Published March 2022

Summary report

Mid-Season Update 2021-22

Overview

The outlook for global sheepmeat and beef trade is positive for the 2021-22 season. Fundamentals in key markets are solid, with demand projected to continue to exceed supply.

Red meat export returns reached record highs in the first quarter of the season. Strong demand from the US and China has underpinned both sheepmeat and beef returns, and a tightening of global beef supply has added fuel to the global beef market.

Total combined sheepmeat and beef export receipts for the 2021-22 season are forecast to lift 11 per cent on 2020-21 to $9.6 billion and be 21 per cent higher than the five-year average.

The positive market sentiment is supported by the outlook for the NZD, which is favourable for NZ exporters. A greater proportion of the strong prices in New Zealand's export markets is expected to flow into farm-gate returns.

Global red meat trade faces several key challenges in 2022. These include ongoing pandemic uncertainty, continuing supply chain disruption – including high freight costs – the impact of tightening monetary policy in key markets on consumer demand and the sensitivity of agricultural trade to geopolitical tensions.

Strong commodity prices are underpinning strong returns to farmers, supported by a weaker NZ dollar. Inflationary pressure, is however, causing on-farm costs to lift sharply, eroding the benefit of higher farm-gate returns.

Farm profit before tax is forecast to lift 29 per cent in 2021-22 to an average $116,200 per farm (inflation-adjusted). This increase is positive for farmers and is an improvement on lower profitability levels in 2020-21. Strong farm-gate sheep prices underpin an 11 per cent increase in gross farm revenue. Inflationary pressure is causing on-farm costs to lift sharply, eroding the benefit of higher farm-gate returns. Farm expenditure is forecast to increase 4.5 per cent, with increased costs across most categories on farm and a sharp lift in fertiliser prices.

While farm-gate prices for sheep and cattle boost profitability, farmers are wary about the impact of the Omicron variant of COVID-19 on processor space and their ability to move livestock off-farm when finished, as well as the possibility of holding livestock for longer and needing additional feed. Farmers remain concerned about the speed of increasing environmental regulation and the encroachment of carbon forestry businesses changing the landscape of rural communities.

beef+lamb new zealand

Sheepmeat

- For 2021-22, total lamb export receipts are forecast at $3.8 billion FOB[1], up 13 per cent on 2020-21.
- The lift reflects a 14 per cent lift in the average value of lamb. Lamb export volumes are forecast to be down one per cent on last season.
- The forecast average FOB value of exports is a record high and is 18 per cent up on the five year average.
- Export receipts for co-products are forecast to lift 6 per cent reflecting strong recovery following the disruption of COVID-19.
- The lamb crop in spring 2021 is forecast to have been 22.6 million head, 2.3 per cent lower than in 2020, reflecting declining ewe numbers.
- Mutton export receipts are forecast to lift 6 per cent on 2020-21. A 10 per cent lift in average export value underpins the strong forecast; more than offsetting a 3 per cent decline in production.
- Total export receipts for sheepmeat (lamb and mutton) for 2021-22 are forecast to be $4.7 billion FOB, up 12 per cent on 2020-21.
- The weighted average lamb farm-gate price is forecast to be 802 cents per kg, up 15 per cent on 2020-21, and 17 per cent on the five-year average.
- The annual average farm-gate price for mutton is forecast to lift 9 per cent to 539 cents per kg, which is 27 per cent above the five-year average.
- Demand in all key markets for New Zealand lamb is strong. There is a limited global supply of lamb and strong consumer demand is supporting higher in-market prices.
- Import demand from China and the US are key drivers of the strong export performance forecast for the 2021-22 season.

Beef

- Export revenue from beef and veal in the 2021-22 season is forecast to be $4.9 billion FOB, up 11 per cent on 2020-21.
- Beef and veal exports are forecast to decline 2 per cent to 493,000 tonnes shipped weight, reflecting a decline in the number of cattle processed.
- Export beef production is forecast to decline 2 per cent to 704,000 tonnes carcase weight.
- Average export returns for the season are forecast to lift to a record $8,800 per tonne, up 14 per cent on 2020-21.
- The forecast for the 2021-22 season is for the average farm-gate price for all cattle to lift 7 per cent on 2020-21, to 507 cents per kg, which is a mix of 562 cents per kg for P steer/heifer (270-295kg), 381 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 542 cents per kg for M bull (270-295kg).
- The outlook for the global beef market is buoyant, fuelled by strong demand, tightening global beef supplies and a favourable exchange rate.
- In the US, imported beef demand is expected to be strong, underpinned by declining US beef production, demand pull from China, and imports from Brazil being limited by quota access reasonably early in 2022.
- ASF[2] driven pork deficits have been pivotal in shifting Chinese consumer preference towards beef. Beef consumption is expected to continue to lift in China independent of ASF and pork supply.

[1]Free on Board, which is the standard measure of the value of exports
[2]African Swine Fever

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, 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 the 2021-22 farming year is forecast to average $667,300 per farm – up 11 per cent. Increased revenue is driven predominantly from sheep, however revenue from cattle, wool, deer, cash crops and other revenue are also estimated to increase. Sheep revenue increases by 18 per cent to $344,100 per farm and cattle revenue increases one per cent to $165,400 per farm. The cash crop account is forecast to increase by 8.5 per cent in 2021-22. It accounts for 10 per cent of gross farm revenue on average in 2021-22, which is double the contribution from dairy grazing. Sheep and cattle revenue account for around three-quarters of gross farm revenue at 52 per cent and 25 per cent respectively on average.

Expenditure

- Farm expenditure is estimated to increase 5 per cent to average $500,400 per farm for 2021-22.
- Expenditure is expected to increase in all categories of costs except for interest and rent. This is because of inflationary pressure on farm input prices, including major fertiliser price increases.
- Fertiliser, lime, and seeds expenditure, which is equivalent to 19 per cent of total farm expenditure, increases 16 per cent to average $96,300 per farm. The volume of fertiliser applied per farm and per hectare is forecast to decrease.
- Relatively 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 2.4 per cent to $53,600 per farm.
- Shearing expenditure increases 5.5 per cent to reach an average $27,480 per farm. On average, shearing expenses currently are equivalent to wool revenue with shearing being a loss-making exercise for many, and profitable for some.

Farm Profit Before Tax

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 increase 29 per cent to average $116,200 per farm (inflation adjusted).

Further information

For more information or enquiries email **econ@beeflambnz.co**m