



Summary report

New Season Outlook 2022-23

Overview

The outlook for global sheepmeat and beef demand is positive for the 2022-23 season. Simply put, demand is exceeding supply, although this applies more to beef than lamb. In-market returns are forecast to drop for both sheepmeat and beef, however, forecasts for a weaker NZD outweigh the softening in-market conditions.

Global demand for sheepmeat and beef is well exceeding supply. For this season, Australia and Brazil are expected to increase their supply for both beef and sheepmeat exports due to favourable weather conditions and herd rebuilding efforts over the past few years.

Major challenges for the new season include inflation spurred by hangover effects from the COVID-19 pandemic, uncertainty and flow-on effects from the ongoing invasion of Ukraine and a global shortage of labour.

Total export receipts for sheepmeat and beef combined are forecast to be slightly down on 2021-22. While lamb export receipts are forecast to decrease, flat beef production, increasing mutton production, and the impact of the low NZD on average export values offset the negative lamb result. In-market prices for beef, lamb and mutton are all forecast to decrease from the levels achieved in 2021-22 when markets were strong. Therefore, the outlook, is sensitive to changes in the currency market.

On-farm, revenue is similar to 2021-22 as lower sheepmeat prices are offset by higher farm-gate prices for cattle. Farm profit before tax is forecast to decrease 10 per cent in 2022-23, reflecting flat gross farm revenue and increased expenditure (+3.4%). All areas of expenditure are forecast to increase, even as farmers work hard to curb spending, for example, by applying reduced volumes of fertiliser.

Farmer confidence is subdued despite expectations for farm-gate prices to remain relatively strong. Rising farm expenditure and increasing environmental regulation, including proposed agricultural greenhouse gas emissions prices and intensive winter grazing requirements and much more have dampened spirits and reduced confidence. Policy changes encourage exotic afforestation of whole sheep and beef farms, which continue unabated, and is generally viewed negatively by farmers and the wider community.



Sheepmeat

- For 2022-23, total lamb export receipts are forecast at \$3.7 billion FOB¹, down 5.7 per cent on 2021-22.
- The decrease is driven by a marginal decrease (-0.8%) in export volumes to 280,000 tonnes shipped weight and a drop in the average FOB value of exports (-5.5%) to \$12,505 per tonne.
- Despite this decrease, the forecast average FOB value of exports is 20 per cent up on the five-year average.
- Export receipts for co-products are forecast to increase 6.5 per cent reflecting global economic recovery.
- The lamb crop in spring 2022 is forecast to be 22.4 million head, 1.0 per cent lower than in 2021, reflecting fewer breeding ewes and, for some regions, lower pregnancy scanning results driven by dry conditions at mating.
- Mutton export receipts are forecast to decrease 1.8 per cent on 2021-22, driven by a 4.6 per cent increase in production and a 3.1 per cent decline in average export value.
- Total export receipts for sheepmeat (lamb and mutton) for 2022-23 are forecast to decrease 4.4 per cent on 2021-22 to \$4.5 billion FOB.
- The annual average farm-gate price for lambs is forecast to be 815 cents per kg, down 3.9 per cent on 2021-22, but up 9 per cent on the five-year average. The forecast for a weakening NZD is the major factor mitigating against the forecast decline in in-market prices in 2022-23.
- The annual average farm-gate price for mutton is forecast to decline 5.1 per cent to 519 cents per kg, which is 9 per cent above the five-year average.
- Demand for New Zealand lamb is solid but uncertain in all key markets. Global demand for lamb is slightly growing, but doubts associated with cost of living in key markets are causing uncertainty for prices.
- Continued demand from China for meat protein, because of African Swine Fever (ASF) induced pork shortages and increasing consumer incomes, will also be a positive driver of demand in 2022-23.



Beef

- Export revenue from beef and veal in the 2022-23 season is forecast to be \$4.7 billion FOB, little change on 2021-22.
- Beef and veal exports are forecast to increase 0.7 per cent to 468,000 tonnes shipped weight.
- Export beef production is forecast to increase 0.7 per cent to 685,000 tonnes carcass weight.
- Average export returns for the season are forecast to decline 0.9 per cent to \$10,092 per tonne FOB. Despite the decline on 2021-22, average export returns are projected to be 27 per cent above the five-year average, benefiting from the weaker NZD.
- The forecast for the 2022-23 season is for the average farm-gate price for all cattle to increase 7 per cent from 2021-22, to 601 cents per kg, which is a mix of 664 cents per kg for P steer/heifer (270-295kg), 463 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 644 cents per kg for M bull (270-295kg).
- The outlook for the global beef market is buoyant, fuelled by strong demand and a weaker NZD. This is particularly evident in China and the US markets.
- The imbalance of supply and demand has the potential to offset economic stress and inflationary disruption.
- ASF and the growing demand for quality proteins from the affluent Asian consumer will continue to be key drivers of demand for beef.

