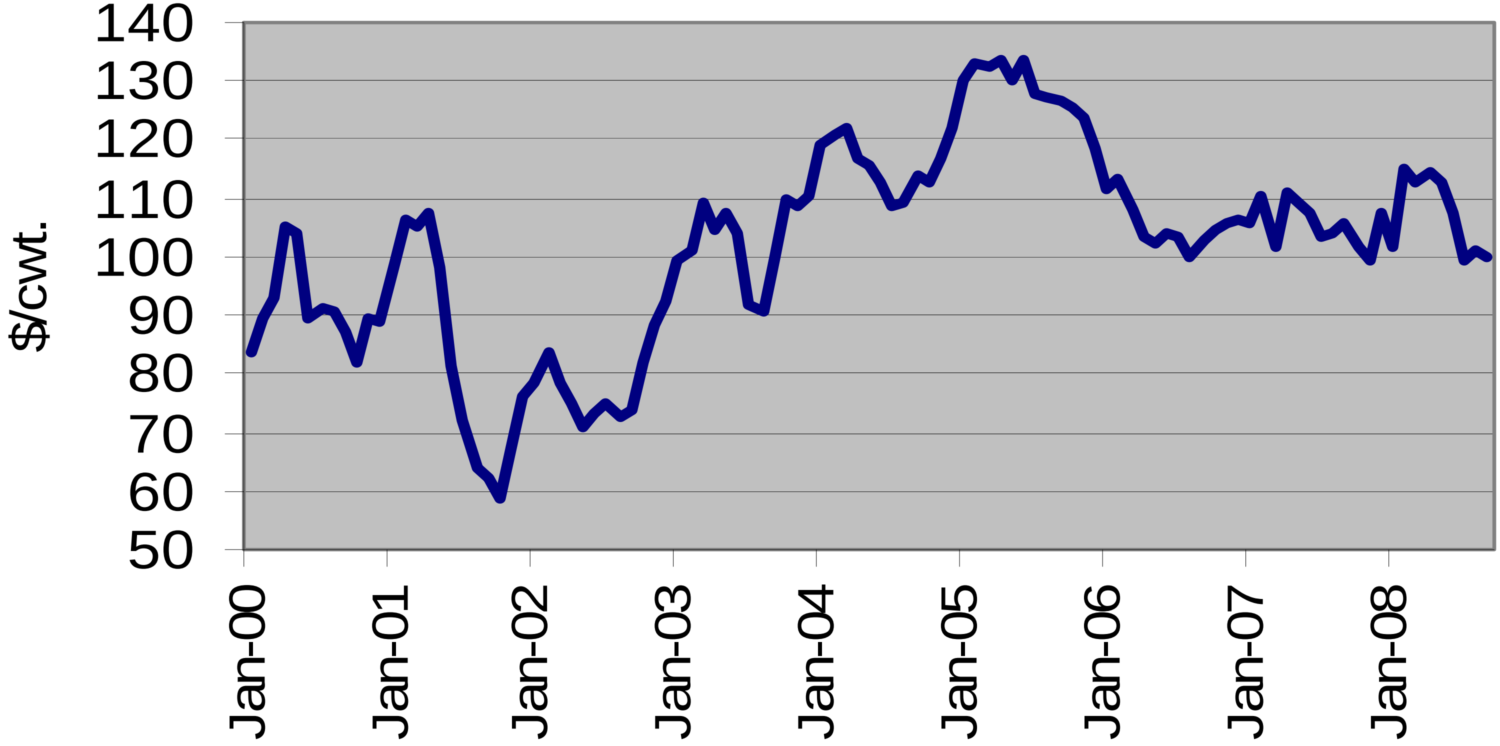
Feeder-Lamb Prices Up Quarterly and Year-on-Year

- Weighted-average feeder-lamb prices at auction averaged $99.98/cwt. in Q3—down 10% from Q2 and 4% lower year-on-year. (Prices reported from San Angelo, Ft. Collins, Sioux Falls, and St. Paul.)

- Weighted-average feeder-lamb prices at auction averaged $99.31/cwt. in July, $100.84/cwt. in August and down to $99.79/cwt. in September.

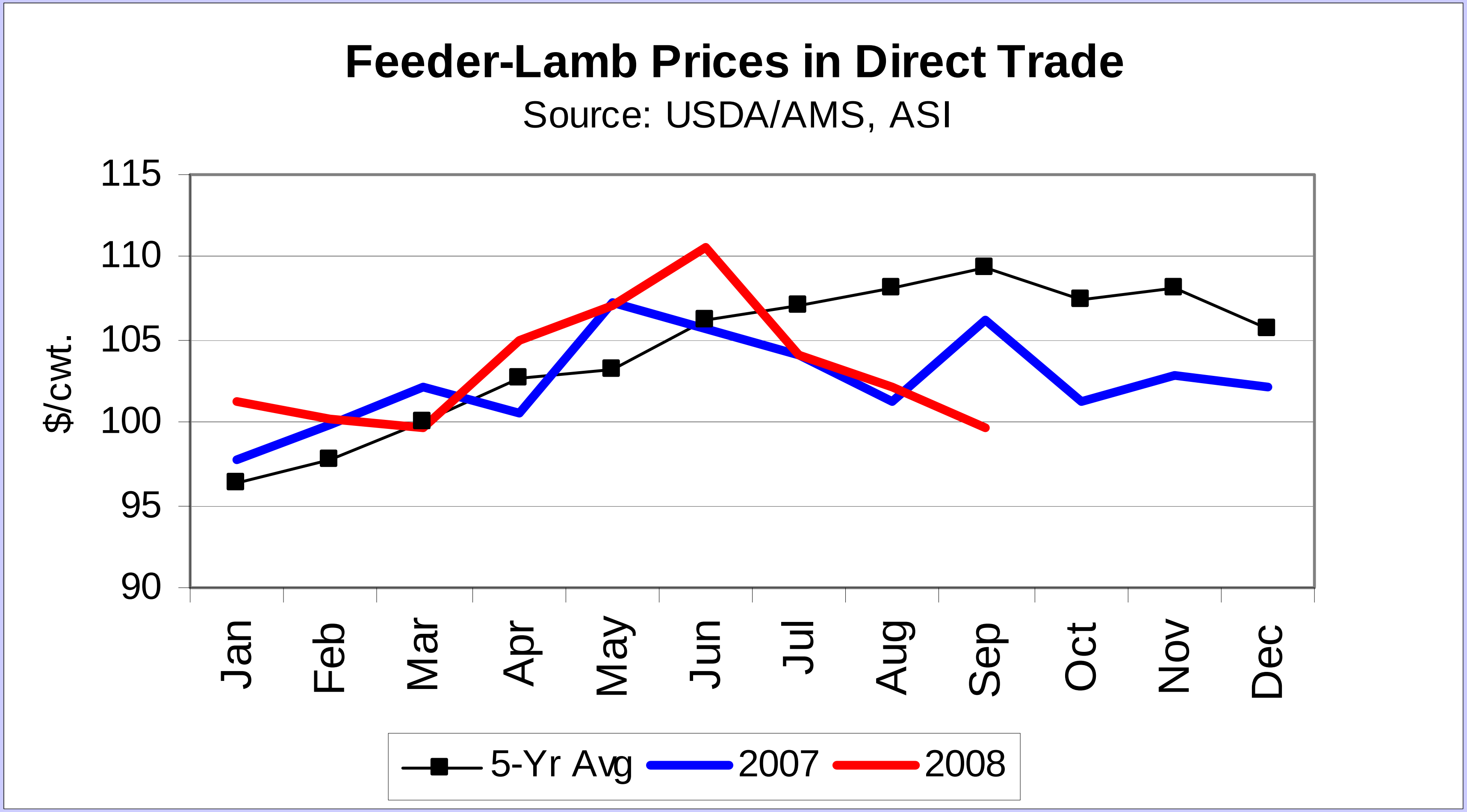
Live, Auction Feeder-Lamb Prices

Source: LMIC, ASI



Feeder-Lamb Direct Trade

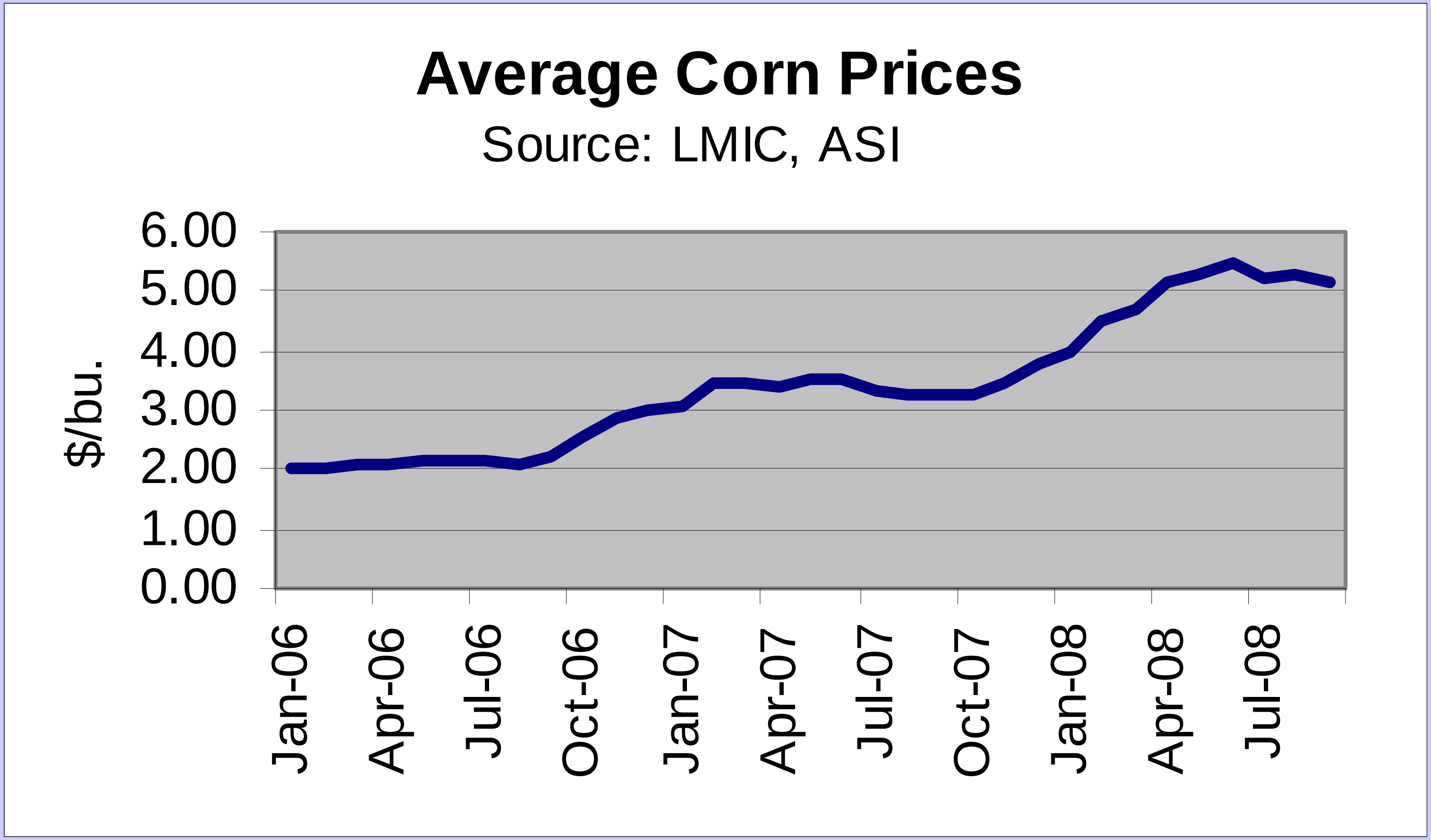
- Third-quarter feeder lambs in direct trade totaled 126,400 – up 19% from Q2.
- Prices fell 8 percent to $101.59/cwt. in Q3 while weights fell 1 percent to 98 lbs.
- Third-quarter feeder lamb placements were perhaps slow due to fewer supplies and fewer offers from feeders.



Feeder-Lamb Prices in Direct Trade
Source: USDA/AMS, ASI
$/cwt.
115
110
105
100
95
90
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
5-Yr Avg
2007
2008

Corn Prices Softened!

- Between Q2 and Q3 corn prices fell from $5.30/bu. to $5.22/bu.
- The average price of corn in the 2007/2008 marketing year was $4.20/bu. (LMIC, 10/2008).
- By mid-October, the forecast was for lower corn. Increased supply and perhaps lower demand (i.e., from ethanol production and lower export demand because incomes are lower world-wide) could mean lower corn prices.
- While the futures reported on the Chicago Board of Trade for next spring were about $4.25 per bu. in mid-October, some forecasts were higher, up to $5/bu.

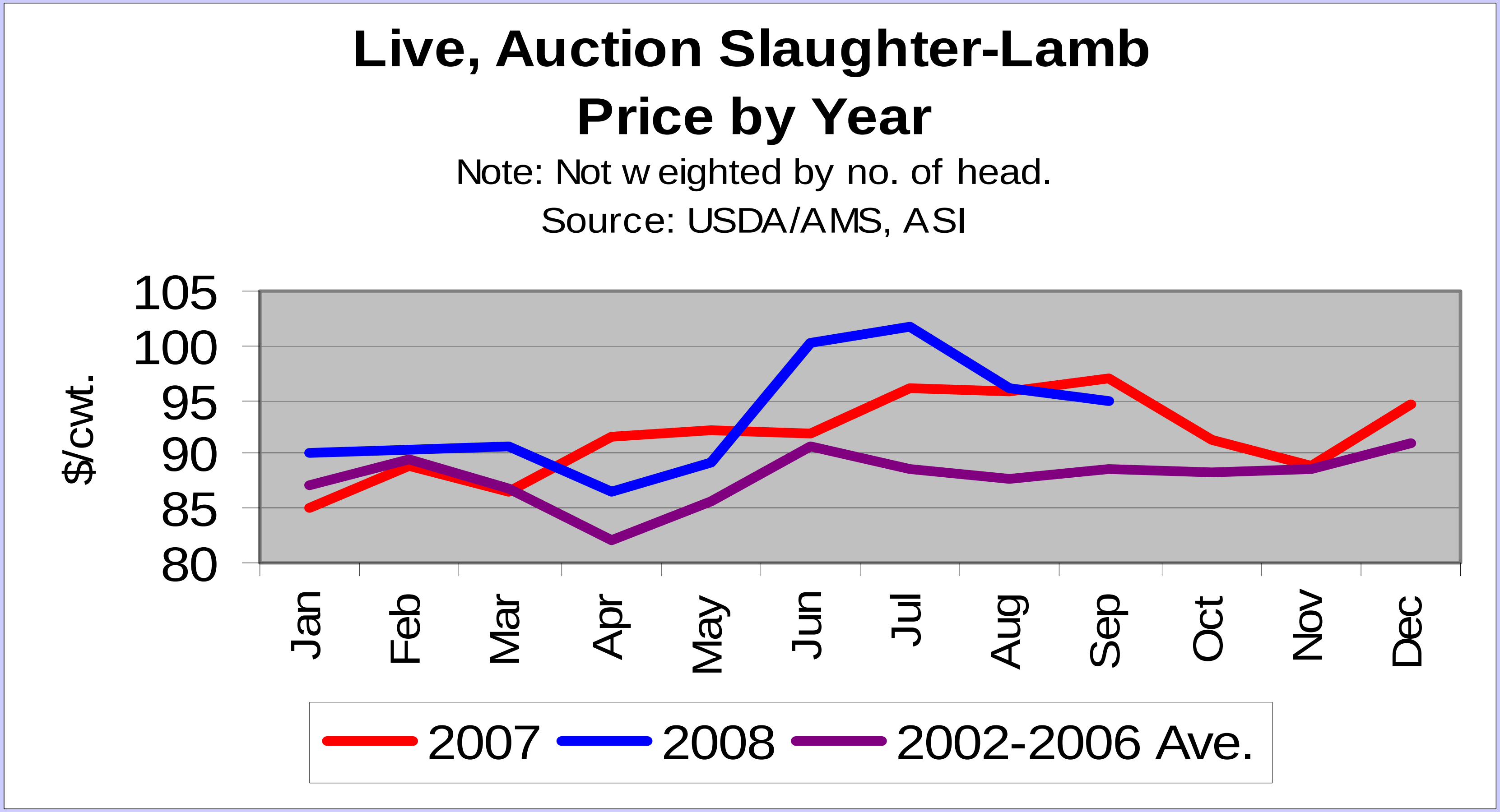


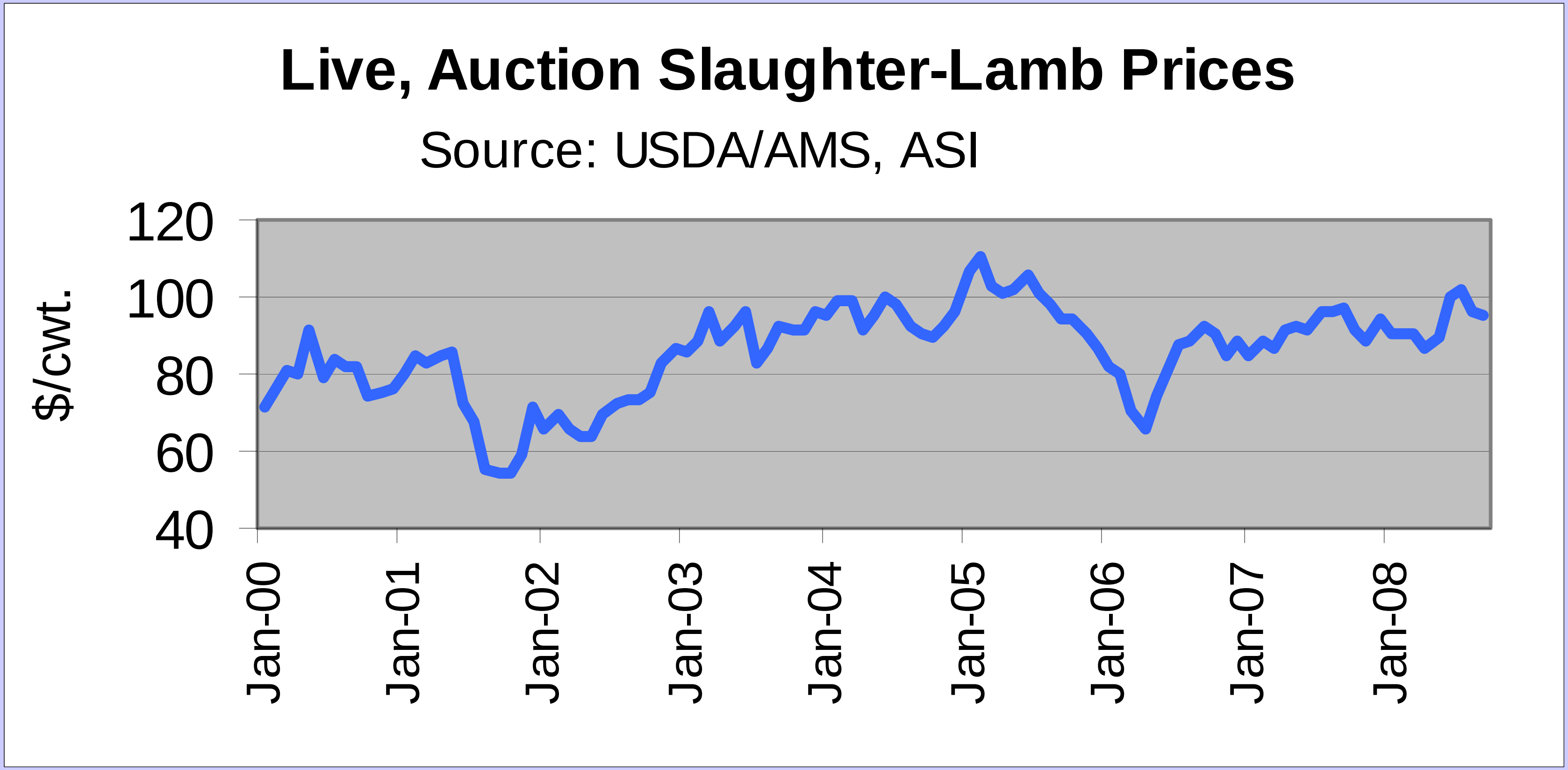
Average Corn Prices
Source: LMIC, ASI
$/bu.
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Jan-06
Apr-06
Jul-06
Oct-06
Jan-07
Apr-07
Jul-07
Oct-07
Jan-08
Apr-08
Jul-08

Live, Auction Slaughter-Lamb Prices Gain in Q3

- Live, auction slaughter-lamb prices averaged $97.57/cwt. in Q3 up 6% from Q2 and up 6% from Q3 a year ago.

