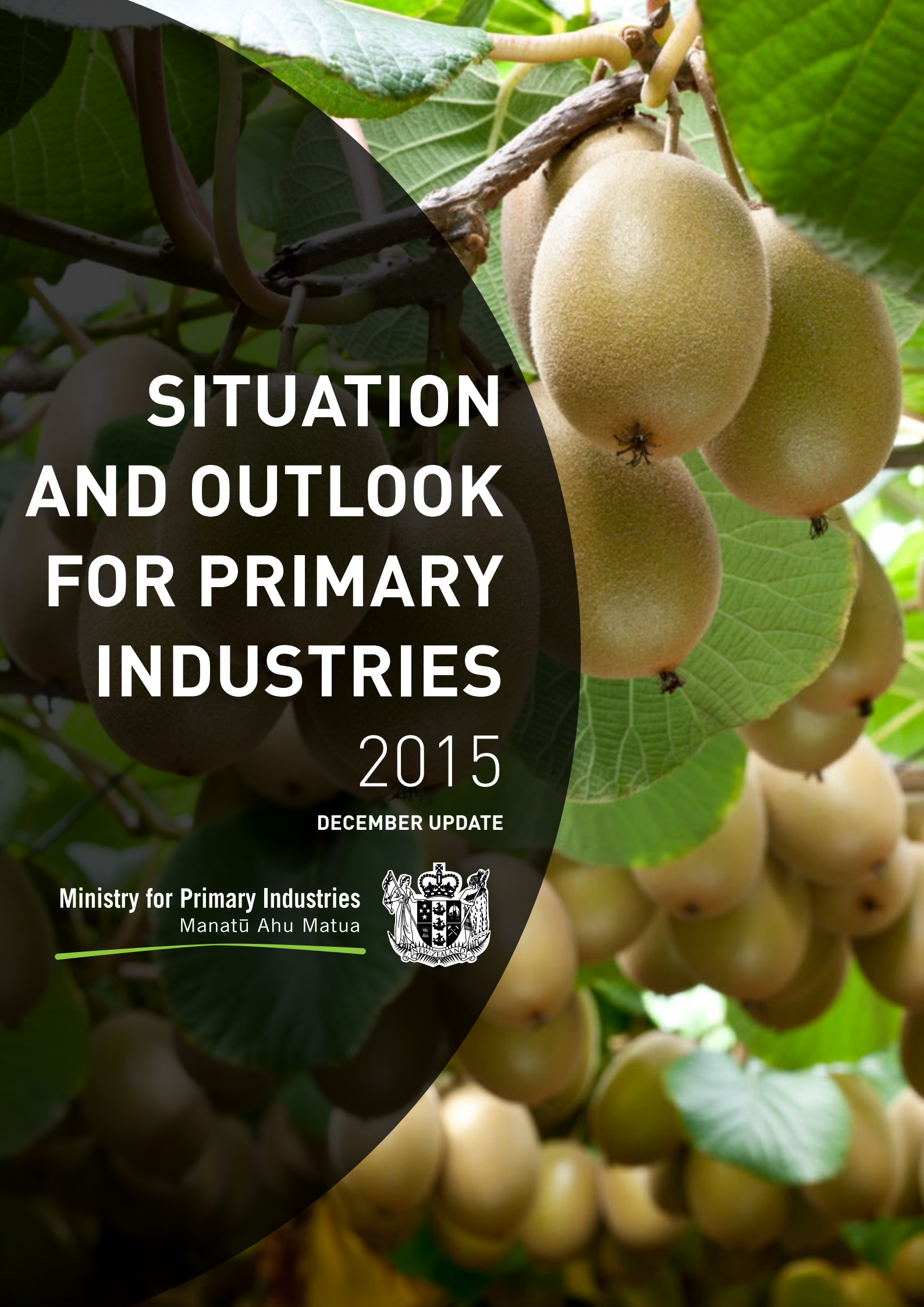

SITUATION AND OUTLOOK FOR PRIMARY INDUSTRIES

2015

DECEMBER UPDATE

Ministry for Primary Industries
Manatū Ahu Matua

Contents

The Situation and Outlook for Primary Industries released in June 2015 (SOPI) assessed the prospects for New Zealand's primary sectors through to the year ending June 2019. This mid-year review updates the short-term forecasts for the primary sectors based on the key changes in export market dynamics, domestic production, and exchange rate forecasts for each sector.

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Publisher

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This publication is available on the Ministry for Primary Industries website at **www.mpi.govt.nz**

Further copies may be requested from **brand@mpi.govt.nz**

ISBN No. 978-1-77665-114-6 (print)
ISBN No. 978-1-77665-115-3 (online)

Summary

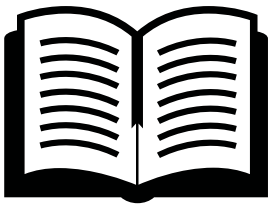
New Zealand's primary sector export revenue is expected to increase to $37.6 billion in the year ending June 2016, up $1.9 billion from the year ended June 2015. Export revenue forecasts are up for all sectors except dairy. Despite lower production volumes in key sectors (notably dairy), overall revenue is up due to an expected depreciation in the exchange rate. A further $6.1 billion increase in export revenue is forecast for the year ending June 2017, as we expect demand for our dairy, forestry, and sheep meat products to recover from current low levels.

- Dairy exports are forecast to fall to $13.5 billion in the June 2016 year as volumes fall and prices remain low. Prices are expected to rebound in the following year.
- Growth in the meat and wool, horticulture, and forestry sectors will more than offset the fall in dairy exports.
- United States of America (USA) demand for New Zealand beef will keep prices high, with New Zealand set to fill its beef quota of 213 402 tonnes for USA exports for the December 2015 year.
- Log exports will fall next year as Chinese demand remains low, but this is more than offset by increased prices for pulp, paper, and timber exports.
- Gold kiwifruit production has recovered from Psa (bacterial kiwifruit vine disease) with export volumes expected to increase by more than 50 percent from the June 2015 year.
- Apple and pear exports are forecast to reach 360 000 tonnes in the 2017 harvest as recent plantings come into production. Ongoing investment in new plantings will steadily push export volumes upwards.
- A forecast of a weak New Zealand dollar (NZD) provides a boost to primary sector export returns in the coming years.

Table 1: Primary industries forecast, year ending June 2016 and year ending June 2017 (NZ$ million)

	Actual 2014/15	Forecast 2015/16	Forecast change in export revenue 2015 to 2016		Forecast 2016/17	Forecast change in export revenue 2016 to 2017	
Dairy	14 050	13 535	-515	▼ 3.7%	17 897	4 362	▲ 32.2%
Meat and Wool	9 001	9 911	910	▲ 10.1%	10 475	564	▲ 5.7%
Forestry	4 682	5 295	613	▲ 13.1%	5 774	479	▲ 9.0%
Seafood	1 563	1 744	181	▲ 11.6%	1 859	115	▲ 6.6%
Horticulture	4 173	4 831	658	▲ 15.8%	5 171	340	▲ 7.0%
Arable	177	213	36	▲ 20.3%	227	14	▲ 6.6%
Other	2 089	2 097	8	▲ 0.4%	2 281	184	▲ 8.8%
Total	**35 735**	**37 626**	**1 891**	**▲ 5.3%**	**43 684**	**6 058**	**▲ 16.1%**

Overview



Global trends and consumer market dynamics

While global growth of 3.6 percent is forecast for the 2016 calendar year, growth prospects for New Zealand's top four export markets are mixed:

- China's growth has slowed, but remains strong.
- Lower commodity prices and declining unemployment are supporting growth in the USA.
- Declining oil prices and the Bank of Japan's economic stimulus programme are expected to contribute to a return to positive growth for Japan.
- Low commodity prices are a headwind for growth in the Australian economy.

