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Summary report

New Season Outlook 2020-21

Overview

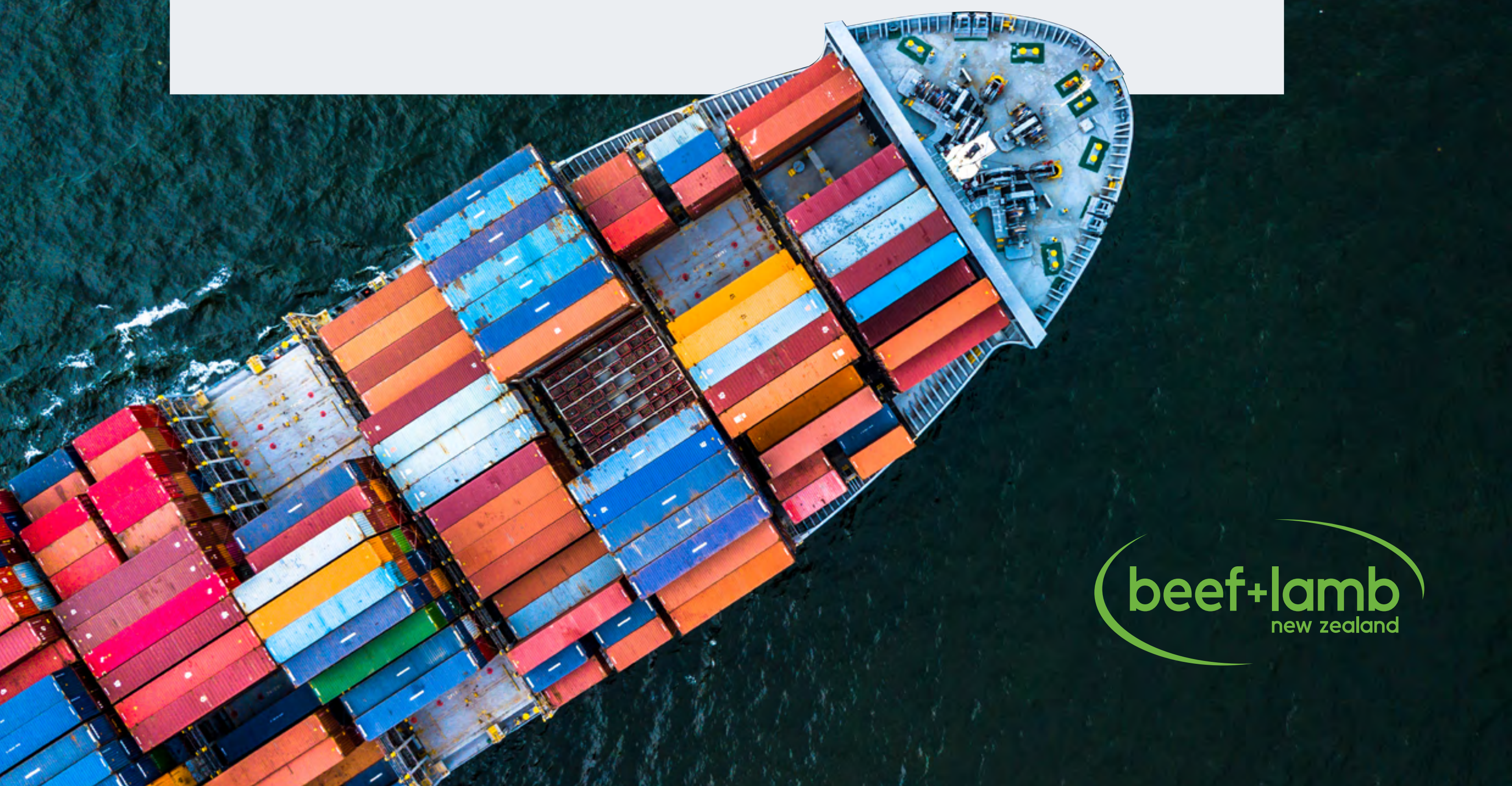
Beef and sheepmeat exports face an uncertain outlook for the 2020-21 season. The disruption caused by COVID-19 is expected to reach into 2021, with global economies, consumer demand and trading channels all impacted. Increasing competitiveness in key beef export markets also has the potential to alter the trading environment.

