



# NEW ZEALAND SEAFOOD, AGRICULTURE AND FORESTRY **OUTLOOK**

DECEMBER 2011

## HIGHLIGHTS

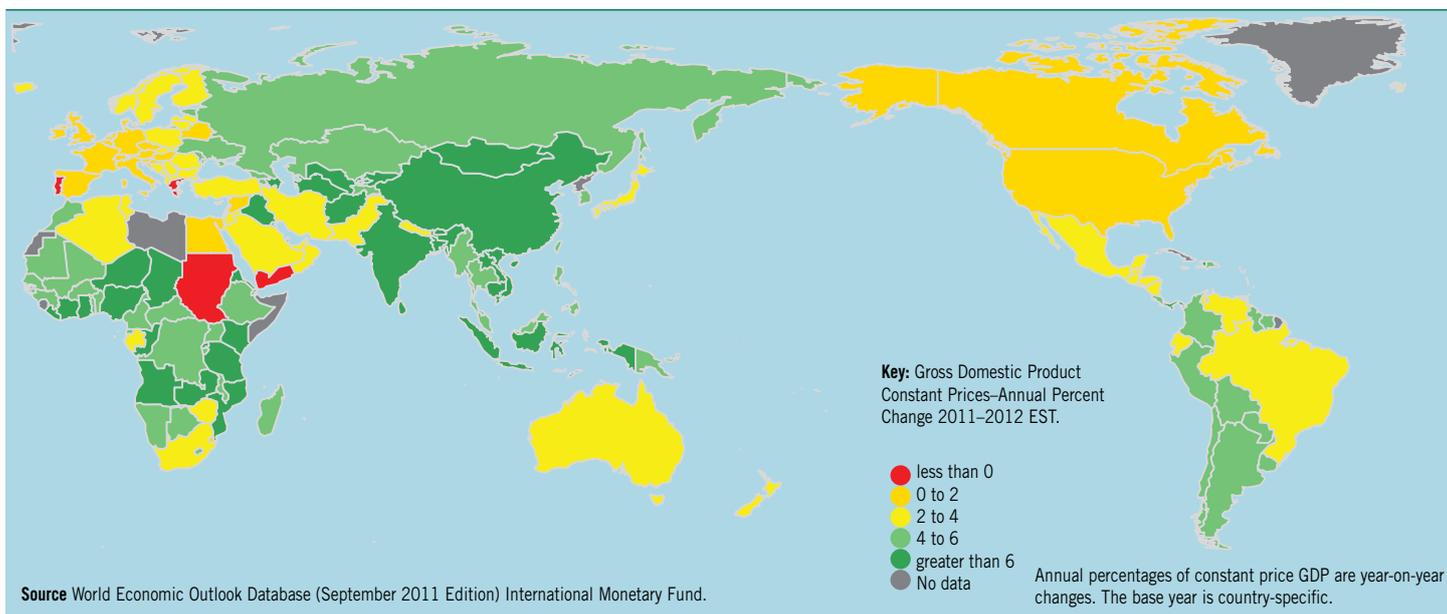
- › The outlook for New Zealand's seafood, agriculture and forestry sectors remains strong although increases in forecast export revenues are lower than reported in SONZAF 2011.
- › Prices for pastoral agriculture are lower than previously forecast but remain at historically high levels despite the deteriorating global economy and high exchange rates.
- › New Zealand climatic conditions in spring 2011 have been favourable for milk production and lambing. MAF expects pastoral production in the 2011/12 season to be above average.
- › Log prices in China have come back further than expected as a consequence of slowing construction activity.
- › The net impact of these changes is that SONZAF 2011 forecasts of dairy, forestry and meat and wool export revenue for the year to 30 June 2012 have been revised down by \$930 million (3.5 percent). This is still an increase of \$795 million (or 3.2 percent) compared to the year to 30 June 2011.
- › The impact of the Psa bacterial disease on gold kiwifruit will be significant in 2012\*.

## MACRO-ECONOMIC SITUATION

Global economic prospects have worsened since the publication of *Situation and Outlook of New Zealand Agriculture and Forestry 2011* (SONZAF). Although emerging markets continue to grow, weak growth in many advanced economies and the debt crisis in the European Union (EU) is lowering demand for New Zealand's primary products. Fears about the debt crisis in Greece and concerns over financial problems in Italy and Portugal have sapped the strength of Euro-zone countries and are likely to result in weak economic growth in 2012.