Alongside fiscal drivers of country demand there is growing evidence of shifts in consumer appetites and purchasing behaviours contributing to changes in country demand, especially in the fast-growing Southeast Asian economies. One example is the rapid growth in Chinese consumers' preference for ready-to-drink liquid milk. This is one factor behind the sudden drop in Chinese imports of whole milk powder and skim milk powder. For the first time, this SOPI contains discussion of insights into consumer behaviour where this may affect ongoing market dynamics.

Production

New Zealand's overall primary sector production is forecast to fall in the remainder of 2015/16 (despite production increases for kiwifruit, apples, and wine) and to grow slowly in the outlook period. This is partly a response to weak prices for New Zealand's main commodities and partly a correction after comparatively high past production in some areas, notably dairy. There is also some downside risk to production from potential drought conditions brought on by El Niño, which is factored into our forecasts.

The main production changes are in dairy, red meat, and seafood. Production easing from past highs, volatility in world dairy prices, and potential continuing production pressures from drought are all forecast to bring dairy production down by around seven percent compared to 2014/15. This production change has been supported by strong beef prices, which have encouraged culling of less productive dairy stock. Correspondingly, beef export volumes are forecast to be 1.6 percent higher than in 2014/15. Seafood production is forecast to fall three percent as a reduction in allowable catch limits for some species more than offsets an expected increase in aquaculture production.

Export value

Updated forecasts have revised New Zealand's total primary industry export revenue to $37.6 billion for the June 2016 year, up $1.9 billion (5.3 percent) from the $35.7 billion published in SOPI 2015. This has been boosted by a fall in forecast average exchange rates for the coming year, with the NZD forecast to be 15.3 percent lower against the United States dollar (USD) than was assumed as part of SOPI 2015.

Most of the increase in export revenue is in meat and horticulture. Beef exports will remain strong as the USA market continues to be undersupplied with beef. As a result, meat and wool export values are expected to rise $0.9 billion (10.1 percent). Meanwhile, horticulture exports are forecast to increase $0.7 billion (15.8 percent) as gold kiwifruit exports exceed pre-Psa levels and pipfruit and wine export revenue continues to grow.

5.3%

increase in primary sector export revenue for the year ending June 2016, despite a seven percent fall in dairy production

16.1%

increase in primary sector export revenue for the year ending June 2017, including a three percent increase in dairy production

Export revenue from forestry, seafood, arable, and other primary sector exports and foods is also forecast to increase.

A $0.5 billion fall in dairy export revenue is forecast for the June 2016 year. Lower stock levels and less favourable growing conditions are expected to drive a seven percent fall in milk solid production. We expect dairy revenue to recover in 2016/17 as whole and skim milk powder prices rise due to renewed Chinese demand for imports, New Zealand production increases, and exchange rates remain favourable for our exporters.

There are many different opportunities for New Zealand to grow the value of our primary sector exports. Examples include:

- taking advantage of changing consumer preferences;
- increasing on-farm productivity;
- introducing new farming systems with lower environmental impacts.

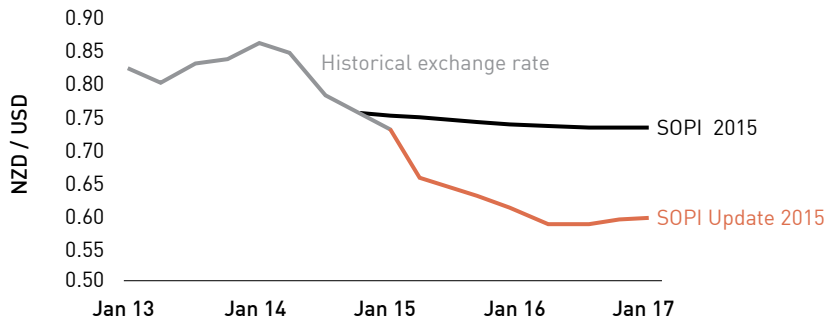
In this publication we have focused on E-commerce as an opportunity for growth, presenting some e-commerce trends alongside an example of sales data from China, the world's largest e-commerce market.

Exchange rate assumptions

Relative interest rates and demand for a country's goods and services drive demand for its currency, and the resulting exchange rates. A decline in demand for commodities has led to exchange rate depreciation in many commodity exporting countries in recent months.

Over the outlook period, the NZD/ USD exchange rate is expected to track significantly lower than projected in the June 2015 SOPI report. Falling demand for our dairy exports has contributed to a weaker NZD. At the same time, economic recovery and continued improvements in the USA's labour market are driving a strengthening USD.

Figure 1: Exchange rate – SOPI update 2015, SOPI 2015 and historical exchange rate



Source: The Treasury

The NZD is also expected to track lower against the currencies of New Zealand's other main trading partners (Japan, Australia, and the United Kingdom) over the outlook period than stated in SOPI 2015.

Table 2: Exchange rate sensitivity analysis for June 2016 year forecasts (NZ$ million) – applying latest exchange rate data to SOPI 2015 forecast information and assumptions

	SOPI 2015 forecast June 2016 year	SOPI update 2015 forecast June 2016 year	Impact from changed exchange rate assumptions	Impact from new data and updated forecast assumptions
Dairy	14 813	13 535	2 703	-3 981
Meat and Wool	8 543	9 911	1 646	-278
Forestry	4 696	5 295	849	-250

El Niño

Weather forecasters are predicting that El Niño conditions will continue over summer and into autumn of 2016. There are indications that this El Niño will rank among the four strongest El Niño events ever recorded. Potential El Niño impacts have been taken into account in our primary sector forecasts where appropriate. Every El Niño is different, however, and it is not easy to predict its impact on New Zealand's climate. Nonetheless, during El Niño New Zealand will generally experience:

- cooler temperature;
- more rain in the west;
- drier conditions in the north and east.

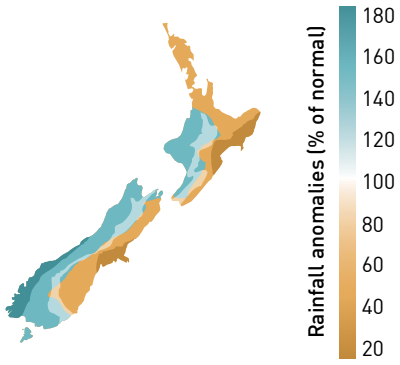
New Zealand last experienced a severe El Niño in the summer of 1997/98. Figure 2 shows that the east coast of both the North Island and the South Island had much less rainfall than normal during this period. This drought coincided with the Asian financial crisis, so economic impacts were exaggerated.

The 1997/98 El Niño had the following impacts on meat and dairy production when comparing the June 1997 year with the June 1998 year:

- milk solids per cow fell 1.1 percent;
- lamb slaughter numbers increased 3 percent, but this was partly offset by a 2.1 percent fall in average carcass weights;
- cow slaughter numbers increased 21 percent.

We can further analyse the dairy sector using current milk solid production figures by region. El Niño is likely to have a negative impact on regions responsible for around 35 percent of New Zealand's dairy production. However, the El Niño impact on the remaining dairy production regions is likely to be neutral or positive. Overall, this suggests that variations in regional impacts may offset each other at an aggregated level.

Figure 2: Rainfall during El Niño in the summer and autumn of 1997/98



Source: NIWA, the National Institute of Water and Atmospheric Research.

