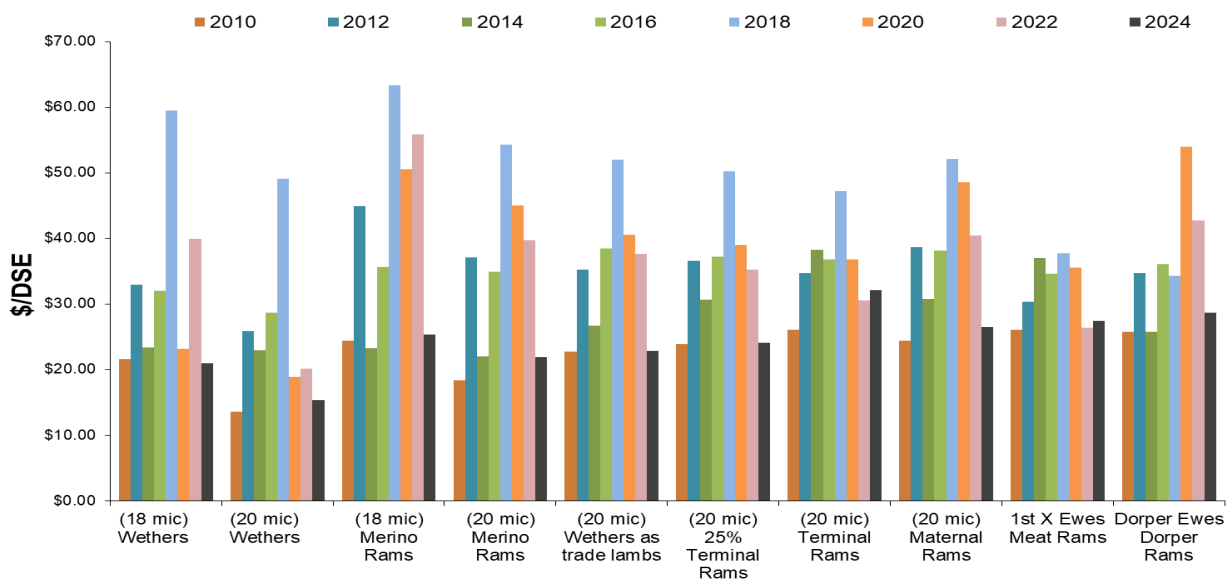


2024 – A tough year for most sheep enterprises.

The top performing enterprise with a gross margin (GM) of \$32.09 per DSE was the 20-micron ewe joined 100% to terminals. Interestingly, this enterprise along with the 1st X Ewe joined to terminal rams (\$27.46) were the only two enterprises which improved, with a gain of 5% compared to 2022 (Figure 1).

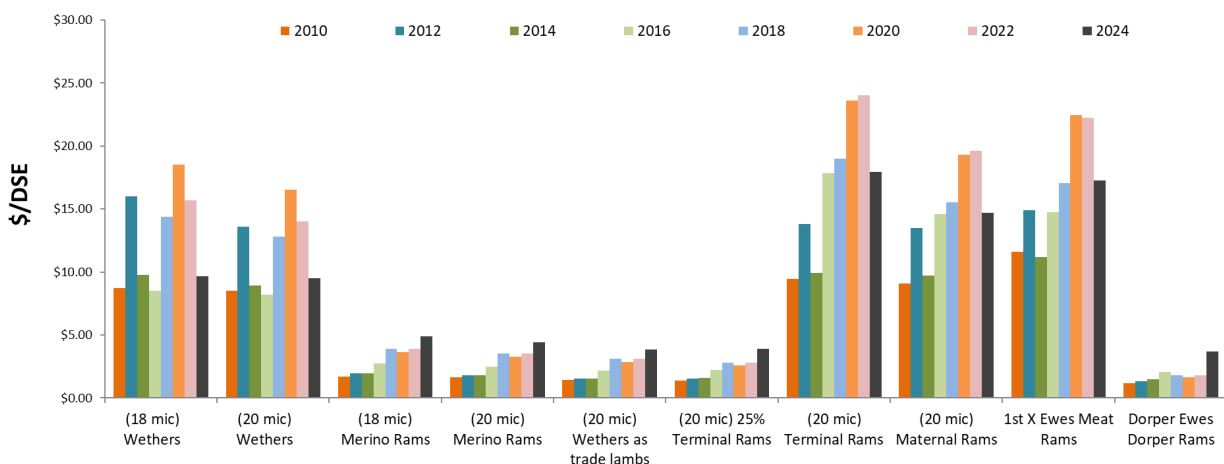
These enterprises join terminal rams meaning all progeny are slaughtered and replacement ewes are purchased. Relatively stable slaughter lamb values and lower replacement ewe costs have contributed to their gain (Figure 2).

