PELT & BYPRODUCT VALUES

ERICA SANKO
2018 ASI ANNUAL CONVENTION ~ YOUNG ENTREPRENEURS
FEBRUARY 2, 2018
OVERVIEW LAMB BYPRODUCTS

• Value of a slaughter lamb is determined by:
  • Value of meat items produced from the carcass (i.e. loin, chops).
  • Value of the non-meat/variety meat items referred to as the byproduct or the drop value.

• Byproduct value includes:
  • Pelt – Account for the majority of the value.
  • Variety Meats or Offal items such as the blood, casings, kidney, lungs.

• Influenced by international demand & value of the U.S. dollar.

• Byproduct values can be an important factor in lamb packer returns.
OVERVIEW OF PELT MARKET

• 2017 Federally Inspected Sheep Slaughter – 1.9 million head
  • Nugget produces over 1 million pelts/skins per year.
• Majority pelts sold as unshorn (75 – 80%).
• Value is in high quality, wool/unshorn pelts.
• Pelt values have significant influence on slaughter lamb prices.
• Many different products produced & sold:
  • Clothing – coats, vests, gloves, hats, boots, slippers
  • Home Décor items – rugs, pillows
  • Car Accessories – seat covers
PELT MARKET VALUES

• Pelt Credit reported weekly by USDA-AMS (NW–LS443)
  • Estimated credit paid by packers to producers.
  • Report developed in discussion with ASI & released in 2017.

• Price Range for Unshorn & Shorn Quality Grades

• Grades: Supreme, Premium, Standard, Fair, Mixed, & Damaged/Puller
  • Pelt Size (square footage)
  • Fiber Discoloration
  • Manure/Seed Contamination
  • Staple Length & Micron
  • Damage/Defects
# Pelt Market Values

<table>
<thead>
<tr>
<th>Pelt Category</th>
<th>Sq. Footage</th>
<th>Discolored Fiber</th>
<th>Manure/Seed Free</th>
<th>Staple Length</th>
<th>Micron</th>
<th>Processing Defects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supreme</td>
<td>9 – Up</td>
<td>None</td>
<td>Predominantly</td>
<td>1 – 3</td>
<td>22 – 26</td>
<td>Minimal</td>
</tr>
<tr>
<td>Premium</td>
<td>7 - 10</td>
<td>None-Minimal</td>
<td>Predominantly</td>
<td>1 – 3</td>
<td>22 – 26</td>
<td>Minimal</td>
</tr>
<tr>
<td>Standard</td>
<td>8 – Down</td>
<td>Minimal</td>
<td>Somewhat/Heavy</td>
<td>1 – 3</td>
<td>22 – Up</td>
<td>Minimal</td>
</tr>
<tr>
<td>Fair</td>
<td>4 - Up</td>
<td>Some</td>
<td>Somewhat/Heavy</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Mixed Class</td>
<td>N/A</td>
<td>Some</td>
<td>Somewhat/Heavy</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Damaged/Puller</td>
<td>N/A</td>
<td>Some</td>
<td>Somewhat/Heavy</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
</tr>
</tbody>
</table>
PREMIUM UNSHORN LAMB PELT PRICES
FOB, Weekly

Source: LMIC, USDA–AMS
PELT MARKET – EXPORTS

• Sheep Skins Wool On:
  • Top 2017 export markets: China (90%), Turkey, & Russia

• Sheep Skins No Wool:
  • Top 2017 export market is Mexico.

• Recent years seen a slight decline in sheep/lamb skin exports.
  • 2012 – 1.5 million pieces valued at $26 million
  • Jan – Nov 2017 – 885,000 pelts valued at $13 million

• Export declines due to:
  • Value of the U.S. dollar?
  • International or domestic supply/demand?
SHEEP & LAMB SKIN EXPORTS
Pieces, Monthly

Thous. Pieces

Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec

Avg. 2011-15  2016  2017

Source: USDA–FAS
LAMB VARIETY MEATS (OFFAL) – EXPORTS

• Major export destinations include Mexico (56%), Saudi Arabia (25%), Canada (5%), & Caribbean countries (3%)

• Exports subject to international factors.
  • Consumer tastes & preferences
  • Supply & demand
  • Value of U.S. dollar

• Export volume has declined over last five years:
  • 2012 – 1 million MT at valued at $2 million
  • Jan – Nov 2017 – 600,000 MT valued at $1.4 million
SHEEP/LAMB OFFAL (FROZEN) EXPORTS
Metric Ton, Monthly

Source: USDA–FAS
LAMB VARIETY MEATS – PET FOODS

• Lamb & lamb meal are widely used in dry dog food.

