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Mid-Season Update 2020-21

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Executive Summary – Mid-Season Update 2020-21

Overview

The New Zealand red meat industry navigated 2020 with much success, given the major disruptions of COVID-19 and drought. Resilience and adaptability were evident across the entire New Zealand sheep and beef supply chain. The sector will continue to be challenged in 2021. Disruption because of the global COVID-19 pandemic remains relevant, and New Zealand exporters are facing a high New Zealand dollar and increasing competition, particularly in beef export markets.

Despite this, there are solid market fundamentals that continue to support demand for New Zealand red meat. Chinese demand for meat protein will continue due to underlying demand and African Swine Fever, which is expected to continue to restrict pork supplies in 2021. Meat consumption is forecast to increase in emerging markets as household incomes lift and there is growing demand for high-quality proteins from consumers in these countries.

In 2021, weak foodservice demand, disruptions and increased costs across the supply chain, and a higher-risk environment will be challenges that weigh on export and farmgate returns.

While sheep and beef farmers are expecting a more subdued season ahead, 2020 was significantly more positive for returns and production than expectations, given the impact of drought and COVID-19.

Changes in consumer attitudes and behaviours following the global pandemic and the shift towards “sustainable” consumption and production patterns have the potential to impact global trade dynamics in the medium term, as do climate change and environmental regulations.

Total beef, veal and sheepmeat export revenue for the 2020-21 season is forecast at $7.4 billion, down 13 per cent or $1.1 billion, from 2019-20.

Economic Conditions

COVID-19 is forecast to remain the dominant issue facing global economies in 2021. Economic recovery is expected following the sharp decline in 2020, however there is much uncertainty still weighing on the speed of recovery.

The rollout of COVID-19 vaccinations is expected to underpin economic recovery in 2021. As the pandemic is brought under control, consumer confidence, spending and trade are expected to improve. However, there are concerns about the speed and effectiveness of the vaccine rollout and the evenness of distribution.

Economic growth expectations have been reviewed in light of the continuing spread of the virus in late 2020 and early 2021 and the emergence of mutations. This will remain a significant risk to global economic recovery in 2021.

The New Zealand economy rebounded swiftly following the pandemic. The swift recovery is attributed to unprecedented levels of fiscal support. Downside risk to recovery is a reality as new community outbreaks of COVID-19 continue to emerge.

The exchange rate will be a major limiting factor to export performance in 2020-21. The NZD is forecast to appreciate against the USD, which is the major trading currency for New Zealand meat, by 13 per cent.

Lamb and Mutton

For 2020-21, total lamb export receipts of $2.9 billion are forecast to be 14 per cent lower than in 2019-20, driven by a 4.4 per cent decline in lamb production and a 10 per cent decline in the average export value of lamb per tonne.

Continuing disruption from COVID-19 and the sharp appreciation of the NZD against the USD are key drivers of the subdued outlook.

High-value lamb continues to suffer from weak demand as COVID-19 restricts activity in the foodservice sector. While retail demand has accelerated, it has not covered the decline in export revenue from the fall in foodservice trade.

On the positive side, demand from China was strong for both lamb and mutton in the first quarter of the season. The sustainability of Chinese demand will be a key driver of export performance through 2021.

At an exchange rate of USD0.72, the average lamb price is forecast at 643 cents per kg for 2020-21, down 12 per cent, while the average mutton price is forecast at 472 cents per kg, down 1.8 per cent on 2019-20.

For the first time, the per head prices for lamb and mutton are forecast to be the same at $122 per head. The impact of COVID-19 on both the foodservice sector and the global economy has strengthened demand for lower-value sheepmeat items.

Beef

Export revenue from beef and veal in the 2020-21 season is forecast to be $3.7 billion, down 14 per cent on 2019-20.

The strong NZD and continuing disruption and risk from COVID-19 contribute to the weaker outlook for beef. Global beef trade is also expected to grow increasingly competitive in 2020-21. A strong presence of South American beef is weakening import demand for New Zealand beef, particularly in China.

As a result, average export returns for the season are forecast to decline 13 per cent to $7,156 per tonne, 3 per cent below the five-year average.

The number of cattle processed for export in 2020-21 is forecast to decline (-2.6%) on 2019-20 and export beef production is forecast to be down 2.6 per cent at 661,000 tonnes carcase weight.

Beef and veal exports are forecast to be down 2.6 per cent on 2019-20 at 453,000 tonnes shipped weight.

At USD0.72, the estimated 2020-21 average annual price for P class steer/heifer (270-295kg) is 507 cents per kg. It is forecast to average 341 cents per kg for M class cow (170-195kg), which includes a large component of cull dairy cows, and 518 cents per kg for M class bull (270-295kg).

Livestock Numbers

The total number of sheep at 30 June 2020 is estimated at 26.2 m, down 2.5 per cent on the previous June and 55 per cent lower than in 1990.

The number of beef cattle at 30 June 2020 is estimated at 3.95 m, up 1.6 per cent on the previous June and down 15 per cent on 1990. The change in the latest year was largely driven by little change in the number of weaners overall, after there was a high base of trade cattle and weaners on hand on 30 June 2019, particularly in the South Island.

The number of dairy cattle at 30 June 2020 is estimated to have decreased 2.4 per cent to 6.11 m.

Wool

The outlook is for wool markets to remain challenging and wool prices are expected to remain low throughout 2020-21. However, there was some positivity in the wool market through February because there was a lift in global demand with more activity from China and the EU, and this was reflected in prices.

Wool export revenue is expected to remain low. While there were some price lifts in the early part of calendar 2021, overall prices remain low in comparison to historical levels. Average export receipts are expected to decrease 22 per cent to $4,350 per tonne.

The volume of wool that is exported in 2020-21 is forecast to decline 2.8 per cent on 2019-20 driven by declining sheep numbers.

Sheep and Beef Farms

Gross farm revenue for 2020-21, which ends on 30 June, under an exchange rate scenario of USD0.72 is forecast to average $568,000 per farm, down 8.8 per cent. This is driven by decreased livestock revenue.

Wool revenue decreases by 25 per cent to $24,000 per farm for 2020-21, due to continued very weak wool prices, more than offsetting an increase in the volume of wool sold per farm. Wool revenue is forecast to contribute less than five per cent of gross farm revenue on average.

Sheep revenue, which is forecast to contribute around 48 per cent of gross farm revenue on average, decreases 12 per cent to $271,300 per farm for 2020-21. Farmgate prices are expected to fall from record highs, and fewer prime lambs and sheep are expected to be sold.

Cattle revenue decreases 4.2 per cent to $155,700 per farm for 2020-21, though underlying international demand for New Zealand beef remains strong.

The weighted average total expenditure for all farms is estimated to decrease 4.9 per cent to $443,800 per farm for 2020-21.

Fertiliser, lime and seeds expenditure decreases 8.6 per cent to average $70,000 per farm, which is similar to the average of the previous five seasons. In some regions, expenditure is expected to decrease by considerably more, e.g. by 13 per cent for East Coast. On average, around 16 per cent of total farm expenditure is on fertiliser, lime and seeds.

Interest expenditure decreases 8.9 per cent to average $48,300 per farm, which reflects the reduction in interest rates – overall, and the lagged effect of refinancing at lower interest rates when fixed-term loans are renewed.

Repairs and maintenance expenditure is estimated to decrease by 11 per cent, after increases in 2017-18 and 2018-19 were followed by a decrease in 2019-20.

In nominal terms, Farm Profit before Tax is forecast to decrease 21 per cent to average $124,200 per farm. After adjusting for inflation, in 2020-21, Farm Profit before Tax is expected to average around five per cent below the average for the 2010s.

On average, EBITRm (Earnings before interest, tax, rent and any salary paid to Manager(s)) per hectare is forecast to fall 16 per cent.

Economic Conditions

Introduction

COVID-19 is forecast to remain the dominant issue facing global economies in 2021. Economic recovery is expected following the sharp decline in 2020, however there is much uncertainty still weighing on the speed of recovery.

The rollout of COVID-19 vaccinations is expected to be the bright light, underpinning economic recovery in 2021. As the pandemic is brought under control, consumer confidence, spending and trade are expected to improve. However, there are serious concerns about the speed and effectiveness of the vaccine rollout and the evenness of global distribution.

Growth expectations have also been modified by the continuing spread of the virus in late 2020 and early 2021 and the emergence of virus mutations. This will remain a significant risk to global economic recovery throughout the year.

Fiscal support policies of individual countries will play a role in global recovery. Government support has softened the economic impact of COVID-19 across the globe. There is some risk of economic activity declining as fiscal support begins to decline.

New Zealand's economy is also exposed to risk from further COVID-19 restrictions on economic activity. A series of Alert Level 3 lockdowns that occurred in Auckland during March 2021 demonstrated that COVID-19 is still very much a threat for New Zealanders, despite the low case numbers.

Global Growth Prospects

Global growth in 2020 suffered a sharp contraction because of COVID-19. Estimates of the contraction differ slightly between organisations, however the World Bank[1] reported a 4.3 per cent decline in global output in calendar 2020, the biggest decline since the end of World War II.

For calendar 2021, the Bank forecast a 4 per cent expansion, which came with a warning however, that the mutation of the virus, extended lockdowns and delays in the vaccination rollout could slow recovery.

The forecasts for 2021 global growth are underpinned by expected economic recovery in both the US and China.

There is a widening gap in the speed of individual countries' recovery relative to pre-COVID-19. Emerging and developing economies are expected to experience a longer recovery. The pandemic is also reported to have increased inequality within these countries with women, uneducated people and youth suffering. There is expected to be an increase in the number of individuals that enter extreme poverty during 2021.

Returns for New Zealand sheepmeat and beef will be impacted by the speed of economic recovery in New Zealand's key export markets. While retail demand has remained solid throughout the pandemic, a successful vaccination rollout will bring a return of demand to the foodservice sector, which will stimulate demand for higher-value products. A return of consumer confidence in key markets also has the potential to lift consumer willingness to pay higher prices for quality protein.

China

In China, which is New Zealand's biggest export market for sheepmeat and beef exports, the speed of economic recovery during 2020 was a critical factor in preventing global economic contraction from a sharper decline than was experienced.

China was the only economy to experience economic growth during 2020, reporting a two per cent expansion. The swift recovery has been attributed to effective containment measures,

Table 1 Global Growth Indicators

	Annual Average % Change, March Year					
	2017	2018	2019	2020	2021f	2022f
	%	%	%	%	%	%
US	+1.8	+2.6	+2.8	+1.7	-3.7	+3.3
UK	+1.7	+1.6	+1.4	+0.4	-10.6	+2.2
Euro zone	+1.9	+2.8	+1.6	+0.1	-6.8	+2.7
Japan	+0.8	+1.8	+0.3	-0.4	-4.4	+1.4
China	+6.9	+6.9	+6.6	+2.6	+5.3	+7.6
South Korea	+3.0	+3.2	+2.5	+2.0	-1.3	+2.2
Australia	+2.6	+2.7	+2.6	+1.8	-3.6	+2.7
Trading Partners	+3.6	+4.2	+3.9	+1.7	-1.0	+4.5
New Zealand	**+3.7**	**+3.6**	**+3.2**	**+1.6**	**-1.5**	**+5.8**

Note: "Euro zone" are 15 Member States: Belgium, Germany, Ireland, Greece, Spain, Cyprus, Malta, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland and Slovenia.
"Trading Partners" account for about 85% of New Zealand's total merchandise trade.
e estimate, f forecast | Source: Statistics New Zealand, NZIER Quarterly Predictions

[1] January 2021

a strong public investment response and central bank liquidity support.

The World Bank has forecast economic expansion of the Chinese economy of 7.9 per cent in 2021 and a further 5.2 per cent growth in 2022. However, COVID-19 risk is still relevant for China. While their vaccination programme is well underway, there are some questions around the effectiveness of their vaccine, e.g. USDA (the United States Department of Agriculture) has stated it is only 50-60 per cent effective.

China's economic recovery has been supported by strong international demand for its products, particularly products that were in demand during a pandemic. These include medical equipment and technology. Chinese exports increased in 2020, despite pandemic disruptions.

The resurgence of COVID-19 in China early in 2021 prompted Chinese authorities to ask the population to remain at home during the 2021 Chinese New Year celebrations. As a result, restaurant sales data for the months of January and February revealed there was less travel, lower foodservice sales, and a big jump in retail sales. Home delivery services are booming in China.

The Chinese government has ambitious targets for growth. Over the next 15 years it will be focused on doubling the size of the middle class and supporting the shift of an additional 200 million people into urban areas.

These targets support continuing growth in Chinese agricultural imports in the medium and long term. China does not have the land or water resources to support the increased consumption implied by such targets. The shift in wealth of the Chinese consumer is having an impact on the composition of agricultural imports, however. While imports have traditionally been around 60 per cent grain, this dropped to 40 per cent in 2020. There is a notable interest in value-added imports, particularly from the EU-27, including cured meat, wine and fruit.

US

The US economy contracted by 3.6 per cent in 2020, which was much better than most expectations. Substantial government support packages to households aided growth in the third quarter. Additional fiscal support packages were also announced in late 2020, which boosted the recovery outlook for 2021 both in the US and globally.

The World Bank forecasts the US economy will expand by 3.5 per cent in 2021 and a further 3.3 per cent in 2022.

Similar to China, the US has also experienced a wide resurgence of COVID-19 cases in early 2021. This will create some downside risk to growth forecasts. However, there is the potential for additional growth if the vaccine rollout occurs faster than expected or additional fiscal support packages are offered.

The impact of President Biden's administration on the US economy is unclear so early in his term. There is little doubt that COVID-19 will have the greatest impact on the course of the economy in 2021 and 2022. Any policy plan implemented to speed the vaccination rollout to manage the virus, and further fiscal support packages may have the potential to stimulate additional growth.

For New Zealand red meat, the effect of economic policies on the USD will have a large impact on the export competitiveness.

US agricultural exports are forecast to reach record levels in 2021, increasing by 15 per cent in value on 2020. Increased exports are expected in every commodity group and to every major global region. On the back of the US-China Phase One agreement, China is expected to become the largest US agricultural market in 2021. This is despite tariffs still remaining on nearly 99 per cent (by value) of all US agricultural exports to China.

New Zealand

The recovery of the New Zealand economy post COVID-19 has been strong and has exceeded most expectations from the height of the pandemic. The swift recovery is attributed to unprecedented levels of support from the Government and the RBNZ.

Downside risk to economic recovery is a reality as new community outbreaks of COVID-19 forced New Zealand into various stages of lockdown at the time of writing. Until a vaccine is successfully rolled out, this may be a reality for New Zealanders and the New Zealand economy. The Government continues to provide stimulus to support the economy during the period of lockdowns.

Construction is projected to be a key driver of economic growth. Low interest rates have stimulated housing demand and new builds, which also supports retail spending.

Demand for New Zealand's food exports has been strong through the pandemic, except for seafood. Demand for horticulture, red meat and dairy has been solid, with export returns supporting the country's economic recovery.

COVID-19 disruptions continue to cause logistics issues for both importers and exporters globally. Reduced capacity to manage freight has led to port congestion and delays in shipping. The delays in imports are raising costs for many New Zealand businesses.

