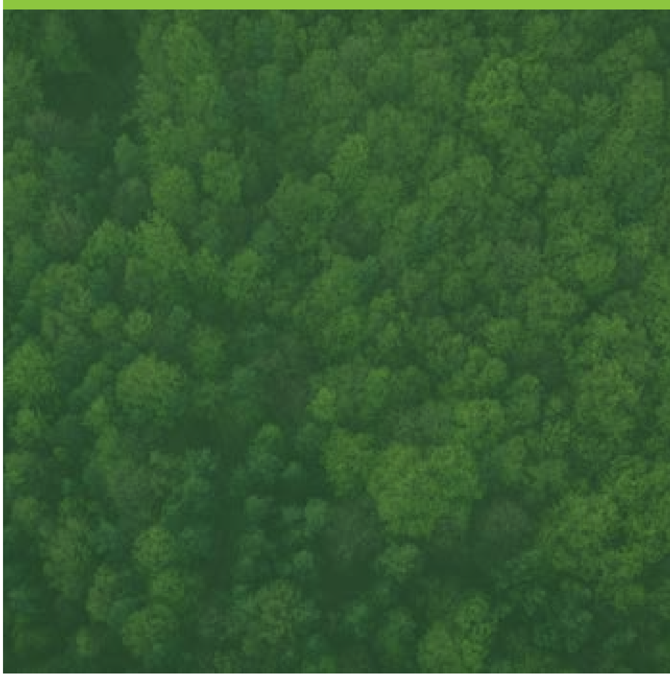
SOPI

Situation and Outlook for Primary Industries

September

2019



Ministry for Primary Industries
Manatū Ahu Matua

Overview

At $46.4 billion, primary industry export revenue for the year ended June 2019 was up 8.7 percent from the previous year. This was supported by strong production seasons for both the livestock sector and horticulture, record log prices and harvest volumes, and a weak New Zealand dollar (NZD).

Export revenue for the season that's just begun is forecast to drop 0.5 percent to $46.2 billion. While prices are expected to remain high for most products, lower export volumes are forecast in most sectors. Dairy and red meat volumes are expected to drop after benefiting from above-average pasture growth last season, and lower log prices are expected to drive a decrease in forestry production and exports.

Brexit and trade tensions between the US and China continue to be a concern for global trade, but so far New Zealand's primary sectors have been able to continue growing exports on the whole. Part of that is due to global food demand generally running ahead of supply, particularly in China, and a lower NZD increasing the competitiveness of New Zealand exporters.

Meanwhile, log export prices fell 17 percent from May to $141 per cubic metre FOB in July, caused by sharply lower prices in China. Overall this does not appear to be a result of falling demand within China, but rather large volumes of log and timber imports from New Zealand, Russia, and Europe over the past 6 months. This has created a backlog of supplies in China that will take some time to work through before prices can recover. In addition, harvest volumes are likely to fall in response to these lower prices, especially for more price-sensitive small woodlots. As a result, forestry export revenue has been revised down from the previous forecast by $1.0 billion for the year ending June 2020.

In the meat and wool sector, the impacts of African swine fever (ASF) are becoming more apparent. The virus has swept through China over the past year, and continues to spread in Europe and Southeast Asia. China's pig population is estimated to have fallen by 25-50 percent, with no indication of an imminent recovery. Prior to the outbreak, 45 percent of the world's pork production occurred in China, so this decrease represents 12-23 percent of global pork production and 4-8 percent of global meat and poultry production.

As a result, Chinese domestic prices for all meat and poultry have reached record prices, triggering a strong rise in imports of all animal proteins and a rise in meat prices globally. This will benefit New Zealand red meat exports, but is also likely to result in higher pork prices for New Zealand consumers since 60 percent of domestic consumption is imported.