Figure 1: Year on year sheep gross margins since 2010 (\$/DSE).



The Self-replacing Dorper enterprise had the 2nd highest GM with \$28.71 per DSE. It had the 3rd highest sheep sale income matched with no wool harvesting costs and minimal replacement costs, purchasing rams only. (Figure 5).

Figure 2: Year on year replacement costs (\$/DSE).

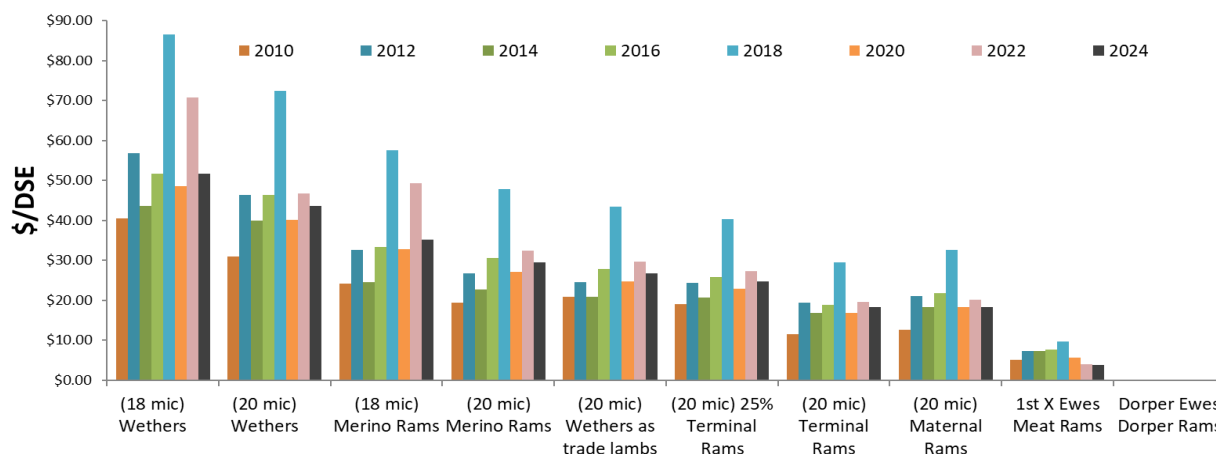


On average sheep enterprises are down approximately 30% compared to 2022.

The largest fall of 55% was the self-replacing 18-micron ewe enterprise which achieved \$26.06 followed by the self-replacing 20-micron enterprises with \$21.87.

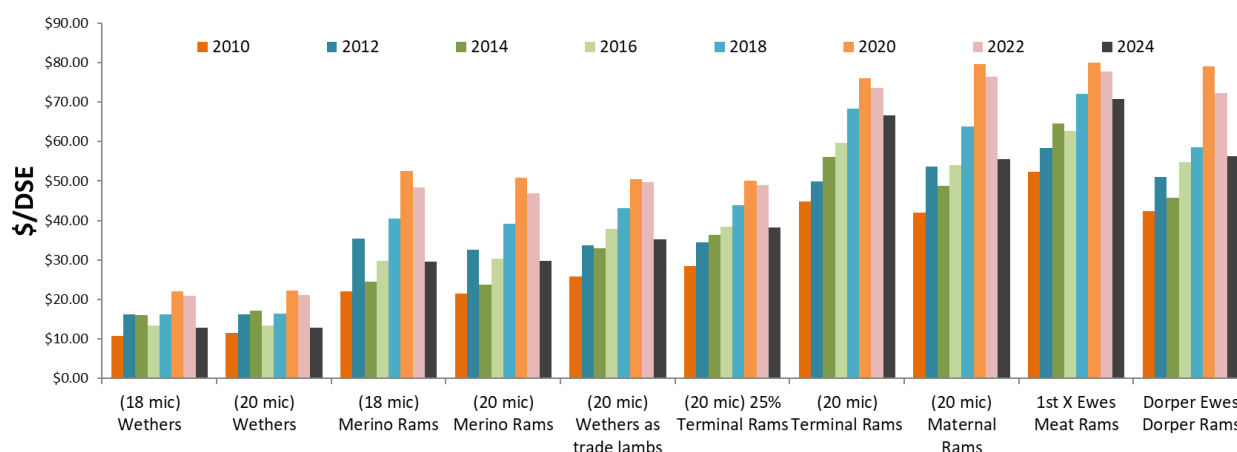
The value of 18-micron fleece wool has fallen approximately 30% since 2022, compared to around 6% for 20-micron (Figure 3).