- Prices averaged $101.80/cwt. in July, $96.01/cwt. in August and $94.78/cwt. in September.


Live, Auction Slaughter-Lamb
Price by Year
Note: Not w eighted by no. of head.
Source: USDA/AMS, ASI
$/cwt.
105
100
95
90
85
80
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2007
2008
2002-2006 Ave.



Live, Auction Slaughter-Lamb Prices
Source: USDA/AMS, ASI
$/cwt.
120
100
80
60
40
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08

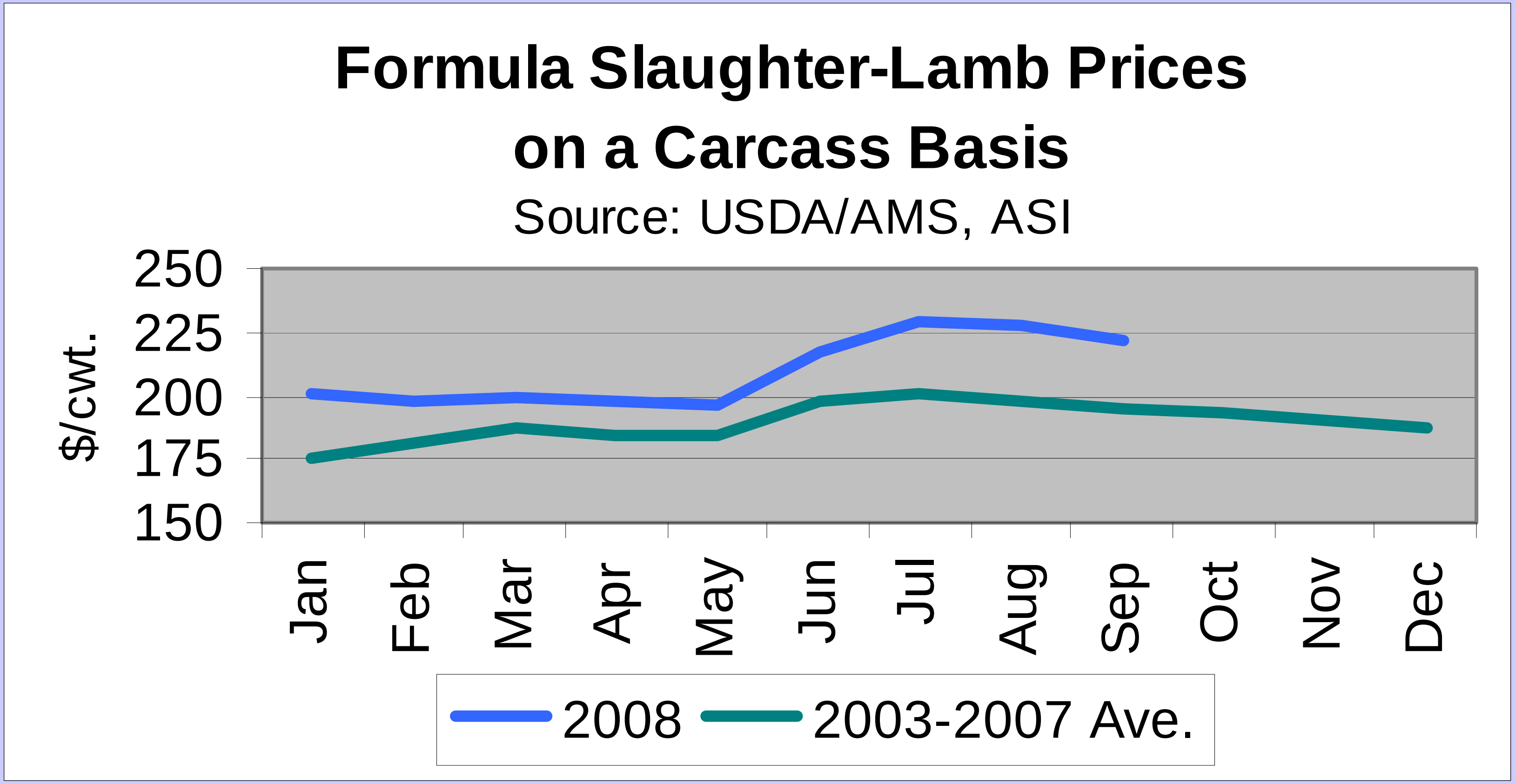
Slaughter-Lamb Prices on a Formula Carcass Basis Increased 11% from Q2 to $225.91/cwt. in Q3 – up 11% Year-on-year

- The 55-lb. to 65-lb. carcasses brought $218.09/cwt. in Q3, up 3% from Q2 and up 15% year-on-year;

- 65-lb. to 75-lb. carcasses brought $228.09/cwt., up 14% from Q2 and up 6% year-on-year;

- 75-lb. to 85-lb. carcasses averaged $224.79/cwt., up 10% from Q2 and up 9% year-on-year;

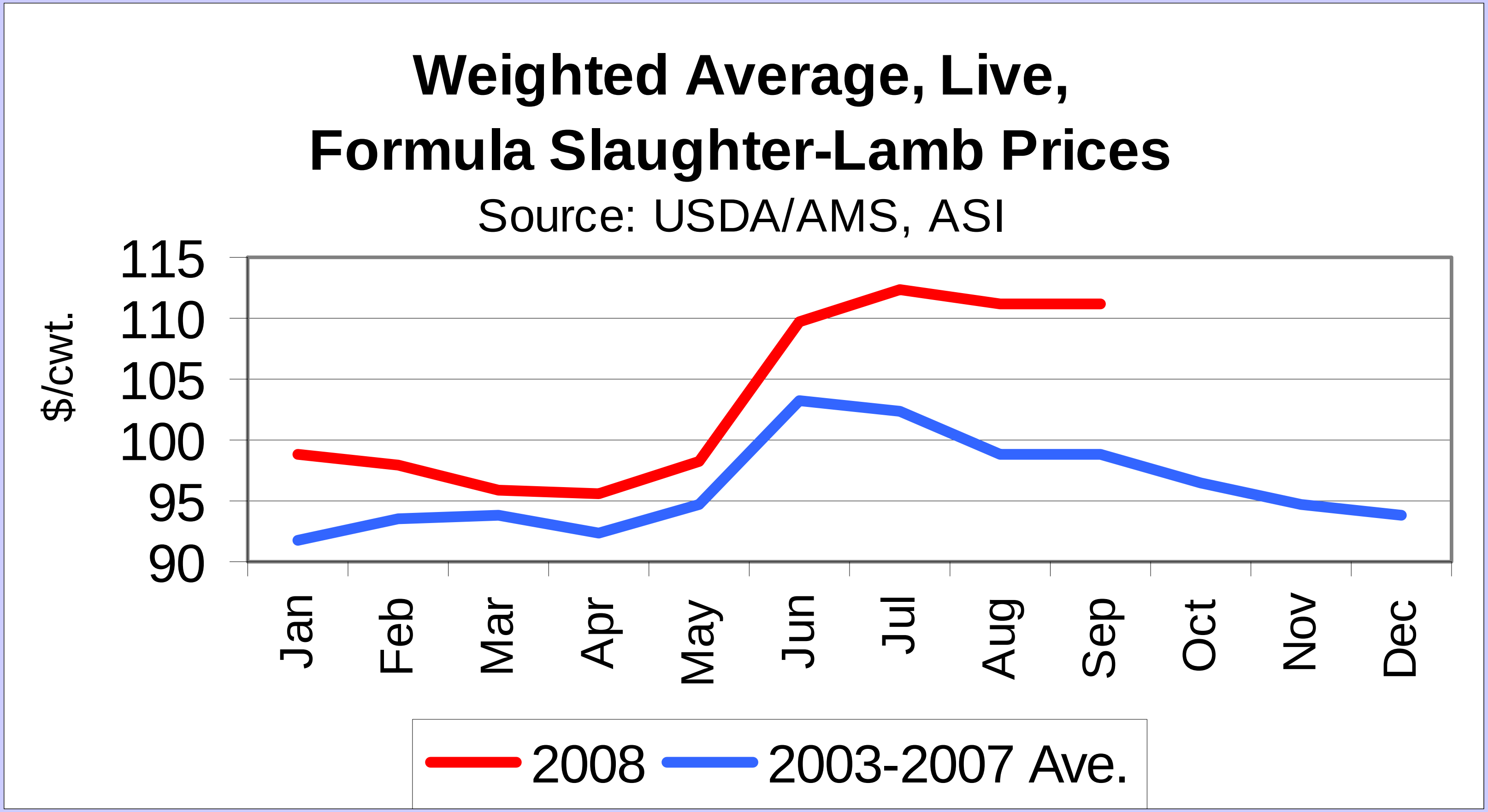
- and the heaviest carcasses brought $226.04/cwt., up 15% from Q2 and up 23% year-on-year.



Formula Slaughter-Lamb Prices
on a Carcass Basis
Source: USDA/AMS, ASI
$/cwt.
250
225
200
175
150
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2008
2003-2007 Ave.

Formula Slaughter-Lamb Prices on a Live Basis Up 11% in Q3

- Formula slaughter-lamb prices on a live basis rose from \$100.98/cwt. to \$111.59/cwt. in Q3 – up 11% from Q2 and up 6% year-on-year.


Weighted Average, Live,
Formula Slaughter-Lamb Prices
Source: USDA/AMS, ASI
$/cwt.
115
110
105
100
95
90
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2008
2003-2007 Ave.

II.
Feeder- and Slaughter-Lamb Price Projections

Feeder-Lamb Price Projections

- Prices typically rise seasonally toward December.
- On October 20, the Chicago Board of Trade reported \$4.18/bu. for the December corn future and \$4.36/bu. for March.
- In early October, LMIC forecasted that feeder-lamb prices (Texas, 60-lb. to 90-lb.) could rise from \$99.15/cwt. in the third quarter to \$101.15/cwt. in the fourth quarter – down from \$102.23/cwt. a year ago fourth quarter.
- This forecast might be dated. Price offers will likely rise more sharply if corn prices ease.

Slaughter-Lamb Price Projections

- Tight supplies and a possible slowdown in imports could support prices. Slower demand at retail due to a possible recession might place downward pressure on slaughter-lamb prices, however.

- Slaughter-lamb prices typically weaken between Q3 and Q4.

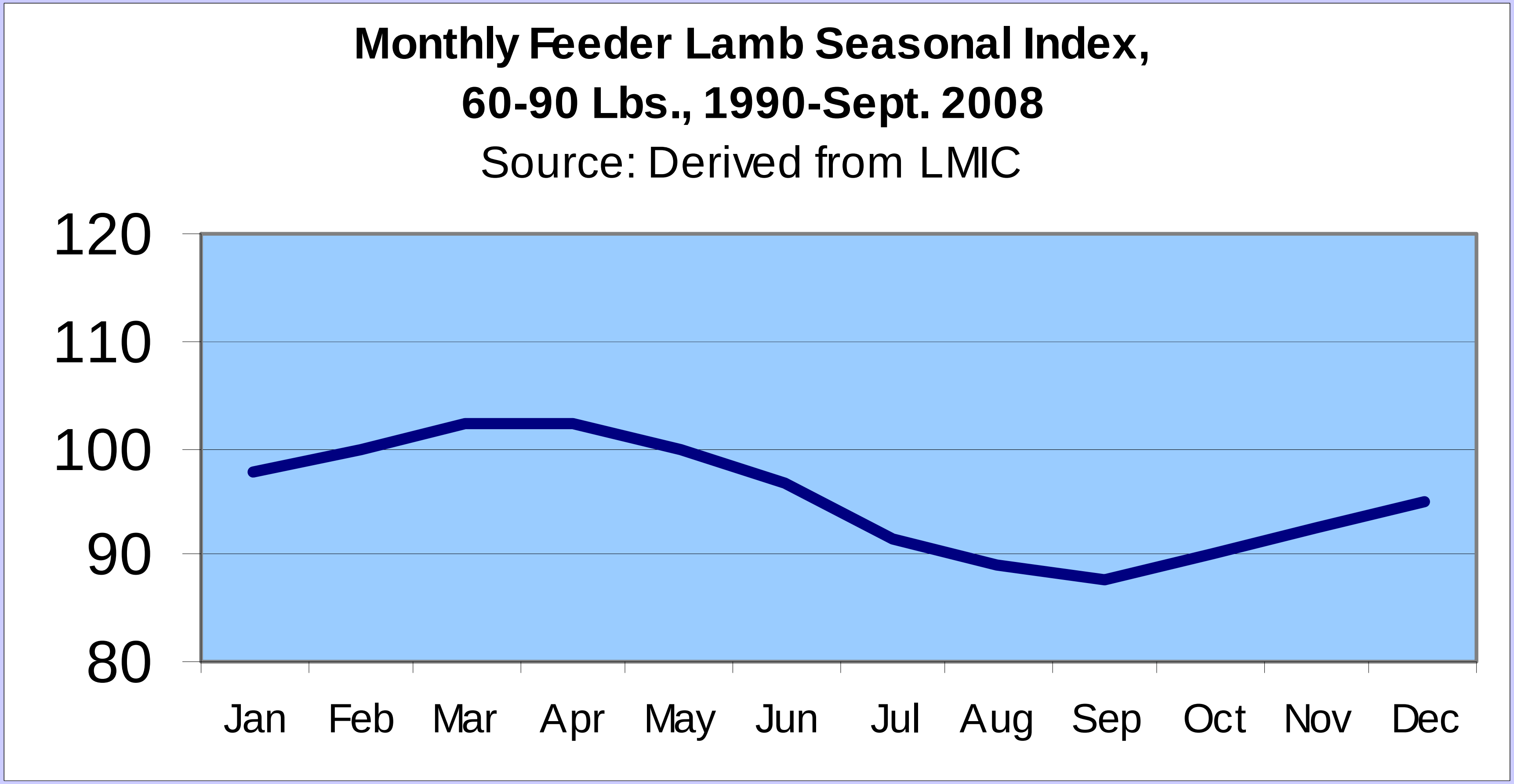
- In early October, LMIC forecasted that slaughter-lamb prices (Western direct by carcass weight) could fall up to $7/cwt. seasonally between Q3 and Q4 to about $215/cwt.—much higher than $201/cwt. last year, fourth quarter.

- For the year, slaughter-lamb prices are likely to remain higher than a year ago, $208/cwt., up from an average $194/cwt. in 2007.

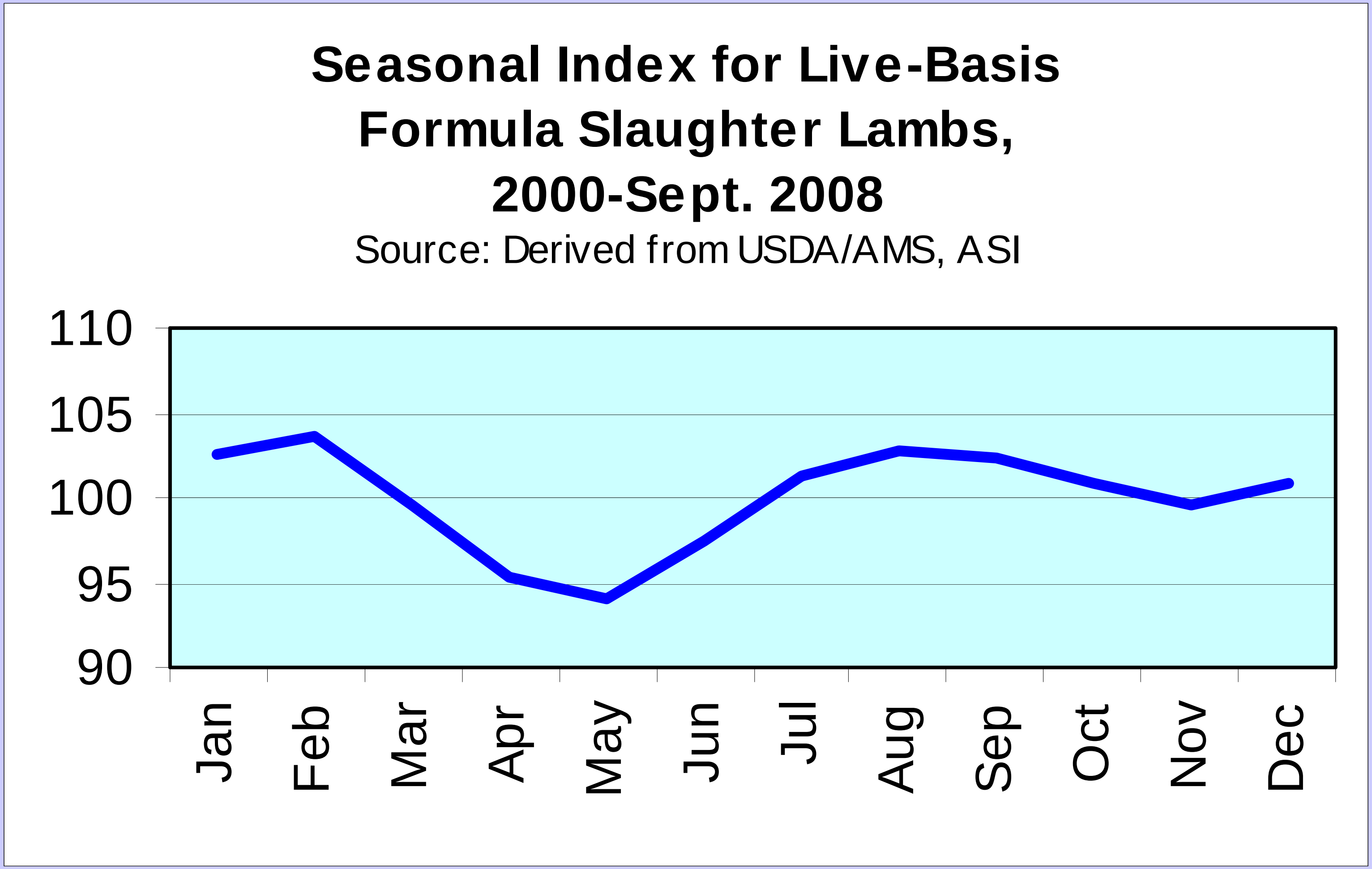
Seasonal Price Indices Can Help Forecast Prices

- The index shows the average relationship of prices in each week or month to the average for the year.
- Factors affecting feeder- and slaughter-lamb prices vary over the course of the year, but if these factors are repeated year-after-year then price changes can be consistent and somewhat predictable.
- An index of 105 means prices are 5% above the annual price average.