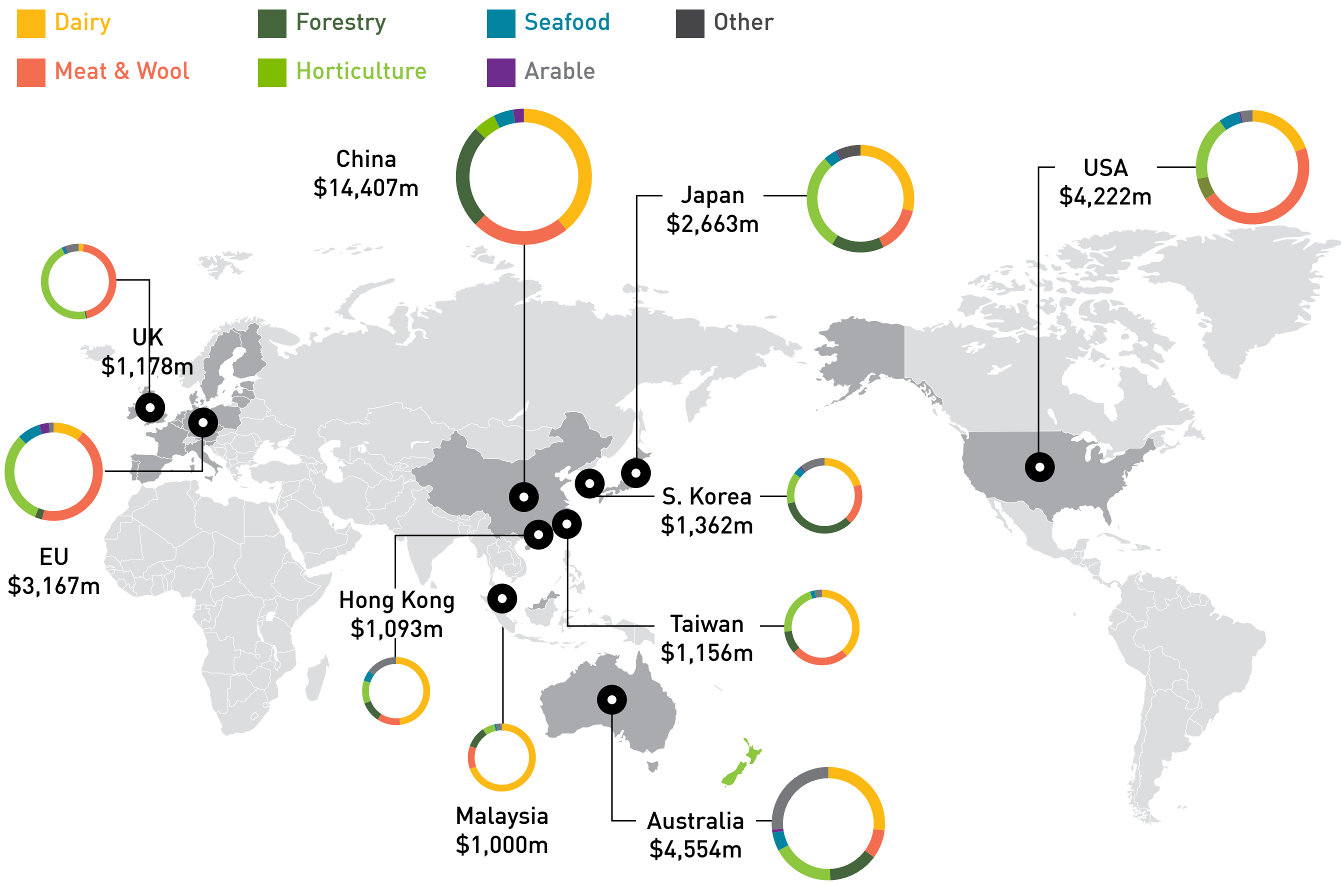
Primary industries export revenue 2015-21 (NZ$ million)

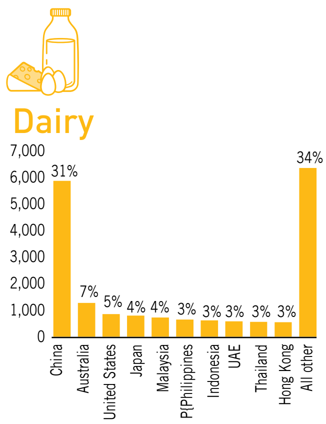
	Actual					Forecast	
	2015	2016	2017	2018	2019	2020	2021
Dairy	14,050	13,289	14,638	16,655	18,120	18,620	18,940
Meat and Wool	9,000	9,200	8,355	9,542	10,168	10,070	10,150
Forestry	4,683	5,140	5,482	6,382	6,931	5,810	6,350
Horticulture	4,185	5,000	5,165	5,376	6,110	6,340	6,510
Seafood	1,562	1,768	1,744	1,777	1,963	2,070	2,180
Arable	181	210	197	243	236	240	245
Other primary sector*	2,417	2,714	2,638	2,706	2,852	3,000	3,090
Total	**36,079**	**37,323**	**38,219**	**42,682**	**46,380**	**46,150**	**47,465**
% Change	-6.8%	+3.4%	+2.4%	+11.7%	+8.7%	-0.5%	+2.8%

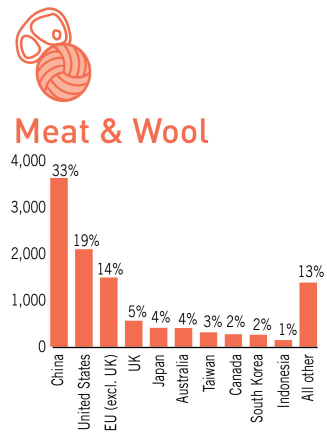
Source: Stats NZ and MPI.

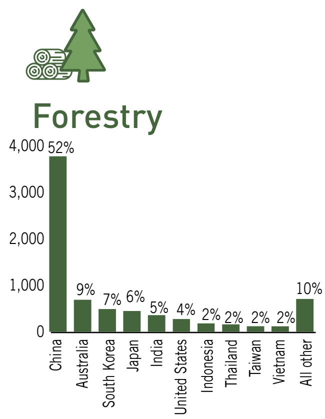
Other Primary Sector Exports and Foods includes live animals, honey, and processed food.