The impact on lamb slaughter weights and numbers may also be somewhat mitigated. It is not uncommon for farmers in drier regions to sell unfinished lambs to regions that have plentiful grass where the lambs would then be finished and slaughtered at relatively normal weights. El Niño conditions will result in a lower lambing percentage in the following year though, as conditions will not be ideal for breeding in eastern regions.

Due to changes in farming practices since 1997/98, a similar El Niño would have a much smaller economic impact on New Zealand as a whole, although individual regions could still be negatively affected. Some factors that will help mitigate expected El Niño impacts are:

- better productivity per animal and improved farming practices;
- increased areas of land under irrigation (although irrigation restrictions are already in place in Canterbury, which remains in drought);
- significant cow culling has already occurred in response to high beef prices and a low dairy price forecast.

An El Niño event also affects global supply and demand, as other countries are also expected to experience drought conditions. Lower dairy production volumes in other countries could lead to higher prices, partly offsetting any projected falls in production. At the same time, increased animal culling in our competitor countries (like Australia, that could also face an extended drought) could push meat prices down.

Harmonised System code updates

MPI has updated some Harmonised System (HS) codes to align with changes made by New Zealand Customs. This is the first SOPI to include the latest HS codes, which has resulted in updates to some primary sector forecast categories compared to SOPI 2015.

Trans-Pacific Partnership (TPP)

The TPP improves New Zealand's market access for primary sector exports to major markets including the USA, Canada, Japan, and Mexico. Significant gains were made for our trade in agricultural products, with overall tariff savings for primary products estimated at $249 million per year (based on current trade volumes) once TPP is fully implemented. Tariffs are eliminated for most of our primary sector exports, except for:

- some key dairy exports to the USA, Canada, Japan, and Mexico (but New Zealand does get preferential access to new quotas);
- beef exports to Japan (although tariffs reduce from 38.5 percent to 9 percent).

Table 3: Key outcomes for each of the sectors are included in the table below

	Potential savings per year (NZD)	OTHER OUTCOMES
Dairy	$102m	Duty-free protein product exports to USA and Japan Access to new tariff quotas for key products in USA, Canada, Japan, and Mexico
Meat and Wool	$76m	Unrestricted access to USA for beef exports after five years Reduction in tariffs for beef exports to Japan (saving around $48 million per year after 16 years)
Forestry	$9m	All tariffs eliminated on New Zealand forestry products
Seafood	$8m	All tariffs eliminated 63 percent of our exports to Japan will be duty free at entry into force, increasing to 91 percent after six years
Horticulture	$36m	All kiwifruit, wine, and other horticulture tariffs eliminated
Other Agricultural Goods	$18m	Tariffs eliminated on a wide range of other agricultural products such as honey, soups and broths, and cooking sauces

Note: Potential savings per year from the end of the implementation period.

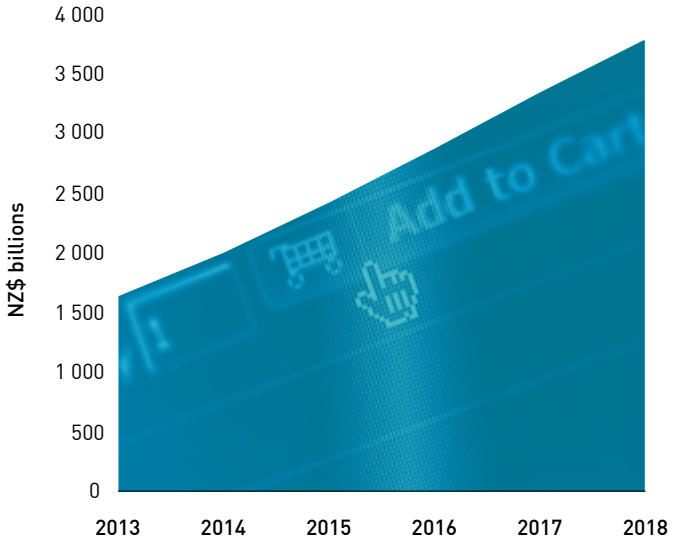
An Opportunity for Growth: E-Commerce

Global markets are developing rapidly, providing new channels to market and opportunities to capture value. MPI is running a customer insights programme – the emergence of e-commerce platforms as an export channel provides an opportunity to observe and understand consumer behaviour. In doing so, MPI can support the development of smart regulation and improve awareness of emerging trends. Insights into consumer preferences allows exporters to shape key markets and generate growth.

The global explosion of e-commerce

E-commerce is of growing importance as consumers increasingly seek to connect directly with producers. In 2014, global e-commerce sales reached $2089 billion NZD, up 22.2 percent from $1710 billion NZD in 2013. It is estimated that global e-commerce sales as a proportion of total global retail sales will increase from five to nine percent by 2019.

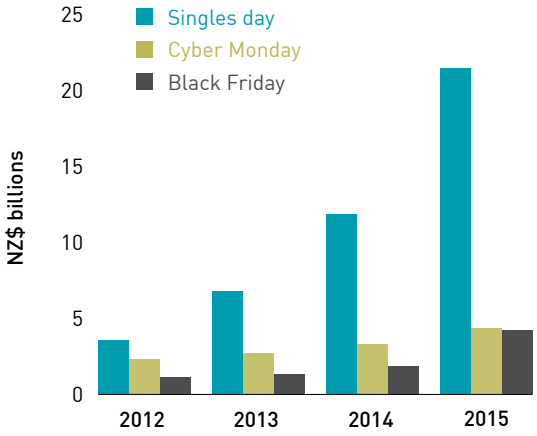
Figure 3: Global e-commerce sales



China leading the charge

Online retailing has soared in the Asia-Pacific region, particularly in China, compared to relatively stable growth in other e-commerce markets. China surpassed the USA to become the largest e-commerce market in the world in 2013. E-commerce transactions in China are likely to reach New Zealand $866 billion in 2015. This represents 10 percent of total retail transactions, compared to 6.6 percent worldwide.

Figure 4: E-commerce spending on shopping holidays



A number of online shopping events have developed to take advantage of the growing opportunities of e-commerce. Of these, the Chinese Singles Day Sale is the biggest, beating out the post-Thanksgiving Black Friday and Cyber Monday shopping events. For Singles Day 2015, consumers from over 300 different cities and provinces worldwide purchased on the platform. Tmall, an online business-to-consumer retail site where businesses can sell their products directly to consumers in China, Hong Kong, Macau, and Taiwan, plans to develop Singles Day Sales in New York, London, Paris and Tokyo. Other markets could develop their own local event-based online shopping days – perhaps around Diwali in India or New Year's Day in Turkey.

E-commerce trends

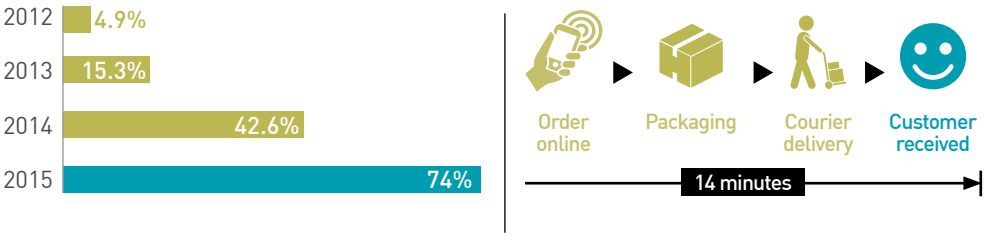
Transparency

E-commerce is becoming more sophisticated, with consumers using the channel in new ways to buy and research products and services. Consumers are now demanding greater product information and transparency. Meeting or exceeding customer expectations is the key to success in the highly competitive e-commerce market.

E-commerce going mobile

The use of smartphones has increased the online shopper base. Mobile purchasing aligns with the consumer's desire for speed and convenience.

