Mid-Season Update 2019-20

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Contents

CONTENTS 2
EXECUTIVE SUMMARY – UPDATE 2019-20 3
Economic Conditions 3
Lamb and Mutton 3
Beef 3
Wool 3
Livestock Numbers 4
Sheep and Beef Farms 4
Introduction 5
THE RED MEAT SECTOR POST COVID-19 5
Key trends 5
Summary 5
Introduction 6
Global Growth Prospects 6
ECONOMIC CONDITIONS 6
New Zealand 7
Interest Rates 7
Exchange Rates 8
Trade Agreements 9
EXCHANGE RATE SENSITIVITY – 2019-20 10
LIVESTOCK NUMBERS 11
Sheep 11
Beef Cattle 11
Dairy Cattle 11
Lamb 12
LAMB & MUTTON EXPORTS 12
Mutton 13
Overview 15
LAMB & MUTTON - INTERNATIONAL SITUATION 15
China 15
Australia 16
UK and European Union 16
United States 17
LAMB & SHEEP PRICES – FARM-GATE 18
Lamb 18
Mutton 18
LAMB & MUTTON PRODUCTION 20
Lamb 20
Mutton 20
BEEF & VEAL EXPORTS 21
BEEF – INTERNATIONAL SITUATION 23
Overview 23
China 23
United States 24
Australia 25
South America 25
CATTLE PRICES – FARM-GATE 27
BEEF PRODUCTION 28
Cattle Weights 28
Beef Production 28
WOOL[1] 29
Exports 29
Prices 29
Production 30
Shearing 30
FARM REVENUE, EXPENDITURE & PROFIT – NEW ZEALAND 31
Revenue – Per Farm 31
Revenue – Aggregate 31
Expenditure – Per Farm 32
Expenditure – Aggregate 32
Farm Profit before Tax 32
EBITRm 34
North Island Summary 34
South Island Summary 34
REGIONAL COMMENT – NORTH ISLAND 35
Northland–Waikato–Bay of Plenty 35
East Coast 36
Taranaki–Manawatu 36
REGIONAL COMMENT – SOUTH ISLAND 37
Marlborough–Canterbury 37
Otago–Southland 37

Executive Summary – Update 2019-20

Economic Conditions

Global economies are under extreme pressure from the impact of COVID-19. At the time of writing, much of the world is in full or partial lockdown, and the human and economic toll of the virus is mounting. Economic conditions are being revised daily. Financial markets have gone into freefall, unemployment is soaring, and volatility is high. Governments and central banks are swiftly reacting to the economic downturn with aggressive fiscal packages and interest rate cuts to boost demand.

The New Zealand economy is reeling under the impact of COVID-19. The strict lockdown measures, while necessary, have ceased economic activity, resulting in sharp contraction.

One of New Zealand's key advantages lies in the importance of food exports to the economy. The majority of exports is essential goods and activity will be maintained, even if prices are weaker.

Export revenue from the tourism and education sector have been brought to a standstill, with recovery likely to be a long process. Goods exports will form the backbone of New Zealand's economic recovery.

COVID-19 is the major theme in the currency market. The NZD is expected to depreciate against all major trading currencies, providing much-needed support to New Zealand exporters.

Lamb and Mutton

For 2019-20, lamb meat export receipts are forecast at $3.54 billion FOB, up 4.2 per cent on 2018-19. Mutton export receipts are forecast to lift 2.7 per cent – to $0.68 billion.

Export receipts for sheepmeat are forecast to exceed $4 billion for the third season in a row.

This is a solid result for the sector as the season has been severely disrupted by COVID-19. An incredibly strong December quarter provided a strong foundation for the season's results. African Swine Fever-created pork shortages in China also continue to fuel protein demand. The NZD has depreciated significantly since the season started, also providing support for export returns for the second half of the season.

Lamb exports are estimated to be down 4 per cent to 295,000 tonnes shipped weight as a result of fewer lambs being processed and a decrease in average carcase weight.

Mutton exports are estimated at 75,000 tonnes shipped weight – as the sheep flock stabilises.

At the mid exchange rate of USD0.61, the annual average lamb price is forecast at 776 cents per kgCW for 2019-20, up 4.5 per cent from 2018-19, while the annual average adult sheep price is forecast at 507 cents per kgCW, up 10 per cent on 2018-19.

Beef

Overall, beef and veal receipts are expected to exceed $4 billion FOB in 2019-20 – up 18 per cent – for the first time.

For 2019-20, New Zealand beef and veal exports are forecast to lift by 0.5 per cent to 456,000 tonnes shipped weight. The average FOB value per tonne is expected to increase 19 per cent.

Similar to sheep, the strong result for the season is underpinned by a solid December quarter, African Swine Fever-induced demand and a favourable exchange rate. Beef is also positioned well to meet the shifting demand patterns of the post-COVID-19 meat environment.

For 2019-20, the number of cattle processed for export is forecast to increase by 1.5 per cent to 2.65 million head. New Zealand's export beef production is forecast to lift by 0.5 per cent, to a record 666,000 tonnes carcase weight.

At USD0.61, the estimated 2019-20 average annual price for P steer/heifer (270-295kg) is 553 cents per kgCW. It is forecast to average 391 cents per kgCW for M cow (170-195kg) and 515 cents per kgCW for M bull (270-295kg).

Wool

The volume of wool exported in 2019-20 is expected to be similar to 2018-19. This follows a slight decline in wool production for the season.

Overall, wool prices are expected to remain subdued for the remainder of the 2019-20 season. Fine wool prices, which were strong performers in 2017-18 and 2018-19, fell by 20 per cent in the first half of the 2019-20 wool selling season.

However, total wool receipts at FOB are forecast to increase due to a small increase in average value – driven primarily by the depreciation of the NZD – but similar volume being exported. Wool production is forecast to fall 1.4 per cent on 2018-19.

Livestock Numbers

The number of sheep at 30 June 2019 was provisionally 26.7 million head, 0.8 per cent lower than the previous June.

Overall, excellent lamb and mutton prices underwrote a deeper culling than usual of lower-performance sheep in 2017-18. This was countered by retention of ewe lambs, and the younger breeding flock matured, resulting in a younger flock on average and relatively stable numbers.

The number of beef cattle at 30 June 2019 totalled 3.92 million head, up 5.4 per cent on the previous June. This was largely driven by an increase in the number of breeding cows and weaners.

The number of dairy cattle at 30 June 2019 is estimated at 6.35 million, which is almost the same as a year earlier. The number of dairy cows also remained the same as a year earlier.

Sheep and Beef Farms

Gross farm revenue for 2019-20, which ends on 30 June, under an exchange rate scenario of USD0.61 is forecast to average $597,600 per farm, down 3.8 per cent. This is driven by decreased livestock revenue – by about $13,000 per farm for sheep and by over $10,000 per farm for cattle.

Wool revenue decreases 4.7 per cent to $36,100 per farm for 2019-20, due to continued weak wool prices, offsetting an increase in the average volume of wool sold per farm.

Sheep revenue, which is forecast to contribute just under 50 per cent of gross farm revenue, decreases 4.2 per cent to $293,900 per farm for 2019-20. Farm-gate prices are expected to fall from record highs, and fewer prime lambs and sheep are expected to be sold.

Cattle revenue decreases 6.4 per cent to $15,500 for 2019-20, despite strong underlying international demand for New Zealand beef.

The weighted average total expenditure for all farms is estimated to increase 1.8 per cent to $457,100 per farm for 2019-20.

Fertiliser, lime and seeds expenditure increases 1.0 per cent to average $79,600. The volume applied per stock unit increases – while the on-ground price decreases.

Interest expenditure decreases 5.9 per cent to $52,700, which reflects the reduction in interest rates, i.e. the price of borrowing, and reduction in debt levels.

Repairs and maintenance expenditure increases 3.2 per cent, after increases of 12.4 and 5.6 per cent in the prior two years.

In nominal terms, Farm Profit before Tax is forecast to decrease 18 per cent to $140,500 per farm.

After adjusting for inflation, Farm Profit before Tax is $104,400 in 2004-05 dollar terms, down 20 per cent on $130,200 for 2018-19.

The Red Meat Sector Post COVID-19

Introduction

There have been several iterations of this report so far this year, with the first written pre-COVID-19. The speed of change in global markets as COVID-19 spread resulted in the original report undergoing revision.

It became apparent that there were shifts happening in some of New Zealand's key export markets. While these changing trends have occurred as a result of COVID-19, they will shape the post-COVID-19 red meat trading environment and some may prevail beyond the short-term impact of the disease.

The following is not an exhaustive list of shifting trends but includes some of key areas that will have an impact on, and provide opportunities for, the New Zealand red meat sector.

Key trends

- Food safety, security and reputation have never been more important. This is particularly key in China, where African Swine Fever has damaged the reputation of pork though it remains a staple of the Chinese diet. New Zealand red meat is positioned well to meet this requirement.
- The nutritional value of food has increased in importance. Again, this trend has become more pronounced in China where there is demand to consume foods that support health and immunity. Beef and sheepmeat are both considered to provide support to the immunity in Chinese traditional medicine.
- The channels through which consumers purchase food have shifted during COVID-19. Online food purchasing has expanded swiftly. This changes how products are packaged and marketed. It also means there is more meal preparation occurring at home, requiring products that are convenient and easy-to-prepare.
- The direct-to-consumer supply channel is one that may gain more momentum. More producers are choosing to build their own supply chain direct to market.
- A short-term challenge for exporters is the changing value of the overall beef or sheep carcase. With food service demand restricted, high-value cuts have a much smaller market. While demand for low-value items is expected to be solid, it is unlikely to outweigh the loss of demand in the high-value category.
- Prior to COVID-19, demand from China lifted to unprecedented levels, and generated strong export revenues and farm-gate prices in late 2019. It is worth noting that the drivers behind this still remain and will re-emerge as the economic shock of COVID-19 eases in this market.
- The wealth of the Chinese consumer is still expected to lift, despite COVID-19. Fitch Solutions – a forecasting firm – has forecast that the number of Chinese households earning at least USD35,000 disposable annual income will still double from 2020 through to 2024.
- African Swine Fever-induced pork shortages remain a dominant driver of Chinese demand. In 2020 and 2021, Chinese pork production is forecast to be 40 per cent lower than pre-ASF levels. The pork shortage is estimated at 24-25 million tonnes carcase weight.

Summary

COVID-19 has created significant disruption and uncertainty in the global market. Many of New Zealand's key markets are forecast to enter recession this year, which will adversely impact consumer confidence.

Despite this disruption, the outlook for New Zealand's red meat sector looks positive. While prices have experienced downward pressure as a result of COVID-19, they are still high by historical standards.

Red meat will continue to be a key component of many diets. China, and other North Asian markets, remain short of protein, following the ASF-induced pork shortage. This will be a lead driver of demand for red meat.

The importance of food safety, traceability and quality has never been more important to consumers. New Zealand red meat products are well positioned to meet these consumer requirements.

Economic Conditions

Introduction

Global economies are under extreme pressure from the impact of COVID-19. At the time of writing, much of the world is in full or partial lockdown, and the human and economic toll of the virus is mounting. Economic conditions and the outlook are being revised daily. Financial markets have gone into freefall, unemployment is soaring, and volatility is high. Governments and central banks are swiftly reacting to the economic downturn with aggressive fiscal packages and interest rate cuts to boost demand.

The global economic impact of COVID-19 is expected to persist throughout 2020 and 2021. The only certainty lies in the amount of uncertainty regarding the continuing spread of the virus, governments' attempts to contain/manage it and the corresponding impact on consumer demand and international trade.

Global Growth Prospects

In late 2019, global economies were showing signs of improvement following a period of uncertainty around international trade and geopolitical relationships.

The signing of Phase One of the US-China trade deal was one of the key drivers for the improving global economic sentiment. Achieving closure around Brexit was also a contributing factor. These two trade issues had kept tension in economies for such a long period that a resolution was a sigh of relief to financial markets.

The global optimism of late 2019 was cut short abruptly by the outbreak of COVID-19. Worldwide lockdowns, quarantines, travel restrictions, supply chain disruptions, a sharp reduction in tourism, and travel and high human costs are now weighing heavily on the global economy. Stock markets plummeted as the virus spread across the globe and global recession is now inevitable.

In April 2020, in response to the COVID-19 pandemic, the International Monetary Fund (IMF) forecast a sharp contraction in the global economy in 2020, with GDP growth expected to contract 3 per cent. The magnitude of this contraction is significantly worse than the economic fallout from the Global Financial Crisis in 2008-09. This forecast assumes that the pandemic is contained by the second half of the year.

The reliance of the global economy on China was highlighted by the outbreak of COVID-19 in this market. China makes up 15-20 per cent of global GDP, up from 4 per cent at the time of the SARS outbreak in 2003. It plays a vital role in the global manufacturing supply chain. The lack of economic activity in this market during its lockdown period had an immediate and sharp impact on the rest of the world.

Forecasts of Chinese GDP growth have been lowered by economists as a result of COVID-19, however it is one of the few economies to have a growth forecast for 2020, even though it is small. Growth contracted sharply in the first quarter of 2020. This was the first contraction since the Chinese market was reformed in 1978. Economic activity began to recover in the second quarter and much of the support for this economy is reliant on government stimulus packages. The rebound in 2021 is swift, with growth of 9 per cent forecast.

The impact of COVID-19 has escalated rapidly in the US. The economy is projected to contract by up to 6 per cent through 2020, with the most severe impact occurring in the second quarter. Economic recovery in this market is expected to be long, with the impact of COVID-19 expected to persist through to mid-2021.

Unemployment in the US has surged, with an estimated 22 million jobs lost from late March to late April.

Economic recovery will rely on fiscal support packages. Government spending on COVID-19 support already exceeds any economic shock since World War II.

European Union economies were under pressure in 2019, with economic growth recorded at 0.1 per cent, the lowest rate recorded in six years. The severe outbreak of COVID-19 through Europe and the UK has further impacted economic

Table 1 Global Growth Indicators

	Annual Average % Change, March Year					
	2016 %	2017 %	2018 %	2019 %	2020f %	2021f %
US	+1.6	+2.4	+2.9	+2.3	-5.9	+4.7
UK	+1.9	+1.9	+1.3	+1.4	-6.5	+4.0
Euro Area	+1.9	+2.5	+1.9	+1.2	-7.5	+4.7
Japan	+0.5	+2.2	+0.3	+0.7	-5.2	+3.0
China	+6.8	+6.9	+6.7	+6.1	+1.2	+9.2
South Korea	+2.9	+3.2	+2.7	+2.0	-1.2	+3.4
Australia	+2.8	+2.5	+2.7	+1.8	-6.7	+6.1
Global	+3.4	+3.9	+3.6	+2.9	-3.0	+5.8
New Zealand	**+4.2**	**+3.8**	**+3.2**	**+2.2**	**-7.2**	**+5.9**

Note: "Euro Area": Belgium, Germany, Ireland, Greece, Spain, Cyprus, Malta, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Slovak Republic, Lithuania, Latvia, Estonia and Slovenia.
e estimate, f forecast | Source: International Monetary Fund - April 2020

growth, with most economies forecast to contract sharply in 2020.

The Euro Area economy (i.e. excluding UK) is expected to contract 7.5 per cent in 2020 and the UK economy is expected to contract 6.5 per cent.

Significant stimulus packages have been announced in the UK and many European countries. Given the severity of the outbreak and the prolonged halt in economic activity, it is expected that further support packages will be required to provide support to struggling economies.

Economic growth in Australia was expected to be subdued in 2020 even prior to the outbreak of COVID-19. Wage growth and the construction industry were both under pressure causing inflation and domestic growth concerns. The outbreak of COVID-19 is forecast to result in economic contraction of 6.7 per cent.

New Zealand

The New Zealand economy is reeling under the impact of COVID-19. The strict lockdown measures have resulted in a sharp contraction of economic activity, which the IMF has forecast will result in GDP contracting by 7.2 per cent in calendar 2020. The extent of the impact will depend on New Zealand's ability to contain the virus. These assumptions are based on sharp contraction in the second and third quarters of 2020 followed by economic recovery as containment is achieved.

Even as the virus is contained, the impact on the economy is expected to persist out to 2023, when GDP is forecast to reach pre-COVID-19 levels.

Unemployment is rapidly rising across the country. The unemployment rate is forecast to lift to 10-13 per cent in the second, third and fourth quarters of 2020, and remain above 5 per cent in 2021.

One of New Zealand's key advantages lies in the importance of food exports to the economy. The majority of exports is essential goods and activity will be maintained, even if prices are weaker.

