



Situation and Outlook for Primary Industries

December 2017

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Annual figures are for the year ended June, unless otherwise noted. Currency figures are in New Zealand dollars, unless otherwise noted. Some totals may not add due to rounding.

MPI welcomes feedback on this publication via SOPI@mpi.govt.nz

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Minister's foreword



It is an extremely exciting time to have been appointed to the agriculture, biosecurity, food safety, and rural communities portfolios, as the sector's exports are poised to grow an impressive 8.5 percent in 2018, to \$41.4 billion. In addition, there are a number of opportunities lying ahead across the value-chain.

To build on the achievements of the agriculture sector, we must accelerate our transition from commodity to high-value production.

This will deliver more memorable products to consumers who increasingly appreciate the attributes that the world's finest food system delivers – quality, safety, and sustainability. By directing our efforts on shifting production systems from that of volume towards value, and keeping the environment as a key focus, clear and lasting benefits will be seen.

Within this, there is an important role for the Government to work alongside industry to put the primary sectors in the best possible standing to confront both current and future challenges. These will include how we respond to climate change, innovations in food science such as synthetic proteins and biosecurity threats.

Our biosecurity system is a critical part of protecting some of New Zealand's most valuable defining features. That is why, across my many portfolios, biosecurity is my highest priority. A greater focus on biosecurity will deliver better border protection and a focused biosecurity and food safety regime will protect the interests of the whole primary sector.

I am pleased to present the December edition of the *Situation and Outlook for Primary Industries*. I am encouraged by the future outlook for the primary sectors and look forward to working alongside all of you to ensure we are taking advantage of the vast amount of opportunities available to us.

Hon Damien O'Connor
Minister of Agriculture

Director-General's introduction



December 2017's update of the *Situation and Outlook for Primary Industries* shows that our primary industries' prospects look bright as opportunities to capitalise on New Zealand's reputation as a trusted food producer with strong environmental credentials continue to arise.

Our Government is enthusiastic about emphasising New Zealand's environmentally friendly, sustainable, and high value produce. We firmly believe that our industries are up to the challenge of utilising these attributes to compete on the world stage. There is an invaluable opportunity for the primary industries to address key current and future issues such as changing consumer trends, growing competition in international markets and both understanding and anticipating consumer reaction.

This report includes a closer look at MPI's Farm Systems Change project, which involves learning from our best farmers and sharing their knowledge around optimising environmental, animal welfare, and economic considerations. I believe this programme will play a key role in shaping the future of our dairy industry and ensuring we make the best use of our natural resources for both current and future generations of New Zealanders.

In order to maintain the attributes that will contribute to the high value we receive for our products in overseas markets, we need to remain vigilant in our biosecurity efforts both at the border and within New Zealand. The ongoing *Mycoplasma bovis* incursion is a reminder that we need to be constantly aware of threats to our industries and I am proud of how MPI has responded to this, and other incursions over the past year.

Martyn Dunne
Director-General,
Ministry for Primary Industries

Situation and outlook for primary industries

New Zealand's primary industry exports are forecast to increase 8.5 percent in the year ending June 2018 to \$41.4 billion, the largest annual increase since 2014 when Chinese demand sent dairy prices skyward. This is based on robust demand for New Zealand dairy and forestry products, an improving outlook for red meat and other primary sector products, and continuing investment in horticulture expansion.

Export revenue in 2019 is forecast to build on the gains expected in 2018, rising a further 1.3 percent to \$41.9 billion. New Zealand exporters are anticipated to increasingly focus on producing environmentally sustainable, high quality natural products rather than relying on volume growth to increase revenue.

The outlook for the year ending June 2018 is slightly less positive than the previous forecast in September. Our forecast for primary sector exports has been revised downwards by \$265 million, with a lower dairy forecast partially offset by a more positive outlook for red meat and other primary sector products.

This year's wet spring has affected early season dairy production and slowed the sowing of some arable and vegetable crops. On the other hand, pasture conditions for the sheep and beef sector have been positive so far this season. The National Institute of Water and Atmospheric Research (NIWA) outlook for December to February suggests above-average temperatures for all regions. Soil moisture levels are likely to be near or above normal for the North Island and below normal for most of the South Island.



Global situation positive for New Zealand exports

The macroeconomic outlook for New Zealand and its major trading partners continues to be supportive for primary industry exports. In October, the International Monetary Fund upgraded its global gross domestic product (GDP) growth outlook for 2017 and 2018, led by an increased outlook for New Zealand's major trading partners.

The New Zealand dollar (NZD) has fallen against most major trading partners since August 2017, which has been a boost for exporters, and is projected to remain near current levels over the outlook period. The NZD hit a two-year high in July at 75.6 cents to the US dollar, but is currently below 69 cents.

Global agricultural prices are also in a favourable place for New Zealand's export profile, with a balance of strong meat and dairy prices offset by low grain prices. The Food and Agriculture Organization's (FAO) Food Price Index is at the highest level since 2014, led by rising dairy and meat prices. In contrast, global grain prices remain low, with ample global stocks and good growing conditions in key grain producing countries.



Dairy export revenue to increase 15 percent, despite a wet spring

Dairy exports are forecast to increase \$2.2 billion to \$16.8 billion for the year ending June 2018. Higher dairy product prices, particularly of butter, and an increase in exports of value-add products are major drivers of this growth. A wet spring, especially in the Taranaki and Waikato regions, is expected to have negatively affected milk solids production.

Table 1: Primary industries export revenue, 2013–19 (\$NZ million)

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Dairy	13,139	17,791	14,050	13,289	14,638	16,840	16,880
Meat & wool	7,793	8,163	9,001	9,201	8,356	8,710	8,820
Forestry	4,527	5,199	4,683	5,140	5,482	5,660	5,730
Horticulture	3,547	3,807	4,187	5,002	5,152	5,420	5,620
Seafood	1,546	1,500	1,562	1,768	1,744	1,820	1,950
Arable	229	232	181	210	197	220	220
Other primary sector exports*	1,936	1,908	2,314	2,612	2,532	2,680	2,660
Total exports	32,717	38,600	35,978	37,223	38,101	41,350	41,880
% Change	+0.5%	+18.0%	-6.8%	+3.5%	+2.4%	+8.5%	+1.3%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other primary sector exports includes live animals, honey, and processed foods.



Higher lamb and mutton prices push meat and wool forecast higher

The meat and wool forecast has been revised \$230 million upward to \$8.7 billion for the year ending June 2018. The main driver for this revision is a more positive outlook for lamb and mutton prices, resulting from strong global demand and a weaker production outlook in Australia. Beef exports are forecast to perform at the same level as last year, despite a small production fall due to lower cull cow numbers.



Forestry sector setting records

New Zealand's forestry exports are forecast to rise 3.2 percent to \$5.7 billion for the year ending June 2018 as strong Chinese demand continues to drive high log prices, while harvest volume records are expected to continue to be broken in the coming years. The year ended June 2017 harvest reached 31.4 million cubic metres, up 8.8 percent from the previous year. A strong domestic construction sector is also contributing to record harvest volumes.



High levels of investment in horticulture sector

Orchard profitability and optimism in the horticulture sector continues to drive expansions in planted areas of gold kiwifruit, grapevines, and apples. As recent expansions reach production, export revenues are forecast to reach \$5.4 billion for the year ending June 2018 while already strong international prices also continue to improve.



Global seafood demand to push export prices higher

Export prices for our wild capture fisheries like hoki, jack mackerel, and barracouta are expected to continue to grow as supply is limited by sustainability objectives and overseas demand continues to expand. In addition, expanding aquaculture production will drive increased export volumes of mussels, oysters, and salmon in the coming years. Together, rising prices for wild capture fisheries products and aquaculture volumes are expected to contribute to a 4.4 percent increase in seafood exports to \$1.8 billion for the year ending June 2018.



Arable seed exports growing

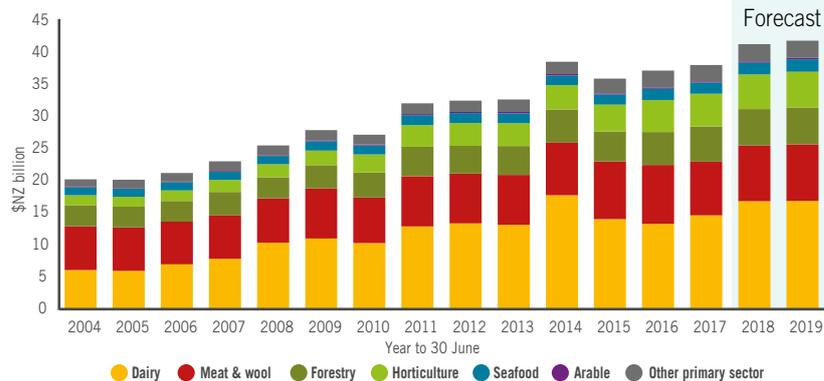
Vegetable seed exports are expected to drive a forecast \$23 million rise in arable exports, to \$220 million for the year ending June 2018. The wet weather that affected early season dairy production also affected arable planting, delaying spring cereal crops. Domestic grain prices remain strong due to increased dairy demand resulting from a higher 2016/17 payout and the expectation of another good payout for the current season.



Other product exports expected to resume strong growth

Exports out of this diverse sector are expected to increase to \$2.7 billion for the year ending June 2018, a rise of 5.8 percent. Honey export volumes are forecast to resume growth following a dip in 2017, while exports of innovative processed foods such as dietary supplements and health products are expected to resume increasing to major markets of Hong Kong, Australia, and Singapore.

Figure 1: Primary industries export revenue 2004–19



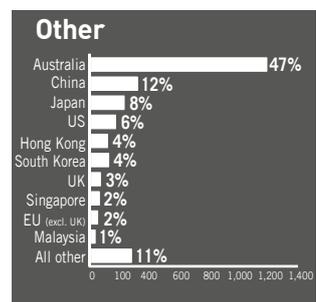
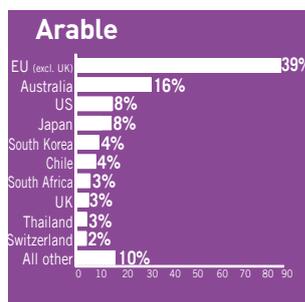
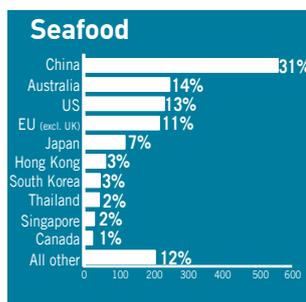
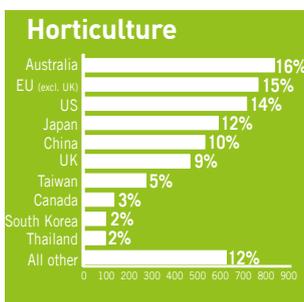
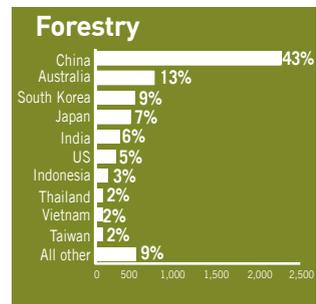
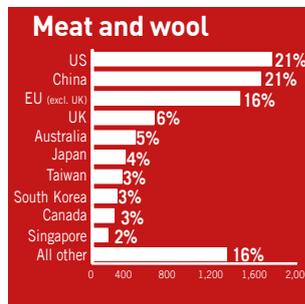
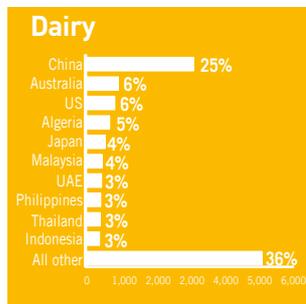
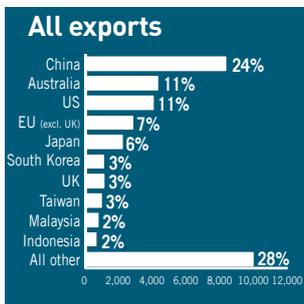
Source: Statistics New Zealand and MPI.

Top 10 export destinations



Total export revenue	% of Total
\$ million (June 2017)	
Dairy	38%
Meat and wool	22%
Forestry	14%
Horticulture	14%
Seafood	5%
Arable	1%
Other	7%
Primary industries (total)	100%

Top markets (\$NZ millions, year ended June 2017)



Forecast tracking

The outlook for 2018 is \$265 million lower than the previous forecast round. The most notable revision is a lower dairy forecast because wet weather has reduced milk solids production this spring. Forestry exports have also been revised lower due to in-market considerations, but are still forecast to grow over the next two years.