Figure 5: Tmall's Singles Day sale transactions on mobile devices, and fastest recorded delivery time



Faster delivery

E-commerce customers place high value on a fast and reliable delivery service, with delivery times heavily influencing purchasing decisions. In the 2015 Tmall Singles Day sale, the fastest transaction took only 14 minutes from placing the order to customer receipt of the product. While the average delivery is longer, achievements like this reinforce consumer expectations of fast delivery.

Increasing competition

The rise of e-commerce and digital payments allows New Zealand exporters to extract more value by directly advertising and selling to global consumers. However, competition in e-commerce markets is intensifying.

Local brands have significant cultural (customer insight and marketing) and logistical (warehousing and distribution) advantages. However, consumers are attuned to global brands and associate different characteristics with country brands. Over 3000 brands from 41 countries offered products in the 2015 Chinese T-mall Singles Day sale. Exporters need to be constantly monitoring shifts in consumer behaviour as e-commerce enables changes to occur very quickly.

What New Zealand products are popular online?

Chinese online consumers are increasingly enthusiastic about trying, buying, and using products from all over the world. Total e-commerce sales of imported food increased by 40 percent in each of the last two years, more than twice the rate of overall e-commerce growth. This means there is enormous opportunities for New Zealand's primary industries to supply food products through e-commerce channels.

The top selling New Zealand products on the 2015 Tmall Singles Day sale were:

- infant and adult formula;
- health products;
- honey;
- liquid milk;
- lamb.

When Chinese consumers discuss NZ online

70% of that discussion is about food

Dairy
Export Revenue

Over 2015/16 milk solids production is forecast to be down nearly seven percent due to lower stock levels and less favourable growing conditions

El Niño poses a downside risk to production, but the impact on export revenue will depend on the extent of any offsetting price effects

Prices are stabilising but recovery will be slow as excess global stocks are worked through

Actual 2014/15 **$14 050m**

Forecast 2015/16 **$13 535m**

Forecast 2016/17 **$17 897m**

Dairy export revenue is forecast to be $13.5 billion for 2015/16, down four percent from 2014/15. Milk solids production is expected to be down on last year whilst prices are expected to recover slightly.

Production drivers

Over 2015/16 we expect production to be down nearly seven percent from particularly strong levels last season, when favourable growing conditions saw production rise 3.6 percent. In the five months from June to October 2015, New Zealand milk solids production has fallen three percent compared to the same time last year.

Pasture growth conditions have been less favourable so far this season, with temperature and rainfall below average. With a strong El Niño climate event, production could conceivably fall even further than we are currently forecasting.

Past responses to periods of drought include early culling of stock, using supplementary feed and reducing farm expenditure. Many farmers have already culled less productive cows in response to low milk solid prices and relatively strong beef prices. Cow slaughter numbers in the September 2015 quarter were up 85 000 (90 percent) on the same period last year. In addition to other farm management decisions already taken, we expect responses to El Niño will be less than those for previous dry spells, and have little additional impact on New Zealand's total dairy production.

The lifting of the EU milk production quota on 1 April 2015 has seen increased production of 2.9 percent for April to July compared to the same period last year, with the largest contributions from Ireland (up 12 percent), the Netherlands (up 7 percent) and Germany (up 2.4 percent). At current milk prices, however, many EU farmers have said they will be operating below their break-even point. We assume that the strong growth seen so far this year will not be sustained, and future production will grow at a more moderate pace.

On balance, global production is expected to contract in 2016, led by falls in both New Zealand and Latin America. The USA is expected to see a reduction in its exportable surplus as production growth slows and is outpaced by domestic consumption growth.

We expect New Zealand's milk solid production to rebound during 2016/17, rising three percent from the previous year. Despite this increase, production for 2016/17 is still forecast to be four percent lower than the peak seen in the 2014/15 year. The $4.4 billion forecast increase in dairy export revenue for 2016/17 is largely price driven, rather than production driven.

> Despite increased production in 2016/17, total New Zealand dairy production is still forecast to be four percent lower than the peak seen in the 2014/15 year

Demand drivers

Imports into the USA (particularly from New Zealand) for cheese, butter and whey have increased in the last 12 months due to consumption growth. USA dairy consumption growth is expected to remain solid, while the EU is showing early signs of growth after many months of contraction.

Russian imports, however, remain low, due to a trade ban, while dairy demand in Brazil has reduced on account of the economy shrinking. Chinese dairy consumption is expected to hold up despite slowing economic growth. Overall, lower dairy prices and steady consumer incomes should see an improvement in global dairy demand over 2015/16.

> Imports into the USA (particularly from New Zealand) for cheese, butter and whey have increased in the last 12 months due to consumption growth

Weak demand and excess global supply have caused dairy prices to fall during 2014/15, resulting in a build-up of global inventories, particularly of whole milk powder (WMP) in China. The ban on Russian imports from the EU has recently resulted in the EU setting up a new Private Storage Aid for 100 000 tonnes of cheese. Applications from the United Kingdom and Ireland reached their maximum allocated volumes of 3854 tonnes and 1835 tonnes, respectively in the first week.

With global production expected to contract over 2015/16, and consumption to hold its track, we expect demand for imports to slowly increase. Despite the expected fall in global production there is little upward price pressure expected short term as it will take time for China (our largest dairy export market) to work through excess stocks.

We forecast WMP prices to bottom out in the December 2015 quarter at around $3.50/kilogram, less than half the peak prices from the March 2014 quarter. By the December 2016 quarter, we assume WMP prices will rise to $5.60/kilogram, with Chinese demand supporting this growth. We expect China's import demand to pick up in early 2016, once China works through its current dairy product inventories. The vast majority (80 to 90 percent) of China's WMP imports come from New Zealand.

Dairy Customer Insights

Demand for liquid milk increasing

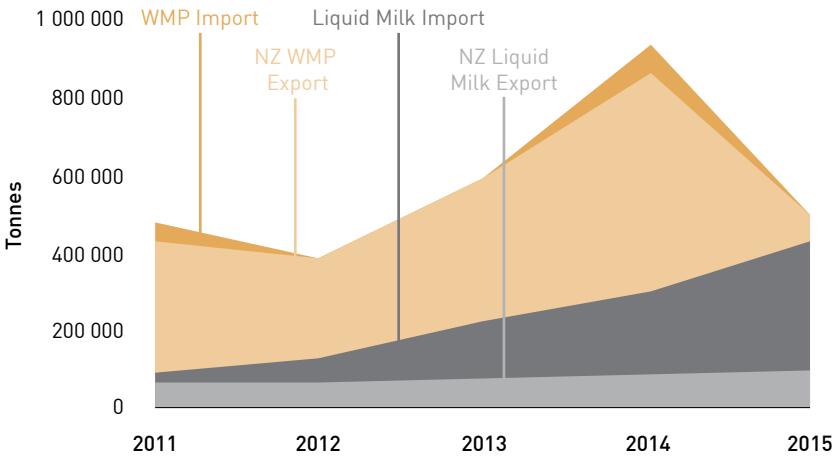
Demand for premium food products by Asian countries is increasing, driven by economic development and increasing consumer concerns about health and wellbeing. The significant growth in demand for liquid milk, which is advertised as being low in fat and an important source of calcium, is a good example of this change.

Imports of liquid milk by New Zealand's top Asian trading partners has doubled since 2013 to reach 434 million tonnes for the year ending June 2015. Over this same period, volumes of liquid milk exported by New Zealand remained stable as the focus remained on the production of milk powders.

