



Situation and Outlook for Primary Industries

September 2017

Contents

| | |
|--|----|
| Overview | 1 |
| Dairy | 4 |
| Meat and wool | 6 |
| Forestry | 8 |
| Horticulture | 10 |
| Seafood | 12 |
| Arable | 14 |
| Other primary sector exports and foods | 16 |

NOTES

Annual figures are for the year ended June, unless otherwise noted. Currency figures are in New Zealand dollars, unless otherwise noted. Some totals may not add due to rounding.

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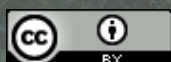
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A strong finish to 2017 primes exports to grow further in 2018

New Zealand's primary industry exports reached \$38.1 billion in the year ended June 2017, an increase of 2.4 percent over the previous year. Dairy prices began recovering in the past year, which boosted exports despite weather reducing production. The forestry sector also made a strong contribution to export growth for the second consecutive year, driven by record demand for log exports to China. This offset a decline in meat and wool exports.

MPI forecasts primary industries exports to rise 9.3 percent in the year ending June 2018 to \$41.6 billion. This anticipated rise is primarily based on dairy prices remaining strong this

season, plus a return to normal productivity levels across most sectors following adverse weather last year. These trends are projected to continue into the following year, resulting in a forecast of \$42.4 billion in the year ended June 2019 (up 1.8 percent).

Compared with the *Situation and Outlook* report published in June 2017, exports for the year ended June 2017 are \$7 million higher than previously estimated. Forecasted export revenue for the year ending June 2018 has been revised up by \$50 million, reflecting a more positive outlook in meat and wool and seafood, which is offset by a softer outlook for forestry. This is despite a New Zealand dollar that has strengthened over the past quarter and that is now forecast at higher levels over the outlook period.

Table 1: Export forecast comparison, 2013–19 (\$NZ million)

| | Year to 30 June | Actual | | | | | Forecast | |
|---------------|-----------------|--------|--------|--------|--------|--------|----------|--------|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Dairy | Sept 2017 | 13,139 | 17,792 | 14,049 | 13,289 | 14,637 | 17,350 | 17,320 |
| | June 2017 | 13,139 | 17,792 | 14,049 | 13,289 | 14,640 | 17,320 | 17,360 |
| | Difference | – | – | – | – | –3 | +30 | –40 |
| Meat & wool | Sept 2017 | 7,794 | 8,160 | 9,001 | 9,200 | 8,355 | 8,480 | 8,740 |
| | June 2017 | 7,794 | 8,160 | 9,001 | 9,200 | 8,300 | 8,450 | 8,670 |
| | Difference | – | – | – | – | +55 | +30 | +70 |
| Forestry | Sept 2017 | 4,526 | 5,199 | 4,681 | 5,140 | 5,488 | 5,760 | 5,880 |
| | June 2017 | 4,526 | 5,199 | 4,681 | 5,140 | 5,470 | 5,870 | 5,980 |
| | Difference | – | – | – | – | +18 | –110 | –100 |
| Horticulture | Sept 2017 | 3,547 | 3,794 | 4,173 | 4,987 | 5,148 | 5,410 | 5,720 |
| | June 2017 | 3,547 | 3,794 | 4,173 | 4,987 | 5,280 | 5,400 | 5,800 |
| | Difference | – | – | – | – | –132 | +10 | –80 |
| Seafood | Sept 2017 | 1,546 | 1,500 | 1,563 | 1,768 | 1,744 | 1,850 | 1,930 |
| | June 2017 | 1,546 | 1,500 | 1,563 | 1,768 | 1,770 | 1,800 | 1,890 |
| | Difference | – | – | – | – | –26 | +50 | +40 |
| Arable | Sept 2017 | 224 | 228 | 177 | 205 | 191 | 205 | 215 |
| | June 2017 | 224 | 228 | 177 | 205 | 185 | 195 | 210 |
| | Difference | – | – | – | – | +6 | +10 | +5 |
| Other | Sept 2017 | 1,940 | 1,910 | 2,315 | 2,614 | 2,539 | 2,560 | 2,600 |
| | June 2017 | 1,940 | 1,910 | 2,315 | 2,614 | 2,450 | 2,530 | 2,600 |
| | Difference | – | – | – | – | +89 | +30 | – |
| Total exports | Sept 2017 | 32,716 | 38,583 | 35,959 | 37,203 | 38,102 | 41,615 | 42,405 |
| | June 2017 | 32,716 | 38,583 | 35,959 | 37,203 | 38,095 | 41,565 | 42,510 |
| | Difference | – | – | – | – | +7 | +50 | –105 |

Dairy prices have recovered

Dairy exports expanded by \$1.3 billion last year, despite a 0.6 percent decrease in milk solids production on farm. Export prices began to recover midway through last year, and the continuation of that trend should flow through to another strong year of export revenue gains. We anticipate that New Zealand's milking herd numbers will stay near current levels, yet on-farm production is likely to increase, assuming climatic conditions improve.

Meat and wool production and exports to stabilise

Meat and wool exports fell over 9 percent in the year ended June 2017 because fewer dairy cows were culled compared to the high culling in the previous two seasons. Looking forward to 2017 and 2018, MPI forecasts steadily expanding export revenue as production volumes stabilise. Beef export prices are forecast to remain relatively strong despite rising production globally. Meanwhile, lamb prices increased, partially due to decreased Australian production because flocks there have been rebuilding following drought.

Wool prices fell to very low levels in the past year due to a slowdown in demand, leading to inventory built up in both New Zealand and China that will have to be worked through before prices have a chance to recover.

Forestry hits record high due to Chinese demand

The forestry industry's exports expanded by 6.8 percent in 2017, and the short-term outlook remains positive, especially for log exports to China. Log exports have reached historically high levels and accounted for around 58 percent of New Zealand's total harvest in 2017. Strong domestic demand from New Zealand's construction sector has also contributed to high harvest levels.

Horticulture sector building on a strong foundation

Horticulture sector export revenue increased 3.2 percent in the year ended June 2017 despite poor weather putting a dent in a sector that has otherwise been going from strength to strength in the past few years. Horticulture export revenue reached \$5.1 billion last year and is forecast to rise again to \$5.4 billion in 2018.

While these weather issues are limiting horticulture exports in 2017, the sector's fundamentals support continued long-term expansion. Across the sector, strong market demand has supported good profitability at the farm level, which has in turn incentivised a wave of investment in production and processing capacity. This has been driven in part by successful new varieties being developed and commercialised for consumer markets.

Seafood exports forecast to rebound in 2018

Wild capture export volumes are expected to rebound following a 5 percent drop in volumes in the year ended June 2017 due to natural harvest fluctuations. Aquaculture is expected to be the main driver of volume growth in the seafood sector over the next few years. Aquaculture growth will be supported by hatchery-bred mussel spat, which is expected to help mussel production grow and become less variable, and a planned expansion of salmon farming. Seafood export prices are expected to improve due to growing demand from our main seafood export markets, driven by a steady or improving economic outlook.