Global dairy prices lifted significantly in early 2021 in response to demand from China and South-East Asia. Fonterra Co-operative Group Limited, which is the largest milk processing company, revised its farmgate milk price upwards, which will result in lifting confidence in this sector.

While sheep and beef farmers are expecting a more subdued season ahead from a climatic perspective, 2020 was significantly more positive for returns and production than expected, given the impact of drought and COVID-19.

Environmental regulation and the commitment to reducing greenhouse emissions are significant challenges ahead for the agricultural sector. There is a significant amount of work being done in the industry to support farmers through these challenges and minimise the impact on farm profitability.

The outlook is expected to improve from early 2022. The global economy will become more settled and predictable, and the border is expected to reopen. An increase in tourism and service exports will support New Zealand economic growth. Earning potential is expected to increase and business confidence is expected to return as the disruptions of COVID-19 diminish. Inflation is likely to increase, and interest rates will also eventually begin to lift. The government will be looking towards achieving more sustainable debt levels following the expense of COVID-19. A decrease in Government spending and tax increases are potential tools to achieve this.

Interest Rates

In late 2020, the Reserve Bank of New Zealand (RBNZ) signalled a move towards a negative official cash rate (OCR) would be likely in the first half of 2021 to continue to support demand. As evidence of stronger than expected economic activity began to emerge in late 2020 and early 2021, the need for a negative OCR was being questioned by many economists. The Government's fiscal support policies during 2020 had done a much better job than expected at maintaining economic activity.

The RBNZ's March 2021 monetary policy statement (MPS) confirmed this and held the OCR unchanged at 0.25 per cent. This followed a 12-month period when the OCR was unchanged that the RBNZ committed to when it made an emergency cut to the OCR in March 2020 as a response to the COIVD-19 pandemic. The next MPS will be made in May 2021.

Current policy settings are expected to drive an increase in inflation. The RBNZ's annual inflation target of 2 per cent is now an expectation. This lift in inflationary pressure will reduce the chance of the RBNZ moving towards a negative OCR.

The heat of the housing market has now been added as a priority for the RBNZ. In March 2021, the Government directed the RBNZ to consider the impact on housing when making monetary and financial policy decisions, to help the Government meet its goal of achieving lower house prices and dampen investor demand.

Exchange Rates

The exchange rate is going to be a major limiting factor to export performance in 2020-21. The NZD is forecast to appreciate against the USD, which is the major trading currency for New Zealand meat, by 12.5 per cent. The relative strength of the NZ economy combined with a weaker USD have led to an outlook for the NZD to average USD0.72 for 2020-21, compared to USD0.64 for 2019-20.

This will have a significant impact on international export prices and will flow through into farmgate returns. It also reduces NZ's exporting competitiveness against other exporters, such as South American countries that are significant in the global beef trade, and which are currently experiencing weaker currencies.

Table 2 New Zealand Dollar Exchange Rates

	Annual Average		
Sep Year	USD	GBP	EUR
2018-19	0.67	0.52	0.59
2019-20	0.64	0.50	0.57
2020-21f	0.72	0.52	0.58
2020-21f % change	+12.5%	+4.0%	+1.8%

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

Dynamics of Global Trade 2021

COVID-19

COVID-19 disruption has been far-reaching through the red meat supply chain, but in comparison to many other industries, the New Zealand red meat sector has navigated its way through the pandemic successfully. New Zealand's resilience has stemmed from having diverse markets and the ability to adapt to changing market trends.

COVID-19 will continue to have an influence on global trade through 2021. The risk of resurgence and further restrictions on global economic activity remain very real. The success of vaccination programmes will be monitored closely as a key variable in the speed of economic recovery. Key COVID-19 challenges for the New Zealand red meat industry include meeting the requirements of changing consumer buying behaviour and disruptions to logistics.

The COVID-19 pandemic has changed the dynamics of consumer eating behaviour around the globe. While the change has had a detrimental impact on the foodservice sector, it has created opportunity in the retail and home-delivery sector. COVID-19 lockdowns forced consumers to experiment with home cooking and accelerated the growth of the retail and in-home dining market. Growth in e-commerce complemented the shift towards home cooking. Pandemic lockdowns forced a shift to online meat purchasing, and the uptake suggests it is likely to be a significant distribution channel for meat in the future.

New Zealand exporters responded to the changing demand pattern, increasing their focus on products suitable for retail. There is recognition that retail sales and in-home dining will make up an increasing share of sales, at the expense of foodservice, and that marketing and promotion needs to be directed into this area. This comes with challenges for New Zealand meat exporters, requiring changes in cut specification, packaging, and promotion. Retail also demands a consistent year-round supply of product, which can be challenging for New Zealand's very seasonal production base.

Trade shifts caused by COVID-19 significantly disrupted the flow of containers around the globe. The rapid recovery of the Chinese economy relative to the rest of the world has driven a sharp lift in Chinese exports and in turn very high demand from China for containers. Containers and shipping space are at a premium. New Zealand shipping rates have increased four-fold since April 2020 as a result, which will ultimately flow back into returns at the farmgate. Not only have the costs of shipping surged, but there are additional costs and risk associated with extended wait times due to port congestion. There is no short- or medium-term relief expected for shipping costs and trade flows are unlikely to settle to "normal" patterns until late 2021 or early 2022, which means logistics will be a significant challenge for red meat exporters in 2021.

African Swine Fever (ASF)

China has been driving global pork demand for the last two years as ASF created a significant supply gap. While Chinese pork supplies have been rapidly increasing and reports from China are signalling the pig herd is in recovery, USDA forecasts in February 2021 continue to show a significant supply shortfall. In 2021, Chinese pork production is expected to be 14 per cent higher than in 2020, but still down 23 per cent from pre-ASF levels. Prices for hogs, baby pigs and pork remain at high levels, indicating recovery is still a key focus. USDA data shows pork prices in early 2021 were 12 per cent lower than in 2020, but 110 per cent higher than in 2018, prior to the discovery of ASF. USDA also suggests that the quick recovery of the pig breeding herd may have been done at the expense of genetics and productivity.

Trade relationships

Trade policies remain a major factor affecting the dynamics of world meat markets and are critical to New Zealand red meat given the reliance on exports.

In 2021, New Zealand's negotiations with both the UK and EU-27 will be a key focus. Negotiations continue around splitting New Zealand's existing tariff-rate quotas (TRQs) for sheepmeat and goat meat and high-quality beef. This is discussed in more detail in the report.

Negotiations for Free Trade Agreements (FTAs) with both the UK and EU-27 are also in progress. These could offer significant opportunities for beef exporters to expand sales into these high-value markets. Conclusion and implementation of such agreements, particularly with the EU-27, depend on the negotiation.

The US-China trade relationship will also be watched in 2021. The "Phase One" agreement was completed and implemented in 2020. Exports from the US to China increased dramatically in late 2020 and early 2021. This trend will continue in 2021. Commentary from the USDA signals that the Biden administration is not likely to review the current trade relationship between China and the US in the short term.

Other factors

There is an increasing awareness and change in behaviour of consumers globally around red meat and product attributes other than price.

Health and nutrition, food safety, animal welfare, regenerative agriculture, the environment, and climate change are part of a growing list of factors

that are changing consumer demand patterns, most notably in high-income countries.

Policy initiatives around climate change and environmental regulation, both domestically and globally, will be a significant consideration for the New Zealand red meat sector.

The shift towards environmentally sustainable consumption and production patterns such as regenerative agriculture are new factors that are difficult to assess. OECD-FAO note that if such trends were adopted by an increasing share of the population, however, global meat markets could be affected, although the extent to which consumers are willing and able to pay a premium for such goods is unclear. In many low-income regions, affordability remains a primary concern.

Exchange Rate Sensitivity – 2020-21

In the 2020-21 season, the NZD is expected to appreciate sharply against the USD and lift against the GBP and EUR (Table 2). The value of the NZD against the USD has the greatest effect. Just under 80 per cent of New Zealand's red meat exports were traded in this currency in 2019-20. The EUR and CNY each account for less than 10 per cent of meat export trades, and, the GBP is still important to New Zealand's lamb exports because nearly five per cent is traded in this currency.

Our forecasts of exchange rates for the major currencies and the related farmgate prices used to derive the base estimates of export receipts and farm revenue in this report are shown in the shaded column of Table 3. Four other scenarios show the impact on farmgate prices of variations of ±5 and ±10 per cent in the exchange rates for the USD, GBP, and EUR.

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

Exchange rate movements have a significant leveraged effect on farmgate prices. All other things being equal, a 10 per cent **depreciation** of the NZD against the USD (i.e. from 0.72 to 0.65) and the associated cross rates against the GBP and the EUR, **increases** the average lamb price received by farmers by 16 per cent. Alternatively, if the NZD **appreciates** by 10 per cent – from 0.72 to 0.79 against the USD – then the farmgate lamb price **decreases** by 13 per cent.

Table 3 Exchange Rate Sensitivity

NZD Exchange Rates						Exchange Rate Change from USD 0.72	
						to USD 0.65	to USD 0.79
USD	0.65	0.68	0.72	0.76	0.79	-10%	+10%
GBP	0.47	0.49	0.52	0.55	0.57	-10%	+10%
EUR	0.52	0.55	0.58	0.61	0.64	-10%	+10%
Farm-Gate Prices Received							
$ / head							
Lamb	141	131	122	114	106	+15.8%	-12.9%
Mutton	144	133	122	112	104	+18.3%	-15.0%
Steer/Heifer	1,627	1,513	1,409	1,316	1,232	+15.4%	-12.6%
Cow	783	728	678	634	593	+15.4%	-12.6%
Bull	1,803	1,676	1,562	1,459	1,365	+15.4%	-12.6%
All Beef	1,335	1,241	1,157	1,080	1,011	+15.4%	-12.6%
¢ / kg							
Lamb[1]	744	691	643	599	560	+15.8%	-12.9%
Mutton[1]	558	513	472	435	401	+18.3%	-15.0%
Steer/Heifer	579	538	502	469	438	+15.4%	-12.6%
Cow	394	366	341	319	298	+15.4%	-12.6%
Bull	598	556	518	484	452	+15.4%	-12.6%
All Beef	526	489	455	425	398	+15.4%	-12.6%
Fine[2]	1,669	1,530	1,405	1,292	1,189	+18.8%	-15.4%
Medium[2]	799	733	673	619	570	+18.8%	-15.4%
Crossbred[2]	228	209	192	177	163	+18.8%	-15.4%
All Wool[2]	354	324	298	274	252	+18.8%	-15.4%

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

Sheepmeat Outlook 2020-21 – Opportunities and Challenges

Opportunities

Consumption growth is projected in Asian markets as the size of the middle class increase and a shift of more consumers into urban areas takes place.

Demand for high quality protein in Asian markets is lifting as the wealth of consumers increases.

ASF continues to drive import growth for meat proteins. Despite the reported recovery of China's pig herd, China's protein supply will remain in deficit during 2021.

There is increased consumer awareness and recognition regarding "claims-based" meats. This includes food safety, traceability, sustainability, animal welfare, grass-fed and antibiotic free. New Zealand's reputation as a producer of natural red meat positions our sheepmeat well to capitalise on this opportunity.

Sheepmeat is a niche meat in most developed markets. As such, it has the opportunity demand a price premium.

There has been a shift in consumer behaviour towards in-home dining as a result of the pandemic. The retail and e-commerce markets have experienced strong growth, providing opportunities for NZ sheepmeat exporters to connect with a growing number of global consumers.

Challenges

COVID-19 disruption will be on-going in 2021

- Significant risk remains around further resurgence of the virus.
- There is uncertainty surrounding the roll-out and effectiveness of the vaccination programme.
- A full recovery in sheepmeat demand relies on swift global economic recovery, which in turn will rely on a successful vaccination roll-out.
- Foodservice sector demand is expected to remain weak in 2021.
- Increased costs across the entire supply chain.
- Logistical challenges with containers and port blockages increase risk for sheepmeat exporters and sheep farmers.

The forecast for a sharply higher NZD/USD will decrease the competitiveness of New Zealand exports.

The high price of sheepmeat as a niche protein is a challenge for growing consumption growth, particularly when compared with cheaper competitor proteins such as pork and chicken.

New Zealand's seasonal and declining production will prove a challenge for exporters to maintain year-round, consistent supply of sheepmeat to the retail market.

Trade risk continues to exist for sheepmeat exporters as negotiations post Brexit continue.

Expansion in Australian sheep flock. Australia's competitive presence in the US lamb market will increase in 2021 with a 10 per cent lift in Australian lamb exports projected.

Lamb & Mutton Exports

Lamb

2020-21 Outlook

The 2020-21 lamb export season had a mixed start. Continuing disruption from COVID-19 in the foodservice sector was expected to weigh on prices, however the sharp lift in the value of the NZD was unexpected and will weigh on export returns.

China has proven to be a shining light for sheepmeat exports in the season to date (October 2020 to January 2021). Demand has been solid and in-market prices have firmed. There is, however, some uncertainty around how sustainable demand and pricing will be from this market.

Despite the positive demand signals from China, overall, the forecast for the outlook period is subdued. Total lamb export receipts are forecast to decline 14 per cent on 2019-20. This is driven by a 4.4 per cent decline in lamb export production and a 9.8 per cent decline in the average per-tonne value of lamb.

It should be noted that 2019-20 was an exceptionally strong year, and year-on-year comparisons will reflect this. Demand from China was exceptionally strong in the first quarter of the 2019-20 season, driven by the ASF-driven pork shortage. Export prices reached unprecedented levels. Compared to the five-year average, the 2020-21 average value is up by two per cent. Total export receipts are forecast to be one per cent below the five-year average however, driven by lower production.

The sharply higher NZD is a key driver of lower export returns in 2020-21.

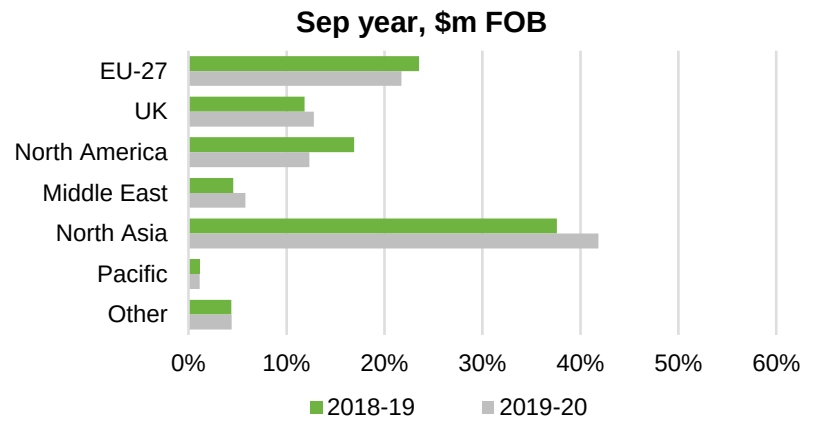
Demand patterns from China will be a key driver of export performance for the season. In the first four months of 2020-21, China accounted for just over half New Zealand's total lamb exports. Any volatility in this market will be felt in overall export returns.

Chinese demand has been strong in the season to date. This was influenced by buying patterns for the Chinese New Year (early February), which is a peak consumption period for the Chinese population. Signals from China suggested demand held up in the period after Chinese New Year celebrations.

However, it is too early to gauge a direction and demand will need to hold up under New Zealand's peak lamb production in February and March.