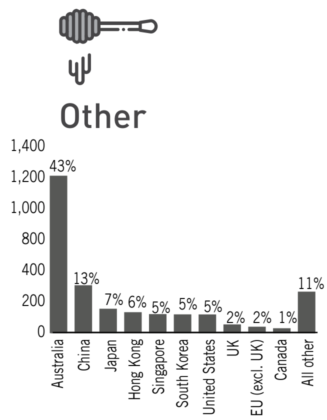
Top 10 Export Destinations

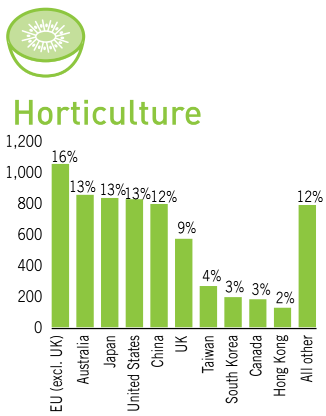


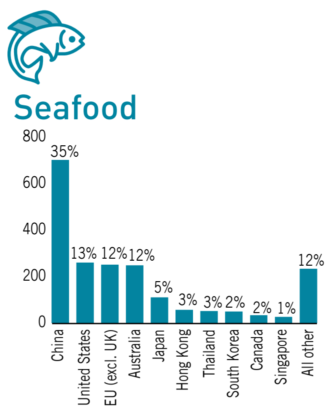


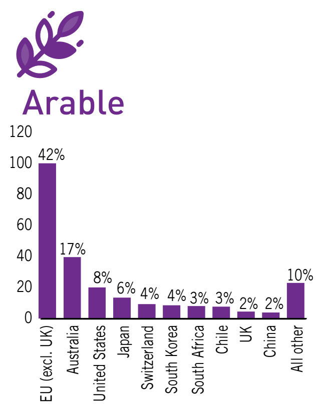


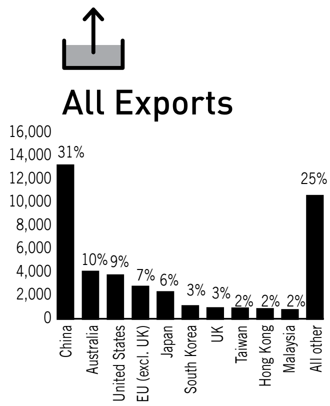












Dairy

Driven by favourable weather patterns across many dairy regions, the 2018/19 season finished with total milk solids production of 1,865 million tonnes. This represents the second-highest season on record for New Zealand dairy farmers, up 2.4 percent on 2018.

Supported by strong demand out of China, this increased production has translated into volume growth across all major dairy export product categories. In particular, whole milk powder (WMP) exports increased by 184 thousand tonnes (up 13.9 percent). Infant formula exports also experienced strong growth, with exports rising 32.3 percent to $1.64 billion in the year ended June 2019.

Looking ahead, the sector appears to be set up for another favourable season with good soil moisture levels and winter growth conditions. Accordingly, we are forecasting milk solids production for the coming 2019/20 season to be only slightly below (down 0.3 percent) the previous year.

While this will translate into export volume declines across some key dairy commodities (especially WMP) we expect growth in high value products such as infant formula and "other" liquid milk products such as UHT to continue.

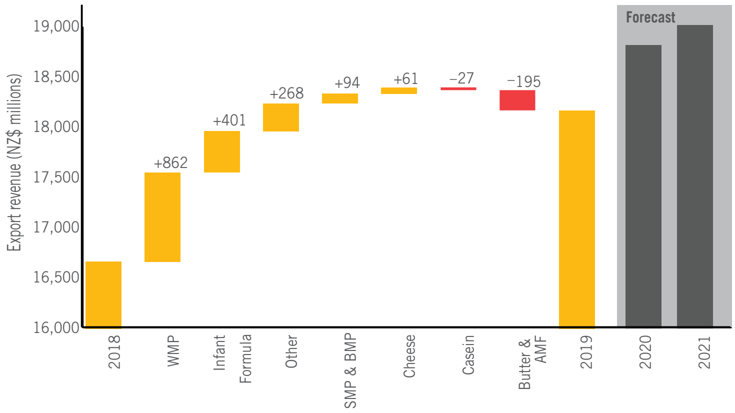
Softening international supply growth and sustained demand from Asian markets is expected to support strength in dairy prices over the coming year, despite weakness in recent Global Dairy Trade auction results.

Relatively strong farmgate returns are expected in the upcoming 2019/20 season, with an all company average farmgate milk solids payout forecast of $6.86 (including any dividend).

- Total dairy export revenue increased 8.7 percent to $18.1 billion for the year ended June 2019.
- The importance of the Chinese market continues to expand for the New Zealand dairy sector, with exports growing 21.5 percent over the past year and now accounting for 31.2 percent of total dairy export revenue.
- Of the $1.47 billion increase in dairy exports achieved over the previous year, two thirds of that revenue increase came from China.

- Strength in global dairy commodity prices is expected to support New Zealand prices and should offset any volume declines, with export revenues forecast to increase 2.8 percent to $18.6 billion for the year ended June 2020.

Figure 1: Dairy export revenue and growth by product, year ending June 2018-21



Source: Stats NZ and MPI.

Meat & Wool

Prices for red meat products are expected to remain at near-record highs for the near future, supported by strong demand from China for all types of meat and (Figure 2) constrained supplies globally.

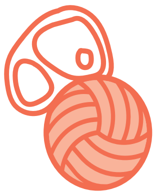
Global red meat demand had already been quite strong over the past 2-4 years, and China's more recent struggles with ASF has supported meat prices further. Beef prices have been strong since 2015, and sheep meat prices over the past two years. At the same time, exportable supplies remain constrained, with the long-lasting drought in Australia limiting their beef and sheep production.

Assuming average pasture growth in the year ending June 2020 and fewer breeding ewes, lamb and mutton production is expected to fall slightly from last year's level to 357 thousand tonnes for lamb and 87 thousand tonnes for mutton.