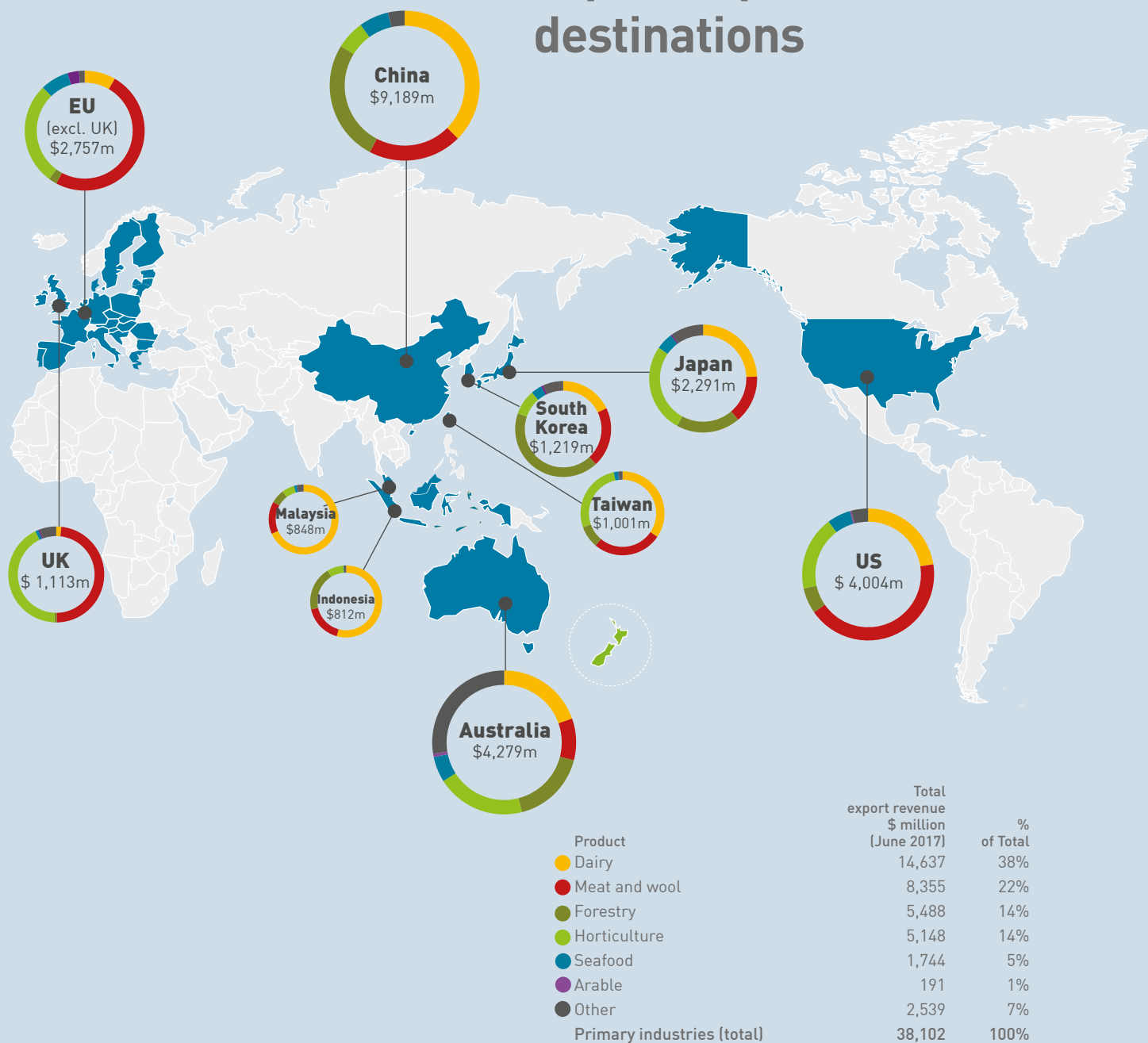
Arable benefits from rising dairy prices

Higher dairy prices are a welcome sight for the arable sector. Domestic grain prices have continued to rise since they bottomed out in July 2016, driven by tight supplies of feed barley and maize grain and increased demand from the dairy sector. In addition, this is expected to drive an increase in area sown, particularly barley and maize grain. Led by a recovery in vegetable seeds, arable exports are forecast to rebound in 2018 and reach \$215 million in 2019.

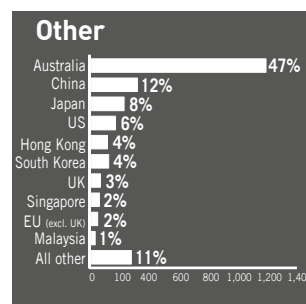
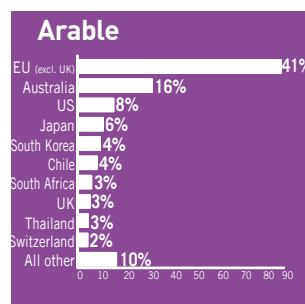
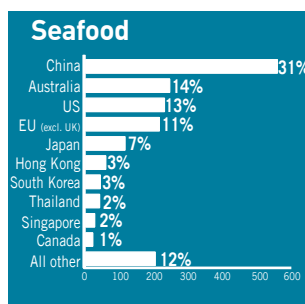
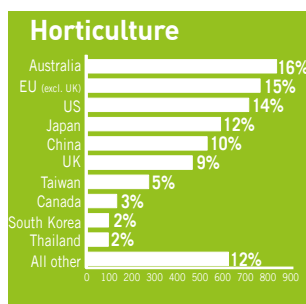
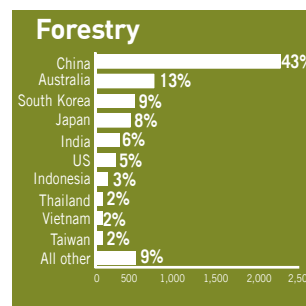
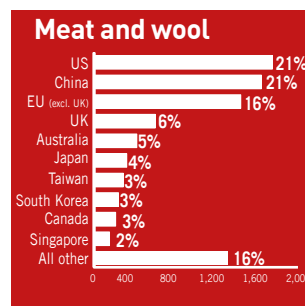
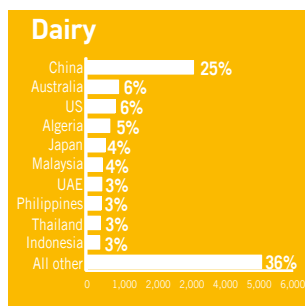
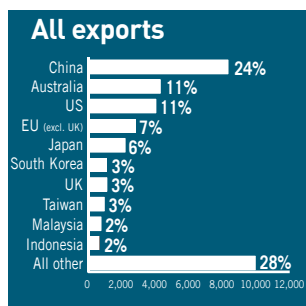
Growth in honey and other product exports forecast to slow

Similar to the horticulture sector, honey production volumes have been limited in the past year due to poor weather, but prices continue to increase. Exports of processed foods, beverages, and other products fell in 2017 following two exceptionally strong years, but are forecast to return to growth in 2018 and beyond.

Top 10 export destinations



Top markets (\$NZ millions, year ended June 2017)



Dairy

Dairy export revenue forecast to increase 18 percent

- After reaching \$14.6 billion for the year ended June 2017, New Zealand's dairy export revenue is forecast to rise over 18 percent to \$17.3 billion for the year ending June 2018.
- Butter prices have continued to rise over the past three months, while whole milk powder (WMP) prices have stabilised. Consumer preferences for natural fats instead of processed vegetable oils continue to support high butter prices. We expect butter prices to continue rising over the remainder of 2017, before falling slightly from January 2018 onwards.
- Growing numbers of bakeries in major Chinese cities are also driving increased demand for butter, which is a major ingredient in baked goods. As a result, New Zealand's butter exports to China have increased from \$355 million in 2016 to \$443 million in 2017.
- WMP prices are expected to remain relatively stable over the outlook period because supply and demand dynamics appear to be balanced. As New Zealand's main dairy export, solid WMP prices provide a large boost to forecast dairy exports for 2018. WMP exports are expected to rise by \$600 million, compared with the previous year when WMP prices started the year around US\$800 per tonne lower than current levels.
- Dairy export revenue is forecast to remain at \$17.3 billion for the year ending June 2019 because we expect a small production increase to be offset by a slight fall in dairy prices as butter prices start to recede from current record levels.

