beef+lamb new zealand

Mid-Season Update 2020-21

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Mid-Season Update 2020-21 Summary

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 from 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 (ASF), 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 farm-gate returns.

While sheep and beef farmers are expecting a more subdued season ahead, 2020 was significantly more positive for returns and production than expected, 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. New Zealand’s reputation as a producer of high-quality natural red meat positions our red meat well to capitalise on these shifting consumer attitudes.

Total beef, veal and sheepmeat export revenue for the 2020-21 season is forecast at $7.43 billion, down 13 percent or $1.1 billion, from 2019-20.

Sheepmeat

- For 2020-21, total lamb export receipts are forecast at $2.9 billion FOB[1], down 14 per cent on 2019-20.
- This decline is driven by a decline in the volume of lamb meat exported (-4.4%) to 296,000 tonnes shipped weight and a decline in the average FOB value of exports (-9.8%) to $9,763 per tonne.
- The value of co-product exports is forecast to decline 8.0 per cent.
- The 2020 lamb crop – estimated to be 22.9 million head – is forecast to be 1.2 per cent lower than in 2019, which, while down, is a strong result given the impact of the 2020 drought.

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

- Mutton export receipts are forecast to decline 7.1 per cent on 2019-20, driven by declining average export values and a 2.9 per cent decline in mutton production as farmers rebuild flocks following drought.
- Total export receipts for sheepmeat (lamb and mutton) for 2020-21 are forecast to decline by 12 per cent, or $526 million, to $3.7 billion FOB.
- The weighted average lamb farm-gate price is forecast to decline 12 per cent to 643 cents per kg.
- The weighted average farm-gate price for adult sheep is expected to be 472 cents per kg, 1.8 per cent down on 2019-20.
- Farm-gate returns are forecast to average $122 a head for both prime lambs and prime sheep in 2020-21, the first season in which sheep prices have been as high as lamb prices.
- 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.
- Demand for sheepmeat will be supported by continued strong demand from China for meat protein because of ASF-induced pork shortages and growth in household incomes. The sustainability of Chinese demand will be a key driver of export performance through 2021.

Beef

- Export revenue from beef and veal in the 2020-21 season is forecast to be $3.7 billion FOB, down 14 per cent on 2019-20.
- Beef and veal exports are forecast to decline 2.6 per cent to 453,000 tonnes shipped weight.
- The number of cattle processed for export in 2020-21 is forecast to decline 2.6 per cent on 2019-20. Export beef production is similarly forecast to be down 2.6 per cent at 661,000 tonnes carcase weight.
- Average export returns for the season are forecast to decline 12.6 per cent to $7,156 per tonne.
- In 2020-21, the annual average all beef class farmgate price is estimated to be down 5.4 per cent. For each class this results in:
    a. 507 cents per kg for P steer/heifer (270-295kg)
    b. 341 cents per kg for M cow (170-195kg)
    c. 518 cents per kg for M bull (270-295kg)
- 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.
- ASF and the growing demand for quality proteins from the affluent Asian consumer will continue to be key drivers of demand for beef.

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 vast majority of its production. 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 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 farm-gate returns.

Profitability

- Gross farm revenue for the 2020-21 farming year is forecast to average $568,000 per farm – down 9 per cent. After a couple of strong years in 2018-19 and 2019-20, all revenue accounts are forecast to decline to levels below 2017-18. The exception is wool, which is forecast to be about 30 per cent lower than in 2017-18, clearly reflecting the very challenging circumstances in the wool sector. Cattle revenue decreases 4 per cent to $155,700 per farm and sheep revenue is forecast to decrease by 12 per cent to $271,300 per farm for 2020-21.

Expenditure

- To produce their gross revenue, farmers incur expenditure, like any business. Expenditure is estimated to decrease 5 per cent to average $443,800 per farm for 2020-21.
- Expenditure is expected to decrease in most categories as farmers adjust their expenditure in response to expected lower revenue.
- Continued low interest rates and a small reduction in average debt level result in interest expenditure, which accounts for around 11 per cent of total farm expenditure, decreasing by 9 per cent to $48,300 per farm. Shearing expenditure increases for the fourth year in a row.

Farm Profit Before Tax

- And farm profit before tax, which is the residual that farmers spend to meet tax payments, personal drawings for family living expenses, debt repayments and the purchase of capital items for the farm business, such as farm machinery, is forecast to be down 21 per cent to average $124,200 per farm.