> Imports of liquid milk by New Zealand's top Asian trading partners has doubled since 2013

New Zealand's reputation as a producer of safe, high-quality dairy products provides a strong base for New Zealand exporters to further expand their product mix to meet the growing demand for liquid milk.

Figure 6: Trends in dairy product mix with key Asian markets



Meat & Wool Export Revenue

High beef earnings will primarily be driven by exchange rate factors in the coming year, rather than increasing global market prices as seen in the June 2015 year

A fall in breeding ewe numbers, combined with poor breeding conditions, will result in a smaller lamb crop this season

Strong Chinese demand, particularly for finer wool, has raised overall wool export revenue

Actual 2014/15 **$9 001m**

Forecast 2015/16 **$9 911m**

Forecast 2016/17 **$10 475m**

Meat and wool export revenue is forecast to reach $9.9 billion for the June 2016 year, up 10.1 percent from the June 2015 year. This is largely due to a forecast depreciation of the NZD, which will boost exports. Lower lamb production will be offset by an increase in beef exports in the year ending June 2016.

Production drivers

New Zealand beef prices rose to record highs in the June 2015 year, on the back of strong demand from the USA, where herd rebuilding continues following droughts. As mentioned in the dairy commentary, strong beef prices combined with falling dairy prices have resulted in New Zealand dairy farmers culling their less productive animals.

We expect beef export volumes to increase in the coming year, driven by higher slaughter numbers in the September 2015 quarter. These are up 16 percent compared to the same time a year ago. Given the strong production in the previous year, and the inherent constraints on being able to quickly increase meat production, we assume further export growth is unlikely over the remainder of the 2015/16 year.

Overall, we expect lamb export volumes to fall 3.1 percent compared to a year ago. Poor mating conditions in the previous season, a lower number of breeding ewes, and an expected fall in the lambing percentage will all contribute to the smaller lamb crop in the June 2016 year. The poor mating conditions could also lead to lower carcass weights, which will be exacerbated if lambs have to be culled early due to dry conditions.

Table 4: Meat and Wool export revenue (NZ$ million)

	Actual 2015	Forecast 2016	2017
Beef and veal	2 980	3 440	3 619
Lamb	2 504	2 548	2 781
Mutton	418	433	444
Venison	174	203	194
Other meat	466	560	601
Hides and skins	570	574	596
Animal co-products	907	1 065	1 101
Wool	809	920	981
Carpets and other wool products	173	167	158
Total	**9 001**	**9 911**	**10 475**

Demand drivers

USA demand for imported beef remains high as the domestic supply is constrained by post-drought herd rebuilding. At the same time, Australia's beef supply will also be constrained as their herd size is expected to drop to 25-year lows following record export volumes during the 2014/15 season. Australia increased beef exports to the USA by more than 200 000 tonnes (85 percent) in the June 2015 year to take advantage of increased USA prices.

New Zealand will fill our beef quota of 213 402 tonnes for USA exports this calendar year; the first time since 2004 that this level of exports has been achieved. As at 30 November, New Zealand has exported 212 539 tonnes to the USA. Once 100 percent of NZ/USA quota certificates have been issued, exporters may have to find other markets for the remainder of the 2015 calendar year, most likely at lower prices than the USA market. USA demand for New Zealand beef should remain high next year given the expected fall in Australia's beef exports.

As at 30 November 2015, New Zealand has exported **212 539 tonnes** to the USA

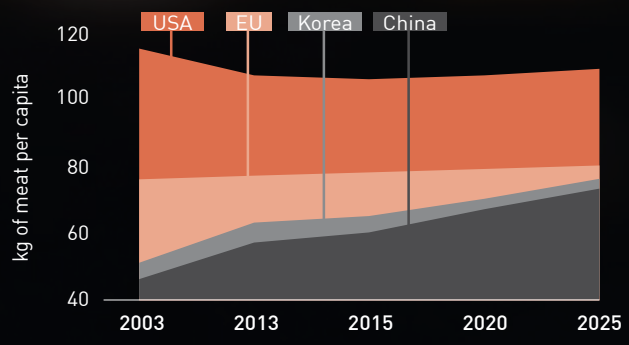
Chinese demand for lamb and mutton remains low due to high inventories from domestic production, but demand is expected to pick up in early 2016 once inventories are run down. In contrast, Chinese demand for wool (particularly finer wool) is strong, helping boost the value of New Zealand's wool exports.

Meat and Wool Customer Insights

Increasing meat demand in emerging economies

While meat consumption in most industrialised countries is at high, stable levels, meat demand in emerging economies is on the rise. In these countries consumer preferences are changing away from traditional staple foods such as cereals toward consumption of proteins due to the impact of rising incomes, urbanisation, and the influence of western culture.

Figure 7: Meat consumption 2003 - 25



Chinese consumers have traditionally shown a preference for pork or chicken. Consumer preference is shifting, however, and over the next decade Chinese consumers are expected to consume an additional 2.2 million tonnes of beef each year.

Forestry

Export Revenue

Increased export volumes of pulp and panel products contribute to a forecast rise in export revenue

Demand for logs in China is expected to recover in mid-2016 as economic stimulus measures drive growth and on-port inventories are reduced

There are still forecast increases in domestic timber demand from Christchurch and Auckland, while the improving USA housing market will increase export timber demand

Actual 2014/15 **$4 682m**

Forecast 2015/16 **$5 295m**

Forecast 2016/17 **$5 774m**

Forestry export revenue for June 2015/16 is forecast to increase to $5.3 billion, up 13.1 percent from 2014/15, as a depreciating NZD means exporters will receive more domestic currency for their products. Log export volumes are expected to decline, but timber, pulp and panels export volumes are all forecast to increase, contributing to the increase in export revenue.

Production drivers

Log production is expected to remain subdued until at least mid-2016 due to the continued slow construction sector in China. After this time there may be an opportunity for harvesting to expand due to a projected improvement in the Chinese log market and a lower USD/NZD exchange rate, which makes exporting more profitable at lower USD prices.

A recent rapid increase in export log prices is expected to be short lived, as it is based on a number of short-term factors. The increased prices, and the likely (small) increase in export volumes to take advantage of these prices, could add $250 million to June 2016 year forestry exports.

As forests planted in small blocks in the early 1990s reach maturity we expect an increase in opportunistic harvesting around such price peaks. Many small blocks will have high harvesting and transport costs which means prices will be a major factor for harvesting decisions.

> As forests planted in small blocks in the early 1990s reach maturity there is expected to be more opportunistic harvesting around price peaks

Demand drivers

Demand in China's log markets has remained low as the economic slowdown there has seen the government missing its growth targets despite fiscal stimulus measures. Log inventories at China's ports, however, are currently decreasing and there are reports of slightly higher log demand, as well as a large decrease in log imports. Once the Chinese New Year holiday passes there is potential for activity to pick up, raising prices in the process.

Log export volumes to India and South Korea have remained relatively steady during 2015. South Korean demand is expected to remain flat, but Indian demand is expected to increase as economic growth there picks up.

> The USA market for sawn timber exports continues to improve, particularly for clear lumber producers

The USA market for sawn timber exports continues to improve, particularly for clear lumber producers. Macroeconomic signs are improving and building permits are at an eight year high. Forecasts show strong economic improvement is likely for the next two to three years.

This will drive improving prices for products exported to the USA, which is the largest value market for New Zealand sawn timber exports. Sawn timber prices are also likely to see some upside in the Chinese market in line with log prices as the outlook improves mid-2016.

A high NZD/AUD exchange rate, combined with high prices in New Zealand's domestic market drove a decline in structural lumber exports to Australia over the past year. The Christchurch and Auckland housing markets are forecast to continue to improve, which will support domestic sawn timber demand for these products.