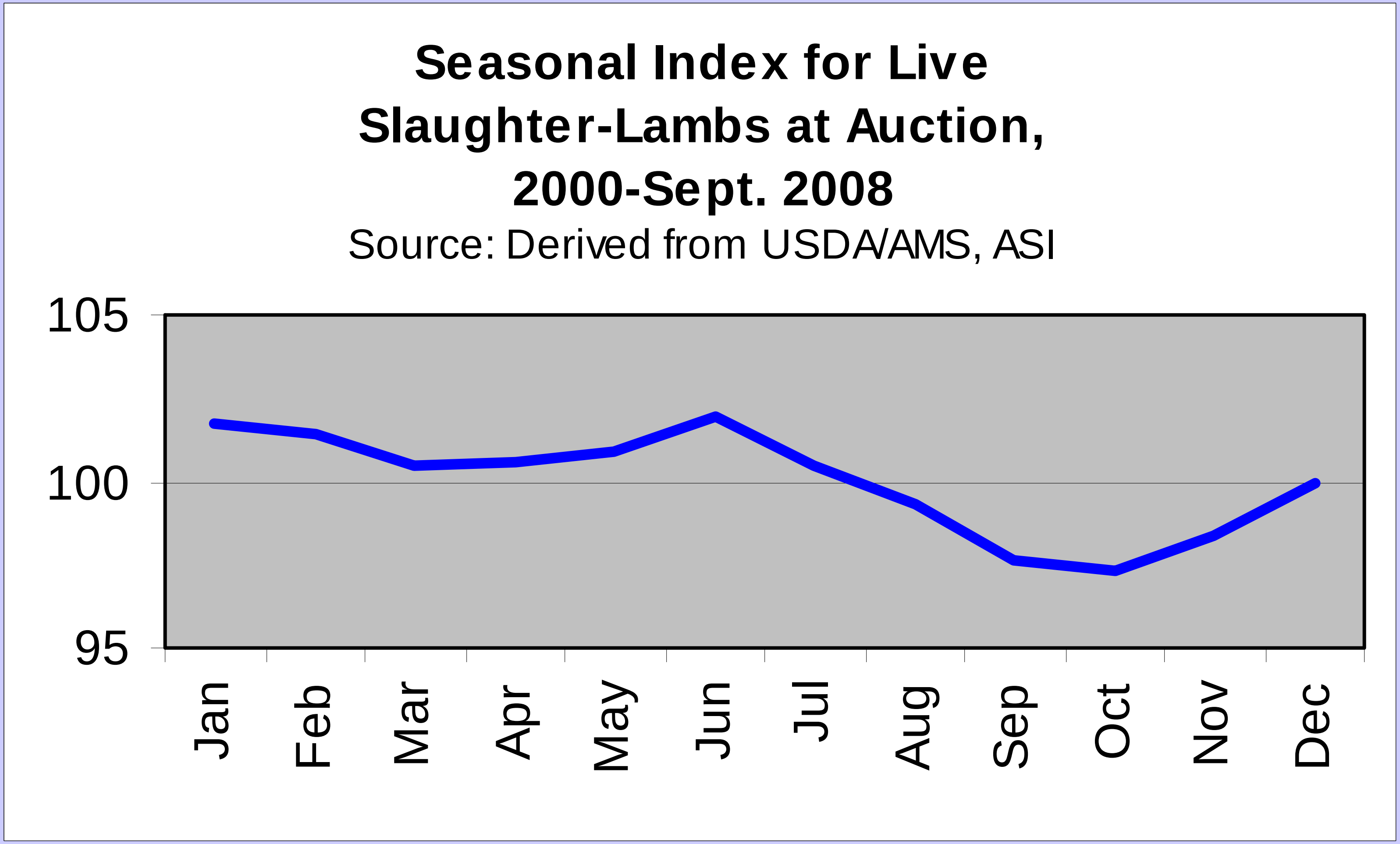
The index for feeder-lamb prices estimated a 3½% rise between Q3 and Q4.



The index for carcass-based formula slaughter-lamb prices estimated a 2%-drop between Q3 and Q4.



The index for live, auction, slaughter-lamb prices is forecasted to turn upward in Q4, but still remain 1% lower than Q3's average.



Strong Lamb Demand Can Help Support Retail Prices, Slaughter-Lamb Prices & Feeder-Lamb Prices

- Recall that increased lamb demand means more lamb is consumed at higher prices. Increased demand helps increase the profitability of lamb for all segments of the industry.
- Unfortunately, the demand index can not be updated to 2007. There are insufficient monthly retail observations reported by the Bureau of Labor Statistics to estimate the index at this time.
- However, a couple key market indicators are suggestive that lamb demand is remaining strong.

Possible Slowing Demand in Q4 2008

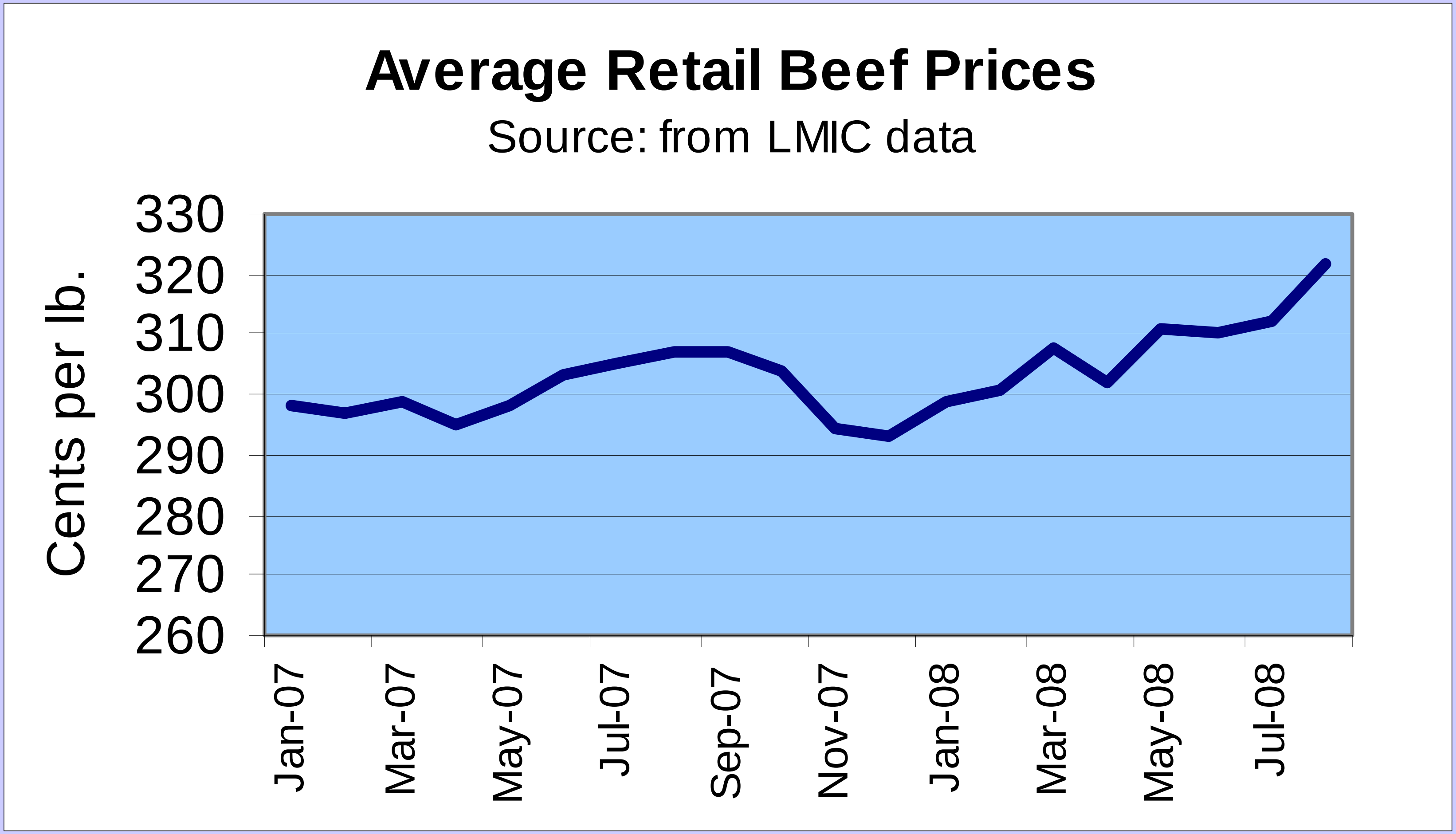
- In late September, LMIC reported that many meat prices were record high in August confirming speculations that consumers have been paying higher prices for meat and poultry items this summer. In August, retail beef prices were the highest in three decades.

- High beef prices make lamb more competitive, can help boost lamb sales. However, by mid-October retail beef saw some price softening – likely due to the economic slowdown -- which points to possible lower demand.

- Between Q2 and Q3 personal disposable income (after tax, in constant 2000 $s) increased one-half percent to $28,669.

- LMIC forecasted in early October that disposable income is expected to fall 0.12% between Q3 and Q4.

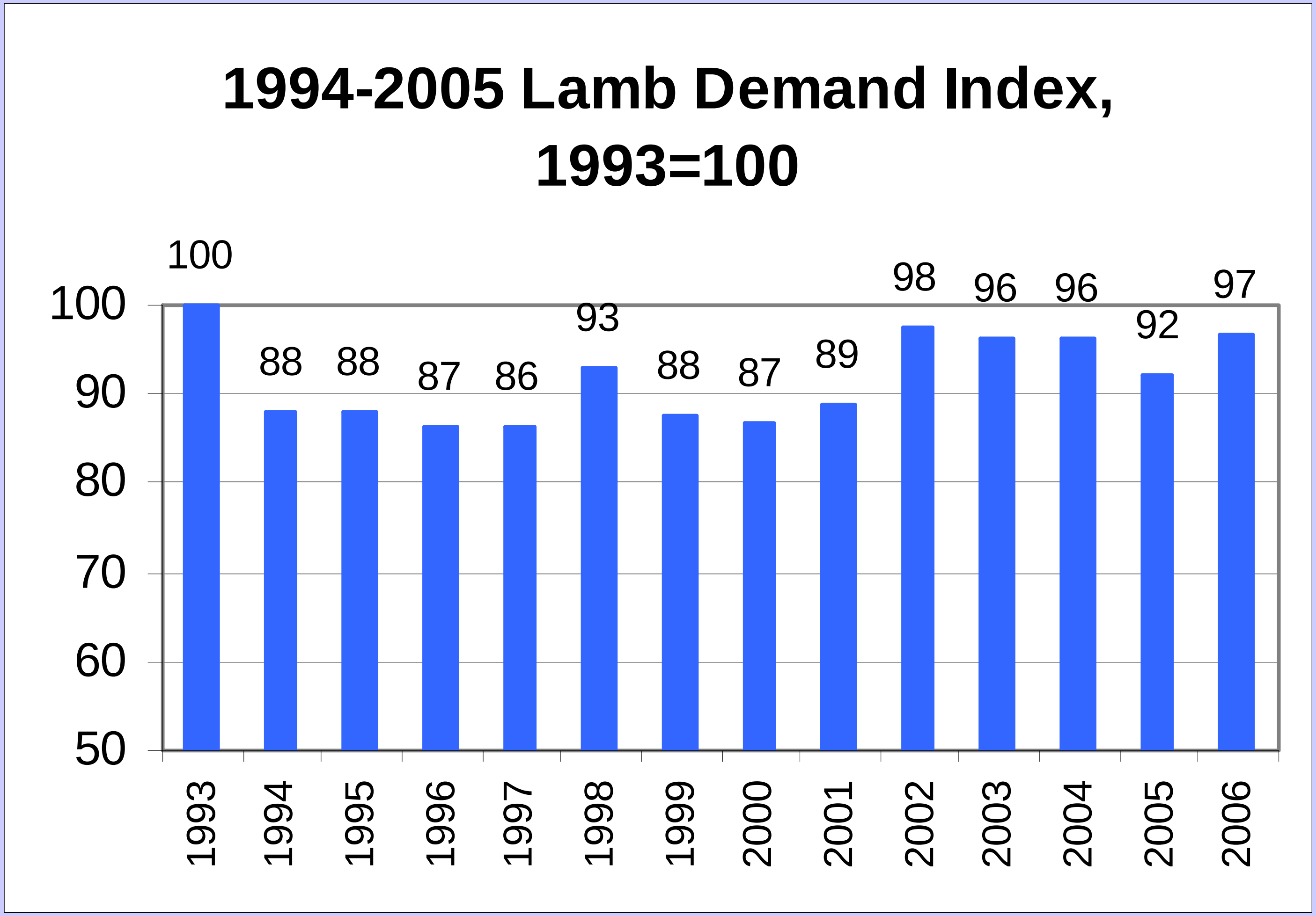
- Income and lamb demand are correlated. Lower income can point to lower lamb demand.



Average Retail Beef Prices
Source: from LMIC data
Cents per lb.
330
320
310
300
290
280
270
260
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Mar-08
May-08
Jul-08

Lamb Demand Increased 5% between 2005 and 2006

(Last year in which retail prices were available to calculate the index.)



III.
Carcass and Boxed Lamb Market Trends

Carcass Prices at Record High in June -- & Stayed High in Q3

- East Coast carcass prices gained 4% between Q1 and Q2 to $225.23/cwt.
- Prices jumped 10% in June to $239.40/cwt. – a record high.
- Prices averaged $241.27/cwt. in July, $238.95/cwt. in August and $235.99/cwt. in September.

Carcass Yield Grades 1 & 2 Down Through August

- Between Jan. and Aug., Yield Grades 1 & 2 averaged 35% of kill, down from 36% during the same period in 2007.

- Yield Grades 1 & 2 made up 39% of kill in June, 40% in July and 42% in August.

Carcass Yield Grade 3 Down in First Eight Months of Year

- Between Jan. and Aug., Yield Grade 3 averaged 47% of kill, down from 48% a year ago same period.
- Yield Grade 3 made up 43% of kill in June, 41% in July and 40% in August.

Carcass Yield
Grades 4 & 5 Up

- Between Jan. and Aug., Yield Grade 4 & 5 averaged 18% of kill, up from 17% during the same period in 2007.

- Yield Grades 4 & 5 made up 18% of kill in June, 19% in July and 19% in August.

Yield Grades for Federally Inspected Lamb and Mutton

Percentages, Fiscal Year

Source: USDA, AMS, Livestock and Seed Division.

	YG1	YG2	YG3	YG4	YG5
2002	6.1%	41.7%	39.9%	9.6%	2.7%
2003	5.3%	38.9%	42.8%	10.8%	2.3%
2004	4.7%	35.3%	45.7%	11.9%	2.4%
2005	5.1%	32.5%	46.9%	12.5%	3.1%
2006	4.2%	32.1%	47.2%	13.3%	3.3%
2007	4.2%	32.1%	47.2%	12.3%	3.1%
Jan.-Aug. '08	4.8%	30.5%	47.0%	14.3%	3.4%

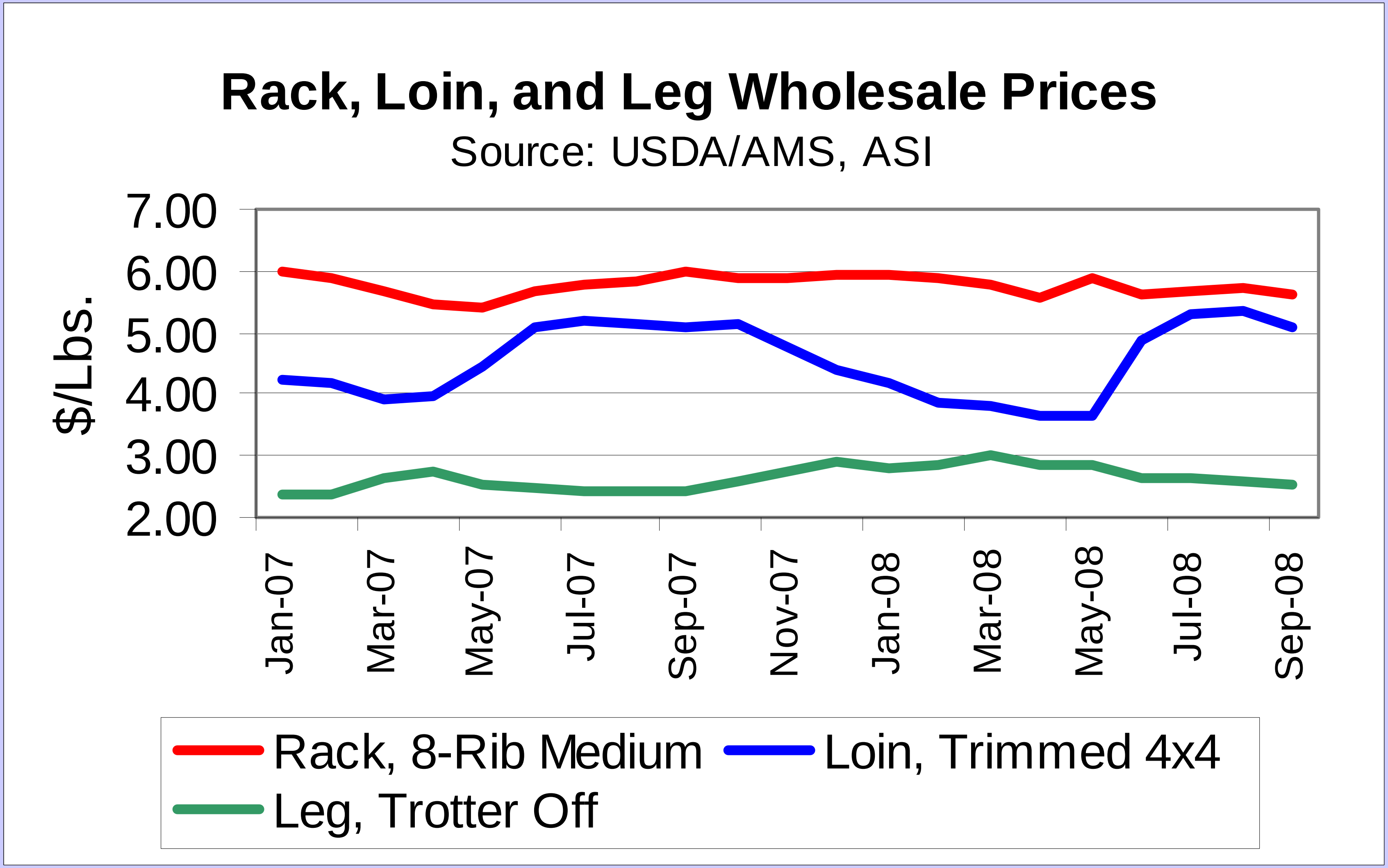
Wholesale Values
(i.e., Gross Carcass Value) Gained in Q3

- The gross carcass value averaged $276.06/cwt. in Q3, 7% higher than Q2 and 7% higher from Q3 2007.

