SHEEP INDUSTRY NEWS

ASI Survey Results

Series 2: Revenue Needed for Sheep Producers to Expand Flocks

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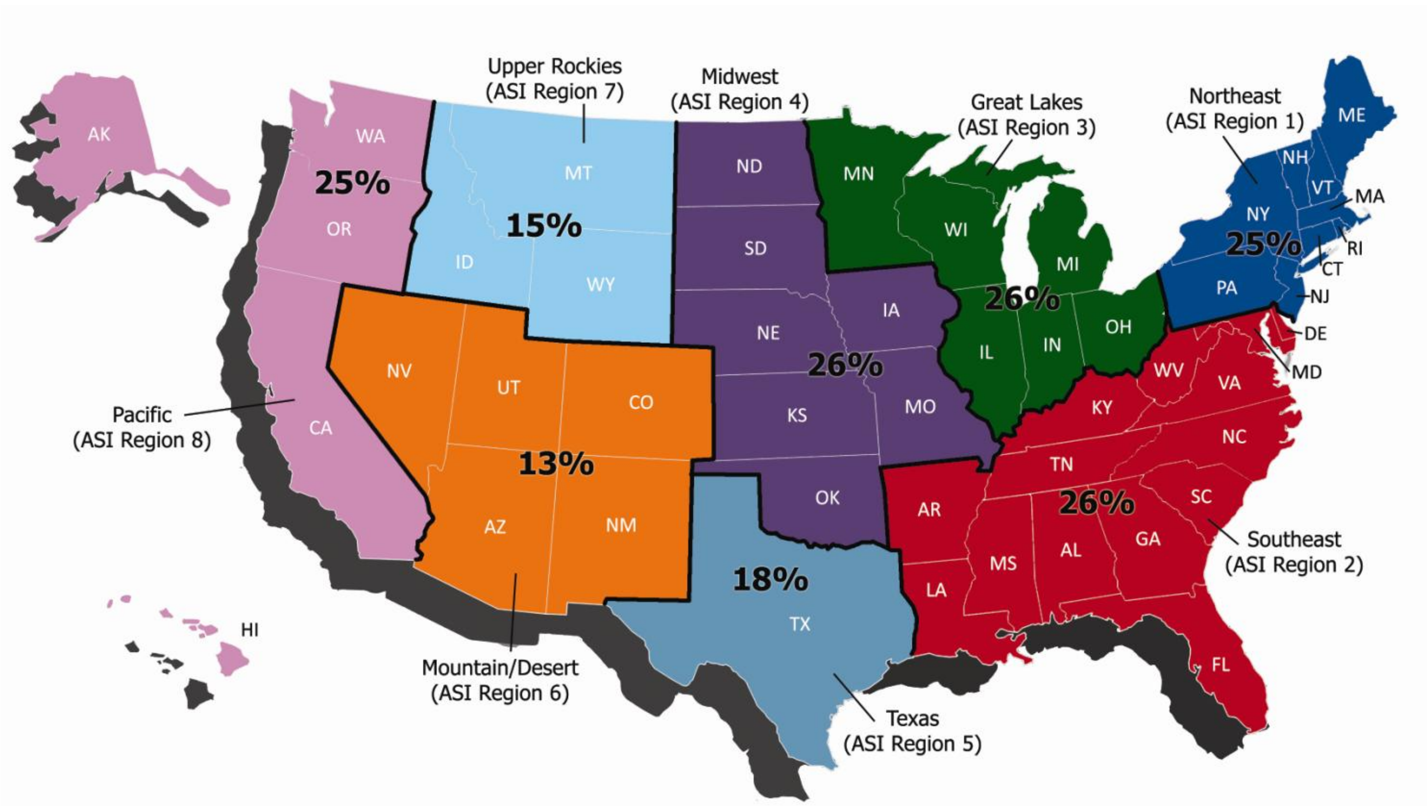
Regional Key and Percentage of Producers in Region who Classify their Sheep Operations as Expanding