The Chinese economy has grown strongly but increased inflation caused the central government to tighten bank credit, especially to the construction sector.

»» FIGURE 1: 2012 ECONOMIC GROWTH FORECASTS



As a result, economic growth is forecast to drop to 9 percent but China will remain the fastest growing market for New Zealand's primary exports.

The Japanese economy expanded at its fastest pace in more than a year in the September quarter but this rebound may not be sustained as Europe's debt crisis boosts the yen.

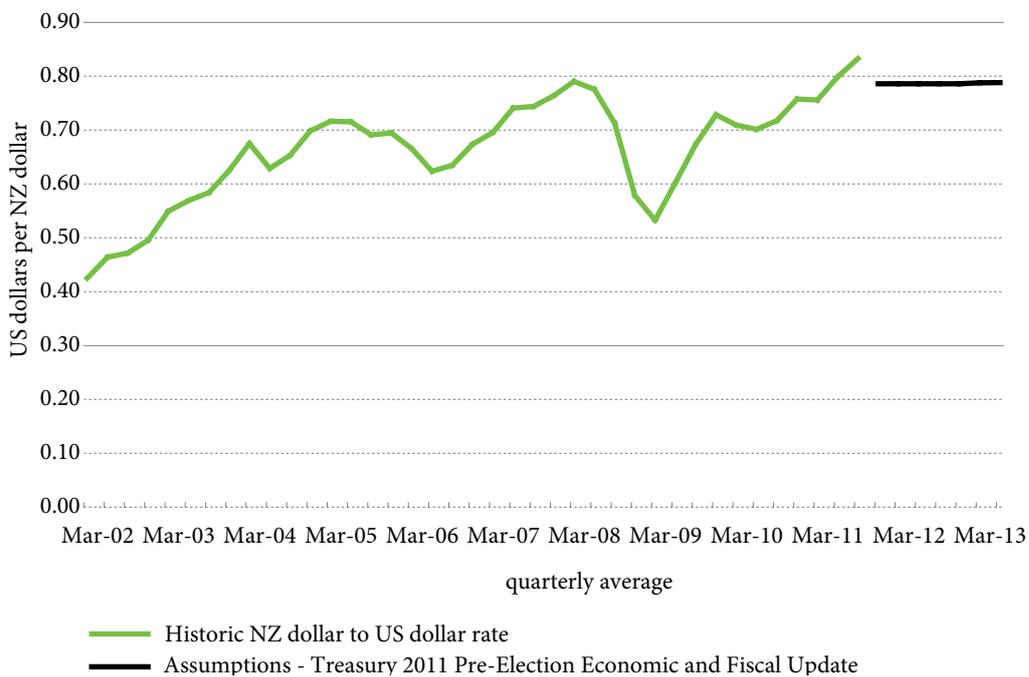
The United States (US) economy is struggling with high unemployment, limited wage growth and weak housing markets. However, improved

retail sales and manufacturing orders indicate that the US economy will expand towards the final quarter of this year and into 2012.

### EXCHANGE RATES

The New Zealand dollar remains high against our major trading currencies and this is reducing returns for our primary sector exports. The Treasury assumes that exchange rates will remain strong over the next two years.

»» FIGURE 2: NEW ZEALAND DOLLAR EXCHANGE RATE



Source Reserve Bank of New Zealand and Treasury.



## DAIRY

International dairy prices are falling from their recent peaks at around February 2011. This decrease in prices was due to increasing supply from major dairy exporting countries and sluggish demand from major importers such as China. Based on recent *globalDairyTrade* results, prices are expected to stabilise in 2012, although the Euro zone debt crisis poses downside risk.

The milk price for year ending 31 May 2012 is expected to be \$6.40 per kg of milksolid, down \$1.20 on last season's price due to higher exchange rates and lower international prices.

As a result of these lower prices, New Zealand dairy export revenue is forecast to reach \$13.6 billion in the year to 30 June 2012; a significant downgrade from the \$14.6 billion forecast in SONZAF but if achieved, still the largest annual export value.