16%
increase in pulp and paper export revenue

Seafood Export Revenue

Revised allowable commercial catch limits will reduce overall export volumes

Aquaculture production is expected to increase – increased mussel yields and planned salmon farming expansion will support future production growth

Rising export revenue due to a forecast 15.3 percent depreciation of the NZD against the USD

Actual 2014/15 **$1 563m**

Forecast 2015/16 **$1 744m**

Forecast 2016/17 **$1 859m**

Seafood export revenue is forecast to reach $1.7 billion in 2015/16, up 11.6 percent from 2014/15, driven mainly by an increase in domestic currency received by exporters resulting from a depreciation of the NZD against the USD.

Production drivers

Seafood production is forecast to be down three percent from 2014/15 due to reduced total allowable catch limits for some species. These lower catch limits will be partly offset by an expected increase in aquaculture production (mainly mussels).

3% ↓
Forecast fall in volumes

Catch limits for wild capture fisheries are frequently revised to achieve maximum sustainable yields under the Quota Management System. Total allowable commercial catch limits for some fish stocks (including rock lobster and gurnard) have been increased for the 2015/16 year, while other catch limits (including hoki, and southern blue whiting) have been reduced. Overall, we expect a small decrease in export volumes for the 2015/16 season as a result of the revised catch limits.

We expect increased aquaculture production this year. Mussel productivity is expected to increase in 2015/16, as favourable climatic conditions lead to increased yield per hectare in this year's mussel harvest (September–October 2015). In addition, hatchery-bred spat is being trialled in grow-out areas under the SPATnz Primary Growth Partnership programme. Positive results from these trials will support future increases in mussel production. Two new farms for New Zealand King Salmon, with production capacity of 1500 tonnes each, will also be operational in November 2015, with the first harvesting expected to occur in early 2017.

Demand drivers

Global prices for seafood have softened since mid-2014 following weak consumer demand from European and Japanese markets and improved supply of some species, such as tuna.

As a result of weaker than expected economic growth in New Zealand's key export markets for seafood, USD prices for New Zealand's seafood are not likely to increase in 2015/16, but are expected to recover gradually from 2016/17 onwards. China remains the largest market for New Zealand seafood products (31 percent) in terms of the total export value, followed by Australia (14 percent), the USA (12 percent), and the EU (11 percent). Demand from the USA surpassed demand from the EU in 2014/15, due to its relatively stronger economic recovery.

31%
China remains the largest market for New Zealand seafood products

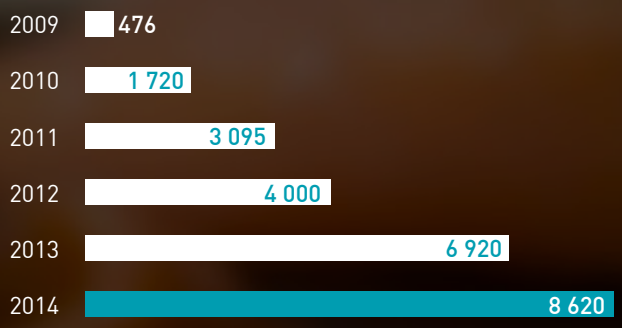
Seafood Customer Insights

Strong demand for premium seafood

China's middle class may surge to 1 billion people by 2030 from about 150 million in 2014, boosting incomes that will drive demand for all kinds of higher-value foods, including premium seafood. Chinese consumers are also breaking away from the traditional pathways for seafood.

The rise of e-commerce provide the ability to purchase seafood directly online. The fastest transaction only took 33 hours from the order to the customers receiving product. Lobsters provide an example of this growth. Lobsters are viewed as a status symbol in China, and their red color is considered lucky. In 2015, an average of 60,000 North American lobsters make the 18-hour flight to Asia per week.

Figure 8: USA lobster exports by air to China (tonnes)



USA exports to China have surged

Horticulture
Export Revenue

Wine companies will use the vintages of 2014 and 2015 to help meet international demand for New Zealand wine

Gold kiwifruit volumes have recovered to exceed pre-Psa levels and are forecast to reach 50 million trays in the year ending June 2017

Apple and pear exports are expected to increase steadily, reaching a milestone of 360 000 tonnes in the 2017 harvest (last achieved in 2004) as recent plantings come into production

Actual 2014/15 **$4 173m**

Forecast 2015/16 **$4 831m**

Forecast 2016/17 **$5 171m**

Horticulture export revenues are forecast to rise by $668 million to $4.8 billion, led by the recovery of the kiwifruit industry, significant increases in apple exports, continued growth from the wine industry, and assisted by expectations of favourable exchange rates.

Production drivers

Average to below average grape yields are anticipated for the 2016 vintage due to the El Niño weather pattern likely affecting the main growing regions of Marlborough and Hawke's Bay. Planting of several thousand hectares of grapes over recent years is building up supply capability, mainly of Marlborough Sauvignon Blanc.

Green kiwifruit yields reached record levels in the 2015 harvest at 11 000 trays per hectare (30 percent higher than normal) due to favourable climatic conditions. Future production increases are expected to be driven by gold kiwifruit. Over 4000 hectares of the Gold3 kiwifruit cultivar are maturing, with large production increases expected in the year ending March 2018 – to around a 50 million tray harvest compared with 12 million trays in 2014.

> Green kiwifruit yields reached record levels in the 2015 harvest at 11 000 trays per hectare **(30 percent higher than normal)**

Apple and pear export volumes and values are expected to increase steadily, with volumes reaching a milestone of 360 000 tonnes in 2017 as recent plantings come into production. This level of volumes was last achieved in 2004. Export production is expected to continue increasing year on year as changes in the variety mix and new orchards having a higher tree density diminish the influence of the biennial bearing pattern of specific varieties on total export production.

> Apple and pear export volumes and values are expected to increase steadily, with volumes reaching a milestone of **360 000 tonnes** in 2017

Vegetable export volumes are expected to grow slightly in the short to medium term based on current market access and competitiveness expectations for fresh vegetable exports, and vegetable processing capacity remaining relatively stable.

Avocado export volumes are forecast to be 35 percent lower in 2015/16 due to an off-year in the biennial bearing pattern of avocado orchards. The influence of this pattern on total avocado export volumes is expected to diminish, diluted by further implementation of mitigating orchard practices and new plantings coming into production.

Cherry plantings are increasing, which will lift exports. The planted area in cherries in the main growing region of Otago recorded a 10 percent increase between 2012 and 2014.

Demand drivers

The smaller than anticipated 2015 vintage means an overall shortage of Marlborough Sauvignon Blanc wine in international markets. New Zealand wineries are drawing on inventory from both the 2014 and 2015 vintages and reprioritising export sales over domestic sales. Although demand for wine globally is not growing strongly, there is growth in the USA and Canada, particularly at higher price points, which is increasing sales of New Zealand wine in these markets.

Consumer demand for kiwifruit is expected to grow as it is successfully marketed to health-conscious consumers in high-value markets. Prices in 2016, however, will be tempered by demand being rapidly met by increasing gold kiwifruit volumes from New Zealand, while Chile's green kiwifruit export volumes are expected to return to normal levels following severe frosts in 2013.

Reduced apple production in the USA and some European countries in 2015 should mean a less competitive market for Southern Hemisphere fruit in 2016. Export prices for apples and pears are forecast to increase steadily, alongside volume increases. This is supported by ongoing changes in the variety mix, further expansion into higher-paying markets (particularly Asia), and favourable exchange rates.