(May 1, 2010) Dialogue of how to expand the infrastructure of the sheep industry have been plenty over the past year and every discussion boils down to one thing – more sheep. Whether grazing bountiful mountain valleys or the hills of the rolling plains, lamb, wool and pelt processors, along with feedlots, farms and ranches, depend on production. Although the U.S. Department of Agriculture reports the industry's sheep numbers are slowly contracting, the American Sheep Industry Association (ASI) has conducted research that finds sheep inventory numbers may in fact be larger than previously reported to a tune of nearly 1.2 million head. This information coupled with a recent ASI producer survey which suggests that 84 percent of producers are either maintaining or expanding their sheep numbers is an encouraging turn of events (61 percent maintaining numbers and 23 percent expanding).

The ASI survey was conducted this past winter in an attempt to gather more information on sheep producers' plans and industry input for ways to strengthen numbers. In addition, it provides an outlook for expansion efforts and factors affecting expansion decisions based on producers' location and size of flock.

"This survey provided us with a tool in which to learn directly from producers from all across the nation about what their plans are regarding expansion of their sheep operation and what might be the incentives and impediments standing in their way," says Clint Krebs, ASI secretary/treasurer and executive board liaison for the Re-build the Sheep Inventory Committee. "We hope to be able to target some programs that will most appropriately and effectively assist producers from all regions of the United States with the expansion of their operations."

Industry Expansion Indicators

(See map for region designations)

Nationally, the breakdown of producers who describe their sheep operations as expanding looks like this: 30 percent in the Great Lakes, 15 percent in each the Midwest and Pacific, 12 percent in the Northeast, 10 percent in each the Southeast and Northern Rockies, 6 percent in Texas and 3 percent in the Mountain/Desert. Breaking down this information by regions, those producers in the Southeast, the Great Lakes and the Midwest each had 26 percent of its producers

stating they are expanding, 25 percent in the Northeast and the Pacific, 18 percent in Texas, 15 percent in the Northern Rockies and 13 percent in the Mountain/Desert state they are expanding. In addition, on a national average those who state they are expanding or maintaining their current numbers, have a flock size of 101-500 head.

Producers were asked to describe their sheep operation today as expanding sheep numbers, cutting back numbers or maintaining current sheep numbers. Twenty-three percent responded they are expanding their flock size. In addition, a question about future expansion efforts was asked to those who classify themselves as either cutting back or maintaining their sheep numbers. When the responses from the first question are coupled with the responses from the second question, the percent of producers wanting to expand jumps from 23 percent to 27 percent. In other words, close to one-third of producers would like to expand their flock size.

The one region that holds the most producer interest and promise is Texas as the percent of producers expanding jumps from 18 percent to 27 percent of who would like to expand. The second-ranked region that holds great potential for expansion is the Mountain/Desert as it jumps from 13 percent to 18 percent. Both of these regions are highly significant to the expansion of the U.S. sheep industry because although producer numbers are relatively low, flock sizes are the largest.

The Northeast jumps from 25 percent to 29 percent, the Southeast goes from 26 percent to 31 percent, the Great Lakes from 26 percent to 28 percent, the Midwest from 26 percent to 29 percent, the Northern Rockies jumps from 15 percent to 19 percent and the Pacific from 25 percent to 29 percent.

Factors Affecting Expansion Decisions

It is hypothesized that the decision to cut back on flock size is motivated by both socioeconomic reasons as well as profitability of sheep production. Age, the involvement of family members in the sheep business and another job competing for time are all personal concerns that might affect a producer's decision to cut back on flock size, factors not necessarily a reflection of sheep profitability.

The significance of sheep as a business or livelihood might also play into a decision to expand. Sixty percent of producers that responded they are expanding state that sheep are an important enough part of their operation to borrow money for feed, grazing or facilities. This compares to 29 percent of producers that are cutting back and 42 percent for those that are maintaining numbers.