Beef and veal production reached 683 thousand tonnes in the year ended June 2019, the highest level since 2004. This reflects beef cattle livestock numbers rising and an increase in bull rearing over the past two years, plus good pasture growth over the past season.

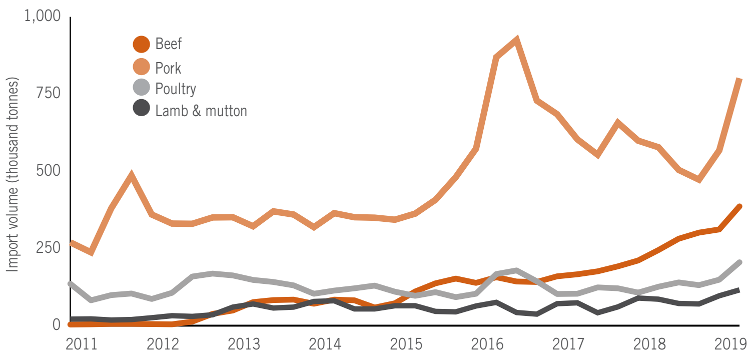
Prices for strong wool have been subdued for the past three years, and prices are unlikely to improve in 2020. Meanwhile, fine wool prices are starting to fall from the record prices seen in 2018 and 2019 due to weaker Chinese demand, resulting in overall wool export revenue forecast to decrease 8.4 percent in the year ended June 2020.

- Meat and wool export revenue are forecast to reach $10.1 billion for the year ending June 2020, a 1.0 percent fall from the previous year due to a slightly lower production outlook.
- Slaughter weights reached record highs for both lamb and mutton in the year ended June 2019 at 19.1 and 26.8 kg, respectively, due in part to good pasture growth.



- Beef production is forecast to fall slightly in the coming year to 676 thousand tonnes.
- New Zealand's beef and veal exports to China have doubled over the past year from $639 million to over $1.2 billion in the year ended June 2019, becoming New Zealand's largest beef export destination.

Figure 2: China meat and poultry imports 2011-19



Source: Global Trade Atlas.

Forestry

Log export prices have dropped 20 percent from February to July, including 17 percent just from May to July (Free on board basis, Figure 3). This was caused by several supply-based factors, including a build-up of softwood inventories in China following very high log export volumes from New Zealand. At the same time, supply of logs and sawn timber increased from Europe and Russia.

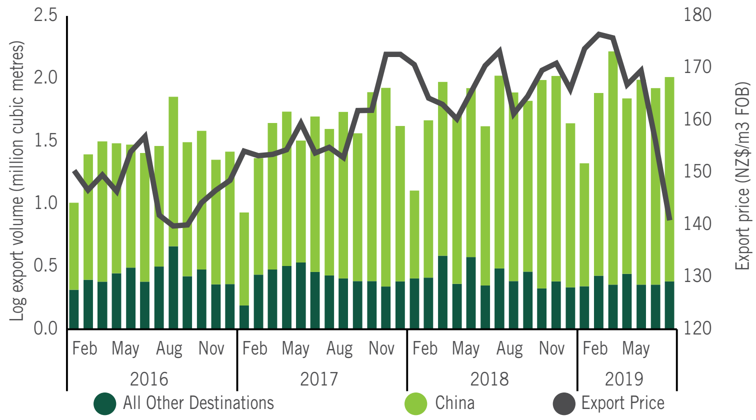
China's manufacturing sectors, including furniture, are showing signs of falling demand, but this is not likely to have a direct impact on demand for New Zealand logs. Importantly, Chinese demand in the construction sector, where most of New Zealand's logs are used, does not show any significant reduction so far as a result of the US-China trade dispute.

Given the current oversupply at Chinese ports, log prices are expected to remain at lower levels over the next several months while high log inventories at Chinese ports gradually dissipate.

Harvest volumes in New Zealand have been extremely high in response to previously elevated log prices, with some small woodlots being harvested early to capitalise on strong returns. Now that prices are much lower, harvest volumes are expected to fall by around 5 percent from the previous year, as smaller forest owners (who currently represent around 40 percent of harvestable volumes) delay harvesting. As a result, log export volumes are expected to fall 9.2 percent in the year ending June 2020.

- Forestry exports for the year ended June 2019 reached $6.9 billion. Just over half of this value was due to log exports, through record high harvest volumes and prices.
- Forestry exports for the year ended June 2020 are expected to drop 16.2 percent to $5.8 billion, as lower log prices lead to lower harvest volumes and fewer log exports.
- Chinese end use demand for logs remains robust with real estate starts for the year to date showing a 10 percent increase on the previous year.
- Sawn timber export revenue for the year ended June 2019 increased 5 percent from the previous year. Decreases in exports to Australia were offset by growth in the US and other countries.

Figure 3: Log export volumes and prices 2016-19



Source: Stats NZ.

Seafood

The outlook for the year ending June 2020 is positive, with strong international demand and a low NZD expected to continue supporting good prices in both wild capture and aquaculture.

The voluntary reduction in hoki capture will result in a small reduction in total wild capture volumes. This is expected to occur in the second half of 2019, impacting export volumes for the year ending June 2020.