Milk production expected to recover

- Poor weather during the 2016/17 season constrained New Zealand's milk solids production before a late season recovery, which minimised the overall production fall to just 0.6 percent lower than the previous year. Milk production is expected to recover in the 2017/18 season, rising 2.2 percent from the previous year.
- Cow numbers are forecast to increase modestly over the outlook period. However, we expect most of this season's increased production will be driven by production per cow returning to levels similar to those seen before last season's weather-driven fall.

Table 2: Dairy export revenue 2013-19 (\$NZ million)

| Year to 30 June | Actual | | | | | Forecast | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Whole milk powder | 5,104 | 8,393 | 5,385 | 4,609 | 5,270 | 5,880 | 6,020 |
| Butter, AMF, & cream | 1,910 | 2,699 | 2,219 | 2,378 | 2,794 | 4,160 | 3,860 |
| Skim milk & butter milk powder | 1,441 | 1,482 | 1,557 | 1,720 | 1,830 | 2,010 | 2,060 |
| Casein & protein products | 1,674 | 1,925 | 2,129 | 1,834 | 1,735 | 1,930 | 1,970 |
| Cheese | 1,832 | 2,285 | 1,762 | 1,347 | 1,385 | 1,430 | 1,400 |
| Infant formula | 555 | 401 | 415 | 685 | 778 | 930 | 960 |
| Other dairy products | 623 | 607 | 582 | 716 | 845 | 1,010 | 1,050 |
| Total | 13,139 | 17,792 | 14,049 | 13,289 | 14,637 | 17,350 | 17,320 |
| % Change | -1.8% | +35.4% | -21.0% | -5.4% | +10.1% | +18.5% | -0.2% |

Source: Statistics New Zealand and MPI

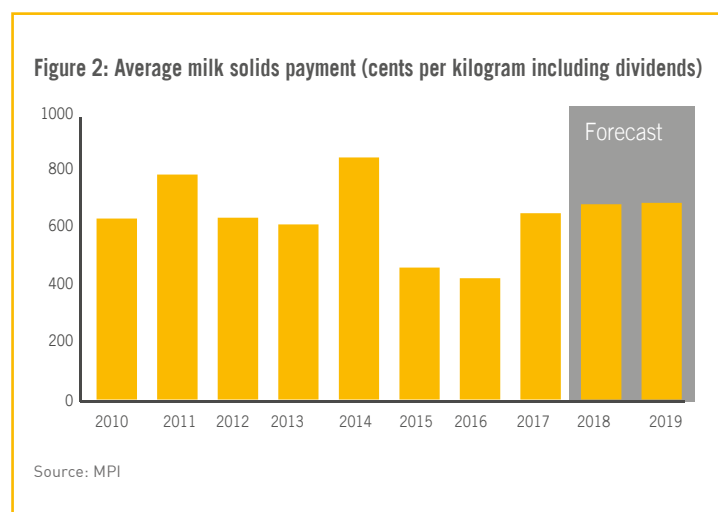
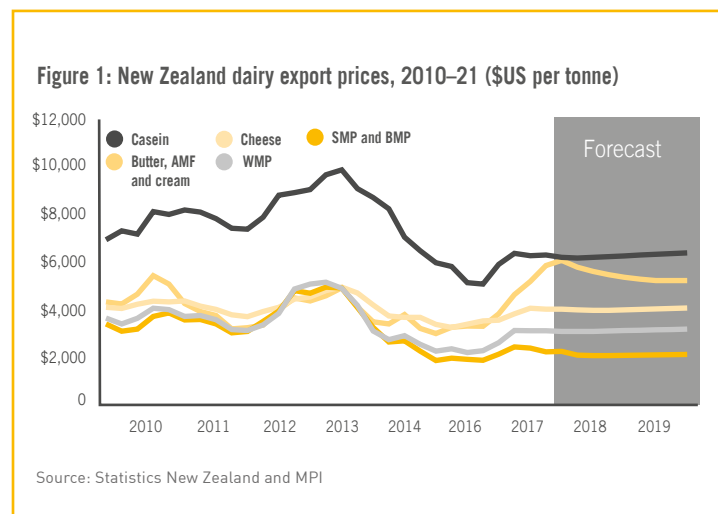
- The outlook for future production growth remains moderate and will be driven by improvements in production per cow (as genetics and farming practices evolve) rather than increasing cow numbers. This reflects stabilising dairy land use in response to both price signals and the gradual implementation of nutrient discharge limits designed to achieve water quality objectives.

Positive outlook for domestic prices

- New Zealand's all company average farm gate milk solids price forecast for the season ending May 2018 has increased to \$6.83 per kilogram of milk solids (including dividends where applicable), up from the forecast of \$6.65 three months ago.
- WMP prices have remained high over the past three months, with the average settlement price on Global Dairy Trade auctions mostly rising in recent events. WMP prices have the greatest weighting in determining Fonterra's seasonal payout.
- Recent activity on the NZX milk price futures market for the 2017/18 futures contract was around \$6.60 to \$6.70 per kilogram of milk solids (excluding any dividends). This indicates market optimism and a potential upside risk around our 2017/18 price forecast.

Mycoplasma bovis discovered in Canterbury

- The presence of *Mycoplasma bovis* has been confirmed on six dairy farms in South Canterbury and North Otago. The disease does not represent a food safety or human health risk for milk or meat, but causes illness in cattle including mastitis, pneumonia, arthritis, and abortion. Prior to this detection, New Zealand was the only major dairy producing country in the world where *Mycoplasma bovis* had not been detected.
- The presence of *Mycoplasma bovis* is unlikely to have a widespread impact on milk production and dairy exports, but there may be additional on-farm costs for managing the disease on an ongoing basis if not eradicated.



Overview

- Meat and wool export revenue is forecast to expand 1.7 percent in 2018 after falling 9.2 percent in the year ended June 2017.
- Lower lamb production in New Zealand and Australia are supporting higher lamb export prices.
- Beef export volumes fell in 2016/17 as fewer dairy cows were culled, while global prices have been resilient despite strong production from the western hemisphere.
- Crossbred wool prices are very low, with plenty of inventory in New Zealand and China to be worked through before prices have a chance to recover.

Beef and veal

- Beef production volumes returned to normal levels in the year ended June 2017 following two years of elevated production driven primarily by high dairy cow cull rates. As shown in Figure 3, beef production is forecast to be fairly steady over the next two seasons.
- The beef herd may expand slightly over this period in response to relatively strong returns in recent years, which will help stabilise current and future production.
- Global beef prices were relatively strong in 2017 considering that production expanded in the US and Brazilian beef has gained market access to China and the US.
- New Zealand's average export prices of beef and veal are expected to be slightly lower in 2018 due to plentiful supply of global exportable supplies. Australian beef production is expected to increase following a rebuilding phase, and western hemisphere production is expected to continue growing. Rising global production will be offset by strong demand, including in China and of lean manufacturing beef in the United States.
- Several meat processing plants have begun exporting chilled meat to China on a trial basis. While initial shipments are expected to be relatively modest, this new market may hold great potential.
- Japan has raised tariffs of frozen beef from 38.5 percent to 50 percent for all importing countries except Australia until April

