beef+lamb new zealand

New Season Outlook 2017–18

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Executive Summary—Outlook 2017–18

Economic conditions

In 2018, global economic growth is expected to improve gradually, but annual growth in New Zealand's trading partners' is expected to remain steady at just over three per cent for 2018 and 2019. Globally, commodity prices have grown in 2017 despite weak oil prices. While global growth has improved slightly, inflation and wage growth are low overall, and central bank policies are expected to keep interest rates at low levels.

The outlook for US economic growth in 2018 was lower than previous expectations due to increased uncertainty in expansionary policies. Improved private investment has offset the easing rate of increase in consumer spending. However, potential protectionist trade and immigration policies could threaten gains made and future economic growth. The US Federal Reserve's (the Fed) current target benchmark interest rate is 1-1.25 per cent, after a rate increase in June 2017. The likelihood of a third rate increase in 2017 has reduced.

China's growth continues, but at a slowing rate, as its economy continues to rebalance itself from investment-led to consumption-led activity. Private sector improvements remain weak and occasional fiscal support is expected to be used to manage growth.

The EU's growth prospects have improved despite UK growth being weaker than expected in 2017. Other large EU economies – France, Germany, Italy and Spain – performed better than expected with improved domestic demand. Brexit creates uncertainty but negotiations began in June to set the terms of UK exiting the EU. Recent EU election results have been seen as an indication of sentiment moving away from protectionist politics.

Forecasts in this report are based on the NZD for 2017-18 averaging USD0.69 (-3.5%), GBP0.55 (-3.5%) and EUR0.62 (-4.2%).

Livestock Numbers

Sheep numbers at 30 June 2017 provisionally totalled 27.3 million head, down 0.9 per cent on the previous June. This was driven by fewer breeding ewes for most regions, moderated by a lift in total hogget numbers.

The decline in numbers of breeding ewes was driven by slow recovery after drought conditions in northern South Island regions, and slow recovery in parts of the North Island after a facial eczema outbreak, which occurred in 2016. The overall increase in hoggets was largely influenced by East Coast numbers lifting due to farmers retaining ewe hoggets, which was particularly noticeable on hill and hard hill country farms.

Beef cattle numbers at 30 June 2017 provisionally totalled 3.63 million head, up 2.8 per cent on the previous June. This was predominantly driven by a lift in weaner cattle that were carried over balance date in response to high prices. The impact of strong prices for replacement stock was particularly noticeable in Northland-Waikato-Bay of Plenty, and Marlborough-Canterbury.

Total dairy cattle numbers were stable at 6.61 million head at 30 June 2017. The South Island now contains 41 per cent of the New Zealand dairy herd, up from 33 per cent 10 years ago.

Lamb

For 2017-18, lamb meat export receipts are forecast at $2.56 billion Free On Board (FOB), up 1.3 per cent on the previous season under the USD0.69 exchange rate scenario. Lamb shipments are projected to increase marginally (+0.5%) as the number of lambs processed increases, and co-product export receipts are forecast to be up 7.0 per cent.

For the year ending September 2018, the number of lambs processed is forecast to increase 1.1 per cent to 19.4 million head, despite a smaller lamb crop (-1.3%) reflecting the reduced proportion of ewe replacements kept in 2017-18 compared to 2016-17.

At the mid exchange rate of USD0.69, the annual average lamb price is estimated at 555 cents per kg for 2017-18, a 1.7 per cent decrease following strong prices in 2016-17 that averaged 565 cents per kg – up 10 per cent.

Beef

Beef and veal receipts are expected to remain high at $3.3 billion FOB in 2017-18, down 2.1 per cent on the previous season, driven by a decrease in the average value of exports (-1.9%) and shipments down slightly (-0.9%).

For 2017-18, the number of cattle processed for export is forecast to remain at 2.36 million head. This represents a stabilisation after two years of decline from the elevated levels of production in 2014-15 and 2015-16, which were boosted by an elevated number of dairy cull cows processed. The average carcase weight is expected to be down 0.9 per cent or 3kg per head due to a reduction of steer and heifer weights, and cows making up a greater proportion of the total number of cattle processed. New Zealand export beef production is projected to decrease slightly (-0.9%) to 592,000 tonnes carcase weight.

At the mid exchange rate of USD0.69, the annual average price for all cattle is forecast at 486 cents per kg for 2017-18, a 0.5 per cent decrease on the estimated price for 2016-17.

Wool

Total wool production in the year ending June 2018 is forecast to increase 0.9 per cent. For shorn wool, a higher clip per head (+2.1%) offsets a smaller sheep flock (-0.9%) and a decline in slipe wool production (-1.6%) from fewer sheep processed.

Total wool export receipts are expected to increase by 16 per cent for 2017-18 compared with the previous season. This reflects poor returns in 2016-17 when average FOB value per tonne and export volume decreased by 17 and 18 per cent respectively. For 2017-18, the overall annual average auction wool price is forecast to increase 4.1 per cent on the previous year.

Sheep and Beef Farms

Gross farm revenue for the national All Classes Sheep and Beef Farm is estimated at $469,900 per farm for 2017-18, up 1.6 per cent on 2015-16 largely from increased revenue for wool, deer and cash cropping.

Wool revenue is estimated to lift due to an increase in volumes sold, partly as a result of a carry-over of stocks on hand from 2016-17, and shorn wool available from 2017-18.

Total expenditure for the All Classes Sheep and Beef Farm is estimated to increase slightly (+0.5%) to $378,700 per farm for 2017-18. Decreased expenditure in interest, and repairs and maintenance is offset by a lift in fertiliser expenditure. Combined, these three areas contribute around 35 per cent of total farm expenditure.

Farm Profit before Tax for the All Classes Sheep and Beef Farm for 2017-18 is forecast at $84,600 per farm, up 6.6 per cent on the previous year.

After adjusting for inflation, Farm Profit before Tax is up 4.6 per cent on 2016-17 to $69,100 per farm. This compares with $131,100 per farm for 2011-12, which was the highest since the early 1970s and similar to 2001-02 when real Farm Profit before Tax was $126,900 per farm.

Anecdotally, farmer feedback indicates that the most significant issue on farmers' minds is how environmental compliance is going to impact on farm businesses. Areas of uncertainty range from compliance costs and rules to profitability outcomes and land values.

Economic Conditions

TABLE 1

Economic Growth

Annual Average % Change, March Year

	2014 %	2015 %	2016 %	2017e %	2018f %	2019f %
US	+1.8	+2.8	+2.3	+1.5	+1.5	+1.7
UK	+2.2	+3.1	+2.1	+1.7	+1.7	+1.4
Euro zone	+0.4	+1.3	+1.8	+1.6	+1.7	+1.6
Japan	+2.6	-0.5	+1.2	+1.4	+1.4	+1.1
China	+7.6	+7.2	+6.8	+6.6	+6.5	+6.2
South Korea	+3.3	+3.0	+2.8	+2.7	+2.5	+2.5
Australia	+2.4	+2.7	+2.5	+2.9	+2.5	+2.9
Trading Partners	+4.0	+3.6	+3.4	+3.2	+3.2	+3.2
New Zealand	**+2.4**	**+3.4**	**+2.4**	**+3.0**	**+2.9**	**+3.4**

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

Global Growth Prospects

Global economic growth is expected to improve gradually through 2018 and 2019, but across New Zealand's major trading partners growth is expected to remain steady at 3.2 per cent. Global commodity prices continued to grow modestly during 2017 despite oil prices remaining weaker. An investment-led recovery in advanced economies is helping to firm up growth. In Emerging Market and Developing Economies (EMDEs), growth is expected to rebound after dipping in 2016.

However, fiscal and trade policy uncertainty remain a concern despite expansionary policies, particularly from the US. An improvement in economic activity and political stability in the EU go some way to offset these risks.

The 2018 outlook for the US economy was revised down (compared with earlier 2018 forecasts) due to diminished confidence in expansionary policies arising from uncertainty over the timing and intention of economic policy releases. Private investment has improved to offset the easing rate of increase in consumer spending, despite high consumer confidence. However, potential protectionist trade and immigration policies could threaten gains made and future economic activity growth.

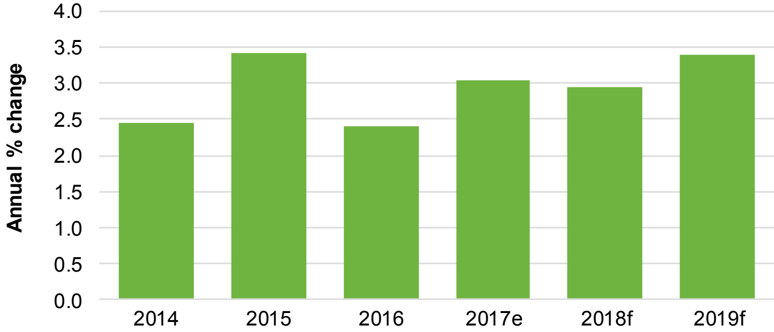
Economic growth in China continues to slow as reported in the Beef + Lamb New Zealand (B+LNZ) Economic Service Mid-Season Update 2016-17, continuing the rebalancing of the economy towards consumption activity rather than being led by investment. Private sector improvements remain weak and occasional fiscal support is expected to be used to manage growth. Two key risks to China's economic progress are the ability of policy makers to control high credit growth, and any reduction of trade as a result of policies introduced by advanced economies.

The prospects for EU economic growth have improved despite UK growth being weaker than expected. Other large EU economies – France, Germany, Italy and Spain – performed better than expected with improved domestic demand. The elections of French President Macron and Dutch Prime Minister Rutte have been seen as an indication of sentiment away from protectionist politics. Prime Minister Theresa May retained her position in the June election, which was called early in an attempt to strengthen the mandate in Brexit negotiations. However, a poorer than expected result did not improve sentiment surrounding the Brexit process and negotiations.

Japan's economy also performed better than expected for the first quarter of 2017 driven by private consumption and investment, improved exports and manufacturing due to a weaker yen (JPY), and government stimulus in the lead-up to the Tokyo Olympics in 2020. However, Japan's economic growth is forecast to ease in the year ending March 2019 as the effect of increased public spending dissipates, but remain above previous expectations.

FIGURE 1

NZ Real GDP
Annual % change



e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, NZIER Quarterly Predictions

New Zealand

While global economic growth still has some uncertainty surrounding it, New Zealand's outlook in comparison remains stable and positive. High net migration has supported the outlook for the construction sector and regional growth has benefited from robust tourism activity and improvements in dairy prices. The rate of growth is forecast to remain relatively steady at 2.9 per cent in the year to March 2018 and rise to 3.4 per cent in the following 12 months.

The high net migration (72,000 in the year to June 2017) is driven by higher immigration and low levels of departures from New Zealand. Strong population growth in Auckland has overflowed into the surrounding regions and a rise in business confidence has been reported in these areas.

Construction demand and government infrastructure spending have risen outside Auckland due to migration and strong tourism numbers.

Regional growth has also benefited from a recovery in the dairy sector. In July 2017, Fonterra forecasted the farm-gate milk price for the year ending June 2018 at $6.75 per kg of milksolids, excluding the share dividend. The estimated average break-even price for 2016-17 was $5.05 per kg of milksolids.

The unemployment rate for the June 2017 quarter fell to 4.8 per cent partly due to an increase in the participation rate and a lift in the size of the working age population. Demand for employees has increased due to strong economic activity, particularly in hospitality and construction.

Consumer Prices

New Zealand's steady growth and relatively strong dollar have kept the price of imported goods down and there is an expectation that tradeable inflation will remain low. For the year ending March 2018, inflation is forecast at 2.0 per cent. Non-tradeable inflation has remained moderate as wage growth remains low despite employment demand rising. In contrast, construction sector inflation remains high despite house price inflation easing, albeit from very high levels, tempered by the loan-to-value ratio (LVR) restrictions and rising housing construction.

The impact of higher food and fuel prices is predicted to dissipate and medium-term inflation is expected to remain around two per cent – the mid-point of the Reserve Bank of New Zealand's (RBNZ) 1-3 per cent inflation target range. Continued elevated population growth and construction sector capability present upward pressure.

The global economy has recovered somewhat, but risks and uncertainty still linger for the medium-term. Oil prices have remained weaker due to high US inventories and increased supply. The increase in US consumer spending slowed and wage growth has remained low despite high consumer confidence and improved employment rates.

Chinese consumer price inflation has remained below the central bank's target of three per cent. Tax reductions for individuals and small businesses have been implemented to encourage consumption and investment. Japan's consumer prices increased for the first six months of 2017, but the Bank of Japan's (BoJ) forecast of increased inflation could be threatened by ongoing slow wage growth and oil price declines.

TABLE 2

Consumer Prices
Annual Average % Change, March Year

	2014 %	2015 %	2016 %	2017e %	2018f %	2019f %
US	+1.4	+1.2	+0.4	+1.6	+2.2	+2.2
UK	+2.3	+1.1	+0.1	+1.1	+2.1	+2.6
Euro zone	+1.0	+0.2	+0.1	+0.7	+1.2	+1.5
Japan	+0.9	+3.0	+0.2	-0.1	+0.5	+1.0
China	+2.6	+1.7	+1.7	+1.9	+2.2	+2.3
South Korea	+1.2	+1.2	+0.7	+1.3	+1.8	+1.8
Australia	+2.6	+2.1	+1.5	+1.5	+2.0	+2.2
Trading Partners	+2.0	+1.5	+0.9	+1.3	+1.8	+2.0
New Zealand	**+1.3**	**+0.9**	**+0.3**	**+1.1**	**+2.0**	**+1.8**

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

Interest Rates

The New Zealand official cash rate (OCR) was reduced 0.25 percentage points in November 2016 to 1.75 per cent, since that time the RBNZ has indicated that the OCR will remain at this level for a considerable period due to remaining global uncertainties. NZIER expects the OCR to begin rising in mid-2018 as New Zealand's solid economic growth and inflation begin to exert pressure. However, these factors will be weighed against the offshore geopolitical risks. While global growth has improved slightly, inflation and wage growth have stayed low overall, and central bank policies in many advanced economies are expected to keep interest rates at low levels.

In the US, the US Federal Reserve's (the Fed) current target benchmark interest rate is 1-1.25 per cent, after a second rate increase for 2017 was announced in June. The likelihood of a third rate increase in 2017 has reduced but there is an expectation from the Fed that inflation will rise and stabilise around the target of two per cent in the next two years. Recent rate rises were well-signalled and financing conditions have generally been supported. However, there is some uncertainty around US presidential policies.

Economic growth in Europe was stronger than expected in the beginning of 2017 but the European Central Bank (ECB) signalled in July 2017 that interest rates will remain unchanged for an extended period. Loose credit policies are expected to remain in place because inflation has been below the ECB target – near two per cent in the medium term. The weaker GBP since the Brexit referendum in mid-2016 has driven up the price of British imports and inflation, but wages have not kept pace and consumer spending has eased. However, there may be early signs of wage improvements creating some pressure for the Bank of England (BoE) to raise rates and the June 2017 monetary policy committee meeting was split 5-3 in favour of not raising rates.