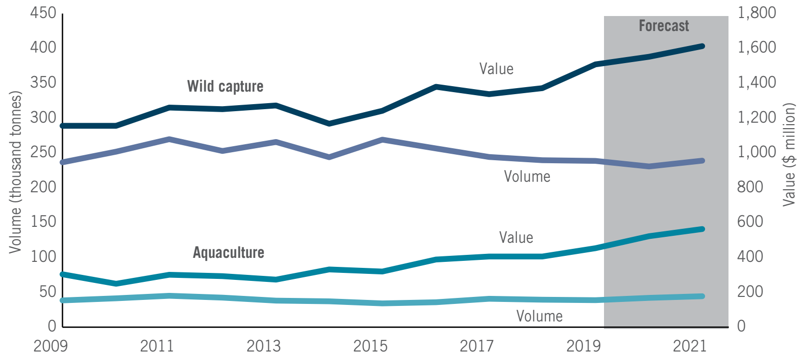
In New Zealand, the wild capture and aquaculture segments of the seafood export market have both shown similar trends with relatively flat volume growth, but increasing value driven by rising prices (Figure 5). While mussels and rock lobster remain our most valuable export species with 16 percent each of total export revenue in 2019, other species such as squid, tuna, and salmon have shown annual price of 8 percent growth per year each year for the last 5 years.

Global supply of wild capture fish is constrained by environmental limits, and global demand is rising so upward pressure on prices is likely over the outlook period. In addition, global markets for all protein are likely to be affected by the African swine fever outbreak, and increased demand could result from consumers substituting seafood for pork.

Aquaculture production and export volumes are expected to recover in the year ended June 2020, as the mussel industry rebounds from last year's algal bloom-limited season.

- Strong prices in the year to June 2019 drove export revenue to rise 10.4 percent over the previous year to $1.96 billion.
- China is one third of our total seafood export market value, nearly half of which is rock lobster.
- Seafood export revenue is forecast to rise 5.5 percent in the year ending June 2020 to $2.07 billion, with strong prices and aquaculture expansion more than offsetting the voluntary reduction in hoki wild capture.
- Mussel production for 2020 is expected to return to normal following the reopening of mussel farms closed in 2018 due to an algal bloom, and show longer term growth with increased supply of farmed mussel spat.
- Global aquaculture production volume is expected to overtake wild capture in 2020 (OCED-FAO Agricultural Outlook).

Figure 4: Export volume and value for New Zealand Seafood, year ended June 2009-21



Source: Stats NZ and MPI.

Horticulture

Apple and pear export revenue for the calendar year 2019 is expected to exceed $800 million due to increases in both export volumes and prices. Strong demand from Asian markets, in particular China, has helped offset weaker demand in Europe; the latter can be attributed to large domestic stocks from the 2018 harvest. Export prices have dropped for apple varieties that are mainly sold in Europe, such as Braeburn.

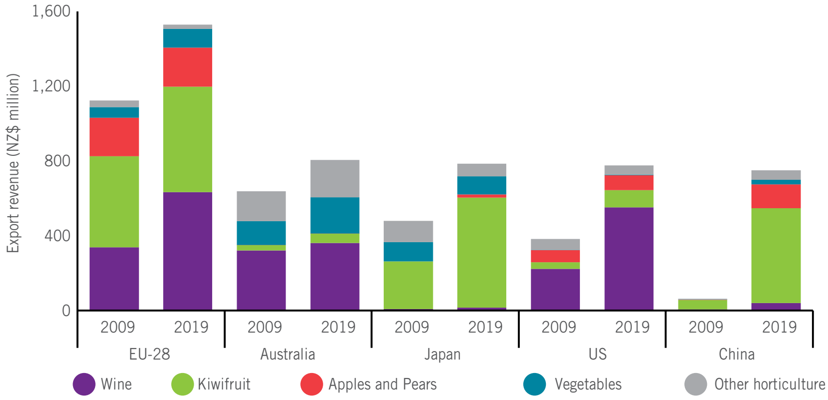
Higher kiwifruit prices bring the forecast revenue up 4.5 percent to $2.53 billion for the kiwifruit season ending March 2020, despite kiwifruit production volumes for 2019/20 being on par to slightly below last season. The recent harvest notably saw gold kiwifruit production volume overtake green for the first time with some green kiwifruit areas being replaced by new gold licence releases.

The early start to the gold kiwifruit harvest saw March and April break records for export volume and revenue. Kiwifruit export prices have held through June and are expected to remain strong throughout the export season.

The wine export revenue forecast for the year ended June 2020 has been revised upward slightly, following a New Zealand Winegrowers report indicating the 2019 vintage reached 413 thousand tonnes. This is up from the 402 thousand tonnes previously projected, but still 1.4 percent lower than the 2018 vintage. This also marks the third straight year of below-average yields constraining production and exports.

- Horticulture export revenue jumped 13.7 percent in the year ended June 2019 to $6.1 billion, supported by excellent harvest volumes across the sector in 2018.
- Horticulture export revenue is forecast to grow 3.8 percent to $6.3 billion in the year ended June 2020, with slightly lower yields in the main crops contributing to lower growth this year.
- New Zealand apples exports to China in the first half of 2019 were double that for the same period last year, attributed in part to the reduced apple crop in China in 2018 from frost damage.
- With lower production in the 2019 vintage, wine export revenue for the year ending June 2020 is forecast to fall slightly to $1.80 billion.
- Figure 4 below shows strong horticulture exports growth across all key markets, with China the fastest-growing main destination.