- In the third quarter, both the loin and shoulder shot up about 30%. The leg fell 6% and the rack fell 1% between quarters.

- The USDA lamb purchase program has likely supported leg and shoulder prices.

- The gross carcass value was $278.25/cwt. in July, $277.55/cwt. in August and $272.40/cwt. in September.

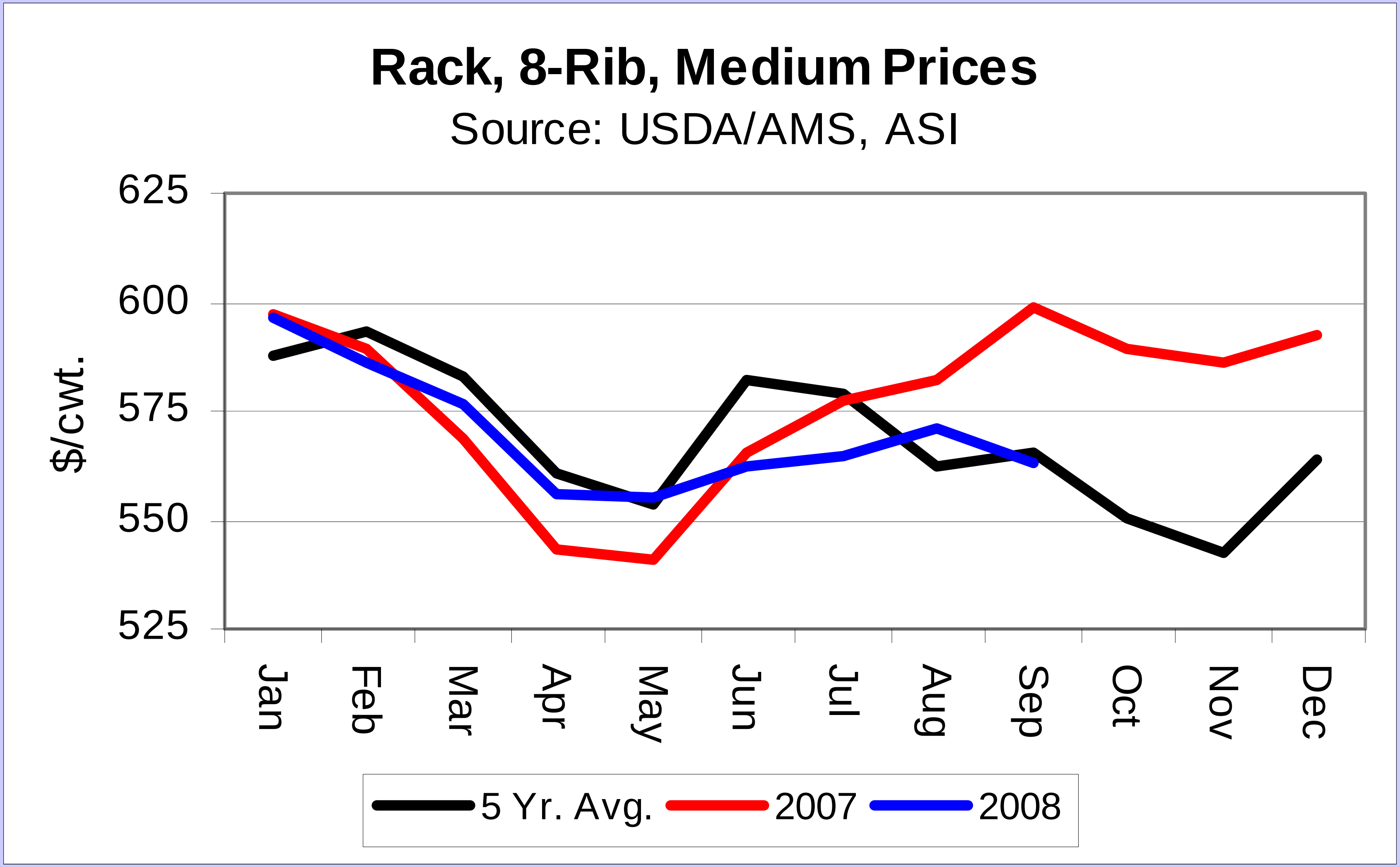


Rack, Loin, and Leg Wholesale Prices
Source: USDA/AMS, ASI
$/Lbs.
7.00
6.00
5.00
4.00
3.00
2.00
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Mar-08
May-08
Jul-08
Sep-08
Rack, 8-Rib Medium
Loin, Trimmed 4x4
Leg, Trotter Off

Rack Weakened in Q3

- The 8-rib medium rack fell 1% to $566.18/cwt. between Q2 and Q3, and 3% lower year-on-year.

- The rack averaged $564.37/cwt. in July, $571.20/cwt. in August and $562.97/cwt. in September.

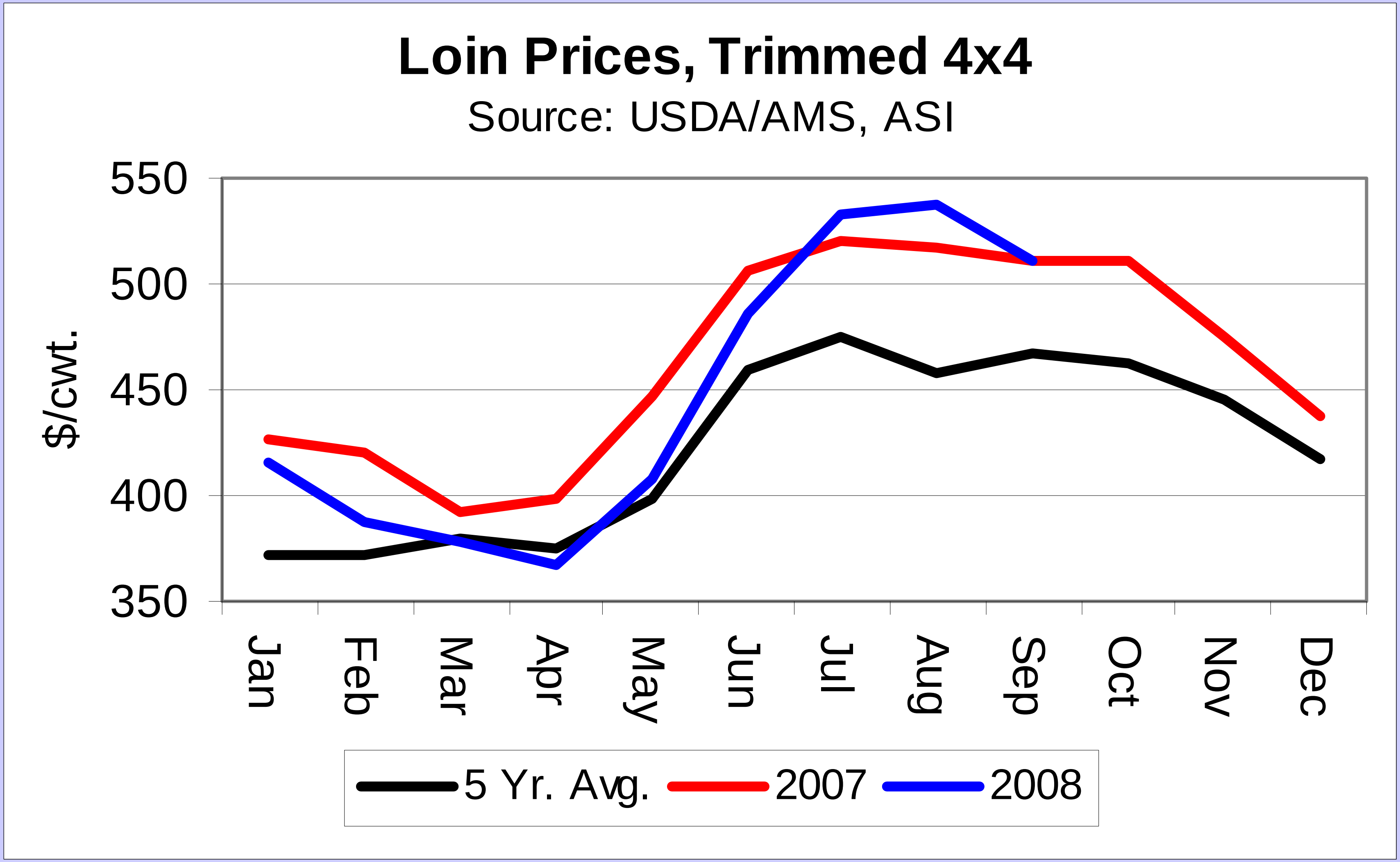

Rack, 8-Rib, Medium Prices
Source: USDA/AMS, ASI
$/cwt.
625
600
575
550
525
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
5 Yr. Avg.
2007
2008

Third-quarter Loin Up 30%

- The loin, trimmed 4x4, gained 30% in Q3 to average $526.82, and up 2% from Q3 2007.

- In July 2008 loin surpassed 2007 highs.

- The loin averaged $532.28/cwt. in July, $537.55/cwt. in August and $510.62/cwt. in September.

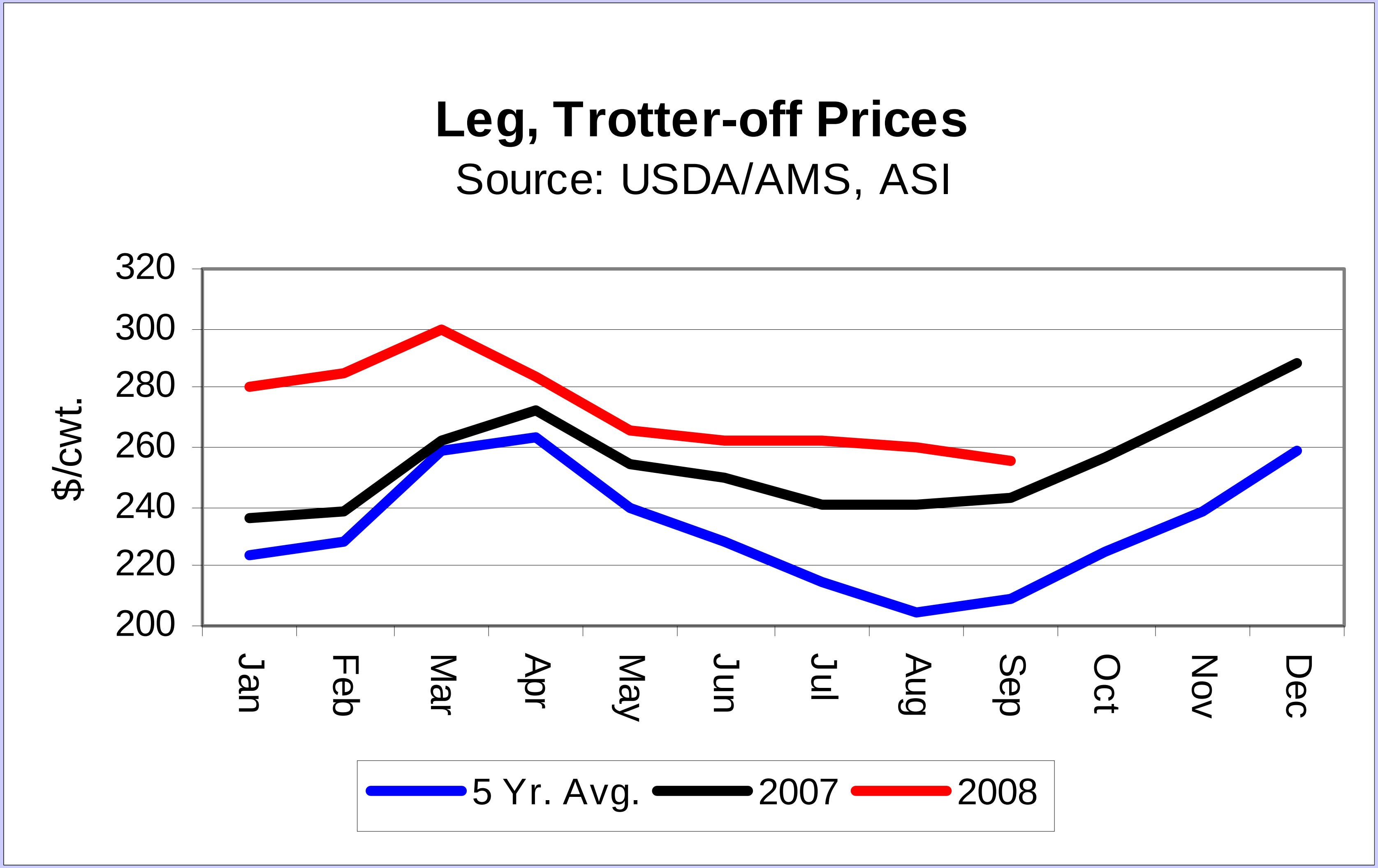


Loin Prices, Trimmed 4x4
Source: USDA/AMS, ASI
$/cwt.
550
500
450
400
350
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
5 Yr. Avg.
2007
2008

Leg Weakened in Q3

- The leg, trotter-off, fell 6% in Q3 to average $258.80/cwt – but up 7% from Q3 2007.

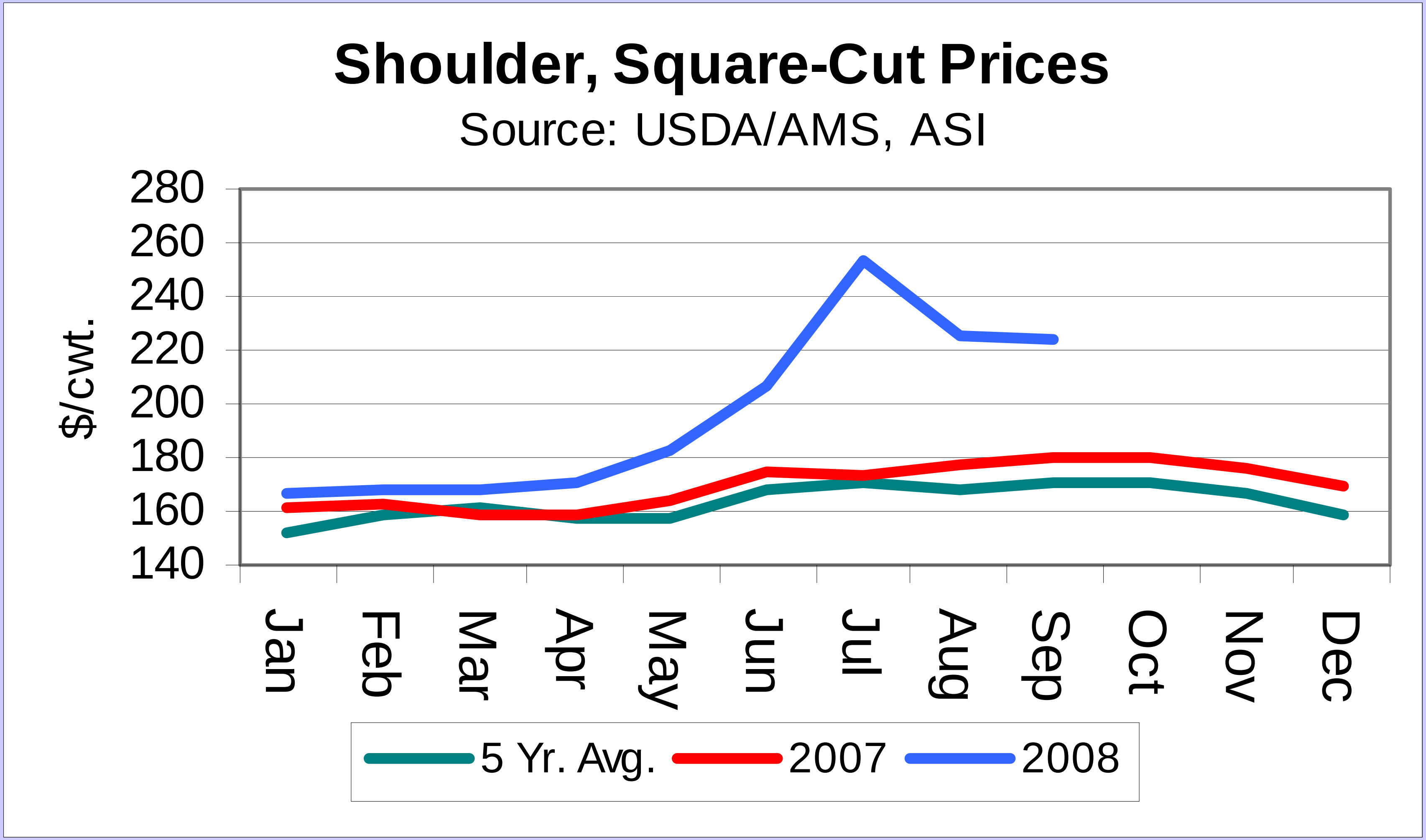
- The leg averaged $262/cwt. in July, $259.44/cwt. in August and $254.98/cwt. in September.



Leg, Trotter-off Prices
Source: USDA/AMS, ASI
$/cwt.
320
300
280
260
240
220
200
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
5 Yr. Avg.
2007
2008

Shoulder Hits Record High

- The square-cut shoulder averaged $234.30/cwt. in Q3 – up 28% from Q2 and up 32% from Q3 2007.
- The shoulder is at its highest level since Mandatory Price Reporting began in 2001.
- The shoulder averaged $253.71/cwt. in July, $225.60/cwt. in August and $223.53/cwt. in September.