Table 3: Meat and wool export revenue 2013–19 (\$NZ million)

| Year to 30 June | Actual | | | | 2017 | Forecast | |
|-------------------------------|--------|-------|--------|-------|-------|----------|-------|
| | 2013 | 2014 | 2015 | 2016 | | 2018 | 2019 |
| Beef & veal | 2,143 | 2,199 | 2,980 | 3,095 | 2,705 | 2,700 | 2,750 |
| Lamb | 2,263 | 2,485 | 2,504 | 2,569 | 2,440 | 2,450 | 2,540 |
| Mutton | 395 | 488 | 418 | 419 | 417 | 460 | 460 |
| Wool | 678 | 733 | 805 | 760 | 522 | 500 | 540 |
| Venison | 171 | 187 | 174 | 182 | 162 | 160 | 160 |
| Other meat | 435 | 438 | 466 | 503 | 513 | 530 | 560 |
| Hides & skins | 608 | 624 | 570 | 510 | 417 | 440 | 460 |
| Animal by-products | 517 | 489 | 578 | 598 | 587 | 650 | 670 |
| Animal fats & oils | 162 | 130 | 118 | 125 | 156 | 150 | 150 |
| Animal products for feed | 229 | 209 | 216 | 247 | 273 | 290 | 300 |
| Carpets & other wool products | 193 | 178 | 172 | 192 | 163 | 150 | 150 |
| Total exports | 7,794 | 8,160 | 9,001 | 9,200 | 8,355 | 8,480 | 8,740 |
| % Change | +0.2% | +4.7% | +10.3% | +2.2% | -9.2% | +1.7% | +2.9% |

Source: Statistics New Zealand and MPI.

2018 due to high volumes of frozen beef imports triggering a safeguard measure. At a 27.2 percent tariff rate for frozen beef, the 2015 Free Trade Agreement between Japan and Australia gives Australia a tariff advantage relative to other beef exporters.

- Of New Zealand's \$147 million in beef exports to Japan in the year ended June 2017, \$81 million was exported frozen (the remainder being chilled beef, which is unaffected by the tariff increase). As a result, some product destined for Japan may be diverted to other markets.

Lamb and mutton

- Lamb exports were \$2.4 billion in the year ended June 2017, a decrease of \$130 million from the previous year while production fell 6.2 percent.
- The total sheep population as at 30 June 2017 is expected to be slightly lower than the previous year at 27.6 million head. Overall, lamb and mutton slaughter numbers were low relative to the total population, suggesting that more ewes may be retained for breeding. This should help the national sheep flock stabilise for the next year or two.
- Lamb and mutton prices were boosted in the past year by rising prices in Europe and China. Prices have also been supported by lower production in New Zealand and Australia, where flocks are being rebuilt following a drought. Further gains in 2018 are less likely, provided that Australian production recovers as expected.
- New Zealand meat processors have begun shipping frozen lamb to Iran for the first time in more than two decades. While initial volumes are expected to be modest, there is significant potential to expand exports to this market of over 80 million people.

- Lamb production and exports are forecast to lift slightly over the next few years, with exports rising from \$2.4 billion in 2017 to \$2.5 billion in 2019.

Wool

- The year ended June 2017 finished with wool exports down over 31 percent to \$522 million. A significant drop in demand for crossbred wool, particularly from China, has pushed prices down significantly. Fine wool has been faring relatively better, but only makes up 8 percent of exports.
- As a result, sheep farmers and others in the supply chain have built up inventories rather than sell wool at the current low prices. Figure 3 shows wool production per sheep has been relatively steady in recent years, but export volume per sheep has fallen off sharply in the past year.
- With high inventory levels both in New Zealand and China, and the 2017/18 season's peak production upcoming in early 2018, it will be difficult for crossbred wool prices to rally in the near term.

Deer

- Venison exports reached \$162 million in the year ended June 2017. Export volumes fell nearly 15 percent, and this lack of supply available to the market helped keep average export prices rising.
- Velvet exports increased by more than expected in the year ending June 2017, up 41 percent from the previous year to \$59 million. Velvet now makes up nearly 27 percent of deer product exports, up from 11 percent in 2007.
- Strong prices for both venison and velvet, plus positive population indicators, show potential for rebuilding deer herds over the next two years.

Figure 3: Adult cattle slaughter numbers by type 2004-19

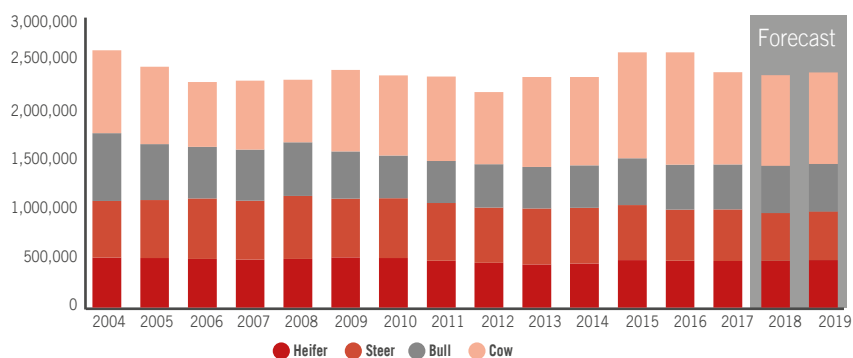
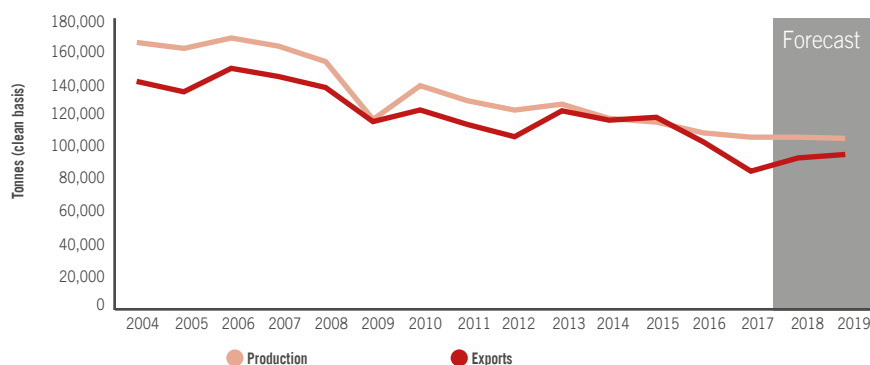


Figure 4: Wool production and exports 2004-19



Source: Statistics New Zealand, Beef & Lamb NZ, MPI

Logs

- Log exports reached \$2.7 billion for the year ended June 2017 on the back of another record quarter for both prices and harvest volumes. Chinese demand for New Zealand logs has reached record levels, and China is now the destination for around 70 percent of our log exports by volume and 58 percent of the total harvest.
- China's log inventories at main ports have started falling from this year's high levels, raising expectations their log demand will remain strong for the short to medium term.
- Factors further contributing to an expectation of strong Chinese log demand in the short to medium term include:
 - China's ban on commercial logging of its remaining natural forests;
 - falling supply of logs from Russia as greater volumes of Russian wood are exported as sawn timber; and
 - a 2 percent reduction on China's value-added tax rate on imported logs to 11 percent.
- Log prices remain at historically high levels, surpassing \$155 per cubic metre in the June 2017 quarter (Figure 5). Strong global and domestic demand is expected to continue to support strong log prices.

Sawn timber

- Timber production is forecast to rise as domestic construction activity remains strong. However, Figure 6 shows an expanding gap between domestic and export prices for logs, which means that sawmill operators face stronger competition from log exporters for supplies.
- Sawn timber exports also face downward pressure from increased domestic construction activity over the next few years, especially if the planned expansion in Auckland's housing stock continues. Currently around 40 percent of our sawn timber production is exported, compared with 50 percent three years ago (Figure 6).
- The US market for sawn timber remains strong as low interest rates, an improving construction sector, and low unemployment rates in the US labour market contribute to increased building activity.