Over the medium term, higher energy and feed costs, increases in population and incomes in emerging market economies, and low stock levels all act positively on dairy prices.

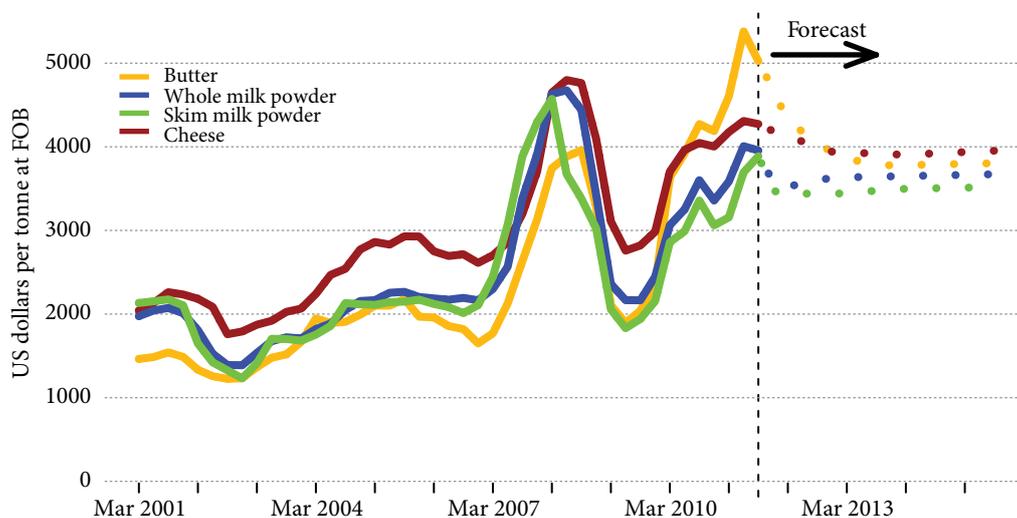
International milk production is expanding. The US increased milk production by 1.7 percent during the first nine months in 2011 on the same period last year. Despite a hotter than average July, US milk

production picked up its pace in August and September due to lower feed costs, increases in herd numbers and milk yield per cow. Milk production in the European Union is up by 2.4 percent from January to August 2011 encouraged by high milk prices. Australian milk production continues to increase gradually after previous droughts.

The outlook for New Zealand dairy production in 2011/12 season is positive. A mild winter and excellent spring conditions contributed to a solid beginning for this season. A record high milk collection was reported in September although grass production in many districts is slowing going into summer. Adverse events such as the snow storm in August and the Maui gas pipeline leak in October temporarily disrupted milk collection and processing, but not enough to have a noticeable impact on this season's production.

The rate of dairy conversion and expansion this season may be hindered by the lower milk price forecast. In this season, milk yield per cow is likely to be higher than last season due to the favourable spring. MAF expects milk solid production to increase by 5.1 percent on last season assuming normal climatic conditions throughout the remainder of the season.

»» FIGURE 3: NEW ZEALAND DAIRY EXPORT PRICES



Source Statistics New Zealand and MAF.

# SEAFOOD

## WILD CAPTURE FISHERIES

Both export volume and earnings were up for wild capture fisheries in the year to 30 September 2011. Export volumes increased by 6500 tonnes (up 2.5 percent) while export earnings increased by \$22.9 million (up 1.9 percent) to \$1.22 billion.

Wild capture fisheries production was up 2.4 percent to 442 000 tonnes in the year to 30 September 2011. This increase in production was driven by the recent increases to the Total Allowable Commercial Catch (TACC) for hoki. This has the largest TACC out of the species managed under the Quota Management System and it was increased to 130 000 tonnes as of 1 October 2011. The increase in the hoki TACC will continue to push wild fisheries production up in the medium term.