Despite this, there are solid underlying market fundamentals that will continue to support demand for New Zealand sheepmeat and beef exports. China's demand for meat protein continues to be fuelled by pork shortages that have resulted from African Swine Fever (ASF), and there is growing demand for high-quality, nutritionally rich proteins. A shifting consumer preference towards food safety will also support demand for New Zealand sheepmeat and beef.

The challenging environment is expected to result in a decline in both sheepmeat and beef export receipts in 2020-21. Average export values, however, are expected to be supported by the positive market fundamentals, and are forecast at similar levels, or slightly above, five-year averages.

The trading environment will also face ongoing uncertainty around key trade negotiations. Brexit outcomes and the deteriorating relationship between the US and China will have an influence on market dynamics in the new season.

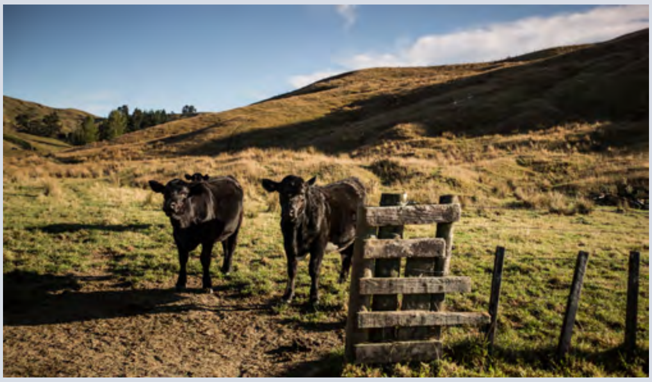
On-farm, the uncertainty in the export market will be reflected in farm-gate prices and subsequent farm profitability. The drought of 2020 will have a continuing adverse impact on lamb and beef production in the new season. Wool returns are forecast to remain depressed, with shearing expenses still on the rise. With all these factors combined, gross farm revenue is expected to decline.



beef+lamb new zealand

Sheepmeat

- For 2020-21, total lamb export receipts are forecast at $2.94 billion FOB[1], down 14.8 per cent on 2019-20.
- The decline is driven by a decline in export volume (-6.5%) to 280,000 tonnes shipped weight and a decline in the average FOB value of exports (-9.3%) to $9,841 per tonne.
- Revenue from co-products are forecast to decline 7.9 per cent.
- The 2020 lamb crop – estimated to be 22.3 million head – is forecast to be 4.2 per cent lower than in 2019 driven by a continuing decline in breeding ewe numbers combined with the effects of the 2019-20 drought.
- Mutton export receipts are forecast to decline 16 per cent on 2019-20, driven by declining average export values and a 10 per cent decline in export mutton production as farmers rebuild flocks following drought.
- Total export receipts for sheepmeat (lamb and mutton) for 2020-21 are forecast to decline by 15 per cent, or $622 million, to $3.5 billion FOB.
- The weighted average lamb farm-gate price is forecast to be between 620 and 715 cents per kg. The midpoint of 665 is 10 per cent down on 2019-20. Despite the challenging outlook, the forecast price is slightly above the five-year average.
- The annual average farm-gate price for mutton is expected to be between 415 and 485 cents per kg, with a midpoint of 447 cents per kg being down 9 per cent on 2018-19.
- Market disruption as a result of COVID-19 is the predominant driver of the decline in sheepmeat export revenue. The decline in food service sector demand has adversely impacted export sales for New Zealand's high-value frozen lamb. This is particularly evident in the US and EU. Weaker global economic conditions have also resulted in lower consumer spending, and greater price sensitivity. The outcome of Brexit negotiations will influence the sheepmeat trading environment in 2020-21.
- Demand for sheepmeat will be supported by tighter global supplies, as production from both New Zealand and Australia is expected to be down. Continued demand from China for meat protein as a result of ASF-induced pork shortages will also be a positive driver of demand in 2020-21.