Table 4: Forestry export revenue, 2013–19 (\$NZ million)

| Year to 30 June | Actual | | | | | Forecast | |
|-------------------------|--------|--------|-------|-------|-------|----------|-------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Logs | 1,855 | 2,541 | 2,059 | 2,224 | 2,692 | 2,890 | 2,960 |
| Sawn timber & sleepers | 880 | 885 | 779 | 892 | 869 | 880 | 900 |
| Pulp | 552 | 611 | 634 | 689 | 657 | 660 | 660 |
| Paper & paperboard | 546 | 519 | 520 | 569 | 533 | 550 | 550 |
| Panels | 436 | 407 | 451 | 512 | 476 | 490 | 500 |
| Chips | 67 | 51 | 52 | 64 | 59 | 60 | 70 |
| Other forestry products | 190 | 185 | 186 | 190 | 202 | 230 | 240 |
| Total exports | 4,526 | 5,199 | 4,681 | 5,140 | 5,488 | 5,760 | 5,880 |
| % Change | +4.6% | +14.9% | –9.9% | +9.8% | +6.8% | +5.2% | +1.9% |

Source: Statistics New Zealand and MPI.

- In addition, the recent US increase of duties on Canadian lumber duties could lead to further opportunity to increase our sawn timber exports to the US as Canadian suppliers may start to look to other markets over the medium term. The US is the largest market for sawn timber for both Canada and New Zealand.
- Over the short term, these increased duties have been met by the Canadian Government increasing subsidies to its lumber sector in an effort to offset their effect and to maintain Canadian timber volumes into the US market.

Pulp, paper, and paperboard

- Pulp production has been gradually declining since 2011 and this trend is expected to continue over the outlook period. One of the main reasons behind this decline is increasing electronic media usage in New Zealand, which has replaced the need for many uses of paper.
- Despite the expected fall in production, pulp exports usage in New Zealand, are forecast to remain strong in the medium term due to increased demand for tissue paper, trays, and packaging materials. Demand for these products is forecast to rise in emerging markets such as China, India, and Indonesia as their per capita paper consumption rises towards that of more developed countries. As a result of the above factors, pulp exports as a share of production are expected remain high at around 73 percent (as shown in Figure 7).

Figure 5: Indicative log prices 2003-17

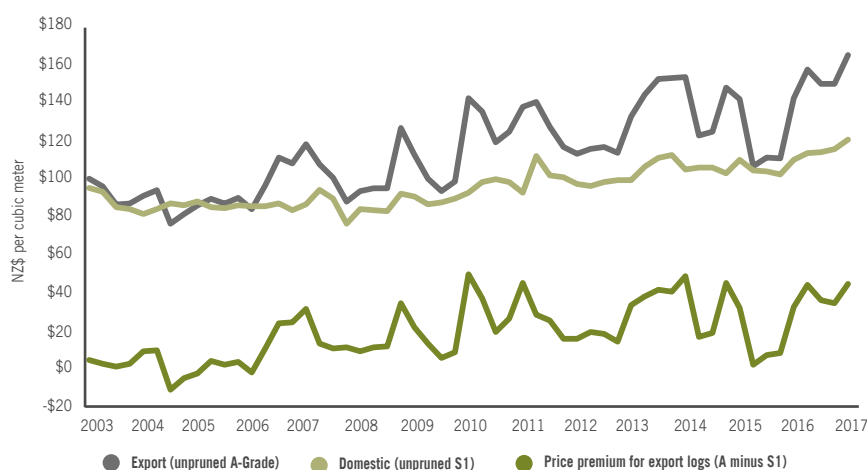
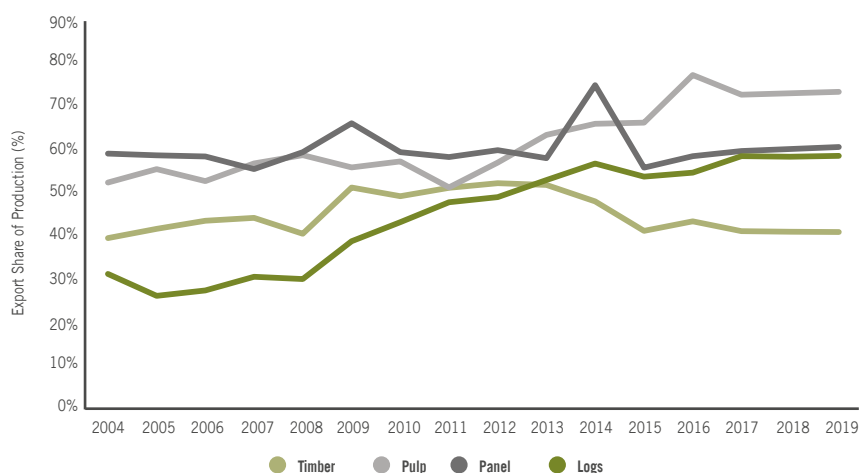


Figure 6: Export share of production by volume, selected forestry products, 2004-19



Overview

- Horticulture export revenue increased 3.2 percent in the year ended June 2017 despite challenging weather and the November 2016 earthquake damaging wine infrastructure.
- Assuming the weather cooperates, horticultural export revenue is expected to accelerate over the next two years to exceed \$5.7 billion by 2019.

Kiwifruit

- Kiwifruit exports for the year ending June 2018 are forecast to increase 8 percent to \$1.8 billion. With increased plantings of gold varieties expected over the next few years, production and exports are forecast to continue expanding over the outlook period.
- Global kiwifruit prices remain strong. The reduced green crop is expected to have a positive effect on prices while expanding market demand for gold kiwifruit is expected to raise gold kiwifruit prices.
- Yields for the 2017 kiwifruit harvest (which started in April) were lower than the previous year due to less favourable climate conditions, although the average fruit size is larger than normal.
- Green kiwifruit yields have fallen following two years of record yields that were driven by favourable climatic conditions. Production is expected to be relatively stable over the outlook period, at around 70 million trays per year. Green volumes will soften slightly as further gold kiwifruit licences are sold, with around half of the anticipated release of gold kiwifruit licences expected to be grafted onto green rootstock.
- Production levels on gold orchards have mostly matured after transitioning to the highly productive Gold3 cultivar following the bacterial vine-killing disease Psa. Our forecasts indicate 66 million export trays of gold kiwifruit for the year ending March 2021 – more than double pre-Psa levels.
- The total area producing gold kiwifruit is now over 4,800 hectares. A further 800 hectares of Gold3 licences were released in 2016 and 2017, and more licence releases are expected.

Table 5: Horticulture export revenue, 2013–19 (\$NZ million)

| Year to 30 June | Actual | | | | | Forecast | |
|------------------------------|--------|-------|--------|--------|-------|----------|-------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Kiwifruit | 934 | 931 | 1,182 | 1,673 | 1,661 | 1,790 | 1,840 |
| Wine | 1,204 | 1,323 | 1,408 | 1,558 | 1,659 | 1,690 | 1,790 |
| Apples & pears | 484 | 547 | 571 | 701 | 701 | 790 | 880 |
| Fresh & processed vegetables | 600 | 606 | 588 | 612 | 614 | 660 | 660 |
| Other horticulture | 325 | 387 | 424 | 443 | 513 | 480 | 550 |
| Total exports | 3,547 | 3,794 | 4,173 | 4,987 | 5,148 | 5,410 | 5,720 |
| % Change | -0.4% | +7.0% | +10.0% | +19.5% | +3.2% | +4.9% | +5.8% |

Source: Statistics New Zealand and MPI.