This is partially offset by a more positive outlook for lamb and other red meat, and other primary sector products including processed foods.

The historical data shown in Table 2 below is different from previous forecast rounds because it has been updated following Statistics New Zealand's recently released trade data revisions for 2009-16.

Figure 2: MPI primary sector export forecasts, 2013–19 (\$NZ billion)



Source: MPI.

Table 2: MPI primary sector export forecasts, 2013–19 (\$NZ million)

Year to 30 June	Actual					Forecast		
	2013	2014	2015	2016	2017	2018	2019	
Dairy	Dec 2017	13,139	17,791	14,050	13,289	14,638	16,840	16,880
	Sept 2017	13,139	17,791	14,050	13,289	14,637	17,350	17,320
	Difference	-	-	-	-	+1	-510	-440
Meat & wool	Dec 2017	7,793	8,163	9,001	9,201	8,356	8,710	8,820
	Sept 2017	7,793	8,160	9,001	9,201	8,355	8,480	8,740
	Difference	-	+3	-	-	+1	+230	+80
Forestry	Dec 2017	4,527	5,199	4,683	5,140	5,482	5,660	5,730
	Sept 2017	4,527	5,199	4,681	5,140	5,488	5,760	5,880
	Difference	-	-	+2	-	-6	-100	-150
Horticulture	Dec 2017	3,547	3,807	4,187	5,002	5,152	5,420	5,620
	Sept 2017	3,547	3,794	4,173	4,987	5,148	5,410	5,720
	Difference	-	+13	+14	+15	+4	+10	-100
Seafood	Dec 2017	1,546	1,500	1,562	1,768	1,744	1,820	1,950
	Sept 2017	1,546	1,500	1,562	1,768	1,744	1,850	1,930
	Difference	-	-	-	-	-	-30	+20
Arable	Dec 2017	229	232	181	210	197	220	220
	Sept 2017	224	228	177	205	191	205	215
	Difference	+5	+4	+4	+5	+6	+15	+5
Other	Dec 2017	1,936	1,908	2,314	2,612	2,532	2,680	2,660
	Sept 2017	1,940	1,910	2,315	2,614	2,539	2,560	2,600
	Difference	-4	-2	-1	-2	-7	+120	+60
Total exports	Dec 2017	32,717	38,600	35,978	37,223	38,101	41,350	41,880
	Sept 2017	32,716	38,583	35,959	37,203	38,102	41,615	42,405
	Difference	+1	+17	+19	+20	-1	-265	-525

Source: MPI.

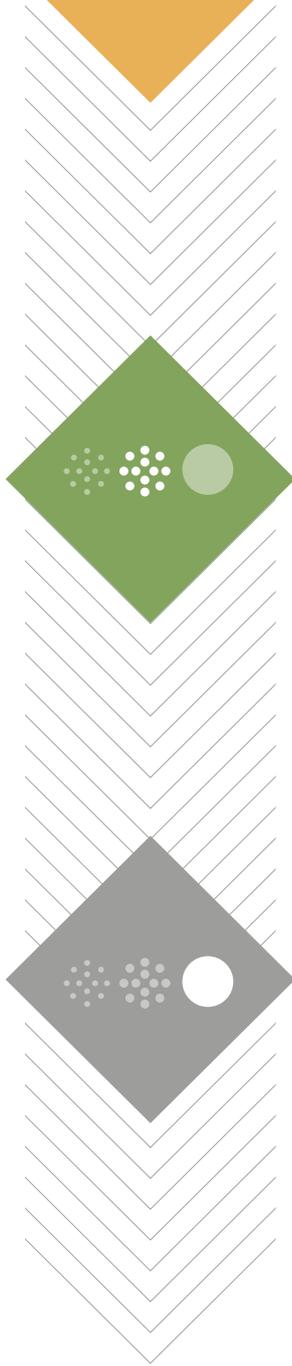
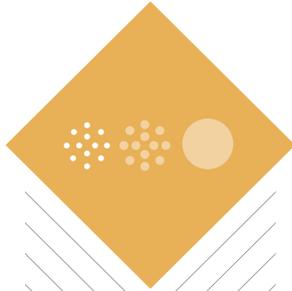
Note: Some totals may not add due to rounding.

DAIRYING FOR THE FUTURE

Taking care of the environment, animals, and the bottom line

Our Ever Changing Dairy Industry

New Zealand dairy enjoys a proud economic and social history that is a long-standing feature of our national identity.



CHANGE

From early days of small localised production and supply to the large-scale export-led production today, our industry has been subject to significant ongoing change.

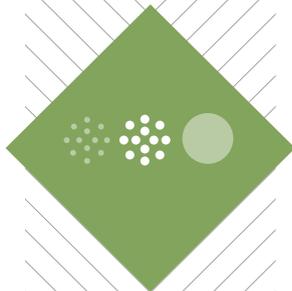


ADAPT

The industry's achievements to date are evidence of New Zealand dairy farmers' ability to adapt and grow when confronted with such change.

Upcoming Challenges & Opportunities

The next decade will present challenges but will also bring opportunities.



CHALLENGES

Upcoming challenges will centre around farmers responding to **climate** and **price volatility** in a sustainable and productive manner.



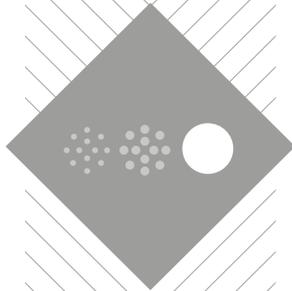
OPPORTUNITIES

There is evidence that world leading **environmental and animal management practices** can:

- **increase farm performance** and resilience to climate and price challenges;
- maintain and grow **public support** for our industry; and
- enable access to **high-value markets** that provide greater returns.

The Farm Systems Change Initiative

Securing an environmentally **sustainable** and **profitable** future.



The Farm Systems Change Initiative: is an ambitious project that aims to lift New Zealand dairy farms' **environmental** performance alongside **production** and **profit** outcomes.



Preparing For the Future:

The initiative seeks to achieve this by helping farms enhance their ability to adapt to overcome the **challenges** and realise the **opportunities** for a value based future.

FARM SYSTEMS CHANGE INITIATIVE

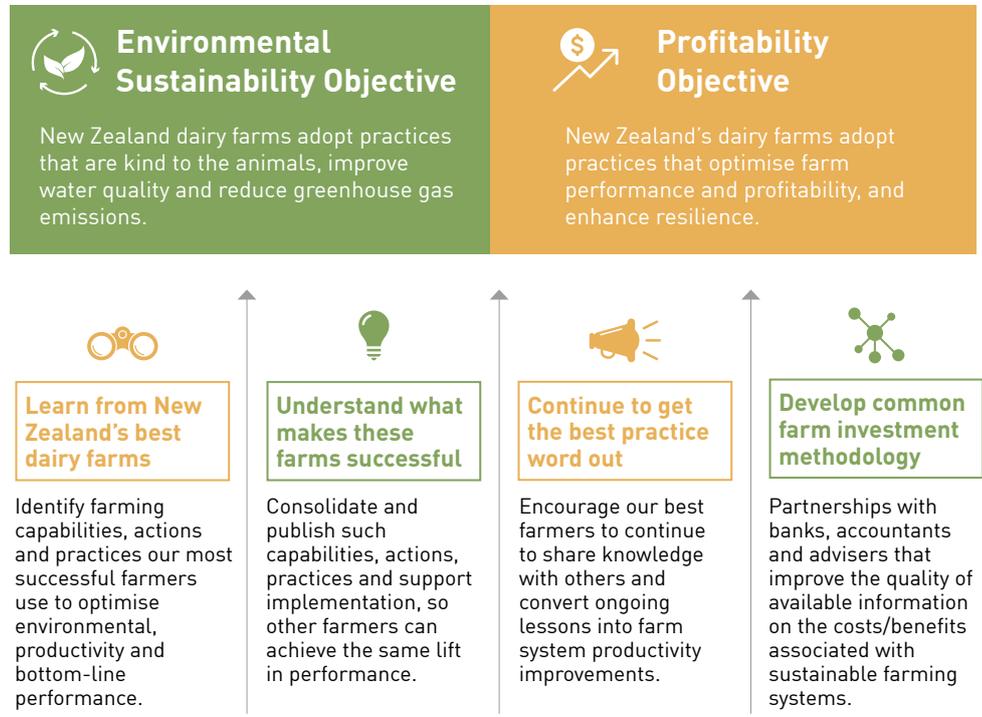
Overview & Key Components

MPI's Farm Systems Change Initiative involves working with the dairy industry to achieve **sustainability** and **profitability** objectives.

The initiative stemmed from realising that many dairy farms are continually developing and implementing more sustainable farm system practices that allow them to:

- achieve significant increases in productivity within natural resource limits;
- avoid increasing, and often reducing, the farm's environmental footprint; and
- maintain financial performance and enhance business resilience.

The next step entails using the understanding gained to date to help more dairy farms adopt similar practices so they can emulate the same success.



Finding best practices What we have learned

The Farm Systems Change Team has analysed 20 of NZ's best dairy farms over five years, which represent a variety of farm systems, sizes and locations.

Our analysis identified that farm system improvements enabled them to achieve milk productivity that is up to 25% above industry averages.

This optimised productivity has given farmers the freedom they require to align herd numbers with what the natural environment they operate in can accommodate whilst preserving, and even enhancing, their bottom line.

MPI's Work to Date

Utilising this knowledge

Over time more farms can implement similar best practices across their farm systems to achieve similar results, which is good for them, our environment, rural communities, international reputation and the New Zealand economy.

Although each farm is different, MPI has identified a number of themes, principles and practices that can enable more dairy farmers to improve environmental, productivity and financial outcomes.

INGREDIENTS FOR SUCCESS



The People

The observed farmers shared the following characteristics which contributed to their success:

They are passionate about dairy farming and the positive contribution they can make to their communities.



They are highly skilled at taking a "whole-of-system" approach to farming, and continually work to refine and improve this.



They place value in quality advice and having advisors work as a team.



They display a strong commitment to learning, and understanding what drives results.



They pay careful attention to detail and timing.



They are motivated to drive ongoing improvement, which makes them strong advocates and role models for sustainable dairy farming.



The Farms



The observed farms also shared the following features that heavily contributed to their success:

An instinct for environmental stewardship: actively matching farming activities to the capabilities of the land, natural resources and wider environment the farm depends on.



Understand and placing emphasis on the relationship between feed efficiency, cow welfare and the environment, and how this translates to economic performance and resilience.



Integrating environmental management within the farm system – rather than viewing it solely as a compliance obligation.



Minimising feed waste by carefully matching feed quality and supply to cow demand day by day to achieve enhanced herd condition, health and welfare.



Optimised cow performance, which provides a greater volume of milk per unit of feed [e.g. milk solids per cow up to 25 percent above industry averages].



Investments in sustainability and production efficiency that enhance capital efficiency, return on assets, and resilience, thereby allowing farms to be flexible and agile in response to climate, price and other challenges.



The Opportunity

To realise the full potential of the dairy industry by extending these consolidated best practices to dairy operations across New Zealand.

Embracing world leading environmental management and animal welfare practices optimises farm performance, public support and high value market consumer demand for our dairy produce.

Helping lift dairy farm performance is hugely important because the industry is a critical pillar of New Zealand's economic performance in many regions and nationally.

We want to continue to support those leading the way and catalyse wider uptake of the growing body of knowledge, including practices identified through this initiative, to help the industry secure a more sustainable and resilient future.

For more information about MPI's Farm Systems Change initiative including more examples of New Zealand's best dairy farms visit the MPI website: www.mpi.govt.nz/growing-and-harvesting/dairy/farm-systems-change/



EXAMPLES

Judge Valley Dairies Limited

 440 Cows
  245 hectare
  Environmental Focus

“Look beyond what you can see”

John Hayward and Susan O’Regan founded Judge Valley Dairies Limited in 2008 and currently farm a mixed herd of 440 cows on this 245 hectare property at Puaheue, east of Te Awamutu. Judge Valley Dairies is the amalgamation of a dairy farm and neighbouring drystock farm, ranging in contour from flat to steep. With the support of two full-time staff and one permanent casual, leveraging a top level farming system and technology, John and Susan produced 206,887 kgMS off a milking platform of 140 hectares in the 2014/15 season.