Figure 3: Year on year wool incomes since 2010 (\$/DSE).



Combined with lower wool incomes, low sale values for mutton, excess ewe hoggets and wether weaners have resulted in large reductions in sheep sale income across a range of enterprises (Figure 4).

Figure 4: Year on year sheep sale incomes since 2010 (\$/DSE)



Sheep sale income falls under three categories - cast for age (CFA), replacement sheep (wether weaners and ewe hoggets) and lambs to slaughter (Figure 6).

There has been a large drop in income from CFA sheep with both ewes and wethers experiencing a fall of approximately 40%.

The value of replacement ewe and replacement wether weaners have also seen a similar fall in value. 18-micron wether weaners experienced a fall of 38% while 20-micron fell by approximately 32%. This difference may be a result of greater competition from lamb finishers

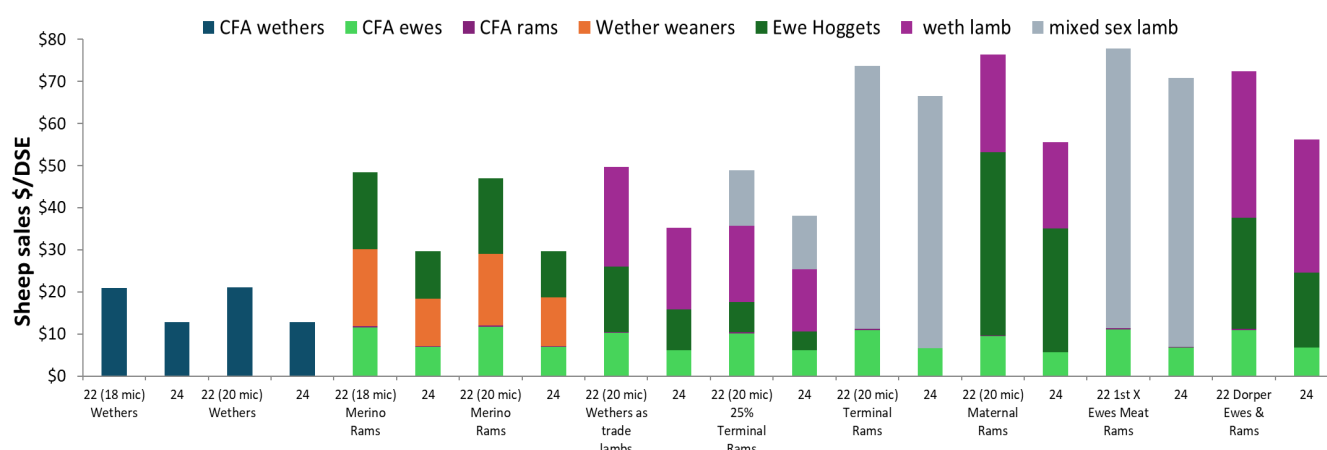
for larger merino types. Equally, it may be a result of price sampling error as values for these animals are hard to collect.

Figure 5: 2024 Combined income for wool and sheep sales and total variable costs.



The value of replacement ewes is quite variable and difficult to calculate accurately, however the difference between replacements for wool or meat production follow a similar price trend to the wether weaners, with an approximate fall of 38% for Merino hoggets compared to 32% for 1st Cross and Dorper ewe hoggets.

Figure 6: The proportion of income contributed by different livestock classes to total sheep sales for 2022 and 2024.



Across the board, the value of replacement rams has increased. While there doesn't appear to be much difference between breeds, there is however large variation within breeds.

The third category of sheep sales is slaughter lamb, which is made up of prime lambs (mixed sex) and trade wether lambs across the range of 20-micron Merino enterprises and the Dorper enterprise.

The income from Prime lamb has been relatively consistent with only a 4% fall compared to 2022, whereas income from Merino lambs experienced a larger fall of approximately 18%, with Maternal and Dorper wether lambs experiencing 12% and 9% drop respectively.

There is a large variation in the breakup of variable costs between enterprises (Figure 7). The three main cost categories are replacements, wool harvesting, and fodder.

The wool harvesting costs are made up of shearing (calculated using the award rates, superannuation and workers compensation insurance) wool testing, wool packs, commission and freight.