Wine

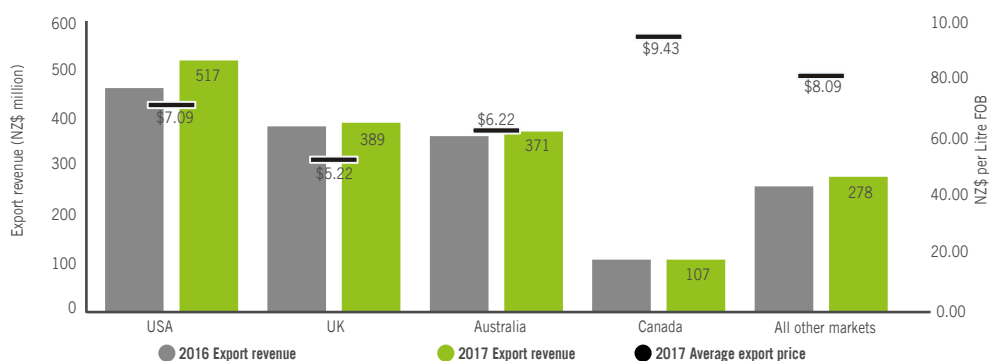
- International demand for New Zealand wine continues to grow, especially in the US market. New Zealand's annual wine export revenue is closing in on \$1.7 billion, and grape plantings predicted in coming years reflect ongoing industry confidence.
- The 2017 vintage of 396 000 tonnes was down 9 percent on the previous season but still ranks as the third largest on record. Wineries and growers showed great resolve to achieve this result, given a major earthquake in late 2016 and two significant cyclonic events over harvest.
- Underlying total export volumes increased by 19 percent to 253 million litres due mainly to a 40 percent spike in bulk wine exports as wineries made efforts to de-risk after the November 2016 earthquake. As a result of the increase in bulk wine exports, average prices have fallen by 11 percent to \$6.59 per litre.
- Figure 7 confirms that the US market now exceeds \$500 million in annual sales (up 12 percent from the previous year) with Marlborough sauvignon blanc driving this growth.
- Although exports to Canada have not grown in total value in the past year, this market still offers a good return per litre at \$9.43. In contrast, the UK and Australian markets reflect a more challenging market environment with only marginal value growth despite large increases in volume. It is encouraging to see other markets trending upwards with sales to countries like Denmark and China growing over the past year.
- Export volumes are forecast to fall to 250 million litres in the year to June 2018, reflecting the smaller vintage intake in 2017. This is forecast to result in similar export returns to 2017, at just under \$1.7 billion.

Apples and pears

- Apple and pear export volumes for the 2017 crop are expected to be slightly lower than last season, particularly from Hawke's Bay (61 percent of New Zealand's orchard area). As more information on the 2017 harvest emerges, the forecast for the year ended December 2017 has been revised downward by \$40 million.
- Yields of several varieties were below early season estimates, which has been attributed to a large natural fruit drop¹ and prolonged periods of dull, wet weather during harvest. Late season varieties in the Hawke's Bay region, such as Pacific Rose™ and Pink Lady®, also experienced wind damage from ex-Cyclone Cook, such as bruising and fruit fall.
- Late season demand from Europe has been strong, influenced by a significant decrease in the domestic crop due to widespread and severe frosts at flowering and droughts in some areas. The 2017 EU apple crop is forecast to be around 20 percent lower than last year. This has New Zealand exporters anticipating a more balanced market in Europe, leading to firm price expectations at the start of the 2018 export season for the southern hemisphere.
- Orchard replanting and new plantings in New Zealand are expected to continue, with investment predominantly in intellectual property protected varieties. The pace of growth is being dictated by the lead time required to produce trees with the desired rootstock-cultivar combination, and access to suitable land amidst strong competition from other land uses.

¹ Apple and pear trees shed fruitlets in the early summer period, typically in December in the southern hemisphere, a process known as natural fruit drop. In the northern hemisphere, this process is known as "June drop" because it occurs mainly in June. This is a natural seasonal process that fruit trees use to manage their energy reserves.

Figure 7: Change in New Zealand wine export value by market 2016–17

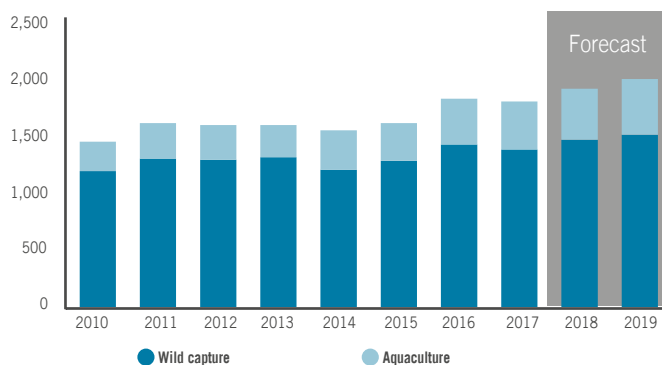


Source: Statistics New Zealand and MPI

Lower wild capture volumes and strong New Zealand dollar constrain 2017 exports

- Seafood export earnings fell 1.4 percent to \$1.7 billion in the year ending June 2017, compared with the year ending June 2016. This was driven by a combination of lower wild capture export volumes and an appreciating New Zealand dollar.
- Export earnings from wild capture fisheries were down by 3 percent to \$1.3 billion in the year ending June 2017. This was mainly driven by a 5 percent decrease in export volumes due to inherent fluctuations in catch volumes of key species.
- Export earnings from aquaculture rose \$18 million (4.5 percent) to \$406 million in the year ending 2017. Export volumes increased due to higher mussel production in particular.
- Farmed flat oyster operations have been affected due to the removal of Stewart Island and Marlborough Sounds flat oyster farms in an attempt to halt the spread of *Bonamia ostreae* to the Foveaux Strait wild fisheries. Farmed flat oysters are primarily sold in the domestic market; exports are estimated at around \$800,000 annually.

Figure 8: Seafood export revenue 2010–19 (\$NZ millions)



Source: Statistics New Zealand and MPI

Table 6: Seafood export revenue, 2013–19 (\$NZ million)

| | Actual | | | | | Forecast | |
|--------------|--------|-------|-------|--------|-------|----------|-------|
| Wild capture | 1,272 | 1,168 | 1,242 | 1,380 | 1,338 | 1,420 | 1,460 |
| Aquaculture | 274 | 332 | 321 | 388 | 406 | 430 | 470 |
| Total | 1,546 | 1,500 | 1,563 | 1,768 | 1,744 | 1,850 | 1,930 |
| Y/Y % change | +0.0% | -2.9% | +4.1% | +13.2% | -1.4% | +6.2% | +4.5% |

Source: Statistics New Zealand and MPI.

Seafood export volume forecast to increase

- Annual seafood export earnings are expected to reach \$1.85 billion (an increase of 6.2 percent) in 2018 and \$1.93 billion (up 4.5 percent) in 2019. Forecast growth will be underpinned by an expected increase in prices and potential recovery of wild capture export volumes after a cyclical downturn.
- Seafood export prices are expected to improve due to growing demand from our key seafood export markets, influenced by a steady or improving economic outlook.
- Updated exchange rate assumptions now show a slightly weaker New Zealand dollar over the outlook period, supporting seafood export prices in New Zealand dollar terms.
- Aquaculture is expected to be the main source of seafood export volume growth due to planned expansion in salmon farming and mussel production growth supported by hatchery-bred mussel spat. Wild capture volumes are also likely to improve slightly in the latter part of the outlook period as fisheries continue to rebuild.
- Seafood prices in US dollars, particularly of wild capture fisheries, increased by 8 percent in the year ending June 2017, but were eroded by a nearly 7 percent appreciation of the New Zealand dollar against the US dollar. Prices are expected to remain strong over the outlook period, given a positive economic outlook for our main markets and the prospect of limited global supply of wild capture fisheries.