While there has been growth in the average value of lamb exports to China in recent years, this market continues to be New Zealand's lowest value market, which reflects the type of products it demands. For the first four months of the season, the average value of lamb exports to China was $8,100 per tonne, compared to $10,200 per tonne for total lamb exports to all markets. Half the exports to China were breast and flap items. Encouragingly, there has been an increase in exports of higher-value bone-in legs in recent months, the volume of which was 19 per cent higher in the first four months of 2020-21 than it was in the same period of 2019-20

Figure 1 New Zealand Lamb Export Value



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

Table 4 New Zealand Lamb Exports

	Lamb meat			Co-Products	Total Lamb	Lamb Meat
Sep Year	000 tonne	$ / tonne	$m FOB	$m FOB	$m FOB	%
2016-17	295	8,603	2,538	168	2,706	94%
2017-18	313	10,086	3,156	199	3,355	94%
2018-19	305	10,445	3,186	203	3,389	94%
2019-20	310	10,822	3,353	154	3,507	96%
2020-21e	296	9,763	2,893	142	3,034	95%
2020-21e % change	-4.4%	-9.8%	-13.7%	-8.0%	-13.5%	

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

and which accounted for 11 per cent of New Zealand lamb exports to China.

Export markets where New Zealand lamb has a strong presence in the foodservice sector continue to struggle with COVID-19 disruption. Recurring waves of the pandemic, subsequent lockdowns and enforced physical distancing have prevented recovery in the foodservice sector. Recovery is unlikely until vaccination programmes have been successfully rolled out.

The impact of weak foodservice sector demand for New Zealand lamb has been significant in the EU-27 and US. New Zealand lamb exports to these markets are typically higher-value cuts predominantly destined for the restaurant trade.

The average value per tonne of lamb exports to the US in 2019-20 was down 10 per cent on 2018-19. In the first four months of 2020-21 (i.e. October to January), the average value of exports was down 26 per cent on the same period in 2019-20. The Frenched Rack is a key component of New Zealand lamb exports to the US for the restaurant trade, and demand has been severely dented by COVID-19. From October 2020 to January 2021, the average value of Frenched Rack exports was down 35 per cent on the same period in 2019-20, and down 21 per cent on the five-year average.

It is a similar story in the EU-27, where New Zealand lamb exports have a strong presence in the foodservice sector. The average value of lamb exports for October 2020 to January 2021 was down 12 per cent on the same period of 2019-20 and also down on historical averages.

While COVID-19 has adversely impacted the foodservice sector, lamb sales in the retail sector have experienced significant growth through the pandemic. As lockdowns forced consumers to cook at home, sales of meat through retail and e-commerce channels soared. The UK, which has traditionally been a strong retail market for New Zealand lamb, has been a solid performer through the pandemic. There has been good demand for chilled product, which has been an increasing focus for New Zealand lamb exporters in markets such as the UK and the US.

Opportunities for export growth into non-traditional lamb markets in 2020-21 will potentially be constrained by the decline in production. New Zealand lamb exporters are likely to focus on maintaining supply relationships with existing customers.

COVID-19 has weighed on the co-product market, in particular skins and hides. Demand for high-value consumer goods, where these products are largely utilised, has been close to non-existent because of the global pandemic.

Mutton

2020-21 Outlook

Mutton exports have performed strongly amid the global pandemic. The lower-value sheepmeat items have experienced strong demand, and global mutton supply has been low as Australian farmers focus on re-building sheep flocks following drought.

China is the key driver of mutton exports, accounting for three quarters of exports in 2019-20 and just under 90 per cent of exports for the first four months of 2020-21. The speed of economic recovery in China following the COVID-19 outbreak has supported this market.

The drivers of demand for lamb and mutton in China are similar. Chinese demand for mutton has been strong so far this season, fuelled by Chinese New Year demand. However, there remains some uncertainty regarding the sustainability of demand.

Mutton carcasses accounted for 45 per cent of exports to China in the first four months of the season. This is up on historical trends; however, it is worth noting that the average value of carcases is only 10 per cent lower than the average value of all lamb items exported to China.

In 2020-21, total mutton meat exports are expected to decline 2.9 per cent to 84,000 tonnes. The average value of mutton exports is estimated to decline 4.6 per cent and total FOB receipts (including co-products) are expected to be down 7.1 per cent. The sharply higher NZD is a contributing factor to lower export returns.

Table 5 New Zealand Mutton Exports

	Mutton meat			Co-Products	Total Mutton	Mutton Meat
Sep Year	000 tonnes	$ / tonne	$m FOB	$m FOB	$m FOB	%*
2016-17	81	5,247	424	120	544	78%
2017-18	94	6,460	606	154	760	80%
2018-19	84	6,715	564	100	664	85%
2019-20	86	7,523	647	105	752	86%
2020-21e	84	7,175	600	99	699	86%
2020-21e % change	-2.9%	-4.6%	-7.4%	-5.8%	-7.1%	

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

Lamb & Mutton - International Situation

Overview

The outlook for global sheepmeat trade for 2020-21 holds uncertainty. COVID-19 continues to have a far-reaching impact across the supply chain, with ongoing weak foodservice sector demand and logistics expected to be significant challenges.

On the positive side, consumption growth from Asian countries is expected as household wealth grows and demand for high-quality protein increases. ASF continues to drive import growth from China for all major proteins. Despite the reported recovery of China's pig herd, China's protein supply will remain in deficit during 2021.

Globally, sheepmeat is a niche product compared with beef, pork and poultry. Sheepmeat consumption accounts for five per cent of total meat consumption globally, with little increase expected in the long term. For a large part of the global population sheepmeat is an unfamiliar product, with consumers having limited knowledge of flavours and cooking experience.

In emerging markets there is also a lack of differentiation between mutton and lamb in how sheepmeat is used by the consumer. This has increased the value of mutton in recent years both for export and farmgate returns.

Global sheepmeat consumption is forecast to grow in 2021, supported by growth in population and household wealth. The OECD-FAO (2020) reported an average growth of 1.4 per cent per annum to 2024, with developing Asian markets the key drivers.

The lift in consumer wealth in emerging markets creates marketing opportunities for high-quality protein. There is also potential to leverage off shifting consumer awareness around "claims-based meat", promoting New Zealand's food safety, grass-fed and antibiotic-free status. However, conversely, the higher price associated with the niche position has the potential to limit consumption growth due competitive pressure from cheaper pork and poultry.

The growth in global retail sales and e-commerce experienced as a result of COVID-19, is expected to continue in 2021. New Zealand sheepmeat exporters are shifting their focus to these channels. This requires changes in packaging and cut specifications. The retail channel also requires year-round supply, which may prove a challenge with New Zealand's very seasonal production.

The speed of global economic recovery will have a large influence on demand and export prices in 2021. While all markets are forecast to grow during the year, downside risk remains with further spread of COVID-19 and the speed and/or effectiveness of the vaccination programmes.

The OECD-FAO reports that global sheepmeat production grew at an annual rate of 1.6 per cent between 2010 to 2020. It is expected to continue to grow, driven by the expansion of the Chinese sheep flock.

New Zealand and Australia remain the two largest sheepmeat exporters, however combined production of these two countries only accounts for 8 per cent of global production.

China

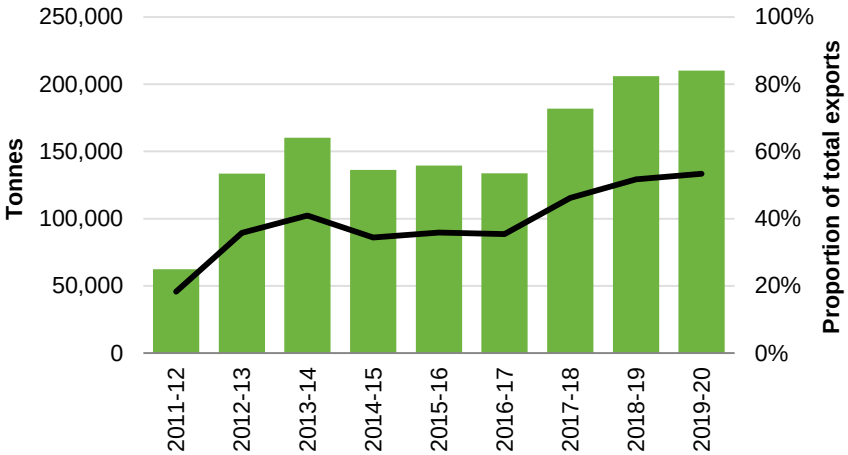
China is the leading destination for New Zealand lamb and mutton exports and is critical to sheepmeat export performance. In 2019-20, China accounted for 45 per cent of New Zealand lamb exports and 74 per cent of New Zealand mutton exports.

Import demand for sheepmeat from China has lifted in recent years, underpinned by a shift of more consumers into the middle-upper income brackets and ASF-fuelled demand. Both factors are expected to continue to underpin sheepmeat import demand during 2021.

China has the world's largest sheep flock, and accounts for one-third of global production. Of China's total sheepmeat consumption, 95 per cent is domestically produced, meaning shifts in production can cause shifts in demand for imports. Production increased in 2020 as producers were enticed by the sharp lift in sheepmeat prices, which was due to pork shortages. Production is expected to peak in 2021, and then even out as the pig herd recovers from ASF.

The recovery of the Chinese pig herd and subsequent lift in domestic pork supplies is a certainty and will have the potential to impact Chinese sheepmeat imports. However, there is unlikely to be any adverse impact in 2021, and the degree of the impact is uncertain. The growing wealth of the Chinese consumer and a growing

Figure 2 New Zealand Lamb Exports to China (Sep year)



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

awareness of the quality of sheepmeat as a protein source, are forecast to underpin the niche status of sheepmeat in the Chinese market and provide some buffer from the growing presence of domestic pork. Import prices are expected to fall from the highs of recent years however, as protein supplies balance out.

China's sheepmeat imports were negatively impacted by the COVID-19 pandemic. While the virus was quickly contained in China and the economy recovered swiftly, foodservice demand remained weak for much of the year. Foodservice is the predominant distribution channel for New Zealand sheepmeat, with traditional hot pot restaurants a major purchaser. Sheepmeat imports during 2020 dropped 10 per cent on 2019 because of COVID-19, but remained the second highest on record.

The dynamics of meat production, consumption and trade in China will continue to be a leading driver of New Zealand sheepmeat export performance in 2021 and beyond. For the outlook period, key factors to watch will be economic recovery, foodservice demand recovery, logistics and the rebuilding of the Chinese pig herd.

Australia

Australia is New Zealand's primary competitor in global sheepmeat trade. In 2020, New Zealand accounted for 52 per cent of global lamb exports, and Australia made up 48 per cent. Australia had the leading market share of global mutton exports at 57 per cent, and New Zealand made up the remaining 43 per cent.

The Australian sheep flock is reported to be entering a significant rebuilding phase in 2021. As a result, New Zealand can expect to experience an increased competitive presence from Australian sheepmeat in export markets in 2021 and the longer term.

Following the severe drought of 2019, the Australian sheep flock reached its lowest level in over 100 years in 2020. Production and exports during 2020 were subsequently well down. Lamb exports declined 6 per cent and mutton exports were down a sharp 24 per cent. New Zealand enjoyed a less competitive trading environment.

Favourable seasonal conditions in eastern Australia are driving the national flock rebuild, despite Western Australia still suffering from dry conditions. Meat & Livestock Australia (MLA) is forecasting the national flock to increase 5 per cent between June 2020 and June 2021 and experience a rapid expansion after that to 2023.

Lamb production is expected to lift 6 per cent in 2021, underpinned by improved carcase weights and a 4 per cent lift in lamb slaughter.

Australia's lamb exports are expected to lift 10 per cent in 2021 and a further 7.5 per cent in 2022. Mutton exports are expected to hold steady in 2021 and then increase 10 per cent in 2022.

Longer term, Australia is positioned to re-emerge as a more significant competitor for New Zealand sheepmeat exports. MLA has projected that both mutton and lamb exports will increase by about 25 per cent between 2020 and 2023.

In 2020, China was the top destination for both Australian lamb and mutton exports, although volumes were down on 2019 due to supply restrictions as well as COVID-19 disruption.

In contrast to New Zealand, Australian lamb exports to the US lifted in 2020. Australian lamb has a greater retail focus compared to New Zealand's foodservice sector orientation. The US was Australia's second-largest market for lamb exports in 2020.

In 2021, China and the Middle East are expected to be significant markets for Australian sheepmeat, and the US will continue to be a focus for lamb.

EU-27

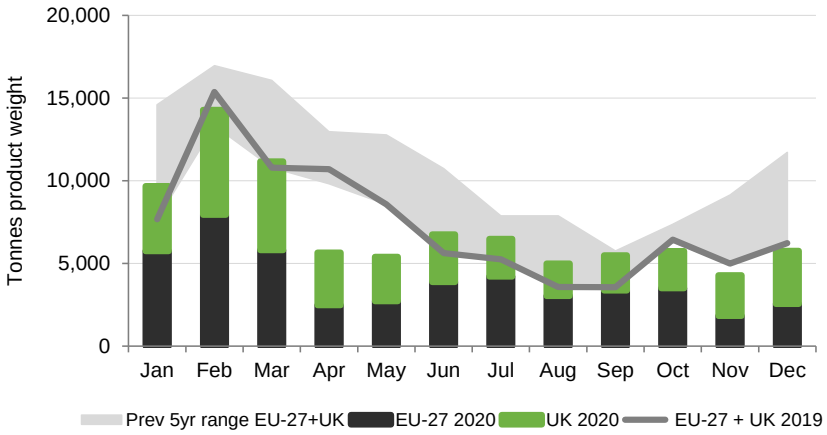
The EU-27 markets are the second largest destination for New Zealand lamb exports. The countries within this region generated the highest average export values during 2019-20.

The high-value nature of this region means it will remain an important focus for New Zealand lamb exports, however there are several challenges for NZ exports, and import growth opportunities are limited.

On a supply and demand basis, sheepmeat production in the EU-27 is expected to be largely stable in the short to medium term, as is sheepmeat consumption.

COVID-19 will be the largest disruptor to import demand in 2021. A large proportion of New Zealand lamb exports to this region are destined for the foodservice sector. COVID-19 has severely restricted demand from this sector and recovery is

Figure 3 Monthly New Zealand Lamb Exports to UK+EU-27



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

expected to be slow through 2021 and will rely on a successful rollout of vaccinations and a swift economic recovery.

New Zealand sheepmeat exporters will also be monitoring new environmental regulations in the EU. The "Green Deal" plans to decarbonise the EU economy with greenhouse gas emission reductions. The deal features a carbon tax on imports at the border – a Border Adjustment Tax – to maintain competitiveness against other countries not focused on cutting greenhouse gas emissions. While New Zealand is committed to reducing greenhouse gas emissions, there is concern the border tax may not be equitable across all competitors.

UK

As an individual market, following Brexit the UK is New Zealand's third-largest export destination.

The UK performed above expectations through 2020. Lamb has a strong retail presence in the UK and retail items performed solidly during COVID-19 as consumers moved to dining at home during 2020. The UK Agriculture and Horticulture Development Board (AHDB) estimates that total lamb volumes sold at retail were 3 per cent higher than in 2019. Lamb also performed solidly in the home-delivery and takeaway channels.