Economically and environmentally sustainable

John and Susan are very conscious of the environmental impact of their farm and farming practices. Their commitment to environmental sustainability is thoughtfully managed alongside best farming practices, ensuring Judge Valley Dairies performs as a profitable business. John and Susan are very strong advocates for the environment and frequently host groups, government officials and overseas visitors.

John and Susan undertook a land use capability assessment in 2014, which identified areas on their property that are suitable for different land use and classes of stock, as well as areas that should be retired. Since that assessment, approximately 20 hectares of the farm has been retired in native, riparian and wetland areas, with a further 4.5 hectares in pine trees and 5 hectares of mānuka plantations for high potency honey production.

John and Susan have also planned their maize cropping system to provide flexibility and minimise any negative impact on the environment.



Western Bay of Plenty Farm

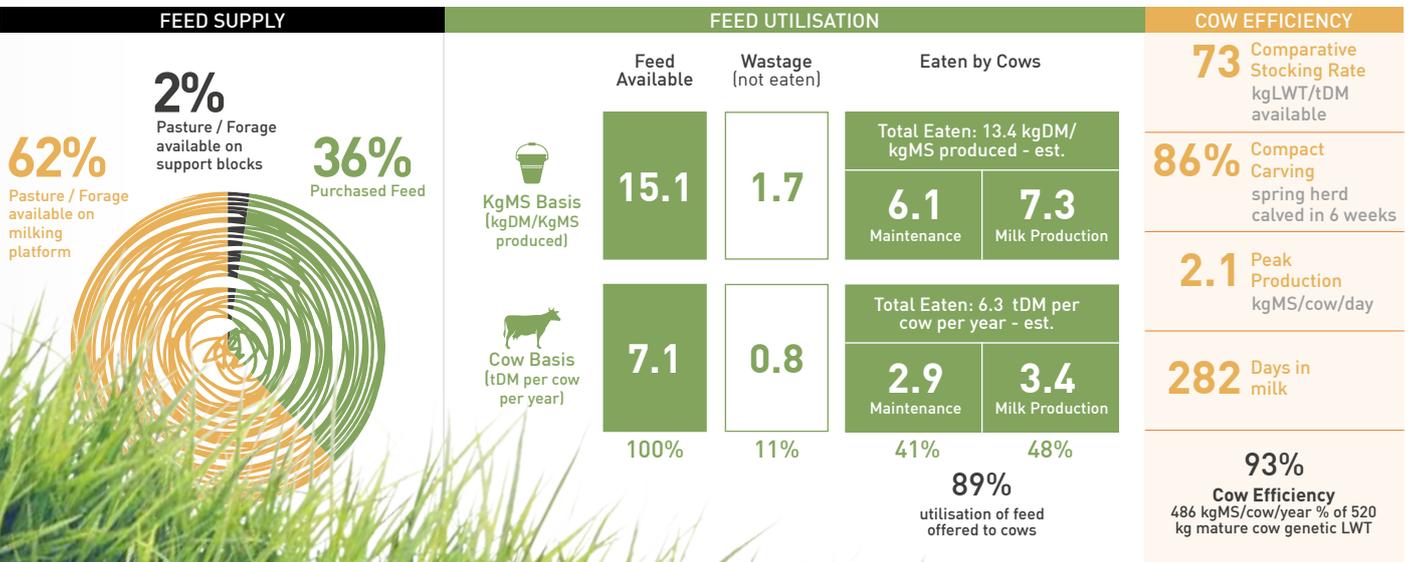
 Healthy Cows
  Cross-bred herd
  Diversified land use

This farm is owned by a husband and wife team, who are committed to making decisions for their farming business after thoroughly investigating and analysing the costs and benefits of each option. Their excellent cow performance reflects their careful consideration of feed types and suitability of their cows to the hills. The result - quality cows that are producing to their potential.

These farmers identified there was an opportunity to improve the production of this high quality crossbred herd to reach their breeding potential. However, to deliver the improvement required investment in the farm infrastructure was needed to enable different feed types to be fed efficiently to the cows.

The consistent quality and quantity of feed offered enables cow feed conversion efficiency to hold steady at around 13kgDM eaten per kgMS produced. This feed conversion rate is also reflected in the consistent level (from 48 percent to 51 percent) of the metabolisable energy in feed available converted to milk production.

Feed to milk efficiency 2014/15 season



EXAMPLES

Rustic Dairies Limited

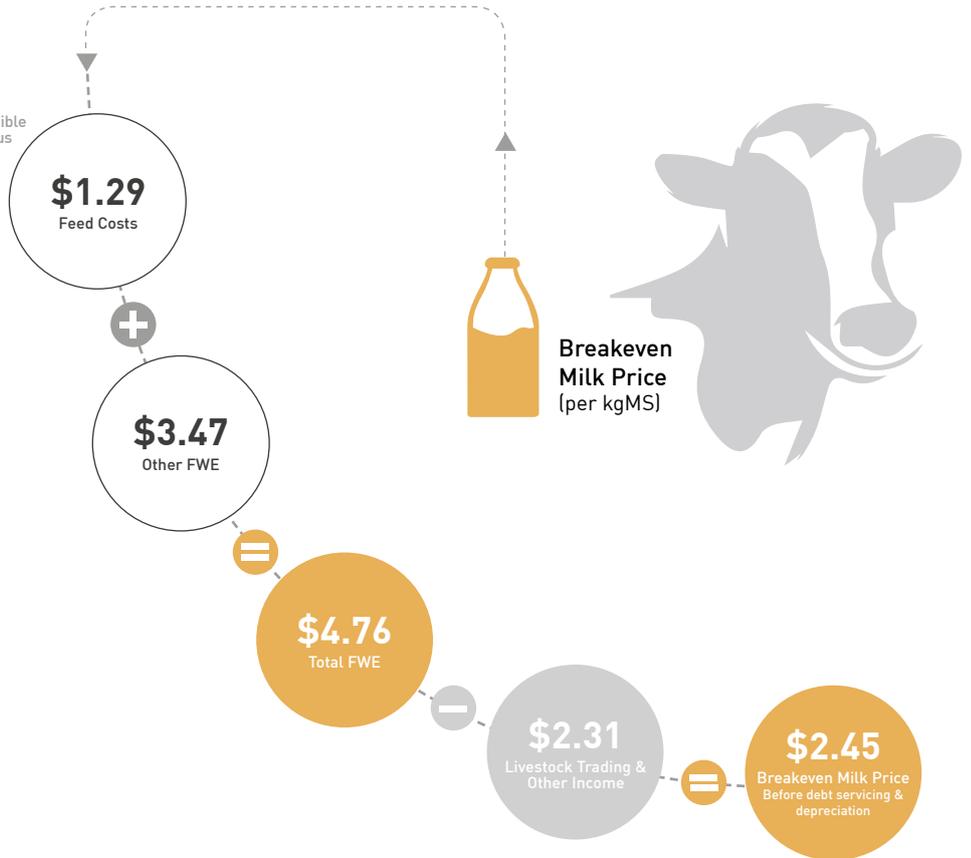
- 257 Jersey Cows
- Economist skills
- 1x Day Milking
- Flexible Focus

“We wanted to understand the land before we began the dairy conversion”

Zach Mounsey has big dreams about farming, with his passion for agriculture stemming from his family farming background. Together with his parents, he set up Rustic Dairies Limited, a recently converted, rolling 114 hectare farm near Otorohanga. They farm a herd of 257 Jersey cows producing 77,400kg of milk solids in the 2014/15 season. Zach brings his off-farm knowledge and skills as an economist to the everyday management of the dairy farm.

From the outset, Zach and his parents planned for a dairy farm operation that delivered both flexibility and financial success. Part way on that journey, they have met their initial expectations in the management of the conversion costs.

They are now only into their fifth season following conversion and farm working expenses (FWE) were budgeted to reduce to \$3.00 kgMS for the 2016/2017 season.



Huntly Road Dairies Limited

- 50/50 Equity Partnership
- Transferable Skills
- Supporting the Community

Anne-Marie and Duncan worked through the stages of working for wages, lower-order share-milking to 50/50 sharemilking as they built their equity. Ultimately, they wanted stability for their family and to stay in one place, so purchasing a farm of their own became the objective. They understood the financial barriers and recognised that an equity partnership was the enabler to purchasing a farm on the Taieri. Therefore connecting with the right business partners who shared their values was vital to the success of the farming business.

Throughout their day to day routine both Anne-Marie and Duncan include activity that enables them to give back to their community and to the dairy industry. It is important to Anne-Marie and Duncan to share their farming life with others to assist greater understanding of the dairy sector.

They have welcomed visits from school groups, accountants, DairyNZ and Fonterra.

The Malcam Charitable Trust is a Dunedin-based youth development trust, which in partnership with Otago Polytechnic, offers “Farmhand”. The “Farmhand” programme is a free, 13-week, rural-based work and life skills programme, which connects young urban people with rural communities and permanent work or further education.

Duncan has created a living classroom for students in the “Farmhand” programme providing the students with the opportunity to experience and learn skills on-farm at Huntly Road. A number of the students who have worked with Duncan have gone on to obtain full-time employment in the dairy sector.





Dairy

Overview

New Zealand's dairy export revenue is now forecast to reach \$16.8 billion for the year ending June 2018, an increase of \$2.2 billion from the year ended June 2017. This rise is mostly price driven, because average dairy prices are expected to be up significantly compared with the previous year despite recent falls in whole milk powder (WMP) prices on Global Dairy Trade auctions. These higher dairy prices are expected to lead to an increased all company average farm gate milk solids price of \$6.93 per kilogram (including dividends where applicable) for the 2017/18 season. Longer term, dairy export growth is expected to be driven by increased productivity and a shift to higher value products rather than increasing cow numbers as environmental guidelines around water quality are implemented.

Strong dairy prices to boost export values

- Dairy export revenue is forecast to grow 15 percent, to \$16.8 billion for the year ending June 2018 as strong dairy price rises compared with the previous year more than offset an expected small fall in production. New Zealand exporters are expected to export less milk powder during 2018, and to increase exports of more valuable products like infant formula, liquid milk, and yoghurt.
- Dairy export revenue is forecast to hold steady in the year ending June 2019 to just under \$16.9 billion. While we expect milk solid production to recover next year, this is likely to be offset by lower dairy prices compared to the June 2018 year, particularly for WMP and butter.
- Butter prices remain high in the meantime, supported by strong consumer demand for natural fats. New Zealand exporters have benefited from this demand and butter export revenue is forecast to increase by 45 percent as a result. We expect prices to begin to fall gradually in early 2018 as European butter production increases and food manufacturers turn to substitutes such as vegetable fats in response to high butter prices.
- Infant formula prices are expected to keep rising, particularly as demand continues to grow among Chinese consumers for imported products targeted at babies and young children. China imported 27 percent more infant formula in the year ended June 2017 compared with the year ended June 2016, including a

Table 3: Dairy export revenue 2013-19 (\$NZ million)

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Whole milk powder	5,104	8,393	5,385	4,609	5,271	5,650	5,520
Butter, AMF, & cream	1,910	2,699	2,219	2,378	2,794	4,060	4,100
Skim milk & butter milk powder	1,832	2,285	1,762	1,347	1,385	1,300	1,300
Casein & protein products	1,674	1,925	2,129	1,834	1,735	1,720	1,720
Cheese	1,441	1,482	1,557	1,720	1,830	2,040	2,100
Infant formula	555	401	415	685	778	1,080	1,090
Other dairy products*	623	607	582	716	845	1,000	1,040
Total	13,139	17,791	14,050	13,289	14,638	16,840	16,880
% Change	-1.8%	+35.4%	-21.0%	-5.4%	+10.1%	+15.0%	+0.2%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other dairy products include: liquid milk and cream, yoghurt, and ice cream.

67 percent increase in the amount of infant formula from New Zealand over this time.

- Infant formula volumes are expected to increase over the year as companies funnel more milk towards production and extra processing capacity is brought online.
- Although most of the forecast increase in New Zealand's dairy export revenue is driven by butter and infant formula, WMP exports are also expected to increase in the year ending June 2018. Average export prices are forecast to be around 10 percent higher compared with the previous year despite recent falls in Global Dairy Trade auctions. Recent WMP demand from China has been very strong, with September 2017 quarter import quantities double those of same period last year. Around 95 percent of China's WMP imports come from New Zealand.