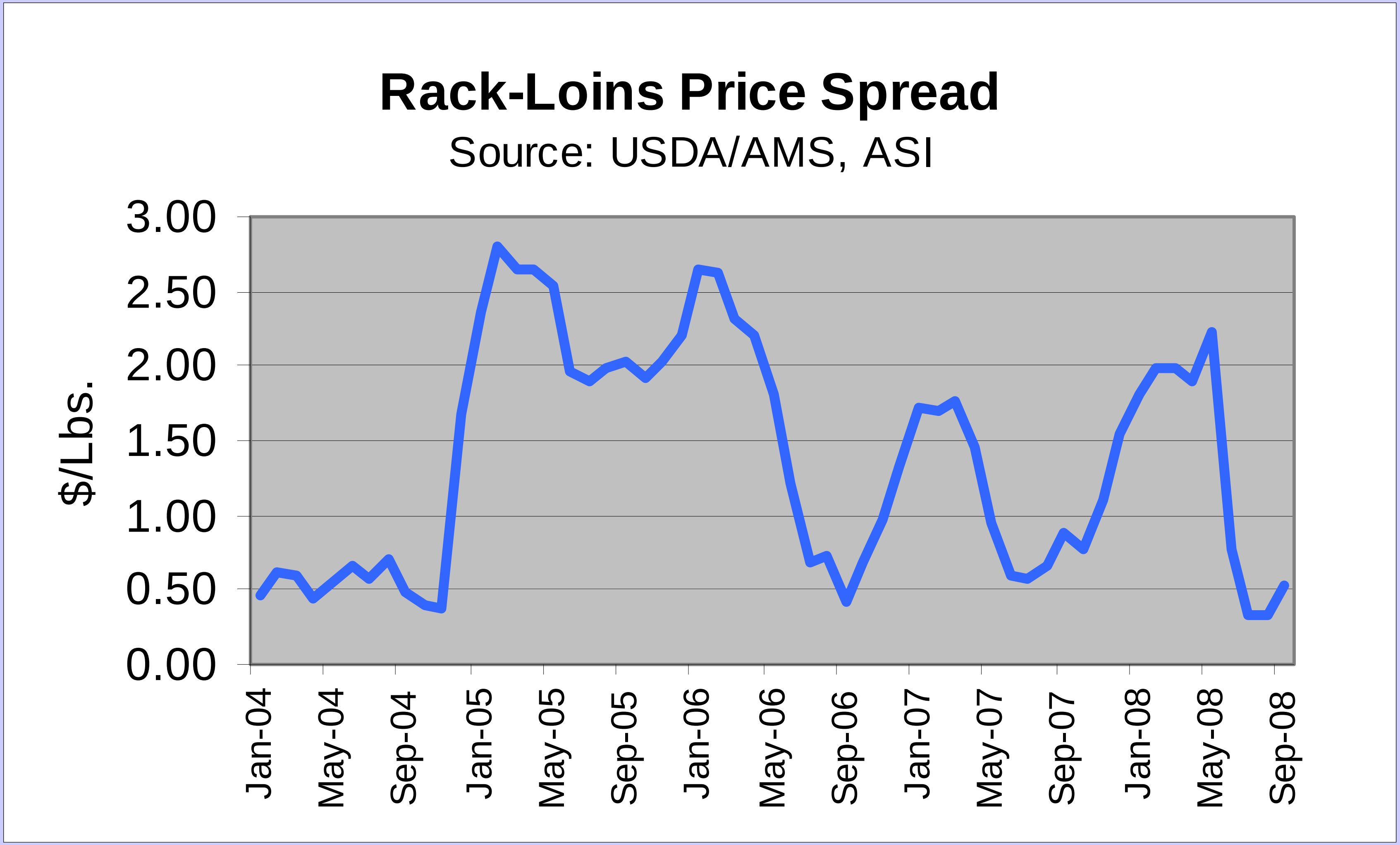


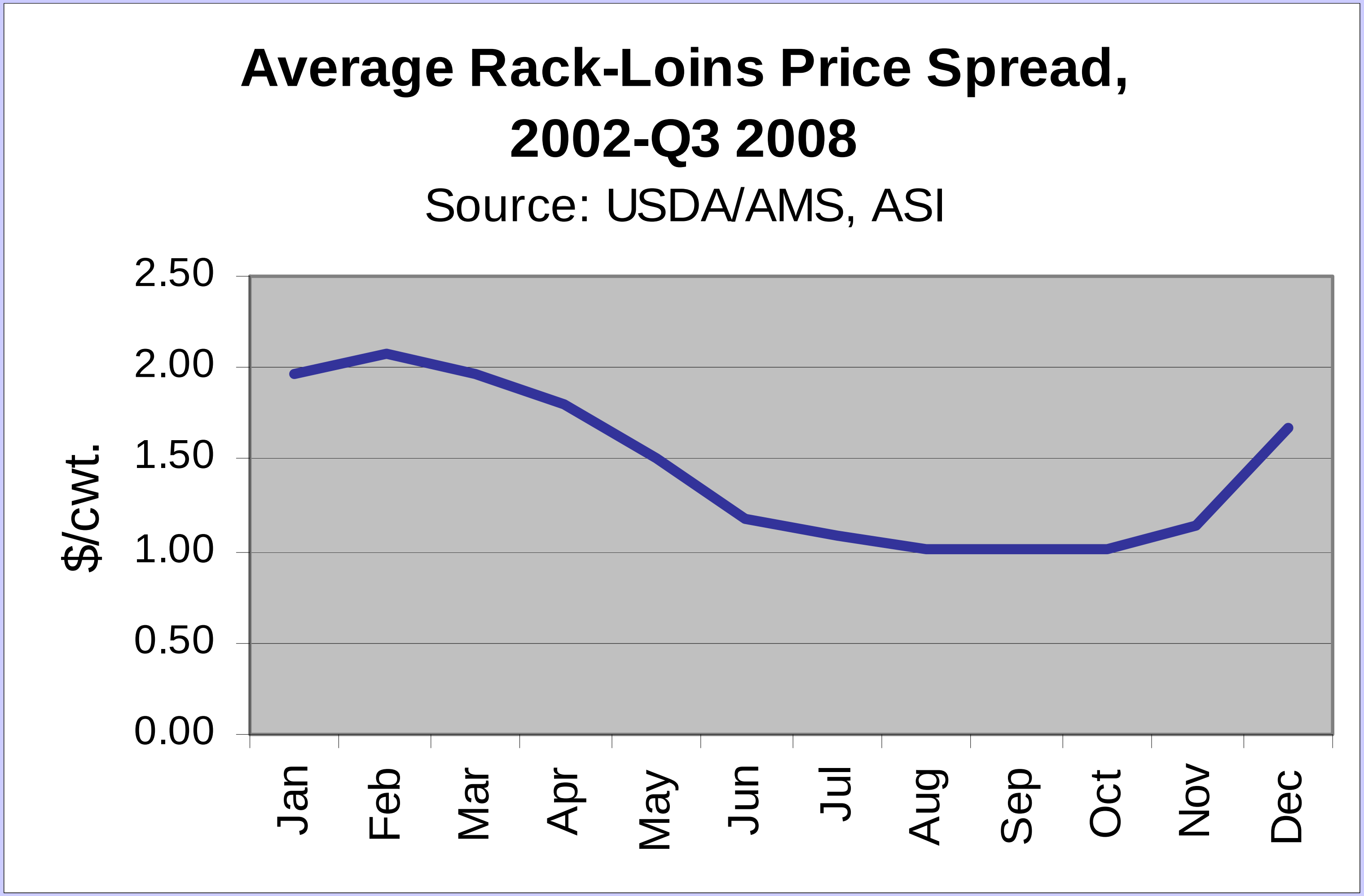
Shoulder, Square-Cut Prices
Source: USDA/AMS, ASI
$/cwt.
280
260
240
220
200
180
160
140
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
5 Yr. Avg.
2007
2008

Rack-Loin Price Spread Narrowed in Q3

- The rack-loin price spread fell 15% between Q2 and Q3, from $1.63/lb. to $0.39/lb. – 64% higher than Q3 2007.

- In the third quarter, the rack weakened while the loin gained.


Rack-Loins Price Spread
Source: USDA/AMS, ASI
$/Lbs.
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Sep-08


Average Rack-Loins Price Spread,
2002-Q3 2008
Source: USDA/AMS, ASI
$/cwt.
2.50
2.00
1.50
1.00
0.50
0.00
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

Third-Quarter Boxed Lamb Projections

- All wholesale lamb prices are at the mercy of the economic climate of this country. That said, lamb consumers are relatively higher-income households. It is believed that income and employment have not suffered as much for this group as for middle- and lower-income households.

- The loin might see some unseasonal gains this winter. The market research company the NPD Group announced, “Winter is becoming a new grilling season, (meatingplace.com, 10/14/08).

- The shoulder is a surprise and we might find that it defies seasonality in price that characterize other cuts.

IV.
Price Spreads

Price Spread Between Slaughter-Lamb and Feeder-Lamb Prices Narrowed: Break-Even Sensitivity Analysis

- In Q3, high feed costs continued to put downward pressure on feeder-lamb prices and narrow margins.
- Hay, other than alfalfa, averaged $126/ton in August and $122/ton in September, which was up from $111/ton last September.
- The average price of corn in the 2007/2008 marketing year was $4.20/bu. and was forecasted to reach the low $4s per bushel in late winter/early spring.
- Since this forecast, however, corn futures have come down to $3.84/bu. in December and $4.29/bu. in March (Chicago Board of Trade, 10/16/08).

Third-Quarter Feeder to Live Break-Even Described by One Feeder as “Devastating”

- Previous scenario whereby Texas new crop feeders sold out of Colorado feedlots in mid-July at an average 145 lbs. and roughly $1.13 cost of gain per lb. in feedlot. Breakeven was estimated up to $123.62/cwt

- The estimated break-even exceeded average slaughter-lamb prices.

- Average slaughter-lamb prices in July were $113.50/cwt. for carcass-based formula trades (converted to a live basis), $112.41/cwt. for live-based formula trades and $101.80/cwt. for live, auction trades.

Early Q4 Corn Prices Softened

- In the third quarter, the cost of gain rose from about \$1.05/lb. to about \$1.25/lb. in September, but fell sharply to about \$0.85/lb. for some when corn prices fell by mid-October.

- Freight cost from California to Colorado rose from about \$7.50 per head to \$9.50 per head due to high fuel costs, but also softened by mid-October.

- After months of being in the red, many feeders likely in the black again by mid-October.

Sensitivity Break-Even Analysis **A**: Lambs from Idaho selling out of Colorado feedlots in mid-October @ average 132 lbs. and *$1.25* cost of gain per lb. in feedlot.

Item	*Cost*
1. Total cost of feeder (97-lb. feeder @ $98/cwt.)	$95.06/head
2. Freight from California to Colorado	$9.00/head
3. Cost of Gain in Colorado feedlot (35 lbs. gained @ $1.25/lb. to 132 lbs.)	$43.75/head
4. Break even price of slaughter lamb @ 132 lbs.	$147.81/head
	$111.98/cwt.

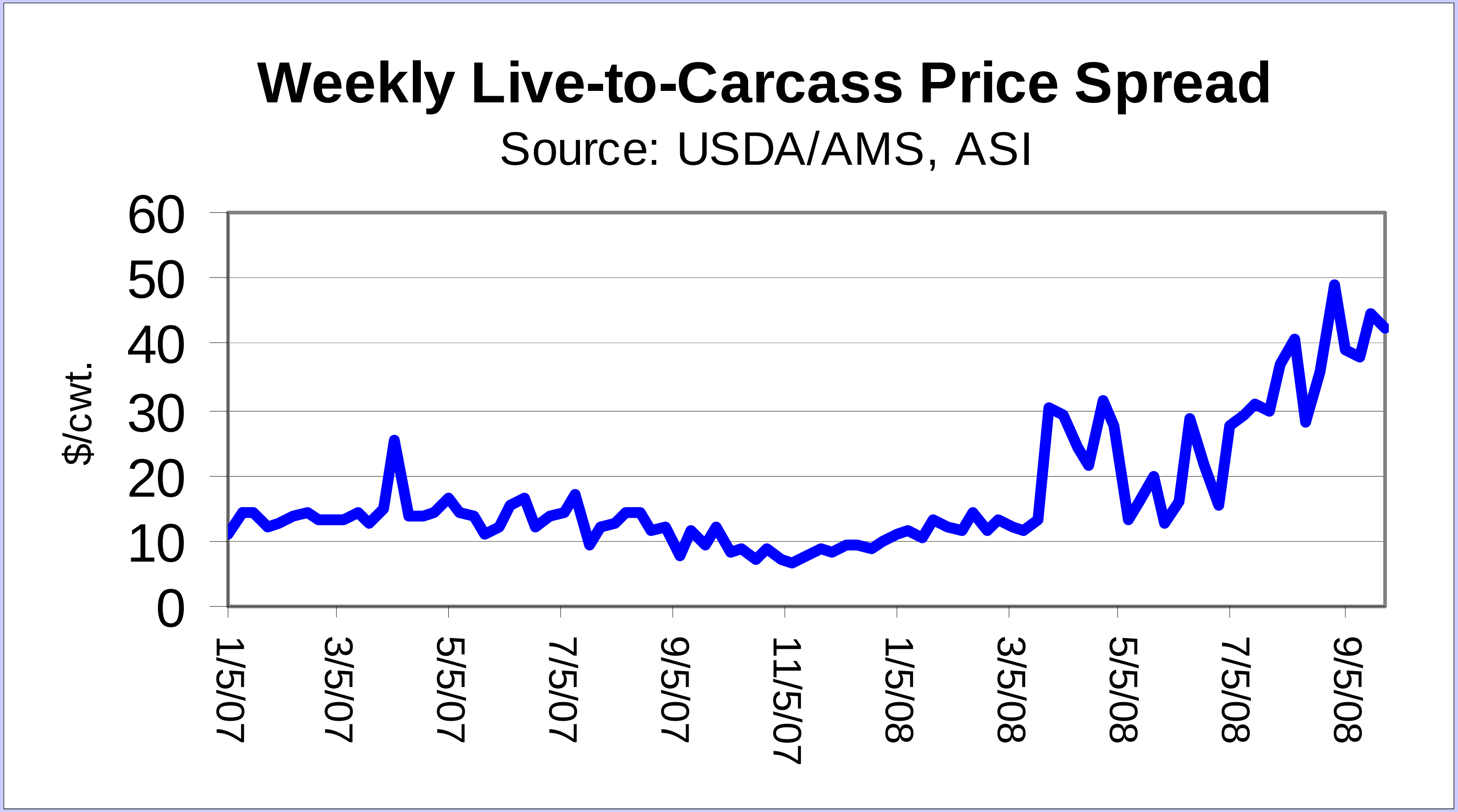
Sensitivity Break-Even Analysis **B**: Lambs from Idaho selling out of Colorado feedlots in mid-October @ average 132 lbs. and *$0.85* cost of gain per lb. in feedlot.

Item	*Cost*
1. Total cost of feeder (97-lb. feeder @ $98/cwt.)	$95.06/head
2. Freight from California to Colorado	$9.00/head
3. Cost of Gain in Colorado feedlot (35 lbs. gained @ $0.85/lb. to 132 lbs.)	$29.75/head
4. Break even price of slaughter lamb @ 132 lbs.	$133.81/head
	$101.37/cwt.

Live to Carcass Price Spread Widened Sharply

- The live to carcass price spread jumped 122% between Q2 and Q3 from $21/cwt. to $47/cwt. – 294% higher year-on-year.

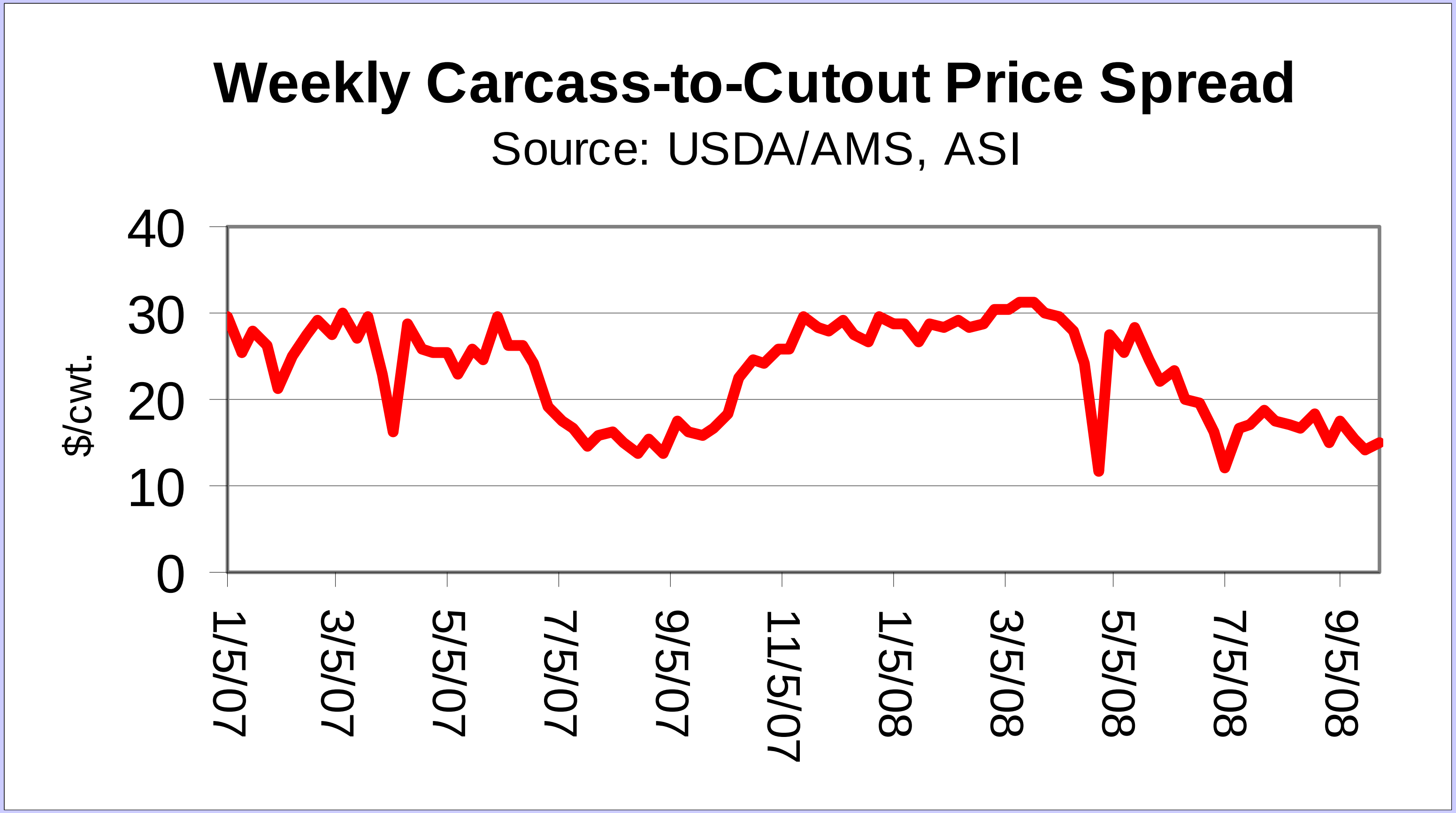
- The spread was $30/cwt. in July, $38/cwt. in August and $41/cwt. in September.


Weekly Live-to-Carcass Price Spread
Source: USDA/AMS, ASI
$/cwt.
60
50
40
30
20
10
0
1/5/07
3/5/07
5/5/07
7/5/07
9/5/07
11/5/07
1/5/08
3/5/08
5/5/08
7/5/08
9/5/08

Carcass to Cutout Price Spread Narrowed Sharply

- The carcass to cutout price spread fell 30% between Q2 and Q3 to $16/cwt. – 4% higher year-on-year.