The shift in consumer behaviour towards in-home dining in the UK offers opportunity for increased retail sales, capitalising on the rapid growth of the sector because of COVID-19.

The UK's domestic sheepmeat production is forecast to decline 4 per cent in 2021. This provides further growth potential for New Zealand exports, as domestic production is the largest competitor.

The UK relies on imports to meet retail demand for items such as lamb legs, which are the dominant sales category in this market. For this reason, AHDB projects that there is a limit to how much imports can fall in relation to demand. AHDB is forecasting imports to decline 2 per cent in 2021.

UK sheepmeat exports are expected to fall in 2021 due to declining lamb production and new regulations for trade with the EU-27.

Brexit

The withdrawal of the UK from the EU region has been significant for both the UK and EU sheep sectors. The trade deal that was negotiated as part of Brexit has enabled trade flows to remain and eased some uncertainty. In the short term there have been limitations in administering the new trading rules and this has resulted in product delays at the border, however these will be smoothed over with time. There remains uncertainty about whether the trade friction that has emerged from Brexit will have an impact on long-term trade between markets.

New Zealand lamb exporters will be watching carefully the ongoing negotiations surrounding the split of the sheepmeat tariff-rate quota (TRQ) into the UK and EU-27. At this stage, NZ exporters (individually) will have to manage TRQ allocations (of sheepmeat and goatmeat) that presently are split evenly between the UK and EU-27.

United States

The United States was New Zealand's fourth largest market for lamb by volume and value in 2019-20. It was a challenging market for New Zealand lamb exports in 2020 as sales are predominantly focused on the COVID-19 impacted foodservice sector.

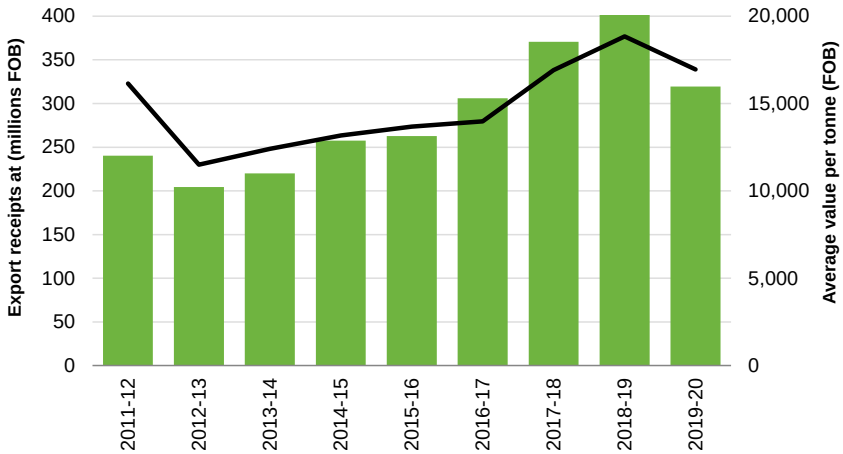
High-value middle cuts, such as racks, destined for the restaurant trade struggled to maintain regular sales volumes. Prices received for these items reflected the weak demand. In contrast, lamb destined for retail performed well, including chilled lamb.

Sheepmeat is an unfamiliar protein for a large proportion of the US population, and only accounts for 0.5 per cent of protein consumption. Some reports suggest that there is an opportunity to market lamb to the millennial generation, who are more inclined to explore new tastes.

In 2020, imports accounted for approximately 70 per cent of total sheepmeat consumed in the US. Australia and NZ are the dominant suppliers, with Australian lamb having a 74 per cent share of US lamb consumption and New Zealand lamb accounting for 26 per cent.

The US market is expected to remain a challenging market in 2021 as the foodservice sector remains impacted by COVID-19. New Zealand lamb exporters will be focusing on diversifying the product mix to suit the stronger retail market, including an increased focus on sales of chilled lamb.

Figure 4 NZ Lamb Exports Receipts from US (Sep year)



Lamb & Sheep Prices – Farmgate

Increasing competition from Australian lamb will pose a threat to New Zealand exporters, particularly as Australian lamb exports are forecast to lift 10 per cent during 2021.

Lamb

Farmgate returns for lamb in the 2020-21 season are forecast to decline 12 per cent on 2019-20. Key drivers of the decline are the sharply higher exchange rate and continuing weakness in the global foodservice sector due to COVID-19. Weak co-product prices are also a contributing factor to lower farmgate returns.

The weighted average farmgate price for lamb is forecast at $122 per head or 643 cents per kg. This is 12 per cent below last season and 2 per cent below the five-year average level on a cents per kg basis.

Table 6 Lamb Price Sensitivity

All Class Lamb Price				
Exchange Rate		$ per head	c per kg	
Low NZD				
USD	0.65			
GBP	0.47	141	744	**High**
EUR	0.52			
Mid NZD				
USD	0.72			
GBP	0.52	122	643	**Mid**
EUR	0.58			
High NZD				
USD	0.79			
GBP	0.57	106	560	**Low**
EUR	0.64			

Source: Beef + Lamb New Zealand Economic Service

Market conditions are expected to remain volatile during the 2020-21 season, and forecasts should be interpreted with this in mind.

Supply chain disruption due to COVID-19 continues to be a reality both domestically and internationally. There is significant logistical risk for exporters as peak lamb production approaches. Disruption to shipping and backlogs in ports have been common in the post COVID-19 world. Shipping delays have also flowed into pressure on cool storage in NZ, limiting processors' ability to move product. A shortage of skilled labour is also an issue for some meat processing regions. All these supply chain disruptions add to the cost of processing and reduce margins. These ultimately flow back into farmgate returns.

Lamb farmgate returns will be sensitive to Chinese demand and also recovery in the foodservice sector.

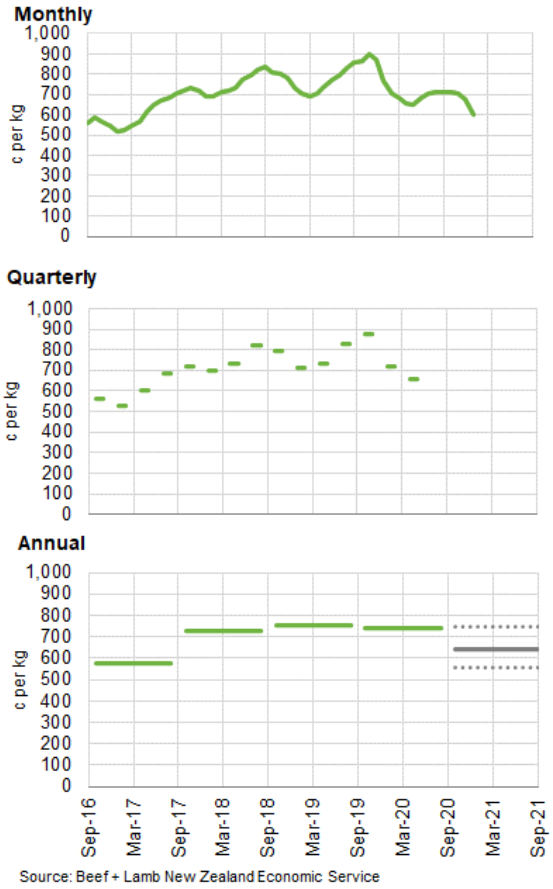
Mutton

The annual average mutton price for the 2020-21 season is forecast to decline by 1.8 per cent on 2019-20 to $122 per head or 472 cents per kg. The forecast price for mutton remains strong compared to the five-year average (+25%).

Demand from China for mutton was exceptionally strong during the first quarter of the 2020-21 season and there was a significant lift in in-market prices. The exchange rate is the limiting factor for farmgate prices being firmer.

For the first time, the per head price for lamb and mutton is forecast to be the same. The impact of COVID-19 on both the foodservice sector and the global economy has strengthened demand for lower-value sheepmeat items. It has also been noted by some exporters that in many Asian markets, there is little differentiation made between lamb and mutton.

Figure 5 Weighted Average Lamb Farmgate Price



Source: Beef + Lamb New Zealand Economic Service

Lamb & Mutton Production

Table 7 Export Lamb Production

Sep Year	Lamb Crop million head	Slaughter million head	Carcase Weight kg	Production 000 tonne bone-in
2016-17	24.1	19.2	18.6	358.3
2017-18	24.7	19.9	18.6	368.9
2018-19	24.0	18.8	19.1	359.0
2019-20	23.2	19.1	19.0	363.5
2020-21e	22.9	18.2	19.0	347.6
2020-21e % change	-1.2%	-4.5%	+0.1%	-4.4%

e estimate, f forecast

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

Lamb

The total number of lambs tailed in the spring of 2020 is estimated at 22.9 million head, down 1.2 per cent or 0.3 million head on the previous spring. The key driver of the decline in the lamb crop was the severe drought experienced on the East Coast of the North Island in the first half of 2020. The North Island recorded a 4.8 per cent decline in lamb numbers. The number of lambs tailed in the South Island lifted 1.6 per cent.

The national lambing percentage for 2020 was 130.3 per cent, down only 0.7 percentage points on 2019, despite the severe drought. Excellent spring conditions in most sheep producing regions resulted in good survivability and balanced the poorer conception rates resultant from drought impacted ewes.

The number of breeding ewes at 1 July 2020 was static on 2019. There is a small decline (-1%) in breeding ewe numbers forecast to June 2021.

For the year ending September 2021, the number of lambs processed in export-approved premises is estimated to decline 4.5 per cent or 0.9 million head to 18.2 million.

Export lamb production is subsequently forecast to decline 4.4 per cent on 2019 to 347,600 tonnes bone-in. This will be the lowest lamb production on record.

Confidence in the industry is subdued. Farmgate prices have eased from recent high levels, farmers are wary of the volatility of weather events and environmental regulation is weighing heavily on morale. Forestry is also spreading into sheep farming land. All of these factors will weigh on future expansion of breeding ewe numbers.

Mutton

The number of adult sheep processed in 2020-21 is expected to be down 3.7 per cent on 2019-20.

The decline in ewe processing is driven by a higher off-take of ewes during the 2020 drought and farmers seeking to recover/maintain ewe numbers.

Ewe processing numbers have been elevated for the first four months of the 2020-21 season. There are several contributing factors to this. Following the drought of 2020, farmers were wary of dry conditions and made decisions early following a dry spell late in spring. Schedule prices for mutton are very high and similar to lamb. Culling old ewes is an attractive option for farmers, particularly when the increased cost of shearing is considered.

Ewe processing numbers are expected to drop off in coming months, with a slight resurgence after scanning. Given the strong start to the processing season and the strong mutton schedule, there is some risk around the declining forecast, should farmers continue to be enticed by high returns and cull deeper into ewe numbers.

The average mutton carcase weight for 2020-21 is estimated to be 0.8 per cent up on 2019-20, remaining historically high.

Export mutton production is estimated to be 2.9 per cent down in 2020-21, making it the lowest production on record.

Table 8 Export Mutton Production

Sep Year	Slaughter million head	Carcase Weight kg	Production 000 tonne bone-in
2016-17	3.6	25.7	92.2
2017-18	4.0	25.8	102.5
2018-19	3.4	26.8	90.5
2019-20	3.5	25.9	91.4
2020-21e	3.4	26.1	88.8
2020-21e % change	-3.7%	+0.8%	-2.9%

e estimate, f forecast

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

Beef Outlook 2020-21 – Opportunities and Challenges

Opportunities

Consumption growth is projected in Asian markets as the size of the middle class increases and a shift of more consumers into urban areas takes place.

Demand for high quality protein in Asian markets is lifting as the wealth of consumers increases. New Zealand has a premium market position as a supplier of high-quality beef in an increasingly competitive market.

ASF continues to drive import growth for meat proteins. Despite the reported recovery of China's pig herd, China's protein supply will remain in deficit during 2021.

Australian beef exports are projected to remain below the five-year average level in 2021, lowering competitive pressure from this market.

There is increased consumer awareness and recognition regarding "claims-based" meats. This includes food safety, traceability, sustainability, animal welfare, grass-fed and antibiotic free. New Zealand's reputation as a producer of natural red meat positions our beef well to capitalise on this opportunity.

There has been a shift in consumer behaviour towards in-home dining and the retail and e-commerce markets have experienced strong growth. Beef has proven to be an easy, convenient and tasty protein source to cook at home.

Challenges

The forecast for a sharply higher NZD/USD will decrease the competitiveness of New Zealand exports.

Increasing competition from Brazil and the US in key export markets will weigh on import demand for New Zealand beef.

COVID-19 disruption will be on-going in 2021

- Significant risk remains around further resurgence of the virus.
- There is uncertainty surrounding the roll-out and effectiveness of the vaccination programme.
- A full recovery in beef demand relies on swift global economic recovery, which in turn will rely on a successful vaccination roll-out.
- Foodservice sector demand is expected to remain weak in 2021.
- Increased costs across the entire supply chain.
- Logistical challenges with containers and port blockages increase risk for beef exporters and beef farmers.

Increasing availability of lower priced pork and poultry will challenge consumption growth for beef.

The uptake of alternative proteins and shifting consumer perception that red meat consumption has an adverse impact on health and the environment is expected to be a challenge for growth in global beef consumption.

Beef & Veal Exports

2020-21 Outlook

Export returns for New Zealand beef are forecast to take a significant downturn in 2020-21. The market is one of contrast. Global demand for beef remains solid, however increasing competitive pressure from other beef-producing nations is expected to weigh on export returns, as is the sharply higher NZD.

Demand for New Zealand beef has proven resilient against COVID-19. A large proportion of New Zealand's exports are destined for the quick service restaurant (QSR) channel and retail, which have been strong performers in the pandemic.

A decline in Chinese demand for New Zealand beef imports is a key driver of the subdued outlook. Not only has the volume and price of New Zealand beef in China declined, but export prices have also weakened under a lack of competitive pressure in other markets.

The average export value per tonne for beef is forecast to decline 12.6 per cent in the 2020-21 season. Similar to sheep however, it should be noted that 2019-20 was an exceptionally strong year due to ASF-fuelled Chinese demand and the exchange rate was significantly more favourable. A 13 per cent increase in the NZD/USD exchange rate is a key driver of the lower forecast for export returns, and the 2020-21 average export value remains three per cent below the five-year average.

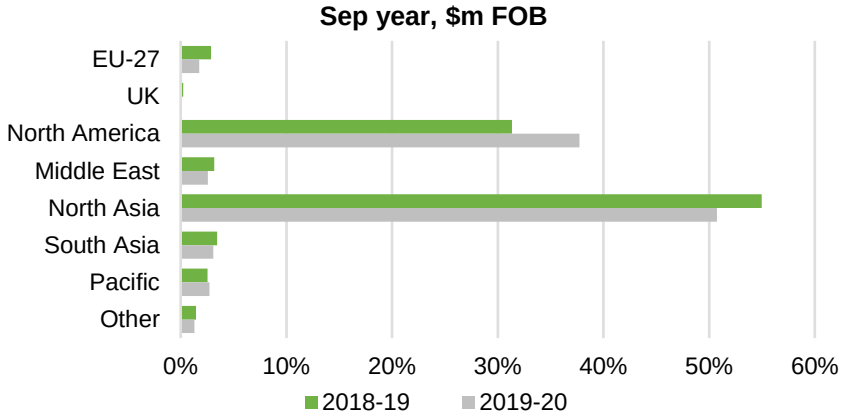
Export beef production is forecast to be down 2.6 per cent resulting in a fall of just under 15 per cent for total beef and veal export receipts.

