Published October 2021

Summary report

New Season Outlook 2021-22

Overview

The outlook for global sheepmeat and beef demand is positive for the 2021 22 season. Fundamentals in key markets are solid, with strong demand and tight supply. In-market returns are forecast to lift for both sheepmeat and beef, however, forecasts for a stronger NZD outweigh some of the buoyancy from in-market conditions.

Demand from China and the US underpinned solid export returns in the latter part of the 2020-21 season. Chinese demand is driven by a continuing meat protein deficit as African Swine Fever (ASF) remains relevant. Economic recovery in both countries has been rapid and fuelling consumer confidence. Demand from China for imported meat also continues to be supported by growing consumer incomes and urbanisation.

Global demand for sheepmeat and beef is well exceeding supply. Limited supplies from Australia, as its producers focus on rebuilding, is a key driver. In the beef market, supply has also been affected by disruptions to trade from Argentina and Brazil.

Major challenges for the new season include global uncertainty regarding the spread of the Delta variant, pandemic related disruption to supply chains, increased freight costs and a global shortage of labour. The relationship between the governments of New Zealand and China will be critical to red meat export performance, as will economic conditions in China.

Total export receipts for sheepmeat and beef combined are forecast to be slightly down on 2020-21. While lamb export receipts are forecast to increase, declining beef and mutton production, and the adverse impact of the high NZD on average export values offset the positive lamb result. In-market prices for beef, lamb and mutton are all forecast to lift. This outlook, therefore, is sensitive to changes in the currency market.

On-farm, the higher NZD is expected to be a limiting factor on farm-gate prices. Farm profit before tax is forecast to lift 9 per cent in 2021-22, reflecting a 4 per cent lift in gross farm revenue. Revenue from sheep, including a modest lift in wool prices, underpins the forecast for improved profitability. Farm expenditure is forecast to increase, driven by a sharp lift in fertiliser prices.

Farmer confidence is mixed. While on-farm profitability is positive, resilience is being tested by the volatility of adverse weather events and the extent of environmental regulation.

Sheepmeat

- For 2021-22, total lamb export receipts are forecast at $3.36 billion FOB[1], up 2.2 per cent on 2020-21.
- The lift is driven by a marginal increase (+0.4%) in export volumes to 299,000 tonnes shipped weight and a lift in the average FOB value of exports (+1.7%) to $10,735 per tonne.
- The forecast average FOB value of exports is 6 per cent up on the five-year average.
- Export receipts for co-products are forecast to lift 4 per cent reflecting global economic recovery.
- The lamb crop in spring 2021 is forecast to be 22.8 million head, 0.9 per cent higher than in 2020, reflecting an increase in ewe and ewe hogget lambing percentages.
- Mutton export receipts are forecast to decline 9 per cent on 2020-21, driven by a 9 per cent decline in production and a 2.5 per cent decline in average export value.
- Total export receipts for sheepmeat (lamb and mutton) for 2021-22 are forecast to be steady on 2020-21 at $4.1 billion FOB.
- The weighted average lamb farm-gate price is forecast to be 724 cents per kg, down 2 per cent on 2020-21, but up 5 per cent on the five-year average. The forecast for a higher NZD is the major limiting factor to the decline in 2021-22.
- The annual average farm-gate price for mutton is forecast to decline 1.7 per cent to 494 cents per kg, which is 16 per cent above the five-year average.
- Demand in all key markets for New Zealand lamb is strong. There is a limited global supply of lamb and strong consumer demand is supporting higher in-market prices. Global foodservice sector recovery will support market demand fundamentals.
- Continued demand from China for meat protein, because of ASF-induced pork shortages and increasing consumer incomes, will also be a positive driver of demand in 2021-22.

Beef

- Export revenue from beef and veal in the 2021-22 season is forecast to be $3.9 billion FOB, down 7 per cent on 2020-21.
- Beef and veal exports are forecast to decline 5 per cent to 468,000 tonnes shipped weight, reflecting a decline in the number of cattle processed.
- Export beef production is forecast to decline 5 per cent to 682,000 tonnes carcase weight.
- Average export returns for the season are forecast to decline 2.4 per cent to $7,200 per tonne, limited by the higher forecast for the NZD.
- The forecast for the 2021-22 season is for the average farm-gate price for all cattle to decline 2 per cent from 2020-21, to 456 cents per kg, which is a mix of 502 cents per kg for P steer/heifer (270-295kg), 341 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 518 cents per kg for M bull (270-295kg).
- The outlook for the global beef market is buoyant, fuelled by strong demand and tightening global beef supplies. This is particularly evident in China and the US markets.
- COVID-19 and the Delta variant will continue to be a source of downside risk; however, the imbalance of supply and demand has the potential to offset pandemic disruption.
- ASF and the growing demand for quality proteins from the affluent Asian consumer will continue to be key drivers of demand for beef.

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

Exchange Rate Impact

New Zealand sheepmeat and beef export returns and farm-gate prices are significantly impacted by exchange rate movements because New Zealand's industry focuses on exporting the majority of its production. The exchange rate is the major limiting factor to New Zealand red meat export returns in 2021-22. The NZD is forecast to lift close to 6 per cent against the USD for the 2021-22 season to average 0.75 – the highest seasonal average for seven years.

There is significant risk associated with this outlook. Global headwinds associated with continued outbreaks of COVID-19 may restrict the performance of the NZD in the short-term. Despite this risk, most economists are forecasting that the strength of the NZD is expected to be a feature of 2022.

Gross Revenue

Gross farm revenue for the 2021 22 farming year is forecast to average $634,800 per farm – up 4 per cent. Increased revenue is driven predominantly from sheep, however wool, deer, cash crops and other revenue are also estimated to increase while cattle revenue is likely to decrease. Sheep revenue increases by 7.5 per cent to $317,700 per farm and cattle revenue decreases 2.5 per cent to $158,900 per farm. The cash crop account is forecast to increase by 2.5 per cent in 2021-22. It accounts for 11 per cent of gross farm revenue on average in 2021-22, which is double the contribution from dairy grazing. Sheep and cattle revenue account for three quarters of gross farm revenue at 50 per cent and 25 per cent respectively on average.

Expenditure

To produce their gross revenue, farmers incur expenditure, like any business. Expenditure is estimated to increase 3 per cent to average $491,300 per farm for 2021 22.

Expenditure is expected to increase in most categories as farmers face inflationary pressure on farm input prices, including major fertiliser price increases.

Fertiliser, lime and seeds expenditure, which is equivalent to 19 per cent of total farm expenditure, increases 11 per cent to average $91,100 per farm. The volume of fertiliser applied per farm and per hectare is forecast to decrease.

Relatively low interest rates and a small reduction in average debt level result in interest expenditure, which accounts for around 11 per cent of total farm expenditure, remaining static (+0.2%) to $55,600 per farm. Shearing expenditure increases for the fifth year in a row.

Farm Profit Before Tax

Farm profit before tax, which is the residual that farmers spend to meet tax payments, personal drawings for family living expenses, debt repayments and the purchase of capital items for the farm business, such as farm machinery, is forecast to increase 9 per cent to average $143,500 per farm.

Further information

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