SUSTAINABLE FISHERIES FOR EVERY NEW ZEALANDER

Fisheries are important to New Zealanders. MPI's Future of our Fisheries programme is strengthening our fisheries management system to ensure the continued sustainability of New Zealand's fisheries for all users.

The programme includes a mix of introducing new technologies to fisheries management as well as taking a strategic approach to policy making for growing the value of our fisheries. The first part of the work will see digital monitoring delivered for commercial fishing (electronic reporting and monitoring of fishing activity) of commercial fishing, which will provide accurate, timely and verified information to inform fisheries management decisions. Proposed policy changes to support the introduction of digital monitoring, as well as increase the sustainable economic value of our fisheries will follow.

The Future of our Fisheries programme is about making use of better information about our fisheries to drive better decision making and enable New Zealanders to realise the greatest value from our fisheries now and in the future. It will also provide our fishing industry the opportunity to leverage off digital monitoring to bolster and grow its environmental credentials with international consumers.



Overview

- Domestic grain prices have continued to rise since they bottomed out in July 2016, driven by tight supplies of feed barley and maize grain and increased demand from the dairy sector.
- Sowing intentions for 2017 indicate a 51 percent increase in planted area for feed barley, following two years of declining planted area.
- Led by a recovery in vegetable seeds, arable exports are forecast to rebound in 2018 and reach \$215 million in 2019.

2017 Harvest results mixed

- The final figures released in the Arable Industry Marketing Initiative (AIMI) Survey of Cereal Areas and Volumes for the 2017 harvest reported a rise in average yields for the main cereal crops, compared with the previous year, while total tonnages for feed barley, malting barley and feed oats were lower due to reductions in the harvested area.
- Wet weather in the North Island delayed the maize grain harvest. At 1 June 2017, total tonnage was estimated to be down 24 percent on 2016, a result of a 13 percent fall in yield and a 12 percent reduction in planted area. Maize silage production was down 7 percent, compared with 2016, due to a 10 percent fall in yield and a 3 percent increase in harvested area.
- Overall, 2017 was a good season for vegetable seed yields and forage seeds, although some of the later-season crops were affected by wet weather.

Planting for 2018 crops underway

- Sowing intentions for 2017 indicate a recovery in feed barley planted area, following two years of declining planted area.
- Growth in autumn sown grain crops is behind schedule, a result of the wet autumn delaying planting and about 10 percent of cereal crops needing to be re-sown due to inundation by rain. This will likely reduce yields for the 2018 harvest.
- While the area of autumn planted wheat and barley is lower than expectations, when combined with spring sowing intentions the harvest area of feed wheat is expected to increase by 6 percent (2,150 hectares) and feed barley by 51 percent (17,603 hectares) compared with 2017.
- Early indications are that the area planted in maize grain is expected to increase by 4,116 hectares (up 26 percent) and the area planted in maize silage by 1,592 hectares (up 3 percent) for the 2017/18 season.
- Vegetable seed planting in February went well but the saturated ground may make spring-planted seeds such as onion challenging.

Table 7: Arable export revenue, 2013–19 (\$NZ million)

| Year to 30 June | Actual | | | | | Forecast | |
|------------------------|--------|-------|--------|--------|-------|----------|-------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Vegetable seed | 80 | 66 | 62 | 74 | 64 | 70 | 80 |
| Ryegrass seed | 68 | 55 | 49 | 46 | 46 | 45 | 45 |
| Clover and legume seed | 21 | 20 | 22 | 20 | 23 | 20 | 25 |
| Other grains and seeds | 55 | 87 | 44 | 65 | 58 | 70 | 65 |
| Total exports | 224 | 228 | 177 | 205 | 191 | 205 | 215 |
| % Change | +30.4% | +1.3% | -22.1% | +15.5% | -6.6% | +8.8% | +3.6% |

Source: Statistics New Zealand and MPI.

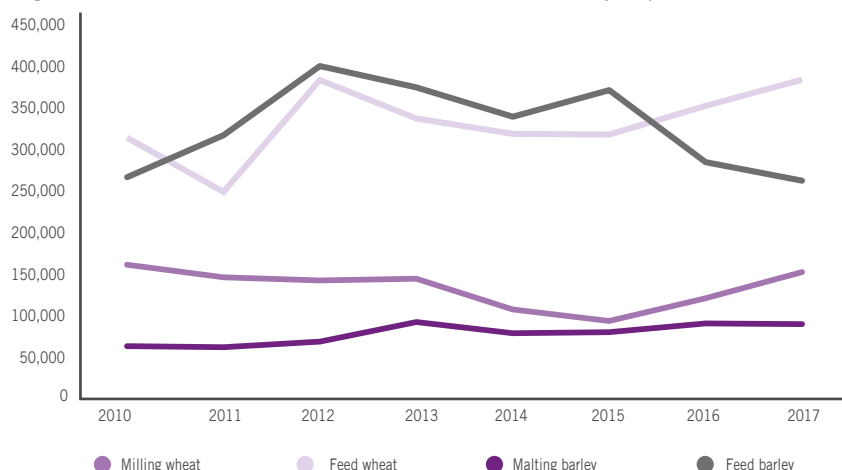
Domestic grain prices rising

- Domestic feed wheat, barley, and maize grain prices have been rising since July 2016 as demand from the dairy industry returned with the improvement in milk prices. Lower production also lifted barley and maize grain prices and has led to some substitution with wheat. Many growers will have contracted early and not benefited from the latest prices.
- Prices are expected to continue improving, driven by tight supply and a further improvement in the milk price forecast for 2017/18, but will be constrained somewhat by the still-low international grain prices.
- A sharp rise in international grain prices in June looked like it would help domestic grain sales but this was short lived. US prices rose rapidly in June driven by anticipated lower US production from a reduced planted area and drought in the Northern Plains along with concerns over dry conditions in Australia and overly wet conditions in Argentina. In July, prices started declining on news of large wheat harvests in Russia and Ukraine, as well as the improving outlook for US production.
- Wheat and barley production in Australia, New Zealand's main source of imported grain, is forecast to decrease 31 percent to 24.2 million tonnes and 39 percent to 8.1 million tonnes, respectively, for 2017/18. A return to average yields is expected after exceptionally high yields in 2016/17 and a small decrease in planted area.