Beef

- Export revenue from beef and veal in the 2020-21 season is forecast to be $3.5 billion FOB, down 9 per cent on 2019-20.
- Beef and veal exports are forecast to be steady at 453,000 tonnes shipped weight.
- The number of cattle processed for export in 2020-21 is forecast to decline marginally (-0.9%) on 2019-20.
- Export beef production is forecast to be steady at 661,000 tonnes carcase weight.
- Average export returns for the season are forecast to decline 9.5 per cent to $7,445 per tonne.
- The estimated 2020-21 average annual price for P steer/heifer (270-295kg) is 515 cents per kg. It is forecast to average 364 cents per kg for M cow (170-195kg), which includes a large component of cull dairy cows, and 480 cents per kg for M bull (270-295kg).
- Global beef trade in the 2020-21 season is expected to grow increasingly competitive. This, combined with weaker consumer demand as a result of COVID-19 and trade tension between New Zealand's leading export markets China and the US, is forecast to weigh on beef demand in the outlook period. Declining food service demand has also impacted beef demand; however, a higher proportion of New Zealand beef exports can be transferred into the retail sector. Much of New Zealand's beef is an ingredient used in supply chains that can service both food service and retail. Ground beef sales have been a strong performer in the post-COVID world.
- 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 vast majority of its production. A weaker NZD during the months of COVID-19 disruption supported red meat export returns in 2019-20. The NZD is expected to strengthen in 2020-21, with global recession and trade tensions contributing factors. However, a move towards negative interest rates in 2021, as signalled by the Reserve Bank of New Zealand (RBNZ), may prove to be more supportive of export returns.

Revenue

Gross farm revenue for the 2020-21 farming year is forecast to average $559,300 per farm – down 10 per cent. After a couple of strong years in 2018-19 and 2019-20, all revenue accounts are forecast to decline to levels somewhat below 2017-18. The exception is wool, which is forecast to be about 30 per cent lower than in 2017-18, clearly reflecting the very challenging circumstances in the wool sector. Cattle revenue decreases 5 per cent to $151,600 per farm and sheep revenue is forecast to decrease by 14 per cent to $267,500 per farm for 2020-21.

Expenditure

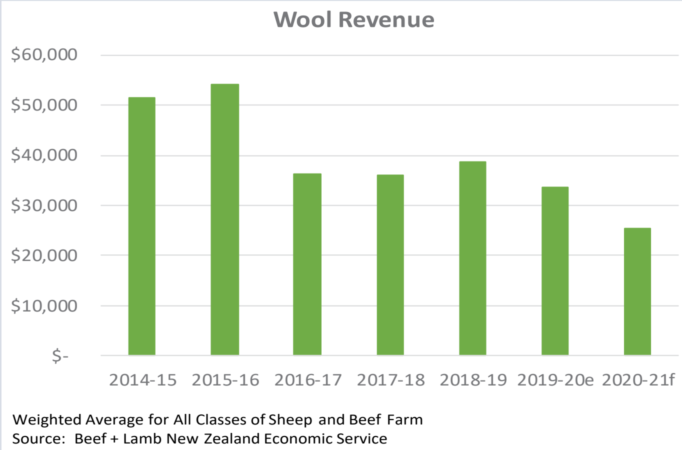
To produce their gross revenue, farmers incur expenditure, like any business. Expenditure is estimated to decrease 4.8 per cent to average $444,200 per farm for 2020-21.

Expenditure is expected to decrease in most categories as farmers adjust their expenditure in response to expected lower revenue.

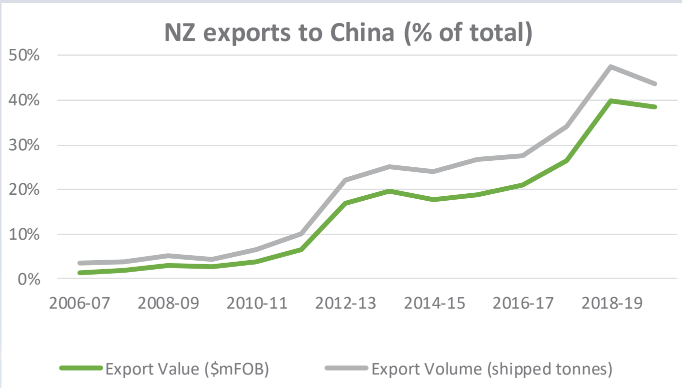
Continued low interest rates and a small reduction in average debt level result in interest expenditure, which accounts for around 11 per cent of total farm expenditure, decreasing by 10 per cent to $47,000 per farm. Shearing expenditure increases for the fourth year in a row.

Farm Profit Before Tax

And farm profit before tax, which is the residual that farmers spend to meet tax payments, personal drawings for family living expenses, debt repayments and the purchase of capital items for the farm business, such as farm machinery, is forecast to be down 26 per cent to average $115,100 per farm.



Weighted Average for All Classes of Sheep and Beef Farm
Source: Beef + Lamb New Zealand Economic Service



Further information

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