The data suggests that age is one of the more important determinates to why a producer might be cutting back on flock size. Among producers that are cutting back on sheep numbers, 80 percent are older than 50 years old, this compares to 57 percent for those producers that are expanding flocks. Sheep producers are getting older – on average, 72 percent of producers surveyed responded that they are older than 50 years old.

Family members helping with sheep production likely plays an important role in raising sheep. Among those producers that are expanding, 78 percent have family members that are part of their sheep operation compared to 69 percent for those producers cutting back and 76 percent that are maintaining numbers.

Another important factor in a decision to expand might be that family members plan to take over the sheep operation when the producer retires. This was the case for 47 percent of producers that state they were expanding compared to 17 percent for those that are cutting back and 35 percent of those that are maintaining numbers.

Those producers that are expanding have relatively less experience in the sheep business compared to those cutting back or maintaining numbers. Forty-four percent of producers expanding have 20 years or less of experience in the sheep industry. Among the producers cutting back, 57 percent have 30 plus years of experience and of those maintaining their numbers, 51 percent have more than 30 years experience. This suggests that those rather new to the industry have plans to increase their flock size and half of those decreasing and maintaining their sheep numbers are getting older, which may be the main reason not to expand.

Producers' decision to cut back is not likely motivated by inferior production efficiency. Those cutting back perform just as well as expanding producers in terms of percentage of lambs born per ewe exposed as well as in terms of percentage of lambs weaned per ewe exposed. For those producers that responded that they are expanding however, the average ewe replacement rate is 23 percent compared to 19 percent for those that are cutting back.

Another factor that might influence producers' decision to expand is the competitiveness of another job in competing for producers' time, resources and money. Fifty-nine percent of producers that are cutting back feel this is a concern while 53 of producers expanding thought another job competes for resources.

Twenty-nine percent of producers that are expanding responded that livestock other than sheep are competitive with sheep for time, resources and money in their decision to expand. Forty-five percent of producers that are decreasing their flock size responded that other livestock are competing with sheep for resources and 34 percent of producers responded among those maintaining numbers. Among producers cutting back, 30 percent report that crops are competitive compared to 25 percent for expanding producers. For those producers that are expanding, 58 percent of their total agricultural operation comes from sheep compared to 50 percent for those cutting back and 52 percent for those that are maintaining sheep numbers.

Choice of marketing method might contribute to flock expansion decisions. While the proportion of producers selling into the non-traditional market (live or meat direct to consumer) is relatively the same across those expanding and contracting, 11 percent of producers expanding sell direct to packers compared to 7 percent for those cutting back. Many producers have likely entered marketing agreements with packers which are long-term arrangements, providing marketing security.

The size of flock might have a contributing factor in a decision to expand. For example, 14 percent of producers expanding have more than 500 head, 7 percent for those cutting back and 13 percent for those maintaining sheep numbers. This information might help to define flock size in terms of economical units for profitability in some regions and production systems.