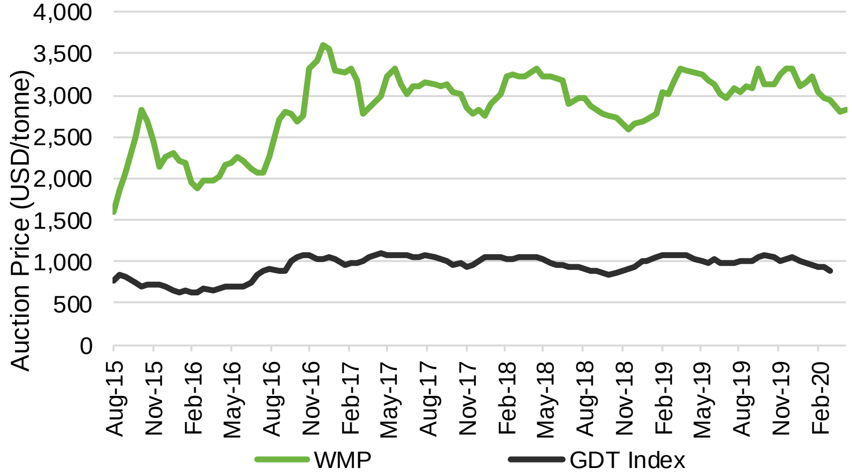
Global dairy prices dropped to their lowest level in 12 months at the Global Dairy Trade Auction on 22 April. The drop was not unexpected given the level of disruption in global markets; however, it does introduce downside risk to the farm-gate price to farmers for 2020-21.

Export revenue from the tourism and education sector has been brought to a standstill, with recovery likely to be a long process. Goods exports will form the backbone of New Zealand's economic recovery.

The pastoral sector is also facing the challenge of widespread drought, which may add further pressure to the economy in coming months.

The New Zealand government introduced a number of significant fiscal assistance packages as the country went into lockdown. These packages were designed to support households and businesses, as well as some targeted packages for essential industries such as aviation

Figure 1 Global Dairy Trade Auction



Source: Global Dairy Trade, Beef + Lamb New Zealand Economic Service

and media. It is expected further stimulus will be required to ease the economic hardship facing the New Zealand economy.

New Zealand was fortunate to have low levels of government debt prior to COVID-19. This enabled the government to move swiftly and generously to support the economy. However, it will have a long-term impact on the country. ANZ bank has forecast it could take two years for the stimulus packages to unwind and before fiscal buffers can be rebuilt.

Interest Rates

The spread of COVID-19 has resulted in sudden and sharp changes in global monetary policy. Central banks around the world have been swift to react to the abrupt impact on economic activity.

In New Zealand, the RBNZ made an emergency 75 basis points ("bp") cut to the OCR on 16 March – from one to 0.25 per cent – and committed to keeping it at that level for at least the following 12 months.

The US Federal Reserve cut interest rates to zero on 16 March as part of a wide-ranging emergency action to protect the economy from the impact of COVID-19.

Prior to the spread of COVID-19, the US Federal Reserve had indicated it would hold interest rates steady in the 1.5 to 1.7 per cent range in 2020, based on an improving US economy.

The Reserve Bank of Australia and the Bank of Canada also made unscheduled cuts to official cash rates to provide support to their economies.

Risk is rapidly being repriced across the global economy. As the virus

spreads, expectations are that business and consumer confidence will deteriorate, further depressing economic activity.

Exchange Rates

COVID-19, and its impacts on trade and tourism, is the major theme in the currency market. The NZD depreciated as the impact of COVID-19 hit the New Zealand economy and the growth outlook began to deteriorate. This has been favourable for New Zealand exporters and provided some buffer against the market disruption of COVID-19.

New Zealand's quick action to contain the virus combined with data showing exports had held up relatively well eased the rate of depreciation seen in the early weeks of the outbreak. The NZD also gained some relative attractiveness after the US Federal Reserve made emergency cuts to its funds rate.

The NZD is projected to slowly appreciate from the end of 2020.

Table 2 shows the annual average exchange rates for the three major currencies in which New Zealand's meat and wool are traded. For the year to September 2020, the outlook from banks at the time forecasting commenced was for the New Zealand dollar (NZD) to ease against the US dollar (USD), sterling (GBP) and euro (EUR).

The weaker NZD will go some way to minimising the impact of declining in-market prices as a result of COVID-19.

Figure 2 shows the proportion of New Zealand beef, lamb and mutton export volumes in the currencies in which the trade is denominated. For the 2018-19 production season, 73 per cent of total meat export volume was reported as being traded in USD-denominated contracts, 6 per cent in EUR and 6 per cent in GBP. The share of trade in EUR and GBP declined from 9.0 per cent and 6.7 per cent respectively in 2017-18.

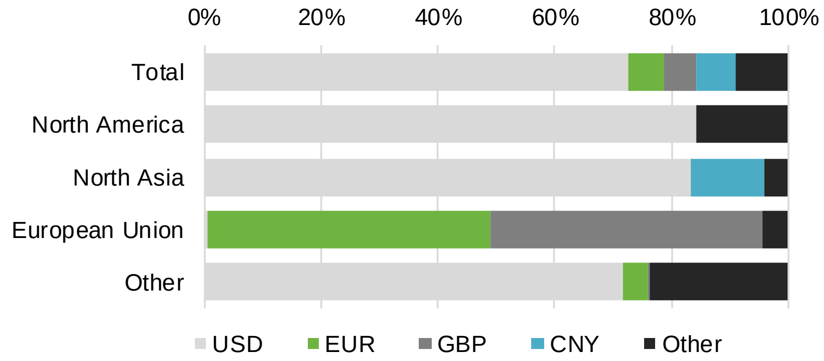
The Chinese yuan (CNY) became a currency of significance in 2018-19, with 7 per cent of total meat export volumes traded in this currency. This is up from less than 2 per cent in 2017-18 and represents 12 per cent of the volume of meat exported to China. The USD remains the dominant currency for trade to China. Importers effectively purchase USD using their own currency.

Table 2 New Zealand Dollar Exchange Rates

	Annual Average		
Sep Year	USD	GBP	EUR
2017-18	0.70	0.52	0.59
2018-19	0.67	0.52	0.59
2019-20f	0.61	0.49	0.55
2019-20f % change	-9.0%	-5.8%	-6.8%

f forecast
Source: Beef + Lamb New Zealand Economic Service, Reserve Bank of New Zealand

Figure 2 NZ meat export volumes by currency of trade – 2018-19



Trade Agreements

Post-Brexit

The UK's exit from the European Union on 31 January 2020 removed some of the uncertainty around Brexit and the impact on New Zealand.

The UK's exit was a political exit, with the UK's existing trade relationship with the EU remaining in place until a transition period is completed (31 December 2020) or a bilateral trade agreement has been agreed between the two (whichever comes soonest), meaning there will be no change to New Zealand's access for meat until then.

The red meat sector has worked collaboratively with the New Zealand Meat Board and the New Zealand Government to prepare for Brexit and will continue to do so in order to mitigate other trade impacts.

There have been several developments in US trade policy, including deals that will go some way to alleviate trade tensions between the US and its trading partners. This may mean a more stable trading environment for New Zealand, although the US presents continued systemic challenges to the rules-based system. These developments include the following.

US/Japan

The trade deal between the US and Japan entered into force on 1 January 2020. It was not a full trade agreement, because it only covers a few agricultural products of interest to the US and a few industrial products of interest to Japan.

The deal included tariffs cuts on some US agricultural products including beef, which now puts the US on par with CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership) countries (including New Zealand and Australia). As a result, the US now enjoys the same tariffs as New Zealand and Australia.

USMCA

The United States-Mexico-Canada Agreement, which replaced North American Free Trade Agreement (NAFTA), was approved by the US Congress in January 2020.

In late January 2020, Canada began the ratification process of CUSMA as it is known in Canada and it was passed in mid-March just before the Canadian parliament was suspended due to the spread of COVID-19.

Mexico ratified the agreement in 2019.

The fully ratified agreement will take effect on the first day of the third month after all three countries' approval.

US/China

The US/China deal could potentially be significant for New Zealand and the red meat sector. Again, this is not considered a full trade agreement because it only deals with a very narrow field of issues/sectors. It is generally recognised as Phase One of the "Economic and Trade Agreement" that will be completed between the two countries.

The deal is expected to increase US exports, particularly of agricultural products to China. This will include US beef exports, which have traditionally been low to China because of certain requirements or bans, particularly in respect of BSE (bovine spongiform encephalopathy, which is colloquially referred to as "mad cow disease") and the use of hormone growth promotants (HGPs). Under the Phase One deal, China has agreed to purchase USD200 billion worth of US goods and services in 2020 and 2021, on top of the amounts imported in 2017. This purchasing commitment does not cover all US exports to China, but applies to select agriculture (including beef), energy, manufacturing, and services imports.

Further, China has undertaken to review technical barriers to trade, such as restrictions around the use of HGPs, which have previously been banned from product imported into China. Given the widespread use of HGPs in US beef production, this development has the potential to significantly increase US beef exports to China, but the impact will depend on implementation and the detail of any new import requirements.

The US is a significant producer and exporter of beef, poultry and pork. According to the US Department of Agriculture (USDA) and US Meat Export Federation (MEF), in 2019, the US exported a total of 912,477 tonnes of beef, with most of it going into markets such as Korea and Japan. With improved access into China, it is likely US companies will export more to China. In the short term at least, this situation is unlikely to lead to an increase in world red meat production and it may open opportunities in other markets.

New Zealand meat exports to China still face some market access issues, which limits exporters' ability to supply the increased Chinese demand. That said, given New Zealand's natural production systems, it is competing in a different product category to US beef (grass-fed vs. grain-fed beef), which is likely to continue to resonate with Chinese consumers looking for a premium, natural, safe product. New Zealand also has tariff-free access for beef into China under the NZ-China FTA, compared to tariffs of up to 47 per cent for US beef.

US/EU

The US and EU are currently discussing a trade deal. Like the US/Japan and US/China agreements, this is not expected to be a comprehensive trade agreement but will focus on particular sectors. Likely to be included are certain agricultural products, technology and energy.

The EU also recently approved an increase in the quota of US hormone-free beef, which is estimated to "nearly triple the amount of beef currently exported to the EU by the US". The agreement providing further US beef access was seen by many as an attempt to "de-escalate trade tensions with the US".

Exchange Rate Sensitivity – 2019-20

Table 3 shows farm-gate prices under five different exchange rate scenarios. This approach provides an indication of the impact of exchange rate volatility on the prices paid to farmers.

The shaded column represents our forecasts of exchange rates for the major currencies and the related farm-gate prices used to derive the base estimates of export receipts and farm revenue in this report. The four other scenarios show the impact on farm-gate prices of variations of ±5 and ±10 per cent in the exchange rates for the USD, GBP, and EUR.

Meat and wool production are seasonal with most production sold from late November through to June, which means that the value of the NZD during this period is crucial to farmers and export companies.

In the 2019-20 season, the NZD is expected to ease against the USD, GBP and EUR. The exchange rate of the NZD with the USD has the greatest effect because over 70 per cent of New Zealand's red meat exports are traded in this currency. The GBP is still important to New Zealand's lamb exports as nearly 5 per cent is traded in this currency, however, but this has declined in recent years.

Exchange rate movements have a significant leveraged effect on farm-gate prices. All other things being equal, a 10 per cent depreciation of the NZD against the USD – from 0.61 to 0.55 – and the associated cross rates against the GBP and the EUR, increases the average lamb price received by farmers by 14 per cent. Alternatively, if the NZD appreciates by 10 per cent – from 0.61 to 0.67 against the USD – then the farm-gate lamb price decreases by 12 per cent.

Table 3 Exchange Rate Sensitivity

NZD Exchange Rates						Exchange Rate Change from USD 0.61	
						to USD 0.55	to USD 0.67
USD	0.55	0.58	0.61	0.64	0.67	-10%	+10%
GBP	0.44	0.47	0.49	0.51	0.54	-10%	+10%
EUR	0.50	0.52	0.55	0.58	0.61	-10%	+10%
Farm-Gate Prices Received $ / head							
Lamb	167	156	146	137	129	+14.3%	-11.7%
Mutton	155	143	132	122	113	+17.5%	-14.3%
Steer/Heifer	1,761	1,643	1,537	1,441	1,354	+14.6%	-11.9%
Cow	884	825	772	724	680	+14.6%	-11.9%
Bull	1,779	1,660	1,553	1,456	1,368	+14.6%	-11.9%
All Beef	1,421	1,325	1,240	1,163	1,092	+14.6%	-11.9%
¢ / kg							
Lamb[1]	887	828	776	728	685	+14.3%	-11.7%
Mutton[1]	595	549	507	469	434	+17.5%	-14.3%
Steer/Heifer	634	591	553	519	487	+14.6%	-11.9%
Cow	447	417	391	366	344	+14.6%	-11.9%
Bull	590	551	515	483	454	+14.6%	-11.9%
All Beef	566	528	494	463	435	+14.6%	-11.9%
Fine[2]	1,723	1,599	1,487	1,386	1,294	+15.8%	-13.0%
Medium[2]	840	779	725	676	631	+15.8%	-13.0%
Crossbred[2]	286	266	247	230	215	+15.8%	-13.0%
All Wool[2]	402	373	347	323	302	+15.8%	-13.0%

1 includes wool and skin **2** wool ¢/kg greasy | Source: Beef + Lamb New Zealand Economic Service

Livestock Numbers

Sheep

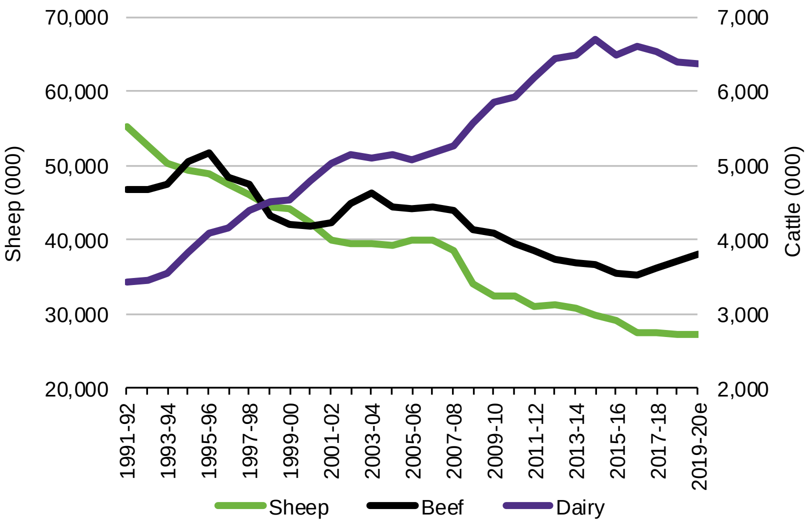
The number of sheep at 30 June 2019 were provisionally 26.7 million head, lower (-2.2%) than the previous June. This continued the long-term trend of declining sheep counts, after a three-year period of stable numbers of sheep. Within this, the number of breeding ewes decreased 2.3 per cent with decreases in all regions. Northland-Waikato-Bay of Plenty recorded the largest decrease (-4.5%) and East Coast the smallest (-0.9%). The number of hoggets decreased 1.5 per cent.

In the North Island, the number of sheep decreased 3.2 per cent (-431,000 head) to 13.2 million at 30 June 2019. Within this, the number of breeding ewes decreased 2.0 per cent, with most of the decrease occurring in Northland-Waikato-Bay of Plenty.

Ewe numbers were almost static in East Coast (-0.9%) and Taranaki-Manawatu (-1.6%).

In the North Island, the number of hoggets fell 5.3 per cent but increased by 4.5 per cent in Northland-Waikato-Bay of Plenty.

Figure 3 Livestock Numbers



Source: Beef + Lamb New Zealand Economic Service | Statistics New Zealand

Table 4 Livestock Numbers (million head)

	Breeding Ewes	Hoggets	Total Sheep	Beef Cattle	Dairy Cattle
30 June 2018	17.16	9.23	27.30	3.72	6.39
30 June 2019p	16.76	9.10	26.71	3.92	6.35
18-19 to 19-20 % change	-2.3%	-1.5%	-2.2%	+5.4%	-0.5%

e estimate

Source: Beef + Lamb New Zealand Economic Service | Statistics New Zealand

In the South Island, the number of sheep decreased 1.2 per cent (-158,000 head). Despite this, there was a 2.9 per cent increase in hoggets, which included a large component of carryover trade lambs for processing in the September 2019 quarter. The number of breeding ewes decreased 2.7 per cent and followed a 3.3 per cent decrease in 2018-19.

