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Summary report

Mid-Season Update 2022-23

Overview

Despite a very weak start to the season for exports and prices, conditions are expected to improve in the second half of the 2022-23 season, but there are downside risks. Generally, demand for red meat in key markets remains solid, but continued high inflation is impacting consumer demand and it's uncertain how long this will last. Supply of red meat globally remains tight.

A large decrease in farm profitability is forecast for 2022-23, with factors such as a poor start to the season with lower farm-gate prices and continued upward pressure on farm expenditure combining to reduce profit margins. Farm Profit before Tax is estimated at $146,300, a 31 per cent decrease from 2021-22 and below the 5-year average. When inflation is taken into account, Farm Profit before Tax is estimated at $96,600 a 35 per cent decrease from 2021-22.

Red meat export returns are mixed as they decreased in the first four months of the season (down from record highs in 2021-22), especially for mutton. Lamb and beef prices also fell but not by the same magnitude as mutton. A fall in demand from China drove the decrease in sheepmeat, but beef returns only decreased slightly compared to the record start of last season, and a tightening of global beef supply has underpinned the global beef market, which was further elevated with the very recent case of BSE (Mad Cow Disease) in Brazil.

Eighty-five per cent of mutton exports are to China. When China relaxed COVID-19 related rules towards the end of 2022, the number of infections rocketed. This has significantly impacted mutton export receipts, which were one-third lower than in the same period last season and that has been felt in farm-gate prices.

The mixed market sentiment is cushioned by the outlook for the NZD, which is expected to remain low, which is favourable for NZ exporters.

Total combined sheepmeat and beef export receipts for the 2022-23 season are forecast to drop 10 per cent on 2021-22 to $9.3 billion. While down from the record last year, this is still 9 per cent higher than the five-year average.

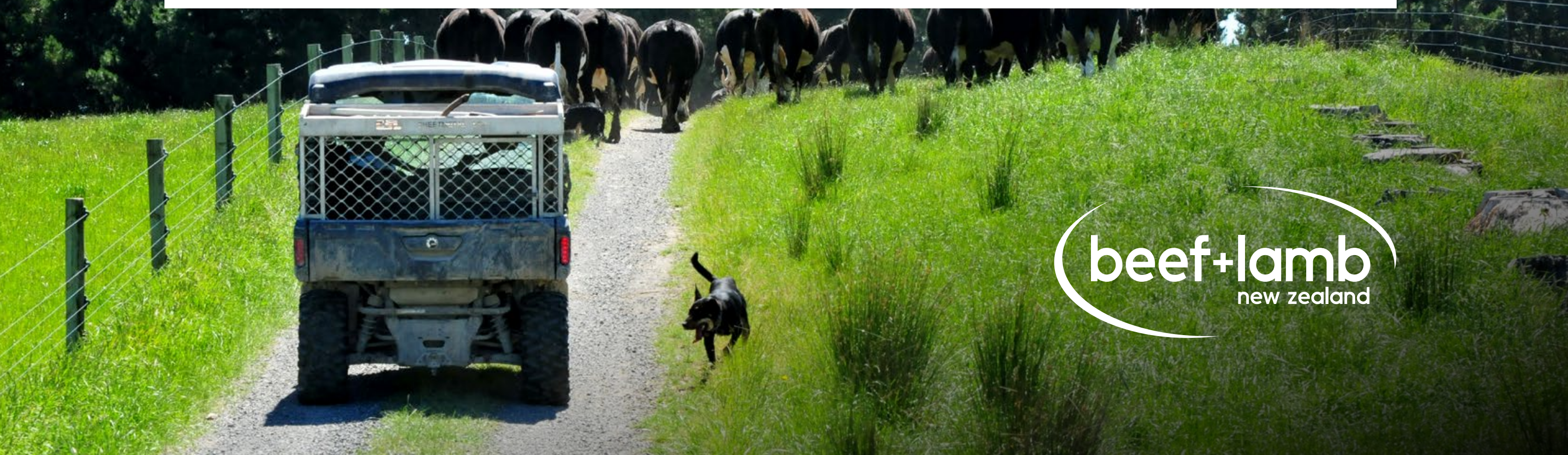
Overall, the outlook for global economic conditions is relatively weak, and uncertainty is high due to inflation. Positively, many of New Zealand's key red meat markets are wealthy countries that will weather the difficulties better than others.