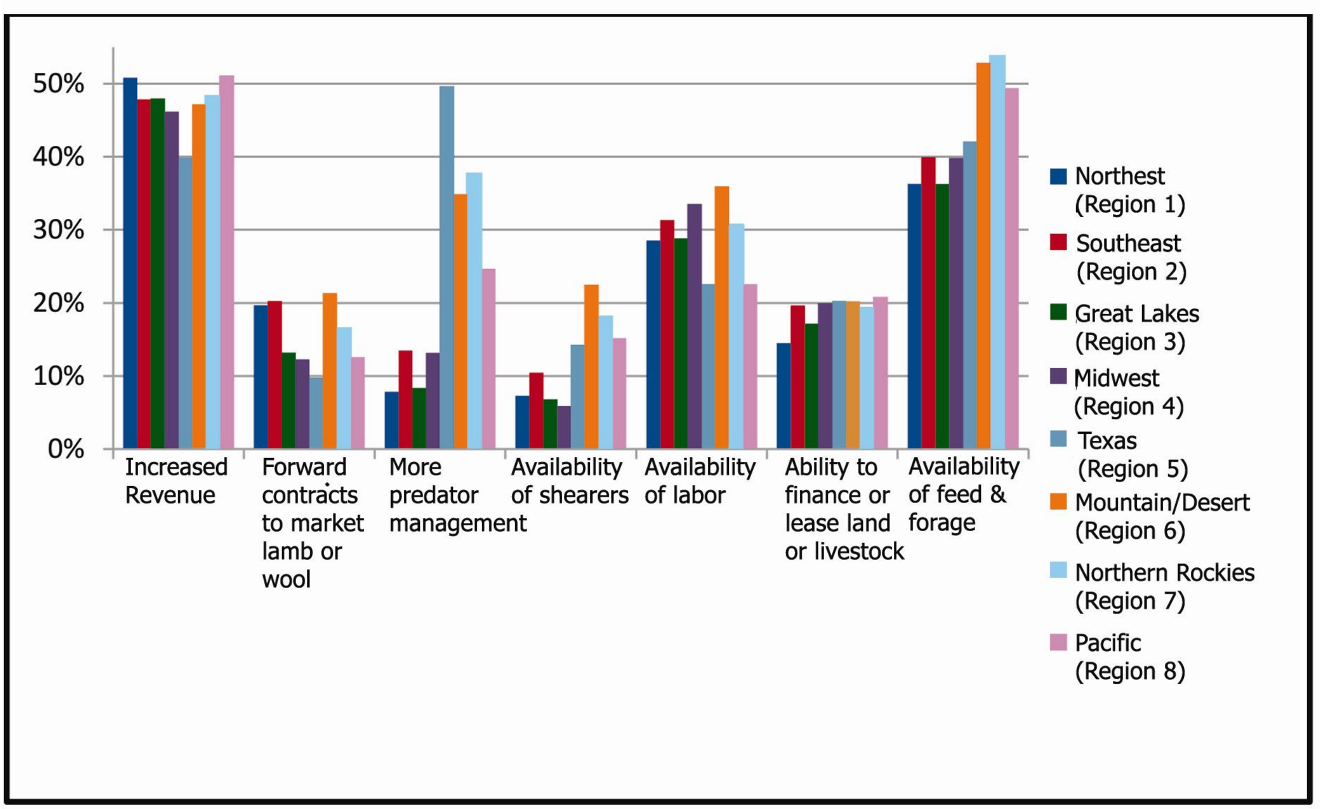
Among expanding producers, grazing and pasture management is the most important new technology adopted followed by breeding and selection and nutrition management. Among producers cutting back, breeding and selection is the most important followed by nutrition management and flock management.

No. 1 Need for Flock Expansion – Revenue

Among all producers, regardless of flock expansion status, increased revenue is the most popular item that would make it possible to expand their sheep operation. Availability of feed and forage ranked a close second for expanding producers as it did for those producers maintaining sheep numbers.

On average, 52 percent of all producers that state they are expanding report that increased revenue could help with expansion efforts. And 46 percent of those cutting back state that increased revenue would facilitate expansion. After breaking out these data by size of operation, it appears that increased revenue is just as important to small operations as it is to large operations, and farm flock producers as it is to range operators.

Most Popular Items to Help Expand Sheep Operations



In fact, 58 percent of the producers raising 1-100 head of sheep say increased revenue could facilitate expansion, 49 percent with 101-500 head, 62 percent with 501-1000 head, 47 percent with 1,001-5,000 head and 50 percent with 5,000 head or more. The data average shows that 55 percent of all expanding producers report that increased revenue could facilitate expansion, while 43 percent of those cutting sheep numbers say increased revenue could help increase numbers. The most popular other response for this question is that producers are getting older in age.

In all regions, except Texas a greater proportion of producers expanding say increased revenue would make it possible to expand. Northeast, 63 percent; Southeast, 56 percent; Great Lakes, 58 percent; Midwest, 53 percent; Mountain/Desert, 58 percent; Northern Rockies, 46 percent; and Pacific, 55 percent. As for Texas, the No. 1 tool for flock expansion is predator control, which is mentioned by 50 percent of the producers in Texas.