Overall, record high lamb and mutton prices in most categories caused more ewe hoggets to be retained.

Beef Cattle

The number of beef cattle at 30 June 2019 totalled 3.92 million head, up 5.4 per cent on the previous June. This was largely driven by an increase in the number of breeding cows and weaners.

In the North Island, the number of beef cattle increased 4.1 per cent to 2.73 million head at 30 June 2019. The number of beef breeding cows increased 8.9 per cent, with all regions growing: Northland-Waikato-Bay of Plenty by 7.2 per cent, East Coast by 10.5 per cent and Taranaki-Manawatu by 8.9 per cent.

In the South Island, the number of beef cattle increased 8.4 per cent to 1.19 million head.

The number of dairy weaners increased strongly in both the North Island (+14.5%) and the South Island (+14.3%).

Dairy Cattle

The number of dairy cattle at 30 June 2019 is estimated at 6.35 million, which is almost the same as a year earlier. The number of dairy cows also remained the same as a year earlier. The South Island contains 40 per cent of the New Zealand dairy herd, up from 35 per cent in 2009.

Lamb & Mutton Exports

Lamb

2019-20

The 2019-20 lamb export season had an incredibly strong start. Chinese demand for sheepmeat lifted to unprecedented levels and other markets were forced to compete on price to secure product, resulting in a large lift in export prices. A shortage of protein as a result of African Swine Fever (ASF) and increasing consumption from more-affluent Chinese consumers drove demand.

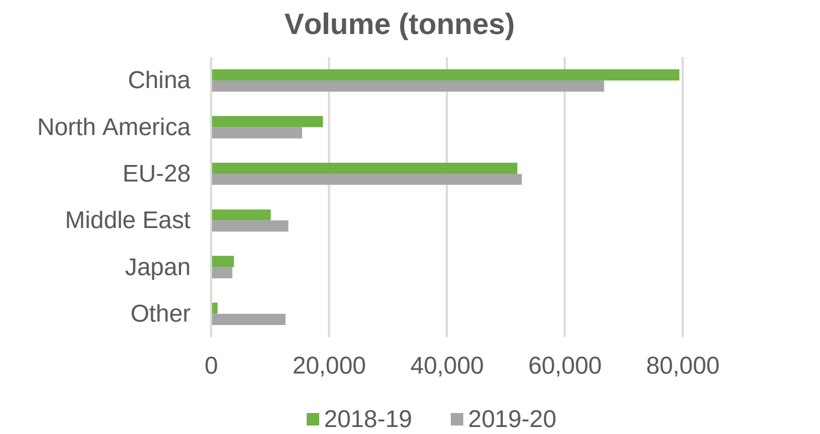
The outlook for 2019-20 remains positive, underpinned by the ASF-driven pork shortage in China. However, the spread of COVID-19 has provided a sharp disruption to markets and import demand. Full or partial lockdowns have resulted in the collapse of restaurant and food service demand. The EU-27 and UK have been particularly hard hit. These economies are in recession and consumer confidence is low.

Chinese demand for lamb is already showing signs of recovery as this country emerges from COVID-19 lockdowns. Export production for the remainder of the 2019-20 season is likely to be very reliant on China.

One of the challenges exporters will have to balance with lamb exports in coming months is the changing value of the overall lamb carcase. The restrictions in the food service trade have reduced demand for New Zealand's high-value cuts. There have been some challenges selling middle cuts. Although demand from China has increased, exports are dominated by lower-value cuts, and demand for them will have to increase substantially to outweigh the slump in prices and volumes of high-value cuts.

Total lamb exports by volume are expected to decrease by 3.6 per cent as a result of a decline in the 2019 lamb crop. Average export values are expected to lift 8.6 per cent, offsetting the declining production. Total lamb meat export receipts are expected to lift by 4.2 per cent to $3.54 billion FOB (free on board). The average export value reaches a record of $11,346 per tonne.

Figure 4 New Zealand Lamb Exports – October to March



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs, New Zealand Meat Board

Export data for the first six months of the season (October 2019-March 2020) provided a solid foundation for these estimates. The average export value for this period was $11,687 per tonne, up 10 per cent on 2018-19.

A depreciating NZD in the first three months of calendar 2020 provided support for export returns.

Export returns in the December 2019 quarter reached record highs. The average in-market price per tonne lifted 25 per cent for North Asia and 4 per cent for the EU-28 (including UK), compared to the same quarter in 2018-19.

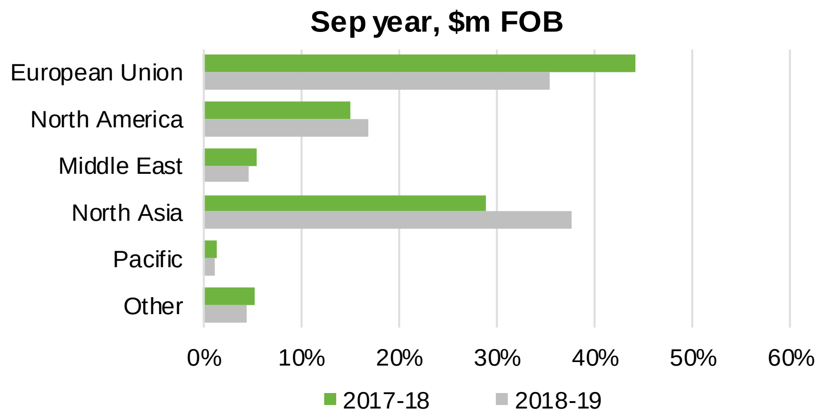
Returns have held up well in the March 2020 quarter considering the disruption of COVID-19. While down on the highs of the December quarter, most markets were still tracking stronger in comparison to the same

Table 5 New Zealand Lamb Exports

	Lamb meat			Co-Products	Total Lamb	Lamb Meat
Sep Year	000 tonne	$ / tonne	$m FOB	$m FOB	$m FOB	%
2015-16	303	7,907	2,397	187	2,584	93%
2016-17	295	8,603	2,538	168	2,706	94%
2017-18	313	10,086	3,156	199	3,355	94%
2018-19	306	10,447	3,192	203	3,396	94%
2019-20e	295	11,346	3,342	198	3,540	94%
2019-20e % change	-3.6%	+8.6%	+4.7%	-2.8%	+4.2%	

* Lamb Meat value as a percentage of the value of Total Lamb exports, including Co-Products
e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

Figure 5 New Zealand Lamb Export Value



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs, New Zealand Meat Board

quarter last year. Returns from North Asia were up 5 per cent, and those from the UK were up 7 per cent on the March quarter in 2019.

By market, the export data shows that China accounted for 41 per cent of total export volumes for the first six months of the season, compared with 48 per cent in 2018-19. Shipments to the EU made up 32 per cent of exports and North America accounted for 9 per cent. More product was exported into the Middle East and South Asia in early 2020, when demand from China weakened.

Looking forward, with China one of the few sheepmeat markets in recovery, it is possible that volumes exported to this market will lift as demand returns. and other markets remain disrupted by COVID-19. There is a risk that this will weigh on the price outlook, however, this risk may be partially offset by decreased production in both New Zealand and Australia this year.

The outlook for the remainder of the season is uncertain. The economic recovery of China will support demand; however, exporters will be looking for some easing in food service restrictions globally to regain momentum in the sale of high-value lamb.

The strong start to the season combined with a lower NZD will provide some buffer against downside risk in coming months.

2018-19

Total lamb meat exports were down 2.2 per cent to 305,577 tonnes shipped weight in the year ending September 2019. The decline in export volumes was driven by a 6 per cent drop in the number of lambs tailed in the spring of 2018.

A moderate increase in the average value of lamb, however, offset the decline in export production. Total lamb receipts (meat and co-products) for the year ending September 2019 increased 1.2 per cent to $3.40 billion.

The average value of lamb meat exports lifted 3.6 per cent to $10,447 FOB per tonne for 2018-19. This lift was driven by a 12.7 per cent increase in the average value of lamb exports to North Asia, New Zealand's largest market by volume (38 per cent of exports). The average value of exports to North America and the Middle East also experienced large increases – 9.7 and 9.0 per cent respectively.

The value of co-products lifted 2 per cent in 2018-19, following an 18 per cent increase in 2017-18.

Mutton

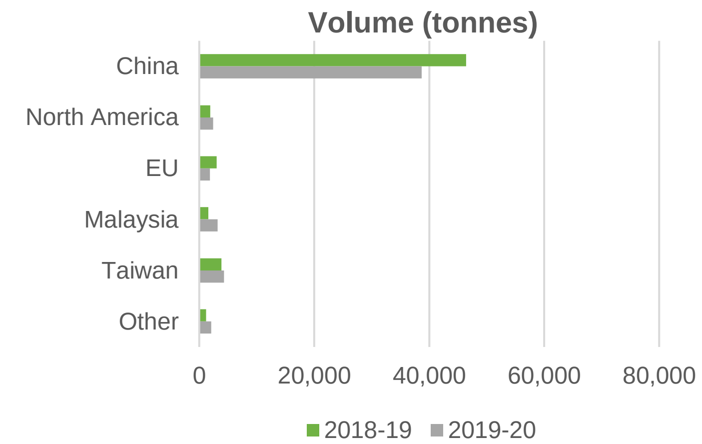
2019-20

Firm Chinese demand for red meat is the predominant driver in the mutton outlook for the 2019-20 season. In 2018-19, China accounted for three quarters of New Zealand's mutton exports. ASF related demand combined with a sharp reduction in mutton exports from Australia are key drivers of the positive mutton outlook for the season.

COVID-19 disrupted Chinese demand for mutton in the first three months of 2020. Exporters diversified to several small, less traditional markets including Malaysia, Taiwan and the EU. Chinese demand for mutton started to show signs of recovery in March and exporters have reported solid demand is expected in future.

In 2019-20, total mutton meat exports are expected to decline 10.7 per cent to 75,000 tonnes, which would be the lowest level for a decade.

Figure 6 New Zealand Mutton Exports - October to March



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs, New Zealand Meat Board

Table 6 New Zealand Mutton Exports

	Mutton meat			Co-Products	Total Mutton	Mutton Meat
Sep Year	000 tonnes	$ / tonne	$m FOB	$m FOB	$m FOB	%*
2015-16	83	4,581	380	132	512	74%
2016-17	81	5,247	424	120	544	78%
2017-18	94	6,460	606	154	760	80%
2018-19	84	6,715	564	101	665	85%
2019-20e	75	7,845	588	94	683	86%
2019-20e % change	-10.7%	+16.8%	+4.3%	-6.0%	+2.7%	

* Mutton Meat value as a percentage of the value of Total Mutton exports, including Co-Products
e estimate | Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

The average value of mutton exports is estimated to lift 16.8 per cent to $7,845 per tonne, driven by strong Chinese demand. Total FOB receipts (including co-products) are expected to be up 2.7 per cent.

For the first six months of 2019-20, the volume of mutton exported was down 9 per cent on the same period in 2018-19. The decrease in volume was offset by a strong average export value of $7,784 FOB per tonne; up 16 per cent on the same period in 2018-19.

In-market prices for mutton during the December quarter lifted 23 per cent in North Asia in comparison to the same quarter last year. While they dropped significantly in the March quarter, in-market prices held up well compared to the March quarter of 2019, with North Asia recording a 6 per cent lift.

The outlook for mutton exports for the remainder of the season will be reliant on the speed of recovery in China. Demand is likely to be solid, but prices may have a weaker tone in coming months.

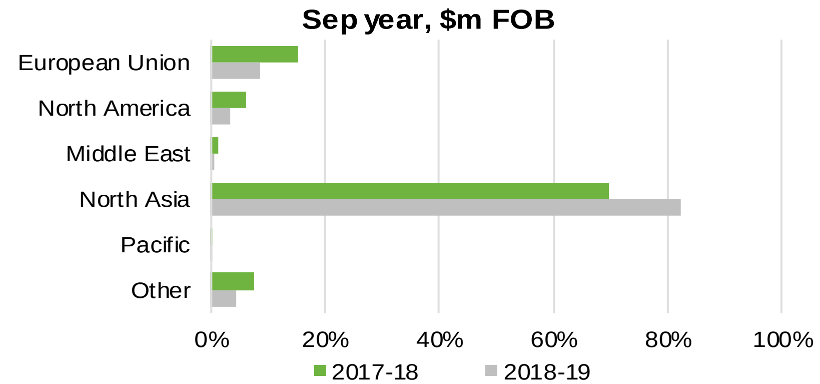
2018-19

In 2018-19, New Zealand's mutton meat exports declined 10 per cent to 84,000 tonnes. Increased confidence in the lamb outlook and favourable climatic conditions resulted in more breeding ewes being retained following a large turn-off in the 2017-18 season.

The average value of mutton exports lifted 3.9 per cent to $6,715 FOB per tonne. This was driven by an 8 per cent increase in the average value of exports to North Asia.

North Asia was the largest market for New Zealand mutton, accounting for 82 per cent of mutton exports by value and 87 per cent by volume, up from 76 per cent in 2017-18, at the expense of the North American and European Union market shares, which both declined in 2018-19.

Figure 7 New Zealand Mutton Export Value



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs, New Zealand Meat Board

Lamb & Mutton - International Situation

Overview

The global sheepmeat trading environment is currently dominated by shifting demand patterns from the Chinese market.

Global protein supply has declined sharply as a result of African Swine Fever (ASF). In 2020 and 2021, Chinese pork production is forecast to be down 40 per cent on pre-ASF levels. The pork shortage is estimated at 24-25 million tonnes carcase weight. This shortage underpinned exceptionally strong demand and export returns for sheepmeat in the first quarter of 2019-20. It is expected to be the leading contributor to demand for the remainder of the season, providing support for a global market severely disrupted by COVID-19.

COVID-19 has disrupted global sheepmeat markets so far in 2020, and many are still a long way from recovery. Of New Zealand's key markets for sheepmeat, only China is showing signs of recovery. The EU-27, UK and North America are still in partial or full lockdown, with economic activity depressed. The shutdown of the restaurant and food service trade, as well as the loss of tourism is expected to adversely impact demand for lamb in these markets, as it is commonly positioned as a premium protein.

Prior to the outbreak of COVID-19, the OECD had forecast global sheepmeat consumption to grow at an average annual rate of 1.5 per cent to 2023, supported by population and economic growth. Sheepmeat is considered a high-quality meat and consumption lifts as income increases. Asia, the Middle East and Africa are expected to lead the consumption growth. The shock of COVID-19 will be a sharp disruption to these forecasts, however it is expected to be only short-term, with medium to long term fundaments remaining positive.

Supply from the two dominant sheepmeat exporters is expected to decline this season. Australian sheepmeat production is impacted by continuing drought and supplies from New Zealand are down on a low production base. This will support export prices, particularly as the Chinese economy picks up.

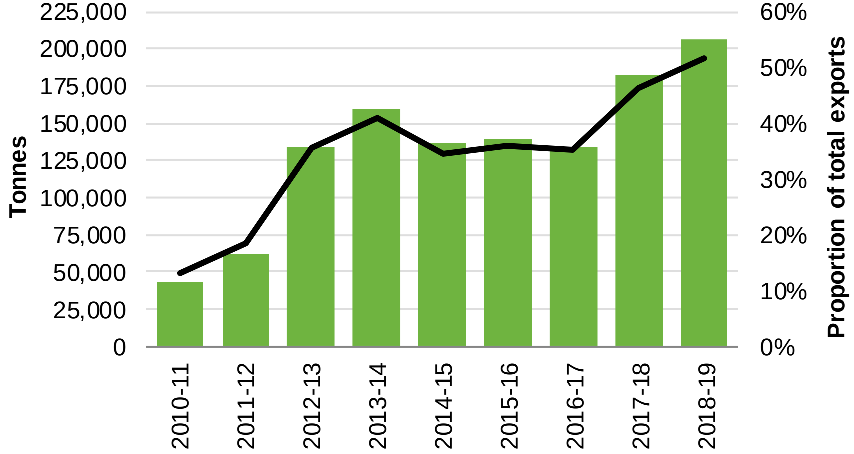
Disruptions to trade are many and varied. COVID-19 is dominating the market currently, but longer-term disruptions such as trade agreements, will also need to be navigated this season. Overall the strong fundamentals of demand for global sheepmeat are expected to overcome these disruptions.

China

Unprecedented import demand for sheepmeat from China in late 2019 was the key driver of the strong forecast for export and farm-gate prices for the 2019-20 season.