Figure 5: Horticulture exports by product and destination, year ended June 2009 and 2019



Source: Stats NZ.

Arable

The New Zealand season got off to a good start with ideal planting conditions for autumn and winter crops and arable prices holding.

Conditions were also ideal for the maize harvest completed in June and yields for both grain and silage were similar to last year. The estimated total maize grain tonnage was 195,400 tonnes, up 2 percent on last year due to a slight increase in planted area. The total maize silage tonnage is estimated to be up 8 percent compared to 2018 due to an increase in yield and planted area.

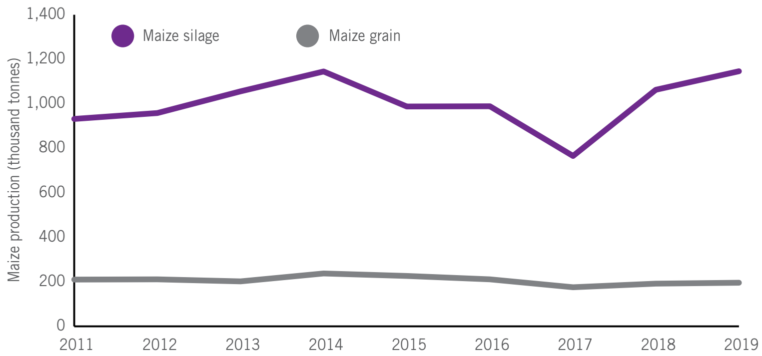
The bulk of the maize grain crop had been sold by 1 June 2019 and about 60 percent of the total silage crop was estimated to have been sold at 1 June 2019.

In 2019, lower export returns for clover and vegetable seeds (down 28 percent and 6 percent respectively) were partially offset by higher returns for ryegrass (up 9 percent) and "other seeds" (up 3 percent).

A hot dry 2018 summer reduced herbage seed yields in the northern hemisphere, increasing demand for New Zealand seed. The results of the 2019 northern hemisphere harvest are not yet available, but seed stocks are reported to be low. Dry areas in Europe and significant rain in the United States during June and July indicate it is more likely to be an average harvest than bumper.

- The value of arable exports was down 2.7 percent to $236 million for the year ended June 2019 compared to 2018.
- The outlook is for gradual growth in volumes and prices increasing export returns to $245 million by 2021.
- New Zealand arable farmers produce some of the best yields in the world and currently hold the Guinness world records for wheat yield (16.791 tonnes per hectare) and barley yield (13.8 tonnes per hectare).
- Europe is the largest market for arable exports accounting for almost 50 percent of arable export value.
- There are over 2,700 farmers in New Zealand involved in arable cropping activities.

Figure 6: Maize production volume 2011- 2019 (estimate)



Source: Foundation for Arable Research and Stats NZ.

Other

Export revenue for this sector is predicted to reach $3.0 billion for the year to June 2020, up 5.2 percent from 2019, with growth led by the other products and innovative processed foods sectors.

The other products category continued its stellar growth in the June 2019 quarter, exceeding forecasts to end the 2019 year at $745 million. This growth was spread across a number of products including soft drinks, water, dye, and various niche products.

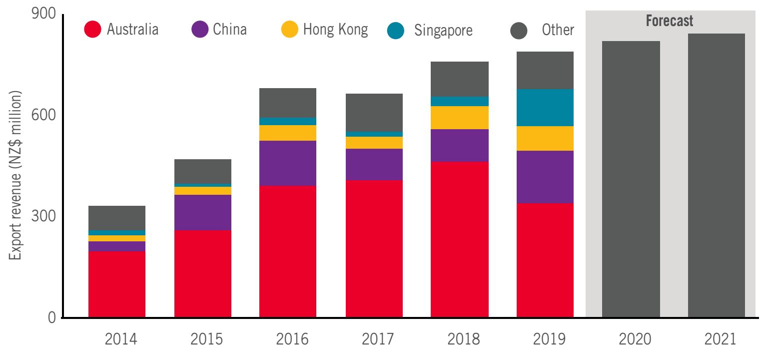
Exports of confectionery and sugar products for the year to June 2019 were $225 million, down mostly as chocolate exports tumbled from $125.6 million in 2018 to $70 million in 2019 due to the closure of the Cadbury factory in Dunedin in early 2018. Growth in lactose and sugar confectionery exports balanced out some of this drop.

Innovative processed food exports, which include nutritional supplements and prepared meals, steadied in 2019 after rapid growth in 2018: growing from $759 million in 2018 to $788 million in 2019. Figure 7 shows exports to Australia dropped by 27 percent, the first drop since 2005. This decrease was balanced by increases in exports to China (up 61 percent) and Singapore (up 263 percent).

The value of live animal exports for the year to June 2019 was $239 million. This was higher than anticipated due to more cattle being exported to China than previously forecast. Our forecasts are based on current policy settings for live animal exports – any change to those settings arising from the current policy review have not been factored in at this stage.

- Export revenue for this sector reached $2.85 billion for the year ended June 2019.
- New Zealand exported 8,073 tonnes of honey in 2019 worth $355 million.
- The United Kingdom was our top export partner for honey for 2019, taking 1,625 tonnes of honey valued at $54.5 million. China came in second: taking 1,261 tonnes worth $54.0 million.
- Australia is our key market for sugar confectionery, while China, Japan, Brazil, and India are our key markets for lactose.