Seed markets expected to grow

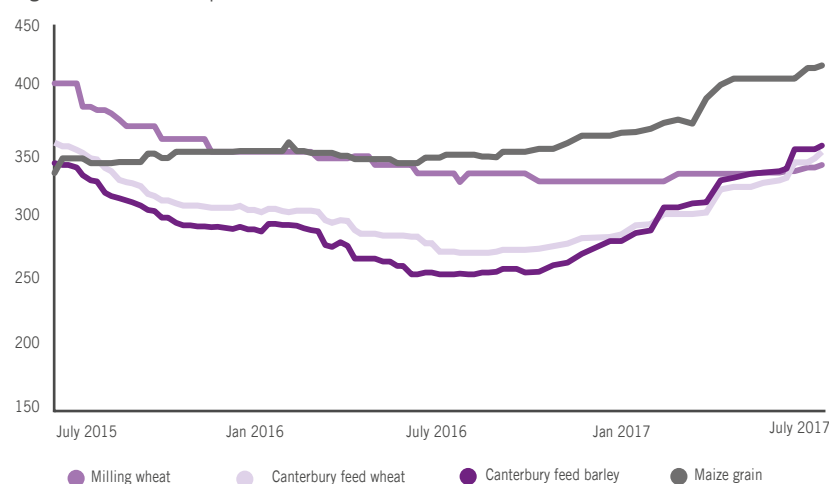
- Led by a recovery in vegetable seeds, arable exports are forecast to rebound in 2018 and reach \$215 million in 2019.
- The ryegrass and clover export markets are expected to remain flat following a reasonable harvest in the northern hemisphere and the holding of carryover stocks. The high New Zealand dollar is also limiting demand. The same factors affect the "Other grain and seeds" group which is dominated by other grass seeds such as fescues and cocksfoot.
- Domestic demand for grass seed is expected to lift with the improved outlook for the dairy and meat sectors, assuming prices remain firm. Damage to pastures from the series of wet weather events this year is also expected to bolster demand.
- Demand for vegetable seed exports continues to be steady with most supplied via ongoing contracts. The \$10 million fall in export value between 2016 and 2017 is expected to be from a larger proportion of the 2017 harvest exports falling into the September quarter rather than June. Radish seed and carrot seed continue to dominate vegetable seed exports accounting for 35 percent and 20 percent of vegetable seed export value, respectively. Lower seed production in the United States from a wet spring may bolster demand.

Figure 9: Estimated total national harvest volume, wheat and barley crops, 2010-17



Source: Foundation for Arable Research, AIMI Survey of Cereal Areas and Volumes, 1 July 2017

Figure 10: Domestic Spot Grain Prices 2015-2017 (\$/NZ/tonne)



Source: AgriHQ

Other primary sector exports

Overview

- Export revenue for the year ended June 2017 reached \$2.5 billion in 2017, 3 percent lower (\$76 million) than in 2016.
- The other primary sector exports category is diverse and includes honey, live animals, and processed foods such as cereal products, confectionery products, soups and condiments, and beverages.

Honey exports surged in June quarter 2017

- Honey exports increased to \$330 million in the year ending June 2017, up 5 percent from the previous year. This was a surprisingly strong result as exports were on pace to reach just \$300 million for the year, but there was an unexpected surge in exports to China in the last quarter.
- Exports to the United Kingdom also expanded by 56 percent in 2017 to \$60 million. Higher exports to China and the United Kingdom are balanced by decreases in the value of exports to Australia by 48 percent and to Hong Kong by 50 percent.
- Honey export volumes and prices are expected to continue to increase in 2018 and beyond due to continued strong demand overseas for all types of honey, more favourable climatic conditions, and expanding production.
- Myrtle rust was first discovered on mainland New Zealand in May 2017. Myrtle rust was first detected in Northland followed by finds in Taranaki, Waikato, and the Bay of Plenty. The impact of myrtle rust varies by species and is dependent on the environment. To date, there has been only one detection on mānuka (*Leptospermum scoparium*) out of more than 5500 mānuka plants surveyed. Myrtle rust is not known to present a food safety risk to New Zealand mānuka honey, but could reduce production due to a potential drop in the number mānuka flowers.

Table 8: Other primary sector export revenue, 2013–19 (\$NZ million)

| Year to 30 June | Actual | | | | | Forecast | |
|----------------------------|--------|-------|--------|--------|-------|----------|-------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Innovative processed foods | 341 | 332 | 471 | 681 | 664 | 690 | 700 |
| Honey | 145 | 187 | 233 | 315 | 330 | 330 | 340 |
| Sugar & confectionery | 263 | 290 | 293 | 312 | 305 | 310 | 310 |
| Cereal products | 264 | 253 | 253 | 271 | 282 | 270 | 280 |
| Live animals | 238 | 208 | 370 | 242 | 274 | 260 | 260 |
| Soup & condiments | 196 | 192 | 183 | 187 | 186 | 190 | 190 |
| Other products | 493 | 448 | 512 | 606 | 498 | 510 | 520 |
| Total | 1,940 | 1,910 | 2,315 | 2,614 | 2,539 | 2,560 | 2,600 |
| Y/Y % change | +8.8% | -1.6% | +21.2% | +12.9% | -2.9% | +1.1% | +1.7% |

Source: Statistics New Zealand and MPI.

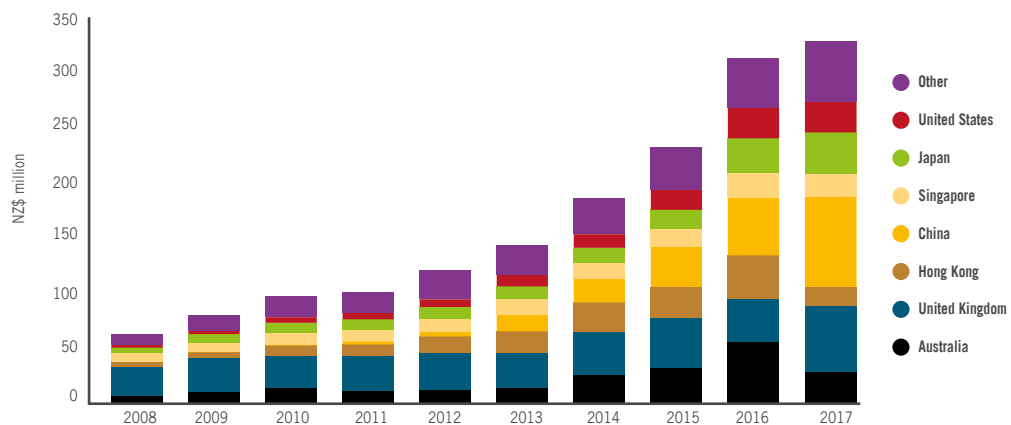
Beverages and other products decreased after exceptional 2016

- Other products, a category that includes beverages, dropped to \$498 million, down from \$606 million in 2016.
- Exports in this sector can vary from year to year due to fluctuations in the two-way trade with Australia in processed foods and beverages. The decrease in other products in the

latest year was driven by decreases of \$95 million in exports of flavoured beverages and \$32 million in various low volume niche products coming off strong 2016 exports.

- Exports of these products are expected to increase gradually during the outlook period.

Figure11: Value of honey exports by country 2008-17



Source: Statistics New Zealand





More primary industry data can be found on the MPI website:
www.mpi.govt.nz/news-and-resources/open-data-and-forecasting/

SOPi supplemental data

- Historical and forecast export volumes, values and prices

Agriculture

- Agriculture production statistics
- Livestock slaughter statistics

Forestry

- Wood Availability Forecast
- National Exotic Forestry Description
- Quarterly production and log prices

Agricultural Greenhouse Gas Inventory

Fisheries

- MPI reports on the status of fish stocks and fisheries in New Zealand waters

Farm monitoring links

- DairyNZ Economic Survey 2015-16 (DairyNZ)
www.dairynz.co.nz/publications/dairy-industry/dairynz-economic-survey-2015-16/
- Sheep & beef farm survey reports (Beef + Lamb New Zealand)
www.beeflambnz.com/data-tools/sheep-beef-farm-survey
- 2017 Vineyard benchmarking report Marlborough
www.mpi.govt.nz/document-vault/19916
- 2016 Viticulture Gross Margin Benchmarking Report
www.mpi.govt.nz/document-vault/13353
- 2016 Kiwifruit Benchmarking Report
To be published in 2017
- 2016 Pipfruit Monitoring Report
www.mpi.govt.nz/document-vault/15292
- 2016 Apiculture Monitoring Report
www.mpi.govt.nz/document-vault/16621





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