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Summary

New Season Outlook 2023-24

Overview

It is expected to be another challenging year for the red meat sector.

While demand is expected to recover slightly from last year, prices are expected to remain soft, especially for lamb and mutton. The pace of China's economic recovery remains uncertain, and the economies of other key markets remain relatively weak.

Farm Profit Before Tax is forecast to decrease 31 per cent for 2023-24 to an average $88,600 per farm. Adjusting for inflation, this is the lowest level of farm profitability in 15 years. This season farmers will be under immense pressure as a result of lower profit and cashflow. The forecast decrease in farm profit follows a 32 per cent decline in 2022-23, when declining lamb and sheep farm-gate prices were the main driver.

Australia has been very competitive for both beef and sheepmeat exports in 2022-23 and is expected to be in 2023-24 as well. This is due to multiple years of favourable weather conditions that supported herd rebuilding efforts, and liberalisation of access into China, which reduced demand for New Zealand's exports.

El Niño projections adds another challenging dimension to 2023-24, with farmers along the east coast potentially facing dry conditions, which will impact the timing of sales and increase costs depending on severity.

There is significant downside risk to the outlook if Australia's downsizing of its national sheep flock and cattle herd increases global supply due to the El Niño Australian farmers will face. Additionally, the high meat inventories and lower demand in China could take months to clear adding to this risk.

Sheepmeat

- For 2023-24, total lamb export receipts are forecast at $3.52 billion FOB[1], up 4.8 per cent on 2022-23.
- The increase is driven by a 2.5 per cent increase in both export volume – to 291,000 tonnes shipped weight – and in the average FOB value of exports – to $11,453 per tonne.
- The forecast average FOB value of exports is 2.7 per cent higher than the five-year average.
- Export receipts for co-products are forecast to decrease 0.7 per cent.
- The lamb crop in spring 2023 is forecast to be 20.4 million head, 0.6 per cent higher than in 2022, due to good conditions for mating in autumn 2023 and favourable pregnancy scanning results.
- Export receipts for mutton are forecast to increase 2.3 per cent on 2022-23, driven by a 1.6 per cent increase in production, and a 0.8 per cent increase in average export value.
- Total export receipts for sheepmeat (lamb and mutton) for 2023-24 are forecast to increase 4.4 per cent on 2022-23 to $4.2 billion FOB.
- The annual average farm-gate price for lamb is forecast to be 749 cents per kg, unchanged on 2022-23, and in line with the five-year average.
- The annual average farm-gate price for mutton is forecast to increase 3.5 per cent to 382 cents per kg, which is 19 per cent below the five-year average.
- Demand in all key markets for New Zealand lamb is mixed. Stubbornly high inflation weighing on consumers' disposable income saw global lamb prices retreat below the previous season. However, we expect prices to improve from their lows in 2022-23.

[1]Free on Board, which is the standard measure of the value of exports.

Beef

- Export receipts from beef and veal (including co-products) in the 2023-24 season is forecast to be $4.76 billion FOB, down 2.6 per cent on 2022-23.
- Beef and veal exports are forecast to decrease 3.6 per cent to 467,000 tonnes shipped weight.
- Average export returns for the season are forecast to increase 1.2 per cent to $8,997 per tonne FOB, which is 6.6 per cent above the five-year average.
- The forecast for the 2023-24 season is for the average farm-gate price for all cattle to increase slightly (+0.3%) from 2022-23, to 541 cents per kg, which is a mix of 601 cents per kg for P steer/heifer (270-295kg), 399 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 592 cents per kg for M bull (270-295kg).
- The outlook for the global beef market is driven mainly by North American demand in 2023-24.
- In tandem with their economic woes, China has struggled to compete with this demand from the US. As a result, the US has been the top market for New Zealand's beef exports since May 2023.

Exchange Rate Impact

New Zealand sheepmeat and beef export returns are affected by exchange rate movements. New Zealand exports over 90 per cent of its meat production. The direction of the NZD is variable – stronger against the USD but weaker against European currencies than it was in 2022-23. The USD/NZD rate is forecast to increase 3.7 per cent for the 2023-24 season to an average of 0.64 USD/NZD.

Exchange rate forecasts are challenging even when global markets are stable. The uncertainty from the war in Ukraine, different international monetary policies, and the economic impacts from worldwide inflation have created a volatile backdrop for foreign exchange projections. The New Season Outlook 2023-24 includes a section on exchange rate sensitivity to provide some analysis of the impact of the exchange rate on sheep and beef farm profitability.

Gross Revenue

Gross farm revenue for the 2023-24 farming year is forecast to average $654,400 per farm[2], down 3.0 per cent from 2022-23.

Revenue from sheep is forecast to decrease 4.7 per cent to $311,700 per farm. The farm production and financial season runs from 1 July to 30 June, and for 2023-24 low farm gate prices for sheepmeat were seen through winter and early spring.

Cattle revenue is forecast to decrease 3.3 per cent to average $181,500 per farm.

Sheep and cattle revenue account for three quarters of gross farm revenue at 48 per cent and 27 per cent respectively.

The cash crop account is forecast to increase by 0.5 per cent in 2023-24 to $61,100. It accounts for 9 per cent of gross farm revenue.

Gross farm revenue is spent on goods and services for running the farm business including wages, shearing contractors, maintenance and agricultural services; then taxation, debt servicing, debt reduction and personal living expenses.

[2]The per farm figures are a weighted average for of the respective farm class averages and gives a useful representation of the sector describing annual data and sector trends.

Expenditure

Total expenditure is estimated to increase 3.5 per cent (+$19,000) to average $565,800 per farm for 2023-24. Farm input prices continue to increase across most categories.

While the increase in total farm expenditure is moderate, up 3.5 per cent, it follows a cumulative increase in farm expenditure since 2020-21 of more than 16 per cent. Expenditure on interest and rent has increased by around 37% since 2020-21 as interest rates climbed.

Fertiliser prices decrease slightly from 2022-23, and, on average, fertiliser volumes applied are forecast to increase this season following cuts in applications in 2022-23. Spending on fertiliser, lime, and seeds decreases 3.1 per cent to average $93,900 per farm.

Interest expenditure climbs 20 per cent on average to $79,000 per farm and accounts for around 14 per cent of total farm expenditure.

Shearing expenditure increases 2.9 per cent to an average $28,900 per farm, which is equivalent to $5.88 per sheep shorn. In all farm classes, except for high country farms, the cost of shearing exceeds wool revenue. For South Island high country farms, revenue from fine wools is an important proportion of total gross farm revenue, however meat production revenue surpasses wool revenue.

Farm Profit Before Tax

Farm Profit Before Tax is forecast to decrease for 2023-24 by 31 per cent to an average $88,600 per farm.

Farm Profit Before Tax is used to meet tax, personal drawings, principal repayments, capital expenditure and development of the farm. With lower profitability and cashflow this season, debt reduction is unlikely, and farmers will have less to spend within their communities after meeting other financial obligations.

The Farm Profit Before Tax forecast for 2023-24 depends on the value of the NZD relative to other currencies. Farm profit before tax of $88,600 per farm is based on an exchange rate of USD0.64 (average for the season). Currently the NZD is relatively low, which is positive for exporters. Nearly 90 per cent of beef and over 94 per cent of sheepmeat production is exported. A low NZD does however impact on prices for some farm inputs and therefore farm expenditure is also adjusted to account for changes in the NZD.

Further information

For more information or enquiries email **econ@beeflambnz.com**