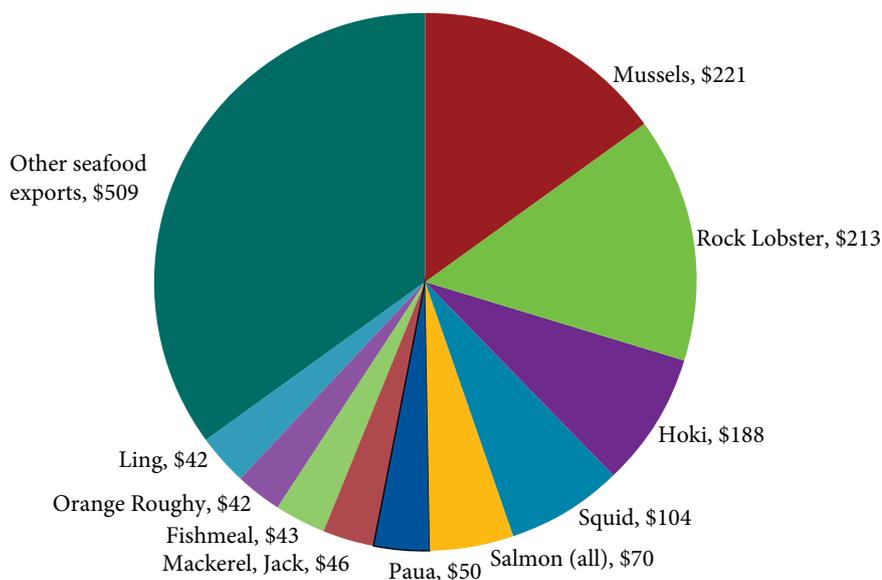
## AQUACULTURE

Both export volume and earnings were up for aquaculture species in the year to 30 September 2011. Export volumes increased by 11.9 percent (up 4900 tonnes) while export earnings increased by \$60.1 million (up 24.2 percent) to \$308.7 million. In the year to 30 September 2011, green lipped mussels were up \$61.6 million (to \$221 million) and salmon was down \$5.5 million (to \$70 million).

The new aquaculture legislation passed on 19 August 2011 sets the legal framework needed to support growth in the aquaculture sector. King Salmon has already submitted a proposal for eight new salmon farm sites in the Marlborough Sounds to the Environmental Protection Agency as a project of national significance.

MAF forecasts that aquaculture production will increase at a moderate rate in the short to medium term. In three to four years time growth is forecast to increase once new farms established under the new legislation are up to full operating capacity.

»» FIGURE 4: NEW ZEALAND SEAFOOD EXPORT VALUE BY SPECIES, MILLIONS OF NEW ZEALAND DOLLARS, YEAR TO 30 SEPTEMBER



Source Seafood Industry Council.

## MEAT AND WOOL

Meat and wool export revenue is expected to reach \$7.43 billion in the year to 30 June 2012; this is higher than the \$6.97 billion estimated in SONZAF 2011 due to higher expected prices for wool and pelts.

### BEEF

Beef export revenue in the year ending 30 June 2012 is expected to decrease by 0.7 percent to \$2 02 million as a result of lower expected prices.

Export prices in US dollars continue to fall off the record high of April 2011. For the year ended 30 September 2011, beef schedule prices in New Zealand are the highest in inflation adjusted terms since 2002. Robust demand from Asian markets has absorbed increased volumes out of the US and Australia. The US has become a net exporter of beef due to favourable exchange rates, strengthening exports but weakening imports.

Over the next two years, a weakening global economy and slightly increasing exports out of Australia and the US are expected to cause New Zealand export beef prices in US dollars to decrease driving down beef schedule prices. However, beef prices are likely to remain higher than earlier years due to an increase in demand for animal protein in Asia and other developing countries.

New Zealand beef production in the year ending 30 June 2012 is expected to increase 2.4 percent due to a lift in carcass weight with improved weather conditions compared to last year especially over winter, spring and early summer.

### LAMB

New Zealand lamb export revenue is expected to increase 9 percent to \$2.65 billion in the year ending 30 June 2012 due to higher export volumes.

The New Zealand lamb schedule price for the year ended 30 September 2011 is at the highest level in inflation adjusted terms since 1977. This is due to lower global lamb export availability, especially after the poor New Zealand lamb crop in 2010.

Export lamb prices in United Kingdom (UK) pounds peaked in July 2011 and have eased back since as the UK seasonal supply increases.

New Zealand's lamb crop for spring 2011 is estimated to be 7 percent up on last year. Assuming average climate conditions, New Zealand lamb export availability should increase over the next two years.