The easy monetary and fiscal policies of the Bank of Japan (BoJ) have remained to continue supporting growth. In July 2017, the BoJ target of reaching an inflation rate of two per cent was pushed back to 2019, the sixth delay since launching an asset-buying program in 2013.

In EMDEs, growth generally remains steady. This is due to easier borrowing conditions supporting demand in countries that are net commodity importers, and improving global trade benefits for net commodity exporters. Financial exposure in EMDEs has been reduced through improved bank capitalisation, including in large economies that are under some pressure, e.g. Brazil and Russia, but vulnerabilities persist due to past credit growth. Debt reduction in China has been difficult, with Moody's downgrading China's credit rating from Aa3 to A1. The downgrade is not expected to have a major impact on China but, as the world's second largest economy, it presents a potential global risk.

TABLE 3

Short-term Interest Rates

% p.a., March Year

	2014 %	2015 %	2016 %	2017e %	2018f %	2019f %
US	0.1	0.0	0.1	0.3	0.7	1.0
UK	0.3	0.4	0.5	0.3	0.2	0.6
Euro zone	0.2	0.2	0.0	-0.3	-0.2	0.0
Japan	0.1	0.1	0.1	0.1	0.1	0.2
Australia	2.8	2.7	2.2	1.9	1.9	2.1
New Zealand	**3.0**	**3.6**	**2.6**	**2.6**	**2.0**	**1.9**

Note: The Euro zone consists of 15 Member States: Belgium, Germany, Ireland, Greece, Spain, Cyprus, Malta, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland and Slovenia.
End of March year, except New Zealand, average for March quarter.
e estimate, f forecast | Source: Reserve Bank of New Zealand, NZIER Quarterly Predictions

Exchange Rates

Table 4 shows the annual average exchange rates for the three major currencies in which New Zealand meat and wool are traded.

For the year to September 2018, the outlook from banks at the time forecasting commenced was for the New Zealand dollar (NZD) to weaken against the US dollar (USD), sterling (GBP) and the euro (EUR). As the New Zealand economy has performed relatively strongly against most major trading partners, the NZD has remained high. However, improving economic performance in New Zealand's major trading partners is expected to drive a moderate appreciation of the three major trading currencies for meat and wool relative to the NZD. The forecast strengthening of the USD, GBP and EUR are contrary to weakening annual average exchange rates for all three currencies in 2016-17, particularly the GBP following the Brexit referendum result.

The general expectation is for the US economy to strengthen through 2017-18 and fiscal stimulus to diminish, but uncertainty remains a risk. The uncertainty and concerns around policies of the current US administration have hindered the USD after initially strengthening at the start of the current presidential term. The USD is the most significant currency for New Zealand's sheepmeat and beef trades.

While EU growth remains relatively low, its economy has performed better than expected. However, central bank monetary policies will keep interest rates low to encourage growth. The prospects of the GBP strengthening from a low position have increased as there have been some signals the BoE will begin raising interest rates.

Chinese authorities have continued with policies to rebalance their economy from stimulus-driven to consumption-led. The Chinese government has increased restrictions on moving capital out of China and aims to limit exchange rate fluctuations through its managed floating exchange rate framework.

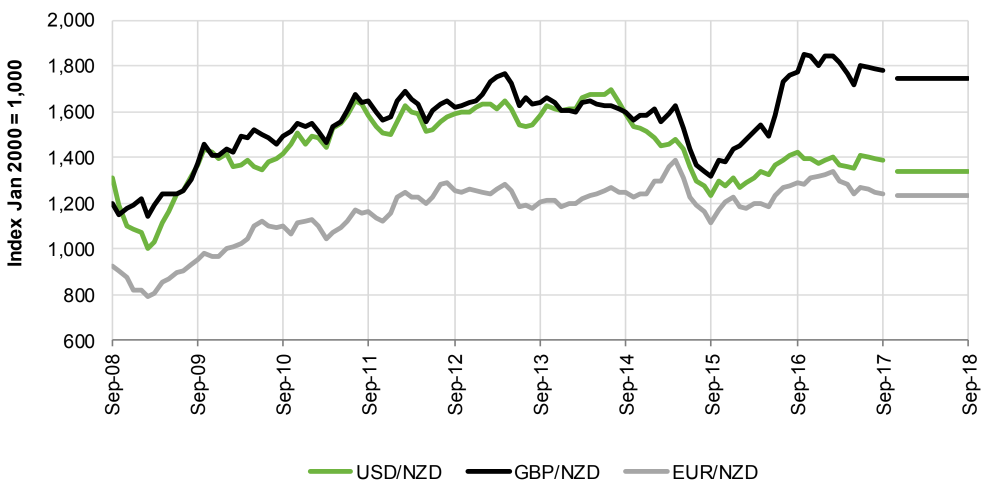
TABLE 4 **NZ Dollar Exchange Rates**

Annual Average

Sep Year	USD	GBP	EUR
2015-16	0.69	0.48	0.62
2016-17e	0.71	0.56	0.65
2017-18f	0.69	0.55	0.62
2017-18f % change	-3.5%	-3.4%	-4.2%

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

FIGURE 2 **Indicative Exchange Rates**



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

Exchange rates have a significant impact on meat export receipts because most of New Zealand's meat exports are denominated in foreign currencies.

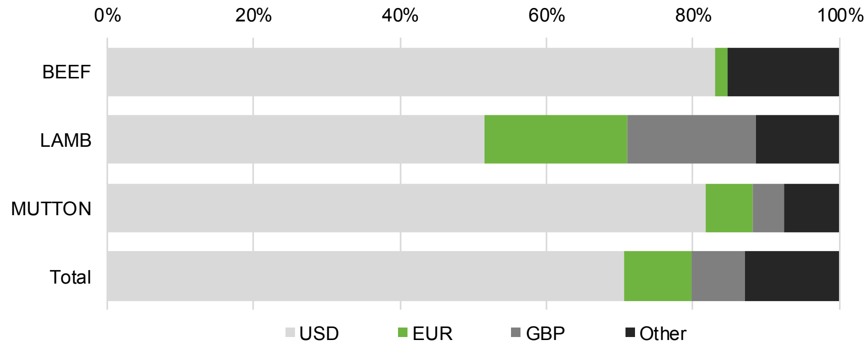
Figure 3 shows the proportion of New Zealand beef, lamb and mutton export volumes in the currencies in which the trade is denominated. In the period between October 2016 and June 2017, the first nine months of the 2016-17 export production season, 71 per cent of total meat export volume was reported as being traded in USD-denominated contracts, 9.1 per cent in EUR and 7.4 per cent in GBP. As a rule, the currency of trade usually depends on the region of the trade.

The US was the largest market for all sheepmeat and beef for this period (29%), which partially explains the dominance of USD in trades. However, the second largest market was China (26%) and nearly 90 per cent of trade with North Asia was denominated in USD. Nevertheless, importers effectively purchase USD using their own currency so as the value of Asian currencies adjusts so does the value of the product to the importer. This is particularly the case as the Chinese yuan (CNY) depreciates against the USD.

The UK and continental EU are the traditional markets for New Zealand lamb. However, while the UK and continental EU are still significant, and 18 per cent of lamb volume is traded in GBP and 20 per cent in EUR, more volume is traded in USD. In the year to September 2013, New Zealand lamb shipments to China increased by 74 per cent – to 89,000 tonnes – and have since remained around this level, benefitting from the New Zealand-China Free Trade Agreement signed in 2008. China now accounts for around 30 per cent of lamb export volume – the largest single country market. Additionally, the volume of New Zealand lamb exports to the US has increased in recent seasons to be 8 per cent of total volume in the first nine months of the 2016-17 season making it the third largest market.

The USD is significant for New Zealand beef exports because 88 per cent of total exports go to North America and North Asia – dominated by trade to the US (50%) and China (18%). The importance of the USD in mutton trades relates to high volumes exported to Asia, particularly China (47%), and to the US (8%).

FIGURE 3 **NZ meat export volumes by currency of trade Oct 2016 - Jun 2017**



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

Exchange Rate Sensitivity—2017-18

TABLE 5

NZD Exchange Rates

						Exchange Rate Change from USD 0.69	
						to USD 0.62	to USD 0.75
USD	0.62	0.65	0.69	0.72	0.75	-10%	+10%
GBP	0.49	0.52	0.55	0.57	0.60	-10%	+10%
EUR	0.56	0.59	0.62	0.65	0.69	-10%	+10%
			Farm-Gate Prices Received				
			$ / head				
Lamb	119	110	103	95	89	+16.0%	-13.1%
Mutton	90	82	74	67	61	+21.9%	-17.9%
Steer/Heifer	1,679	1,568	1,467	1,377	1,294	+14.4%	-11.8%
Cow	895	836	783	734	690	+14.4%	-11.8%
Bull	1,804	1,685	1,577	1,480	1,391	+14.4%	-11.8%
All Beef	1,393	1,301	1,218	1,143	1,074	+14.4%	-11.8%
			c / kg				
Lamb[1]	644	597	555	517	483	+16.0%	-13.1%
Mutton[1]	357	324	293	266	241	+21.9%	-17.9%
Steer/Heifer	610	569	533	500	470	+14.4%	-11.8%
Cow	451	421	394	370	348	+14.4%	-11.8%
Bull	597	557	521	489	460	+14.4%	-11.8%
All Beef	556	519	486	456	429	+14.4%	-11.8%
Fine[2]	1,194	1,152	1,005	1,005	942	+12.5%	-10.3%
Medium[2]	860	829	724	724	678	+12.5%	-10.3%
Crossbred[2]	443	427	373	373	349	+12.5%	-10.3%
All Wool[2]	507	489	427	427	400	+12.5%	-10.3%

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

The shaded column represents our forecasts of exchange rates for the major currencies and the related farm-gate prices used to derive the base estimates of export receipts and farm revenue in this report. The four other scenarios show the impact on farm-gate prices of variations of ±5 and ±10 per cent in the exchange rates for the USD, GBP, and EUR.

Meat and wool production is seasonal with the majority of 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 during that period impact the season-average prices for beef, lamb, mutton and wool and thus farm revenue.

In 2017-18, the NZD is expected to begin easing against the USD, GBP and EUR. The GBP is important because around 20 per cent of New Zealand lamb exports by volume and value were to the UK in recent years, prior to the 2016-17 season. However, this dropped to around 16-17 per cent in the first nine months of the 2016-17 season. The significantly weaker GBP after the Brexit referendum contributed to the volume exported to this market decreasing slightly while most other major markets strengthened in value.

Exchange rate movements have a significant leveraged effect on farm-gate prices. All other things being equal, a 10 per cent decrease in the NZD against the USD – from 0.69 to 0.62 – 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 0.69 to 0.75 against the USD – then the farm-gate lamb price decreases by 13 per cent.

Livestock Numbers

Sheep numbers at 30 June 2017 provisionally totalled 27.3 million head, down 0.9 per cent on the previous June. This was driven by fewer breeding ewes for most regions, moderated by a lift in total hogget numbers. The most significant increases occurred in East Coast and Marlborough-Canterbury.

It is estimated that North Island sheep numbers decreased 1.4 per cent (-0.19m) to 13.5 million at 30 June 2017. East Coast was the only region where numbers did not decline and this was due to a lift in hoggets. However, all regions experienced decreases in breeding ewes - particularly on hill country farms. While there was an overall decline in the total number of sheep, some flock rebuilding occurred on farms that were negatively affected by facial eczema in 2016.

South Island sheep numbers decreased 0.4 per cent (-50,000) to 13.8 million at 30 June 2017. Total numbers in Marlborough-Canterbury and Otago were almost unchanged, while total sheep numbers in Southland declined 3.0 per cent. Anecdotally, in Otago and Southland, wool prices and labour associated with sheep production have influenced farmer attitudes towards continuing to search for alternatives to sheep.

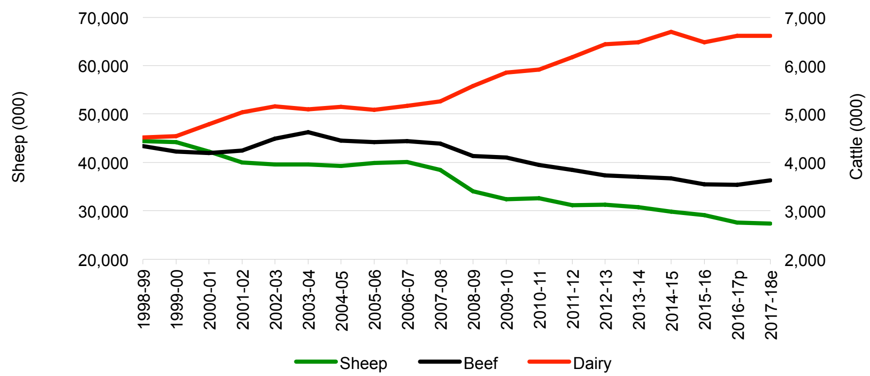
Beef cattle numbers at 30 June 2017 provisionally totalled 3.63 million head, up 2.9 per cent on the previous June. This was predominantly driven by a lift in weaner cattle being carried over balance date in response to pasture availability and strong market for store and finished cattle.

North Island beef cattle numbers increased 1.4 percent to 2.54 million head at 30 June 2017. In Northland-Waikato-Bay of Plenty and Taranaki-Manawatu, numbers decreased in response to tight supplies and strong prices for replacement cattle. In East Coast, strong store prices and tighter margins caused farmers to reconsider stock management policies, with farmers holding stock to higher weights and completing fewer trades. This in turn led to an increase in breeding cows and weaners carried over balance date driving a lift in total numbers. The North Island represents 70 per cent of the national herd.

South Island beef cattle numbers increased 6.3 percent to 1.09 million head at 30 June 2017. In Marlborough-Canterbury, total numbers increased due to a lift in the number of trading cattle and plentiful feed. In Otago and Southland, total beef cattle numbers increased 5.1 per cent to around 400,000 head. Beef prices have continued at comfortable levels encouraging farmers to continue to increase numbers as an alternative to sheep.

Total dairy cattle numbers were stable at 6.61 million head at 30 June 2017. This decrease follows a 2.1 per cent increase for the previous year. The South Island now contains 41 per cent of the New Zealand dairy herd, up from 33 per cent 10 years earlier.