Global red meat trade faces several key challenges in 2023. These include ongoing pandemic disruptions in China creating volatility, the impact of tightening monetary policy in key markets on consumer demand and the sensitivity of agricultural trade to geopolitical tensions.

Cyclone Gabrielle has proven to be devastating for Northland, Auckland, Bay of Plenty, parts of Waikato and especially East Coast farmers. Slips, silt, destroyed farm infrastructure and livestock losses were not fully known at the time of writing. The economic impact of this event will affect farmers in these regions for many years.

The cyclone has hit at a bad time financially for farmers given the sharp fall in revenue. Southland and Otago are also being strongly affected by drought. Farmer confidence is therefore at historic lows as farmers grapple with the combination of these poor returns, increased costs as a result of inflation, the impact of these weather events and the prospect of further cost increases in the future as a result of the Government's overwhelming environmental policy agenda.

The latest SNZ livestock figures show a greater decrease in livestock numbers than expected. The increased sale of farms destined for forestry (estimated at 175,000 hectares over the last five years) is a likely factor in the reduction.



Sheepmeat

- For 2022-23, total lamb export receipts are forecast at $3.5 billion FOB[1], down 12 per cent on the record 2021-22.
- The decrease reflects an 11 per cent drop in the average value of lamb. Lamb export volumes are forecast to be down three per cent on last season.
- The forecast average FOB value of exports is six per cent up on the five-year average.
- Export receipts for co-products are forecast to lift 18 per cent reflecting strong recovery in petfood, tallow, and hides, following the disruption of COVID-19.
- The lamb crop in spring 2022 is estimated at 20.2 million head, 8.5 per cent lower than in 2021, reflecting declining breeding ewe numbers and that dry conditions for some regions affected mating.
- Mutton export receipts are forecast to drop 16 per cent on 2021-22. A 15 per cent drop in average export value underpins the weak forecast; alongside a four per cent decline in production.
- Total export receipts for sheepmeat (lamb and mutton) for 2022-23 are forecast to be $4.2 billion FOB, down 12 per cent on 2021-22.
- The weighted average farm-gate price for lamb is forecast at $145 per head, or 760 cents per kg, which is 12 per cent lower than in 2021-22, but two per cent above the five-year average.
- The annual average farm-gate price for mutton is forecast at $112 per head, or 430 cents per kg, which is 23 per cent lower than in 2021-22, and 11 per cent below the five-year average.
- Demand in all key markets for New Zealand lamb is moderately weak. Global prices weakened off record peaks as the season commenced due to supply increasing and China's demand weakening.
- Import demand from China, the US and the EU region are going to be key drivers of recovery for the remainder of the 2022-23 season.

Beef

- Export revenue from beef and veal in the 2022-23 season is forecast to be $5.0 billion FOB, down eight per cent on 2021-22.
- Beef and veal exports are forecast to be flat at 478,000 tonnes shipped weight.
- Average export returns for the season are forecast to drop to $9,400 per tonne, down 6 per cent on 2021-22, but still up 17 per cent on the five-year average.
- The forecast for the 2022-23 season is for the average farm-gate price for all cattle to drop one per cent on 2021-22, to 550 cents per kg, which is a mix of 611 cents per kg for P steer/heifer (270-295kg), 405 cents per kg for M cow (170-195kg), which itself includes a large component of cull dairy cows, and 602 cents per kg for M bull (270-295kg).
- The outlook for the global beef market is relatively positive. Like sheepmeat, consumer demand and prices for beef in New Zealand's key markets levelled off from record highs achieved last season, but the decrease is markedly less compared to sheepmeat.
- In 2022, US beef production reached a record high because of a brutal drought in key beef cattle states, forcing farmers to liquidate herds. However, factors such as weather, politics, policy, demand, and cattle diseases all placed enough downwards pressure on beef supply allowing export performance to reach record highs.
- Global beef production for 2023, as estimated by the USDA in February 2023, is expected to decrease one per cent on 2022. Despite Brazil, and Australia gaining global market share, the reduction in US, Uruguay, and Argentina exports offset this.