Availability of feed and forage ranks a close second for expanding producers as it does for those producers maintaining sheep numbers. More than two-thirds of the producers in the West think availability of feed is important compared to less than 50 percent in the Northeast, Southeast and Great Lakes regions.

Improve Producers' Profitability

For producers expanding, improved production efficiency ranks No. 1 as the item that would help improve profitability followed by improved consumer level demand for lamb. For producers cutting back and maintaining sheep numbers, improved production efficiency ranks No. 1 followed by more competitive market outlets.

Being the most popular response nationally for producers who are both expanding their operations and cutting back and maintaining their numbers, the regional breakdown is as follows.

As for those expanding, producers in the Pacific region rank improved production efficiency the highest, followed by those in the Northeast, Southeast, Texas, Great Lakes, Mountain/Desert, Midwest and Northern Rockies.

As for those cutting back and maintaining numbers, producers in the Southeast rank improved efficiency the highest, followed by those in the Mountain/Desert, Great Lakes, Texas, Midwest, Northeast, Pacific and Northern Rockies.

Regarding consumer level demand for lamb – the second-most popular response to improve profitability nationally by producers who are expanding – those in the Mountain/Desert region rate it higher than any other region, followed by Northern Rockies, Pacific, Northeast, Great Lakes, Texas, Midwest and Southeast.

Regarding more competitive market outlets – the second-most popular response to improve profitability nationally by producers who are cutting back or maintaining their numbers – the Northern Rockies producers rate it the highest, followed by Mountain/Desert, Midwest, Great Lakes, Texas, Pacific, Northeast and Southeast.

Restraints to Industry Expansion

Among those expanding their flock, 30 percent say that financing is their primary restraint in expansion efforts, 20 percent are concerned about the long-term outlook of the industry and 17 percent say they have no one to take over the operation when they retire. Among producers cutting back and maintaining numbers, not having the economic size unit is the primary constraint followed by a concern about the long-term outlook of the industry, not financing.

A breakout for the producers who claim that financing is not the primary restraint to expanding their operation is as follows.

In the Northeast, no matter whether a producer is expanding, cutting back or maintaining sheep numbers, they are primarily concerned about the long-term outlook of the industry.

For those expanding in the South, they're restraints are that there is no available land to buy or lease, no one to take over when they retire and the concern about the long-term outlook of the industry. For those cutting back or maintaining numbers, they say not having the economic size unit is the primary restraint.

In the Great Lakes, the producers who are expanding say they are concerned about the long-term outlook of the industry, and those cutting back and maintaining say they don't have the economic size unit.

In the Midwest, producers who are expanding their operation are concerned about someone taking over when they retire, as for those cutting back and maintaining, they are concerned about the long-term outlook of the industry.

No available land to buy or lease and concerns about the long-term outlook of the industry are the primary restraints to the producers who are expanding in Texas. For those who are cutting back or maintaining in Texas, their No. 1 restraint is not having anyone to take over when they retire.

In the Mountain/Desert, expanding producers' primary restraints include labor costs and availability, no one to take over when they retire and they don't have the economic size unit. For those cutting back and maintaining, the primary one is that they don't have economic size unit.

No one to take over when they retire is the primary restraint in the Northern Rockies for those expanding and labor costs and availability is the primary one for those cutting back or maintaining.

And in the Pacific region, no one to take over when they retire is the primary restraint for expanding producers and not having the economic size unit for those cutting back or maintaining.

"One of the key findings of this survey is that with nearly one-third of all producers expressing an interest in expanding, coupled with improved production efficiency and favorable returns, industry expansion is shifting from maybe to probable," concludes Krebs. "This is positive information that the re-build committee can employ in its task of helping increase the size of the U.S. flock."

Editor's Note: Due to the complexity of the survey and the amount of information it provides, a series of articles will appear in the upcoming months of Sheep Industry News. A complete analysis will soon be posted on www.sheepusa.org. Next month's article is planned to analyze the livestock protection dog section of the survey.