FIGURE 4 Livestock Numbers



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

TABLE 6 Livestock Numbers Million Head

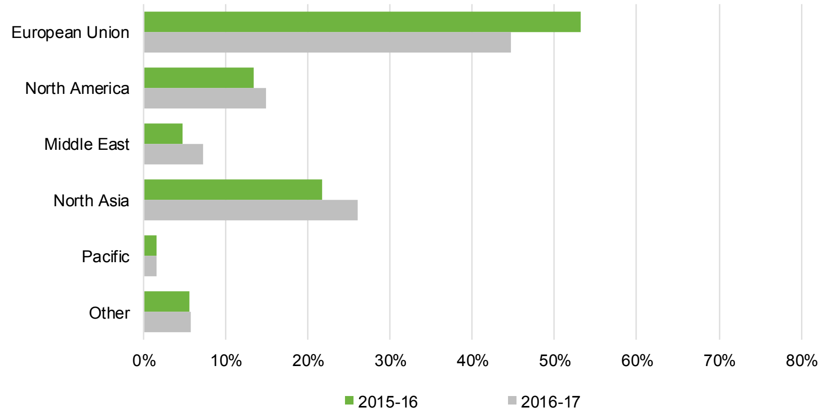
	Breeding Ewes	Hoggets	Total Sheep	Beef Cattle	Dairy Cattle
30 June 2015	19.1	9.2	29.1	3.5	6.5
30 June 2016p	18.1	8.6	27.6	3.5	6.6
30 June 2017e	17.8	8.7	27.3	3.6	6.6
16-17 to 17-18 % Change	-1.9%	+1.7%	-0.9%	+2.9%	-0.1%

p provisional | e estimate

Source: Beef + Lamb New Zealand | Statistics New Zealand

Lamb and Mutton Exports

FIGURE 5 **New Zealand Lamb Exports**
Oct to Jun, $m FOB



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

Lamb

2016–17

The estimated volume of New Zealand lamb meat exports was down 2.5 per cent to 296,000 tonnes shipped weight reflecting a smaller lamb crop than the previous year. The average FOB value per tonne of lamb meat exports was up 7.9 per cent on 2015-16 to $8,531. Despite the strong NZD for the 2016-17 season, in-market prices began strengthening in February 2017 – when seasonal prices generally decline – and continued to rise through the season. Export receipts from co-products (including edible offal and skins) are expected to fall 4.6 per cent on 2015-16, reflecting a drop in lamb skin prices and a greater drop in offal prices. Total lamb receipts are estimated to increase 4.5 per cent to $2.70 billion FOB in the year ending September 2017.

Shipments in the first nine months of the 2016-17 season were down 5.1 per cent reflecting the smaller lamb crop, and a slower start to the processing season following an early pattern in 2015-16 due to the forecast dry conditions. This, combined with good grass availability and improving prices, decreased pressure on farmers to sell, and lifted average carcase weights.

As shown in Figure 5, the share of total lamb export receipts achieved from the EU declined from 53 to 45 per cent in the first nine months of the 2016-17 season. This reflected a decline in export tonnages (-16%) while the increase in the average FOB value per tonne (+1.4%) was relatively small. The average FOB value per tonne increased 6.4 per cent across all markets, which includes the EU that accounted for 36 per cent of the volume.

Within the EU, New Zealand lamb shipments to the UK in the nine-month period were down 21 per cent on the same period in the previous season while the average value per tonne decreased 5.3 per cent. For the rest of EU, shipments were down 12 per cent and average value per tonne was up 4.3 per cent. The persistently weak GBP following the Brexit referendum, which occurred on 23 June 2016, has influenced the UK market.

North Asia remained the second largest export region for New Zealand lamb, accounting for 26 per cent of export lamb receipts, increasing by four percentage points on the previous season. Within North Asia, China was the largest market for New Zealand lamb. Despite lamb shipments being down 3.9 per cent to 83,000 tonnes in the first nine months of 2016-17, total receipts were up 17 per cent due to a strong increase in average value per tonne (+22%). Despite a moderate drop in shipments, these remain more than double 2011-12 shipments and have not fallen below 70,000 tonnes for the same period in each of the last five seasons.

2017–18

For 2017-18, lamb meat export receipts are forecast at $2.56 billion FOB, up modestly (+1.3%) on the previous season.

The volume of lamb meat shipped is projected to increase by 0.5 per cent because of a slight increase in the expected number of lambs available for processing is expected to be partially offset by a decrease in the average carcase weight. The forecast strengthening of major currencies in which New Zealand meat exports are traded is expected to exceed decreases of in-market prices over the 2017-18 export season, and result in the average FOB value being up 0.9 per cent.

Export receipts from co-products are forecast to increase by 7.0 per cent in 2017-18 compared with 2016-17, driven by an improvement in receipts for skins and offals, driven by an expected increase in lamb production.

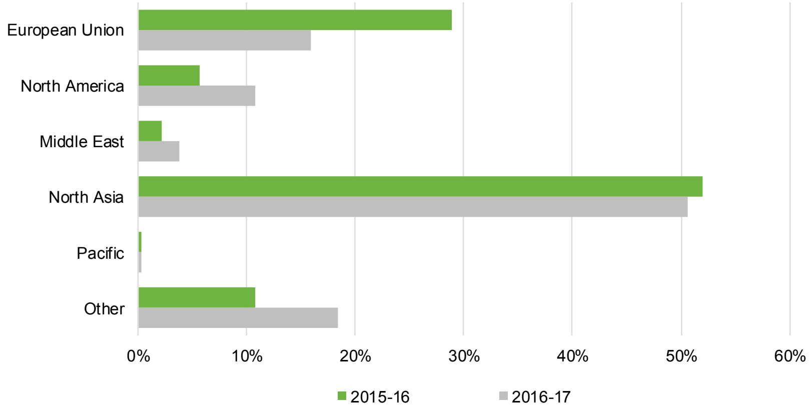
TABLE 7 **New Zealand Lamb Exports**

Sep Year	Lamb meat 000 tonnes	Lamb meat $ / tonne	Lamb meat $m FOB	Co-Products $m FOB	Total Lamb $m FOB	Lamb Meat %*
2013-14	307	8,163	2,504	275	2,779	90%
2014-15	302	8,470	2,559	256	2,815	91%
2015-16	303	7,907	2,397	187	2,583	93%
2016-17e	296	8,531	2,523	178	2,701	93%
2017-18f	297	8,604	2,556	191	2,747	93%
2017-18f % change	+0.5%	+0.9%	+1.3%	+7.0%	+1.7%	

* 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

FIGURE 6

New Zealand Mutton Exports
Oct to Jun, $m FOB



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

Mutton

2016–17

New Zealand mutton exports for 2016-17 are estimated to be down 5.1 per cent on 2015-16, following declines in 2015-16 and recent seasons. The strong expansion of the New Zealand dairy herd in the decade to 2014-15, dry conditions and a facial eczema outbreak in recent seasons contributed to lower sheep numbers and the declining supply of mutton. The estimated average FOB value of mutton exports was up 14 per cent reflecting the increased competition created by limited mutton availability from the two largest sheepmeat trading nations – New Zealand and Australia – which are both in a flock rebuilding phase. Export receipts from co-products (including edible offal and skins) are estimated to have fallen by 10 per cent. Total export receipts for mutton are projected to be up 3.2 per cent on the back of stronger meat prices, and are estimated to contribute over $500 million to New Zealand's export earnings for 2016-17.

In the first nine months of 2016-17, mutton exports decreased 1.3 per cent to 71,000 tonnes shipped weight largely as mutton availability was tighter following the facial eczema outbreak in some regions and dry conditions during the previous season. Total receipts from mutton exports were up 11 per cent over this period to $371 million, driven by the reduction in New Zealand and Australian mutton supply supporting a 13 per cent increase in the average value per tonne, which outweighed the drop in volume.

North Asia remains the largest export region market, receiving 51 per cent of volume. Total receipts from North Asia increased 11 per cent over the first nine months of the season despite volume dropping 10 per cent. In China, which dominates this region by taking 47 per cent of total mutton exports, the average FOB value per tonne increased by 23 per cent for this period.

Exports to Malaysia increased significantly. Total receipts and volume in the first nine months of the 2016-17 season were up 135 per cent and 74 per cent respectively, with the average value per tonne up 34 per cent. Malaysia was the fourth largest market for the first nine months of 2015-16, but accounted for 13 per cent of export volume in 2016-17 to become the second largest market after China.

The US became the third largest market, with the volume shipped up 108 per cent and average value per tonne up 15 per cent combining to drive total receipts up 140 per cent – to $27 million.

Over 60 per cent of the drop in volume to the EU in the first nine months of 2016-17 can be attributed to the decline in exports to the UK. Exports to the UK were down 51 per cent in volume, and 47 per cent in total receipts, making it the fifth largest export mutton market.

2017–18

In 2017-18, New Zealand mutton exports are forecast to decrease 9.1 per cent, as the national flock stabilises after a recent period of competition for land with the dairy sector, a facial eczema outbreak and dry conditions. The total value of mutton exports is forecast to decline 4.1 per cent to $507 million FOB. An improvement of the average value per tonne – up 4.4 per cent – will not offset the drop in volume. The forecast increase in the average value per tonne is supported by the strengthening of trading partners' currencies, because in-market prices are predicted to remain relatively steady while Australia is expected to continue flock rebuilding and the New Zealand flock stabilises.

TABLE 8

New Zealand Mutton Exports

	Mutton meat			Co-Products	Total Mutton	Mutton Meat
Sep Year	000 tonnes	$ / tonne	$m FOB	$m FOB	$m FOB	%*
2013-14	94	5,017	472	128	600	79%
2014-15	86	5,214	447	157	604	74%
2015-16	83	4,581	380	132	512	74%
2016-17e	79	5,214	410	119	529	78%
2017-18f	72	5,442	389	118	507	77%
2017-18f % change	-9.1%	+4.4%	-5.1%	-0.6%	-4.1%	

* Mutton Meat value as a percentage of the value of Total Mutton exports, including Co-Products

e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

Lamb and Mutton—International Situation

Overview

The international trade of sheepmeat is dominated by New Zealand and Australia, which combined accounted for 75 per cent of global exports in 2015-16. The impact of tighter supply in New Zealand and Australia due to increased livestock retention following decreases in flock sizes helped to support prices in 2016-17, particularly mutton.

In 2017-18, lamb and mutton supply is forecast to remain tight due to continued flock rebuilding in Australia and, to a lesser extent, in New Zealand. Overall, lamb production increases due to a lift in the number of lambs processed in New Zealand, and some flock availability from rebuilding in Australia.

Australia

The Australian sheep flock contracted from 2012-13 to 2015-16, driven by drought-induced lamb and mutton slaughter. At 30 June 2016, the sheep flock had fallen to 68.6 million head. However, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) estimated the flock rose 7.1 per cent to 73.6 million head at 30 June 2017 as improved climatic conditions allowed greater retentions for flock rebuilding. The high demand for replacement lambs is forecast to remain in 2017-18. The demand for livestock as part of the rebuilding in 2016-17 drove an estimated 12 per cent increase in the average sale yard price for lambs. While demand for replacement livestock will continue in 2017-18, the price increase is forecast to be lower – up 5 per cent.

The increased numbers of lambs retained drove a decrease in the estimated number of lambs processed in 2016-17, down 2.7 per cent to 22.5 million head. Overall production decreased 1.9 per cent due to fewer lambs processed, which was moderated by a lift in carcase weights in response to good pasture availability. As the flock rebuild continues, the availability of lambs for processing is forecast to improve marginally to 22.8 million head (+1.3%) and production is forecast to increase 2.0 per cent.

Mutton production will remain tight in 2017-18, down 6.7 per cent to 152,000 tonnes, due to a 5.4 per cent decrease in sheep available for mutton, following an estimated drop of 18 per cent in mutton processing numbers for 2016-17. The tighter mutton supply from Australia will help to keep global sheepmeat prices firm.

The forecast flock rebuilding in 2017-18 could be hindered by a dry 2017 winter in some regions of Australia. July's rainfall was 32 per cent below the long-term average, with prospects of receiving substantial rainfall in some areas before the end of winter diminishing at the time of writing.

China

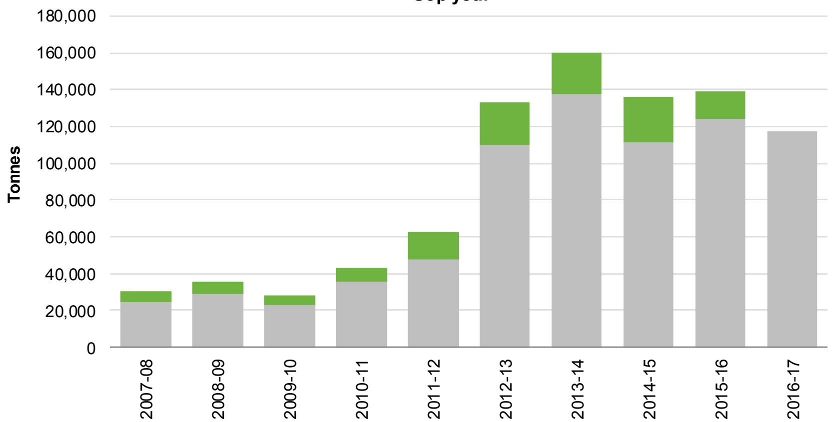
Import demand from China for New Zealand sheepmeat improved in 2016-17. The average value of exports to China in the first nine months of the 2016-17 season was up 22 per cent on the same period in 2015-16 – despite the stronger NZD relative to the USD. In 2015-16, the average value dropped by 17 per cent as Chinese production increased due to drought in sheep-producing provinces. Domestic supply was limited in 2016-17 and the volume of New Zealand sheepmeat exported to China was down 5.7 per cent because supply was tighter. However, the share of New Zealand's total sheepmeat exports that went to China increased to 40 per cent.

China remains the dominant market for New Zealand mutton exports, stabilising around 50 per cent of volume after rising sharply in 2012-13, from 18 per cent in 2011-12.

The proportion of total New Zealand lamb exports sent to China has also remained stable at around 30 per cent over the same period, making it the largest single market.

The short-term outlook is for Chinese demand of sheepmeat to continue. This is supported by tight supply of Australasian mutton and the forecast strengthening of the currencies of New Zealand's major trading partners. Sheepmeat competition with other proteins continues, particularly with pork as domestic production and imports have risen. However, relatively strong beef prices and a significant avian influenza outbreak has improved the position of sheepmeat. The novelty of hot pot restaurants has lessened but demand still remains.

FIGURE 7 **New Zealand Sheepmeat Exports to China**
Sep year



Note: The grey areas represent the value of exports from October to June and the green areas the value of exports for the rest of the season – from July to September.
Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

European Union

Overall, the EU sheep flock has been relatively stable, leading to a rise in production after a period of decline. In the year to December 2016, the EU sheep flock had its third year in a row of marginal growth – up 1.6 per cent to 86.9 million head. However, the overall decline since 2000 was 15 per cent, a reduction of 15.5 million head. The largest numerical increase was in the UK, where the national flock increased by 437,000 head (+1.9%), followed by Spain and Romania, up by 394,000 (+2.5%) and 268,000 (+2.7%) respectively. These three national flocks are the largest in the EU and account for 57 per cent of the EU sheep flock. The number of breeding ewes has remained relatively steady.

EU sheepmeat production for calendar 2016 was 907,000 tonnes – up 2.1 per cent. The last two years of increased production have resulted from higher numbers of animals processed as the EU flock stabilised.

Production in the UK, which is the largest EU sheepmeat producer, declined by 3.5 per cent in 2016, but is partly explained by some livestock being carried over from 2016 into 2017 for processing.