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



Exchange Rate Impact

New Zealand sheepmeat and beef export returns and farm-gate prices are exposed to exchange rate movements because New Zealand's industry focuses on exporting the majority of its production. The forecast of a lower NZD cushions New Zealand red meat export returns in 2022-23. The NZD is forecast to decrease close to 3 per cent against the USD for the 2022-23 season to average 0.64 - the lowest seasonal average for fourteen years.

Exchange rate forecasts are challenging even when global markets are stable. The uncertainty from the Ukraine Invasion and the economic impacts from worldwide inflation have created a volatile backdrop for foreign exchange projections and there is associated risk to the report's forecasts.

Gross Revenue

Gross farm revenue for the 2022-23 farming year is forecast to average \$716,100 per farm, similar to 2021-22 revenue.

Revenue from sheep meat is forecast to decrease 5.8 per cent (-\$21,300) to \$346,400 per farm for 2022-23 with expectations for fewer breeding ewes producing fewer lambs this spring and a decrease in farm-gate prices. Cattle revenue is forecast to increase 4.1 per cent to average \$196,400 per farm, an increase of \$7,700 per farm, driven by strong farm-gate prices for all classes of cattle. The cash crop account is forecast to increase by 11 per cent in 2022-23. It accounts for 10 per cent of gross farm revenue on average, which is double the contribution from dairy grazing. Sheep and cattle revenue account for three quarters of gross farm revenue at 48 per cent and 27 per cent respectively on average.

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

Expenditure

Total expenditure is estimated to increase 3.4 per cent (+\$17,400) to average \$535,000 per farm for 2022-23. Inflationary pressure is expected in almost all categories of expenditure in 2022-23.

Major areas of expenditure such as fertiliser, lime and seeds; interest payments; repairs and maintenance;

vehicles and fuel are forecast to increase, even as farmers work to reduce spending, for example, by applying reduced volumes of fertiliser and reducing fuel usage where possible.

Interest expenditure, which accounts for around 9 per cent of total farm expenditure, is forecast at \$49,400 per farm (+1.8%). The increase in interest expenditure will lag behind the increases in interest rates in 2022 due to the mix of loans that have fixed and floating interest rates.

Fertiliser, lime and seeds expenditure, which is equivalent to 20 per cent of total farm expenditure, increases 4.5 per cent to average \$104,700 per farm. This follows a large 20 per cent estimated increase in the previous season. Farmers have reduced fertiliser volumes applied, per farm and per hectare, each season since 2018-19.

Shearing expenditure increases 4.4 per cent to an average \$28,200 per farm, which is equivalent to \$6 a head (60% higher than 10 years ago). Most farm classes face a deficit in their net wool account - wool revenue less shearing expenditure. The exceptions are South Island High country and South Island Hill country where wool revenue exceeds shearing expenditure. For High country farms, wool remains an important proportion of revenue, however meat production revenue surpasses wool revenue. On average, shearing expenditure in 2022-23 accounted for 136 per cent of wool revenue for North Island farmers but 70 per cent for South Island because of the influence of high value fine wools.

Farm Profit Before Tax

Farm Profit Before Tax is forecast to decrease for 2022-23 by 10 per cent to an average \$181,100 per farm.

With high market prices for sheepmeat and beef globally, and a relatively low NZD, farm-gate prices are relatively strong for sheep and beef farmers with beef cattle pricing in particular driving revenue for 2022-23. However, with increasing farm expenditure and expectations for relatively high on farm inflation, profit margins will be reduced.

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

The Farm Profit Before Tax forecast for 2022-23 depends on the value of the NZD relative to other currencies. Currently the NZD is relatively low, which is positive for exporters. Over 88 per cent of beef and over 94 per cent of sheepmeat production is exported.



Further information

For more information or enquiries email econ@beeflambnz.com