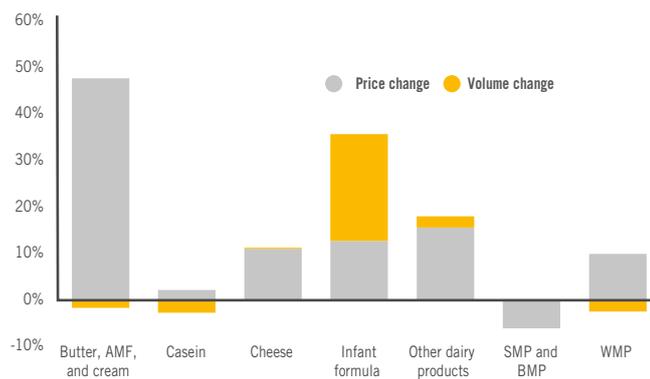
Overseas production placing pressure on SMP and cheese prices

- We have further reduced our outlook for skim milk powder (SMP) prices for the year ending June 2018. Prices are now expected to be down 6 percent on the previous year. High butter prices continue to encourage SMP production (as a

by-product) in an already oversupplied market. Canadian producers have almost tripled SMP exports over the past year, with this extra volume also placing downward pressure on global prices.

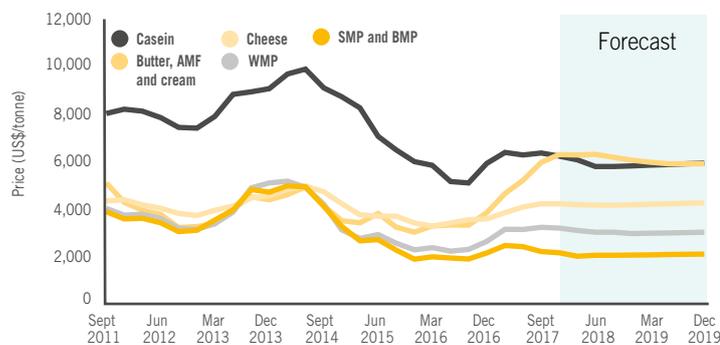
- In addition, SMP intervention stocks held by the European Commission continue to overhang the market. More than half of the 357,466 tonnes of SMP stocks as at 30 June 2017 are over a year old and SMP has a shelf life of around two years. If the European Commission wants to avoid flooding the market with cheap product it may need to start identifying different customers, such as those supplying humanitarian aid packages.
- European milk production growth is expected to continue at least through to mid-2018, placing downward pressure on global prices for their traditional outputs of butter, SMP, and, more recently, cheese.
- Strong US production has started to outweigh rising domestic consumption, with US cheese exports also expected to rise over the outlook period, placing further downward pressure on global cheese prices. The US mainly exports cheese to Mexico, but it also competes with New Zealand in the Japanese market, and is expected to increase exports to China as well.

Figure 3: Forecast change in New Zealand's dairy product exports
Year ended June 2017 to year ending June 2018



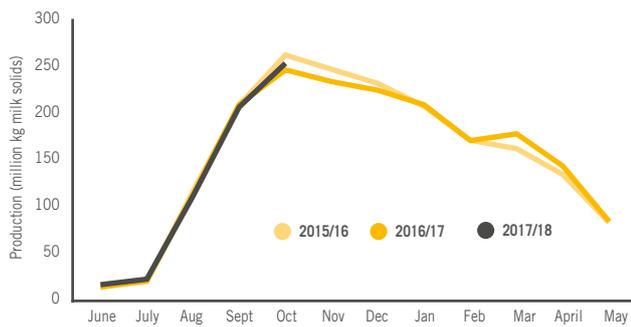
Source: Statistics New Zealand and MPI.

Figure 4: New Zealand dairy export prices, 2011-19



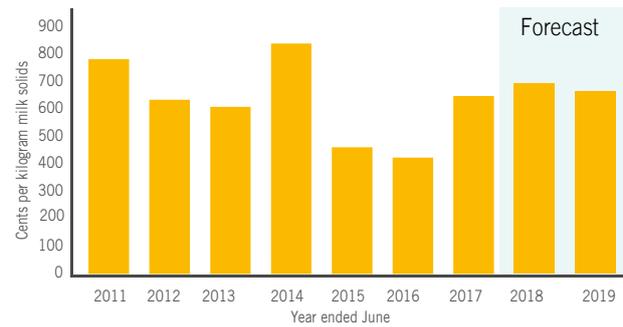
Source: Statistics New Zealand and MPI.

Figure 5: New Zealand monthly production



Source: Statistics New Zealand and MPI.

Figure 6: Average milk solids payment (including dividends) 2011–19



Source: Statistics New Zealand and MPI.

Poor spring weather affects production again

- A wet spring is expected to constrain New Zealand’s milk solids production for the second year in a row, leading to a 0.4 percent production fall for the 2017/18 season. This is a turnaround from the 2.2 percent production increase we previously forecast.
- Production during the first four months of the season was in line with last year’s weather-impacted trend (see Figure 5). Although the peak months of October to December are expected to exceed the previous year’s production, we do not expect the season to end on as much of a high as it did last year because the exceptional autumn pasture growing conditions are unlikely to be repeated in 2018.
- There is some upside potential for our production forecast because growing conditions over much of the country have improved since early October, meaning pasture growth (and production) may recover through to the end of the calendar year. High soil moisture levels from the wet spring should increase pasture resilience in the face of a potentially dry summer. In addition, many farmers are better off financially after a solid 2016/17 season payout, so there will be more capacity to use supplementary feed if conditions warrant.

- As in the previous forecast, any future production growth is expected to be driven primarily by productivity improvements rather than rising cow numbers. Both price signals and the implementation of nutrient discharge limits designed to achieve water quality objectives should lead to stabilising dairy land use in the long term.

Domestic price outlook steady

- For the season ending May 2018, New Zealand’s all company average farm gate milk solids price forecast has increased slightly to \$6.93 per kilogram (including dividends where applicable), up from \$6.83 per kilogram three months ago.
- For the 2018/19 season, our milk solids price forecast falls to \$6.64 per kilogram because butter and WMP prices are forecast to fall from current highs. An expected rise in New Zealand production will also have a downward influence on WMP prices, and hence the farm gate milk price.

Table 4: Dairy farm production, milk prices, and exports 2013–19

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Milk solids production (million kg)	1,658	1,825	1,890	1,862	1,851	1,845	1,885
Milk price (cents per kg of milk solids)	608	840	461	424	648	693	664
Total export value (\$ million)	13,139	17,791	14,050	13,289	14,638	16,840	16,880
Total export volume (thousand tonnes)	2,942	2,980	3,046	3,232	3,279	3,255	3,330
Average export price (\$ per kg)	4.47	5.97	4.61	4.11	4.46	5.15	5.05

Source: MPI, Statistics New Zealand, DairyNZ.
Note: Some totals may not add due to rounding.

HIGH-VALUE OPPORTUNITIES IN CHINA

Many of New Zealand's major dairy markets have grown over the past year, including:

- Algeria importing more WMP in 2017;
- Australia continuing to increase infant formula imports; and
- Russia lifting some restrictions on New Zealand dairy exports (imposed in the wake of the WPC contamination incident in 2013) leading to a significant uptick in butter exports to this market.

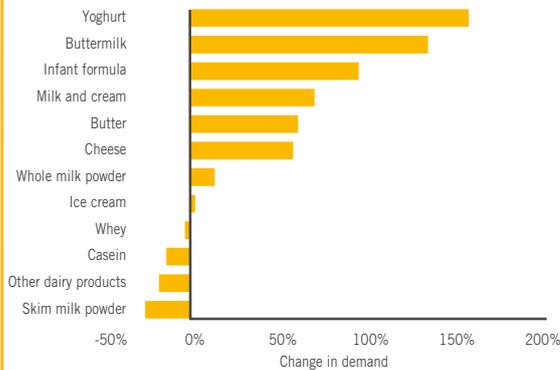
Despite the strong growth seen in other markets, China remains both our fastest growing market (by value) and the largest single opportunity for increasing future dairy exports. New dairy products in China from New Zealand are increasingly targeted

towards high-value products such as yogurt and liquid milk.

As shown in Figure 8, almost two-thirds of new dairy products launched in China are yoghurt-based, reflecting the trend towards yoghurt. Approved marketing claims revolving around improving digestive health and reduced sugar content seem to be resonating with Chinese consumers.

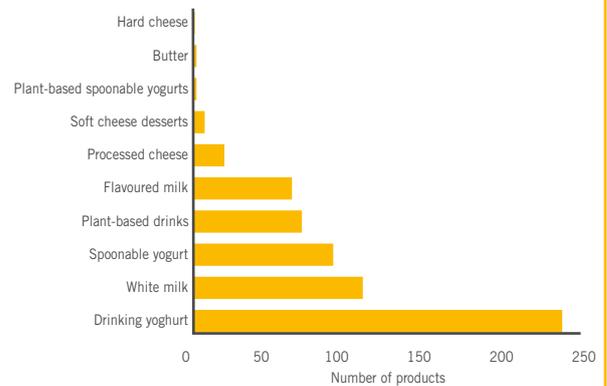
In addition, forecasts suggest that Chinese yoghurt consumption is going to surpass that of liquid milk and cream by 2021. This expected growth provides opportunities for New Zealand exporters to capture value by diversifying their product offerings to include yoghurt products.

Figure 7: Change in China's dairy imports June years 2015–17



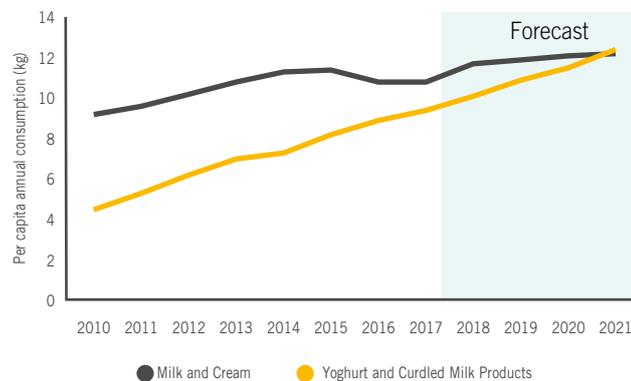
Source: Global Trade Atlas.

Figure 8: New dairy products released in China May 2017–November 2017



Source: Mintel.

Figure 9: Chinese milk and yoghurt consumption 2010–21



Source: Statista, May 2017.



Overview

Meat and wool export revenue is forecast to increase 4.2 percent to \$8.7 billion in the year ending June 2018, supported by strong red meat prices and increasing exports of value-added products. Red meat prices are expected to be buoyed by low sheep meat production in both New Zealand and Australia, while strong US demand for New Zealand beef should support both high export prices and solid schedule prices for farmers over the coming year. In addition to increased revenue from more mainstream meat products, we also forecast continued growth for high value products like deer velvet and animal blood products as increased processing capacity is established to respond to international demand.

Higher lamb and mutton prices forecast to continue

- Lamb export revenue is expected to rise to \$2.6 billion in the year ending June 2018. This forecast has been revised upward from the previous forecast because the global market has continued to improve and the outlook for Australian production has decreased.
- New Zealand lamb production is expected to remain near 2017 levels in 2018 and 2019. Lamb production in the year ending June 2018 is forecast to remain relatively stable at 355 thousand tonnes, with both slaughter weights and volumes falling slightly (Table 6).
- Australia and New Zealand combine to account for 82 percent of global sheep meat exports, and lower production in both countries has supported good lamb and mutton prices over the past year, as shown in Figure 10. Australian production volumes are expected to stay low over the outlook period as farmers rebuild flocks following a recent drought, placing upward pressure on global lamb prices.
- With limited scope for production growth from major exporters this year, average export prices of \$8.95 per kg are expected to be sustained through 2018, with farmgate prices approaching 600 cents per kg.

