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New Zealand

Agricultural Situation

New Zealand Production and Export Outlook to 2003

2000

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Report Highlights: According to a recently released report from the New Zealand Ministry of Agriculture and Forestry, the outlook for New Zealand agriculture and forestry to 2003 is underpinned by improving world growth prospects, and continuing low exchange rates for the New Zealand dollar with respect to major trading partners. Stable to rising prices for key export products are expected, and together with recovery in sheep and beef numbers, rising dairy numbers, expanding wood harvest volumes, and continuing productivity growth, the outlook for New Zealand agriculture and forestry looks promising.

Overview

The New Zealand Ministry of Agriculture and Forestry has produced a Situation and Outlook for New Zealand Agriculture and Forestry from 1999 through to 2003. The report is based on current economic situation analysis and policy analysts forecasts. This report provides a summary of what the document has cited as the current situation and forecasts to 2003.

Two processes that are potentially important for New Zealand agriculture's long term future are:

- *The Producer Board Reform Process*, which has accelerated over the last 18 months.
- *World Trade Organization*: Given the high proportion of New Zealand agricultural and forestry exports that are traded, the suspension of the WTO talks that began at Seattle in November/December 1999, with the aim of launching a new round of multilateral trade negotiations was disappointing. It is likely that negotiations on agriculture will resume some time in 2000, but some of the momentum gained in Seattle will inevitably be lost.

Over the past two years, the primary sector industries in New Zealand have been affected by a number of national and international shocks that are expected to have ongoing impacts over the next few years, and whose effects have been incorporated into the forecasts included in this report. These include:

- the Asian financial crisis;
- the Russian financial crisis;
- weaknesses in the Brazilian economy;
- the depreciation of the NZ dollar; and
- two seasons of drought.

The outlook for agriculture and forestry to 2003 is underpinned by improving world growth prospects, and continuing low exchange rates for the New Zealand dollar with respect to major trading partners. Stable to rising prices for key export products are expected, and together with recovery in sheep and beef numbers, rising dairy numbers, expanding wood harvest volumes, and continuing productivity growth, the outlook for New Zealand agriculture and forestry looks promising.

Pastoral Export Outlook

Pastoral exports are forecast for the year ending March 2000 and projected out to 2003. The general trends over the outlook period are:

Beef

- Rising beef schedule prices are projected to peak in the year ending September 2001.
- New Zealand beef and veal production levels are projected to expand from 2002.

Lamb

- The 1999 lambing percentage was the second highest on record, as a consequence of the mild winter and favorable spring conditions. 2000 lamb production is therefore forecast to rise. Production from 2001 onwards is projected to rise in line with increasing productivity from a mainly stable breeding flock.
- Lamb prices are projected to remain stable over 2000 and 2001.

Mutton

- The mutton schedule price is low due to the very competitive manufacturing meat market in the EU.

- The slowing in land conversions away from sheep has been contributing to a fall in kill numbers, and will continue to contribute through the forecast period.

Overall the value of meat exports is forecast to increase from NZ\$2.84 billion in 1999 to NZ\$3.45 billion in 2003, a rise of 22 percent, mainly reflecting higher expected beef and lamb volumes.

Wool

- New Zealand wool production fell by 6 percent in the 1998/99 season due to lower sheep numbers and the effects of drought, but is expected to increase over the medium term as sheep numbers recover.
- The market indicator auction price fell by 10 percent over the 1998/99 season, due mainly to low demand as a result of the Asian crisis and global overcapacity in wool processing. Over the medium term, the outlook is for increasing strong and medium wool prices. Fine wool prices are expected to fluctuate around an upwards trend.
- The value of wool exports is projected to increase from NZ \$0.80 billion to NZ \$0.93 billion in 2003. Compared with 1999, the latter represents an overall rise of 16 percent, mainly reflecting higher expected export volumes.

Dairy

- The industry experienced a 4.6 percent decrease in milksolids production for the year ending May 1999 due to unfavorable weather conditions, but production is expected to recover and increase from 1999/00 onwards. The annual rate of growth in milk output is expected to stabilize at a lower level, due to lowering dairy farm conversions as a result of higher entry costs arising from the necessity of purchasing a dairy company's shares in order to supply it with milk. The total production of milksolids for processing is forecast to reach 1,037,000 MT by the 2002/03 season (850,000 MT in the 1998/99 season).
- Total average farmgate payout for milksolids for 1998/99 was NZ \$3.58/kg. Payout is expected to drop in 1999/00, but to rise from 2000/01 onward as world growth recovers.
- The value of dairy exports is projected to rise from NZ \$4.79 billion in 1999 to NZ \$5.69 billion in 2003, an increase of 19 percent, mainly reflecting higher expected export volumes.

Other

This includes venison, velvet, pigmeat, poultry and wheat.

Venison: European demand is firming as economic growth improves and new market segments are developed. New Zealand production continues to grow as the herd expands.

Velvet: Demand is firming in the major market, the Republic of Korea, as its economic activity picks up. Prices are expected to recover over the medium term.