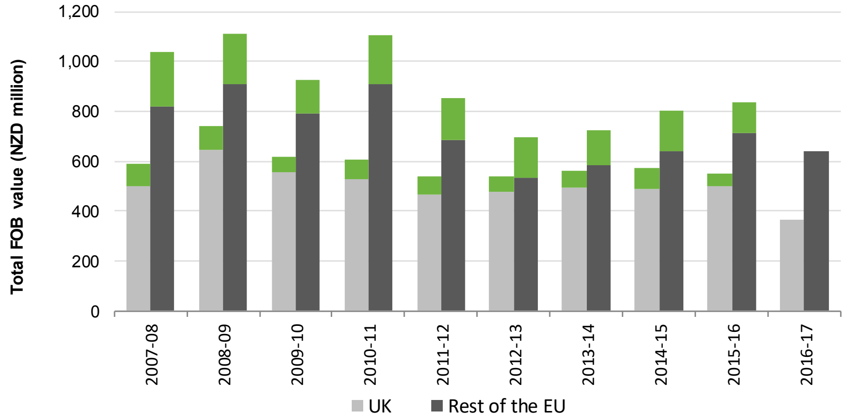
The carryover of UK sheep for processing and increased production from Spain and Romania are expected to drive another 2.1 per cent increase in EU sheepmeat production for 2017.

New Zealand sheepmeat accounts for over 85 per cent of EU imports. However, the significance of this market for New Zealand lessened in the 2016-17 season, driven by decreased returns from the UK. Figure 8 shows that total FOB receipts from the UK for New Zealand sheepmeat have remained relatively steady over the past decade.

For the first nine months of 2016-17, total receipts from the UK dropped 26 per cent, driven by a fall in volume (-24%) and a decrease in average value per tonne (-3.3%). In comparison, the average FOB value per tonne for sheepmeat exports across all markets was up 6.9 per cent. Wholesale prices for New Zealand lamb in the UK were up 19 per cent for the same period, which highlights that the decline in the GBP outpaced the rise of in-market prices.

The weaker GBP improved the competitiveness of UK sheepmeat exports, which increased 18 per cent for the first six months of 2017. Approximately 80 per cent of the increase in UK sheepmeat exports was within the EU. Total EU exports are estimated to increase by 60 per cent, with strong growth in Middle Eastern markets and Hong Kong. However, the EU accounted for 1.4 per cent of global sheepmeat trade in the year ending September 2016 compared to New Zealand contributing 39 per cent.

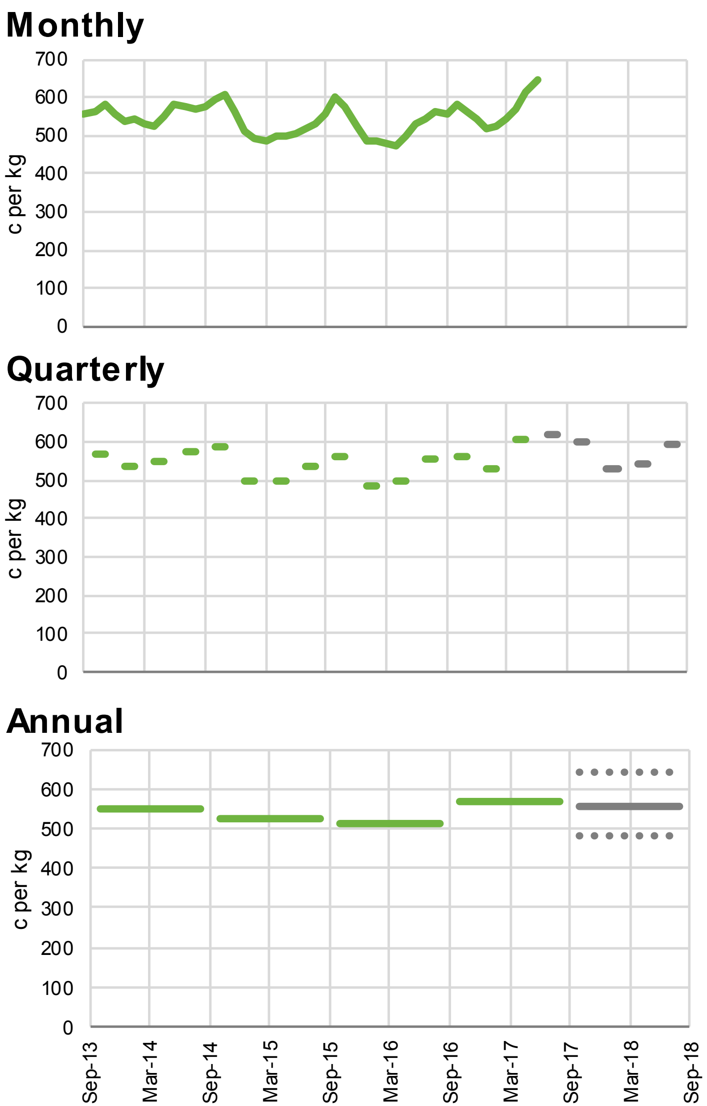
FIGURE 8 **New Zealand Sheepmeat Export Value to UK and Rest of the EU**
Sep year



Note: The grey areas represent the value of exports from October to June and the green areas the value of exports for the rest of the season – from July to September.
Source: Beef + Lamb New Zealand Economic Service, New Zealand Customs

Lamb Price—Farm-gate

FIGURE 9



Source: Beef + Lamb New Zealand Economic Service

Figure 9 shows the monthly, quarterly and annual average price for the all grades lamb.

Three exchange rate scenarios are provided in the outlook for 2017-18 because of the volatility in exchange rates. The three scenarios use annual average exchange rates of USD0.62, USD0.69 and USD0.75 and the associated cross rates against the GBP and the EUR.

The different exchange rate scenarios presented in Table 9 highlight the leveraged effect of the exchange rate on the New Zealand export lamb price to farmers. At the mid exchange rate of USD0.69, the forecast lamb price of 555 cents per kg for 2017-18 is down 1.7 per cent from the 2016-17 price of 565 cents per kg. The forecast 2.9 per cent decrease of in-market prices across all export markets and 2.0 per cent increase in Australian lamb production is partially offset by the predicted strengthening of New Zealand's major trading currencies.

TABLE 9

All Grades Lamb Price Sensitivity Analysis

Exchange Rate		Lamb price $ per head	Lamb price c per kg	
Low NZD				
USD	0.62			
GBP	0.49	119	483	**High**
EUR	0.56			
Mid NZD				
USD	0.69			
GBP	0.55	103	555	**Mid**
EUR	0.62			
High NZD				
USD	0.75			
GBP	0.60	89	644	**Low**
EUR	0.69			

Source: Beef + Lamb New Zealand Economic Service

Quarterly prices are presented in Figure 9 to better express the variation in prices within a season. Historical data shows that prices tend to be high during the December quarter and then gradually decrease as the season progresses and as slaughter numbers increase. By the end of the season, when processing numbers start to reduce again, prices tend to go up. A feature of the 2016-17 season was the smaller drop between the December 2016 and March 2017 quarters, and then a comparatively large increase from the March 2017 to the June 2017 quarter. In addition to historical quarterly prices, Figure 9 includes forecast quarterly prices to show the likely seasonal pattern of lamb prices in 2017-18.

At the mid exchange rate of USD0.69, the annual average mutton price is forecast at 293 cents per kg in 2017-18, an increase of 3.0 per cent on the estimated figure for 2016-17. This increase reflects that improving exchange rates will be supported by a forecast drop in Australian and New Zealand mutton exports in 2017-18 – down 6.2 per cent and 9.1 per cent respectively.

Lamb and Mutton Production

TABLE 10

Export Lamb Production

Sep Year	Lamb Crop million head	Slaughter million head	Carcase Weight kg	Production 000 tonne bone-in
2013-14	25.0	20.3	18.3	371.5
2014-15	25.8	21.2	18.1	384.2
2015-16	24.6	19.9	18.3	364.9
2016-17e	23.3	19.2	18.6	356.0
2017-18f	23.0	19.4	18.5	357.7
2017-18f % change	-1.3%	+1.1%	-0.6%	+0.5%

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

TABLE 11

Export Mutton Production

Sep Year	Slaughter million head	Carcase Weight kg	Production 000 tonne bone-in
2013-14	4.2	25.3	107.0
2014-15	4.1	25.0	102.1
2015-16	3.8	25.1	96.4
2016-17e	3.6	25.6	91.4
2017-18f	3.3	25.3	83.1
2017-18f % change	-8.1%	-1.1%	-9.1%

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 2017 is estimated at 23.0 million head, down 1.3 per cent or 0.3 million head on the previous spring, reflecting fewer breeding ewes. For the year to 30 June 2017, New Zealand's breeding ewe flock decreased 1.9 per cent to 17.8 million head, due to decreased numbers in most regions for reasons ranging from residual effects of a facial eczema outbreak in 2016 to North Island hill country enterprises shifting to less labour-intensive production options.

Pregnancy scanning results were mixed. North Island results were generally good – the same as, or better than, the previous season – while results were mixed in the South Island. Breeding ewe lambing rates for New Zealand are expected to be similar to 2016, subject to the impact of any adverse weather conditions.

While ewe condition at mating and going into winter was generally good with reasonable pasture availability and a forecast 2.3 per cent increase in mating of ewe hoggets, the 2017-18 lamb crop is estimated to be down 1.3 per cent on the previous year due to the smaller breeding ewe flock.

With 17.8 million ewes, each one percentage point change in breeding ewe lambing percentage is equivalent to 178,000 lambs.

A final estimate of the number of lambs born will be made when Beef + Lamb New Zealand's Lamb Crop Survey is completed in November.

For the year ending September 2018, the number of lambs processed in export-approved premises is forecast to increase 1.1 per cent or 0.2 million head to 19.4 million. The growth in 2017-18 lamb production partially reflects the reduced proportion of ewe replacements kept compared to 2016-17 following the facial eczema outbreak and dry conditions in some regions in 2015-16.

Assuming normal climatic conditions for 2017-18, carcase weights are expected to average 18.5kg per head. This would be a slight reduction from 2016-17 (-0.6%) when generally good pasture availability and strong prices reduced pressure on producers, and lambs were finished at heavier average weights. The higher number of lambs processed will offset the lighter carcases to increase production marginally – up 0.5 per cent to 358,000 tonnes carcase weight.

Mutton

The New Zealand export mutton slaughter is forecast to fall 8.1 per cent or 0.3 million head to 3.3 million head in 2017-18. This decrease reflects a smaller flock with a slight increase in the proportion retained, following the 2015-16 facial eczema outbreak and dry conditions in some regions.

A decrease in the number of ewes across New Zealand drove the marginal decline in total sheep numbers at 30 June 2017 for all regions except for eastern North Island and northern South Island. The growth in the eastern North Island was due to increased retention of hoggets more than offsetting the reduced ewe numbers. Northern South Island ewe numbers remained relatively steady and total hogget numbers increased.

In the North Island in 2017-18, export mutton slaughter is expected to drop 13 per cent or 237,000 head to 1.6 million head.

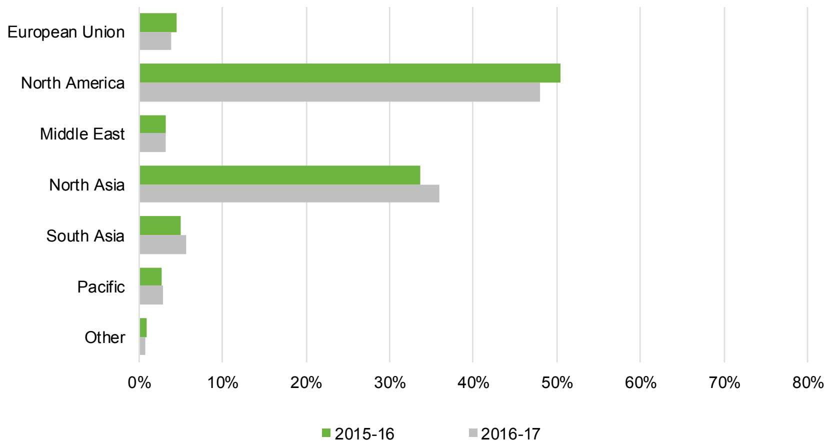
The South Island slaughter is forecast to decrease 2.8 per cent or 50,000 head to 1.7 million head.

Sheep numbers at 30 June 2018 are forecast to increase marginally (+0.6%) on 30 June 2017. Despite the farm-gate milk price improving during 2016-17, strong competition for productive land from the dairy sector is not expected to return at current prices.

For the year ending September 2018, the average mutton carcase weight is projected to be down 1.1 per cent to 25.3kg per head. This is after an estimated increase of 1.9 per cent in 2016-17. Total export mutton production is forecast to be down 9.1 per cent to 83,100 tonnes carcase weight. It will be the fourth year in a row of declining mutton production, down over 20 per cent since 2013-14.

Beef and Veal Exports

FIGURE 10 **New Zealand Beef and Veal Exports**
Oct to Jun, $m FOB



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

2016–17

In 2016-17, demand from New Zealand's largest beef export market region – North America – eased relative to opportunities in North Asia, which is dominated by China in volume terms.

Beef and veal meat exports were estimated down 3.5 per cent to 409,000 tonnes shipped weight in 2016-17 compared with 2015-16. The estimated average FOB value of beef and veal meat exports decreased 1.9 per cent reflecting the strength of the NZD, while the average in-market price across all markets increased an estimated 2.3 per cent. In 2016-17, total receipts for beef and veal exports are estimated at $3.37 billion FOB, down 4.5 per cent on 2015-16. Export receipts from beef and veal are expected to exceed those from lamb and mutton for the third season in a row.

After rising by over 26 per cent in the first nine months of 2014-15 to record levels, the average FOB value per tonne of beef and veal declined moderately over the same period in 2015-16 and again in 2016-17. In the first nine months of 2016-17, the average value of exports to North America declined by 2.6 per cent to $6,401 per tonne shipped weight, and those to North Asia were down 3.6 per cent to $7,090 per tonne shipped weight.

Figure 10 shows that in the first nine months of 2016-17, the share of total beef and veal export receipts from North America fell 2.4 percentage points to 48 per cent, as the total beef receipts from exports to North America were down 16 per cent. The share of exports to North Asia, which is dominated by China, increased 2.3 percentage points to 36 per cent of total beef and veal export receipts. However, the items exported to these regions are not necessary like-for-like. Combined, these two regions accounted for 87 per cent of New Zealand's beef and veal export receipts in the first nine months of 2016-17.

2017–18

For 2017-18, New Zealand beef and veal exports are forecast to decrease marginally (-0.9%) to 405,000 tonnes shipped weight. Under the USD0.69 exchange rate assumption, the average FOB value per tonne is expected to decrease 1.9 per cent, despite an improvement in the estimated exchange rate of USD0.71 for 2016-17. The value of co-products is forecast to increase 0.9 per cent, after two seasons of decline.