Table 5: Meat and wool export revenue 2013–19 (\$NZ million)

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Beef & veal	2,143	2,199	2,980	3,096	2,706	2,700	2,720
Lamb	2,263	2,485	2,504	2,569	2,441	2,640	2,630
Mutton	395	488	418	419	417	440	430
Wool	678	733	805	760	522	510	540
Venison	171	187	174	182	162	180	160
Other meat*	435	438	466	503	513	550	580
Hides & skins	608	625	571	510	417	460	490
Animal by-products	517	489	578	598	587	650	680
Animal fats & oils	162	130	118	125	156	150	150
Animal products for feed	229	209	216	247	273	290	290
Carpets & other wool products	193	178	172	192	163	140	140
Total exports	7,793	8,163	9,001	9,201	8,356	8,710	8,820
% Change	+0.2%	+4.7%	+10.3%	+2.2%	-9.2%	+4.2%	+1.3%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other meat includes: edible offal, processed meat, and poultry.

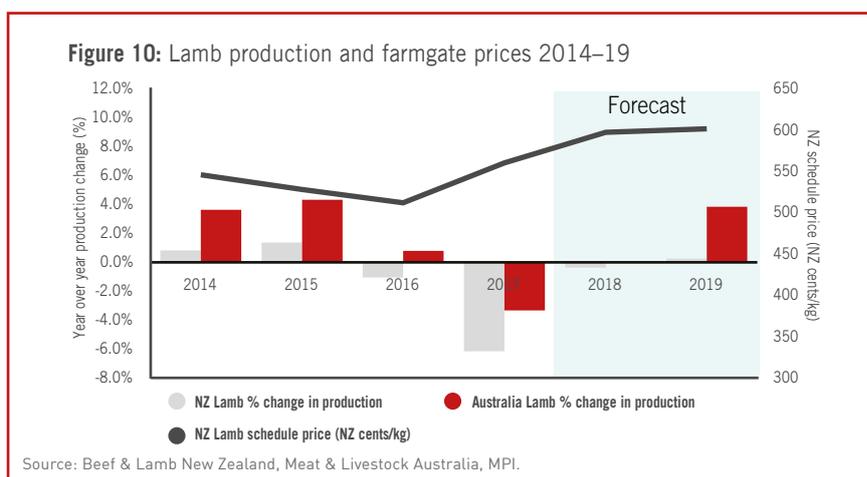


Table 6: Lamb prices, export volumes and values, 2013–19

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016*	2017	2018	2019
Schedule lamb price (cents/kg)	477	546	528	512	560	595	600
Production (000 tonnes)	376	379	384	380	357	355	355
Export volume (000 tonnes CWE)*	359	351	344	372	343	345	345
Export volume (000 tonnes PW)**	314	306	298	320	292	295	295
Export price (NZ\$/kg PW)	7.21	8.11	8.41	8.02	8.37	8.95	8.90
Export value (NZ\$ million)	2,263	2,485	2,504	2,569	2,441	2,640	2,630

Source: Statistics New Zealand, Beef + Lamb New Zealand and MPI.

* Carcass-weight equivalent of shipped product weight.

** Product weight as shipped.

Global beef markets well-balanced

- Beef production is forecast to be 630 thousand tonnes in the year ending June 2018, down slightly from the previous year. This reflects steady beef cattle numbers but slightly lower cow culls expected from the dairy industry.
- Despite a small production fall, beef and veal export revenue is forecast to be little changed from 2017 to 2018 at \$2.7 billion, with slightly higher prices being offset by slightly lower volumes.

- Beef exports to the US are expected to remain strong due to rising per capita beef consumption, and hence good demand for imported manufacturing beef from New Zealand. While these levels are well below 2015 and 2016 (when US production temporarily fell) the US is expected to remain New Zealand's primary market, especially for manufacturing beef.
- Consistent demand from the US, China, and other key markets is expected to keep average beef export prices near current levels, and this should flow through to farmgate prices. Schedule prices for prime beef are forecast to remain near 540 cents per kg over the 2017/18 season.



Table 7: Beef prices, export volumes and values, 2013–19

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016*	2017	2018	2019
Schedule prime beef price (cents/kg)	400	403	492	539	541	540	535
Production (000 tonnes)	627	626	676	673	640	630	640
Export volume (000 tonnes CWE)*	536	544	599	615	563	555	565
Export volume (000 tonnes PW)**	374	380	420	430	395	390	395
Export price (NZ\$/kg PW)	5.73	5.79	7.10	7.20	6.85	6.90	6.90
Export value (NZ\$ million)	2,143	2,199	2,980	3,096	2,706	2,700	2,720

Source: Statistics New Zealand, Beef + Lamb New Zealand and MPI.

* Carcass-weight equivalent of shipped product weight.

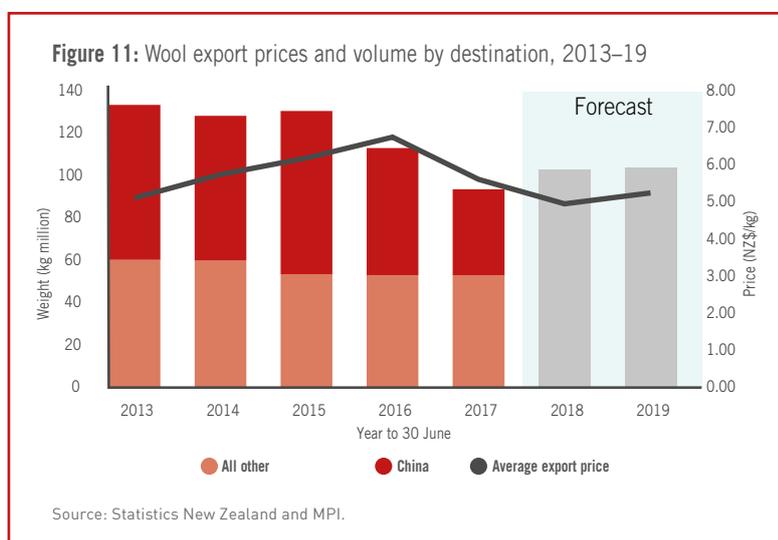
** Product weight as shipped.

Wool outlook remains subdued

- The wool market remains subdued, with little international demand to boost traded volumes or prices. As Figure 11 shows, low Chinese demand in particular has limited New Zealand wool exports.
- Wool production is forecast to stabilise near current volumes, but export volumes are expected to increase over the next two years as domestic stocks are gradually cleared out.
- In contrast, fine wool export prices (currently 8 percent of New Zealand’s wool export volume) have risen nearly 20 percent over the past year and are approaching record levels.

Diversifying markets push venison prices higher

- Venison exports are forecast to increase 11 percent to \$180 million in 2018, driven by stable production volumes and rising prices. So far this spring, farmgate and export prices are significantly higher than the previous year. If this trend continues, it will be the third straight year of strong price growth for venison.
- Venison export revenue to the US has grown rapidly over the past two years, and the US is now the leading destination by volume and a close second (to Germany) for value at \$37 million in the year ended June 2017.
- In addition to increasing demand for venison, the positive sentiment surrounding the velvet market (see next section), is also driving confidence in the industry that this will translate into stabilised livestock numbers and venison production.



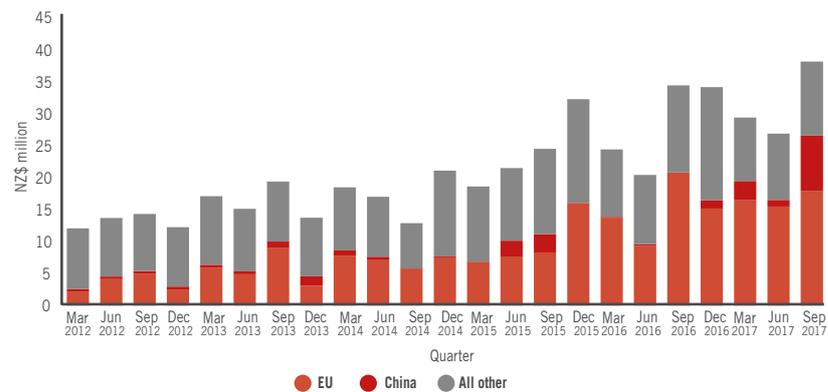
Animal co-products adding value

- Animal co-products are forecast to grow 11 percent in the year ending June 2018 to \$650 million. This expectation is based on further expansion of deer velvet and animal-based blood products, both high value products with robust demand.
- Velvet exports are building on a record \$59 million in exports in 2017. Demand from South Korea and China is changing to include velvet in health foods in addition to velvet's more common use in traditional medicine. The industry has also invested in upgraded facilities over the past year to meet new

export regulations, which assure quality and continued market access. New Zealand's velvet production in 2017/18 is expected to be similar to last season, based on a steady stag population.

- Having increased from \$53 million in 2012, to \$125 million in 2017, animal-based blood products are a rapidly growing export category for New Zealand. This is aided by recent investments in processing facilities, renewed market access to China following a two year hiatus for commercial quantities of bovine blood products, and strong global demand for pharmaceutical products such as bovine serum albumin.

Figure 12: Quarterly blood export revenue by destination 2012–17



Source: Statistics New Zealand and MPI.



Source: Statistics New Zealand

Forestry

Overview

New Zealand's forestry industry is forecast to continue breaking harvest and export records as strong Chinese and domestic demand fuels rising prices. This is expected to drive forestry exports up 3.2 percent over the year ending June 2018, to \$5.7 billion. In addition to rising log exports, sawn timber exports are also forecast to continue growing as US construction activity increases. The sector hopes to see a boost in planting over the next few years, as the Government is evaluating options to incentivise the planting of an additional 1 billion trees over the next 10 years. This additional planting, of both commercial and permanent trees, would provide environmental benefits including reducing New Zealand's net greenhouse gas emissions, and the commercial planting would reach maturity in 25-30 years.

Log exports continue

- New Zealand's log harvest reached a record high of 31.4 million cubic metres in the year ended June 2017. Harvest volumes are expected to rise further to 31.8 million cubic metres in 2018 (Figure 13).
- Strong Chinese demand continues to be the main driver behind record harvest levels and export volumes. The September 2017 quarter continued this growth trend, with exports of \$765 million for the quarter getting the June 2018 year off to a good start.
- With a large volume of trees planted in the 1990s currently reaching maturity, the sector is well-placed to meet this demand.
- Inventories of New Zealand logs at China's main ports have been tracking at relatively low levels, indicating continued demand for New Zealand logs. This is mainly driven by high levels of construction activity in China, especially in tier two and three cities.
- Despite this, there are some risks that the pace of log exports may slow in the short- to medium-term due to:
 - the Chinese Government starting to take action against a number of processing mills that are not complying with new environmental protection standards, potentially constraining processing capacity in the short run while driving industry consolidation in the long run;
 - recent changes in China's financial regulation policies that have restricted access to capital for many industries, potentially curtailing construction activity growth.

Table 8: Forestry export revenue, 2013–19 (\$NZ million)

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Logs	1,855	2,541	2,060	2,224	2,687	2,800	2,870
Sawn timber & sleepers	880	885	779	893	868	910	940
Pulp	547	606	631	687	655	680	660
Paper & paperboard	510	477	470	518	484	480	480
Panels	436	407	451	512	476	460	460
Chips	67	51	52	64	59	60	60
Other forestry products*	232	233	240	243	252	260	260
Total	4,527	5,199	4,683	5,140	5,482	5,660	5,730
% Change	+4.5%	+14.9%	-9.9%	+9.8%	+6.7%	+3.2%	+1.2%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other forestry products include: structural or moulded wood, furniture, and prefabricated buildings.

- Log exports are forecast to reach \$2.8 billion by 2018 due to continued Chinese demand and a recovery in log demand from India (after GST reform and demonetisation).

- increased US construction activities resulting from strong economic growth and rebuilding after the recent hurricanes in Texas, Florida, and Puerto Rico.