• “Lamb is an excellent source of high-quality protein & essential amino acids, which are vital nutrients for your dog.” ~ Purina

• What is lamb meal?
  • Made from lamb…of course.
  • Processed, condensed & repackaged at a rendering facility.
  • Most of the water is removed.
  • Highly concentrated source of protein & other essential nutrients
  • Contains higher concentrations of key minerals like calcium.
LAMB VARIETY MEATS – PET FOODS

- Increased demand for lamb meal in recent years.
- Analysis of Dog/Cat Food Ingredient Center Database:
  - Lamb meal is included in 255 or 12% of product recipes.
  - Lamb listed in 129 or 6% of the recipes.
  - Of the 255 companies with lamb meal, when lamb, deboned lamb & boneless lamb excluded, yielded 161 products, or 7% of the sample.
- Industry sources state lamb meal demand has jumped.
  - Currently more than double in value than prior years.
LAMB VARIETY MEATS – PET FOODS

- Increase in the use of lamb variety meats for dog treats.
- Superior Farms Pet Provisions
  - “Instead of wasting great and clean sources of protein that humans won't or can't eat, Superior Farms Pet uses it to make treats for pets.”
  - Transformed a low value byproduct into high value product.
  - Lamb Lung Waffles, Lamb Lung Tweets, Lamb Whistlers
- Pet food/treat market not impacted by economic downturns.
  - Millennials pay more per pounds for pet food than they do for their own food.
LAMB BYPRODUCT VALUE

- Byproduct Value = Pelt Value + Value of Variety Meats/Drop (Offal)
- Fed cattle & slaughter hog prices are influenced by the byproduct value.
  - Higher tongues, etc. prices tend to support prices & vice versa.
  - In 2017, Avg. Steer Byproduct Value = $11 per cwt. or 10% of fed cattle prices.
- The byproduct value does impact slaughter lamb prices.
  - Pelt drives the byproduct value.
- USDA–AMS does not report variety meat prices or a lamb byproduct value
  - It does report data for slaughter steers & slaughter hogs.
STEER HIDE & OFFAL VALUE
Live Animal Basis, Weekly

$ Per Cwt.

Source: LMIC, USDA–AMS
LAMB BYPRODUCT VALUE

• Let’s take a “back on the envelope approach” with what data is available.
• For simplicity we will go with an annual average for 2017.
• Byproduct value = Pelt Value + Drop Value on a per cwt. or per head. basis
• Assume approx. 25% of live weight is pelt & drop.
  • Avg. 2017 FI Yearling Live Lamb Wt. = 138 lbs.
  • Pelt & Drop Wt. = 138 x 25% = 34.50 lbs. pelt & drop.
  • Avg. Pelt Wt. = 7 – 9 lbs. or 8 lbs.
  • Drop Wt. = 34.50 lbs. – 8 lbs. = 26.50 lbs.

Source: LMIC, USDA-AMS, USDA-NASS
LAMB BYPRODUCT VALUE

• Pelt Values – 2017 Average
  • Premium Unshorn Pelt Credit = $1.44 per piece/head.
  • FL Yearling Live Lamb Wt. = 138 lbs.
  • Pelt price per lb. = $0.0104 or = $1.04 per cwt.

• Variety Meat Export Values – 2017 Average
  • Remember…we don’t have USDA prices.
  • Sheep offal export value = $1.4 million per MT
  • 1 MT = 2,204.62 lbs.
  • Variety meat export value per lb. = $0.649 or $64.90 per cwt.

Source: LMIC, USDA-AMS, USDA-FAS
LAMB BYPRODUCT VALUE

• Estimated Byproduct Value = $1.44 + $17.20 = $18.64 per head
  • Pelt = $1.44 per head
  • Drop at 26.50 lbs. x $0.649 per lb. = $17.20 per head.

• Avg. 2017 Slaughter Lamb Price (Carcass to Live) = $151.07 per cwt.

• Avg. 2017 FI Slaughter Lamb Live Wt. = 138 lbs.

• Byproduct Value = Approx. 9 – 10% of Slaughter Lamb Price
  • 138 lbs./100 x $151.07 per cwt. = $208.48 per head
  • $18.64/$208.48 = 9%

Source: LMIC, USDA–AMS, USDA–FAS, USDA–NASS
SOME THOUGHTS…

• We Know…
  • Marketing consistent, high quality lambs leads to higher prices.

• This same reasoning applies to pelts.
  • High quality, unshorn pelts can add up to $5 – $10 per head.
  • But low quality, unshorn & shorn pelts can take away $1 – 5 per head.
  • If selling on a formula (grid) basis don’t forget to factor in the pelt value.

• Not sure if packers are adding value to slaughter lamb prices for variety meats.
  • Does impact packer margins as the value is going somewhere.
THANK YOU

...QUESTIONS