Demand from China will be a key driver of export performance for the season. This impacts not only the exports destined for China, but also export prices in New Zealand's key beef markets.

In the first four months of 2020-21, China remained the leading destination for New Zealand beef, accounting for 40 per cent of total exports. This is down from 51 per cent for the same period last year, reflecting the trend of weaker demand from this market. The average FOB value per tonne of beef exported to China for the first four months was 20 per cent down on the same period last year.

The decline in export beef volumes to China was reflected in an increase in New Zealand beef exports to the US. In the first four months of the 2020-21 season, the US accounted for 33 per cent of total New Zealand beef exports, up from 23 per cent for the same period in 2019-20. The average FOB value of beef exported to China for the first four months was

Figure 6 New Zealand Beef & Veal Export Value



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

Table 9 New Zealand Beef Exports

	Beef and Veal Meat			Co-Products	Total Beef	Beef Meat
Sep Year	000 tonne	$ / tonne	$m FOB	$m FOB	$m FOB	%
2016-17	396	6,898	2,729	533	3,262	84%
2017-18	431	7,123	3,073	551	3,624	85%
2018-19	453	7,451	3,377	531	3,908	86%
2019-20	465	8,186	3,810	512	4,322	88%
2020-21e	453	7,156	3,244	481	3,725	87%
2020-21e % change	-2.6%	-12.6%	-14.9%	-6.0%	-13.8%	

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

20 per cent down on the same period last year.

So far in 2020-21, China and the US have accounted for just under three-quarters of New Zealand beef exports. Japan remains New Zealand's third-largest market for beef, accounting for 5 per cent of total exports.

Processing beef makes up approximately 50 per cent of New Zealand's beef exports. The average export value per tonne for processing beef in the first four months of 2020-21 was 20 per cent down on last year, but 16 per cent above the five-year average level. The increase in value of this category has been driven by the emergence of Chinese demand for processing beef. Prior to 2019-20, the US was the predominant market, and there was little competitive pressure on price.

Beef loins account for 8 per cent of beef exports, of which 25 per cent is exported as chilled product. Loin exports are the high-value portion of New Zealand's beef exports. The average value per tonne of frozen loins tracks 42 per cent above processing beef. COVID-19 has had an impact on export returns in this category. For the first four months of 2020-21, the average value per tonne of loins was down 18 per cent on 2019-20 and 17 per cent down on the five-year average.

New Zealand beef exporters have increased beef exports into other markets so far this season. The decline in Chinese demand has driven the market shift. Exports to Korea and Canada have lifted 38 per cent and exports to Taiwan have lifted 23 per cent. Beef exports to Australia have also experienced growth during 2020 and so far in 2021, lifting over 700 per cent in the first four months of the 2020-21 export season.

Beef – International Situation

Overview

The global beef market ended 2020 on a positive note, despite the disruption of COVID-19. However, the outlook for global beef trade in 2021 remains volatile. There are strong fundamentals supporting beef demand including ASF and consumption growth in Asian markets, but the market is tempered by continuing COVID-19 risk, the speed of global economic recovery and increasing competitiveness in export markets.

The global protein shortage caused by ASF is expected to continue to underpin demand for beef in 2021. Despite the reported recovery of China's pig herd, there is no evidence to suggest that pork production will increase in 2021. In the medium term, however, as China's domestic pork production recovers from ASF, there is risk that the large volumes of meat that have been imported to China to fill the gap left by ASF, will increase competition in global beef trade.

The growth of the middle-class in Asia is expected to increase the quantity of meat consumed by Asian consumers and see increased demand for meat that is high quality. There is a shift in awareness from consumers globally towards food safety, environment, and animal welfare. New Zealand beef is well positioned to fill this market.

COVID-19 resulted in a large decline in demand for beef through foodservice in 2020. The impact was most pronounced in the high-end restaurant trade and high-value beef. Sales of beef in QSRs maintained volumes, as take-aways and home deliveries were permitted under most lockdown rules.

The shift in consumer behaviour towards in-home dining because of pandemic lockdowns, accelerated retail sales of beef during 2020. Consumers have found beef an easy and convenient protein to cook at home. There is some evidence to suggest that this shift will remain a feature in 2021, meaning retail, in particular e-commerce, will become a more significant channel. New Zealand exporters are already shifting focus to this emerging trend.

Global beef consumption is forecast by the OECD-FAO to grow by 0.6 per cent per year to 2024, underpinned by consumption growth in Asia. However, the OECD projects that beef will make up a declining share of global meat consumption by 2024. Contributing factors include increasing global pork production due to ASF recovery, the uptake of alternative proteins and shifting consumer perception towards red meat consumption and health and sustainability.

Global beef production is forecast to lift by approximately 2 per cent in 2021 driven by growth in the US and Brazil. The global beef trading environment is expected to grow increasingly competitive in 2021, driven by increased production, weaker domestic consumption in South America and the changing dynamics of market access. While New Zealand beef exports are small in comparison to competitors and demand a premium market position, competition will weigh on export prices, and may restrict opportunities for growth.

The relationship between the US and China will be a factor to watch as 2021 and the Biden administration progress. New Zealand beef exporters will be monitoring the progress of the US-China Phase One Agreement, with US beef exports to China gaining significant momentum in late 2020 and early 2021 because of this agreement.

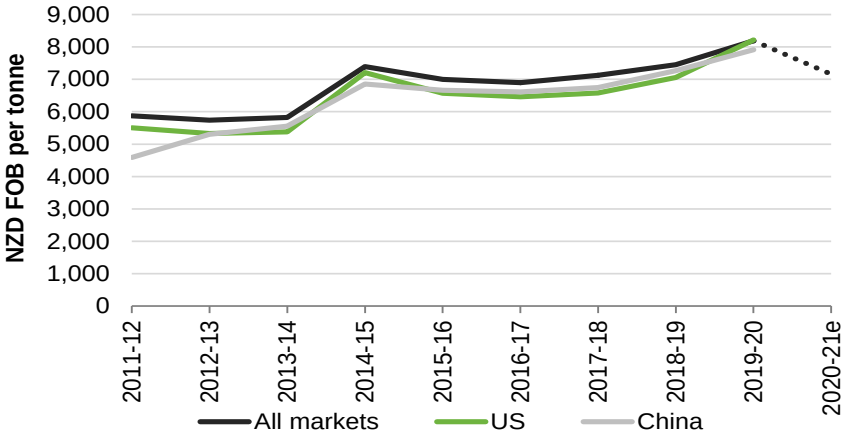
China

China was the world's largest beef importer in 2020 and the leading destination for New Zealand beef. The market is, however, becoming increasingly competitive, and New Zealand is losing market share to larger suppliers of lower priced beef.

In the 2019-20 season, China accounted for 36 per cent of New Zealand beef exports by volume and value, down from 41 per cent in 2018-19. The decline is in contrast to a lift in total Chinese beef imports during 2020 of 28 per cent.

The decline in Chinese demand for New Zealand beef is indicative of increased supply from South America. Beef imports to China from Brazil and

Figure 7 New Zealand Beef Exports FOB Value - Sept Year



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

Argentina lifted 125 per cent and 30 per cent respectively in 2020.

New Zealand is unable to compete on price or volume with South American beef. While New Zealand is marketed as a higher-quality product compared to South American beef, the deterioration of New Zealand's market share in 2020 reveals that price points and consistency of supply remain a key driver for Chinese importers.

An increased presence of US beef in the Chinese market will also have the potential to add further pressure to the already highly competitive beef import market. Following the signing of the US-China Phase One trade deal in 2020, US beef has improved access into China. While overall volumes remain small, there were significant increases in exports in late 2020, and an expectation of further increases in 2021 as China works towards the import targets outlined in the Phase One deal. China has not lifted the ban on the use of ractopamine (a feed additive used for weight gain prior to finishing) in US beef, which is widely used, and this will limit export volumes while the ban exists.

Total Chinese import demand for beef is expected to continue to grow in 2021. The shortage of pork due to ASF and increasing consumer wealth will underpin this growth. However, the pace is expected to slow, restricted by global supply and demand from other beef importing countries.

China is the third largest beef producer in the world. Production is characterised by smaller scale farmers, and expansion is limited by availability of land and water. Production is not expected to be able to keep pace with consumption growth in the medium term, underpinning continuing import demand.

Increased demand from China for live cattle was also a feature in 2020 and is expected to be relevant again in 2021. Live cattle exports increased 150 per cent from 2019 to 2020. The Chinese government has prioritised the improvement of breeding stock for 2021 across its livestock sector. Increased regulations for the live exports of New Zealand cattle are expected to increase costs in this sector, and this, combined with negative consumer perception towards live exports, will be a barrier to New Zealand live exports increasing on 2020.

During 2020 China implemented increased screening measures on imported frozen foods, with tests now required for COVID-19. The screening is slowing product flow from the ports right through the supply chain. It has also resulted in the temporary suspension of beef from several export plants in Australia and South America. The new requirements have created wariness in the global beef trading environment and introduced a new source of risk.

United States

Despite the challenges of COVID-19, US beef production for 2020 ended up at a similar level to 2019. This exceeded many expectations given that at the height of the pandemic weekly beef production was down 34 per cent on 2019 levels.

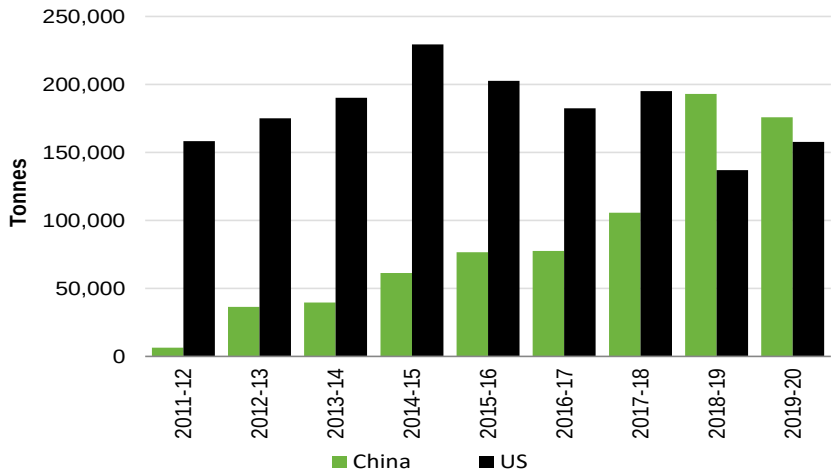
Beef production in 2021 is projected by the USDA (February 2021) to lift 1.4 per cent. This increase is driven by commercial steer and heifer slaughter with fed cattle supplies expected to be heavy in the first half of the year. Profitable returns in the dairy industry are expected to result in 4 per cent decline in dairy cow slaughter. The increase in production is expected to occur in the first half of 2021 and taper off in the second half. High feed costs are expected to weigh on production gains however, as putting weight on livestock becomes uneconomic.

In the medium-term, US beef production is expected to decline as the US beef cow herd enters a maintenance phase. The US calf crop has declined in the last three years, driving the lower production forecast.

US production of pork and chicken are forecast to hit new records in 2021, exceeding the record in 2020. This could limit demand for beef domestically, however, pork and poultry exports are expected to absorb much of the production increase.

2020 was a strong year for US beef imports, with volumes up over 10 per cent on 2019. The trend is expected to reverse in 2021, with the USDA projecting a 10 per cent decline in US beef imports. The declining forecast is driven by expected lower availability of beef as Chinese demand absorbs an increasing volume, and production from Australia remains limited. Imports so far this calendar

Figure 8 New Zealand Beef and Veal Exports to US and China (Sept year)



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

year have been slow, and volumes are 20 per cent down on the same period in 2019.

While Australian beef exports to the US are expected to remain low this year, the US now has access to imports from Argentina and Brazil. This supply, while low, does have the potential to keep the US market from imported beef deficits. Competition between the US and China will be critical, however. Supply has the potential to swing to the market prepared to pay the highest price.

Imported beef prices in the US have performed solidly so far in 2021, supported by weak imported supply and good demand. The decline in US cow slaughter is also expected to support prices. There is much uncertainty around the sustainability of the current high imported prices. A lot will depend on demand remaining firm in the US, competition from China and any further disruption from COVID-19 in 2021.

The US has a strong focus on increasing agricultural exports in 2021. Beef exports are forecast to lift 6 per cent to reach the second highest level on record. There will subsequently be an increase in the presence of US beef in key export markets and China is expected to emerge as a more significant market for US beef exports.

Foodservice restrictions due to COVID-19 continue to have a major impact on the US beef sector. The restaurant trade is a critical channel for US beef production and demand has been severely disrupted. Conversely, sales in the QSR and retail sectors have been strong through the pandemic. New Zealand beef exports to the US are predominantly focused in these channels, and as a result, the share of New Zealand beef exports to the US lifted during the 2019-20 season; accounting for 36 per cent of total beef exports, up from 32 per cent the previous season. This growth in market share was supported by weaker demand from China.

Australia

2020 was a challenging year for the Australian beef industry. Following the severe drought of calendar 2018 and 2019, the industry was firmly focused on rebuilding, leading to sharp declines in production and exports. COVID-19 and a deteriorating trade relationship with China added to the turbulence.

New Zealand beef exporters enjoyed the absence of competition from Australian beef in key markets in 2020, however, will be monitoring the subsequent lift in beef production as herd recovery continues.

The Australian cattle herd declined to its lowest level in more than two decades in 2020 following the severe drought of 2018 and 2019. Favourable seasonal conditions in 2020 and the summer of 2020-21 enabled cattle producers to focus on rebuilding. Projections by Meat & Livestock Australia (MLA) signal the national cattle herd is projected to increase by 2 per cent in 2021.

Australian beef production is forecast to be similar to 2020, underpinned by an increase in average carcase weight and an increase in the portion of males in the slaughter composition. By 2023, Australian beef production is estimated by MLA to lift 8 per cent, returning to pre-drought levels.

Australian beef exports in 2021 are forecast to lift 2 per cent on 2020. However, the lift comes off a sharp contraction in 2020 export production. Export volumes for 2021 are forecast to be just below the five-year average and 14 per cent below 2019 levels. This will allow New Zealand beef another year of more subdued competition from Australian beef. Beef exports are projected to increase steadily in the medium term.

Australian beef exports for 2020 contracted 15 per cent on 2019. The restriction of beef supply was the major driver of the decline, rather than COVID-19. There was also a significant change in export market mix as exports to China declined sharply. China was the leading destination for Australian beef exports in 2019, however, slipped to third position in 2020 with a 34 per cent decline. The drop was driven by a deteriorating trade relationship between the two countries, decreased production, and the increase in competition from South American beef in the Chinese market.

Japan was the top destination for Australian beef, followed by the US. With the Chinese market remaining competitive and the trade relationship between Australian and China still uneasy, Australian beef exporters are likely to increase their focus on other markets in 2021.

As well as a key competitor, Australia has emerged as a growing importer of New Zealand beef through late 2020 and early 2021. For the first four months of the 2020-21 season, New Zealand beef exports to Australia lifted over 700 per cent, although from low volumes. Australia is now New Zealand's 8th most significant beef market, up from number 22 for the same period in 2019-20. The current exchange rate combined with weaker Chinese demand and a tighter supply of Australian beef has made this market attractive for exporters.