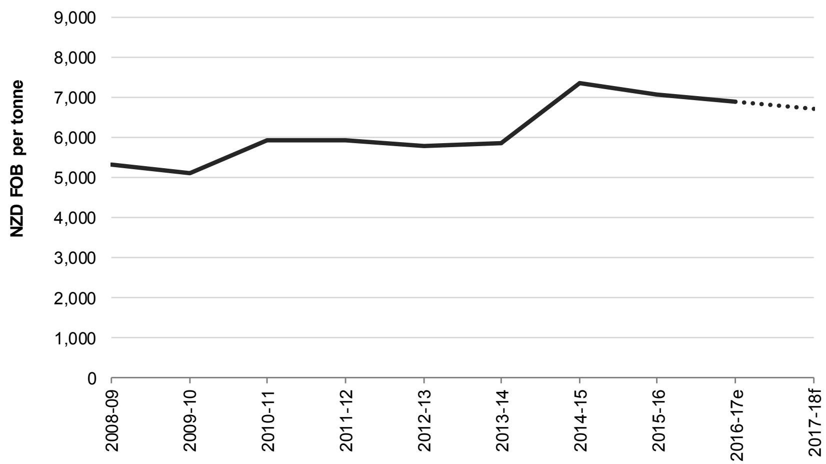
Overall, beef and veal receipts are expected to total $3.3 billion FOB in 2017-18, down 2.1 per cent from 2016-17 and continuing the decline from the record high of $3.8 billion achieved in 2014-15. However, these are still high returns by historical standards.

TABLE 12 **New Zealand Beef and Veal Exports**

	Beef and Veal Meat			Co-Products	Total Beef	Beef Meat
Sep Year	000 tonne	$ / tonne	$m FOB	$m FOB	$m FOB	%*
2013-14	390	5,827	2,274	530	2,804	81%
2014-15	432	7,395	3,193	594	3,787	84%
2015-16	423	6,996	2,962	562	3,524	84%
2016-17e	409	6,866	2,806	560	3,366	83%
2017-18f	405	6,738	2,729	565	3,294	83%
2017-18f % change	-0.9%	-1.9%	-2.8%	+0.9%	-2.1%	

* 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

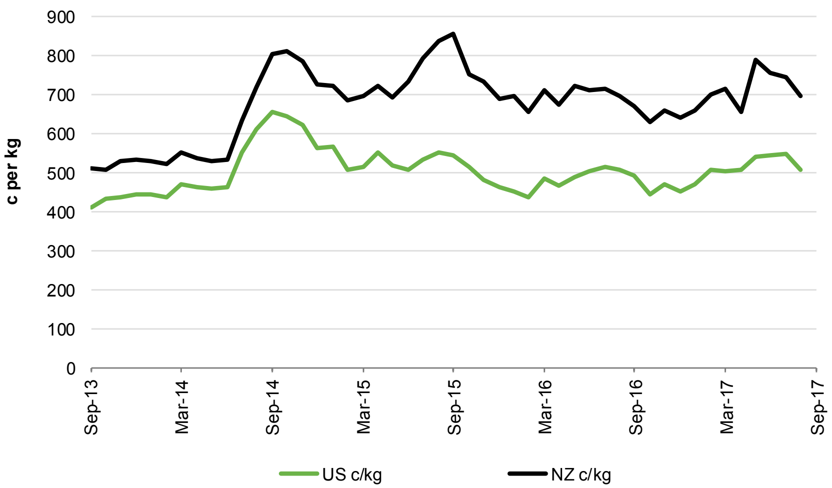
FIGURE 11 **Average FOB value of New Zealand Beef and Veal Exports**
30 September Year End



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

Beef—International Situation

FIGURE 12 **Indicative Prices for Imported Frozen 95CL Beef in the US**



Source: Beef + Lamb New Zealand Economic Service

Figure 12 shows the indicative price trend for imported frozen 95CL (95% chemical lean) beef in the US in USD and converted to NZD.

For June 2017, the average in-market price at USD5.47 per kg was up 8.8 per cent on June 2016. In NZD terms, the comparative increase was 6.3 per cent, reflecting the increased strength of the NZD relative to the USD.

Figure 13 shows prices for US domestic fresh 90CL beef in USD terms. The price for fresh lean beef rose to historically high levels in 2016-17, outside of the record prices reached in 2014 and early 2015.

Overview

Global beef and veal production is forecast to grow in 2018, but at a slower rate, driven by the continuing expansion from the US and a pick-up from Australia. Production from New Zealand, the fifth largest beef exporter, is forecast down and there are political uncertainties around the Indian and Brazilian beef industries that could flow through to international supply. China's beef imports are driving demand and are expected to grow as domestic production cannot match demand.

United States

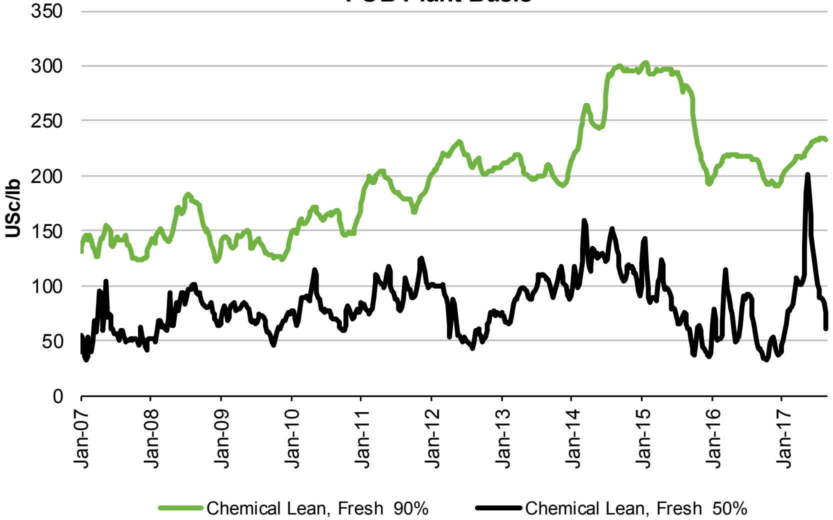
In 2014, the US cattle herd began a rebuilding phase and production increased in 2016 and again in 2017. High demand in the first half of 2017, and a greater number of cattle processed than expected, led to very "current" conditions (when cattle are placed in feedlots for short periods and processed at lighter weights). For the first six months of calendar 2017, the total number of cattle processed was up 6 per cent but production was up 4 per cent. The "currentness" of the market has been a significant feature of US beef production in 2017 for fed (feedlot) cattle. Feed input costs have fallen even further in 2017 with prices estimated to be down 9 per cent. Production has been forecast to continue growing in 2018 due to herd expansion, increased domestic consumption driven by economic growth, strong export demand and good feed supply. The US Department of Agriculture (USDA) forecasts production will be up 4 per cent.

US domestic demand, particularly for ground beef, and export demand have been strong in 2017 accommodating the increased production. Generally, domestic prices have performed better than expected and the average USD price per tonne of US exports was up 1.3 per cent for the six months to June 2017. The USDA forecasts wholesale US beef and veal prices to ease in 2018 – down 2-3 per cent – as production continues to grow.

US exports have increased 16 per cent in the calendar year to June 2017, noticeably to Japan (+27%), South Korea (+13%) and Taiwan (+19%). However, the appeal of Japan, which is the US's largest market, may lessen due to a recent tariff increase that also affects New Zealand exports (see North Asia). The US is the world's largest beef producer but is still a net importer of beef. Beef imports were down 7 per cent in the calendar year to June, particularly because of reduced supply from Australia, the largest beef exporter to the US.

An outcome of the current market in 2017 was a sharp price increase for 50CL beef, which peaked in May 2017 around the start of the summer "grilling season" as shorter times on feedlots produced less fat trimmings. The 50CL beef price subsequently returned to more normal levels (see Figure 13). Approximately 50 per cent of New Zealand's beef exports are to the US, with the vast majority being lean meat intended for processing and blending with US domestic beef to produce ground beef. Figure 12 shows the imported frozen 95CL price rising around the time of the spike in the price for US domestic fresh 50CL beef, in May 2017.

FIGURE 13 **US Beef Prices - 50% and 90% FOB Plant Basis**



Source: USDA AMS

In January, soon after inauguration, President Trump withdrew the US from the Trans-Pacific Partnership agreement (TPP). The renegotiation of the North American Free Trade Agreement (NAFTA) began on 16 August 2017 under threat of pulling out of the original agreement by the US administration. US Agriculture Secretary, Sonny Perdue, has remarked that agriculture had "benefitted tremendously" under NAFTA and hoped this would not diminish in a new agreement.

Brazil

It has been a tumultuous time for the Brazilian beef industry over the last year. Brazil has a significant influence on international trade as the second largest exporter of beef in 2016.

Generally, the Brazilian economy has had a halting recovery out of recession due to recurring political scandals. After the impeachment of President Rousseff in 2016, the Brazilian economy began to improve until her replacement, President Temer, became implicated in a corruption investigation with a global meat-producing company, JBS SA. The Brazilian real remains weak but it has strengthened from 2016, which could weigh on meat export margins. Expectations are that short-term headwinds will pass and economic recovery will resume through into 2018.

In March 2017, the "weak-flesh" investigation by authorities exposed bribery of food inspectors by meat processors to avoid safety standards. This led to temporary suspensions of imports from Brazil by China, Hong Kong, Egypt and Chile, and a partial ban in Europe.

A major bribery and corruption scandal that began in May 2017, involving the family that controls JBS SA, President Temer and many other politicians is ongoing and still developing. Brazil's JBS SA remains the world's largest beef and poultry producer, and also has significant pork production capacity, with large interests in many major economies and beef producing countries, including the US, Australia, Canada, Mexico, UK, Argentina, with some investment in New Zealand. The scandal is ongoing with flow-on impacts for the entire Brazilian beef industry production chain, and the future shape and leadership of the company. For example, cattle ranchers became reluctant to sell on credit to JBS SA when cash buying stopped, leaving ranchers scrambling to find alternatives, and JBS SA selling off subsidiaries.

In late June, the US suspended imports of all fresh and frozen Brazilian beef, less than a year after access was granted, due to a high rejection predominantly for product defects with only one instance for food safety. The volume had not reached material levels to impact the US market.

Brazilian beef production is still forecast to grow modestly in 2017, up 2 per cent approximately. JBS SA affects the entire beef production chain, because of its sheer size, and uncertainty is created by the scandals. The Brazilian cattle herd is currently growing but the recent events could dampen prices and production.

Brazilian beef exports are expected to grow, after recently gaining entry to significant markets such as the US and China and seeking improved access to more markets. However, the ongoing scandals, strengthening currency and possible hesitancy in production growth may limit export growth. Despite these adversities, there are signs that exports have strengthened, with some analysts estimating 5-10 per cent increases for 2017 as supply is carried over from the first half of 2017, although this is a downward revision of earlier forecasts. The impacts may be more reputational with more affect on price.

North Asia

China remains a major driver of global beef demand as the second largest importer, behind the US. In calendar 2017 to June, imports were up 11 per cent, while US beef imports were down 5.7 per cent for the same period. The increase in Chinese beef demand has been driven by rising incomes growing the market for beef, which is relatively more expensive and referred to as "millionaire meat" by some. Beef retains the highest price at wholesale of red meat and poultry. While some resistance to price appears to have created a ceiling, a decline is not expected in the near future.

Chinese domestic beef consumption is expected to continue outpacing domestic production, strengthening demand for imports. The USDA estimates that Chinese beef consumption in 2017 will be 8.0 million tonnes carcase weight (+3%) while production is estimated at 7.1 million tonnes carcase weight (+1%), so an estimated 950,000 tonnes will be imported directly in 2017 – up 17 per cent.

In the 2015-16 export season, New Zealand accounted for 13 per cent of Chinese beef imports, behind Brazil, Uruguay and Australia which each accounted for 22-29 per cent of imports. The recent return of Brazilian and US beef exports to the Chinese market has helped to meet the rising demand.

Recently, the first consignments of chilled New Zealand meat were exported to China as part of a six-month trial, a necessary step in developing infrastructure to develop this market. In October 2016, China suspended the importation of New Zealand blood products however certification conditions were agreed for export in July 2017, reinstating trade. This is likely to be worth at least $50 million per annum, with New Zealand product in high demand due to an enviable disease status compared with many other countries.

New Zealand's government and meat industry support progressing the TPP without US involvement (TPP11). The potential advantages of the agreement were highlighted recently when Japan enacted a safeguard on frozen beef imports. Tariffs on frozen beef were raised from 38.5 per cent to 50 per cent due to a 17 per cent year-on-year increase of beef imports in one quarter. This safeguard does not affect Australia because of the Economic Partnership Agreement (EPA) between the two, despite Australia contributing to the increase in imports. Over 90 per cent of Japanese imports for the year to June 2017 were from Australia and US. Outside of the safeguard being enacted, Australia has about a 10 percentage point tariff advantage over New Zealand.

Australia

The downward trend in the Australian beef cattle herd was turned around in 2016-17 with improved climatic conditions. The number of cattle rose 3.9 per cent to 24.2 million head after a significant retraction due to drought conditions and strong international prices. Assuming the seasonal conditions remain favourable, rebuilding of the beef cattle herd is forecast to continue in 2017-18 – up 5.4 per cent – particularly in Queensland where herd rebuilding was limited by dry conditions in 2016-17.

Beef production fell 13 per cent in 2016-17 to 2.0 million tonnes carcase weight due to increased livestock retentions as part of herd building. The 17 per cent reduction in processing numbers was partially offset by an increase in carcase weights. In 2017-18, production is forecast to begin increasing as supply improves later in the season due to herd expansion maturing and firm prices persisting.

Sale yard prices were up 6.9 per cent in 2016-17 with tighter supply for processing and herd rebuilding, and relatively strong international prices. The beef cattle sale yard price is forecast to ease by 2.8 per cent due to Australian production picking up and international beef trade competition rising as higher US production reduces US imports and raises exports.

India

In May 2017, the central government of India banned the sale of cattle and buffalo for slaughter in a move seen to appease the nation's Hindu majority. India makes up approximately 20 per cent of the global beef market, and is the second largest global exporter and a major leather producer. The ban was overturned in early July, however uncertainty remains and unrest related to this issue has led to violence and death against those in the industry, predominantly Muslims.

Cattle Prices—Farm-gate

Figure 14 shows the monthly and annual average cattle price for all grades to the end of September 2018.

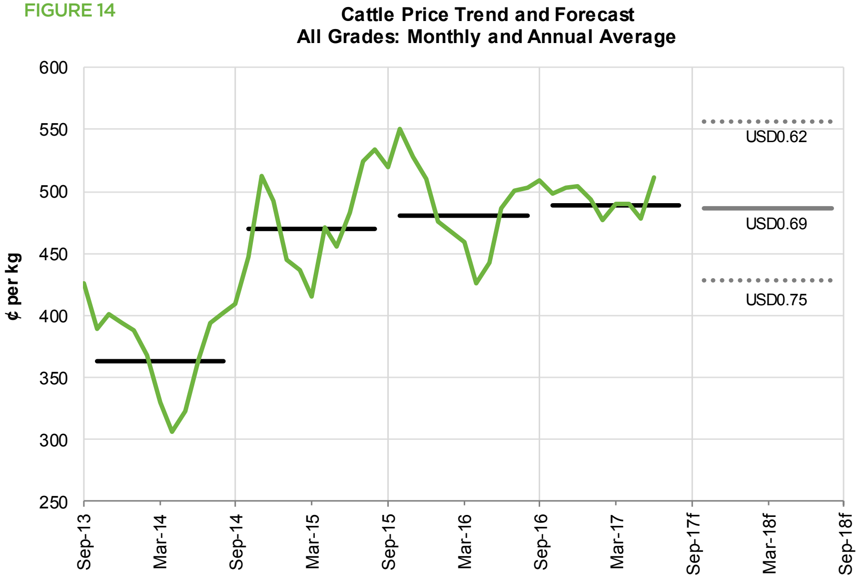
The overall weighted average beef price for 2015-16 at 481 cents per kg was up 2.2 per cent on the previous year. The estimated beef price for all grades in 2016-17 rose a further 1.6 per cent to average 489 cents per kg for the season.