Import demand for sheepmeat from China has grown over the last four years as more consumers shift into the middle-upper class income bracket. Total import volumes lifted by 28 per cent in 2019, following a 21 per cent lift in 2018 and 24 per cent lift in 2017.

Figure 8 New Zealand Lamb Exports to China (Sep year)



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

A severe pork shortage as a result of ASF contributed to the surge in sheepmeat imports in 2019 and is expected to underpin strong import demand in 2020. The shortfall in pork production well exceeds production increases in other meat protein sources, so demand for imported meat protein remains strong.

As pork became scarce, some wealthier consumers replaced it with more expensive sheepmeat. Retail prices rose 18 per cent in 2019. Sheepmeat consumption lifted by an estimated 2.5 per cent in 2019, with the shortage of pork one of the leading drivers.

Despite the disruption of COVID-19, the Chinese consumer is still expected to become increasingly affluent, with more households shifting into higher income brackets.

China has the world's largest sheep flock and accounts for one-third of global sheep production. Ninety-five per cent of sheepmeat consumption is sourced domestically. Domestic production in China is influenced by government policy, climate and resource constraints, and it can be cyclical in nature, resulting in unpredictable shifts in demand for imports.

Currently, domestic production does not have the ability to meet the surging consumption requirements. There are signals, however, that the current high sheepmeat prices and risk associated with pig production are providing an incentive for more producers to enter the market. This will be a trend worth following, as increased domestic production will impact import demand.

New Zealand sheepmeat exports to China have traditionally been lower-value cuts, such as lamb flaps, and mutton six-way cuts and carcases. Lamb flaps and bone-in breast items made up 52 per cent of lamb shipments to China in 2018-19. In 2019, the sharp increase in demand was reflected in China being willing to pay more for higher value product, pulling it away from more traditional markets such as the UK and EU. Exports of boneless legs to China grew by over 300 per cent for the 2018-19 season; from a small base of 2,500 tonnes in 2017-18 to 11,500 tonnes. Sustainability at this level of higher-value shipments to China will depend on the ability of the market to pay more than New Zealand's traditional markets.

The spread of COVID-19 caused serious disruption in the Chinese market in early 2020. Supply did not flow as freely as normal and consumption was adversely impacted due to travel restrictions on the Chinese population. Import demand and prices slumped. The disruption was sharp but temporary, with China already showing signs of recovery.

Australia

Ongoing drought conditions in Australia weigh heavily on the outlook for sheep and lamb supply. Production in 2020 is again expected to drop, making it the third consecutive year of decline. The national flock is estimated to drop to its lowest level in more than a century, at 63.7 million head.

The ability for producers to begin to rebuild flocks will depend on a return to favourable seasonal conditions. Assuming favourable conditions do prevail, producers are expected to commence rebuilding their flocks during 2020. Sheep processing is forecast to decline 22 per cent in 2020 and lamb processing is expected to decline by 3 per cent.

Improvement in carcase weights will offset the decline in the number of lambs processed during 2020, with lamb production expected to remain similar to 2019 levels. Export lamb production is forecast to increase during 2020 as strong international demand diverts more lamb away from the domestic market.

Sheep carcase weights are also expected to lift in 2020, but not enough to offset the large expected decline in the number processed. Mutton production and exports for 2020 are forecast to be down 22 per cent.

Australia's tighter supply will have an influence on international trade. Mutton supply will be particularly short in 2020, with significant declines in exports from both New Zealand and Australia.

In 2019, the proportion of both lamb and mutton exports that were shipped to China lifted as a result of the strong demand. Australia is not as reliant on this market as New Zealand. China accounted for 26 per cent of total Australian lamb exports in 2019. The US and Middle East are the second and third markets by volume. Forty-four per cent of Australian mutton exports went to China in 2019, compared to 75 per cent of New Zealand's mutton. Malaysia, the US and Middle East are other significant destinations for Australian mutton.

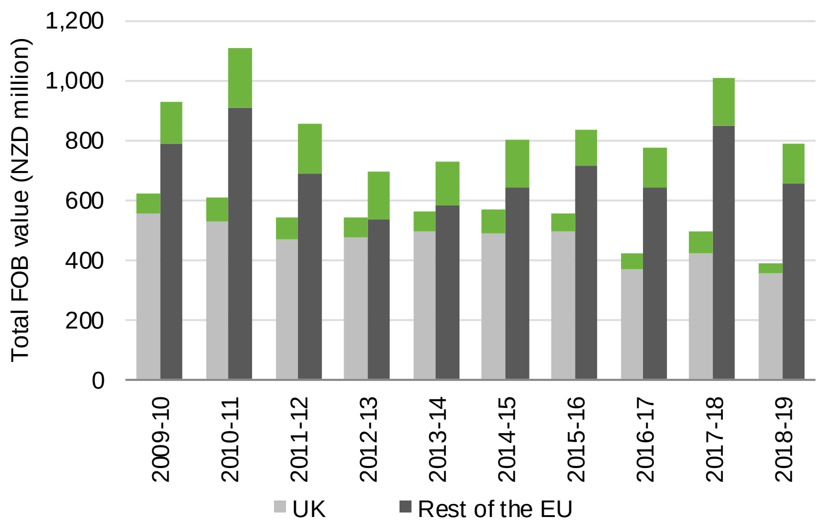
Australian sheepmeat exports declined 2 per cent year-on-year for the first three months of 2020. This is driven by declining mutton exports, as production is well down. Exports to China were down 16 per cent, while those to the US and Japan were respectively 13 per cent and 23 per cent higher.

The global uncertainty created by COVID-19 is beginning to be felt in sheepmeat producer prices. After months of strong supply and prices, both are beginning to ease. The rapid recovery of the Chinese market has prevented industry confidence from falling however, with many producers still intent on rebuilding sheep flocks.

UK and European Union

The EU-28 generated the highest sheepmeat revenue for New Zealand in the first six months of 2019-20 season. Export volumes are now second to North Asia, however it is a high-value market considering the volume exported and for that reason will always be significant for New Zealand sheepmeat.

Figure 9 New Zealand Sheepmeat Export Value (Sep year)
UK and Rest of the EU



Note: The grey areas represent the value of exports from October to June and the green areas the value of exports for the rest of the season – from July to September.
Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

The breeding flock in the UK declined in both 2018 and 2019. The Agriculture and Horticulture Development Board (AHDB) expects this trend will continue as the uncertainty caused by Brexit has resulted in low producer confidence. British sheepmeat production is forecast to drop by 5 per cent in 2020. EU production declined in 2019, however it is expected to remain relatively stable in 2020 and into the medium term.

Sheepmeat imports in both the EU and UK were down in 2019. Arrivals from New Zealand and Australia declined significantly as more product was sold to China. This trend is expected to prevail in 2020 and will be further intensified by COVID-19.

Lower production and imports will keep sheepmeat supplies tight in both the UK and EU. Demand for sheepmeat was subdued in both markets in 2019 and is expected to remain so in 2020. Consumer confidence was expected to be weaker as a result of continuing uncertainty around Brexit. The outbreak of COVID-19 will further dampen consumer confidence.

The UK and EU economies and people are currently under enormous pressure from COVID-19. A deep, widespread recession is expected across the region. Demand for lamb has been depressed by the absence of tourism and restrictions in the food service sector. There has been some transfer of sales from food service into the booming retail trade. Exporters have reported that despite the disruption over Easter, chilled lamb sales were good, with most retailers moving all product purchased for this trade.

Demand for New Zealand product will also be threatened by the desire for governments to protect their own producers. The outbreak of COVID-19 has seen the French government introduce a new policy that retailers are to prioritise French products, before looking towards imported product.

These markets are also still in Brexit transition. There is much uncertainty remaining around what the final trade conditions will look like and there is potential for the trade flow between the UK and EU to be significantly disrupted. Over three-quarters of British production is exported to the EU, and a smaller volume is imported from the EU. Disruption to this two-way trade flow may increase the supply on the UK's domestic market or result in the UK looking to expand its export markets outside of EU.

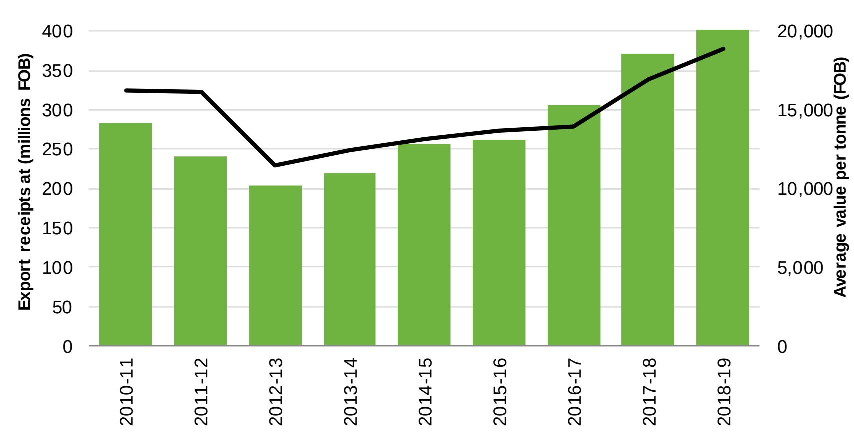
United States

The United States was New Zealand's third largest market for lamb in 2018-19, by value and volume.

Lamb imports account for approximately 70 per cent of total sheepmeat consumed in the US. The US market is a high-value market for New Zealand, with demand dominated by lamb racks for the restaurant trade.

The average value of exports was $16,585 FOB per tonne in 2018-19, more than double that of North Asia, which was New Zealand's leading market by volume, and 30 per cent

Figure 10 New Zealand Lamb Exports Receipts from US (Sep year)



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

higher than the average value of lamb exports shipped to the European Union.

The volume of lamb exported to the US lifted by 3 per cent in 2018-19 and the average value lifted by 10 per cent. US demand for lamb was strong in 2019 driven by increasing consumer confidence as a result of positive economic conditions and higher foodservice traffic. Domestic sheepmeat production declined 2 per cent in 2019, also supporting the demand for imports. Domestic production is forecast to decline a further 1 per cent in 2020.

The spread of COVID-19 through the US has depressed New Zealand lamb exports to this market. Restrictions on food service and restaurant trade have resulted in a slump in demand for high-end items such as lamb racks. These high-end items do not transfer readily to retail, which is currently experiencing surging demand.

Imported lamb prices have subsequently come under pressure. In-market prices for frozen New Zealand lamb dropped over 10 per cent from the December quarter to the March quarter and are expected to experience a more severe decline in the June quarter.

Export volumes to the US dropped 17 per cent in March 2020 year-on-year and 14 per cent in February.

Lamb & Sheep Prices – Farm-gate

Lamb

The farm-gate price outlook for 2019-20 has been adversely impacted by the outbreak of COVID-19 and widespread drought across much of the country.

The different exchange rate scenarios presented in Table 7 highlight the leveraged effect of the exchange rate on the New Zealand lamb price to farmers. At the mid exchange rate of USD0.61, the forecast annual average lamb price of 776 cents per kg for 2019-20 is up 4.5 per cent from the 2018-19 price of 743 cents per kg.

The lift in the weighted average farm-gate price for the season is underpinned by a strong start to the 2019-20 export season, signs of demand recovery in China, despite COVID-19, as well as favourable exchange rate movements for exporters.

Table 7 Lamb Price Sensitivity

Exchange Rate		All Class Lamb Price $ per head	All Class Lamb Price c per kg	
Low NZD				
USD	0.55			
GBP	0.44	167	887	**High**
EUR	0.50			
Mid NZD				
USD	0.61			
GBP	0.49	146	776	**Mid**
EUR	0.55			
High NZD				
USD	0.67			
GBP	0.54	129	685	**Low**
EUR	0.61			

Source: Beef + Lamb New Zealand Economic Service

Farm-gate prices in 2018-19 were at record highs, with only one month falling below 700 cents per kg. This trend continued early in the 2019-20 season with 900 cents per kg reached in November. The strength of demand from China and subsequent competitive pressure on other markets, drove the high farm-gate prices.

Farm-gate prices declined sharply in the first three months of 2020. While decline is typical at this time of year as the supply of lambs to be processed increases, this season the trend was intensified by a slump in Chinese demand in January, drought and the disruption of COVID-19.

The processing sector has experienced serious disruption as a result of COVID-19. A new meat processing protocol was introduced to meet the physical distancing requirements of the COVID-19 Alert Level 4. This protocol reduced processing capacity, with sheep processing chains only able to operate at 50 per cent of peak processing capacity. Processing costs under the new configuration increased significantly and have been reflected in farm-gate prices.

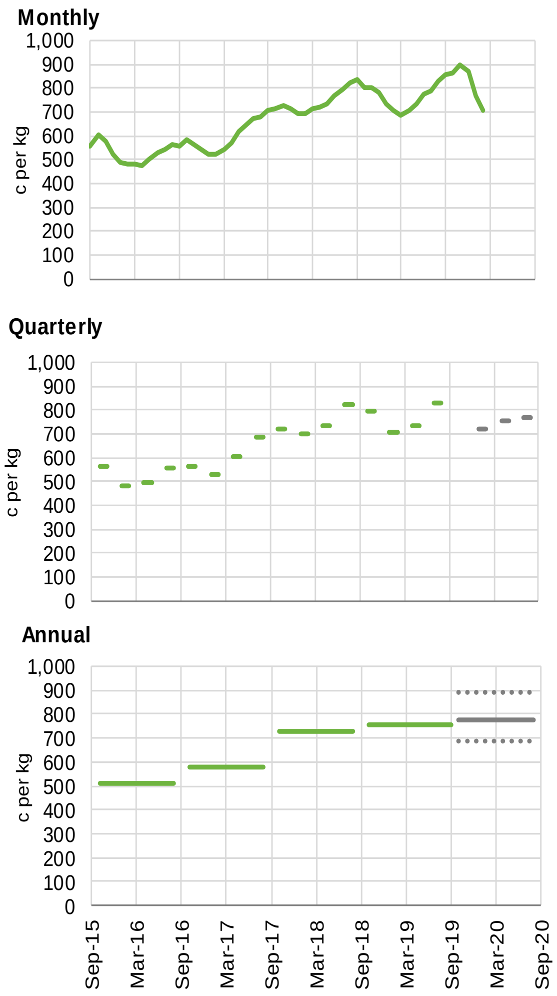
How long farm-gate prices remain depressed will depend on the extent of disruption to the processing sector. In-market prices are also expected to be subdued for the remainder of the season, as key markets remain affected by COVID-19.

Farm-gate prices are expected to reach their seasonal peak at the end of the season as lamb supply tightens. This will be compounded by a higher processing levels earlier in the season due to drought, as well as a lower estimated lamb crop for the season.

Mutton

At the mid exchange rate of USD0.61, the annual average mutton price is forecast at 507 cents per kg in 2019-20, an increase of 10 per cent on the

Figure 11 Weighted Average Lamb Farm-Gate Price



Source: Beef + Lamb New Zealand Economic Service

458 cents per kg recorded for 2018-19 and 52 per cent up on the five-year average. The 2018-19 season was 9 per cent up on the previous season.

The drivers of the strong forecast farm-gate price for adult sheep include strong Chinese demand, declining mutton production in both New Zealand and Australia, and favourable exchange movements through 2020.

Lamb & Mutton Production

Table 8 Export Lamb Production

Sep Year	Lamb Crop million head	Slaughter million head	Carcase Weight kg	Production 000 tonne bone-in
2015-16	24.6	19.9	18.3	364.9
2016-17	24.1	19.2	18.6	358.3
2017-18	24.7	19.9	18.6	368.9
2018-19	24.0	18.8	19.1	359.0
2019-20e	23.2	18.4	18.8	346.0
2019-20e % change	-3.3%	-2.0%	-1.6%	-3.6%

e estimate, f forecast
Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand, New Zealand Meat Board

Lamb

The total number of lambs tailed in the spring of 2019 is estimated at 23.2 million head, down 3.3 per cent or 0.8 million head on the previous spring. This reflects fewer breeding ewes and a slightly lower lambing percentage. The breeding ewe flock is expected to continue to decline, dropping 1.1 per cent to 16.8 million head for 2019-20.

For the year ending September 2020, the number of lambs processed in export-approved premises is estimated to decline 2.0 per cent or 0.4 million head to 18.4 million. Although this is the lowest export lamb tally since the 1950s, lamb production is nearly 30 per cent higher than in 1960-61 demonstrating continuous productivity improvement has occurred. While the average carcase weight is estimated to be 1.6 per cent lower than in 2018-19, it is still trending higher than the five-year average. Combined, fewer lambs processed and a lower average carcase weight, result in export production that is estimated to be 3.6 per cent lower in 2019-20 than in 2018-19.