Brazil

Brazilian beef has emerged as a significant player in the global beef trade and a serious competitor. It has enormous production potential underpinned by an expanding herd, the opening of new land for grazing and increasing efficiency in beef production.

In 2020, Brazilian beef exports reached record levels, up 10 per cent on 2019. Key drivers of the increase included increasing production, a weaker domestic market, a weaker currency and increasing demand from China. China and Hong Kong accounted for a staggering 75 per cent of Brazilian beef exports.

Beef exports are expected to lift a further 5 per cent in 2021, increasing Brazilian market share in key New Zealand markets including China and the US.

Cattle Prices – Farmgate

The outlook for farmgate returns for cattle in 2020-21 is for a significant downturn. Weaker export returns and a stronger NZD/USD are key drivers of lower farmgate prices.

The weighted average per-head price for all beef classes in 2020-21 is forecast to decline 5.4 per cent to 455 cents per kg (Figure 10). This forecast is 6.5 per cent below the five-year average all beef farmgate price of 487 cents per kg.

The annual average NZD/USD exchange rate is forecast to lift by 12.5 per cent in the 2020-21 season, which will significantly erode returns to farmers.

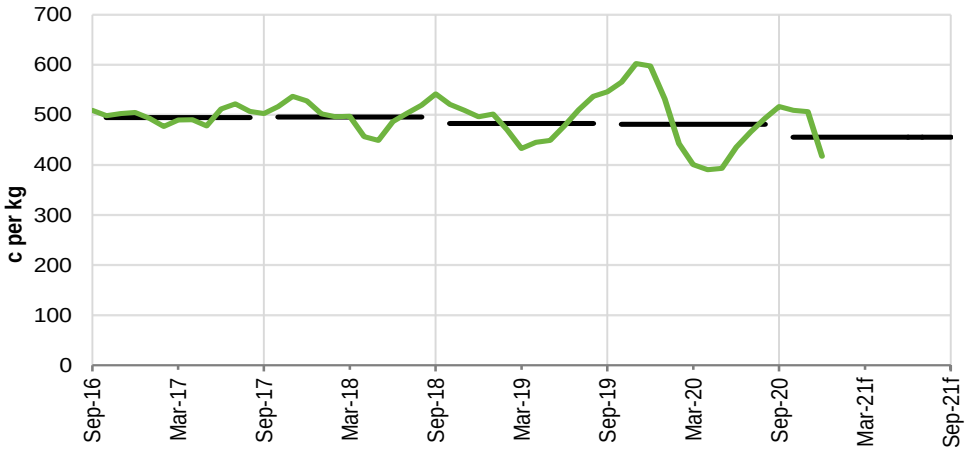
Market conditions are expected to remain volatile during the 2020-21 season, and forecasts should be interpreted with this in mind.

Supply chain disruption due to COVID-19 continues to be a reality both domestically and internationally. There is significant logistical risk for exporters as peak cow production approaches. Disruption to shipping and backlogs in ports have been common in the post COVID-19 world. Shipping delays have also flowed into pressure on cool storage in NZ, limiting processors' ability to move product. A shortage of skilled labour is also an issue for some meat processing regions. All these supply chain disruptions add to the cost of processing and reduce margins. These ultimately flow back into farmgate returns.

The recent strong run of dairy product prices may result in a more spread out, or smaller dairy cow cull than estimated, as dairy farmers endeavour to maximise their returns. This could result in upside to the M cow farmgate price as an element of procurement competition enters processing. Climate and feed conditions in key dairying areas through autumn will also determine the number and spread of cull dairy cow numbers.

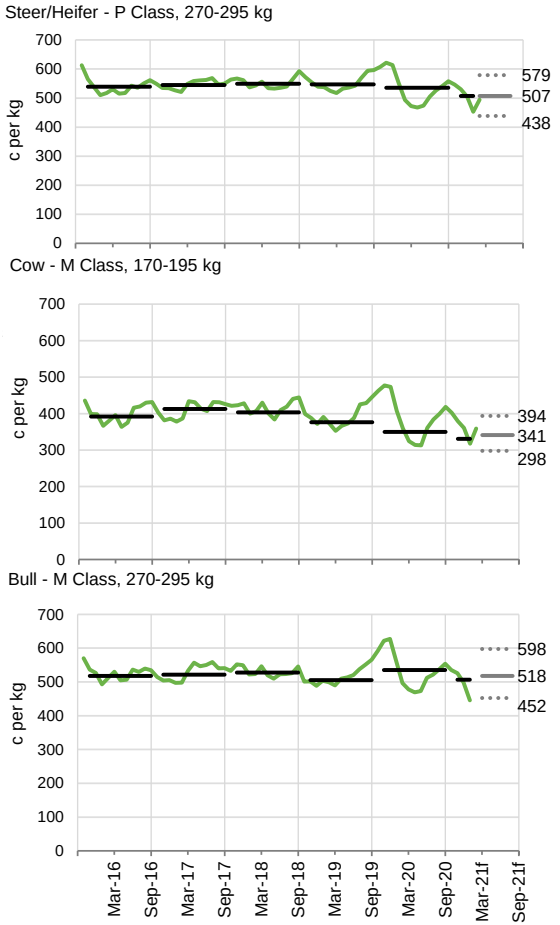
Across the classes the estimated 2020-21 average annual price is 507 cents per kg for P steer/heifer (270-295kg), 341 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 518 cents per kg for M bull (270-295kg).

Figure 10 Weighted Average All Classes Cattle Farmgate Price



Source: Beef + Lamb New Zealand Economic Service

Figure 9 Weighted Average Cattle Farmgate Price



Source: Beef + Lamb New Zealand Economic Service

Beef Production

Table 10 Export Cattle Processing Composition

	000 head				
Sep Year	Steer	Heifer	Cow	Bull	Total
2016-17	524	441	937	461	2,363
2017-18	535	454	1,026	542	2,556
2018-19	565	474	1,018	555	2,612
2019-20	588	491	1,048	546	2,674
2020-21e	598	468	992	546	2,603
2020-21e % change	+1.6%	-4.7%	-5.4%	+0.0%	-2.6%

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

Table 11 Export Cattle Carcase Weights

	kg / head				
Sep Year	Steer	Heifer	Cow	Bull	Total
2016-17	314	243	199	305	253
2017-18	312	241	197	301	251
2018-19	313	243	200	300	254
2019-20	312	243	202	299	254
2020-21e	312	241	199	302	254
2020-21e % change	-0.2%	-0.8%	-1.7%	+0.8%	+0.0%

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

Table 12 Export Beef Production Composition

	000 tonne bone-in				
Sep Year	Steer	Heifer	Cow	Bull	Total
2016-17	164	107	186	141	598
2017-18	167	110	202	163	642
2018-19	177	115	204	166	662
2019-20	184	120	212	163	679
2020-21e	186	113	197	165	661
2020-21e % change	+1.4%	-5.5%	-7.1%	+0.8%	-2.6%

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

Cattle Slaughter

For 2020-21, the number of cattle processed for export is estimated to decline by 2.6 per cent to 2.60 million head (Table 10). The number of steers processed is expected to lift by 1.6 per cent. This reflects the increasing beef cow herd in the previous two seasons and the subsequent increase in the supply of steers. The number of heifers processed is estimated to decline by 4.7 per cent following a high offtake of both beef heifers and beef cows during the 2020 drought and higher retentions post drought.

The decrease in the number of cows slaughtered reflects a recovery in beef cow numbers following the drought and a decline in dairy cow numbers.

The offtake of bull beef is dominated by dairy-beef bulls. The stable slaughter numbers reflect steady dairy-bull beef calf retentions in the previous two years.

Cattle Weights

The overall average cattle carcase weight for 2020-21 is forecast to be steady on the previous season at 254 kg per head. The average carcase weight of cows is expected to decline by 1.7 per cent but is offset by an increase in the average carcase weight per head of bulls.

Beef Production

In 2020-21, New Zealand's export beef production is forecast to decline 2.6 per cent. The decline in dairy cow and heifer production are the dominant drivers of the decline. This forecast will represent the first decline in beef production since the 2016-17 season.

Livestock Numbers

Sheep

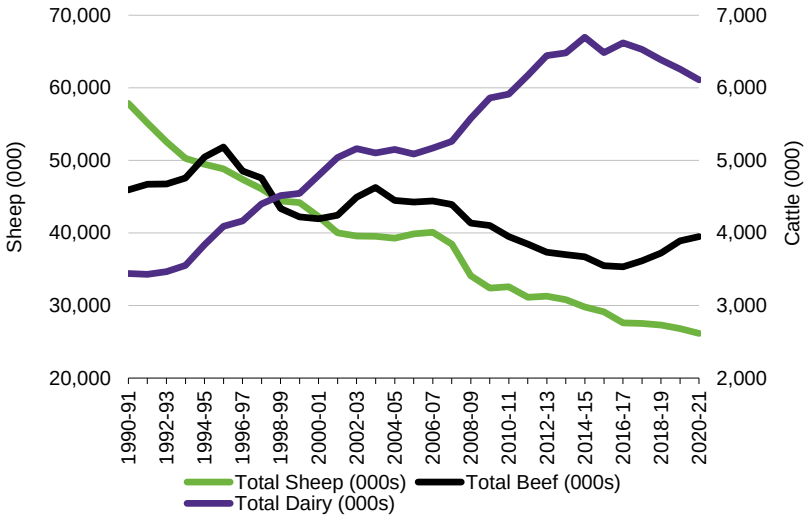
The total number of sheep at 30 June 2020 was provisionally 26.2 million head, 2.5 per cent lower than the previous June. This is the second year in a row sheep numbers have been below 27 million. Within this, the number of breeding ewes declined 1.4 per cent and the number of hoggets decreased 4.3 per cent.

In the North Island, the number of sheep decreased 3.6 per cent (-469,000) to 12.7 million at 30 June 2020 and the number of breeding ewes decreased 2.7 per cent.

Decreases in the number of breeding ewes occurred in East Coast (-4%) and Taranaki-Manawatu (-3%) while there was a slight increase in Northland-Waikato-Bay of Plenty. The number of hoggets in the North Island decreased 5.1 per cent with East Coast estimated to have decreased by 7.9 per cent, primarily in response to drought.

In the South Island, the total number of sheep decreased 1.4 per cent. This was made up of a small increase of less than one per cent in Otago/Southland and a larger decrease in Marlborough (-3.5%),

Figure 11 Livestock Numbers



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

Table 13 Livestock Numbers (million head)

	Breeding Ewes	Hoggets	Total Sheep	Beef Cattle	Dairy Cattle
30 June 2019	16.85	9.14	26.82	3.89	6.26
30 June 2020e	16.60	8.74	26.16	3.95	6.11
19-20 to 20-21 % change	-1.4%	-4.3%	-2.5%	+1.6%	-2.4%

e estimate

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

which reflected a relatively high number of trade lambs on hand at 30 June 2019 that were processed in the September 2019 quarter. The number of breeding ewes stayed relatively steady after decreasing for many years, due to several factors including conversions to dairy farming and the impacts of drought.

After excellent lamb and mutton prices underwrote a deeper culling than usual of poorer-performing sheep in 2017-18 – partly offset by farmers retaining ewe lambs – the younger breeding flock matured resulting in a decrease in the number of hoggets.

Beef Cattle

The number of beef cattle at 30 June 2020 is estimated at 3.95 million, up 1.6 per cent on the previous June. This was largely driven by little change in the number of weaners overall (but some differences between regions), and a high base of trade cattle and weaners on hand on 30 June 2019, particularly in the South Island.

In the North Island, the number of beef cattle decreased 1.0 per cent to 2.68 million at 30 June 2020.

The number of beef cattle increased 0.5 per cent. Numbers in the East Coast declined (-3.8%) in response to drought. The magnitude of the change also reflected an increase in the number of trade cattle, underpinned by dairy-beef, on hand as at 30 June 2019.

In the South Island, the number of beef cattle increased 3.9 per cent to 1.23 million at 30 June 2020. The number of beef cows decreased marginally, while the number of other cattle increased modestly.

Dairy Cattle

The number of dairy cattle at 30 June 2020 is estimated to have declined (2.4%) at 6.11 million. The South Island contains 39 per cent of the New Zealand dairy herd, up from 35 per cent 10 years ago.

Wool[1]

Prices

The outlook for wool remains challenging and wool prices are expected to remain low through the 2020-21 season. However, there has been some positivity in the wool market through February.

PGG Wrightson's Wool Indicators have signalled a lift in the wool market of 40 cents per kg greasy throughout February 2021. The lift has been even more significant given the stronger NZD. PGG Wrightson notes a lift in global demand for wool and greater activity from China. Activity from the EU has also improved.

China has been particularly active in the fine wool market. Australian merino wool markets had an exceptionally strong start to 2021, with reports indicating Australian wool markets are moving back towards pre-pandemic levels.

There are some positive New Zealand industry initiatives emerging this year, that have potential to add value to strong wools.

At the time of writing in early March, the North Island strong wool indicator was around 30 per cent below the 2019-20 level but trending up. The South Island strong wool indicator was 4.0 per cent below the same time last year, with a sharp upwards trend.

While the trend is positive, wool prices remain very low and, in many cases, will not cover shearing costs. There remains a lot of wool in storage, which will have to be moved at some point, and will delay any significant price movement.

The industry will need a sustained period of price increases before the outlook changes to one of optimism.

Table 15 Auction Prices and Raw Wool Exports

	Auction Price	Wool Exports		
	$ / kg	FOB $ / kg	000 tonnes	$m FOB
June Year	clean	clean	clean	
2016-17	5.07	6.16	84.8	522.1
2017-18	4.93	5.41	100.2	542.5
2018-19	5.19	5.86	93.8	548.9
2019-20	4.53	5.63	76.7	432.1
2020-21e	3.92	4.35	74.6	324.1
2020-21e % change	-13.3%	-22.8%	-2.8%	-25.0%

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

Table 14 Season Average Auction Wool Prices

	cents / kg greasy				
June Year	Fine	Medium	Strong	Lambs	All Wool
2016-17	1,074	545	314	299	372
2017-18	1,696	624	271	366	369
2018-19	1,859	714	266	408	381
2019-20	1,447	725	221	230	332
2020-21e	970	498	144	138	219
2020-21e % change	-33.0%	-31.3%	-34.8%	-40.0%	-34.0%

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

Exports

The outlook for 2020-21 is for the volume of wool that is exported to decline 2.8 per cent on 2019-20 driven by declining sheep numbers. Wool export revenue is depressed. Average export receipts at FOB are expected to decrease 22.8 per cent to $4,350 per tonne.

At the time of writing, export data is available for the first seven months of the 2020-21 wool season (i.e. July 2020 to January 2021). New Zealand wool exports were up 5 per cent on the same period in 2019-20. Export receipts at FOB were down 20 per cent following a 25 per cent decline in the average price per tonne of wool across all categories. This 25 per cent decline is split between a 4 per cent depreciation of the trade weighted exchange rate and a market price decrease of 22 per cent.

On the positive side, the month-on-month comparisons show improvements in the average price of wool per tonne, which has been noted in the improvements in auction prices. The average export price per tonne lifted 11 per cent from December 2020 to January 2021. Most of the gains were seen in the fine wool types.