The outlook for 2017-18 is for beef prices to remain relatively steady, easing 0.5 per cent to 486 cents per kg supported by an estimated annual average exchange rate of USD0.69. However, if the exchange rate remains around USD0.71, the estimated average exchange rate for 2016-17, beef prices would be around 469 cents per kg, 4 per cent lower than the mid-exchange rate outlook at USD0.69.

Three exchange rate scenarios are used in the outlook for 2017-18 to cover possible exchange rate variability. The three scenarios use annual average exchange rates of USD0.62, USD0.69 and USD0.75 and the associated cross rates against the GBP and EUR.

At USD0.69, the estimated 2017-18 average annual price for M bull (270-295kg) is 520 cents per kg and for P steer/heifer (270-295kg) is 541 cents per kg, while M Cow (170-195kg), which includes a large component of cull dairy cows, is 393 cents per kg.

FIGURE 14



Source: Beef + Lamb New Zealand Economic Service

Beef Production

TABLE 13 **Export Cattle Slaughter Composition**

	000 head				
Sep Year	**Steer**	**Heifer**	**Cow**	**Bull**	**Total**
2013-14	559	407	931	438	2,335
2014-15	558	453	1,187	483	2,682
2015-16	515	436	1,101	464	2,516
2016-17e	526	429	929	479	2,363
2017-18f	498	430	940	495	2,363
2017-18f % change	-5.2%	+0.1%	+1.2%	+3.4%	+0.0%

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

TABLE 14 **Export Cattle Carcase Weights**

	kg / head				
Sep Year	**Steer**	**Heifer**	**Cow**	**Bull**	**Total**
2013-14	305	236	199	305	250
2014-15	302	234	197	301	243
2015-16	308	238	195	298	246
2016-17e	311	242	198	304	253
2017-18f	307	238	198	304	250
2017-18f % change	-1.3%	-1.7%	+0.4%	+0.0%	-0.9%

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

TABLE 15 **Export Beef Production Composition**

	000 tonne bone-in				
Sep Year	**Steer**	**Heifer**	**Cow**	**Bull**	**Total**
2013-14	170	96	186	132	584
2014-15	169	106	234	144	652
2015-16	158	104	215	141	619
2016-17e	164	104	184	146	597
2017-18f	153	102	186	150	592
2017-18f % change	-6.5%	-1.6%	+1.6%	+2.8%	-0.9%

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

Cattle Slaughter

For 2017-18, the number of cattle processed for export is forecast to remain even with 2016-17 at 2.36 million head. This is a stabilisation from the elevated slaughter in 2014-15 and 2015-16, particularly for heifers and cows when processing numbers decreased in 2015-16 (-6.2%) and 2016-17 (-6.1%). Strong beef prices supported an increase of the beef cattle herd at 30 June 2017, while the dairy herd was stable due to farm-gate milk prices strengthening.

A strong store market created pressure on sourcing replacement beef breeding stock in 2016-17. Some of the growth seen in the national herd can be attributed to weaners being carried over balance date. Weaker lamb prices at the start of 2016-17 may have influenced planning to increase retentions and help support the beef breeding herd.

In the season to September 2017, the number of cows processed is estimated to have fallen below one million head – down 16 per cent to 929,000, which is similar to prior to the dairy herd contraction. With steadier breeding herd numbers following an increase in 2016-17, the number of cows processed in 2017-18 is forecast to rise 1.1 per cent. Heifer processing is forecast to remain unchanged at 429,000 head in 2017-18. The heifer numbers largely reflect the increase in the dairy herd, which offsets a drop in beef heifers.

In 2017-18, steer slaughter is projected to decrease 5.2 per cent to 498,000 head, driven by the recent downward trend in beef cow numbers. Bull slaughter is forecast to rise by 3.4 per cent to 495,000 head in 2017-18, which reflects the level of bull calves retained over the last two seasons.

Cattle Weights

The estimated average export carcase weight was up 2.8 per cent in 2016-17 due to better pasture availability improving average weights across all categories of cattle, and fewer cows in the total number of cattle processed (see Table 14).

For 2017-18, the overall cattle weight is forecast to average 250kg per head, down 0.9 per cent or 3kg per head. Steer and heifer weights are forecast to be down while cow and bull weights remain steady, and a slight increase in the proportion of cows will lower the average cattle carcase weight.

Beef Production

In 2017-18, New Zealand's export beef production is forecast to decrease slightly – by 0.9 per cent – to 592,000 tonnes bone-in, largely attributable to lower average carcase weights. This production volume forecast is similar to 2016-17, which was down 3.5 per cent due to reduced cull cow processing as the dairy herd stabilised.

Wool

Exports

In the 2016-17 wool production season (which is from June to July), total New Zealand wool exports were down 18 per cent on the previous year to 84,800 tonnes clean, the second year in a row of double-digit percentage decreases. The drop in volume for 2016-17 was largely driven by a large fall in price. The average auction price was down 22 per cent to $5.19 per kg clean compared with the previous year. With average FOB value per tonne at $6,160 (-17%), wool export receipts fell 31 per cent to $522 million FOB in 2016-17.

New Zealand's largest market region was North Asia, which is driven by China. In 2016-17, North Asia accounted for 43 per cent of wool export volumes, down from 53 per cent in 2015-16. All but 23 tonnes of the total net volume decrease of 18,177 tonnes can be attributed to the drop in exports to China in 2016-17. Exports to the EU, which is the next largest market (34%), decreased 4.2 per cent, though the total share increased by five percentage points as the total export volume decreased.

The outlook for 2017-18 is for wool export volumes to increase 16 per cent on 2016-17, however this is coming off a very low base. The average export receipts per tonne at FOB is expected to decrease 0.7 per cent to $6,110 per tonne. Overall, total wool receipts are forecast to rise 16 per cent to $603 million due to the increase in volume, which is still below 2015-16 levels.

Prices

In 2016-17, the average fine wool price increased by 7.7 per cent, but the medium and strong segment prices were down 16 per cent and 29 per cent respectively, as demand from China weakened.

However, for 2017-18 the overall auction wool price is forecast to increase moderately – up 3.9 per cent – reflecting an improvement from the weak price position. Chinese wool stocks have been run down, which will support demand.

Production

In 2016-17, total wool production decreased 8.5 per cent to 138,600 tonnes greasy. Slipe wool production was down 7.4 per cent, falling due to fewer lambs and adult sheep processed. The export meat production season runs from October to September and the timing of production was relatively early in 2015-16 and slightly later in 2016-17, contributing to the reduced slipe production in the year to June 2017. Shorn wool production dropped 8.6 per cent due to fewer sheep shorn per farm in response to low returns for strong wool, contributing to a lower average clip per head.

For 2017-18, total wool production is forecast to remain reasonably steady (+0.9%) at 139,800 tonnes greasy. A higher shorn clip per head (+2.1%) offsets a smaller flock (-0.9%) and a decline in slipe wool production (-1.6%) that is forecast to result from fewer lambs and sheep being processed in the year ending June 2018.

TABLE 16

Auction Prices and Raw Wool Exports

	Auction Price	Wool Exports		
	$ / kg	FOB $ / kg	000 tonne	$m FOB
June Year	clean	clean	clean	
2013-14	5.79	6.29	116.5	732.8
2014-15	5.95	6.82	118.0	805.0
2015-16	6.64	7.38	103.0	760.1
2016-17	5.19	6.16	84.8	522.1
2017-18f	5.41	6.11	98.7	603.6
2017-18f % change	+4.1%	-0.7%	+16.4%	+15.6%

f forecast | Source: Beef + Lamb New Zealand Economic Service
New Zealand Wool Services International Ltd , Statistics New Zealand

TABLE 17

Season Average Auction Wool Prices

	cents / kg greasy			
June Year	Fine	Medium	Strong	All Wool
2013-14	1,000	549	384	431
2014-15	915	606	407	443
2015-16	997	725	445	494
2016-17	1,074	608	315	387
2017-18f	1,129	624	327	402
2017-18f % change	+5.2%	+2.7%	+3.8%	+3.9%

f forecast | Source: Beef + Lamb New Zealand Economic Service
New Zealand Wool Services International Ltd , Statistics New Zealand

TABLE 18

Wool Production

	Sheep	Shorn	Slipe	Total	Shorn Wool*
	million	000 tonnes	000 tonnes	000 tonnes	kg / head
June Year	head	greasy	greasy	greasy	greasy
2013-14	30.8	140.9	18.3	159.2	4.58
2014-15	29.8	137.0	16.4	153.4	4.60
2015-16	29.1	135.1	16.3	151.4	4.64
2016-17p	27.6	123.5	15.1	138.6	4.48
2017-18f	27.3	125.0	14.9	139.8	4.57
2017-18f % change	-0.9%	+1.2%	-1.6%	+0.9%	+2.1%

*excludes w ool on sheepskins
p provisional, f forecast | Source: Beef + Lamb New Zealand Economic Service, Statistics New Zealand

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

Climatic Conditions

FIGURE 15

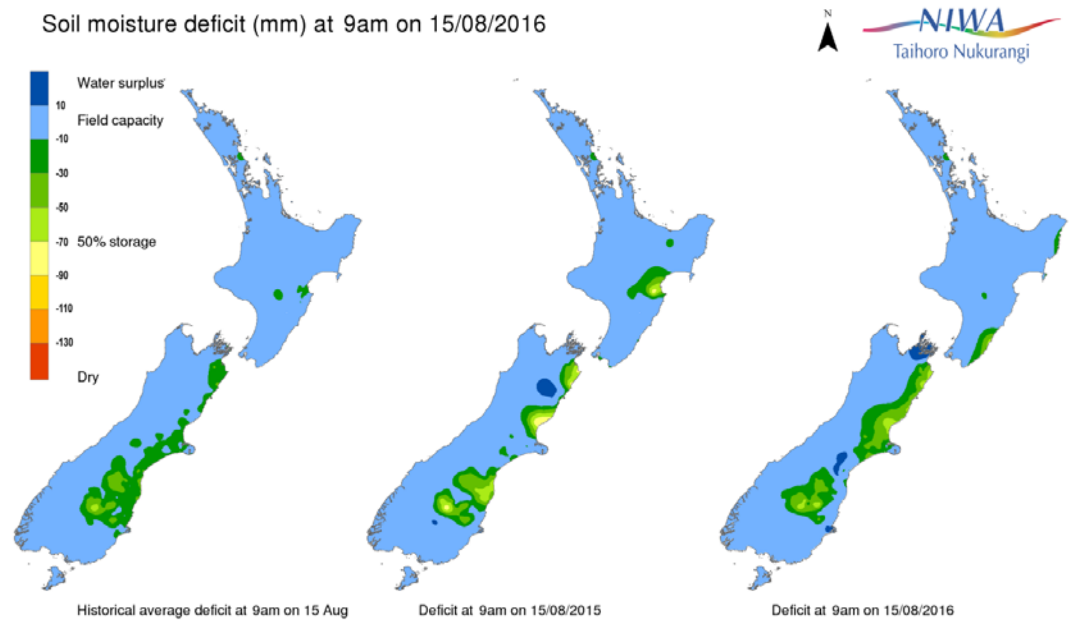
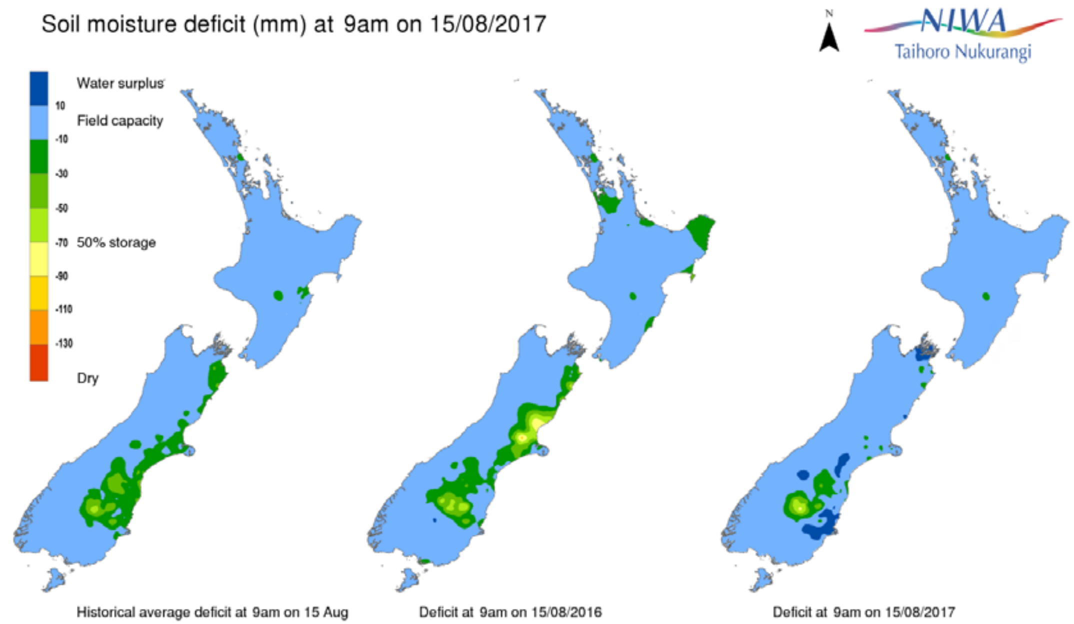


FIGURE 16



Source: National Institute of Water and Atmospheric Research Ltd (NIWA)

Winter 2017 Summary

A very wet winter for the eastern South Island, mild temperatures for most of the country.