Onion crops in Continental Europe for the 2015 harvest are reported to be down on last year, offering Southern Hemisphere exporters better prospects for 2016. This combined with the weakening of the NZD against the euro, should lift export returns from these markets in 2016. Medium term, growth in onion exports is reliant on improved access to growing markets in Asia, as improved storage systems are reducing the sales window into Europe.

Squash exports, traditionally reliant on Japan, should start to benefit from recent trade agreements with China, Taiwan and South Korea. Cherry exports will also benefit from these recent agreements, especially with Taiwan, our largest cherry export market.

Arable
Export Revenue

El Niño conditions are expected to contribute to lower crop yields in the east of the country during 2015/16

Irrigation restrictions in mid-Canterbury could also lead to lower crop yields

Europe had a good pasture seed harvest in the previous year, reducing demand for New Zealand seed

Actual 2014/15 **$177m**

Forecast 2015/16 **$213m**

Forecast 2016/17 **$227m**

Export revenue for 2015/16 is expected to be $36 million (20 percent) higher than 2014/15. This is due to the devaluation of the NZD against the main trading partner currencies, in particular the euro.

Production drivers

Crop yields are expected to be lower in 2015/16 with El Niño conditions forecast to lead to drier conditions in the east of the country. Irrigation restrictions are expected during the season. Groundwater levels in mid-Canterbury, the main seed growing district, are reported to be low and some irrigation schemes in this area already have restrictions in place.

> Crop yields are expected to be lower in 2015/16 with El Niño conditions forecast to lead to drier conditions in the east of the country

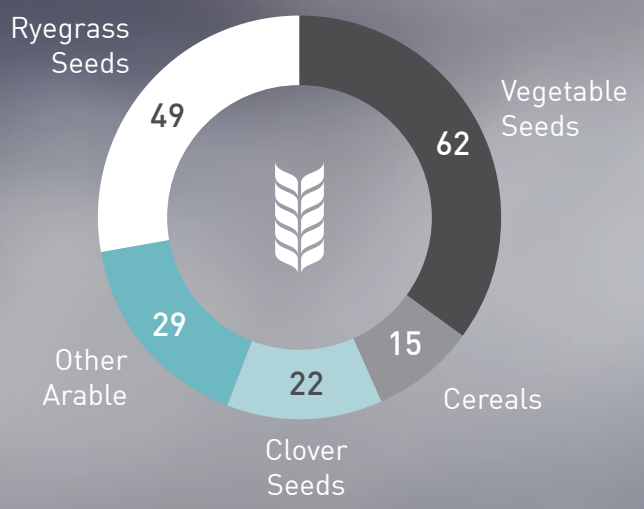
Areas of feed grain grown for the domestic market are expected to be down on 2015. Feed grain prices have historically trended with milk prices. Price falls of around $100/tonne this season have led to an excess of unsold grain and farmers planting alternate crops.

Demand drivers

Favourable harvest conditions and yields for pasture seeds in Europe has reduced demand for New Zealand seed for 2015/16 and led to a reduced planted area. The fall in the NZD/USD exchange rate, however, may generate increased interest from the USA.

Demand for vegetable seeds and brassicas is expected to remain steady. Brassica seed exports to China remain temporarily suspended as we await phytosanitary certification reviews to allay concerns over black-leg disease.

Figure 9: Arable Exports – June 2015 Year (NZ $ million)



New Zealand's main sources of export revenue in the arable sector are vegetable and ryegrass seeds. Together these make up around 63 percent of total arable export revenue.

Our main markets for arable products are the Netherlands (mainly carrot and radish seeds), Australia (mainly ryegrass seeds), and Germany (mainly radish seeds).

Other Primary Sector Exports and Foods Export Revenue

Continued growth in Asian demand for most products in the "Other Primary Sector Exports and Foods" category

Persistent growth in the demand for honey

Exports of live dairy cows are expected to drop to around 20 000 cows in 2016 from a high of almost 81 000 cows in the previous year

Actual 2014/15 **$2 089m**

Forecast 2015/16 **$2 097m**

Forecast 2016/17 **$2 281m**

Export revenue for Other Primary Sector Exports and Foods is forecast to reach $2.1 billion for 2015/16. This represents an overall increase of 0.4 percent from 2014/15. There is significant variation across the production and export revenue of individual product groups within the category. Widespread increases, notably in the value of honey and in innovative processed food exports, are expected to be offset within the category by a decrease in the value of live animal exports.

Production drivers

Honey exports remain strong. High demand from key overseas markets such as the United Kingdom, Australia, and China continues to drive prices higher. High prices for New Zealand honey in international markets means that less accessible areas for honey production are becoming viable for New Zealand apiarists.

> Honey exports remain strong. High demand from key overseas markets continues to drive prices higher

Live animal export revenue is expected to halve in the year to June 2016 due to a large fall in live dairy cow exports. Almost 81 000 live dairy cows were exported during the June 2015 year, with 73 000 of these going to China. Dairy cow exports for 2016 are expected to drop to around 20 000, which is lower than the five-year average (2009–14) of about 30 000 animals per year. Recent falls in global dairy prices mean that countries can now afford to import dairy products rather than importing cows to improve genetics.

Demand drivers

Australia and China are the largest markets for New Zealand in this category. Over 41 percent of these exports go to Australia with China taking 6 percent.

Australia's dominance as a customer for exports from this category is due to New Zealand and Australia sharing common regulations for food composition and labelling. The value of exports to Australia has been growing at an average rate of seven percent for the last five years. This growth is expected to continue for at least the next couple of years. The key product types New Zealand exports to Australia are cereal products, innovative processed foods, and sugar and confectionery products.

7%
Average annual growth in exports to Australia

Exports of innovative processed food exports to Australia grew 31 percent in 2015, after almost no growth (only 1 percent) in 2014. Both volumes and prices are expected to continue to grow steadily over the forecast period.

Growth in other primary sector exports and foods sent to China has accelerated over the past year. The value of exports to China for this category grew at an average of around 30 percent between the 2011 and 2014 years, while in 2015 growth increased to over 200 percent for innovative processed foods and for live animals. While this lift in growth is likely to continue for innovative processed foods, it is not expected to carry on for live animals.

Prices

NZD prices for some product groups in this category are fairly steady, while prices for other product groups are showing strong growth. Prices for cereal products, other products, and soups and condiments are expected to increase slowly over the forecast period.

The fastest growing prices are for products in the honey and innovative foods categories. Honey prices have grown at an average annual rate of almost 14 percent over the last five years. Meanwhile, prices for innovative processed foods grew at an average of over 13 percent over the last five years with particularly strong growth in the year to June 2015. These increasing price trends are expected to continue.

Health Product Customer Insights

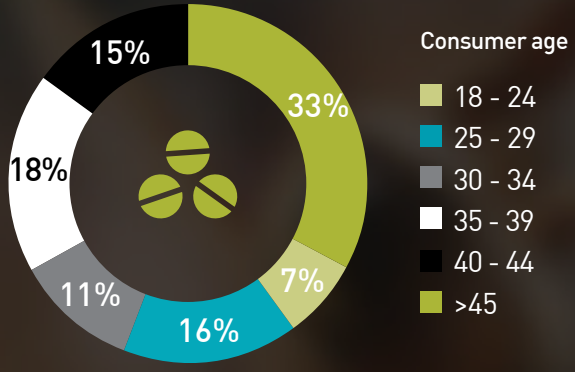
Health product demand increase

Asia-Pacific recently surpassed North America to become the largest market for health products (such as vitamins and dietary supplements). This growth was driven by ageing populations, increasing lifestyle-related diseases and rising disposable income.

While senior citizens are the major consumers of health products, young consumers are increasingly concerned over their health. According to 2014 China National Residents Survey, around 54.5 percent of consumers in age group 25-44 have ever taken health products compared with 24.7 percent in total.