The decline in export production will result in tight supply in the second half of 2019-20. While tight supply supports export prices and in turn farm-gate prices, the continued trend makes it difficult for New Zealand exporters to maintain supply relationships with customers and to develop new customers and markets.

Despite record farm-gate prices in 2018-19, there is little evidence to signal farmers are seeking to increase the size of their breeding ewe flocks. Prior to COVID-19 confidence in the primary sector was low as farmers felt under pressure from changes in government policy and banking regulations.

Mutton

The number of sheep processed in 2019-20 is expected to be down 8.3 per cent on 2018-19. This is the second decline in a row following an elevated level of processing in 2017-18.

A decline in ewe processing reflects the outlook for the number of breeding ewes to stabilise by 30 June 2020 after declining by 2.3 per cent in the year to 30 June 2019 and 3.3 per cent in the year to 30 June 2018.

The number of ewes processed in the first four months of the 2019-20 season was well down on the same period in 2018-19. If the dry conditions experienced in the first three months of 2020 extend further into autumn, there is potential for farmers to off-load a higher number of ewes, leading to a higher processing level than estimated.

The average mutton carcase weight for 2019-20 is estimated to be 2.7 per cent down on 2018-19 but is still historically high. Prolonged dry conditions may result in some downside to the carcase weight estimate.

Export mutton production is estimated to be 10 per cent down in 2019-20, making it the lowest production on record. This, combined with a 22 per cent drop in export production from Australia will result in tight global mutton supplies, which will support export prices.

Table 9 Export Mutton Production

Sep Year	Slaughter million head	Carcase Weight kg	Production 000 tonne bone-in
2015-16	3.8	25.1	96.4
2016-17	3.6	25.7	92.2
2017-18	4.0	25.8	102.5
2018-19	3.4	26.8	90.5
2019-20e	3.1	26.1	80.7
2019-20e % change	-8.3%	-2.7%	-10.7%

e estimate, f forecast
Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand, New Zealand Meat Board

Beef & Veal Exports

<u>2019-20</u>

The outlook for New Zealand beef exports for 2019-20 is positive, despite the significant disruption of COVID-19. An exceptionally strong start to the season has provided a solid foundation for export returns and provided a buffer against the disruption of COVID-19. Key factors underpinning the outlook are continued firm Chinese import demand, driven by the ASF-related pork shortage, declining beef production in Australia and a favourable exchange rate.

COVID-19 has severely disrupted global beef markets. Full or partial lockdowns have resulted in the collapse of restaurant and food service demand. Restrictions on workplace activity has disrupted supply chains. Processing plants in many countries have slowed or ceased production. The global economy is in recession and consumer confidence is at record lows.

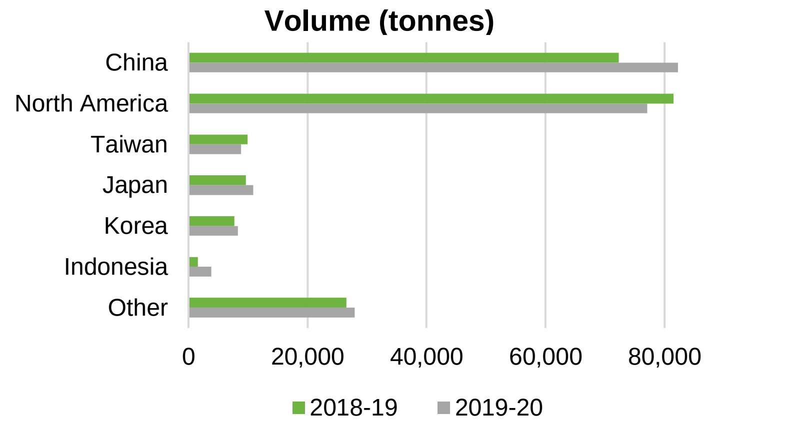
Amid the turmoil, however, meat sourced protein is still a necessity. While demand for beef will be adversely impacted, the global shortage of pork as a result of ASF will support demand for New Zealand beef this season.

The volume of beef and veal meat exports are estimated to lift marginally – by 0.5 per cent – to 456,000 tonnes shipped weight in 2019-20. The average value of exports is estimated to lift an impressive 19 per cent to reach a record high of $8,893 FOB per tonne. Total export receipts from beef, veal and co-products are forecast to lift 18 per cent in 2019-20 to $4.6 billion.

Export performance for the first six months of the season provides a strong foundation for the firm price estimates. The average export value for beef through this period was $8,880 FOB per tonne, up 20 per cent on the same period in 2018-19. This result is supported by a favourable change in currency movements.

December quarter export returns posted record highs for all markets.

Figure 12 New Zealand Beef Exports - October to March



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs, New Zealand Meat Board

Table 10 New Zealand Beef Exports

	Beef and Veal Meat			Co-Products	Total Beef	Beef Meat
Sep Year	000 tonne	$ / tonne	$m FOB	$m FOB	$m FOB	%
2015-16	423	6,996	2,962	562	3,524	84%
2016-17	396	6,898	2,729	533	3,262	84%
2017-18	431	7,123	3,073	551	3,624	85%
2018-19	453	7,451	3,377	531	3,908	86%
2019-20e	456	8,893	4,051	562	4,613	88%
2019-20e % change	+0.5%	+19.4%	+20.0%	+5.9%	+18.1%	

* Beef and Veal Meat value as a percentage of the value of Total Beef exports, including Co-Products

The average in-market price per tonne (adjusted for currency) for the North Asia and North American market lifted 17 per cent and 43 per cent respectively on the 2018-19 December quarter.

In-market prices for the March quarter were unsurprisingly weaker in comparison to the December quarter. However, on average they held up much better than expectations, given the severity of the disruption in this quarter. In comparison to the same quarter last season, the average in-market price for beef per tonne was 10 per cent up in North America and 7 per cent up in North Asia.

For the first six months of the season China accounted for 37 per cent of

total export volumes and North America accounted for 35 per cent.

New Zealand exporters have looked to diversify into less traditional markets in response to the disruption in both China and the US. Markets such as Japan, Taiwan and Korea have been the destination for an increasing volume of NZ beef in recent months.

The outlook for the remainder of the 2019-20 season is uncertain. There are signals that demand from China is already recovering. The ASF driven pork shortage will provide significant support for beef sales, as will New Zealand's food safety reputation.

At the time of writing, COVID-19 was still spreading rapidly through the US. Foodservice demand, which NZ beef relies heavily on, has collapsed, and imported beef prices have weakened. It is unclear what beef demand from this market will look like for the next six months, however disruption and volatility are expected.

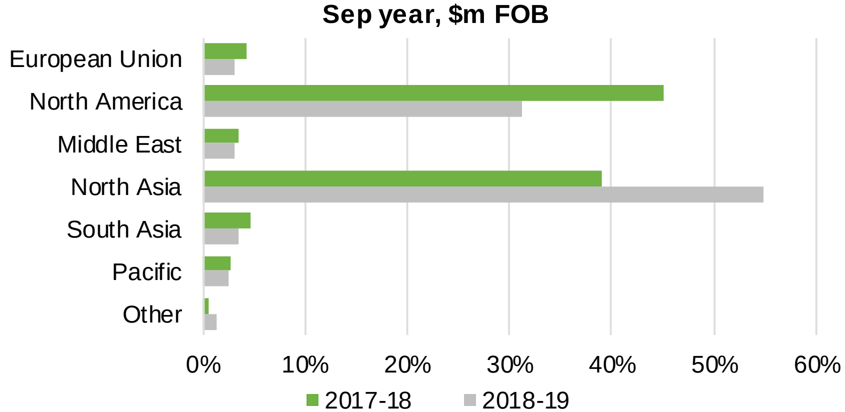
2018-19

Total beef and veal meat exports were up 5 per cent to 453,000 tonnes shipped weight for the year ended September 2019. Production lifted by 5 per cent on the previous season and average export values lifted by 4.6 per cent. Total beef export receipts (meat and co-products) increased 7.8 per cent to $3.9 billion.

China was New Zealand's largest market by value and volume in 2018-19, accounting for 41 per cent of market share by volume, up from 23 per cent in 2017-18. The US accounted for 34 per cent of beef exports, down from 45 per cent in 2017-18 as exports of processing beef to China grew by 190 per cent – from 27,000 tonnes to 78,000 tonnes.

The average value of exports to China and the US lifted 7.7 per cent and 7.3 per cent respectively in 2018-19.

Figure 13 New Zealand Beef & Veal Export Value



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs, New Zealand Meat Board

Beef – International Situation

Overview

The 2019-20 global beef market continues to be driven by changing demand fundamentals from the two market heavyweights, China and the US.

Unprecedented Chinese demand drove an incredibly strong start to the season, fuelled by ASF-induced demand and an increase in the affluence of Chinese consumers.

The spread of COVID-19 throughout the globe has resulted in significant disruption to global beef markets. Weaker economic conditions in many key markets are expected to dampen demand. However, similar to sheepmeat, the large shortage of pork in China as a result of ASF is expected to underpin Chinese demand for beef and provide support for a market disrupted by COVID-19.

Prior to the outbreak of COVID-19, the OECD (OECD-FAO 2019) forecast global beef consumption to grow at an annual average rate of 1.1 per cent to 2023 supported by population and income growth. Much of the increase in consumption was expected to come from developing countries, particularly in Asia.

The outbreak of COVID-19 will alter this forecast in the short-term. Loss of consumer wealth combined with widespread closures of restaurants and food service outlets will shift demand for beef. However, economic conditions are expected to recover swiftly from this disruption. Demand for beef will rebound as consumer confidence grows. Shifting demand from food service to retail will also support beef, as ground product transfers well to retail and beef is considered to be easy to cook at home. Overall, the market fundamentals for beef look positive.

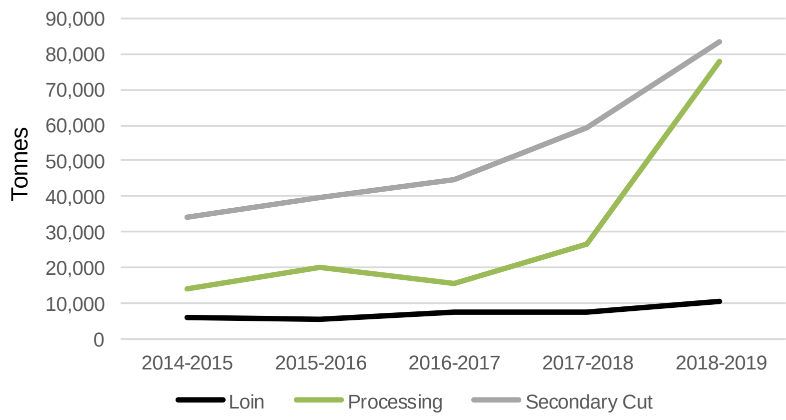
Global beef production is expected to decline slightly in 2020. COVID-19 is expected to be a driver behind some of the decline as producers adjust production plans in response to changing beef demand. Australian beef production is expected to be well down, however this will be offset by growth in Brazil, China and North America.

Changes in market access will also have an impact on global beef trade in 2020. For example, Phase One of the China-US trade agreement, the renewed access of Brazilian beef into the US and a new trade deal between the US and Japan, all have the potential to shift the current distribution of beef exports.

China

The rapid expansion in demand for meat protein changed the dynamics of world beef trade in 2019. Growing household incomes have enabled consumers to try higher-priced meat proteins. At the same time, the shortage of pork caused by the spread of ASF intensified demand and Chinese beef imports from all countries lifted 60 per cent in 2019.

Figure 14 New Zealand Beef Exports to China - Sept Year



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

Chinese beef production accounted for 13 per cent of total global beef production in 2019. All of this was consumed domestically. Beef production is expanding, however forecast growth will not be enough to meet consumption, supporting continuing strong import demand.

Every major beef-exporting region is making the most of the surge in Chinese beef demand. The imported beef market is becoming increasingly competitive. Not only have beef-exporting countries exported more product into this market instead of traditional markets, but changes in market access have increased the competition.

Phase One of the China-US trade agreement will result in a significant lift in US beef exports to China. Prior to this trade agreement, US beef was restricted due to the widespread use of hormone growth promotants (HGPs) in beef production and because of BSE ("mad cow disease"), which first occurred in the US in 2003. New Zealand beef and US beef are unlikely to be direct competitors in the Chinese market however, as New Zealand beef will be positioned in a more premium segment.

South American beef is also gaining market access traction in China as more South American plants become licensed to export there.

The surge in Chinese demand for beef extended into the processing beef category in 2019. Previously, the US had been the dominant market for 90CL (chemical lean) beef and almost the only market for 95CL beef.

Competitive price pressure emerged, lifting 95CL beef prices to the second highest level on record during late 2019.

Chinese demand for beef is expected to recover as the economic shock of COVID-19 lessens. China's total imports of beef in 2020 are forecast to lift 15 per cent from record levels seen last year. For the first three months of 2020, beef imports were 65 per cent up year-on-year.

Even with large increases in meat imports of all types in 2020, China is still expected to have a significant deficit.

The USDA (April 2020) estimates that Chinese beef consumption in 2020 will lift by 7 per cent on 2019. Meat prices are currently soaring in China in response to the pork deficit. Wholesale beef prices in April 2020 were 18 per cent higher year-on-year.

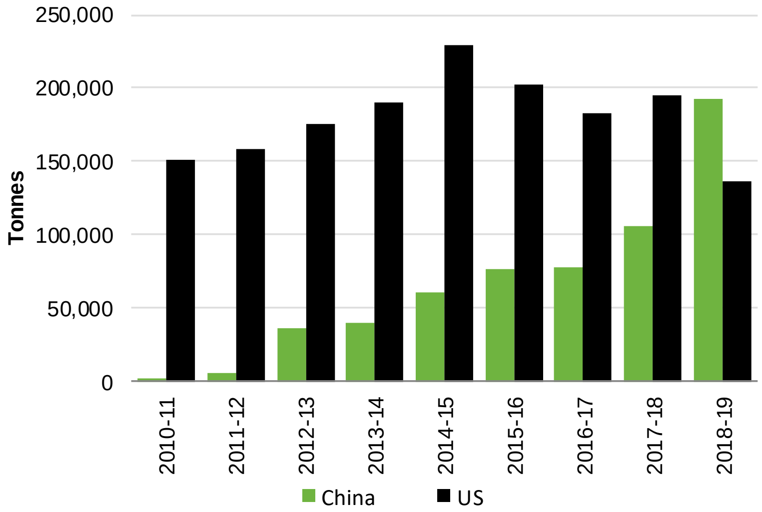
A survey of Chinese consumers commissioned by Meat and Livestock Australia revealed that beef has become a desirable meat protein in China as it is easy to cook, considered to have a high nutritional value and is considered "safer" than pork. Food safety continues to be a key consideration for Chinese consumers, and New Zealand beef is well positioned to meet this requirement.

These factors combined with the continuing shortage of pork as a result of ASF will underpin solid demand fundamentals for beef.

United States

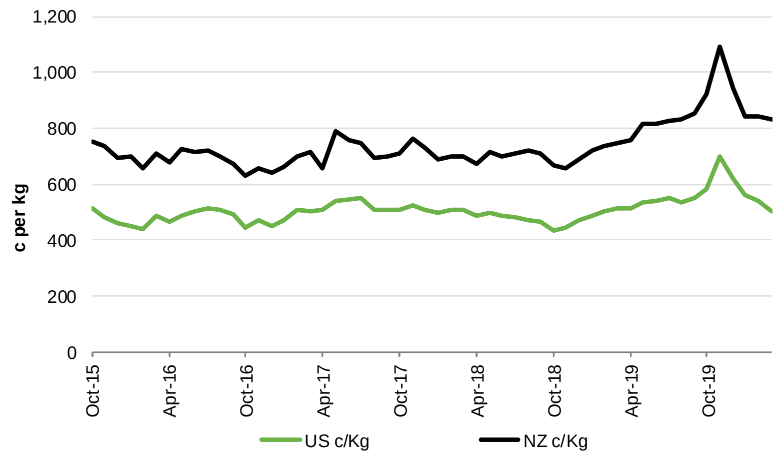
The US is the largest beef producer in the world, accounting for 24 per cent of global production in 2019. It is also the largest consumer of beef, with 2019 consumption accounting for 26 per cent of global beef consumption.