Figure 7: Innovative Processed Foods export revenue by destination, year ended June 2014-19



Source: Stats NZ.

Notes

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.

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Disclaimer

Sector summary tables

Dairy export revenue 2015-21 (NZ$ million)

					Actual		Forecast
Year to 30 June	2015	2016	2017	2018	2019	2020	2021
Whole milk powder	5,385	4,609	5,271	5,818	6,680	6,390	6,440
Butter, AMF, and cream	2,219	2,378	2,794	3,812	3,617	3,690	3,720
Skim milk & butter milk powder	1,762	1,347	1,385	1,228	1,323	1,580	1,570
Casein & protein products	2,129	1,834	1,735	1,601	1,574	1,670	1,690
Cheese	1,557	1,720	1,830	1,905	1,967	2,040	2,060
Infant formula	415	685	778	1,240	1,641	1,780	1,910
Other dairy products*	582	716	845	1,050	1,318	1,460	1,550
Total	**14,050**	**13,289**	**14,638**	**16,655**	**18,120**	**18,620**	**18,940**
% Change	-21.0%	-5.4%	+10.1%	+13.8%	+8.8%	+2.8%	+1.7%

Source: Stats NZ and MPI.
* Other dairy products include: liquid milk and cream, ultra-high temperature milk, yoghurt, and ice cream.

Meat & Wool export revenue 2015-21 (NZ$ million)

					Actual		Forecast
Year to 30 June	2015	2016	2017	2018	2019	2020	2021
Beef & veal	2,980	3,096	2,706	2,943	3,326	3,280	3,320
Lamb	2,504	2,569	2,441	3,018	3,229	3,240	3,230
Mutton	418	419	417	575	576	580	570
Wool	805	760	522	543	535	490	500
Venison	174	182	162	196	186	190	190
Other meat*	466	503	513	543	610	620	630
Hides & Skins	570	509	416	396	354	350	350
Animal by-products	578	598	587	700	729	690	710
Animal fats & oils	118	125	156	147	115	110	120
Animal products for feed	216	247	273	332	377	390	400
Carpets & other wool products	172	192	163	148	130	130	130
Total	**9,000**	**9,200**	**8,355**	**9,542**	**10,168**	**10,070**	**10,150**
% Change	+10.3%	+2.2%	-9.2%	+14.2%	+6.6%	-1.0%	+0.8%

Source: Stats NZ and MPI.
* Other meat includes: edible offal, processed meat, and poultry.

Forestry export revenue 2015-2021 ($NZ million)

					Actual		Forecast
Year to 30 June	2015	2016	2017	2018	2019	2020	2021
Logs	2,059	2,224	2,687	3,337	3,853	2,790	3,330
Sawn timber & sleepers	751	860	830	890	937	940	960
Pulp	628	683	651	828	813	740	720
Paper & paperboard	473	522	488	490	490	480	450
Panels	451	512	476	501	514	530	540
Chips	52	64	59	56	67	70	70
Other forestry products*	268	275	290	281	257	270	270
Total	**4,683**	**5,140**	**5,482**	**6,382**	**6,931**	**5,810**	**6,350**
% Change	-9.9%	+9.8%	+6.7%	+16.4%	+8.6%	-16.2%	+9.3%

Source: Stats NZ and MPI.
* Other forest products include: structural or moulded wood, furniture, and prefabricated buildings.

Horticulture export revenue 2015-21 (NZ$ million)

Year to 30 June	2015	2016	2017	2018	2019 (Actual)	2020	2021 (Forecast)
Kiwifruit	1,182	1,673	1,664	1,861	2,300	2,530	2,580
Wine	1,408	1,558	1,661	1,694	1,808	1,800	1,800
Apples & pears	571	701	701	745	840	850	900
Fresh & processed vegetables*	588	612	614	622	696	660	670
Other horticulture**	436	456	525	455	466	510	560
Total	**4,185**	**5,000**	**5,165**	**5,376**	**6,110**	**6,340**	**6,510**
% Change	+10.0%	+19.5%	+3.3%	+4.1%	+13.7%	+3.8%	+2.7%

Source: Stats NZ and MPI.
* Fresh vegetable exports include onions, squash, capsicum, potatoes and other fresh vegetables. Processed vegetable exports include frozen vegetables (including frozen potatoes, peas, sweetcorn, etc.), dried vegetables, dry legumes, prepared and/or preserved vegetables, and vegetable juices.
** Other horticulture exports include: other fresh fruit (including avocados, cherries, blueberries, etc.), frozen and processed fruit, fruit juices, nuts and ornamentals.

Seafood export revenue 2015-21 (NZ$ million)

Year to 30 June	2015	2016	2017	2018	2019 (Actual)	2020	2021 (Forecast)
Wild Capture	1,242	1,380	1,338	1,372	1,509	1,550	1,610
Aquaculture	321	388	406	406	454	520	560
Total	**1,562**	**1,768**	**1,744**	**1,777**	**1,963**	**2,070**	**2,180**
% Change	+4.1%	+13.2%	-1.4%	+1.9%	+10.4%	+5.5%	+5.3%

Source: Stats NZ and MPI.