In 2015 the Chinese health product market is likely to reach $535 billion. This emerging growth represents opportunities for New Zealand business.

Figure 10: Chinese health product consumer age group



Appendix

Dairy Farm Production, Milk Price and Exports, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
Cows and Heifers in calf or in milk[1] (million)	5.23	5.31	5.39
Milksolids production[2] (million kg)	1 890	1 762	1 821
Milk price[2] ($ per kg milk solids)	4.40	4.39	6.54
Total export value ($ million)[3]	**14 050**	**13 535**	**17 897**
Total export volume (thousand tonnes)[3]	3 046	2 846	2 993
Average export price ($ per kg)[3]	4.61	4.76	5.98

[1] As at 1 July (opening numbers). [2] Year to 31 May. [3] Year to 30 June.

Sources: Statistics New Zealand, Dairy NZ, Fonterra Co-operative Group, and MPI.

Beef Cattle Numbers, Beef Prices, Export Volumes and Values, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
Total beef cattle[1] (million)	3.72	3.75	3.78
Schedule prime beef price (cents/kg)	492	522	559
Export volume (000 tonnes)	420	427	421
Export value ($ million)	**2 980**	**3 440**	**3 620**

[1] Opening numbers are as at 1 July of the preceding year.

Sources: Statistics New Zealand, Beef & Lamb New Zealand Economic Service and MPI.

Sheep Numbers, Raw Wool Prices, Export Volumes and Values, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
Total sheep numbers[1] (million)	29.2	28.9	28.6
Average raw wool sale price (cents/kg)	593	705	771
Export volume (000 tonnes)	130	127	128
Export value ($ million)	**809**	**920**	**981**

[1] Opening numbers are as at 1 July of the preceding year.

Sources: Statistics New Zealand, Beef & Lamb New Zealand Economic Service and MPI.

Forestry Exports, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
LOGS			
Price (NZ$ per m³)	129	145	146
Volume (000 m³)	16 004	15 762	16 698
Export value ($ million)	**2 059**	**2 280**	**2 444**
TIMBER			
Price (NZ$ per m³)	471	509	558
Volume (000 m³)	1 653	1 728	1 795
Export value ($ million)	**779**	**880**	**1 002**
PULP & PAPER			
Price (NZ$ per m³)	772	882	966
Volume (000 m³)	1 496	1 512	1 505
Export value ($ million)	**1 154**	**1 333**	**1 455**
PANELS			
Price (NZ$ per m³)	536	601	657
Volume (000 m³)	842	863	853
Export value ($ million)	239	284	312
Export value ($ million)	**4 682**	**5 295**	**5 774**

Sources: Statistics New Zealand and MPI.

Seafood Export Volumes, Prices and Values, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
WILD CAPTURE			
FOB Price[1] ($/kg)	4.6	5.2	5.6
Volume (000 tonnes)	269	256	246
Export value ($ million)	**1 244**	**1 321**	**1 368**
AQUACULTURE			
FOB Price[1] ($/kg)	8.3	10.0	10.8
Volume (000 tonnes)	38	42	46
Export value ($ million)	**319**	**423**	**492**
TOTAL SEAFOOD SECTOR			
FOB Price[1] ($/kg)	5.1	5.8	6.4
Volume (000 tonnes)	308	299	291
Export value ($ million)	**1 563**	**1 744**	**1 859**

[1]Free on board is the value of goods delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.

Sources: Statistics New Zealand and MPI.

Wine Export Volumes, Prices and Values, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
Export volume[1] (million litres)	207	215	220
FOB[2] price ($/litre)	6.81	7.3	7.35
Export value ($ million)	**1 408**	**1 570**	**1 616**

[1] Forecast export volume rounded.

[2] Free on board is the value of goods delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.

Sources: Statistics New Zealand, New Zealand Winegrowers and MPI.

Kiwifruit Export Volumes, Prices and Values, 2015–17

	YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
Export volume[1] (million trays)	Green Kiwifruit	84	78	78
	Gold Kiwifruit	28	41	49
	TOTAL[3]	**113**	**120**	**125**
FOB[2] price ($/tray)	Green Kiwifruit	9.0	10.0	10.5
	Gold Kiwifruit	14.6	17.3	17.1
	TOTAL	**10.4**	**12.5**	**13.1**
Export value ($ million)	Green Kiwifruit	761	776	786
	Gold Kiwifruit	403	711	838
	TOTAL[3]	**1 181**	**1 502**	**1 639**

[1] One tray equals 3.6 kg.

[2] Free on board is the value of the goods delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.

[3] Total includes 'other' kiwifruit category, not listed above in table.

Sources: Statistics New Zealand, Pipfruit New Zealand Inc. and MPI.

Vegetable Export Volumes and Values, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
FRESH VEGETABLES			
Export volume (000 tonnes)	299	300	301
Export value ($ million)	**215**	**260**	**371**
PROCESSED VEGETABLES[1]			
Export volume (000 tonnes)	212	212	217
Export value ($ million)	373	392	406
Total fresh & processed vegetables export value ($ million)	**588**	**652**	**777**

[1] Processed vegetables includes frozen vegetables, dried vegetables, dry legumes, prepared and/or preserved vegetables, and vegetable juices.

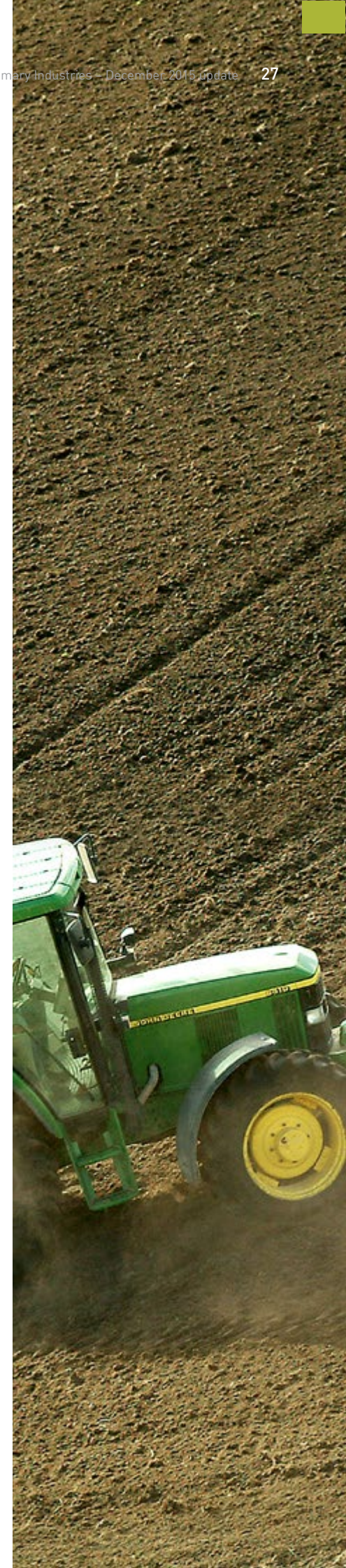
Sources: Statistics New Zealand and MPI.

Apple and Pear Export Volumes, Prices and Values, 2015–17

YEAR TO JUNE 30	Actual 2015	Forecast 2016	Forecast 2017
Export volume (million cartons)[1]	17.3	18.5	20.2
FOB[2] price ($/carton)	33.00	35.45	35.80
Export value ($ million)	**571**	**656**	**723**

[1] A carton is equivalent to 18.0 kg.

Sources: Statistics New Zealand and MPI.



Notes

Ministry for Primary Industries
Manatū Ahu Matua