Due to a shortage of shearers and shed hands, anecdotal evidence suggests in recent years wool harvesting costs may in fact be larger than the costs reported in the GM's. To account for such variation, each GM is supported by a range of sensitivity tables displaying the impact different cost and price assumption make to the GM's.

For example:

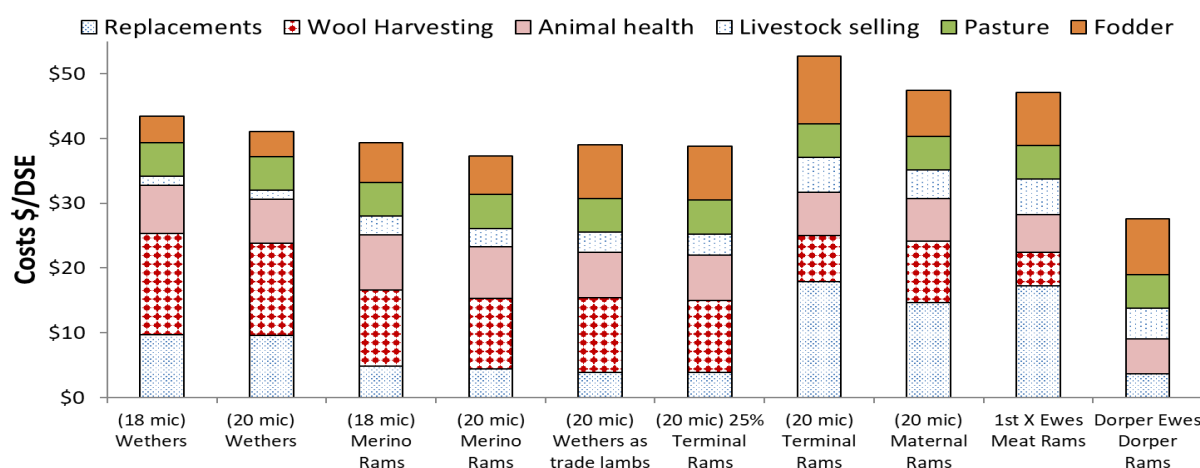
- In the 18-micron wether enterprise, an increase of 25% in wool harvesting costs equates to a reduction in GM from \$21.02 down to \$18.34 per DSE.
- In the 20-micron ewe enterprise, an increase in the value of surplus ewe hoggets by 25% increases the GM from \$21.87 up to \$24.49 per DSE while reducing the GM for 20-micron ewes joined to terminals down from \$32.09 to \$28.77, as this enterprise purchases replacements.

As a general trend, the two main costs which vary the most from year to year are the price of replacement ewes and the cost of fodder.

Given many of the enterprises are based on Merino ewes, when there is a significant reduction in wool value (demand) there may be a reduction in the value of replacements used in wool focussed enterprises.

Depending on circumstances at the time, this may also cause flow-on effects to the value of other ewe enterprises when producers alter their focus from sheep to cattle or cropping enterprises.

Figure 7: Variable cost break-up for 2024 sheep enterprises.



Variation in grain price has a larger impact on those enterprises selling lambs to slaughter. For example, when grain price increases by 25% the GM for 20-micron joined to terminal rams drops from \$32.09 down to \$29.49.

Each GM's displays results with and without fodder cost, as in some years feeding is not required, while in others it is. Using the example above, excluding fodder costs, the GM increased from \$32.09 to \$42.51 per DSE.

Despite current market challenges, the outlook for sheep enterprises remains positive overall with solid returns for prime lamb expected to continue and influence higher incomes within wool enterprises joining some or all to terminal rams.

DPIRD publish 10 gross margin budgets, covering a range of sheep enterprises. The GMs typically are calculated based on a flock of 1000 breeding ewes or wethers at a stocking rate of 10 DSE per hectare. They are calculated using wool and meat values and variable costs averaged over a six-month period, from April to September. They do not consider capital costs (such as machinery or livestock inventories) nor overhead costs.

Over recent years, additional GM's display outputs based on larger scale enterprises of 1000ha. While the outputs per DSE, per Head or per Ha are basically the same (except for some minor economies of scale with wool testing changes and some transport costs) they provide examples of typical levels of income and costs associated with scale.

Note:

It is important to understand the assumptions behind each GM, as price data, wool cut, sheep values, weaning percentages combined with key variable costs can have large impacts on GM's.

Readers are urged to develop their own enterprise GMs using actual costs and income.

Prices and costs are averaged for the period April – September 2024.

Sheep and wool prices thanks to MLA market reporting, AuctionsPlus and AWEX.