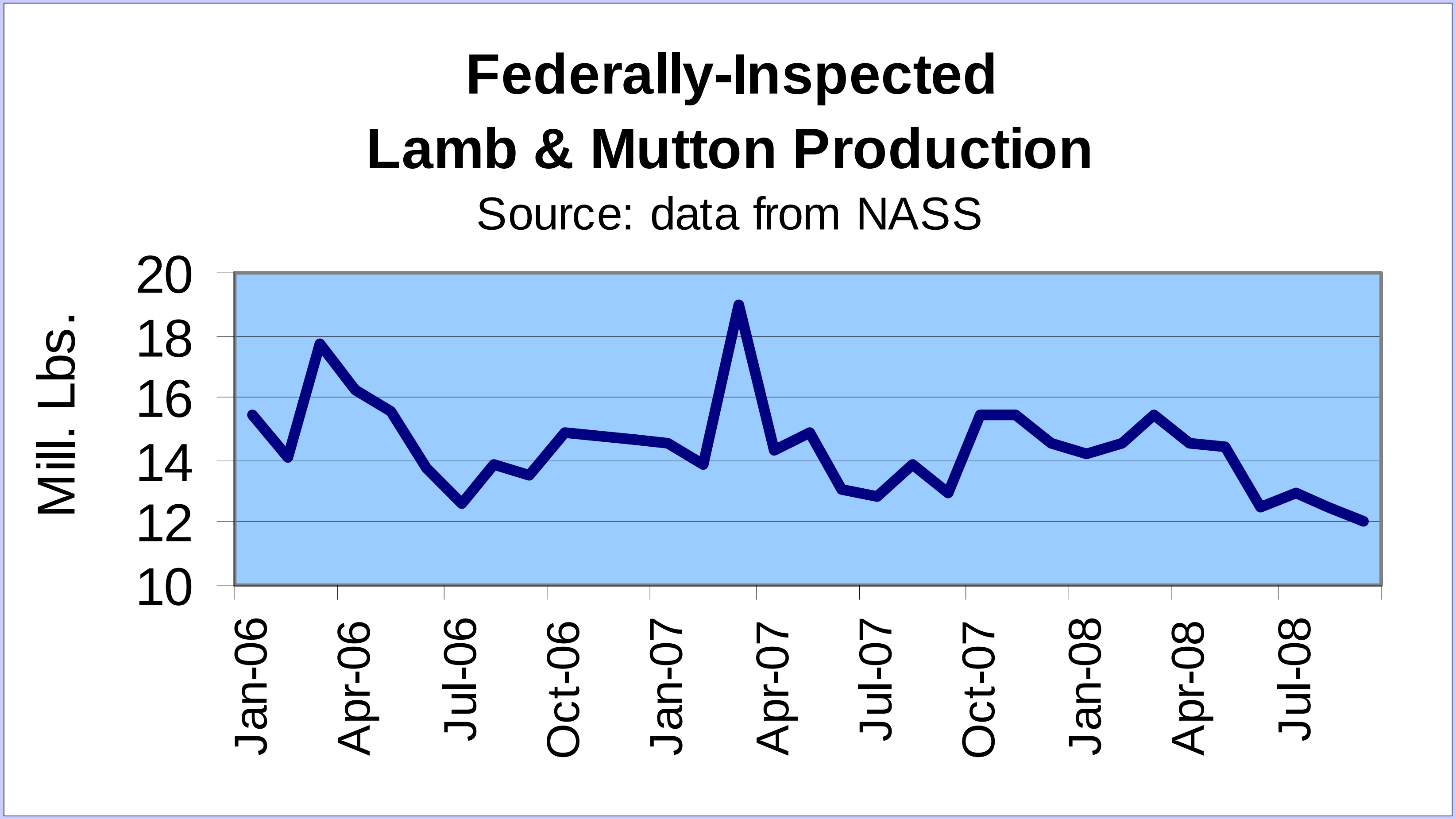
- The spread was $17/cwt. in July, $17/cwt. in August and $15/cwt. in September.


Weekly Carcass-to-Cutout Price Spread
Source: USDA/AMS, ASI
$/cwt.
40
30
20
10
0
1/5/07
3/5/07
5/5/07
7/5/07
9/5/07
11/5/07
1/5/08
3/5/08
5/5/08
7/5/08
9/5/08

V.
Domestic Production and Imports

Lamb & Mutton Production Down

- Lamb and mutton production was down 4 percent year-to-year to 124.4 million lbs. through September.
- The 4.6-percent drop in slaughter numbers most likely explained the production contraction because live weights were up 1 percent to 139.9 lbs.
- Imports have historically kept lamb availability about constant, but this year, imports have slowed and thus so have total lamb marketing in the United States.


Federally-Inspected
Lamb & Mutton Production
Source: data from NASS
Mill. Lbs.
20
18
16
14
12
10
Jan-06
Apr-06
Jul-06
Oct-06
Jan-07
Apr-07
Jul-07
Oct-07
Jan-08
Apr-08
Jul-08

Production Forecasts

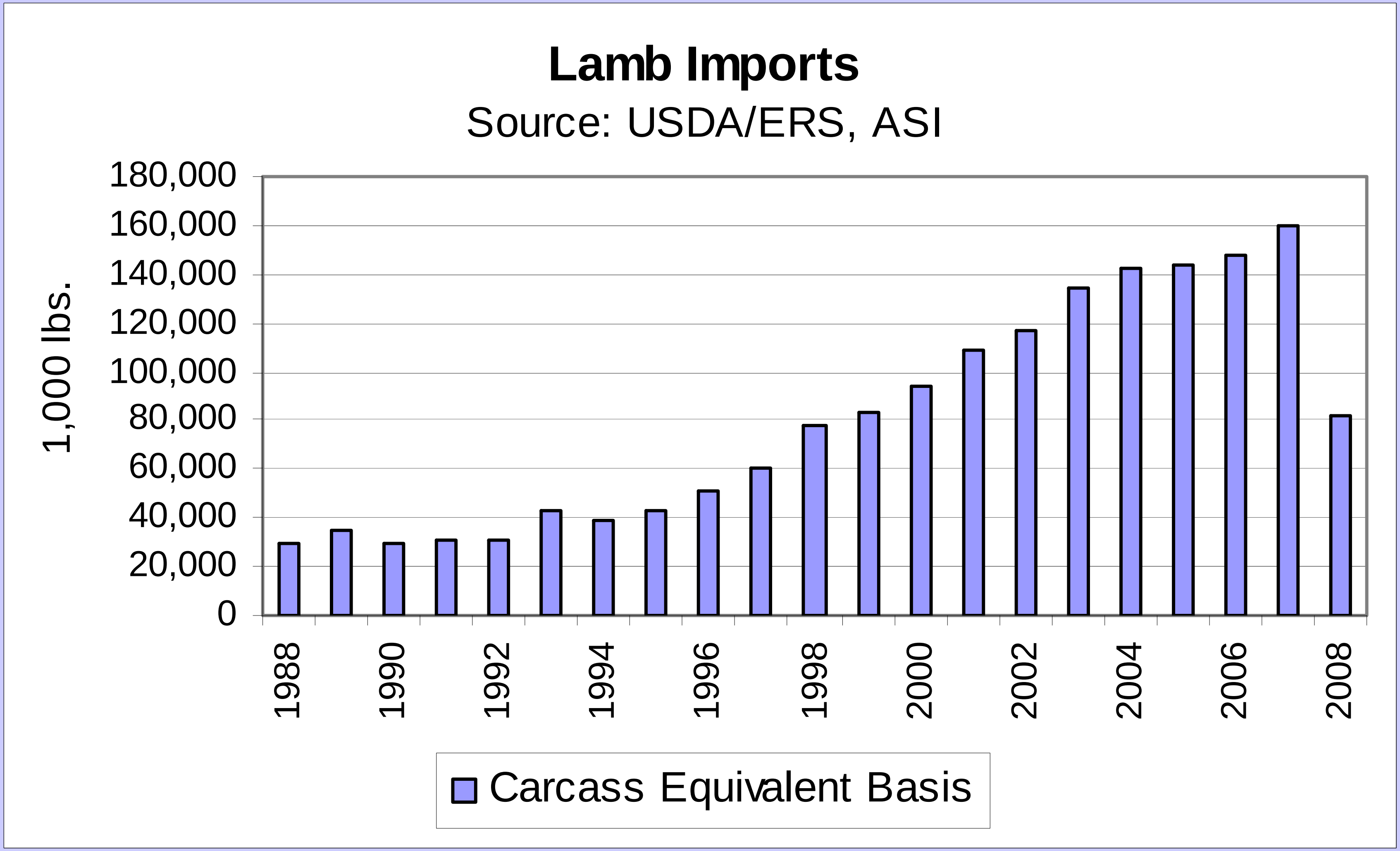
- Total lamb and mutton availability (domestic plus imports) in the fourth quarter was forecasted by LMIC in early October at 113 million lbs., down from 122 million lbs. a year ago, fourth quarter.

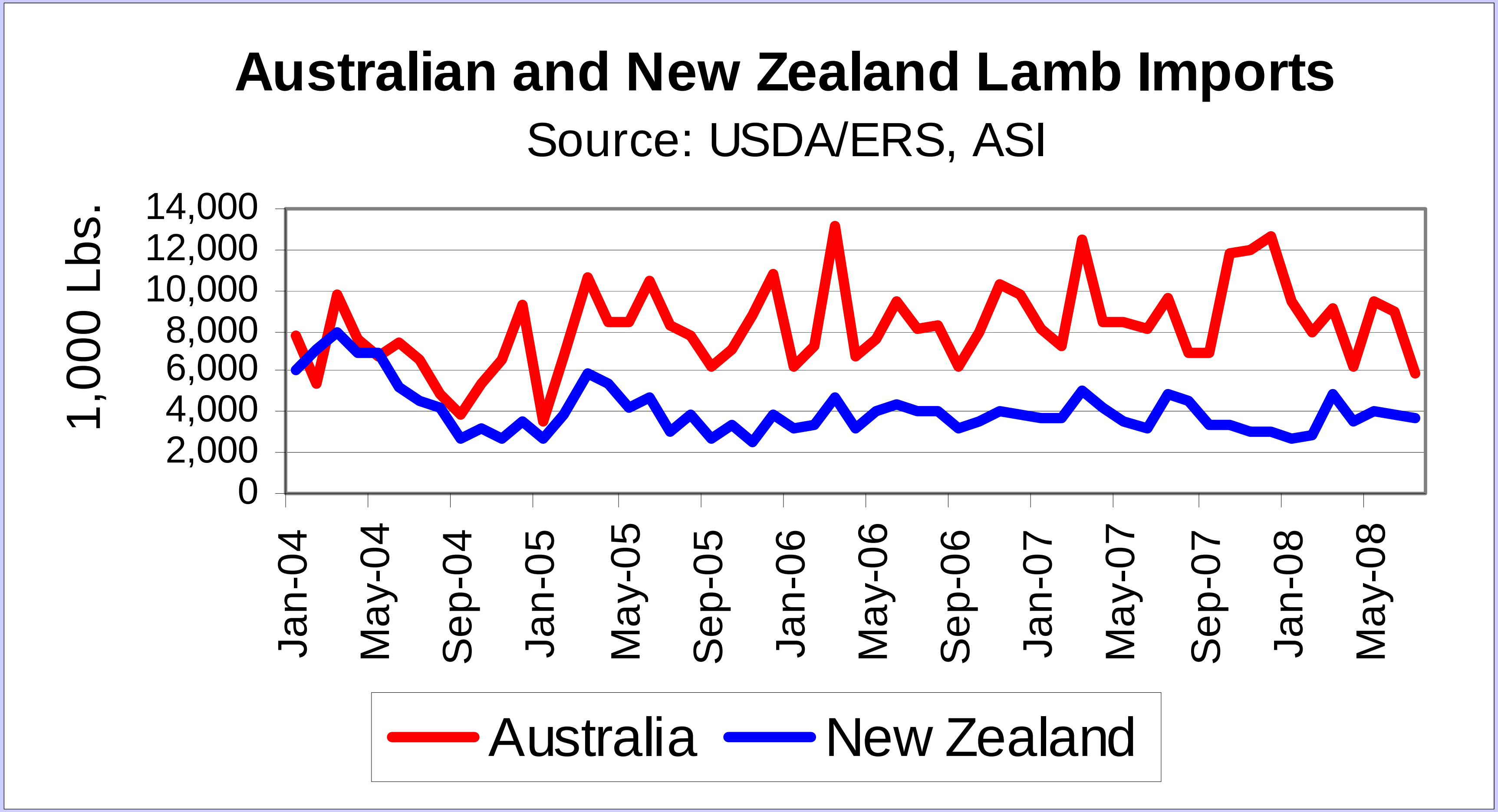
- LMIC forecasted that in Q4, slaughter numbers will total 687,000 head, down from 714,000 head Q4 2007 (LMIC, 10/17/08).

- For the year, the forecasted total is 432 million lbs., compared to 452 million lbs. in 2007.

Lamb Imports Drop!

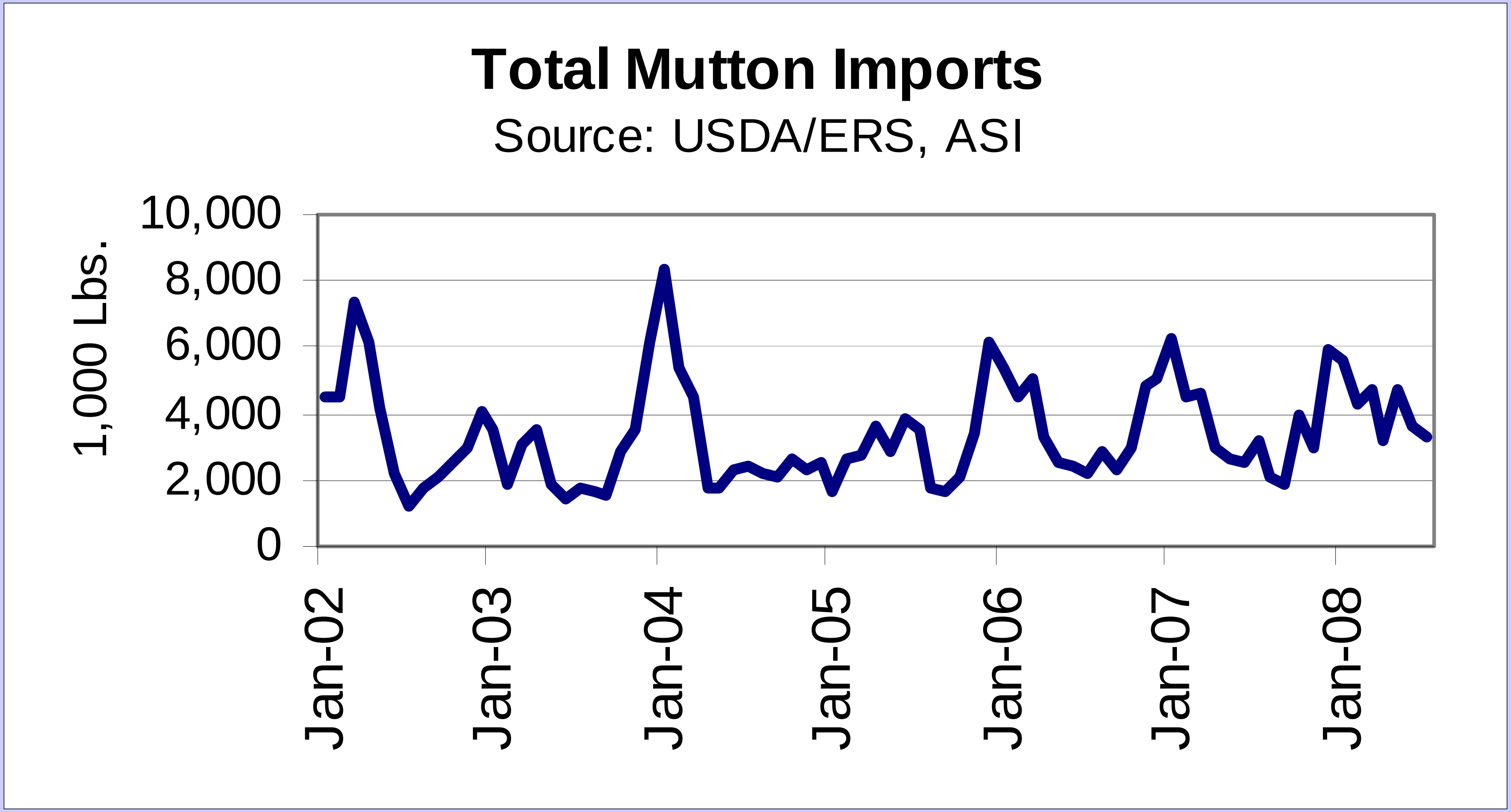
- Between January and July, lamb and mutton imports fell to 111.9 million lbs. – down 5 percent year-to-year.
- Lamb alone was down 9 percent year-to-year to 82.6 million lbs. through July. Imports from both and Australia and New Zealand were down 9 percent.
- Lamb imports totaled 13.4 mill. lbs. in May, 12.9 mill. lbs. in June and 9.6 mill. lbs. in July.


Lamb Imports
Source: USDA/ERS, ASI
1,000 lbs.
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Carcass Equivalent Basis


Australian and New Zealand Lamb Imports
Source: USDA/ERS, ASI
1,000 Lbs.
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Australia
New Zealand

Mutton Imports Decrease

- Between January and July, mutton imports gained 10% from 26.6 mill. lbs. last year to 29.3 mill. lbs. this year.
- Between January and July, Australia’s mutton imports were down 17% to 20.2 mill. lbs. and New Zealand’s imports were up 282% to 9.1 mill. lbs.
- Mutton imports totaled 4.7 mill. lbs. in May, 3.6 mill. lbs. in June and 3.3 mill. lbs. in July.

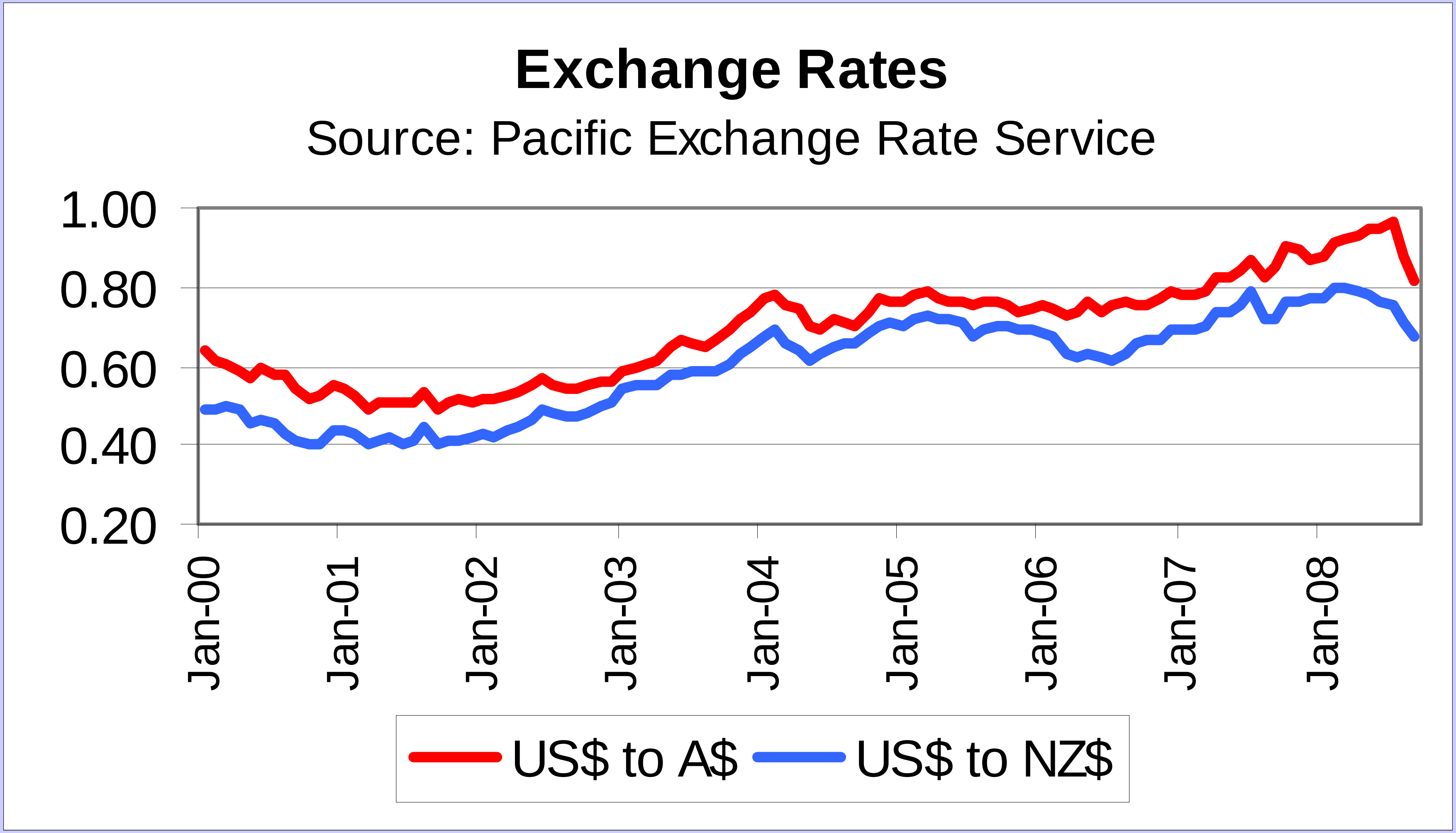

Total Mutton Imports
Source: USDA/ERS, ASI
1,000 Lbs.
10,000
8,000
6,000
4,000
2,000
0
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08

Recent Strengthening of US$ Against A$ and NZ$ Helps Lamb Importers

- The U.S./Australian exchange rate fell 6% between Q2 and Q3 – from 0.9437 to 0.8865 US$/A$. It takes fewer US$ to buy one A$.