Pigmeat: Pigmeat production is projected to stabilize over the medium term. The industry is expected to consolidate as a result of low profitability and high levels of cheap imports.

Poultry: There is strong growth in poultry meat production due to consumer demand for perceived healthier alternatives to red meat, and generally rising beef and lamb prices. Poultry meat prices are expected to continue their downward trend.

Wheat: New Zealand wheat production in the 1998/99 season is expected to have remained at about the same level as in 1998, with a total New Zealand production of 320,000 MTs. Plantings for

1999/2000 harvest indicate a trend away from barley to specialized feed wheat varieties. The world price outlook is subdued, despite reduced plantings and production in major exporting countries.

The value of the "other" export products is forecast to fall from NZ\$0.87 billion in 1999 to NZ\$0.74 billion in 2000 owing to the Asian and Russian crises, and then increase to NZ\$0.86 billion by 2003, an overall increase of 1 percent.

The total value of pastoral exports is projected to reach NZ \$10.93 billion in 2003, and 18 percent rise on the 1999 level of NZ \$9.29 billion.

PASTORAL EXPORT OUTLOOK							
Year to March	Unit	1998	1999	2000f	2001z	2002z	2003z
MEAT							
Value	\$mil	2,920	2,837	3,084	3,250	3,341	3,447
Price	%	1.9	8.3	5.2	1.3	0.2	-0.8
Volume	%	5.3	-12.6	3.3	4.1	2.6	4.0
WOOL							
Value	\$mil	929	797	818	868	898	926
Price	%	-3.9	-7.7	-1.7	1.7	2.6	3.1
Volume	%	2.8	-9.2	4.5	4.3	0.8	0.0
DAIRY							
Value	\$mil	4,352	4,789	4,776	4,983	5,248	5,692
Price	%	-0.7	6.2	-8.9	2.4	2.2	4.8
Volume	%	12.7	-5.1	9.4	1.9	3.0	3.5
OTHER							
Value	\$mil	1,020	866	741	774	821	862
Price	%	-6.2	-9.3	-12.8	2.3	3.6	3.6
Volume	%	-0.4	-6.3	-1.8	2.0	2.4	1.4
TOTAL EXPORT VALUE							
Value	\$mil	9,221	9,289	9,419	9,874	10,307	10,926
Price	%	-1.7	9.3	-4.4	2.0	1.7	2.7
Volume	%	7.9	-7.8	6.1	2.8	2.7	3.2

f = forecast

z = estimates

1 = % equals change from previous season

Horticultural Export Outlook

Horticultural exports are forecast for the year ended March 2000, and projected out to 2003. The

general trends over the outlook period are:

Kiwifruit

- New Zealand kiwifruit production fell in the year ending March 2000, owing to insufficient winter chilling and the temporary loss of production from grafted vines. Production is expected to rise again in the year ending March 2001. In the longer term production of both ZESPRI GOLD and GREEN is projected to increase, with more normal weather conditions and the maturation of grafted vines.
- World prices for New Zealand kiwifruit rose in the year ending March 2000, due in part to the reduced supply of kiwifruit from New Zealand. Prices are expected to fall slightly with the recovery in supply in the year ending March 2001.
- The value of kiwifruit exports is projected to rise from NZ \$434 million in 1999 to NZ \$514 million in 2003, an overall rise of 18 percent, reflecting mainly higher export prices.

Apples

- New Zealand's apple export crop increased to 17.7 million cartons in the year ended September 1999, and is projected to remain around 19 million cartons over the medium term.
- A glut on the European markets resulted in a 24 percent fall in export returns to New Zealand growers of around NZ \$10.96 per carton in 1998/99, while the medium term outlook is for static returns of around \$13 per carton.
- Apple export value is projected to rise from NZ \$384 million in 1999 to NZ \$463 in 2003, an overall rise of 20 percent, reflecting mainly higher export volumes.

Other

The remainder of horticultural exports rise from NZ \$692 million in 1998 to NZ \$878 million in 2003, a rise of 27 percent. Processed fruit (particularly wines) and vegetables account for 79 percent of the increased export value.

Total export value for horticultural products is projected to reach NZ \$1.88 billion in 2003, an 18 percent rise on the 1999 level of NZ \$1.59 billion.