Figure 15 New Zealand Beef and Veal Exports to US and China (Sept year)



Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

Figure 16 US Lean Beef Prices
Chemical Lean – FOB Plant basis



Source: Beef + Lamb New Zealand Economic Service

The US cattle herd has reached its cyclical peak after five years of herd expansion. During the expansion period, the national herd grew by 7 per cent and the beef cow herd grew by 9 per cent. The number of beef cows processed in 2019 was up 3.7 per cent on the previous year and has been high in early 2020. The calf crop was lower in 2019 and is expected to be smaller again in 2020.

While cow processing is expected to decline in the second half of 2020, total US beef production is estimated to lift by 1 per cent to a record high of 12.5 million tonnes in 2020. This estimate is supported by a larger number of cattle currently in feedlots, heavier carcase weights and more cows processed so far this year.

The USDA (April 2020) estimates that beef consumption in 2020 is expected to remain largely steady on last year. This is subject to downside risk, however, due to COVID-19 uncertainty.

In calendar 2020, US beef exports are expected to increase 5 per cent, predominantly driven by improved access to China as a result of Phase One of the US-China trade agreement. US beef exports to China lifted 6 per cent in 2019 and accounted for 6 per cent of total exports. Forecasters expect growth rates to lift significantly on this in 2020.

A reduction in tariffs for US beef into Japan from 1 January 2020 will also result in an increased volume of US beef entering this market. Japan was the leading export destination for US beef in 2019, accounting for 28 per cent of total exports.

The volume of beef imported into the US is expected to decrease 4 per cent in 2020.

In late February 2020, the USDA's Food Safety and Inspection Service (FSIS) lifted the suspension on Brazilian beef entering the US. This decision is expected to result in an increase of Brazilian beef in the US. Brazil does not have its own country-specific quota allocation for beef exports to the US and will have to compete with other countries for low-duty access, which may restrict export volumes.

Prices for imported beef in the US came under pressure in early 2020. The high number of beef cows being processed increased supply and the absence of competitive pressure from China resulted in US importers bidding at lower levels than at the end of 2019. As COVID-19 continues to spread through the US, the imported beef market has become increasingly volatile as importers attempt to balance risk. Prices for imported 90CL and 95CL were both tracking under five-year average levels in late April 2020.

The availability of US domestic lean manufacturing cuts is expected to be tighter in the medium term, following a peak cull cow slaughter in 2019. This will support New Zealand beef in this market, particularly combined with declining Australian production.

Food service restrictions have had a major impact on the US beef sector, with beef sales down 60 per cent during the pandemic because much US beef production is consumed in the form of table cuts at restaurants. Sales in the retail sector, which boomed in March due to panic buying, resumed a more normal pace through April.

Beef cold storage stocks in March lifted 11 per cent year-on-year as a result of the slump in food service demand. This is thought to include imported beef also, as product backs up. There were some signs of increased demand during April, which may have resulted in inventory drawdown. Further increases in cold storage supplies will weigh on imported prices in future.

The US meat processing sector has been hit hard by the spread of the virus, with many plants being forced to close or reduce processing capacity. Supply chains are also disrupted with backlogs at ports, cold stores and with freight.

The outlook for the US beef market was uncertain at the time of writing. While supply issues may be resolved in the short-term demand fundamentals remain volatile.

Australia

The Australian cattle herd is expected to decline to its lowest level in more than two decades in 2020. Prolonged drought resulted in elevated cattle slaughter in 2019. The proportion of female cattle processed hit new highs, averaging 55 per cent of the total over the year. Producers are expected to enter rebuilding mode through 2020, resulting in a sharp decline in beef slaughter.

The number of adult cattle processed is forecast to drop 19 per cent to 6.9 million head in 2020 and a further decline is expected in 2021. A return to drought conditions during 2020 and the potential for expected high cattle prices to provide an incentive for producers to continue to sell, as opposed to rebuilding, are risk factors to this forecast.

Export beef production is forecast to decline 20 per cent (240,000 tonnes shipped weight) in 2020. This creates significant opportunity for New Zealand beef exports in competing markets, the US and China in particular.

Australian beef exports lifted by 9 per cent in 2019. China was the leading market for Australia, with shipments lifting 84 per cent year-on-year. China accounted for 24 per cent of Australian beef exports in 2019, up from 14 per cent in 2018.

Japan followed China as a significant export market for Australian beef after it had been the leading destination prior to 2019. Australia's market share in Japan will be challenged by the US in 2020.

Australian beef is New Zealand's major competitor in the US. Beef exports to the US in 2019 by 9 per cent and represented 20 per cent of total exports. The significant decline in export beef production forecast for 2020 will result in a reduction in competitive pressure from Australia in the US, particularly when demand from China recovers and the US is forced to compete on price in order to bid product away from China.

COVID-19 did not disrupt Australian beef exports in the first three months of 2020, with volumes steady year-on-year. There was a shift in market distribution, however. Volumes to the US were down 10 per cent and exports to South Korea were down 6 per cent. Exports to Japan, which is the top beef destination for Australia, were up 5 per cent year-on-year. Japan now surpasses the US as the top market for Australian manufacturing beef. Beef exports to China were up 8 per cent in the first three months of 2020.

South America

South American beef exports surged in late 2019, driven by the strong demand from China, which is the major market for the three largest producers in this region – Brazil, Argentina and Uruguay. The lift in Chinese demand through the second half of 2019 resulted in South American beef exporters focusing on this market, at the expense of traditional markets such as Russia and the Middle East.

The shortage of meat protein in China has resulted in an increase in approvals for production in South American beef plants to be exported to China.

In late February 2020, the USDA FSIS lifted the suspension of Brazilian beef into the US. This decision may change the dynamics of beef export markets for Brazil, particularly given the current weak import demand from China.

Combined beef production from South American countries accounted for 27 per cent of global beef production in 2019, making it a major player on the global market. Even with domestic markets consuming 75 per cent of this production, the export share remains significant, accounting for one-third of global beef exports in 2019.

Brazilian beef exports have had a strong start to 2020. However, similar to other beef producing countries, Brazil is facing production disruption as COVID-19 slows down processing capacity. As China emerges from the shock of COVID-19, Brazilian beef exporters have swiftly refocused their interest on this market. March exports to China lifted 38 per cent on February.

Beef production in South America is forecast to expand in the next few years. Brazil underpins this production growth as new land becoming available is resulting in an expansion of the beef herd.

Beef production in Brazil is forecast to grow by 1 per cent in 2020 and production is forecast to decline by 1 per cent in Argentina. That said, the currencies of South American countries have depreciated considerably against the USD, which makes exports from those countries more competitive.

Cattle Prices – Farm-gate

Figure 18 shows the monthly and annual average cattle price for steer, bull and cow to the end of September 2020. Three exchange rate scenarios are used to indicate a range of outcomes due to exchange rate variability. The three scenarios use annual average exchange rates of USD0.55, USD0.61 and USD0.67 and the associated cross rates against the GBP and EUR.

The figure illustrates the incredibly strong start to the 2019-20 season for farm-gate prices, followed by a sharp drop as weak demand from China, drought in New Zealand and COVID-19 took their toll.

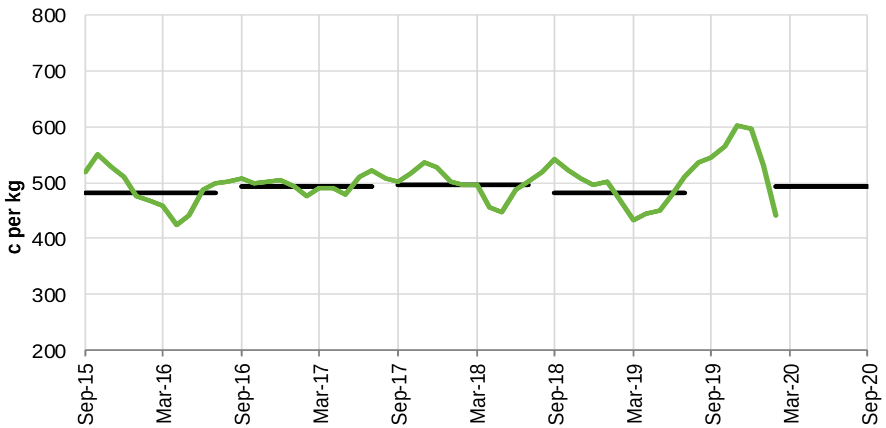
While the export outlook is positive, the processing sector has experienced serious disruption as a result of COVID-19. A new meat processing protocol was introduced to meet the physical distancing requirements of the COVID-19 Alert Level 4. This protocol reduced processing capacity, with beef processing chains only able to operate at 70 per cent of peak processing capacity. Processing costs under the new configuration increased significantly and were reflected in farm-gate prices.

How long farm-gate prices remain depressed will depend on the extent of disruption to the processing sector. There is still uncertainty around in-market beef prices for the remainder of the season, but the market fundamentals are solid.

Beef supply to the processor will also tighten as the supply of cull cows comes to an end. How long this lasts will depend both on drought and the length of time processors have to operate with reduced capacity. Steer, heifer and bull prices will follow their seasonal climb at the end of the season; however, the peak is expected to be well down on last season.

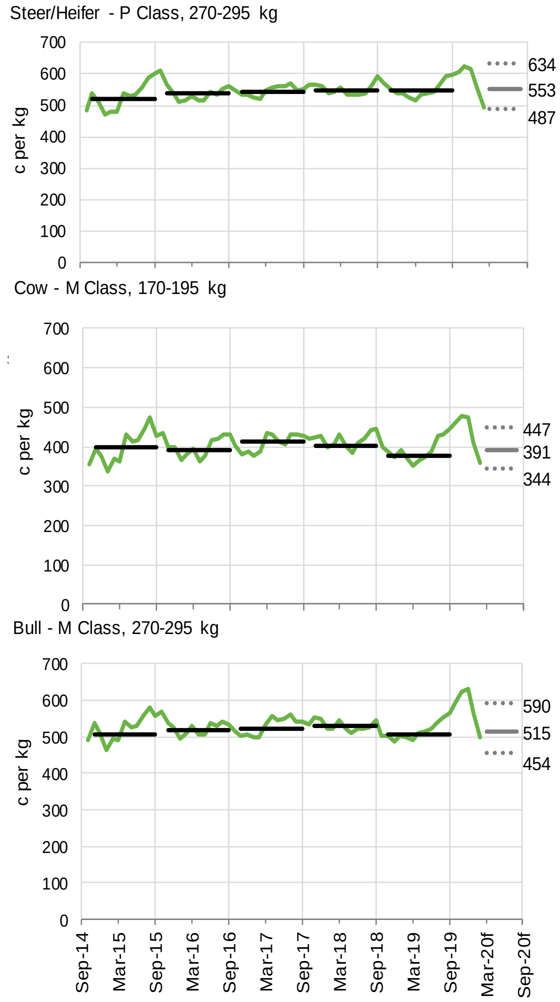
The forecast for 2019-20 is for beef prices to lift 2 per cent to average 494 cents per kg across all classes. At USD0.61, the estimated 2019-20 average annual price is 553 cents per kg for P steer/heifer (270-295kg), 391 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 515 cents per kg for M bull (270-295kg).

Figure 17 Weighted Average All Classes Cattle Farm-Gate Price



Source: Beef + Lamb New Zealand Economic Service

Figure 18 Weighted Average Cattle Farm-Gate Price



Source: Beef + Lamb New Zealand Economic Service

Beef Production

Table 11 Export Cattle Processing Composition

	000 head				
Sep Year	Steer	Heifer	Cow	Bull	Total
2015-16	515	436	1,101	464	2,516
2016-17	524	441	937	461	2,363
2017-18	535	454	1,026	542	2,556
2018-19	565	474	1,018	555	2,612
2019-20e	571	480	1,044	555	2,650
2019-20e % change	+1.1%	+1.2%	+2.5%	+0.0%	+1.5%

e estimate, f forecast

Source: Beef + Lamb New Zealand Economic Service, New Zealand Meat Board

Table 12 Export Cattle Carcase Weights

	kg / head				
Sep Year	Steer	Heifer	Cow	Bull	Total
2015-16	308	238	195	304	246
2016-17	314	243	199	305	253
2017-18	312	241	197	301	251
2018-19	313	243	200	300	254
2019-20e	310	239	198	301	251
2019-20e % change	-1.1%	-1.3%	-1.2%	+0.6%	-0.9%

e estimate, f forecast

Source: Beef + Lamb New Zealand Economic Service, New Zealand Meat Board

Table 13 Export Beef Production Composition

	000 tonne bone-in				
Sep Year	Steer	Heifer	Cow	Bull	Total
2015-16	158	104	215	141	619
2016-17	164	107	186	141	598
2017-18	167	110	202	163	642
2018-19	177	115	204	166	662
2019-20e	177	115	206	167	666
2019-20e % change	-0.0%	-0.1%	+1.3%	+0.6%	+0.5%

e estimate, f forecast

Source: Beef + Lamb New Zealand Economic Service, New Zealand Meat Board

Cattle Slaughter

For 2019-20, the number of cattle processed for export is estimated to lift by 1.5 per cent to 2.65 million head (see 10). The number of steers and heifers processed is expected to lift by 1.1 per cent and 1.2 per cent respectively, but the leading driver is a 2.5 per cent lift in the number of cows processed for export. Widespread drought across the North Island is a contributing factor to the higher level of cow processing.

These estimates were made prior to the onset of widespread dry conditions across New Zealand. Prolonged dry conditions into autumn 2020 have the potential to lift the number of cows processed in 2019-20, as dairy farmers cull deeper into herds than typical.

Steer, heifer and bull processing numbers for the season are unlikely to be impacted by dry conditions, but timing of slaughter may shift and be more concentrated in the second quarter.

The small lift in production in 2019-20 follows a large increase last season. In 2018-19, the number of steers processed lifted by 5.6 per cent and heifer processing lifted by 4.4 per cent. Bull production also lifted – by 2.4 per cent. In 2019-20, the number of steers, heifers and bulls processed are forecast to be well up on five-year average levels. Cow processing, which is more sensitive to changes in climatic and market conditions because it includes a large proportion of cull dairy cows, is expected to be down slightly on the five-year average. The number of dairy cows in New Zealand is trending down, which will influence the composition of exports in future.

Cattle Weights

The overall average cattle carcase weight is forecast to be down slightly in 2019-20 to 251 kg per head. Average steer, heifer and cow carcase weights are all down – by 1-1.5 per cent – while the average bull carcase weight is slightly up to 301 kg per head.

The widespread dry conditions experienced across New Zealand in early 2020 could result in lower average carcase weights and this risk will increase the longer the dry conditions persist.

Beef Production

In 2019-20, New Zealand's export beef production is forecast to lift by 0.5 per cent – to a record 666,000 tonnes bone-in. This follows a production lift of 3.2 per cent in 2018-19. The 2019-20 forecast is 4.9 per cent higher than the five-year average.

Wool[1]

Exports

The volume of wool exported in 2019-20 is expected to be similar to 2018-19. This follows a slight decline in wool production for the season.

At the time of writing, export data for three-quarters of the 2019-20 wool season (July 2019- June 2020) was available. For the period from July 2019 to March 2020, New Zealand wool exports were down 1.2 per cent on the same period in 2018-19. Export receipts at FOB were down 8.3 per cent following a 7 per cent decline in the average price per tonne of wool across all categories. This 7 per cent decline is split between a 4 per cent depreciation of the trade weighted exchange rate and a market price decrease of 10.8 per cent.

China remained New Zealand's largest wool market in the first nine months of the wool export season, accounting for 36 per cent of the volume exported. Export volumes to this market were down 20 per cent on the same period last year however. Last year, exports to China accounted for 44 per cent of the total for the first nine months of the season.

Exports to Southern Asia lifted in response to China's decline. Volumes to India and Nepal lifted 43 per cent and 48 per cent respectively for the period June 2019-March 2020.

The EU accounted for 32 per cent of total wool exports season to date. This share is steady on the same period last year.

Prices

Wool prices are expected to remain subdued for the remainder of the 2019-20 season. Wool demand from China was weak prior to the outbreak of COVID-19. The related disruptions will prevent any form of recovery in the outlook period.

Fine wool prices, which were strong performers in 2017-18 and 2018-19, dropped by 20 per cent in the first half of 2019-20. Weaker European economies curbed demand from the high-end fashion sector for these wool types. The economic disruption

The average fine wool price is still 13 per cent above the five-year average regardless of the large decline. It is also important to note that the decline in fine wool prices this season was sudden. Most of the fine wool clip had already been sold and therefore fine wool producers did not feel the impact of this decline in their wool revenue this season but will be impacted in the following season.