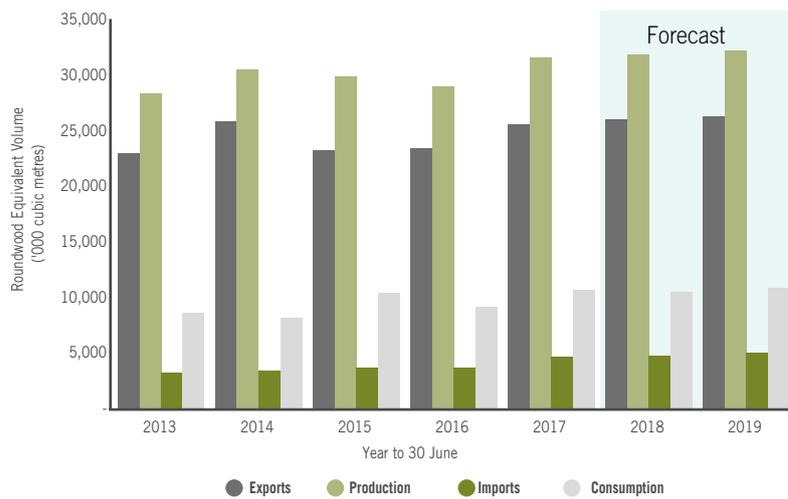
Sawn timber exports expected to grow

- Timber production is expected to increase over the outlook period due to rising domestic residential construction.
- In addition to strong domestic demand for timber (illustrated in the consumption figures in Figure 13), timber exports are forecast to grow 4.8 percent from \$868 million in the year ended June 2017 to \$910 million in 2018.
- New Zealand’s timber exports to the US are currently at their highest level since the Global Financial Crisis and are expected to remain firm due to:
 - constrained timber supply to the US market from Canada due to the US’s imposition of duties on Canadian lumber shipments and restricted Canadian production as a result of wildfires and a Pine Beetle infestation. This could open doors for the US’s other timber suppliers including Germany, Brazil, and New Zealand;

Pulp and panel exports to continue near current levels

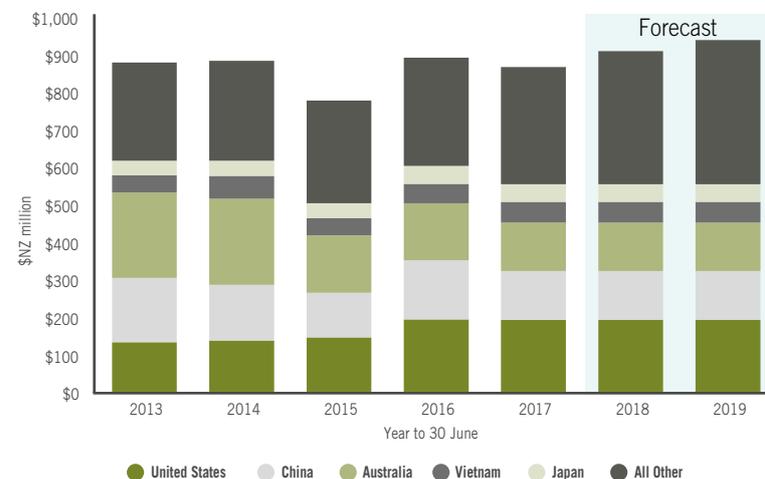
- Pulp and panel exports are expected to be relatively flat over the outlook period, with an increase in pulp exports to offset lower panel exports.
- Pulp exports are forecast to rise to \$680 million in the year ending June 2018, up 3.8 percent from the previous year. Consistent demand for packaging material, trays and tissue papers, especially from China and emerging markets, is driving this expected increase.
- New Zealand’s panel exports have been relatively stable for the past couple of years, but are expected to decline 3.4 percent to \$460 million in 2018. Japan takes around 40 percent of New Zealand’s panel exports, and slowing construction activity in that market has limited demand for panel imports.

Figure 13: Forestry Production, Exports, Imports and Implied Consumption 2013–19



Source: MPI and Statistics New Zealand.

Figure 14: Sawn timber export revenue by destination, 2013–19



Source: MPI and Statistics New Zealand.

Horticulture

Overview

The horticulture industry's strong growth is forecast to continue over the outlook period, with exports expected to reach \$5.4 billion for the year ending June 2018 before rising to \$5.6 billion in the following year. Strong overseas demand for high quality products like gold kiwifruit, wine (particularly sauvignon blanc in the US), and new apple varieties is expected to continue supporting strong prices across the sector. In addition, expanded planted areas for kiwifruit and apples are forecast to contribute to higher export volumes and revenue in the future.

Kiwifruit area expansion encouraged by success of Gold3

- Kiwifruit exports are forecast to increase 7 percent to \$1.8 billion for the year ending June 2018. With increased plantings of gold varieties expected over the next few years, production and export volumes are forecast to continue expanding over the outlook period.
- Production levels on gold orchards have mostly matured after transitioning to the highly productive Gold3 cultivar following the bacterial vine-killing disease Psa, bringing the total area producing gold kiwifruit to over 4,800 hectares.
- In 2016 and 2017, 800 hectares of new Gold3 licences were released, and a further 750 hectares are scheduled to be released in 2018, 350 hectares more than initially planned. Similar releases are scheduled for upcoming years to meet forecast demand.
- Gold export value is forecast to overtake green kiwifruit in 2018, with export volumes of gold overtaking green by 2021 as the new gold plantings continue to mature.
- Global kiwifruit prices remain strong. The reduced green crop is expected to have a positive effect on prices, while demand for gold kiwifruit in the largest markets of China, the EU and Japan is forecast to continue rising.
- Green kiwifruit yields have returned to normal levels following two years of record yields that were driven by favourable climatic conditions. Production is expected to be relatively stable over the next two years, at around 70 million trays per year. Green volumes are expected to decrease slightly, with around half of the anticipated release of gold kiwifruit licences expected to be grafted onto existing green rootstock.

Table 9: Horticulture export revenue, 2013–19 (\$NZ million)

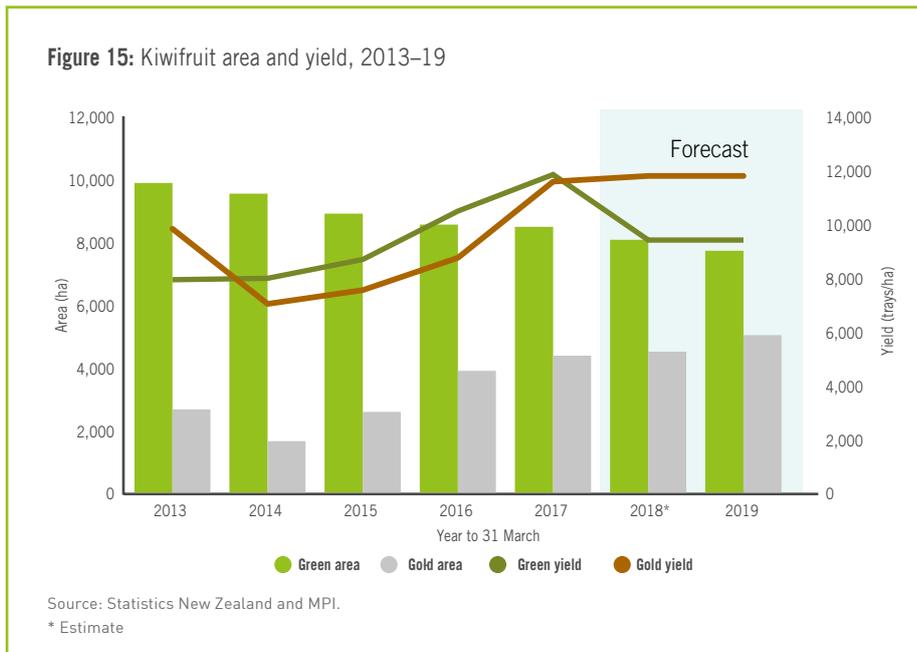
Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Kiwifruit	934	931	1,182	1,673	1,664	1,780	1,800
Wine	1,204	1,323	1,408	1,558	1,660	1,730	1,800
Apples & pears	484	547	571	701	701	750	810
Fresh & processed vegetables**	600	606	588	612	614	670	670
Other horticulture*	325	400	438	458	513	480	550
Total exports	3,547	3,807	4,187	5,002	5,152	5,420	5,620
% Change	-0.4%	+7.3%	+10.0%	+19.5%	+3.0%	+5.2%	+3.7%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other horticulture includes: avocados, cherries, other fruit, and ornamentals.

** Fresh and processed vegetables include: squash, peas, legumes, potatoes, sweetcorn, and other vegetables.



Apple and pear sector continues to expand

- The 2017 apple and pear export season is largely completed, with exports expected to reach 345 thousand tonnes and \$690 million for the year ending December 2017.
- Looking ahead to the 2018 crop, apple and pear exports are expected to surpass 360 thousand tonnes in the year ending December 2018 due to an increase in planted area and improved yields compared with the 2017 crop. This volume of exports was last achieved in 2004.
- In the Hawke's Bay region (64 percent of New Zealand's orchard area), good early winter chill and the absence of any extended cold periods has fruit set and development running ahead of last year, and closer to normal timing for the region.
- Orchard replanting and new plantings are expected to continue, with expectations of the planted area reaching 11,000 hectares by 2021, up from around 10,000 hectares currently. Export volumes are forecast to increase over the outlook period but at a slower pace than in recent forecasts, based on recent trends in crop yields.
- Export price projections show a gradual lift in expected prices (in New Zealand dollar terms) based on on-going changes in variety mix and further expansion into higher-paying markets

including China, Thailand, and Vietnam. Price expectations for New Zealand apples and pears in 2018 are influenced by:

- recent in-market price increases in several European countries due to their lower domestic crop;
- the 2017 US apple crop estimated to be around 8 percent less than the prior year; and
- a lower New Zealand dollar against the euro and British pound compared with the 2017 exporting season.

Avocados coming off a record season

- The New Zealand avocado industry experienced its biggest ever season for both volume and value in the year to June 2017; export volumes reached 4.8 million trays with a value of \$148 million. Export volumes and values are driven by swings in the biennial bearing pattern of avocados and investment in developing new markets.
- The industry is investing in research to mitigate these swings in production to enhance industry sustainability. The current harvest falls on a down-year in the production cycle, and MPI forecasts export volumes of 2.6 million trays with a value of \$90 million for the year ending June 2018 before rebounding to 4.8 million trays and \$150 million in 2019.



IN-BOUND TOURISM AND WINE

- Tourism is currently New Zealand's second largest export by value, and is important to the New Zealand wine industry. Almost a quarter of international holiday visitors went to a winery during their stay in New Zealand.
- Recent growth in wine tourism is proving to be an excellent opportunity to showcase New Zealand's wines in the unique locations where they are produced. Research by New Zealand Winegrowers shows wine tourists spend more, stay longer and visit more regions than the average international tourist.

International holiday visitors



Source: New Zealand Winegrowers

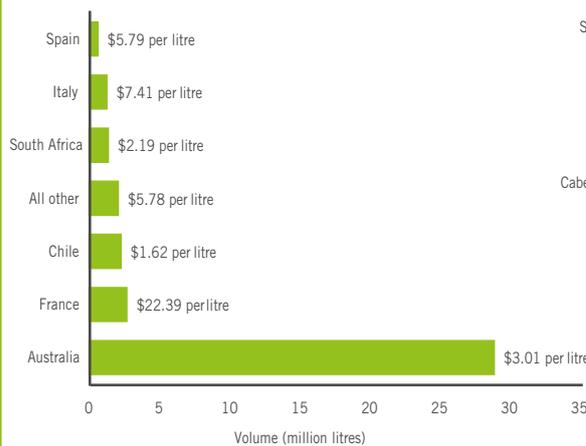
Wine export revenue forecast to increase despite lower volume

- International demand for New Zealand wine continues to grow, especially in the US market where our sauvignon blanc is very popular.
- Annual wine export revenue is forecast to exceed \$1.7 billion in 2018 despite lower export volumes, because the price per litre is expected to rise as a result of good demand and a decrease in the ratio of wine sent in bulk format. The lower export volumes forecast in 2018 reflect a smaller 2017 vintage and efforts by the Marlborough wine industry to accelerate sales in the months following the November 2016 earthquake.
- Predicted grape plantings of 3,000 hectares over the next three years reflect high industry confidence and will further support ongoing growth in wine exports and the domestic sector.
- The domestic market is an important sales outlet for our wine industry and opportunities exist to expand these sales given ongoing growth in wine tourism.