HORTICULTURAL EXPORT OUTLOOK

Year ending March	Unit	1998	1999e	2000f	2001z	2002z	2003z
KIWIFRUIT							
Value	\$mil	364	434	446	477	500	514
Price	%	-3.2	15.0	19.6	-4.8	-0.6	2.6
Volume	%	-3.9	4.1	-14.1	12.4	5.0	0.7
APPLES							
Value	\$mil	391	384	405	451	494	463
Price	%	5.5	17.0	-17.4	8.0	13.0	-3.8
Volume	%	-1.7	-16.1	27.5	3.2	-3.1	-2.6
OTHER FRESH FRUIT							
Value	\$mil	70	76	85	88	93	97
Value	%	23.0	8.2	11.6	4.4	5.6	4.3
FRESH VEGETABLES							
Value	\$mil	216	227	250	250	245	249
Value	%	44.1	5.4	10.0	0.1	-2.0	1.3
PROCESSED FRUIT							
Value	\$mil	194	198	216	237	282	307
Value	%	14.2	2.1	9.2	9.5	19.2	8.9
PROCESSED VEGETABLES							
Value	\$mil	159	191	173	172	168	170
Value	%	-5.5	20.4	-9.4	-0.6	-2.4	1.3
OTHER							
Value	\$mil	80	81	81	81	80	80
Value	%	3.1	2.2	-0.5	-0.3	-1.2	0.6
TOTAL EXPORTS							
Value	\$mil	1,472	1,592	1,656	1,756	1,863	1,881
Value	%	6.8	8.1	4.0	6.1	6.0	1.0

Forestry Export Outlook

Forestry exports are forecast for the year ended March 2000 and projected out to 2003.

Logs and Lumber

- Log and lumber exports have recovered strongly after the Asian financial crisis, with price and volume increases (especially for lumber) in the latter half of 1999.
- A slight lift in log export prices and volumes is expected from year ending March 2000 onwards, driven by strengthening demand as Asian economies recover.
- Lumber exports are expected to increase slowly from 2000, reflected Asian recovery and continued strength in the US and Australian markets.

Wood Pulp, Paper Products and Panels

- Exports and production of panels should pick up slowly over the medium term, as production activity improves across Asia.
- Increased capacity, and an expectation that the increase can be sold into a recovering East Asian market, are driving paper product volume increases through 1999-2001.
- Prices for wood pulp will peak in 2001 and then ease, while volumes will be firm.

The total value of exports of forestry products is projected to reach NZ \$3.29 billion in 2003, a 38 percent rise on the 1999 level of NZ \$2.38 billion due mainly to the expansion in export volumes of lumber, logs and wood panels, which together contribute about 80 percent of the total increase in export value.

FORESTRY EXPORT OUTLOOK (\$ million)						
Year to March	1998	1999	2000f	2001z	2002z	2003z
Wages	1,188	1,162	1,154	1,156	1,176	1,209
Logs	636	428	491	539	596	675
Lumber	459	541	606	645	700	779
Wood pulp	342	374	479	505	455	419
Paper products	354	437	465	482	484	499
Wood panels	328	301	395	432	477	540
Other	281	299	321	341	357	381
Total	2,400	2,380	2,758	2,944	3,069	3,292

Livestock Numbers

- Sheep numbers are projected to bottom out at 45.43 million at June 2000 and then slowly rise to 45.76 million by June 2002. This results from the net effect of improving lamb and wool prices, offset by continuing conversions to deer and forestry.
- Beef numbers are projected to bottom out at 4.30 million at June 2000, and then slowly rise to 4.61 million at June 2002. This results from the lagged effect of improving beef prices, offset by continuing land use conversions to dairy.
- Dairy numbers are projected to increase to 4.91 million at June 2002 owing to the intensification or expansion of the milking herd on existing dairy farms and, to a lesser extent, from land use conversions.
- Deer numbers are projected to increase to 2.29 million at June 2002 due to improving venison and velvet prices.

MAIN CLASSES OF LIVESTOCK (millions)						
As at June	1997	1998	1999	2000f	2001z	2002z
Total Sheep	47.0	46.15	45.89	45.43	45.51	45.76
Breeding flock	34.15	33.44	32.76	32.07	31.71	31.37
Total beef	4.81	4.42	4.43	4.30	4.48	4.61
Breeding herd	1.59	1.44	1.46	1.42	1.48	1.52
Total dairy	4.24	4.37	4.40	4.69	4.78	4.91
Milking herd	3.28	3.37	3.48	3.57	3.66	3.75
Total deer	1.67	1.84	1.99	2.11	2.21	2.29

Land Use

Land use conversions to deer, dairy and forestry will be at the expense of sheepmeat, wool and beef production over the projected period. Forestry area at June 1996 was 1.683 million hectares, and is projected to rise to 1.956 million hectares at June 2002.

LAND USE (million ha)						
As at June	1997	1998	1999	2000f	2001z	2002z
Sheep	4.67	4.59	4.54	4.49	4.44	4.40
Beef	2.09	2.08	2.07	2.06	2.05	2.03
Dairy	1.94	1.95	1.96	1.97	1.99	2.00
Deer	0.35	0.38	0.41	0.43	0.45	0.46
Pastoral Total	9.04	9.00	8.98	8.95	8.92	8.89
Forestry	1.74	1.79	1.83	1.87	1.91	1.96

\$NZ:\$US Exchange Rate Table

Nominal Exchange Rate 1NZ\$ =	
Year to March	
1998	0.633
1999	0.527
2000	0.534
2001	0.542
2002	0.555
2003	0.558

Source: Reserve Bank of New Zealand