For 2019-20, the average medium wool price is estimated to decrease by 5 per cent but remain above the five-year average.

Strong wool prices for 2019-20 are estimated to decline for the fourth consecutive year. A 7.1 per cent decline is expected for the season, resulting in 2019-20 prices tracking 40 per cent below the five-year average. In inflation-adjusted terms, the estimated average strong wool price will be the lowest since at least 1960-61 when the time-series of wool prices started.

Table 14 Auction Prices and Raw Wool Exports

	Auction Price	Wool Exports		
	$ / kg	FOB $ / kg	000 tonnes	$m FOB
June Year	clean	clean	clean	
2015-16	6.62	7.38	103.0	760.1
2016-17	5.12	6.16	84.8	522.1
2017-18	5.09	5.41	100.2	542.5
2018-19	5.21	5.86	93.8	548.9
2019-20e	4.68	6.03	94.0	566.6
2019-20e % change	-10.2%	+3.0%	+0.2%	+3.2%

e estimate | Source: Beef + Lamb New Zealand Economic Service, Wrightson Wool, New Zealand Wool Services International Ltd , Statistics NZ

Table 15 Season Average Auction Wool Prices

	cents / kg greasy			
June Year	Fine	Medium	Strong	All Wool
2015-16	997	735	593	493
2016-17	1,074	616	419	378
2017-18	1,696	672	271	375
2018-19	1,859	763	266	383
2019-20e	1,487	725	247	345
2019-20e % change	-20.0%	-5.0%	-7.1%	-9.9%

e estimate | Source: Beef + Lamb New Zealand Economic Service, Wrightson Wool, New Zealand Wool Services International Ltd , Statistics New Zealand

Production

For 2019-20, total wool production is estimated to be down 1.4 per cent to 135,500 tonnes greasy. Shorn wool per head is estimated to lift slightly for the season, however, this is not enough to offset the 2.2 per cent decline in the number of sheep. Slipe wool production is expected to decline by 1.7 per cent.

Shearing

Shearing charges increased significantly in 2018-19 and impacted significantly on crossbred (strong) wool producers when coupled with continuing low strong wool prices. Nearly all the North Island wool clip is strong wool. On average, shearing expenditure was equivalent to 90 per cent of farm wool receipts, whereas prior to the run of low wool prices, shearing expenditure averaged 45 per cent of farm-gate wool receipts and making wool a more significant contributor to farm profitability.

Figure 19 New Zealand Wool Exports

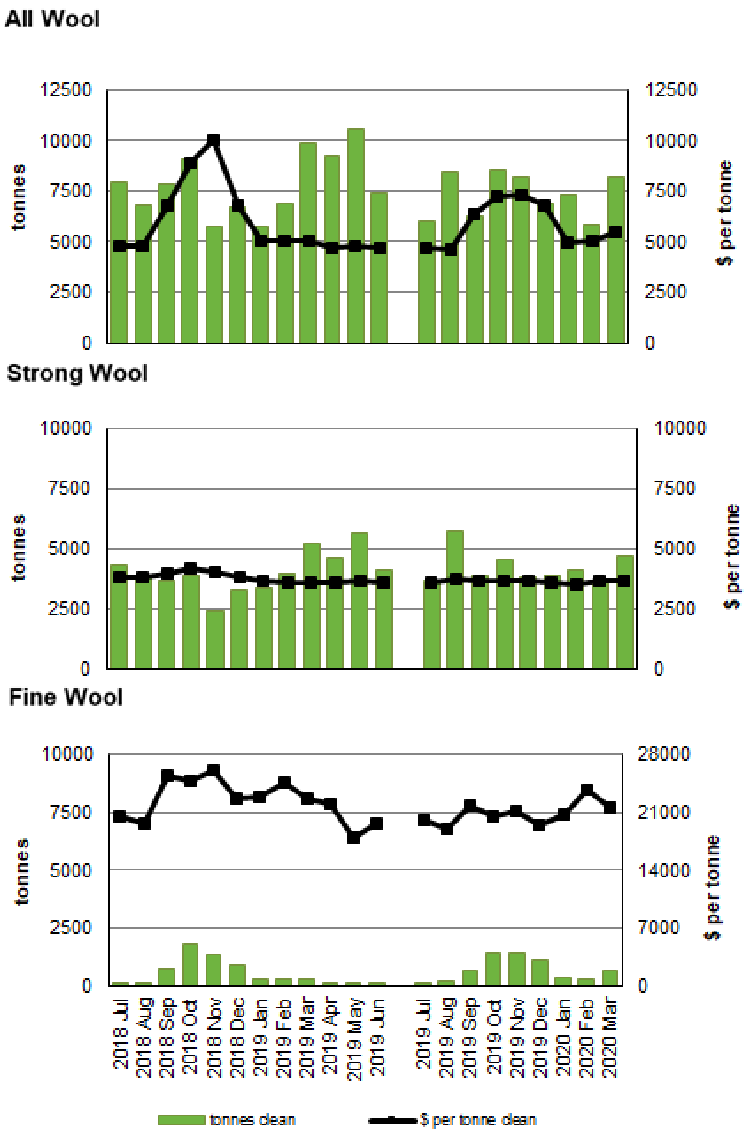


Table 16 Wool Production

June Year	Sheep million head	Shorn 000 tonnes greasy	Slipe 000 tonnes greasy	Total 000 tonnes greasy	Shorn Wool kg / head* greasy
2015-16	29.1	135.1	16.5	151.6	4.64
2016-17	27.6	126.9	16.5	143.4	4.60
2017-18	27.5	123.0	16.2	139.3	4.47
2018-19	27.3	122.0	15.4	137.3	4.47
2019-20e	26.7	120.3	15.1	135.5	4.51
2019-20e % change	-2.2%	-1.3%	-1.7%	-1.4%	+0.8%

*excludes wool on sheepskins

e estimate | Source: Beef + Lamb New Zealand Economic Service, Wrightson Wool, New Zealand Wool Services International Ltd , Statistics New Zealand

[1]Although there is no levy on wool, the Economic Service conducts basic analysis of wool because it contributes to sheep and beef farm revenue.

Farm Revenue, Expenditure & Profit – New Zealand

Revenue – Per Farm

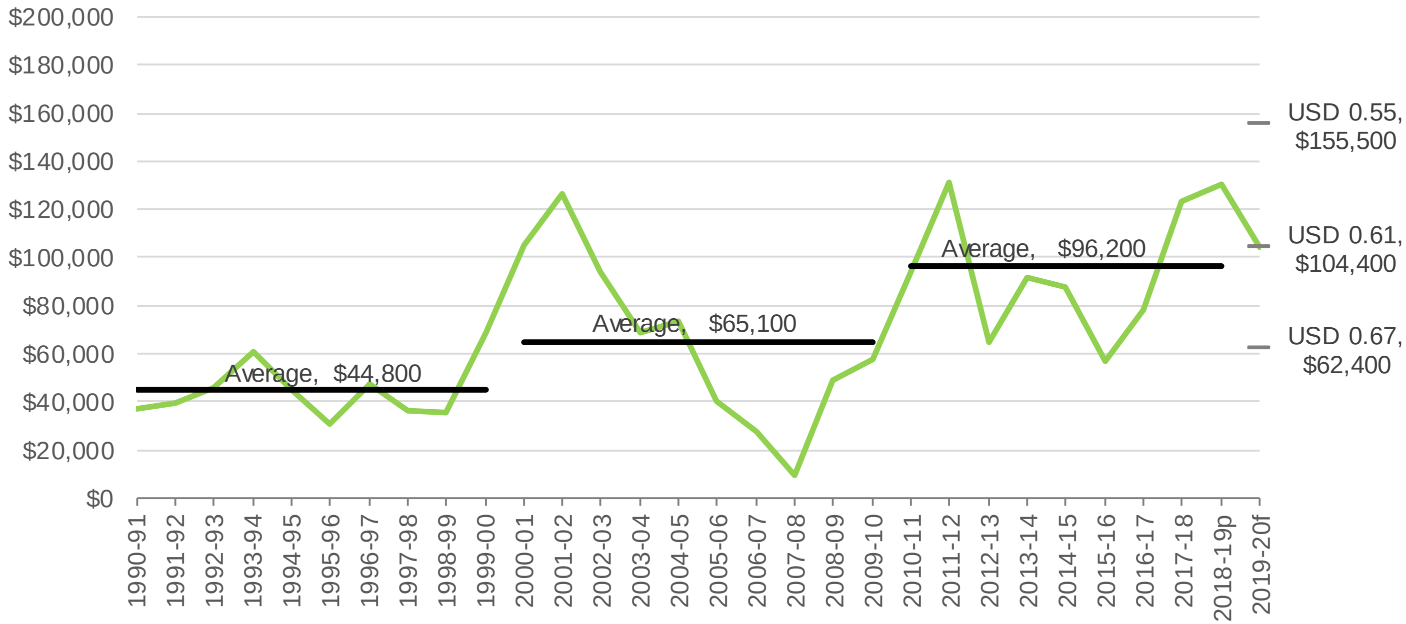
Gross farm revenue for the 2019-20 farming year, which ends on 30 June, under an exchange rate scenario of USD0.61 is forecast to average $597,600 per farm, down 3.8 per cent. This is driven by decreases in revenue from wool, sheep and beef cattle. While revenues are forecast to decrease, there is still some downside risk due to the impact of COVID-19.

Sheep revenue, which is forecast to continue to contribute 49 per cent of gross farm revenue, decreases 4.2 per cent to $293,900 per farm for 2019-20. Farm-gate prices hit record highs, and then declined, and fewer prime lambs and sheep were sold than in the previous season.

Cattle revenue decreases 6.4 per cent to $151,500 per farm for 2019-20. While international demand for New Zealand beef remains strong, the weighted average cattle price for the season is expected to increase only slightly. All regions experience a decrease in cattle revenue. Overall, cattle revenue is forecast to contribute about one-quarter of gross farm revenue in 2019-20.

Wool revenue decreases 4.7 per cent to $36,100 per farm for 2019-20. This is due to continued weak wool prices, with fine, medium, and strong wool prices decreasing, offsetting an increase in the average volume of

Figure 17 All Classes Sheep and Beef Farm
Inflation-Adjusted[1] Farm Profit before Tax per Farm



p provisional | f forecast | [1]Adjusted to 2004-05 $ terms
Source: B+LNZ Economic Service | Sheep and Beef Farm Survey

wool sold per farm. Wool revenue accounts for 6.0 per cent of gross farm revenue.

Dairy grazing revenue increases 3.8 per cent to average $30,100 per farm in 2019-20. There is a difference between regions. North Island, revenues are stable except for Taranaki-Manawatu where dairy grazing revenue decreases 14 per cent, while an increase on average in Marlborough-Canterbury (+8.5%) is partly offset by a decrease in Otago-Southland (-2.1%). On average, dairy grazing revenue contributes 5 per cent of gross farm revenue.

The cash cropping account is forecast to be unchanged for 2019-20. On average, cash crop revenue accounts for 9.4 per cent of gross farm revenue in 2019-20.

Revenue – Aggregate

Aggregate Sheep and Beef Farm Revenue at the farm gate for 2019-20 is forecast at $5.9 billion, up 3.4 per cent on 2018-19. Gross farm revenue is spent buying goods and services for running the farm business and then taxation, debt reduction and personal living expenses.

Expenditure – Per Farm

On average, total expenditure is estimated to increase 1.8 per cent to $457,100 per farm for 2019-20. Higher expenditure occurs in all parts of farm businesses, except for interest due to lower interest rates. Interest expenditure accounts for around 11 per cent of total farm expenditure on average.

Inflation in prices for inputs used on sheep and beef farms is estimated at 1.8 per cent in 2019-20. This follows inflation of 13.1 per cent for 2017-18 and a further 4.7 per cent in 2018-19, both of which were due to price rises across all farm inputs, except interest.

Fuel is the expenditure category with the largest increase – 8.6 per cent, due to farmers using greater quantities of fuel on farm. Fuel makes up 3.1 per cent of total farm expenditure.

Fertiliser, lime and seeds expenditure increases 1.0 per cent to average $79,600 per farm, due to the volume of fertiliser applied increasing by 1.3 per cent. On average, around 17.5 per cent of total farm expenditure is on fertiliser, lime and seeds.

Interest expenditure decreases 5.9 per cent to $52,700, which reflects the reduction in interest rates. Repairs and maintenance expenditure is forecast to increase by 3.2 per cent, after increases of 12.4 and 6.7 per cent in the prior two seasons.

Shearing expenditure increases 2.5 per cent to $23,800 per farm. The increase is smaller than in 2018-19, when it increased by just over 14 per cent, and in 2017-18, when it increased by 8 per cent. The increases occur in all regions, but the increases are greater in regions with lower average revenue.

Expenditure – Aggregate

In aggregate Sheep and Beef Farm Expenditure at the farm gate for 2019-20 is forecast at $4.2 billion, up 1.8 per cent on 2018-19. Such expenditure is spent buying goods and services from local businesses for running the farm business.

Farm Profit before Tax

Farm Profit before Tax is required to meet taxation payments, personal drawings for family living expenses, debt repayments and the purchase of capital items for the farm business, such as farm machinery.

Figure 17 shows the trend in inflation-adjusted Farm Profit before Tax expressed in 2004-05 dollar terms. It shows the steep fall in profitability from 2001-02 to a 50-year low in 2007-08. This was followed by a recovery driven by an improvement in international prices, which exceeded the effect of the strengthening NZD.

The weighted average inflation-adjusted profit of $104,400 per farm forecast for 2019-20 represents a sharp fall from 2018-19,and there are downside risks due to uncertain conditions created by COVID-19.

Three scenarios are shown in Figure 17:

- At the mid exchange rate (USD0.61), inflation-adjusted Farm Profit before Tax is $104,400 per farm in 2004-05 terms, down 20 per cent on $130,200 for 2018-19. In nominal terms, i.e. without adjusting for inflation, Farm Profit before Tax is $140,500, down 18 per cent on $172,100 for 2018-19.
- At the lower exchange rate (USD0.57), inflation-adjusted Farm Profit before Tax would be $193,300 per farm in 2004-05 terms for 2019-20, which would be 48 per cent higher than $130,200 for 2018-19. In nominal terms, Farm Profit before Tax would be $260,200, up 51 per cent on $172,100 for 2018-19.
- At the higher exchange rate (USD0.69), inflation-adjusted Farm Profit before Tax would be $90,900 per farm in 2004-05 terms for 2019-20, which would be 30 per cent lower than $130,200 for 2018-19. In nominal terms, Farm Profit before Tax would be $122,400, down 29 per cent on $172,100 for 2018-19.