- The U.S./New Zealand exchange rate fell 8% between Q2 and Q3 -- from US$/NZ$ 0.7764 to US$/NZ$ $0.7121.

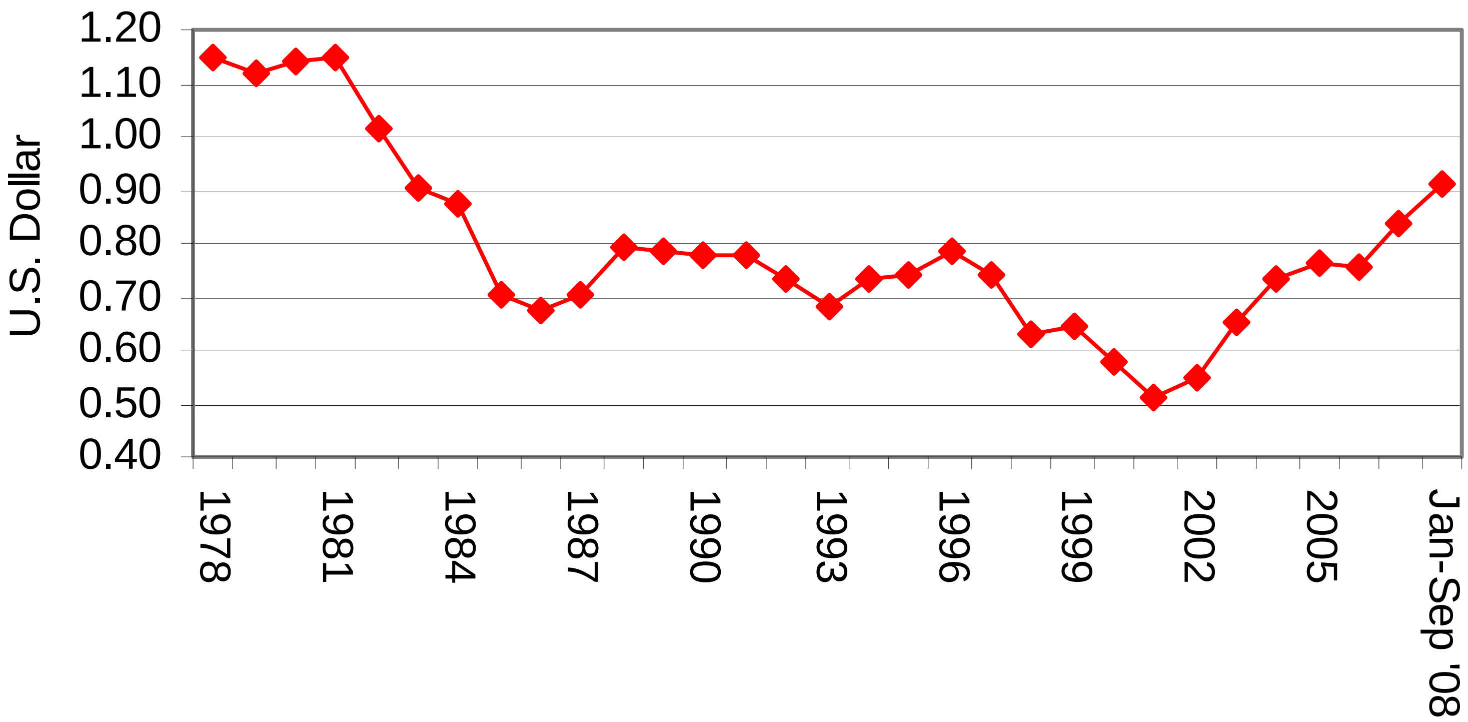
- In the nine months through Sept., however, the US$/A$ was 11% weaker and the US$/NZ$ was 5% weaker year-on-year.

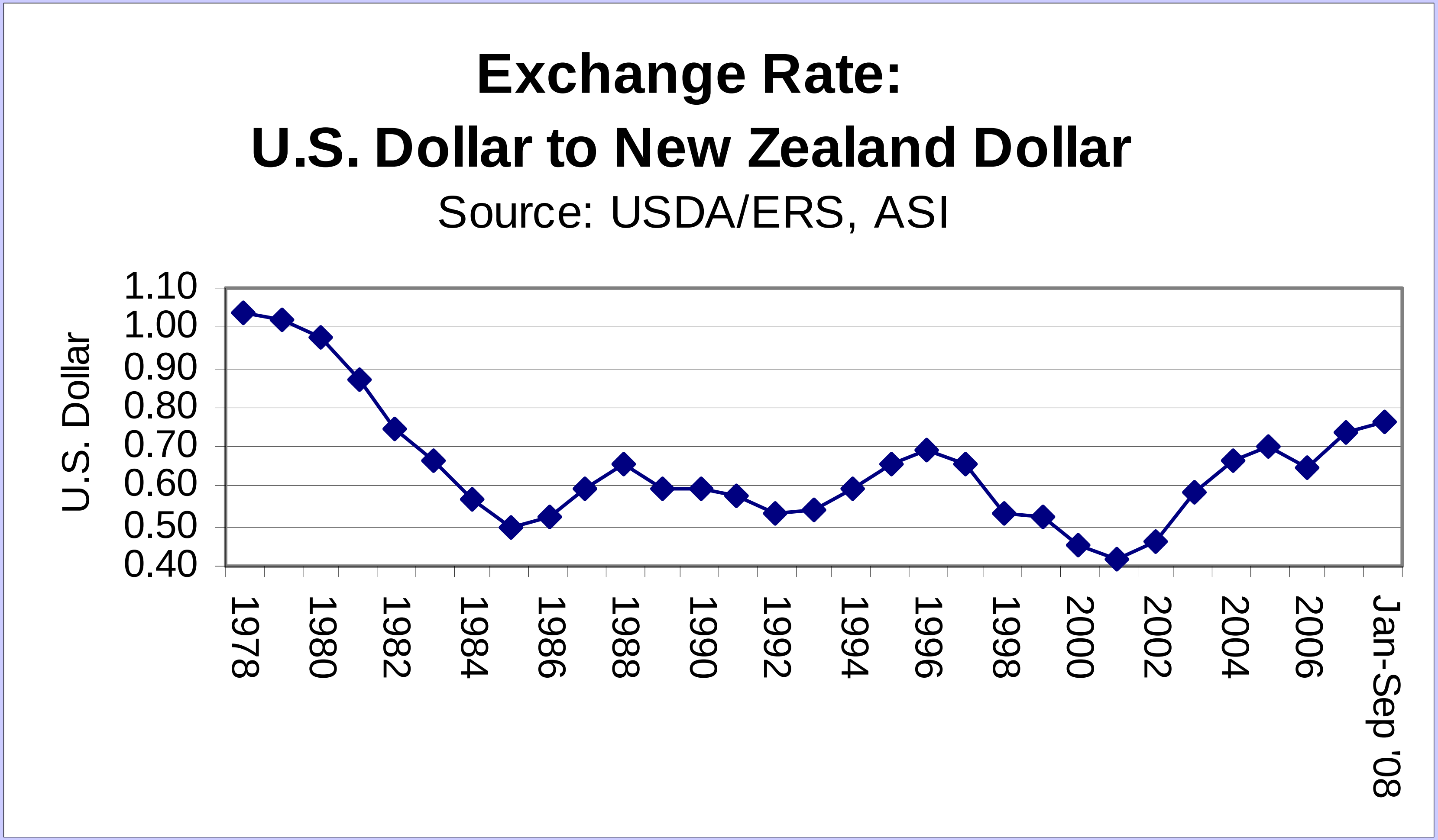


Exchange Rates
Source: Pacific Exchange Rate Service
1.00
0.80
0.60
0.40
0.20
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
US$ to A$
US$ to NZ$

Exchange Rate:
U.S. Dollar to Australian Dollar

Source: USDA/ERS, ASI




Exchange Rate:
U.S. Dollar to New Zealand Dollar
Source: USDA/ERS, ASI
U.S. Dollar
1.10
1.00
0.90
0.80
0.70
0.60
0.50
0.40
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
Jan-Sep '08

Lamb Import Forecasts

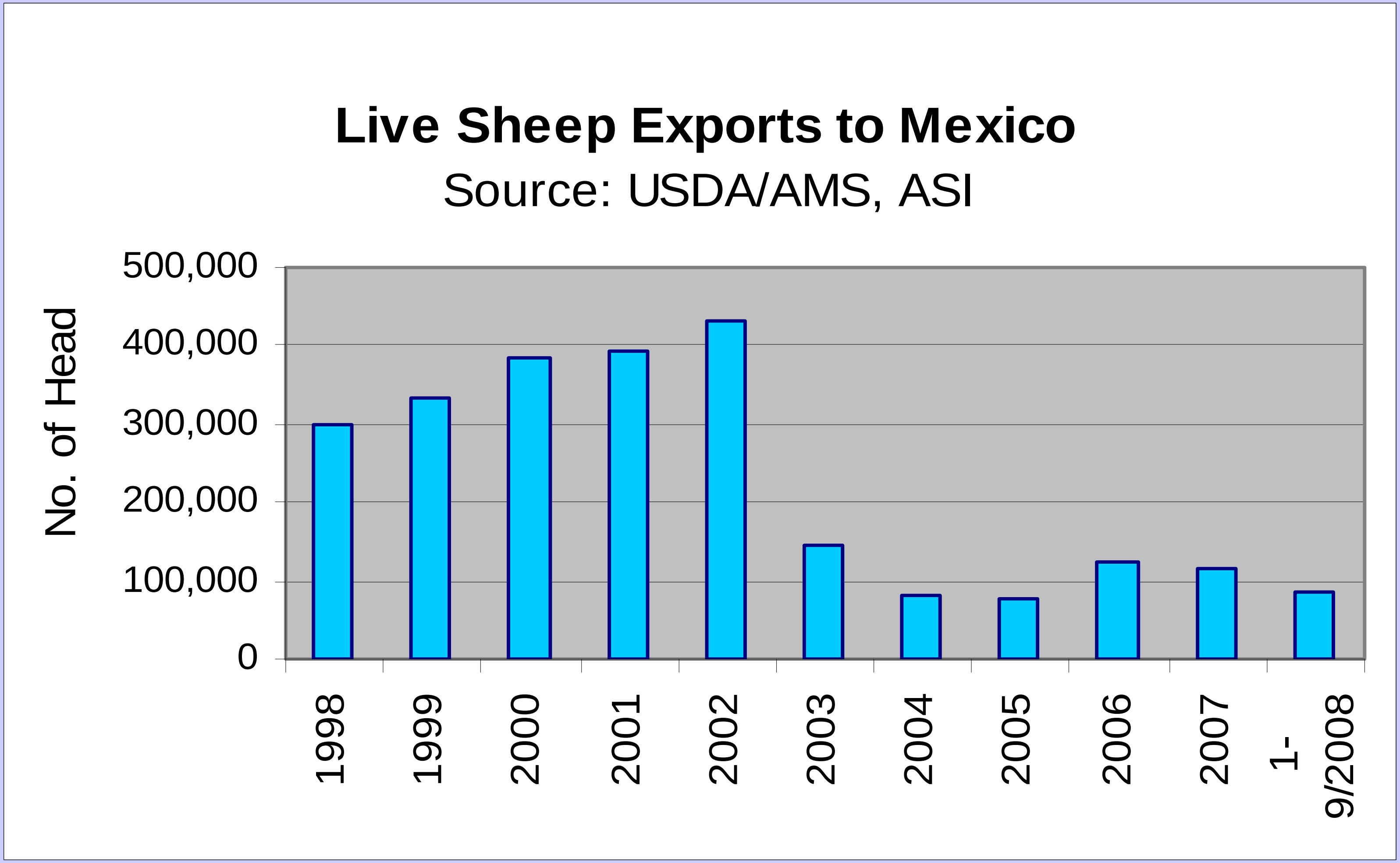
- Reduced lamb and mutton availability this year stems from not only lower domestic production but also lower import levels.

- In the fourth quarter, LMIC forecasted in mid-Oct. that imports could total 52 million lbs., down from 59.1 million lbs. a year ago, Q4.

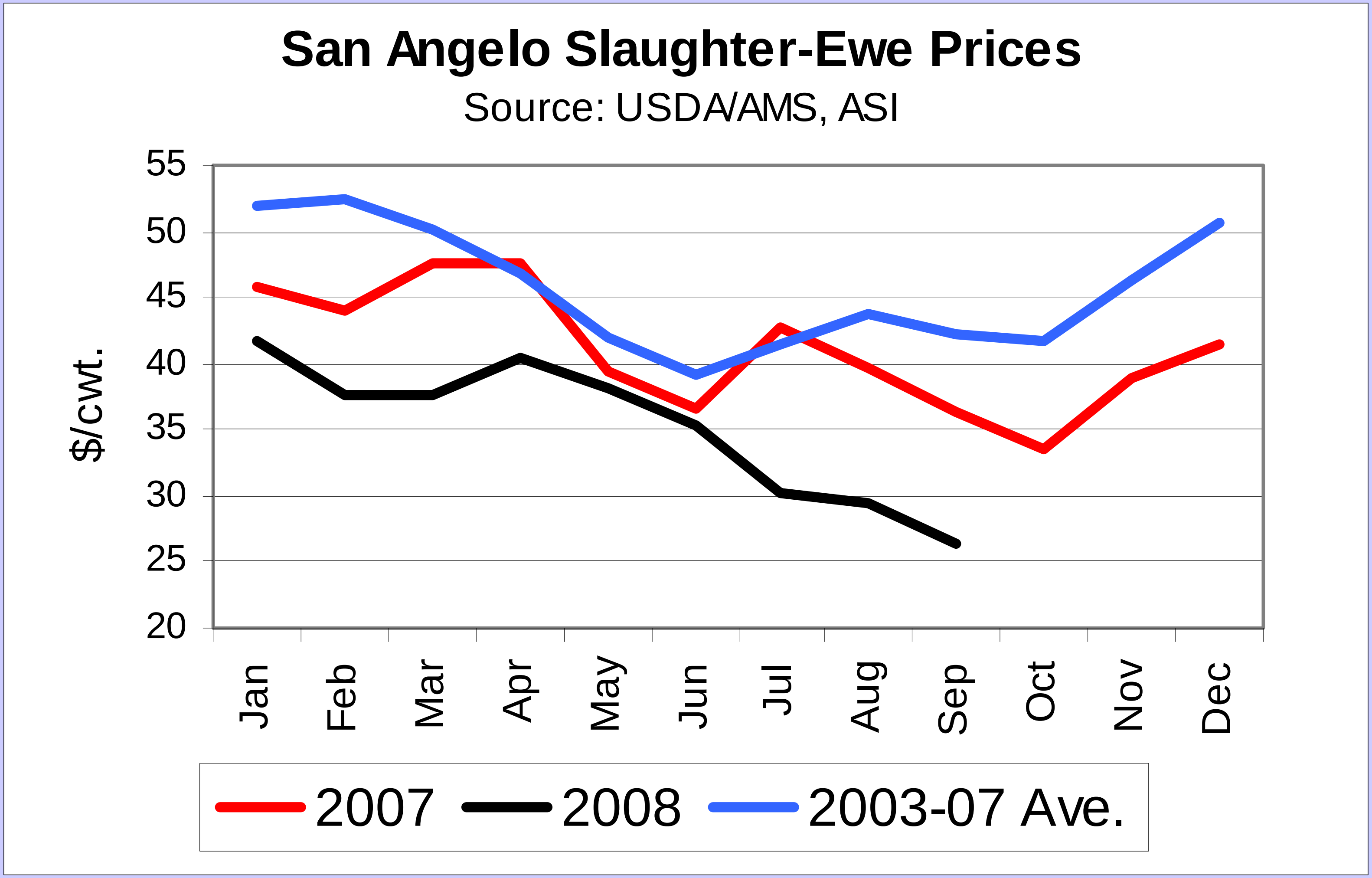
- For the year, imports could total 189.03 million lbs., down from 202.65 million lbs. in 2007 (LMIC, 10/17/2008). If realized, this would be the second time since 1994 that imports fell annually.