Export prices in UK pounds are expected to decrease over the next two years as global lamb exports increase and economic activity weakens in major lamb importing countries. Lamb production is increasing in Australia and the UK due to increasing breeding flock numbers.

New Zealand's tariff-free sheep and goat meat quota to the EU is unlikely to be filled in calendar year 2011 for the second year in a row. An improved lamb crop in 2011 should enable the EU quota to be filled in calendar year 2012.

### WOOL

Wool export revenue is expected to increase 19 percent to \$848 million in the year ending 30 June 2012 due to higher prices.

Export prices of wool continue to rise, underpinned by strong demand from China and recently, growers passing in wool at auction in both New Zealand and Australia. The key drivers of wool prices are Chinese demand and demand for their finished wool products in the EU and the US. Weaker global economic activity is expected to cause wool export prices in US dollars to decrease over the next two years. New Zealand producer prices are forecast to peak in the year ending 30 June 2012.

## FORESTRY

Forestry export revenue for the year ending 30 June 2012 is expected to be \$4.26 billion, down from the \$4.69 billion forecast in SONZAF 2011 due to lower forecast prices.

### LOGS

In recent months, log export volumes have fallen back from the peak levels reached in early 2011. This is after several years of phenomenal growth - especially to China. Log inventory levels in Chinese ports are high and Chinese buyers are slowing down log purchasing in response to the government's tightening monetary policy and measures that have recently been taken to slow spiralling real estate prices. With less demand, prices for New Zealand Grade A logs have dropped from a peak of over \$160 US dollars per M<sup>3</sup> in April 2011 to around \$130 in December 2011. Over the next few years, the growth rate of demand from China will likely slow.

Log demand from Japan is expected to increase as the Japanese earthquake re-construction starts. South Korea is also expected to increase demand from New Zealand to take the advantage of off-peak log prices.

Russia, a major competitor in the Chinese log market, is expected to introduce a log export quota in the near future, following its expected accession to the World Trade Organisation (WTO) in December. Logs exported under the quota will be taxed at a rate lower than the current duty of 25 percent, while sales abroad exceeding the quota will be levied at a higher rate. Following agreement

from WTO members to Russia's accession, specific details about the log export quota system will become available.

### SAWN TIMBER

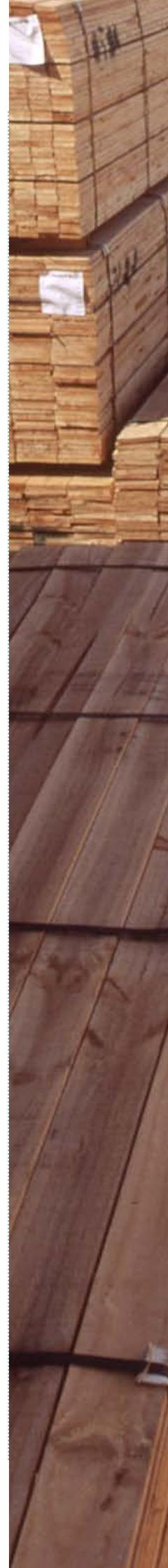
Timber export prices dropped significantly in the September quarter 2011. While export volumes increased, the total export value was 14 percent lower than in the September quarter 2010.

Weak performance in the US housing market and high unemployment is causing low demand for New Zealand timber. The same factors are driving Canadian and US timber suppliers to shift focus from the US market to alternative markets. Thus, New Zealand timber faces strong competition from Canada and the US in the Chinese and Japanese markets. Timber export volume is expected to stay at the current low levels next year.

New Zealand sawmilling operations continue to be squeezed between weak demand in international and domestic markets and higher prices for logs.

### PANELS

Total panel export value was down by 2.8 percent compared to the September quarter 2010. The value of veneer exports to Japan decreased dramatically by 94 percent due to several large plywood mills damaged in the earthquake and tsunami. However, this was partially offset by the value of plywood exports to Japan increasing by 43 percent due to demand for emergency housing. This situation is expected to reverse as the reconstruction progresses.