Export data for the first seven months of the 2020-21 wool season show much of the lift in export sales has come from the EU-28 (including UK). All EU-28 markets have recorded increased exports, with Italy in particular a strong performer.

Exports to both North and South Asia are down on the same period last season. China has accounted for 35 per cent of wool exports season to date, EU has accounted for 30 per cent and India accounted for 18 per cent.

Production

For 2020-21, total wool production is estimated to be down 2.8 per cent reflecting declining sheep numbers. At 133,000 tonnes, this will be the lowest wool production on record and 6.0 per cent below the five-year average. Slipe wool production is expected to decline in line with falling sheepmeat slaughter numbers.

Shearing

Shearing charges increased significantly in 2018-19 (+11%) and impacted significantly on crossbred (strong) wool producers when coupled with continuing low strong wool prices. Nearly all the North Island wool clip is strong wool. On average, shearing expenditure was equivalent to 90 per cent of farm wool receipts, whereas prior to the run of low wool prices, shearing expenditure averaged 45 per cent of farmgate wool receipts, making wool a more significant contributor to farm profitability.

Shearing costs lifted 1.4 per cent in 2019-20 and are forecast to lift a further 1.9 per cent in 2020-21. The 2020-21 forecast places shearing expenses 20 per cent above the five-year average.

The current low state of wool prices is close to turning into a net cost for sheep and beef farmers, carried out only for animal health reasons. Some farmers are seeking different policies, including less frequent shearing, different sheep breeds, and for some farmers it is driving an increase in the cattle-to-sheep ratio on farm. For a large proportion of sheep farmers, however, there is no alternative but to accept the increasing costs and anticipate a turn in market sentiment for wool prices.

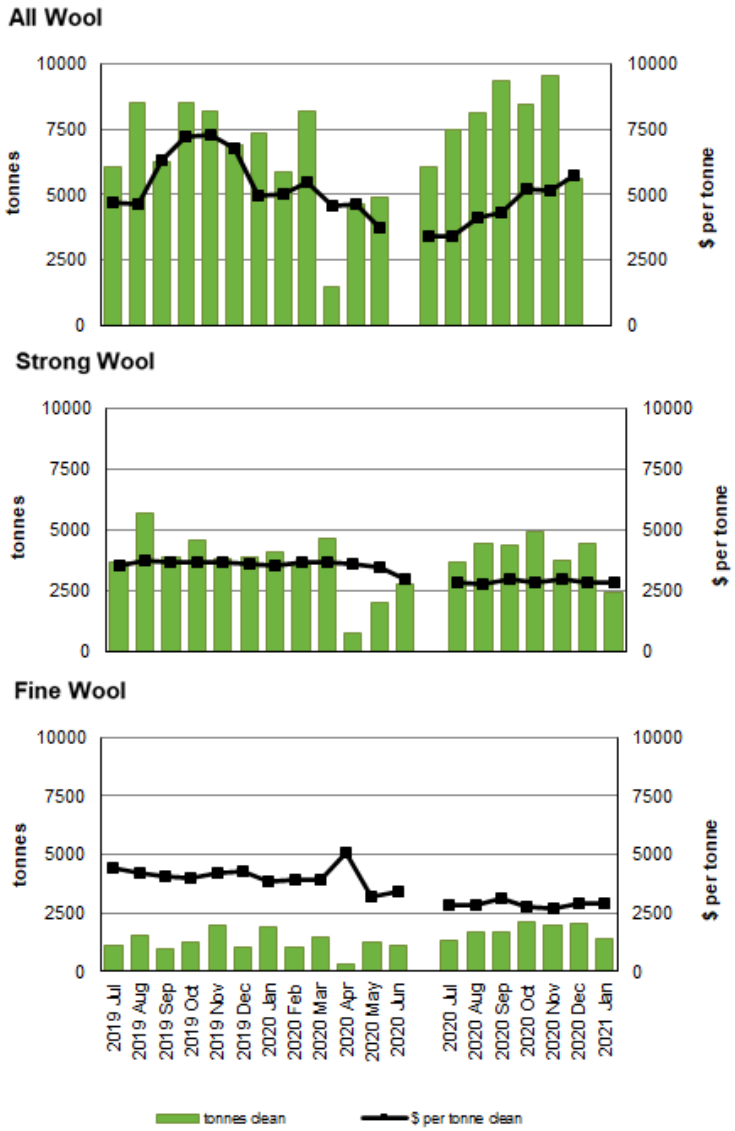
Table 16 Wool Production

June Year	Sheep million head	Shorn 000 tonnes greasy	Slipe 000 tonnes greasy	Total 000 tonnes greasy	Shorn Wool kg / head* greasy
2016-17	27.6	126.9	16.5	143.4	4.60
2017-18	27.5	123.0	16.2	139.3	4.47
2018-19	27.3	122.0	15.4	137.3	4.47
2019-20	26.8	121.0	16.0	137.0	4.51
2020-21e	26.2	118.2	14.9	133.1	4.52
2020-21e % change	-2.5%	-2.3%	-6.4%	-2.8%	+0.1%

*excludes wool on sheepskins

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

Figure 12 New Zealand Wool Exports



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

Farm Revenue, Expenditure & Profit – New Zealand

Revenue – Per Farm

Gross farm revenue for 2020-21 is forecast to average $568,000 per farm, down 8.8 per cent on 2019-20. This is driven by decreases in revenue from the revenue streams that account for 95 per cent of gross farm revenue. While revenues are forecast to decrease, the global pandemic and recovery from it still create some uncertainty.

Sheep revenue, which is forecast to continue to contribute 48 per cent of gross farm revenue on average, decreases 12.3 per cent to $271,300 per farm for 2020-21. Farmgate prices hit record highs in 2019-20 and are expected to decline, partly offset by an increase in the number of prime lambs and sheep sold.

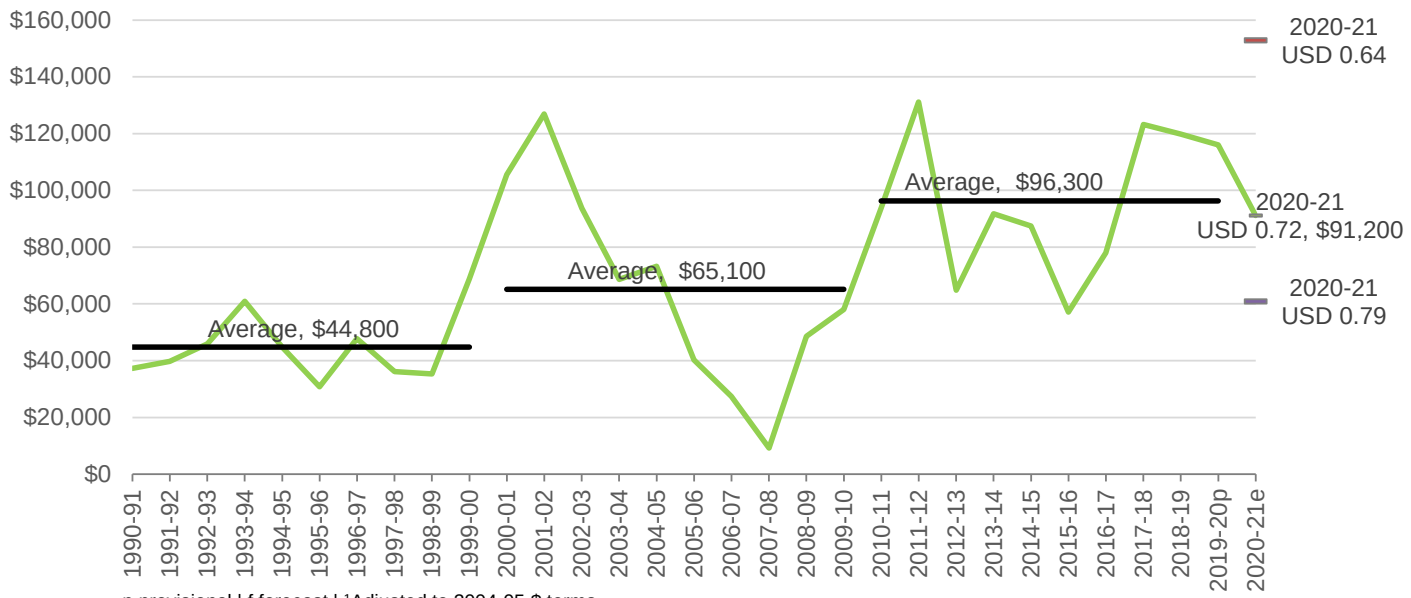
Average cattle revenue is forecast to decrease 4.2 per cent to $155,700 per farm for 2020-21. International demand for New Zealand beef remains strong, but the weighted average cattle price for the season is expected to decrease by about five per cent. All regions, except Northland-Waikato-BOP, are expected to experience a decrease in cattle revenue. Overall, cattle revenue is forecast to contribute over one-quarter of gross farm revenue in 2020-21.

On average, wool revenue decreases 24.5 per cent for 2020-21 because wool prices are expected to continue to decline, somewhat offset by an increase in the average volume of wool sold per farm. Wool revenue accounts for less than five per cent of gross farm revenue on average, down from 30 per cent in 1990-91.

Dairy grazing revenue is estimated to remain unchanged to average $29,000 per farm in 2020-21. There is, however, a difference between islands. In the North Island, average dairy grazing revenue is expected to fall, while it is estimated to increase in the South Island driven by demand for grazing out. On average, dairy grazing revenue contributes five per cent of gross farm revenue.

The cash cropping account is forecast to decrease for 2020-21, despite improved yields. On average, cash crop revenue accounts for 10 per cent of gross farm revenue in 2020-21, dominated by the South Island farms that generate around 70 per cent of gross farm revenue on average from cropping but which also finish livestock that contributes to meat production.

Figure 13 All Classes Sheep and Beef Farm
Inflation-Adjusted[1] Farm Profit before Tax per Farm



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

Revenue – Aggregate

Aggregate Sheep and Beef Farm Revenue for 2020-21 is forecast at $5.2 billion, down 8.8 per cent on 2019-20. Gross farm revenue is spent buying goods and services for running the farm business and then taxation, debt reduction and personal living expenses.

Expenditure – Per Farm

On average, total expenditure is estimated to decrease by 4.9 per cent to $443,800 per farm for 2020-21. We expect expenditure to be reduced in most parts of farm businesses, except non-discretionary items like standing charges such as insurance and rates. Lower interest rates are expected to result in lower interest expenditure, which accounts for around 11 per cent of total farm expenditure on average.

Inflation in prices for inputs used on sheep and beef farms is estimated at 1.5 per cent in 2020-21, which follows a 0.4 per cent increase in 2019-20 and 3.0 per cent increase for 2018-19.

Feed and Grazing expenditure decreases the most – from the high base in 2019-20 in response to drought conditions. For example, average expenditure on Feed and Grazing rose over 75 per cent in East Coast in 2019-20 to average over $26,800 per farm. As a result, other expenditure, e.g. Fertiliser and Repairs and Maintenance, was cut as farmers balanced budgets. In 2020-21, expenditure on Feed and Grazing is expected to reduce but the effects of drought and lower product prices will impact negatively farmers' expenditure and therefore expenditure in almost all areas is expected to be decreased.

For example, while expenditure on Fertiliser, Lime and Seeds is expected to decrease by 8.6 per cent to average $70,000 per farm, which is similar to the average of the previous five seasons ($70,400 per farm) the average expenditure in some regions is expected to decrease by considerably more, e.g. by 13 per cent for East Coast. On average, around 16 per cent of total farm expenditure is on fertiliser, lime and seeds.

Interest expenditure decreases 8.9 per cent to $48,300, which reflects the reduction in interest rates – overall and the lagged effect of higher interest rates being paid for fixed terms that are refinanced. Repairs and Maintenance expenditure is estimated to decrease by 10.7 per cent, after increases in 2017-18 and 2018-19 were followed by a decrease in 2019-20.

Shearing expenditure increases by around two per cent to average around $25,700 per farm. Consecutive small increases in 2019-20 and 2020-21 followed a 22 per cent increase in 2018-19 and an 8 per cent increase in 2017-18. Fewer sheep and lambs are expected to be shorn.

Expenditure – Aggregate

In aggregate, Sheep and Beef Farm Expenditure for 2020-21 is forecast at $4.1 billion, down five per cent on 2019-20, which in turn was down just under one per cent on 2018-19. Such expenditure is spent buying goods and services from local businesses for running the farm business.

Farm Profit before Tax

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

After adjusting for inflation, in 2020-21 Farm Profit before Tax is expected to average around five per cent below the average for the 2010s (Figure 13).

There was a steep fall in profitability from 2001-02 to a 50-year low in 2007-08. This was followed by a recovery driven by an improvement in international prices, which exceeded the effect of the strengthening NZD.

The situation has been reversed as the 2020s began.

Three scenarios are shown in Table 17.

- At the mid exchange rate scenario in which the NZD buys USD0.72, inflation-adjusted Farm Profit before Tax is $91,200 per farm in 2004-05 terms, down 25 per cent from the most-recent high (2017-18). In nominal terms, i.e. without adjusting for inflation, Farm Profit before Tax is $124,200 per farm, down 20 per cent on $156,200 for 2019-20.
- At the lower exchange rate (USD0.64), inflation-adjusted Farm Profit before Tax would be $137,300 per farm in 2004-05 terms for 2020-21, which would be 18 per cent higher than $116,000 for 2019-20. In nominal terms, Farm Profit before Tax would be $187,000, 20 per cent up on $156,200 for 2019-20.
- At the higher exchange rate (USD0.79), inflation-adjusted Farm Profit before Tax would be $51,600 per farm in 2004-05 terms for 2020-21, which would be 56 per cent lower than $116,000 for 2019-20. In nominal terms, Farm Profit before Tax would be $70,300, down 55 per cent on $156,200 for 2019-20.