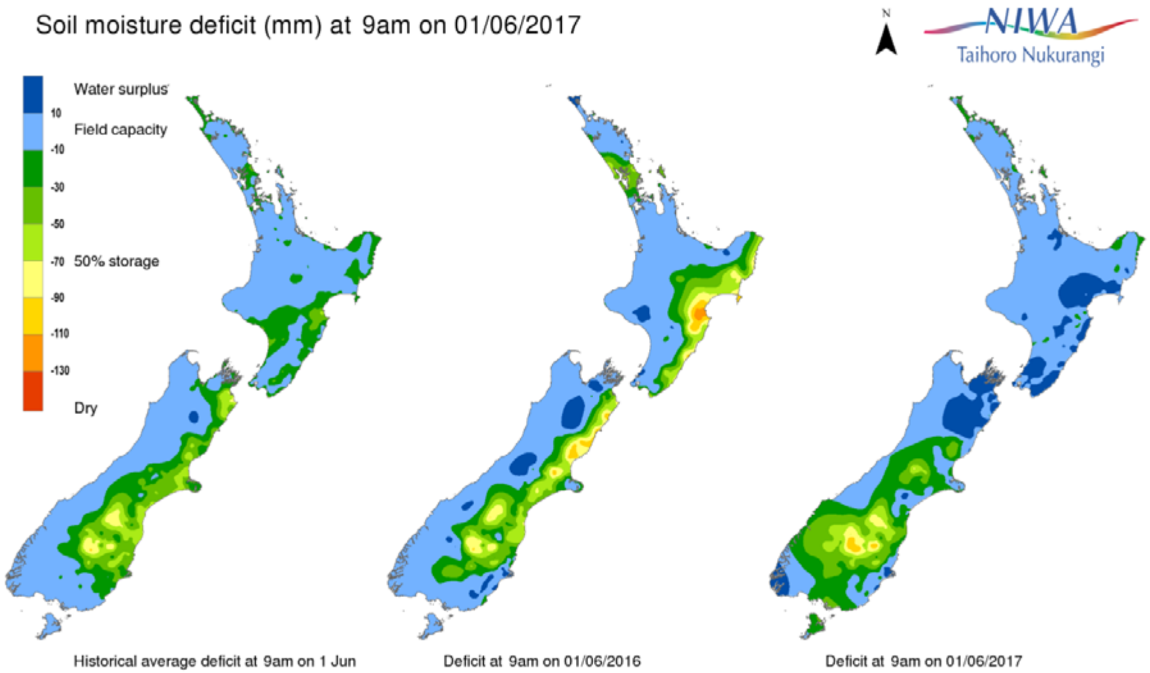
Rainfall
Rainfall was well above normal (> 149%) for parts of the eastern South Island from Christchurch to Oamaru. Rainfall was above normal (120-149%) in parts of eastern Otago, Nelson, Wellington and Northland. Below normal rainfall (50-79%) was observed in southern parts of Southland, Queenstown and Marlborough.

Temperature
Winter temperatures were well above average (> +1.20°C) for parts of Central Otago, and above average (+0.51°C to +1.20°C) in parts of Northland, Auckland, Bay of Plenty, Gisborne, Manawatu-Whanganui, Nelson, West Coast and the Southern Lakes. Temperatures were below average (-0.51°C to -1.20°C) in parts of Tasman and the Mackenzie Basin.

Sunshine
Winter sunshine was above normal (110-125%) in parts of Southland and western Waikato. In contrast, below normal sunshine (75-89%) was observed in Christchurch and Wellington.

Soil moisture
At the end of winter 2017, soil moisture levels were above normal for the time of year for eastern parts of Otago and Marlborough. Soil moisture levels were below normal for isolated inland parts of Otago, and typically near normal for the remainder of the country.

FIGURE 17



Source: National Institute of Water and Atmospheric Research Ltd (NIWA)

Outlook—September to November 2017

Temperature
Temperatures are forecast to be above average for all regions of New Zealand (55% to 65% chance for above average temperatures). Nevertheless, frosts and cool snaps are still possible during spring. Coastal water temperatures around New Zealand are forecast to remain above average over the next three-month period.

Rainfall
Rainfall totals are about equally likely to be normal (35-40% chance) or above normal (35-40% chance) for the North Island and the north of the South Island and most likely to be near normal (45% chance) for all remaining regions of New Zealand.

Soil Moisture
Soil moisture levels and river flows are about equally likely to be near normal (35-40%) or above normal (35-40% chance) for the North Island and the north of the South Island. Soil moisture levels and river flows are most likely to be near normal (45% chance) in the east and west of the South Island.

Source: National Institute of Water and Atmospheric Research Ltd (NIWA)

Farm Revenue, Expenditure and Profit—New Zealand

Revenue

Gross farm revenue for the 2017-18 farming year, which ends on 30 June, under an exchange rate scenario of USD0.69 is estimated to increase 1.6 per cent to $469,900 per farm for the All Classes Sheep and Beef Farm. This is driven by increased revenue from wool, deer and cash cropping.

Sheep revenue, which is the largest contributor to gross farm revenue, decreases 0.4 per cent to $201,000 for 2017-18. This is due to fewer lambs being sold at slightly lower prices in the year ending 30 June 2018 compared with 2016-17. The same trend occurs in North and South Islands.

Wool revenue increases 10 per cent to $41,100 for 2017-18. This increase is due to a lift in the volume of wool sold from wool shorn in 2017-18 and wool inventories carried over balance date from 2016-17. These inventories were held over due to poorer prices for strong-wool compared with the previous year, and a lift in the lamb price enabling farm businesses to store wool rather than sell.

Cattle revenue increases 1.1 per cent to $131,500 for 2017-18. This is largely due to a small lift in the number of cattle sold, which offsets a softer price outlook compared with 2016-17. The impact varies between regions, because the cattle account contributes 40 per cent of gross farm revenue for North Island farms, compared with 17 per cent in the South Island.

TABLE 19

Sheep and Beef Farm Revenue and Expenditure

Weighted Average All Classes[1]

		2013-14	2014-15	2015-16	Provisional 2016-17	Forecast 2017-18 USD 0.62	Forecast 2017-18 USD 0.69	Forecast 2017-18 USD 0.75	Forecast % Change 2016-17 to 2017-18 USD 0.62	Forecast % Change 2016-17 to 2017-18 USD 0.69	Forecast % Change 2016-17 to 2017-18 USD 0.75
Revenue											
Wool		49,029	51,395	54,136	37,300	41,800	41,100	33,400	+12.1%	+10.2%	-10.5%
Sheep		215,359	209,679	183,709	201,900	236,300	201,000	172,200	+17.0%	-0.4%	-14.7%
Cattle		104,267	125,098	125,930	130,100	149,800	131,500	116,600	+15.1%	+1.1%	-10.4%
Dairy Grazing		29,316	31,995	29,009	27,300	26,800	26,800	26,800	-1.8%	-1.8%	-1.8%
Deer + Velvet		4,113	3,401	3,819	3,900	5,000	4,300	3,800	+28.2%	+10.3%	-2.6%
Goat + Fibre		38	47	51	0	0	0	0			
Cash Crop		62,521	50,108	45,669	44,100	46,200	46,200	46,200	+4.8%	+4.8%	+4.8%
Other		18,212	17,085	17,218	16,900	18,000	18,000	18,000	+6.5%	+6.5%	+6.5%
Gross Farm Revenue	**$ per farm**	**482,855**	**488,808**	**459,541**	**461,500**	**523,900**	**468,900**	**417,000**	**+13.5%**	**+1.6%**	**-9.6%**
Expenditure											
Fert, Lime & Seeds		61,522	66,421	64,995	61,900	63,900	63,000	62,300	+3.2%	+1.8%	+0.6%
Repairs & Maintenance		30,175	32,395	32,747	32,500	32,800	32,300	31,900	+0.9%	-0.6%	-1.8%
Interest & Rent		64,611	65,823	68,017	65,700	64,400	64,800	65,200	-2.0%	-1.4%	-0.8%
Other Expenses		211,822	214,214	221,754	216,800	222,900	218,600	215,000	+2.8%	+0.8%	-0.8%
Total Expenditure	**$ per farm**	**368,130**	**378,853**	**387,513**	**376,900**	**384,000**	**378,700**	**374,400**	**+1.9%**	**+0.5%**	**-0.7%**
Farm Profit Before Tax[2]	**$ per farm**	**114,725**	**109,955**	**72,028**	**84,600**	**139,900**	**90,200**	**42,600**	**+65.4%**	**+6.6%**	**-49.6%**
EBITRm[3]	**$ per farm**	**182,887**	**179,641**	**143,678**	**153,970**	**226,000**	**158,800**	**110,900**	**+46.8%**	**+3.1%**	**-28.0%**
Real Farm Profit[4]	**2004–05 $**	**91,800**	**87,400**	**57,300**	**66,000**	**107,200**	**69,100**	**32,600**	**+62.4%**	**+4.7%**	**-50.6%**
Index of Real Farm Profit	2004–05 =1,000	1,253	1,193	782	901	1,463	943	445	+62.4%	+4.7%	-50.6%
Fertiliser Use	kg per SU	21.3	24.6	25.7	23.7	24.4	24.1	23.8	+3.1%	+1.7%	+0.6%
Prices											
Wool auction	¢ per kg clean	579	595	663	519	609	541	485	+17.3%	+4.2%	-6.5%
All wool[5]	¢ per kg greasy	374	401	444	332	377	335	301	+13.5%	+0.9%	-9.5%
Lamb	$ per head	100	94	93	105	119	103	89	+13.3%	-2.4%	-15.2%
Mutton	$ per head	76	67	57	73	90	74	61	+23.9%	+1.6%	-16.6%
Prime Steer/Heifer	¢ per kg	409	513	531	534	610	533	470	+14.2%	-0.2%	-12.0%

1. The Weighted Average All Classes Sheep and Beef Farm for 1 July 2017 was 630 effective hectares with stock numbers of 2,601 sheep, 337 beef cattle and 24 deer, totalling 3,982 stock units.
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 Managers Salary
4. Deflated by June year Consumer Price Index.
5. All shorn wool sales (auction 53% and private 47%) net of charges and freight.

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

Dairy grazing revenue decreases 1.8 per cent to $26,800 for 2017-18. Farmer comments about the reasons included easier sourcing of beef cattle and better returns compared with grazing dairy cows and heifers. Dairy grazing revenue for 2017-18 contributes about 5.7 per cent of gross farm revenue.

The cash cropping account increases 4.8 per cent to $46,200 for 2017-18. This is down 5.1 per cent on the 10-year average (2008-09 to 2017-18) of $48,700. The cash crop account contributes around 10 per cent of gross farm revenue for 2017-18.

Aggregate Sheep and Beef Farm Revenue at the farm gate for 2017-18 is forecast at $5.3 billion, up 1.6 per cent on the previous year. Gross farm revenue is spent buying goods and services for running the farm business then taxation, debt reduction and personal living expenses.

Expenditure

Total expenditure for the All Classes Sheep and Beef Farm is estimated to increase 0.5 per cent to $378,700 per farm for 2017-18. Decreased expenditure on interest, and repairs and maintenance is offset by a lift in fertiliser expenditure. Combined, these three areas contribute around 35 per cent of total farm expenditure.

Prices for inputs used on sheep and beef farms are estimated to increase 2.1 per cent. This follows almost no change (-0.1%) for 2016-17, which was strongly influenced by significant price decreases in interest on debt; and fertiliser, lime and seeds; partly offset by price increases for repairs and maintenance, and vehicles and insurance.

Fertiliser, lime and seeds expenditure increases 1.8 per cent to $63,000. This is largely driven by an increase in fertiliser volumes on North Island farms in response to the on-ground price per tonne remaining similar to 2016-17. Contrary to this, tonnage applied on South Island farms decreases 5.5 per cent on the previous year. Fertiliser expenditure represents about 13 per cent of total farm expenditure.

Interest expenditure decreases 1.9 per cent to $51,400. This is due to a reduction in the average term interest rate, which offsets a small lift (+0.7%) in average term liabilities. Interest expenditure represents 14 per cent of total farm expenditure. Repairs and maintenance decreases slightly (-0.6%) to $32,300, but is still up on the 10-year average (2008-09 to 2017-18) of $28,800.

Repairs and maintenance represents 8.5 per cent of total farm expenditure.

Fuel expenditure (+5.2%) and cartage (+2.1%) both lift for 2017-18. Feed and grazing expenditure decreases 1.8 per cent to $17,600. This was the second year of decline since a peak of $21,700 in 2015-16, driven by the cost of buying in feed due to drought conditions in Marlborough-Canterbury.

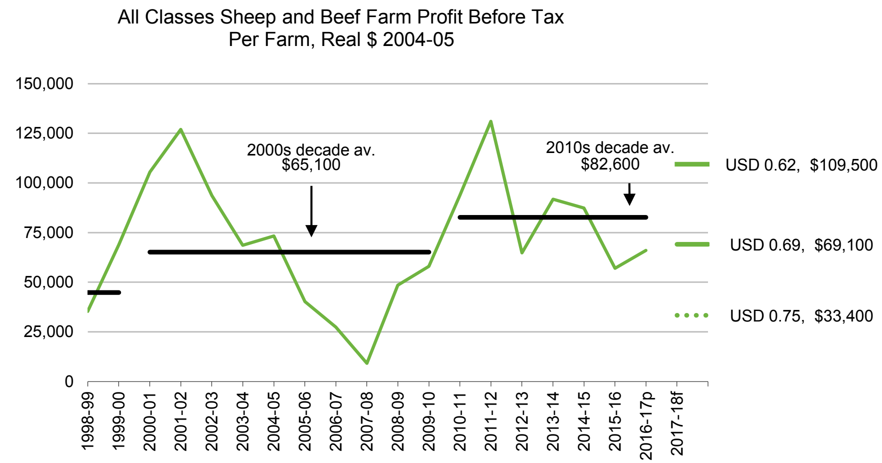
Farm Profit before Tax

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

Three forecast scenarios are shown in Figure 18 in real 2004-05 dollar terms:

1. At the lower exchange rate (USD0.62), inflation-adjusted Farm Profit before Tax is $109,500, up 66 per cent on $66,000 for 2016-17. In nominal terms, i.e. without adjusting for inflation, Farm Profit before Tax is $143,000, up 69 per cent on $84,600 for 2016-17.
2. At the mid exchange rate (USD0.69), inflation-adjusted Farm Profit before Tax is $69,100, up 4.6 per cent on $66,000 for 2016-17. In nominal terms, Farm Profit before Tax is $90,200, up 6.6 per cent on $84,600 for 2016-17.
3. At the higher exchange rate (USD0.75), inflation-adjusted Farm Profit before Tax is $33,400, down 49 per cent on $66,000 for 2016-17. In nominal terms, Farm Profit before Tax is $43,600, also down 49 per cent on $84,600 for 2016-17.

FIGURE 18



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

Figure 18 shows the trend in Farm Profit before Tax in inflation-adjusted, 2004-05 dollar terms. Note the steep fall in profitability from 2001-02 to a 50-year low in 2007-08. This was followed by a recovery that was underwritten by improved international prices, which exceeded the effect of the strengthening NZD.

The inflation-adjusted figure of $131,100 per farm for 2011-12 was the highest since the early 1970s and similar to 2001-02 when real Farm Profit before Tax was $126,900 per farm.

Farmer feedback indicates that the most significant issue on farmers' minds is how environmental compliance is going to impact on farm businesses. Areas of uncertainty range from compliance costs and rules, to profitability outcomes and land values.

Farm Revenue, Expenditure and Profit—Regional

North Island Summary

Sheep and Beef Farm Profit before Tax increases 15 per cent to $104,000 per farm for 2017-18 compared with 2016-17. This is due to an increase in gross farm revenue from all farm revenue sources.