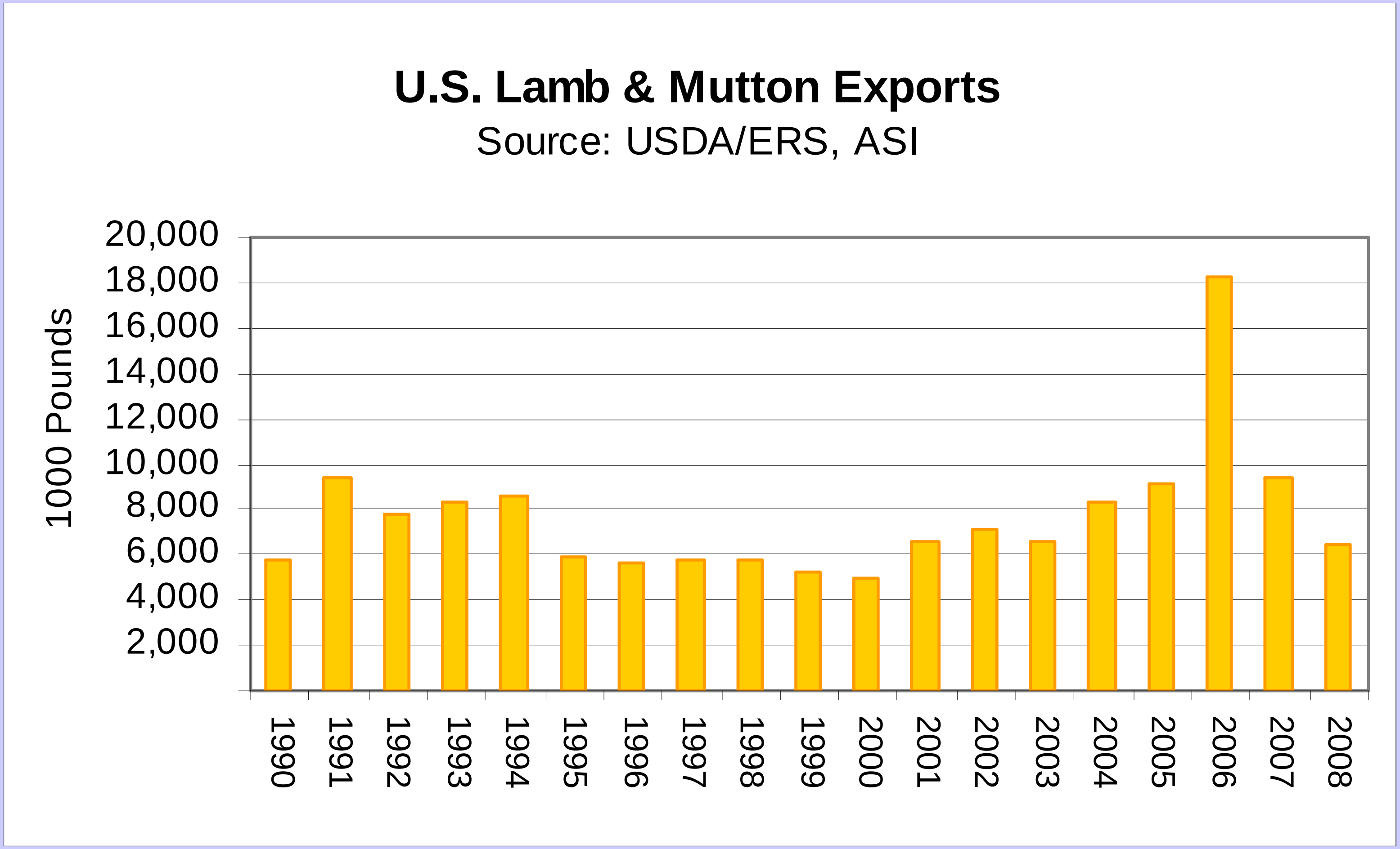
Live and Meat Exports Up Through July

- In June, 1 million lbs. of lamb and mutton were exported and 1.2 million lbs. in July.
- For the year ending July, 6.4 million lbs. were exported, up from 6.1 million lbs. during the same period in 2007.
- Live ewe exports to Mexico were down for the year through September to 83,914 head compared to 99,949 head a year ago.
- Tighter livestock border regulations likely explain some of the reduced export flow.


Live Sheep Exports to Mexico
Source: USDA/AMS, ASI
No. of Head
500,000
400,000
300,000
200,000
100,000
0
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
1-9/2008

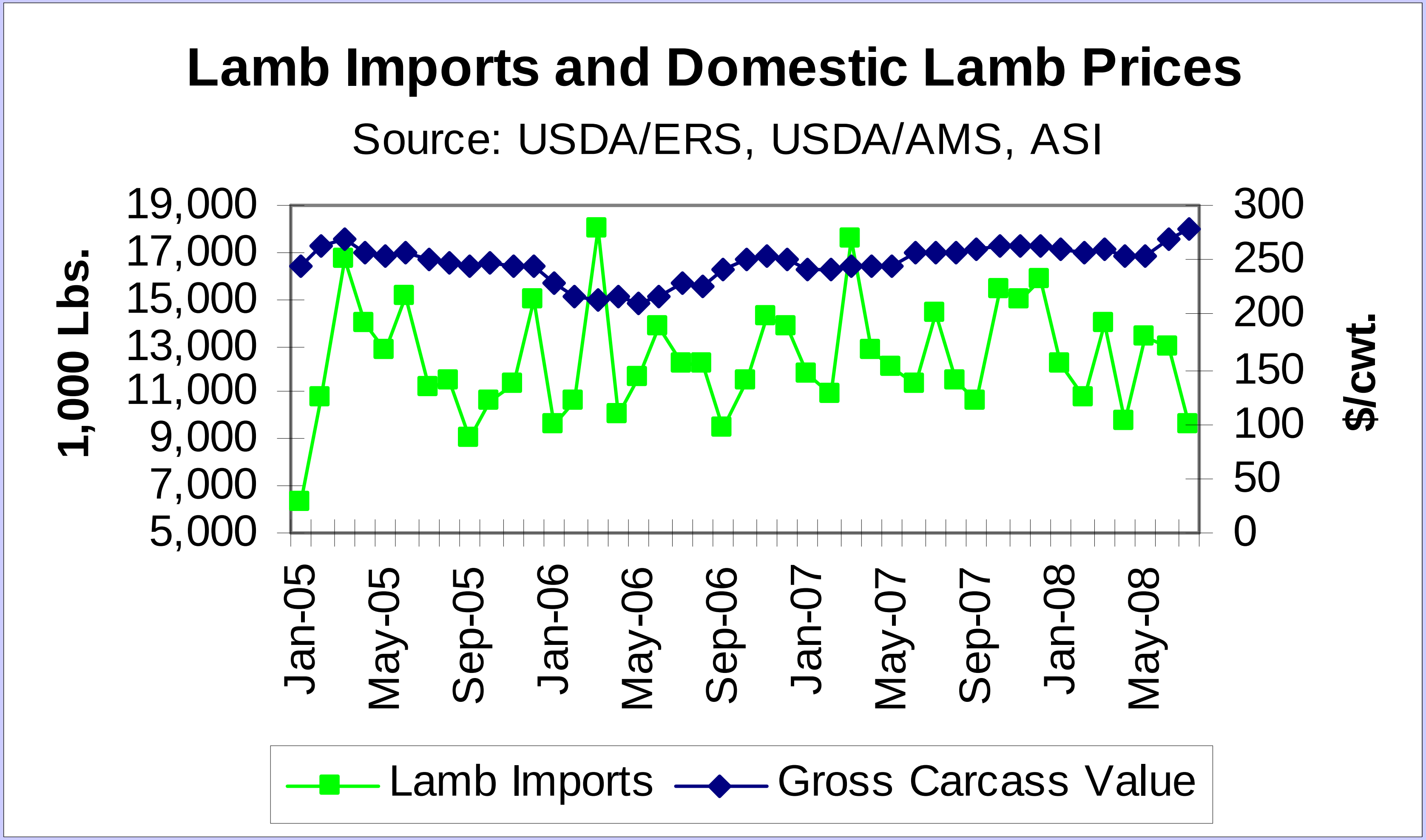
Cull ewe demand from Mexico has weakened, thus likely helping to soften U.S. prices.



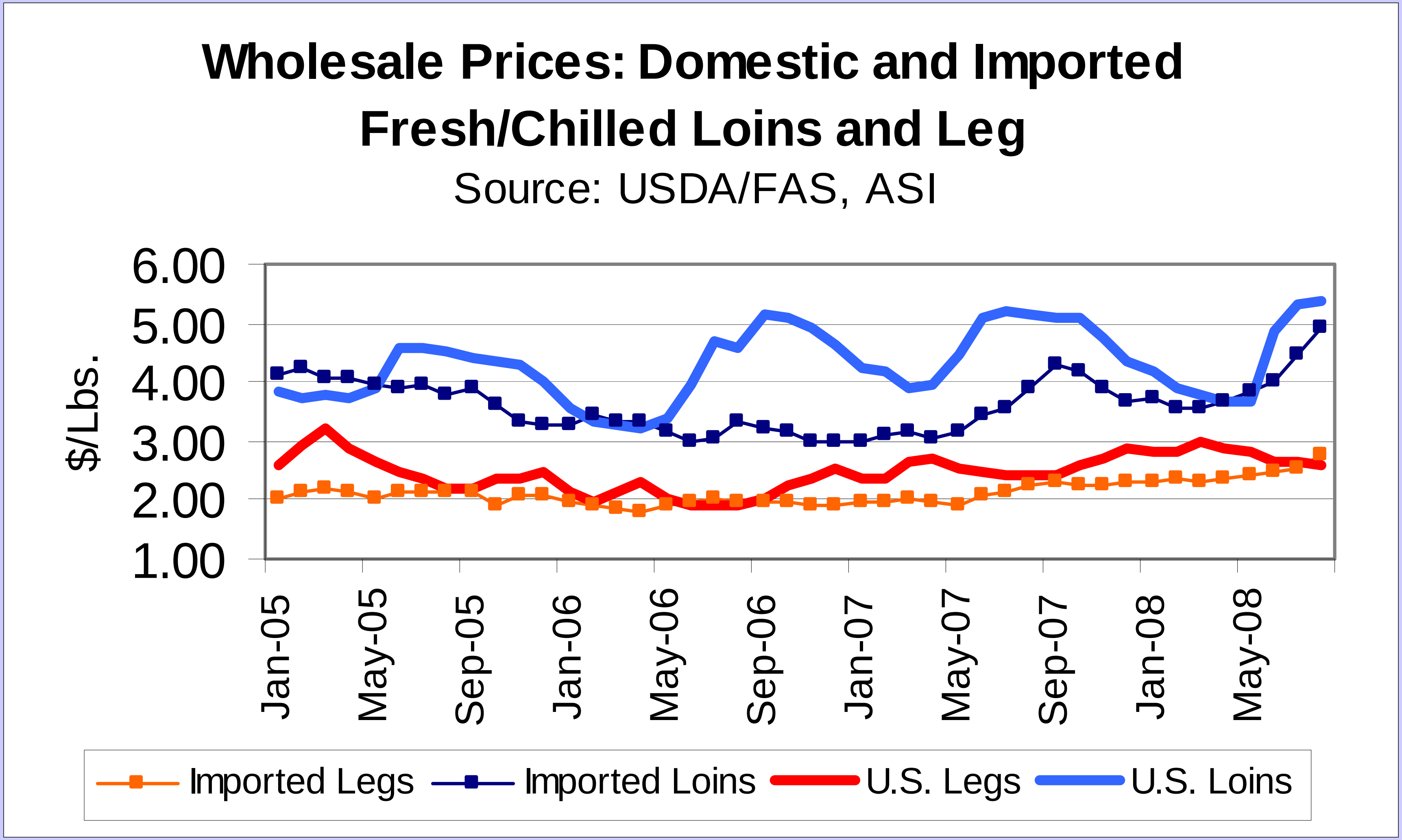

U.S. Lamb & Mutton Exports
Source: USDA/ERS, ASI
1000 Pounds
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

Higher domestic lamb prices are attractive to importers.

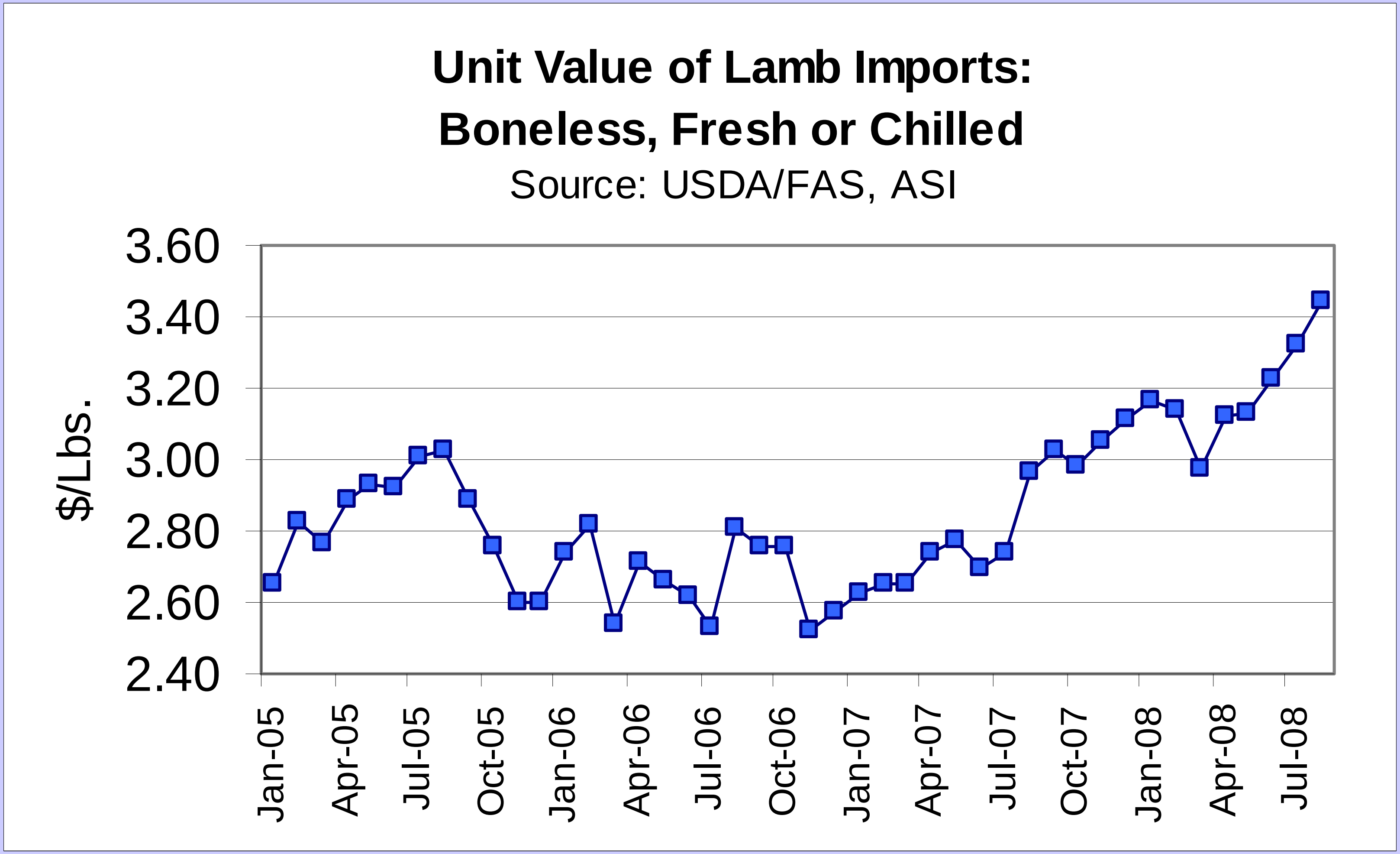
- Between August 2001 and July 2008, a positive correlation existed between the U.S. gross carcass value and the level of lamb imports.
- The correlation coefficient was 0.44 with 1.0 defined as perfect positive movement together.
- This positive relationship between imported quantities and domestic prices has strengthened over time.


Lamb Imports and Domestic Lamb Prices
Source: USDA/ERS, USDA/AMS, ASI
1,000 Lbs.
19,000
17,000
15,000
13,000
11,000
9,000
7,000
5,000
300
250
200
150
100
50
0
$/cwt.
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Lamb Imports
Gross Carcass Value

Import unit values were relatively flat during periods in which U.S. prices moved up or down.



Weaker US$, Tight Supplies and Higher Domestic Market Might Have Put Upward Pressure on Lamb Import Prices

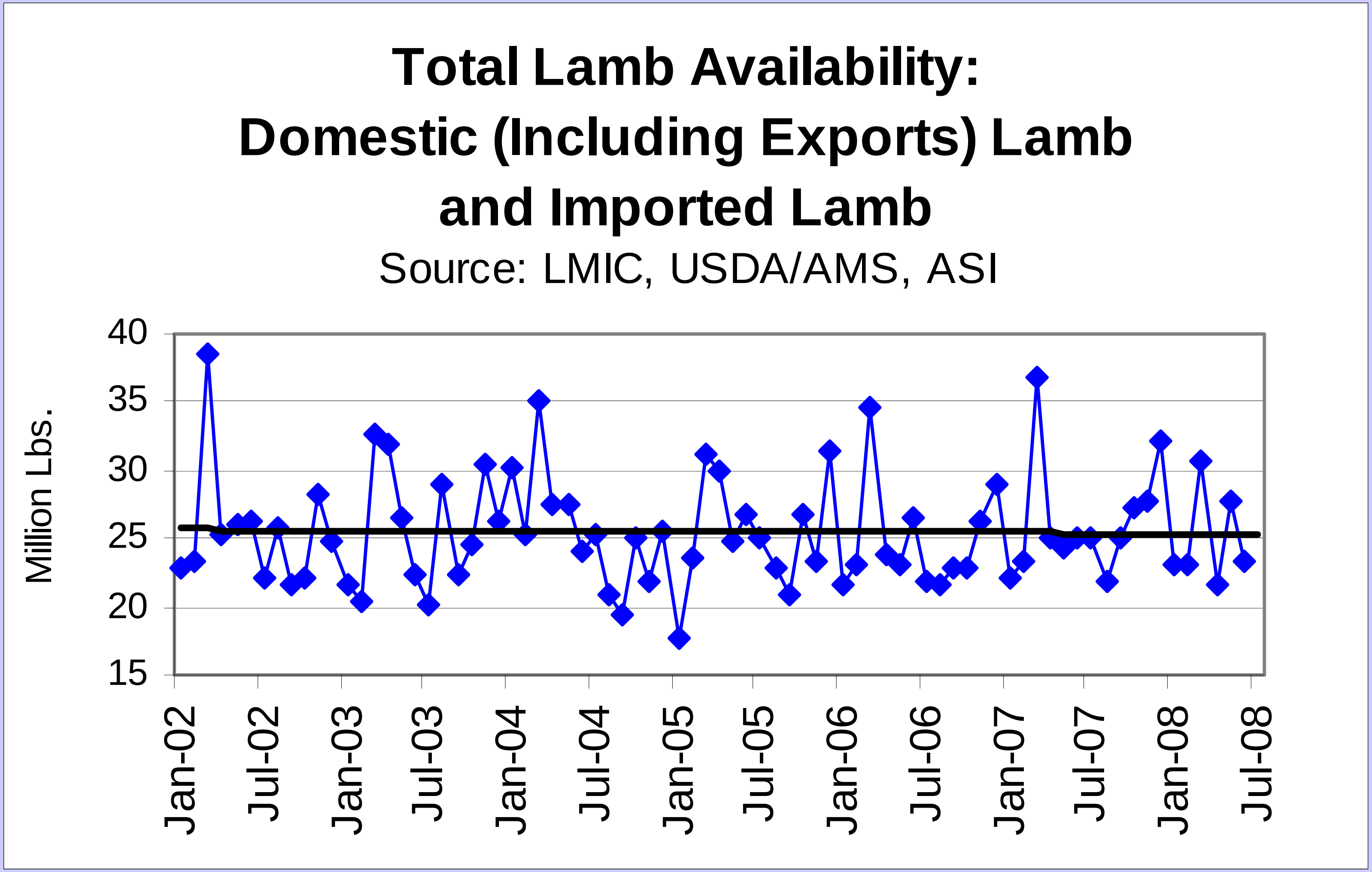


VI.
Total Lamb and Mutton Supplies

Market Share of Imported Lamb Falls Back Below 50%

- In January through July, lamb & mutton imports averaged 54% of total availability, even with the same period in 2007.
- In January through July, lamb imports averaged 49% of total availability, down from 50% during the same period in 2007.
- In January through July, mutton imports averaged 85% of total availability, up from 84% during the same period in 2007.

A Downward Trend Now Evident in Total Lamb Availability



Total Lamb Availability Down Year-to-Year

- Between January and July, total lamb availability (imports plus domestic production, including exported lamb & mutton volume) was 169 mill. lbs., down 7% from 182 mill. lbs. during the same period in 2007.

- A slowdown in domestic production coupled with a slowdown in imports led to contracted total supplies.