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

Exchange Rate Impact

- New Zealand sheepmeat and beef export returns and farm-gate prices are significantly impacted by exchange rate movements because New Zealand's industry focuses on exporting the majority of its production.
- The NZD is forecast to depreciate against the USD (and has been revised down from the New Season Outlook 2022-23 that was published in October), which is the major trading currency for New Zealand meat. There is downside risk to the forecast presented in this report, as global economic conditions have evolved since the time of this forecast.
- The outlook for the NZD is favourable for New Zealand exporters and the primary sector. A greater proportion of the strong prices in New Zealand's markets will flow into farm-gate returns.

Gross Revenue

- Gross farm revenue for 2022-23 (under an exchange rate scenario of USD0.63) is forecast to average $677,800 per farm, down 6.4 per cent on 2021-22. This is driven by a large decrease in sheep revenue and a moderate decrease in beef cattle revenue. Farms with a higher ratio of sheep to beef cattle will feel the drop in revenue more severely than those buffered by a relatively stronger outlook for beef cattle.
- Sheep revenue, which is forecast to contribute around 47 per cent of gross farm revenue on average, decreases 14.3 per cent to $319,700 per farm for 2022-23. Farm-gate prices for prime and store lamb decreased further than anticipated at the start of the 2022-23 season, and mutton prices also decreased significantly.
- Cattle revenue decreases 3.1 per cent to $186,200 per farm for 2022-23 with farm-gate prices softening.
- Gross farm revenue is spent on goods and services for running the farm business including wages, shearing contractors, maintenance and agricultural services; then taxation, debt servicing, debt reduction and personal living expenses.

Expenditure

- Farm expenditure is estimated to increase 4.1 per cent to $531,500 per farm for 2022-23.
- Inflation continues in farm input prices prompting farmers to attempt to cut costs while balancing the production and physical elements of the farm. Expenditure in most categories is estimated to increase, with the largest increases forecast for interest, fertiliser, fuel, shearing and wages.
- Fertiliser, lime, and seeds expenditure is the largest area of expenditure and comprises around 19 per cent of total farm expenditure in 2022-23. Fertiliser, lime, and seeds expenditure increases 6.1 per cent to average $102,100 per farm.
- Interest expenditure increases 12.5 per cent to $54,000 per farm (interest expenditure, not interest rates). Term liabilities are forecast to be similar to 2021-22, however interest rates for new borrowings and overdrafts, and the mix of lending that is on fixed and floating interest rates, have increased pushing up interest expenditure, which accounts for around 10 per cent of total farm expenditure, on average.
- Shearing expenses continue to climb, reaching $29,000 per farm on average for 2022-23, up 6.7 per cent. On a per head basis, the increase is 8.1 per cent – to $6.14 a head.

Farm Profit Before Tax

- A large decrease in farm profitability is forecast for this season, with factors such as lower market prices and significant cost increases reducing profit. In 2022-23, Farm Profit before Tax is expected to decrease 31 per cent from 2021-22 to average $146,300. It is noted that 2021-22 was an exceptional year for profit, with per farm profit before tax more than 50 per cent higher than the average of the previous five seasons.
- Farm profit before tax is used to meet taxation payments, personal drawings for family living expenses, debt repayments and the purchase of capital items for the farm business, such as farm machinery.
- Farm profitability forecasts for 2022-23 were made prior to Cyclones Hale and Gabrielle and it will take time to quantify both livestock and financial impacts from the widespread devastation caused by the cyclones. Farms impacted by floods face large costs to restore infrastructure, feed, stock, and other losses, some of which may be offset by insurance or relief payments from Government or some of both. Sheep and beef farmers already faced lower revenue and increased costs prior to these climatic events over summer adding to financial woes.
- In contrast, very dry conditions in Otago and Southland have provided a different type of pressure for farmers in the South Island.
- Farmer sentiment and overall confidence is extremely low this season as uncertainty about environmental policy persists. Expectations for increasing costs and additional regulatory costs to come in the not-too-distant future override historically high farm-gate prices.

Further information

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