Arable export revenue 2015-21 (NZ$ million)

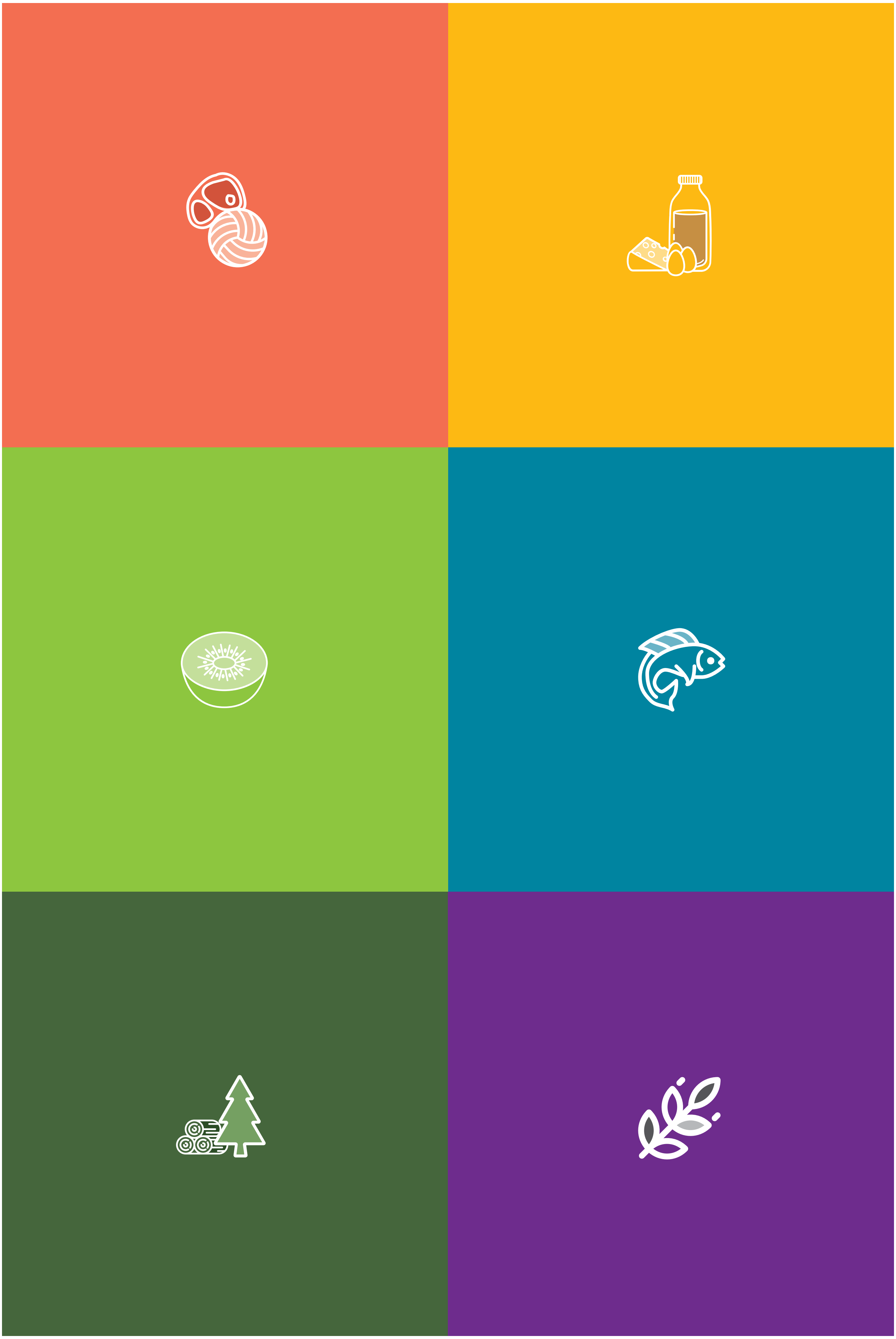
Year to 30 June	2015	2016	2017	2018	2019 (Actual)	2020	2021 (Forecast)
Vegetable seed	62	74	64	92	87	90	95
Ryegrass seed	49	46	46	55	60	60	60
Clover/legume seed	22	20	23	28	20	20	20
Other grains and seeds*	48	70	63	68	69	70	70
Total	**181**	**210**	**197**	**243**	**236**	**240**	**245**
% Change	-21.6%	+15.6%	-6.0%	+23.2%	-2.7%	+1.5%	+2.1%

Source: Stats NZ and MPI.
* Other arable products include: maize, other grains, and oilseeds.

Other export revenue 2015-21 (NZ$ million)

Year to 30 June	2015	2016	2017	2018	2019 (Actual)	2020	2021 (Forecast)
Innovative processed foods	471	681	664	759	788	820	840
Honey	233	315	329	348	355	360	380
Sugar & confectionery	293	312	305	263	225	230	230
Cereal products	255	274	285	303	305	310	310
Live animals	370	242	274	241	239	240	250
Soup & condiments	183	187	186	184	196	200	200
Other products*	612	704	594	609	745	830	870
Total	**2,417**	**2,714**	**2,638**	**2,706**	**2,852**	**3,000**	**3,090**
% Change	+20.8%	+12.3%	-2.8%	+2.6%	+5.4%	+5.2%	+3.0%

Source: Stats NZ and MPI.
* Other products include: beverages, vegetable-based dyes, and spices.



New Zealand Government