## KIWIFRUIT

Kiwifruit production in 2012 will be significantly impacted by the bacterial disease *Pseudomonas syringae* pv. *actinidiae* (termed Psa), first identified in New Zealand in November 2010. Psa has hit hardest around Te Puke, in the Bay of Plenty, which contains 41 percent of the total area planted in kiwifruit in New Zealand. At present, around 26 percent of kiwifruit orchards in New Zealand are known to have the bacterium present.

Gold kiwifruit orchards are being devastated by Psa. The exact magnitude of the impact is still uncertain and there are divergent views on the likely gold kiwifruit production levels in 2012. Gold kiwifruit export volumes could range from 10 million trays to 20 million trays, depending on the assumptions made about the impact from Psa. In 2011 gold kiwifruit export volume was 30 million trays.

On balance, up to 20 percent of gold kiwifruit in Te Puke could be harvested, and up to 80 percent in the wider Bay of Plenty. This would yield an export volume of around 16 million trays of gold kiwifruit.

Green kiwifruit orchards have also been affected by Psa, with orchard infection numbers ramping up during the 2011 spring. Green production in 2012 is likely to fall primarily due to seasonal factors however, the impact of Psa on green orchards in the medium term remains uncertain.

Overall, export volumes are expected to fall 21 percent to 89 million trays, and export returns are expected to fall 18 percent to \$862 million, for the year ending 31 March 2013.

»» TABLE 1: KIWIFRUIT EXPORT PRICES, VOLUMES AND VALUES, 2011-2013

YEAR TO 31 MARCH		2011	2012	2013	
				(BEST CASE)	(WORST CASE)
Export volume (million trays <sup>1</sup> )	Green	78	82	72	72
	Gold	21	30	20	16
	<b>Total</b>	<b>100</b>	<b>112</b>	<b>93</b>	<b>89</b>
FOB <sup>2</sup> price (\$/tray)	Green	7.9	7.5	8.1	8.1
	Gold	15.3	14.3	16.2	16.9
	<b>Total</b>	<b>9.5</b>	<b>9.3</b>	<b>9.8</b>	<b>9.4</b>
Export value (\$ million)	Green	622	613	585	585
	Gold	315	429	325	191
	<b>Total</b>	<b>944</b>	<b>1047</b>	<b>915</b>	<b>862</b>

### Notes

1. One tray equals 3.6kg.
2. Free on board is the value of the good delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.
3. Totals include other kiwifruit varieties.

Source: Statistics New Zealand and MAF.

»» TABLE 2: KEY STATISTICS AND FORECASTS

YEAR TO 30 JUNE		2009	2010	2011	2012	2013
<b>OPENING LIVESTOCK NUMBERS<sup>1</sup></b>						
Dairy cows and heifers in calf	Mil hd	4.35	4.61	4.68	4.80	4.93
Ewe and ewe hoggets mated	Mil hd	25.0	24.0	23.9	23.3	24.8
Total beef cattle	Mil hd	4.14	4.10	3.95	3.94	4.11
<b>PRICES</b>						
Milk price <sup>2</sup>	c/kg MS	472	610	760	636	625
Lamb schedule <sup>3</sup>	c/kg cw	492	461	623	608	516
Prime beef schedule <sup>4</sup>	c/kg cw	370	335	408	401	371
<b>PRODUCTION VOLUMES</b>						
Milk solids	000 tonnes	1 394	1 437	1 513	1 590	1 623
Lamb	000 tonnes	404	379	344	374	394
Beef and veal	000 tonnes	638	638	618	633	661
Wool	000 tonnes	118	136	136	129	127
<b>EXPORT VALUES</b>						
Dairy	\$ bil	11.4	10.6	13.2	13.6	13.7
Meat, pelts and wool	\$ bil	6.76	6.19	6.85	7.43	6.71
Seafood	\$ bil	1.45	1.40	1.56	1.67	1.74
Forestry	\$ bil	3.52	3.83	4.50	4.26	4.35

**Notes**

1. Opening refers to 30 June of the preceding year
2. Year to 31 May. The milk price excludes distributable profit
3. All grades average cents per kg of carcass weight
4. P2 steer and beef cents per kg of carcass weight

Sources: Statistics NZ, Beef + Lamb NZ Economic Service, Seafood Industry Council, and MAF.

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