The domestic wine market

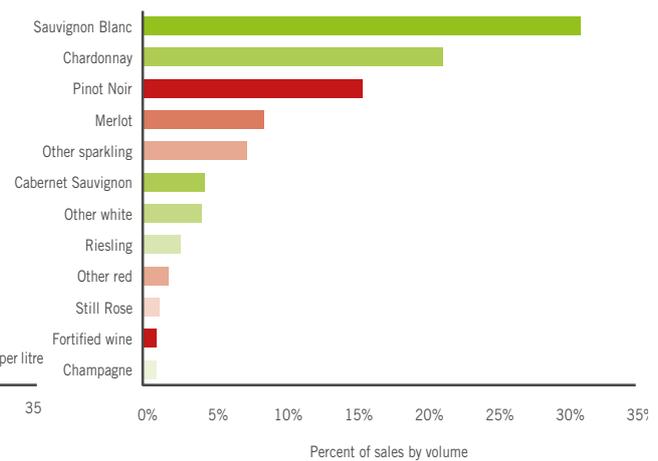
- Although off-shore markets represent the main sales outlet for New Zealand wine at 252 million litres, the domestic market is also an important sales channel, accounting for 54 million litres in the year to June 2017. In the domestic market, New Zealand wines sit alongside almost 40 million litres of imported wine during the year ended June 2017 (see Figure 16).
- Australia dominates wine imports by volume, representing almost three-quarters of all wine imported into New Zealand, while France stands out against other countries in terms of price per litre. The champagne wine category from France has shown strong growth in sales over the past five years reflecting increased efforts by this country to raise brand awareness and consumer appeal through strong promotional activity.
- As shown in Figure 17, sauvignon blanc and chardonnay dominate the still white wine category in the New Zealand domestic market, accounting for over 50 percent of total volume sales. Pinot noir dominates red wine sales.

Figure 16: New Zealand wine imports by country, year ended June 2017



Source: Statistics New Zealand.

Figure 17: Domestic wine sales by variety, calendar year 2016



Source: Euromonitor International June 2017.

Table 10: Wine export volumes, prices, and values 2013–19

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Export volume (million litres)	169.7	186.2	206.7	211.3	252.0	250.0	255.0
Export price (\$NZ/litre)	7.09	7.11	6.81	7.36	6.57	6.90	7.05
Export revenue (\$NZ million)	1,204	1,323	1,408	1,558	1,660	1,730	1,800

Source: Statistics New Zealand and MPI.



Overview

New Zealand's seafood export revenue is expected to grow 4.4 percent in the year ending June 2018, to \$1.8 billion, as both prices and volumes are forecast to rise. Volume increases will come primarily from increased aquaculture production as wild capture fisheries are subject to sustainability constraints. Limited supply is expected to continue contributing to rising prices for wild capture species as demand grows faster than available stocks.

Seafood production steady

- Currently, wild capture fisheries contribute 86 percent to total seafood export volumes and 77 percent to total seafood export values. New Zealand's most significant fisheries in terms of landed weight include hoki, jack mackerel, barracouta, southern blue whiting, and squid. These species make up more than 60 percent of the total catch.
- Catch volumes from wild capture fisheries show some annual fluctuations due to biological and environmental factors, but there is limited scope for continued volume growth from wild capture fisheries due to sustainability constraints. Therefore, export volume growth from wild capture fisheries is expected to remain steady (at under 1 percent per year) during the outlook period.
- Aquaculture production is dominated by mussels, followed by salmon and oysters. Aquaculture production is not officially reported, but industry estimates have been in the range of 100 to 110 thousand tonnes in recent years.
- Aquaculture is expected to be the main driver of seafood export volume growth due to salmon farm expansion in the Marlborough Sounds and increased mussel production supported by hatchery-bred mussel spat. Aquaculture export volumes are forecast to grow by 5.7 percent per year during the outlook period.

Export prices forecast to grow because of limited global supply

- Key seafood export markets continue to be China (31 percent of the total export value), Australia (14 percent), Europe (14 percent), the US (13 percent) and Japan (7 percent). Currently, these markets make up nearly 80 percent of the total seafood export value for New Zealand.

Table 11: Seafood export revenue, 2013–19 (\$NZ million)

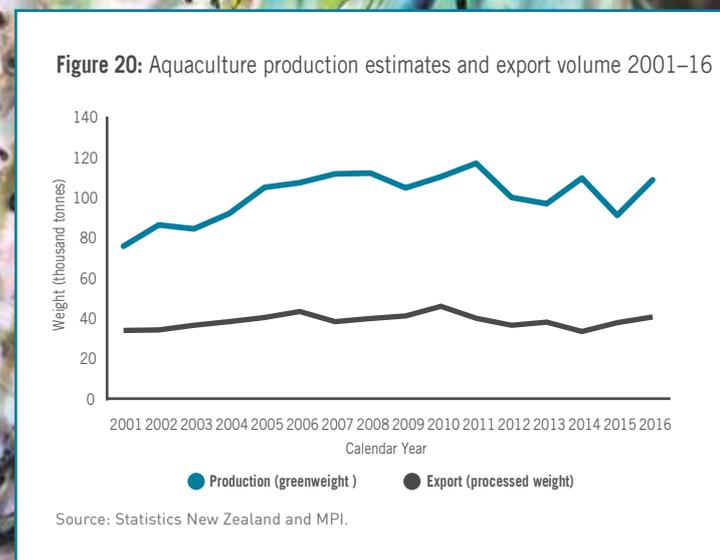
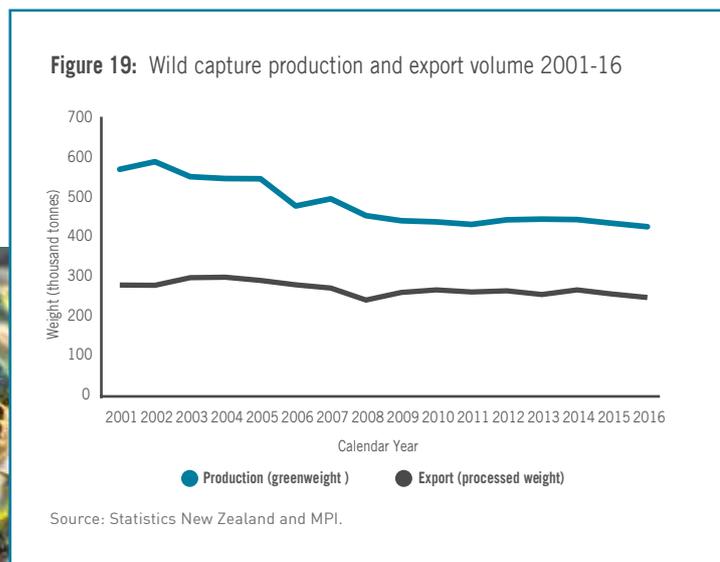
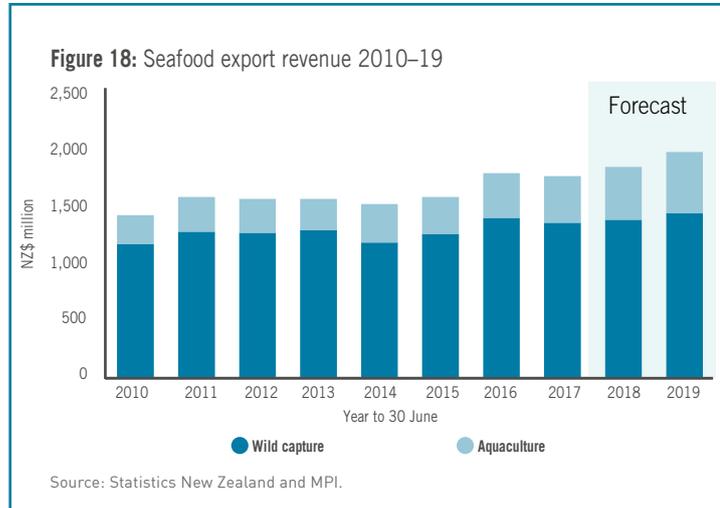
	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Wild capture	1,272	1,168	1,242	1,380	1,338	1,360	1,420
Aquaculture	274	332	321	388	406	460	530
Total	1,546	1,500	1,562	1,768	1,744	1,820	1,950
% Change	–	–2.9%	+4.1%	+13.2%	–1.4%	+4.4%	+7.1%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

- Seafood prices increased by 8 percent in US dollars for the year ended June 2017. Species that performed well included hoki, squid, salmon, tuna, toothfish, and paua. These increased prices were eroded by a nearly 7 percent appreciation of the New Zealand dollar against the US dollar.

- In addition to exchange rate considerations, prices are expected to remain strong given the positive economic outlook for New Zealand's main export markets and the prospect of limited global supply, particularly for wild capture fisheries. As a result, seafood export prices (in New Zealand dollars) are expected to increase by 2.8 percent during the outlook period.





Overview

A strong rise in vegetable seed exports early in the June 2018 year is expected to support a 12 percent increase in arable export revenue over the year ending June 2018. In the domestic market, increased demand for feed grain from an improving dairy sector has driven feed grain prices up \$100 to \$120 per tonne higher than a year ago, boosting some arable farmer's earnings this year and incentivising additional planting.

Wet weather slows grain planting progress

- Spring planting of cereal crops was delayed by wet weather. This followed a wet autumn which led to the delay of some planting in the hope that spring conditions would be more suitable. When conditions finally improved from late September, a flurry of planting occurred. The planting delay reduced crop rotation choices, resulting in more barley being planted than anticipated, and a shortage of some barley seed varieties.
- The October 2017 Arable Industry Marketing Initiative (AIMI) survey shows that the planted area in the six main cereal crops is expected to be up 19 percent on last season (from 108,200 hectares to 128,700 hectares)¹. A 59 percent increase in the planted area of feed barley is the main contributor.
- Maize planting was also delayed by the prolonged wet period, particularly in Waikato and Manawatū. Gisborne and Hawke's Bay were not so badly affected. Fine weather in October allowed planting to catch up but the delay will lead to a late harvest for the main maize crop.
- Vegetable seed crops planted in autumn are reported to have come through winter well. The wet spring delayed the planting of the spring-grown crops such as Asian brassicas and radish.

Grain prices rise with dairy demand

- Domestic grain prices plateaued in October following steady growth since November 2016. Unsold stocks of feed grain were estimated at 25,500 tonnes of feed wheat and 45,200 tonnes of feed barley. Compared with last year, this is down for feed wheat and up for feed barley.
- Contracting for the 2017/18 harvest has been slow with wheat buyers reluctant to pay the current contract price of \$380 per tonne and the expectation of greater barley production this season pushing contract

¹ Six main cereal crops: Milling wheat, feed wheat, feed barley, malting barley, milling oats and feed oats.

Table 12: Arable export revenue, 2013–19 (\$NZ million)

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Vegetable seed	80	66	62	74	64	85	80
Ryegrass seed	68	55	49	46	46	45	45
Clover/legume seed	21	20	22	20	23	25	25
Other grains and seeds*	59	91	48	70	63	65	65
Total	229	232	181	210	197	220	220
% Change	+25.6%	+1.2%	-21.6%	+15.6%	-6.0%	+11.6%	-

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other grains and seeds include: maize, grains, and oilseeds.

prices down to \$350 per tonne. Barley growers are reluctant to accept contracts at that price when spot prices are \$390 per tonne.

- However, the AIMI survey of cereal areas and volumes estimates that the percentage of feed crop hectares “forward sold” is 46 percent for feed wheat, 43 percent for feed barley and 26 percent for feed oats, which except for oats is higher than the same time last year. For the other crops, the hectares “forward sold” is estimated to be 90 percent for malting barley, 78 percent for milling oats and 43 percent for milling wheat.
- International grain supplies are also expected to keep domestic prices in check. International supplies are expected to be plentiful with total world grain production for 2017/18 forecast to be second only to last season’s record. A forecast increase in total consumption should lead to some depletion of ample world stocks at the end of 2017/18, the first fall in five years.

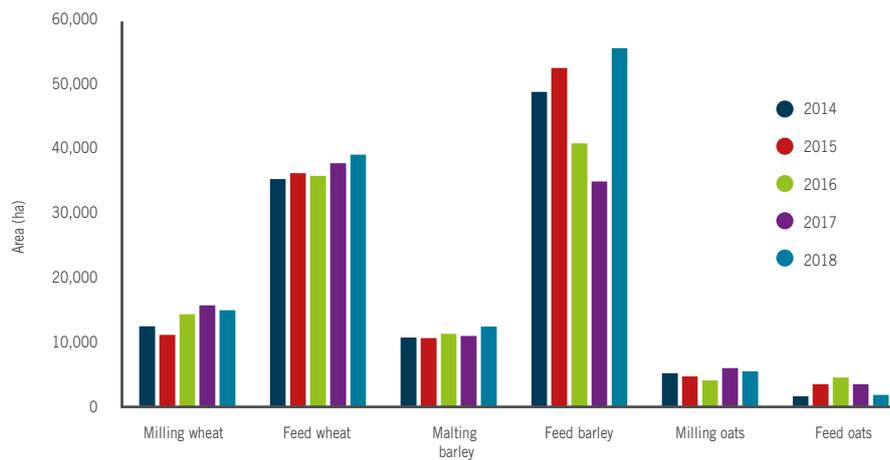
Vegetable seed exports increase

- Seed export returns for the September 2017 quarter were \$78 million, a record for a September quarter and

\$33 million more than September 2016. Export values were up for all four export categories, compared with the September 2016 quarter, with vegetable seeds the main contributor to the increase. As a result, the forecast for arable export revenue has increased by \$15 million to \$220 million for the year ending June 2018.