Table 16 Sheep and Beef Farm Revenue and Expenditure
Weighted Average All Classes[1]

		2015-16	2016-17	2017-18	Provisional 2018-19	2019-20 USD 0.55	Forecast 2019-20 USD 0.61	2019-20 USD 0.67	Forecast % Change 2018-19 to 2019-20 USD 0.55	USD 0.61	USD 0.67
Revenue											
Wool		54,136	36,240	35,962	37,900	41,800	36,100	31,400	+10.3%	-4.7%	-17.2%
Sheep		183,709	204,793	280,021	306,700	340,000	293,900	256,300	+10.9%	-4.2%	-16.4%
Cattle		125,930	139,455	158,417	161,800	174,000	151,500	132,900	+7.5%	-6.4%	-17.9%
Dairy Grazing		29,009	27,229	28,389	29,000	30,100	30,100	30,100	+3.8%	+3.8%	+3.8%
Deer + Velvet		3,819	4,588	6,104	6,100	6,800	6,000	5,300	+11.5%	-1.6%	-13.1%
Goat + Fibre		51	14	41	0	0	0	0			
Cash Crop		45,669	46,178	55,520	56,400	56,100	56,100	56,100	-0.5%	-0.5%	-0.5%
Other		17,218	20,702	24,682	23,300	23,900	23,900	23,900	+2.6%	+2.6%	+2.6%
Total Gross Revenue	**$ per farm**	**459,541**	**479,199**	**589,136**	**621,200**	**672,700**	**597,600**	**536,000**	**+8.3%**	**-3.8%**	**-13.7%**
Expenditure											
Fert, Lime & Seeds		64,995	59,738	71,178	78,800	80,700	79,600	78,700	+2.4%	+1.0%	-0.1%
Repairs & Maintenance		32,747	31,234	35,119	37,500	39,200	38,700	38,300	+4.5%	+3.2%	+2.1%
Interest & Rent		68,017	65,754	74,411	71,700	68,500	68,700	68,900	-4.5%	-4.2%	-3.9%
Other Expenses		221,754	222,595	248,432	261,100	275,000	270,100	266,100	+5.3%	+3.4%	+1.9%
Total Expenditure	**$ per farm**	**387,513**	**379,321**	**429,140**	**449,100**	**463,400**	**457,100**	**452,000**	**+3.2%**	**+1.8%**	**+0.6%**
Farm Profit Before Tax[2]	**$ per farm**	**72,028**	**99,878**	**159,996**	**172,100**	**209,300**	**140,500**	**84,000**	**+21.6%**	**-18.4%**	**-51.2%**
EBITRm[3]	**$ per farm**	**179,641**	**143,678**	**169,276**	**238,478**	**298,800**	**248,010**	**172,900**	**+25.3%**	**+4.0%**	**-27.5%**
Real (2004-05$) Farm Profit[3]		**57,100**	**78,000**	**123,200**	**130,200**	**155,500**	**104,400**	**62,400**	**+19.4%**	**-19.8%**	**-52.1%**
Index of Real Farm Profit		779	1,065	1,681	1,777	2,122	1,425	852	+19.4%	-19.8%	-52.1%
Fertiliser Use kg per SU		21.3	24.6	25.7	23.7	27.4	27.0	26.7	+15.5%	+13.9%	+12.6%
Prices											
Wool auction	¢ per kg clean	663	519	538	521	542	468	407	+4.0%	-10.2%	-21.9%
All wool[5]	¢ per kg greasy	444	314	289	300	333	287	250	+10.8%	-4.4%	-16.8%
Lamb	$ per head	93	106	134	142	168	146	128	+18.2%	+2.7%	-10.0%
Mutton	$ per head	57	74	108	123	156	132	112	+27.3%	+7.7%	-8.3%
Prime Steer/Heifer	¢ per kg	531	539	540	541	648	553	475	+19.9%	+2.3%	-12.1%

1 At 1 July 2019, the average grazing area of commercial Sheep and Beef Farms, which are represented by the Weighted Average All Classes Sheep and Beef Farm, was 680 hectares. The average number of livestock on hand was 2,800 sheep, 380 beef cattle and 30 deer, totalling 4,370 Stock Units (breeding ewe equivalents).

2. Farm Profit before Tax is required to meet personal drawings, taxation payments, debt repayments and the purchase of capital items.

3. Earnings before Interest, Tax, Rent and Managers Salary

4. Deflated by June year Consumer Price Index.

5. All shorn wool sales (auction 53% and private 47%) net of charges and freight.

Source: Beef + Lamb New Zealand Economic Service, Sheep and Beef Farm Survey

EBITRm

EBITRm is the abbreviation for Earnings before Interest, Tax, Rent and any wages paid to a manager (actual or family). It is a key measure of profitability. EBITRm per grazing hectare is a standardised measure that facilitates benchmarking because it places farm businesses on a consistent basis of being debt-free, owner-operator and freehold.

Table 17 shows per farm measures of financial metrics, including EBITRm, and Table 18 shows these measures per hectare.

North Island Summary

Sheep and Beef Farm Profit before Tax decreases 24 per cent to average $127,000 per farm for 2019-20. This is due to the combined impact of lower gross revenue, and higher expenditure.

Gross revenue decreases by 6.2 per cent to $506,800 per farm on average. Sheep revenue decreases by 5.7 per cent to $246,500 due to a decline in prices for prime livestock and more store lambs being sold. Cattle revenue decreases 7.9 per cent to $188,700 per farm on average due to weaker prices across the board. 2019-20 had been expected to be a record year for cattle revenue but this will not now be the case due to drought and the impact of COVID-19. Cattle revenue contributes around 37 per cent of gross farm revenue.

Dairy grazing revenue is forecast to decrease (-1.0%), while deer, and crop/grain and seeds revenue are expected to fall (by 4.2% and 10.7% respectively). However, combined these two items make up less than 5 per cent of gross farm revenue.

Total expenditure increases 1.9 per cent to average $379,800 per farm for 2019-20. Increases occur in all categories except interest (-7.7%). Fuel expenditure is the category with the largest increase – up 13.9 per cent.

South Island Summary

Sheep and Beef Farm Profit before Tax decreases 12 per cent to average $156,900 per farm for 2019-20, with the decrease in gross farm revenue expected to exceed farmers' ability to reduce expenditure.

Gross farm revenue increases 1.6 per cent to $707,600 per farm driven by decreased revenue from wool, sheep, cattle and deer.

On average, sheep revenue decreases by 2.8 per cent to $351,300 per farm because there is no change in average livestock prices but a decline in the number of prime lambs sold.

Cattle revenue increases 2.9 per cent to average $106,400 per farm due to an increase in expenditure on purchases more than offsets the increase in sales revenue. On average, sales prices for cattle are expected to fall. An increase in the number of weaners and trade cattle on hand at balance date contributes towards an upwards shift in the number of head sold, which also extends to fewer cattle purchases.

Total farm expenditure increases 1.7 per cent to average $550,700 per farm for 2019-20. This is due to a lift in almost all expenditure except for interest (-4.3%), which reflects lower interest rates. Fuel expenditure is forecast to increase 5.6 per cent on average, while cultivation and sowing expenditure is forecast to increase 8.1 per cent.

Table 17 Regional Summary, All Classes Sheep & Beef Farm - $ per Farm

Region	2017-18 Profit	2018-19p Profit	2019-20f Revenue	2019-20f Expenditure	2019-20f Profit	2019-20f EBITRm[1]	Stock Units	Grazing Area (ha)
Northland-Waikato-BoP	140,465	123,200	419,500	334,400	85,100	132,600	3,500	370
East Coast	179,139	219,700	589,700	419,800	169,900	251,200	5,000	560
Taranaki-Manawatu	136,598	152,100	533,100	407,200	125,900	194,200	4,400	510
North Island	**153,388**	**167,500**	**506,800**	**379,800**	**127,000**	**190,900**	**4,200**	**470**
Marlborough-Canterbury[2]	158,907	168,600	821,800	675,000	146,800	253,000	4,700	1,030
Otago/Southland[2]	175,354	184,600	583,900	419,400	164,500	225,700	4,400	820
South Island[2]	**167,998**	**177,600**	**707,600**	**550,700**	**156,900**	**241,200**	**4,500**	**950**
New Zealand	**159,996**	**172,100**	**597,600**	**457,100**	**140,500**	**213,600**	**4,400**	**680**

p provisional, f forecast | Exchange rate used in forecast year USD/NZD 0.63

[1] Earnings before Interest, Tax, Rent and Managers Salary

[2] Grazing area is inflated by High Country Farms, which average 7,500 hectares per farm

Source: Beef + Lamb New Zealand Economic Service | Sheep and Beef Farm Survey

Regional Comment – North Island

Northland–Waikato–Bay of Plenty

Gross farm revenue decreases 6.0 per cent to average $419,500 per farm for 2019-20. This is the result of decreases wool, sheep and cattle revenue. On average, cattle revenue makes up just under half – 47 per cent – of gross farm revenue.

Sheep revenue decreases by 7.1 per cent to average $148,100 per farm for 2019-20, with fewer prime and store lambs sold.

Cattle revenue is forecast to decrease by 6.5 per cent in 2019-20 to average $196,500 per farm, after falling by a similar percentage in 2018-19.

Total farm expenditure increases by 3.5 per cent to average $334,400 per farm for 2019-20. Increased expenditure occurs in all categories except interest.

Although cultivation and sowing increases 12.2 per cent to average $3,400 per farm, it is a small portion of total expenditure at one per cent.

Repairs and maintenance expenditure increases 9.3 per cent to average $35,100 per farm. This is up 36 per cent since 2016-17 and continues several years of expenditure growth in this category.

Interest expenditure decreases 8.8 per cent to $30,900 per farm for 2019-20, due to the combined effect of farmers taking on less new debt, and lower interest rates.

On average, Farm Profit before Tax decreases in 2019-20 – by 31 per cent to $85,100 per farm.

On average, sheep and beef farms in the region carry 3,600 stock units on a grazing area of around 370 hectares, and thus have an average stocking rate of less than 10 stock units per hectare.

Table 18 Regional Summary, All Classes Sheep & Beef Farm - $ per hectare

	2017-18	2018-19p	2019-20f				Stock Units
Region	Profit	Profit	Revenue	Expenditure	Profit	EBITRm[1]	per ha.
Northland-Waikato-BoP	380	333	1,134	904	230	358	9.5
East Coast	320	392	1,053	750	303	449	8.9
Taranaki-Manawatu	268	298	1,045	798	247	381	8.6
North Island	**326**	**356**	**1,078**	**808**	**270**	**406**	**8.9**
Marlborough-Canterbury[2]	154	164	798	655	143	246	4.6
Otago/Southland[2]	214	225	712	511	201	275	5.4
South Island[2]	**177**	**187**	**745**	**580**	**165**	**254**	**4.7**
New Zealand	**235**	**253**	**879**	**672**	**207**	**314**	**6.5**

p provisional, f forecast | Exchange rate used in forecast year USD/NZD 0.63

[1] Earnings before Interest, Tax, Rent and Managers Salary

[2] Grazing area is inflated by High Country Farms, which average 7,500 hectares per farm

Source: Beef + Lamb New Zealand Economic Service | Sheep and Beef Farm Survey

East Coast

Gross farm revenue decreases by 7.6 per cent to average $589,700 per farm for 2019-20. This is substantially driven by decreases in sheep and cattle revenue.

Sheep revenue decreases 7.6 per cent to $318,200 per farm on average for 2019-20. Lamb prices come down sharply from 2018-19's record highs, and more prime and store lambs are sold in response to drought conditions. The number of sheep on hand falls – by 5.7 per cent. Sheep revenue contributes 54 per cent of gross farm revenue.

Cattle revenue, which is equivalent to 34 per cent of gross farm revenue, decreases 10 per cent to average $202,000 per farm for 2019-20. The average number of cattle on hand decreases by 8.7 per cent. The reductions in livestock numbers are a response to extremely dry conditions and will have a long-term impact of production, and incomes and expenditure in the region.

Total farm expenditure is up slightly – by 0.2 per cent to $419,800 per farm – for 2019-20. The most significant increases are for fuel (+22.5%), vehicle expenses (+9.2%) and wages/rations (+8.3%).

The largest decreases in farm expenditure occur in interest (-7.3%), and repairs and maintenance (-5.2%). Interest expenditure decreases due to reductions in debt combined with lower interest rates.

Farm Profit before Tax decreases (-23%) to average $169,900 per farm for 2019-20. On average, sheep and beef farms in the region run 5,000 stock units on a grazing area of around 560 hectares, thus averaging around 9.0 stock units per hectare.

Taranaki–Manawatu

At $533,100 per farm, average gross farm revenue is forecast to be 3.1 per cent lower for 2019-20, with increased revenue from both sheep and cattle.

Sheep revenue decrease marginally to $325,000 per farm due a small decrease in the average price for prime lambs, which offsets the decline in the number sold. Sheep revenue contributes 61 per cent of gross farm revenue – the highest proportion in many years.

This is partially due to the decrease in cattle revenue decreases 6.3 per cent to $138,900 per farm, due to a decrease in the average sale price of cattle. Cattle revenue contributes around 26 per cent of gross farm revenue.

Dairy grazing revenue decreases 13.6 per cent to $14,000 per farm. Despite dairy grazing revenue per head increasing 5.2 per cent to $609, the average number of dairy grazing cattle per farm decreases 18 per cent from 28 to 23. Dairy grazing revenue contributes around 2-3 per cent of gross farm revenue.

Total farm expenditure increases 2.3 per cent to $407,200 per farm on average for 2019-20. Increases are forecast in all categories of expenditure, except interest, which is due to reduced debt levels and lower interest rates.

Fuel expenditure increases 15 per cent to $11,600 per farm, making it the category that has the largest percentage increase. Repairs and maintenance expenditure, which accounts for 12 per cent of total farm expenditure, increases by 6.0 per cent.

Shearing expenditure increases 5.0 per cent to $28,100 per farm, continuing the increases experienced over recent years, due to an increase in per-head rates for shearing.

Farm Profit before Tax decreases 17 per cent to average $125,900 per farm for 2019-20 as a result of decreased gross farm revenue and increased expenditure.

On average, sheep and beef farms in the region run 4,400 stock units on a grazing area averaging around 510 hectares thus averaging around 8.6 stock units per hectare.

Regional Comment – South Island

Marlborough–Canterbury

Gross farm revenue decreases 1.2 per cent to average $821,800 per farm for 2019-20.

Sheep revenue decreases (-3.9%) to $287,500 per farm for 2019-20. Sheep revenue contributes 35 per cent of gross farm revenue. Wool revenue decreases by 6.7 per cent – because there is a greater influence of fine wool prices in this region than in others and prices for fine wool are expected to fall 20 per cent after a record high in 2018-19.

Cattle revenue decreases 1.8 per cent to average $140,200 per farm for 2019-20 as cattle prices are expected to be lower on average.

Dairy grazing revenue increases 8.5 per cent to $69,100 per farm on average, which is equivalent to 8.4 per cent of gross farm revenue.

Cash cropping revenue, which contributes 25 per cent of gross farm revenue, increases slightly (+0.9%) to $207,300 per farm on average for 2019-20. All the increase in cash cropping revenue is on mixed finishing and finishing breeding farms. There is some reduction in inventory and an increase in area sown in barley.

Total farm expenditure increases 1.7 per cent to average $675,000 per farm for 2019-20. Most expenditure categories increase, except for interest (-3.3%) and fertiliser (-1.0%).

Interest expenditure is lower due to lower interest rates, and farmers in this region reducing debt on average. On average, sheep and beef farms in this region have around $1.47 million in fixed term liabilities, down from $1.51 million in 2018-19.

Farm Profit before Tax increases 13 per cent to $146,800 per farm for 2019-20, because gross farm revenue decreases and total farm expenditure increases.

On average, sheep and beef farms in the region run about 4,700 stock units on a grazing area of 1,030 hectares. High Country and foothill farms inflate the average area of farms in the region because Farm Class 1 High Country farms have a total land area of 10,300 hectares on average, 9,500 hectares of which is grazing area, while 850 hectares is set aside for other uses or not farmed at all, and Class 6 Finishing-Breeding farms average 450 hectares of grazing area.

As a result, Farm Class 1 High Country farms have an average stocking rate of around 1.3 stock units per hectare, and Farm Class 6 Finishing-Breeding farms average 8.4 stock units per hectare, both of which reflect the nature of the land and pasture growth.

Otago–Southland

Gross farm revenue decreases 2.2 per cent to average $583,900 per farm for 2019-20. The largest drivers of the decrease are sheep and cattle revenue, which combined account for nearly 85 per cent of gross farm revenue.

Sheep revenue decreases 2.2 per cent to $417,100 per farm for 2019-20. This is due to fewer prime lambs being sold. On hill country properties, sheep numbers appear to have stabilised, while they are increasing on high country properties as some farmers shift towards cross breeds and meat production.

Wool revenue also increases – by 0.8 per cent to $50,900 per farm. This is due to an increase in the volume of wool sold – including some from on-farm inventories – but slightly offset by the average price of strong wool sold forecast to fall from $2.95 a kg in 2018-19 to $2.91 a kg (greasy) in 2019-20.

Cattle revenue decreases 5.4 per cent to average $73,100 per farm for 2019-20. The average number of cattle per farm at open increased as livestock were carried over balance date, and the number sold increased, particularly of steers and bull beef, but this did not offset the fall in prices.

Total farm expenditure increases 1.7 per cent to $419,400 for 2019-20. The most significant increase in expenditure is on irrigation (+20%), but it is a very small part of total expenditure (0.3%). Interest expenditure is forecast to decline (-6.0%) as interest rates ease. Otherwise, most expenditure items increase slightly. Fertiliser expenditure, which accounts for 16 per cent of total farm expenditure, is up 3.6 per cent. Expenditure on feed and grazing is down 2.2 per cent.

Farm Profit before Tax decreases 11 per cent to average $164,100 per farm for 2019-20.

On average, sheep and beef farms in the region run 4,400 stock units on a grazing area averaging 820 hectares. As in other parts of the South Island, the average farm size is inflated by Farm Class 1 High Country farms, which average 6,600 hectares, whereas Class 6 Finishing-Breeding farms average 570 hectares and Farm Class 8 Finishing Farms average 240 hectares.