Table 17 Sheep and Beef Farm Revenue and Expenditure
Weighted Average All Classes[1]

					Provisional	Estimate		Forecast % Change		
		2016-17	2017-18	2018-19	2019-20	2020-21	2020-21	2020-21	2019-20 to 2020-21		
						USD 0.64	USD 0.72	USD 0.79	USD 0.64	USD 0.72	USD 0.79
Revenue											
Wool		36,240	35,962	38,693	31,800	27,300	24,000	21,300	-14.2%	-24.5%	-33.0%
Sheep		204,793	280,021	306,786	309,200	315,700	271,300	235,000	+2.1%	-12.3%	-24.0%
Cattle		139,455	158,417	160,025	162,500	179,400	155,700	136,200	+10.4%	-4.2%	-16.2%
Dairy Grazing		27,229	28,389	30,957	29,100	29,000	29,000	29,000	-0.3%	-0.3%	-0.3%
Deer + Velvet		4,588	6,104	7,123	5,300	5,000	4,300	3,800	-5.7%	-18.9%	-28.3%
Goat + Fibre		14	41	26	0	0	0	0			
Cash Crop		46,178	55,520	61,561	61,100	59,100	59,100	59,100	-3.3%	-3.3%	-3.3%
Other		20,702	24,682	24,195	24,000	24,600	24,600	24,600	+2.5%	+2.5%	+2.5%
Total Gross Revenue	**$ per farm**	**479,199**	**589,136**	**629,366**	**623,000**	**640,100**	**568,000**	**509,000**	**+2.7%**	**-8.8%**	**-18.3%**
Expenditure											
Fert, Lime & Seeds		59,738	71,178	79,448	76,600	70,900	70,000	69,300	-7.4%	-8.6%	-9.5%
Repairs & Maintenance		31,234	35,119	41,021	38,800	35,300	34,700	34,200	-9.0%	-10.6%	-11.9%
Interest & Rent		65,754	74,411	76,193	69,100	65,000	64,800	64,600	-5.9%	-6.2%	-6.5%
Other Expenses		222,595	248,432	274,391	282,300	281,900	274,300	270,600	-0.1%	-2.8%	-4.1%
Total Expenditure	**$ per farm**	**379,321**	**429,140**	**471,053**	**466,800**	**453,100**	**443,800**	**438,700**	**-2.9%**	**-4.9%**	**-6.0%**
Farm Profit Before Tax[2]	**$ per farm**	**99,878**	**159,996**	**158,313**	**156,200**	**187,000**	**124,200**	**70,300**	**+19.7%**	**-20.5%**	**-55.0%**
EBITRm[3]	**$ per farm**	**169,276**	**238,478**	**239,397**	**229,930**	**256,700**	**193,700**	**139,600**	**+11.6%**	**-15.8%**	**-39.3%**
Real (2004-05$) Farm Profit[3]		**78,000**	**123,200**	**119,800**	**116,000**	**137,300**	**91,200**	**51,600**	**+18.4%**	**-21.4%**	**-55.5%**
Index of Real Farm Profit		1,065	1,681	1,636	1,584	1,875	1,245	705	+18.4%	-21.4%	-55.5%
Fertiliser Use	kg per SU	23.7	27.0	28.5	25.5	24.1	23.8	23.6	-5.5%	-6.7%	-7.6%
Prices											
Wool auction	¢ per kg clean	507	493	519	453	339	298	265	-25.1%	-34.2%	-41.6%
All wool[5]	¢ per kg greasy	314	289	299	265	220	193	171	-16.9%	-27.0%	-35.2%
Lamb	$ per head	106	134	142	139	141	122	106	+1.4%	-12.4%	-23.7%
Mutton	$ per head	74	108	123	124	144	122	104	+16.2%	-1.8%	-16.6%
Prime Steer/Heifer	¢ per kg	539	540	541	530	579	502	438	+9.2%	-5.4%	-17.3%

1 At 1July 2020 the average grazing area of commercial Sheep and Beef Farms, which are represented by the Weighted Average All Classes Sheep and Beef Farm, was 695 hectares. The average number of livestock on hand was 2,752 sheep, 388 beef cattle and 30 deer, totalling 4,735 Stock Units (breeding ewe equivalents)."

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

3. Earnings before Interest, Tax, Rent and any salary paid to Manager(s)

4. Deflated by June year Consumer Price Index.

5. All shorn wool sales (auction 55% and private 45%) net of charges and freight.

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

EBITRm

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

Table 18 shows per farm measures of financial metrics, including EBITRm, and Table 19 shows these measures per hectare.

North Island Summary

Sheep and Beef Farm Profit before Tax decreases 12.6 per cent to average $124,100 per farm for 2020-21, which is due to the decrease in gross revenue exceeding farmers' ability to reduce expenditure.

Gross revenue decreases by 9.2 per cent to $475,500 per farm on average. Sheep revenue decreases by 13.7 per cent to $224,000 particularly due to the decrease in average prices for prime and store lambs. Cattle revenue decreases 3.3 per cent to $193,400 per farm on average, which is also primarily due to lower prices and the impact of drought. Sheep revenue contributes around 47 per cent of gross farm revenue on average, while cattle revenue contributes around 41 per cent.

Dairy grazing revenue is forecast to decrease (-3.6%), while deer revenue is expected to fall sharply (-28.5%), which reflects the sharp fall in prices for prime deer.

Total expenditure decreases 8.7 per cent to average $351,400 per farm for 2020-21. Decreases occur in almost all categories. After an increase of nearly 40 per cent in average Feed and Grazing expenditure in 2019-20 as farmers dealt with drought, Feed and Grazing expenditure is expected to fall sharply (-28% on average) to a level similar to prior to the drought.

South Island Summary

Sheep and Beef Farm Profit before Tax decreases 28.3 per cent to average $124,300 per farm for 2020-21, with the decrease in gross farm revenue expected to exceed farmers' ability to reduce expenditure.

Gross farm revenue decreases 8.5 per cent to average $680,000 per farm driven by decreased revenue from wool, sheep, cattle and deer.

On average, sheep revenue decreases by 11.1 per cent to $328,500 per farm on average because decreases in average livestock prices more than offset any increase in the number of prime lambs sold.

Cattle revenue decreases 6.0 per cent to average $110,100 per farm due to decreases in livestock prices. On average, sales prices for cattle are expected to fall. An increase in the number of weaners and trade cattle on hand at balance date contributes towards an upwards shift in the number of head sold, which also extends to fewer cattle purchases.

Total farm expenditure decreases 2.5 per cent to average $555,700 per farm for 2020-21. This is due to reductions in expenditure items that account for the majority of expenditure and which are more "discretionary" than others. There is a fall in interest expenditure of 7.8 per cent, which reflects lower interest rates.

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

Region	2018-19 Profit	2019-20p Profit	2020-21e Revenue	2020-21e Expenditure	2020-21e Profit	2020-21e EBITRm[1]	Stock Units	Grazing Area (ha)
Northland-Waikato-BoP	121,209	102,900	415,300	300,100	115,200	161,400	3,600	370
East Coast	179,552	195,500	540,400	387,700	152,700	231,900	4,700	580
Taranaki-Manawatu	141,370	127,800	495,200	401,200	94,000	159,200	4,300	520
North Island	**145,652**	**142,000**	**475,500**	**351,400**	**124,100**	**186,000**	**4,200**	**480**
Marlborough-Canterbury[2]	168,895	162,500	799,000	675,800	123,200	215,300	4,700	1,030
Otago/Southland[2]	177,849	185,700	552,300	428,500	123,800	188,800	4,600	850
South Island[2]	**173,651**	**173,400**	**680,000**	**555,700**	**124,300**	**203,100**	**4,600**	**960**
New Zealand	**158,313**	**156,200**	**568,000**	**443,800**	**124,200**	**193,800**	**4,400**	**700**

p provisional, e estimate, f forecast | Exchange rate used in the estimate year is USD 0.72

[1] Earnings before Interest, Tax, Rent and Salary paid to Manager(s)

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

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

Regional Comment – North Island

Northland–Waikato–Bay of Plenty

Gross farm revenue decreases 1.4 per cent to average $415,300 per farm for 2020-21. This is the result of decreases in sheep and wool revenue.

Sheep revenue decreases by 7.6 per cent to average $137,200 per farm for 2020-21. Prices are significantly lower for both store and prime lambs.

Cattle revenue is forecast to increase by 3.0 per cent in 2020-21 to average $215,400 per farm. This is driven by a lift in the number of cattle on hand. On average, cattle revenue makes up just over half – 52 per cent – of gross farm revenue, up from 48 per cent last season.

Total farm expenditure decreases by 5.7 per cent to average $300,100 per farm for 2020-21. There are decreases in most categories excluding animal health and electricity.

Feed and Grazing expenditure declines 25.5 per cent following a 28 per cent increase the previous season because of drought.

Interest expenditure decreases 9.3 per cent to $30,200 per farm for 2020-21, due to the combined effect of farmers taking on less new debt, and lower interest rates.

On average, Farm Profit before Tax increases in 2020-21 – by 12.0 per cent to $115,200 per farm.

Table 19 Regional Summary, All Classes Sheep & Beef Farm - $ per hectare

Region	2018-19 Profit	2019-20p Profit	2020-21e Revenue	2020-21e Expenditure	2020-21e Profit	2020-21e EBITRm[1]	Stock Units per ha.
Northland-Waikato-BoP	328	278	1,122	811	311	436	9.7
East Coast	310	337	932	668	263	400	8.1
Taranaki-Manawatu	272	246	952	772	181	306	8.3
North Island	**303**	**296**	**991**	**732**	**259**	**388**	**8.8**
Marlborough-Canterbury[2]	164	158	776	656	120	209	4.6
Otago/Southland[2]	209	218	650	504	146	222	5.4
South Island[2]	**181**	**181**	**708**	**579**	**129**	**212**	**4.8**
New Zealand	**226**	**223**	**811**	**634**	**177**	**277**	**6.3**

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

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

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

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

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

East Coast

Gross farm revenue decreases by 14.3 per cent to average $540,400 per farm for 2020-21. This is driven by decreases across all accounts, because of the combined impact of the 2020 drought and lower prices.

Sheep revenue decreases 18.2 per cent to $294,400 per farm on average for 2020-21. Lamb prices are forecast to fall and fewer lambs, both store and prime, are expected to be sold. Sheep revenue contributes 54 per cent of gross farm revenue.

Cattle revenue, which is equivalent to 36 per cent of gross farm revenue, decreases 8.3 per cent to average $195,000 per farm for 2020-21. The average number of cattle on hand decreases by 6.2 per cent, as farmers destocked during the 2020 drought.

Total farm expenditure is down by 10.9 per cent to $387,700 per farm – for 2020-21. Shearing expenses are the only category to increase (+3.8%).

Large absolute decreases occur in farm expenditure on Feed and Grazing (-36.5%) and Cartage (-

27.5%), which reflect the high levels of expenditure on these items in 2019-20 in response to drought. Fertiliser expenditure is reduced – by 15.7 per cent – in response to reduced revenue. Interest expenditure decreases by 9.3 per cent as interest rates continue to be low and term debt is reduced.

Farm Profit before Tax decreases by 21.9 per cent to $152,700 per farm for 2020-21**.**

On average, sheep and beef farms in the region run 4,800 stock units, which is reduced in response to the dry conditions. Livestock occupy a grazing area of around 560 hectares, so the stocking rate averages around 8.5 stock units per ha. Farms in the region average around 675 ha total area meaning around 85 per cent is used to produce food and fibre, with 15 per cent in other non food-producing uses.

Taranaki–Manawatu

Average gross farm revenue is forecast to decrease by 10.8 per cent in 2020-21, with decreased revenue from all accounts.

Wool revenue is forecast to fall 20.2 per cent to $18,200 per farm, which compares to $60,600 per farm in 2015-16**.**

Sheep revenue decreases 11.5 per cent to $281,900 due to lower lamb prices and fewer store lamb sold. Sheep revenue contributes around 56 per cent of gross farm revenue in 2020-21.

Cattle revenue decreases 6.0 per cent to $151,700, which is due to a decrease in the average sale price per head and fewer cattle being sold. Cattle revenue contributes around 30 per cent of gross farm revenue in 2020-21**.**

Dairy grazing revenue decreases 8.2 per cent to $18,000 per farm. While the risk associated with Mycoplasma bovis has decreased somewhat, hill country farms that historically were involved in dairy grazing reduced their exposure in 2019-20 by adopting other enterprises**.**

Total farm expenditure decreases 6.1 per cent to average $401,200 per farm for 2020-21. Decreases are forecast in all major categories of expenditure.

Interest expenditure decreases 12.0 per cent to $46,100 per farm – due to reduced debt levels and lower interest rates**.**

Fertiliser expenditure – which is equivalent to 13 per cent of total farm expenditure – decreases by 13.1 per cent due to forecast decreases in volume and price**.**

Shearing expenditure decreases 3.1 per cent to $27,400 following a 1.5 per cent decrease in 2019-20 and a sharp 20 per cent increase in 2018-19.

Farm Profit before Tax decreases 26.4 per cent to $94,000 per farm for 2020-21 after the decrease in gross farm revenue exceeded the decrease in total expenditure**.**

On average, sheep and beef farms in the region run 4,300 stock units on a grazing area averaging 510 hectares, which means the stocking rate averages about 8.5 SU per hectare. The total area averages about 620 hectares, which means nearly 20 per cent is not grazed because it is woody vegetation and wetlands.

Regional Comment – South Island

Marlborough–Canterbury

Gross farm revenue decreases 7.1 per cent to average $799,000 per farm for 2020-21.

Sheep revenue decreases 11.8 per cent to $274,000 per farm for 2020-21. Sheep revenue contributes 34 per cent of gross farm revenue. Wool revenue decreases by 19.4 per cent on last season and 29 per cent on the five-year average.

Cattle revenue decreases 4.9 per cent to average $140,700 per farm for 2020-21 as cattle prices are expected to be lower on average.

Dairy grazing revenue increases 3.8 per cent to $73,600 per farm on average, which is equivalent to 9 per cent of gross farm revenue.

Cash cropping revenue, which contributes 27 per cent of gross farm revenue, declined 4.1 per cent to $212,900 per farm on average for 2020-21. All the increase in cash cropping revenue is on mixed finishing and finishing breeding farms.

Total farm expenditure decreases 3.1 per cent to average $675,800 per farm for 2020-21. Repairs and maintenance and fertiliser expenditure decrease by 6.0 per cent and 9.2 per cent respectively.

Interest expenditure is down 9.0 per cent due to lower interest rates.

Farm Profit before Tax decreases 24.2 per cent to $123,200 per farm for 2020-21. The reduction in expenditure has not been sufficient to offset the drop in gross farm revenue.

On average, sheep and beef farms in the region run about 4,600 stock units on a grazing area of 1,030 hectares. High Country and foothill farms inflate the average area of farms in the region because Farm Class 1 High Country farms have a grazing area around 9,500 hectares for example, whereas Finishing-Breeding farms have a grazing area averaging around 450 hectares.

Otago–Southland

Gross farm revenue decreases 10.6 per cent to average $552,300 per farm for 2020-21. The largest drivers are the decreases in sheep and wool because of the significance of sheep in the region. Revenue from wool and sheep combined accounts for nearly 80 per cent of gross farm revenue.

Sheep revenue decreases 10.6 per cent to $390,600 per farm for 2020-21. This is due to a decrease in prices, which offsets an increase in the number of prime and store lambs sold.

Wool revenue decreases 25.4 per cent to $37,600 per farm. This represents an absolute decline of $12,800 per farm, signalling the impact low wool prices are having on farmers.

Cattle revenue decreases 8.5 per cent to average $77,900 per farm for 2020-21. The average number of cattle per farm at open decreased while the number at close increased. Prices are also lower compared to 2019-20.

Total farm expenditure declines 1.4 per cent to $428,500 for 2020-21. Expenditure for weed and pest control, repairs and maintenance and fertiliser all decrease by 6.2 to 6.6 per cent. The most significant increase in expenditure is on fuel (+4.9%). Interest expenditure is forecast to decline (-6.0%) as interest rates ease. Otherwise, most expenditure items increase slightly. Expenditure on feed and grazing is down 1.4 per cent.

Farm Profit before Tax decreases 33.3 per cent to average $123,800 per farm for 2020-21.

On average, sheep and beef farms in the region run 4,500 stock units on a grazing area averaging 820 hectares. As in other parts of the South Island, the average farm size is inflated by Farm Class 1 High Country farms, which average 6,600 hectares, whereas Finishing-Breeding farms average 560 hectares and Finishing farms that are typical in Southland average 240 hectares.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