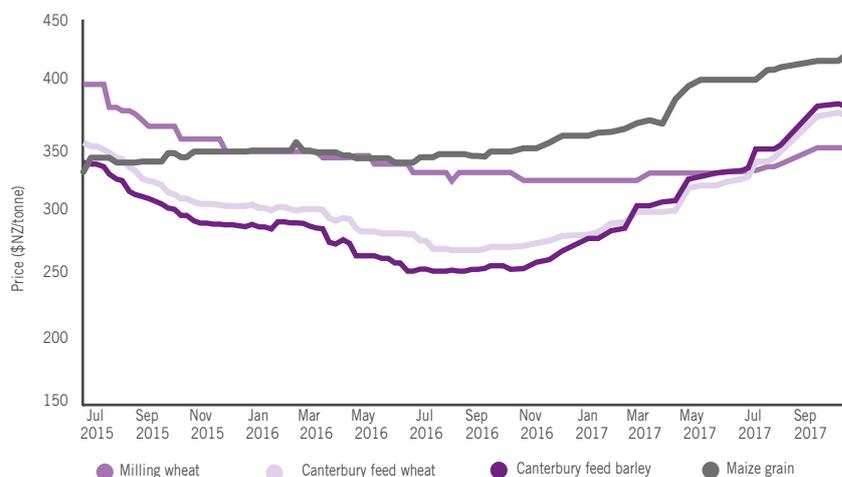
- Higher yields for carrot seed compared with 2016 drove the increase in vegetable seed export revenue. Carrot seed export volumes for the 2017 June and September quarters combined were up 128 percent compared with 2016, with an increased value of \$13 million.
- An improvement in export volumes for clover and ryegrass seed has been seen over the past few quarters but prices have continued to decline. European demand for ryegrass seed is starting to lift as stocks are run down. However, competition with cheaper production out of Eastern Europe and South America and a high NZD at the time of contracting has led to lower export contracts than last season.
- Demand for clover seed is reported to be steady. Domestic demand for herbage seeds is improving in line with milk and stock prices, although with the wet season bolstering grass growth, a lot of regrassing was put on hold.

Figure 21: Arable sowings and sowing intentions as at 10 October, 2017



Source: Foundation for Arable Research, AIMI Survey of cereal areas and volumes, October 2017.

Figure 22: Domestic Spot Grain Prices 2015–17



Source: AgriHQ.

Other primary sector exports

Overview

Exports of other primary sector products and foods continue to grow and are forecast to reach \$2.7 billion for the year ending June 2018, up 5.8 percent from the previous year. This diverse sector includes honey, live animals and processed foods such as breakfast cereals, pasta, tomato sauce and spices. Innovative processed foods, including health products and dietary supplements, and honey are expected to drive most of the forecast growth in this sector over the outlook period.

Honey exports regain momentum

- Strong honey exports in the September 2017 quarter provide a solid platform for exports to reach \$350 million for the year ending June 2018. Export volumes are expected to rebound following a drop in honey export volumes over much of the June 2017 year.
- A surge in exports to China in the June 2017 quarter has continued into the September 2017 quarter. Exports to China and Australia are starting to pick up, with exports to these two countries in the September 2017 quarter more than double that of the September quarter last year. Exports to the United Kingdom and Japan are also continuing at the higher levels seen in recent quarters.
- New Zealand honey production for the year to June 2017 has been estimated at 14,855 tonnes, down 25 percent on the previous year. Significant periods of unsettled weather, above average rainfall, and cool temperatures, particularly in the western and central areas of the North Island and the West Coast of the South Island, were the main reasons for this decline.

Table 13: Other primary sector export revenue, 2013–19 (\$NZ million)

Year to 30 June	Actual					Forecast	
	2013	2014	2015	2016	2017	2018	2019
Innovative processed foods	341	332	471	681	664	770	740
Honey	145	187	233	315	329	350	340
Sugar & confectionery	263	290	293	312	305	310	310
Cereal products	264	255	255	274	282	300	290
Live animals	238	208	370	242	274	260	270
Soup & condiments	196	192	183	187	186	190	190
Other products*	489	444	508	601	492	500	530
Total	1,936	1,908	2,314	2,612	2,532	2,680	2,660
% Change	+9.2%	-1.4%	+21.2%	+12.9%	-3.0%	+5.8%	-0.7%

Source: Statistics New Zealand and MPI.

Note: Some totals may not add due to rounding.

* Other products include: beverages, vegetable-based dyes, and spices.

Table 14: Honey production, prices, export volumes, and values 2013–17

Year to 30 June	2013	2014	2015	2016	2017
Honey production (tonnes)	17,825	17,610	19,710	19,885	14,855
Export volume (tonnes)	8,054	8,702	9,046	8,831	8,450
Average export price (\$NZ/kg)	17.99	21.45	25.77	35.62	38.92
Export revenue (\$NZ thousands)	144,858	186,629	233,117	314,512	328,818

Source: Statistics New Zealand and MPI.

Innovative processed foods exports expanding again

- Exports of innovative processed foods are beginning to grow after remaining steady for much of 2017, with exports to many of our key markets increasing significantly in the September 2017 quarter. Exports to Hong Kong tripled while exports to Australia and Singapore almost doubled.
- This category includes products with strong growth potential, such as dietary supplements and health products, that are part of a growing sector of consumer demand in China and the rest of Asia.
- Rising demand is expected to drive exports in this category up to \$770 million for the year ending June 2018.

Cereal product exports to Australia gain strength

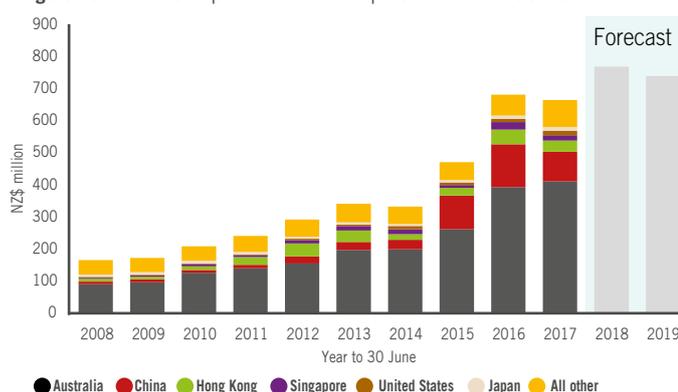
- Cereal product exports, which include breakfast cereals and biscuits, continue to show steady growth. Export revenue is forecast to increase 6 percent in the year ending June 2018 to \$300 million. Exports to Australia have been expanding as the NZD has fallen against the Australian dollar, and this benefit is expected to continue through 2018.

- Our main export partner is Australia at 76 percent of exports in the year ended June 2017. China is our next most important export partner for these products.
- New Zealand is a net importer of cereal products. Imports were valued at \$434 million in 2017, and the main import partners are Australia (\$232 million), Thailand (\$38 million) and China (\$32 million).

Remaining categories steady

- Export revenue from beverages and other products is expected to remain fairly stable over the year ending June 2018, at around \$500 million.
- Similarly, exports of soups, condiments, sugar, and confectionery are also expected to remain steady at around \$500 million.
- Exports of live animals are expected to drop slightly in the year ending June 2018 to \$260 million (down 5 percent). This drop represents numbers of live horses and cattle being exported returning to more normal levels following a peak in 2017.

Figure 23: Innovative processed food export revenue 2008-19



Source: Statistics New Zealand and MPI.

79.2%

of exports

Over 79 percent of New Zealand's merchandise exports are from the primary sectors. This ratio has increased from just 73 percent in 2012. This shows that the primary sector is as central as ever to New Zealand's balance of trade and economic well-being.



15%

of employment

A significant proportion of New Zealand's labour force is employed in primary production, processing, and support services. Tasman, Marlborough, Gisborne, and Hawke's Bay have the highest proportion of the workforce employed in the primary sectors.



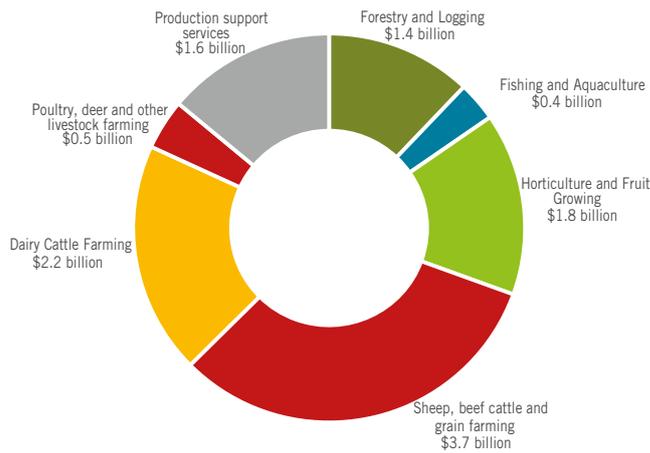
10.5%

of GDP

The primary industries are a significant contributor to New Zealand's GDP, with an estimated \$24.1 billion in value added to the economy in 2016. This value is split between primary production (\$11.5 billion) and processing (\$12.6 billion).

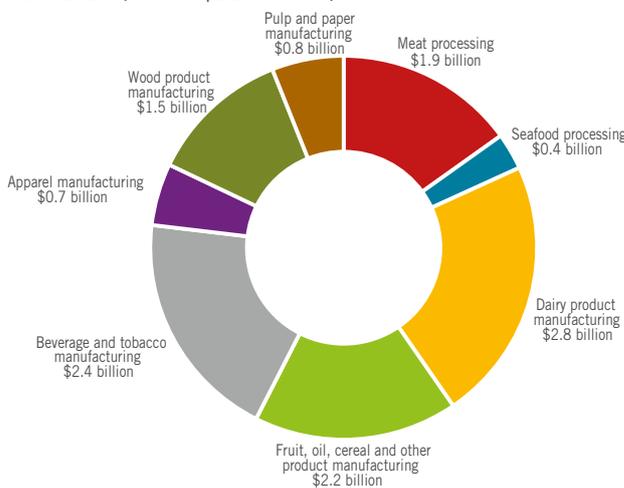


Figure 24: Primary industries – Production contribution to GDP 2016 (Total = \$11.5 billion)



Source: Statistics New Zealand and MPI.

Figure 25: Primary industries – Processing contribution to GDP 2016 (Total = \$12.6 billion)



Source: Statistics New Zealand and MPI.



More primary industry data can be found on the MPI website:
www.mpi.govt.nz/news-and-resources/open-data-and-forecasting/

SOPI supplemental data

- Historical and forecast export volumes, values and prices

Agriculture

- Agriculture production statistics
- Livestock slaughter statistics

Forestry

- Wood Availability Forecast
- National Exotic Forestry Description
- Quarterly production and log prices

Agricultural Greenhouse Gas Inventory

Fisheries

- MPI reports on the status of fish stocks and fisheries in New Zealand waters

Farm monitoring links

- DairyNZ Economic Survey 2015-16 (DairyNZ)
www.dairynz.co.nz/publications/dairy-industry/dairynz-economic-survey-2015-16/
- Sheep & beef farm survey reports (Beef + Lamb New Zealand)
www.beeflambnz.com/data-tools/sheep-beef-farm-survey
- 2017 Vineyard benchmarking report Marlborough
www.mpi.govt.nz/document-vault/19916
- 2016 Viticulture Gross Margin Benchmarking Report
www.mpi.govt.nz/document-vault/13353
- 2016 Kiwifruit Benchmarking Report
To be published
- 2016 Pipfruit Monitoring Report
www.mpi.govt.nz/document-vault/15292
- 2016 Apiculture Monitoring Report
www.mpi.govt.nz/document-vault/16621



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