Gross revenue increases 4.7 per cent to $422,700 for 2017-18. The largest drivers of this are from sheep and cattle which contribute 81 per cent of gross farm revenue. Sheep revenue increases 3.1 per cent to $173,800 largely driven by trade lambs in East Coast, purchased during the 2016-17 season being carried over balance date and sold prime in 2017-18. The East Coast represents 53 per cent of the North Island sheep flock.

Cattle revenue increases 3.3 per cent to $170,700 largely due to a lift in numbers sold compared with the previous year underpinned by a lift in sales numbers in Northland-Waikato-Bay of Plenty and East Coast.

Total expenditure increases 1.8 per cent to $318,700 for 2017-18. The largest drivers of this are increased expenditure in repairs and maintenance, and fertiliser, up 3.3 and 11 per cent respectively. Repairs and maintenance increases are largely due to some recovery on hill country and intensive finishing properties from storms during autumn 2017 in Northland-Waikato-Bay of Plenty. East Coast increases due to a catch-up after low expenditure in the previous year.

The North Island has 49 per cent of the sheep flock, 70 per cent of the beef cattle herd and 59 per cent of the dairy cattle herd.

South Island Summary

Sheep and Beef Farm Profit before Tax decreases 3.9 per cent to $74,700 per farm for 2017-18. This is largely due to decreased gross farm revenue from sheep, cattle and dairy grazing which make up 68 per cent of total farm revenue.

Gross farm revenue decreases 1.0 per cent to $521,000 for 2017-18.

Sheep revenue decreases 3.3 per cent to $231,600 driven by a softer price outlook for lamb compared with 2016-17. Wool revenue increases 6.6 per cent due to a lift in the volume sold from wool shorn and wool stocks on-hand. Increased inventory of shorn wool was a response by farmers to poor market price signals for strong wool in 2016-17.

Cattle revenue decreases 3.5 per cent to $87,300 due to softer prices offsetting an increase in the number of head sold. This is more evident in Marlborough-Canterbury where a lift in the number of trade cattle at open was underpinned by weaner purchases in 2016-17 to restock after drought. This was encouraged by good feed availability and high purchase prices for weaners.

Total expenditure decreases slightly (-0.5%) to $446,300 for 2017-18. This is due to decreases in interest (-2.2%), fertiliser (-5.5%), and repairs and maintenance (-4.3%), which combine to contribute around 32 per cent to total farm expenditure.

The South Island has 51 per cent of the sheep flock, 30 per cent of the beef herd, and 41 per cent of the dairy herd.

TABLE 20 **Regional Summary**

All Classes Sheep and Beef Farm - $ Per Farm

Region	2015-16	2016-17p	2017-18f					
	Profit	Profit	Revenue	Expenditure	Profit	EBITRm[1]	Stock Units	Hectares
Northland-Waikato-BoP	85,820	79,700	367,400	278,000	89,400	138,500	3,170	340
East Coast	90,652	100,100	497,900	369,000	128,900	210,400	4,780	550
Taranaki-Manawatu	72,622	91,600	418,100	327,000	91,100	161,500	4,210	490
North Island	**86,250**	**90,600**	**422,700**	**318,700**	**104,000**	**168,300**	**3,940**	**450**
Marlborough-Canterbury[2]	42,627	65,300	603,700	537,200	66,500	156,400	4,210	910
Otago/Southland[2]	70,684	89,600	417,600	336,700	80,900	135,600	3,770	730
South Island[2]	**56,023**	**77,700**	**521,000**	**446,300**	**74,700**	**148,100**	**4,030**	**840**
New Zealand	**72,028**	**84,600**	**468,900**	**378,700**	**90,200**	**158,800**	**3,980**	**630**

p provisional, f forecast | Exchange rate used in forecast year USD/NZD 0.69

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

[2] Effective area is inflated by High Country Farms w hich average 7,500 hectares per farm for South Island High Country Farms

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

Region Comment—North Island

Northland-Waikato-Bay of Plenty

Gross farm revenue increases 5.4 per cent to $367,400 per farm for 2017-18. This is driven by increased revenue for all parts of the business except for deer and velvet.

Sheep revenue increases 2.3 per cent to $105,400 for 2017-18. Revenue from sales less purchases is down compared with the previous year, but overall the sheep account increases due to changes in the value of stock on-hand compared with the previous year.

Wool revenue increases 24 per cent to $18,900 due to an increase in the volume sold from wool shorn and inventory on-hand. A lift in lamb prices during 2016-17 enabled farmers to carry shorn wool over balance date as inventory rather than sell it, which was a response to poor wool prices.

Cattle revenue increases 4.1 per cent to $189,400 for 2017-18. This is due to a lift in numbers sold, which offsets a decrease in the average sale price compared with 2016-17. Cattle revenue makes up 52 per cent of gross farm revenue, up 16 percentage points on 2010-11 when prime lamb prices reached record levels.

Total farm expenditure increases 3.4 per cent to $278,000 for 2017-18. Interest expenditure decreases 3.9 per cent to $34,900 for 2017-18. This is due to the combined effect of term debt reduction, and lower average term interest rates. Interest expenditure contributes 13 per cent to total farm expenditure.

Fertiliser expenditure increases 11 per cent to $46,200 for 2017-18 due to a lift in tonnage applied on hard hill and hill country farms.

Repairs and maintenance increases 9.5 per cent to $30,100 for 2017-18. This is up 30 per cent on the 10-year average (2008-09 to 2017-18) of $23,100, and is due to storms occurring in autumn 2017 with the worst-affected properties being hill country and intensive finishing farms.

Farm Profit before Tax increases 12 per cent on the previous season to $89,400 for 2017-18. Sheep and beef farms in the region run an average of 3,170 stock units on 340 effective hectares.

East Coast

Gross farm revenue increases 8.6 per cent to $497,900 for 2017-18. This is driven by a lift in sheep, cattle and wool revenue, which combine to total 91 per cent of gross farm revenue.

Sheep revenue increases 9.2 per cent to $234,800 for 2017-18. This is due to more lambs sold prime and a lift in price per head due to heavier carcase weights compared with 2016-17. Some flock rebuild has occurred with ewe hogget numbers lifting for all classes of farm, which is predominantly from farmers breeding their own replacements rather than risking buying in unknown ewes due to facial eczema in autumn 2016. Sheep revenue contributes 47 per cent to gross farm revenue.

Cattle revenue increases 4.8 per cent to $179,400 for 2017-18. This is driven by a 9.5 per cent lift in numbers sold per farm to 185 head. Farmers anecdotally favour cattle over sheep due to acceptable prices associated with cattle, and the lower labour requirement which is particularly noticeable in the older demographic of farmers. Cattle revenue represents 37 per cent of gross farm revenue.

Wool revenue increases 25 per cent to $39,100 for 2017-18 due to an increase in wool sold per farm, rather than price improvement. Increased wool sold is due to a lift in wool inventories available for sale, in addition to wool shorn in 2017-18. Inventories at open increased due to poor prices in 2016-17 for strong wool, while total wool shorn increases due to a lift in sheep on-hand at open and a lift in the clip per head from 4.2kg to 4.6kg. This is the second lowest revenue year for wool since 2009-10. Wool revenue represents 7.9 per cent of gross farm revenue.

Total farm expenditure increases 3.0 per cent to $369,000 for 2017-18 due to a lift in fertiliser, and repairs and maintenance. Fertiliser and repairs and maintenance expenditure increase to $51,000 (+18%) and $36,300 (+7.4%) respectively for 2017-18. These increases follow deferred expenditure in the previous year due to poorer cash flow and wet conditions negatively impacting airstrips for spreading fertiliser on hard hill country farms.

Farm Profit before Tax increases 29 per cent to $128,900 for 2017-18. Sheep and beef farms in the region run an average of 4,780 stock units on 551 effective hectares.

Taranaki-Manawatu

Gross farm revenue decreases 2.4 per cent to $418,100 for 2017-18 largely driven by decreased revenue from sheep. Sheep revenue decreases 4.6 per cent to $215,200 for 2017-18. This is due to fewer lambs sold at lower prices compared with the previous season. Fewer lambs are expected to be born in spring 2017 due to a decline in the number of breeding ewes, particularly on hard hill and hill country farms.

Cattle revenue increases slightly (+0.2%) to $122,200 for 2017-18 due to similar numbers sold and a price per head being marginally up on 2016-17. Anecdotal comments from farmers are that there are better returns to be made from trading stock and growing beef, compared to returns from dairy grazing activities. Cattle revenue contributes 29 per cent to gross farm revenue 2017-18.

Wool revenue increases slightly (+0.2%) to $40,500 for 2017-18 due to an increase in the volume of wool sold. Wool sold lifts from an increase in wool inventories carried over balance date - equivalent to about 1,230 kg per farm (or 8 bales) - due to poor returns in 2016-17.

Contrary to this, wool shorn decreases due to fewer sheep and a decrease in clip per head to around 4.74 kg per head. Wool makes up about 10 per cent of gross farm revenue.

Total farm expenditure decreases 3.0 per cent to $327,000 for 2017-18. This is driven by decreased expenditure for repairs and maintenance, shearing and animal health.

Repairs and maintenance decreases to $29,400 for 2017-18, down 0.9 per cent on the 10-year average (2008-09 to 2017-18). This is due to expenditure returning to more normal levels after the impact of flooding in June 2015. Fertiliser and interest expenditure change marginally, down 0.6 per cent and down 0.9 per cent respectively for 2017-18.

Shearing expenditure decreases 8.5 per cent to $20,400 for 2017-18. This is due to fewer sheep on-hand at open, and poor market price signals leading to a decrease in wool shorn for 2017-18. Expenditure on shearing during the decade (2008-09 to 2017-18) peaked in 2015-16 in response to strong market price signals. Shearing makes up about 6.2 per cent of total farm expenditure.

Animal health expenditure decreased 5.7 per cent to $18,600 for 2017-18. This is down 12 per cent compared with 2015-16 when expenditure in this area reached a record of $21,260 due to the effects of facial eczema in autumn 2016.

Farm Profit before Tax decreases 0.5 per cent to $91,100 for 2017-18. Sheep and beef farms in the region run an average of 4,208 stock units on 490 effective hectares.

Region Comment—South Island

Marlborough-Canterbury

Gross farm revenue decreases 0.5 per cent to $603,700 for 2017-18. Reduced revenue from sheep and cattle is moderated by increased revenue from wool, deer and cropping.

Sheep revenue decreases 2.1 per cent to $197,900 for 2017-18. This is due to fewer numbers sold, at lower prices compared with the previous year. Feed availability at mating was generally good and breeding ewe lambing percentages are expected to be similar to the previous year overall – pending no adverse weather events and normal spring pasture growth. Sheep revenue contributes 33 per cent to gross farm revenue.

Cattle revenue decreases 3.7 per cent to $111,900 for 2017-18. A lift in the number of head sold is offset by a decrease in price. On hill country and Finishing-Breeding farms, dairy grazers are being substituted for beef due to drought rebuild, and autumn 2017 rains providing good grass availability.

Cash cropping revenue increases 2.9 per cent to $158,400 for 2017-18. This is due to some rebound in demand on the back of a strengthening farm-gate milk price. Mixed cropping and finishing farms are expected to recover after a wet season which negatively impacted harvest quality requiring more spraying for weeds. Cash cropping revenue contributes 26 per cent to gross farm revenue.

Wool revenue increases 7.0 per cent to $49,000 for 2017-18. This is driven by an increase in wool sold and a lift in price. The volume of wool sold increases because poor prices for strong wool led to an increase in inventories carried over balance date and expected to be sold in 2017-18. High country farms producing fine wool were not impacted by the downturn in strong wool prices, which led to these farms carrying normal wool inventories over balance date.

Total farm expenditure decreases 0.8 per cent to $537,200 for 2017-18. This is largely due to decreased expenditure in repairs and maintenance, fertiliser and interest. Repairs and maintenance decreases 3.8 per cent to $38,000, 11 per cent up on the 10-year average of $34,300 (2008-09 to 2017-18) and makes up 7.1 per cent of total farm expenditure.

Fertiliser and interest expenditure decreases to $57,800 and $66,500 respectively for 2017-18. Fertiliser expenditure eases due to an estimated increase in the on-ground price, which is offset by a decrease in the total tonnes applied. This follows three consecutive years when volumes applied were above the 10-year average (2008-09 to 2017-18). Interest expenditure decreases due to lower average term interest rates compared with the previous year.

Farm Profit before Tax increases 1.8 per cent to $66,500 for 2017-18. Overall, improved profitability on mixed cropping and finishing farms, and high country farms, offsets decreased profitability on other farm types compared with the previous year.

Sheep and beef farms in the region run an average of 4,210 stock units on 910 effective hectares at the start of 2017-18.

Extensive High Country and foothill farms inflate the average area of farms in the region. Finishing-Breeding farms average 400 hectares while High Country farms average 8,420 hectares.

Otago-Southland

Gross farm revenue decreases 2.1 per cent to $417,600 per farm for 2017-18.

Sheep revenue decreases 4.2 per cent to $266,300 for 2017-18. This reflects lower lamb prices, which offsets a lift in the number sold prime. Breeding ewe numbers on intensive finishing farms decrease for the fifth consecutive year which reflects an aging farmer demographic and a shift towards less labour-intensive options.

Cattle revenue decreases 3.2 per cent to $57,800 for 2017-18. This is due to a softer price outlook compared to the previous year. On high country farms, good feed availability in the previous season has led to an increase in cattle on-hand at 30 June 2017. Weaner prices are also expected to ease compared to the previous season, which was propped up by good grass availability and demand from Marlborough-Canterbury for replacement stock after years of consecutive drought. Cattle revenue contributes 14 per cent of gross farm revenue.

Wool revenue increases 6.0 per cent to $54,900 for 2017-18 as inventories, which were carried over from the previous season in response to poor market prices, are sold. Opening wool stocks per farm averaged about 2,800kg (or 19 bales). The wool account contributes about 13 per cent to gross farm revenue.

Total farm expenditure decreases slightly (-0.1%) to $336,700 for 2017-18. The largest decreases occur in repairs and maintenance, fertiliser and interest, but these are moderated by increased expenditure in most other areas.

Repairs and maintenance decreases 5.3 per cent to $26,700 for 2017-18 but is up 4.7 per cent on the 10-year average (2008-09 to 2017-18) of $25,500. This area of expenditure represents 7.9 per cent of total farm expenditure.

Fertiliser and interest expenditure decrease to $47,700 and $45,300 respectively for 2017-18. Fertiliser tonnes applied decreases 5.5 per cent to 120kg per hectare, which is down from peak levels of 138kg per hectare in 2001-02. This is due in part to an estimated lift in the on-ground price and above average (2008-09 to 2017-18) application in the previous year.

Farm Profit before Tax decreases 9.7 per cent to $80,900 for 2017-18.

Sheep and beef farms in the region run an average of 3,770 stock units on 730 effective hectares. However, the average farm size is inflated by High Country farms, which average 6,290 hectares, whereas Finishing-Breeding farms average 520 hectares and Intensive Finishing Farms average 220 hectares.

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