



ANZ RESEARCH
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HARVEST TIME



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OVERVIEW

Mid-way through the predicted long, hot summer, some parts of New Zealand are benefiting from regular rainfall, but areas of the east coast are parched, particularly Wairarapa and Marlborough. Wine producers will be happy, but it will be tough going for pastoral farmers.

As we head into the main meat processing season, lamb prices are weak, as international demand remains down. Beef prices are also down on last season but are faring better than lamb.

A slowdown in global milk supply is putting a little upward pressure on prices and benefitting the dairy sector.

Farm costs remain high, but upward pressure on pricing is easing. We see the Reserve Bank (RBNZ) continuing to lift the OCR in the coming months, putting further pressure on interest rates, though this will be mitigated by the likelihood that the market will continue to price eventual cuts.

Freight costs are rising as hostility blocks the Suez Canal and drought limits both the numbers and weights of ships traversing the Panama Canal. Asian routes are not directly affected, but costs overall are rising. Higher freight costs, like the high New Zealand dollar, erode farmgate profitability.

Prices at farm/orchard level relative to 10yr average¹

Dairy	Dairy commodity prices are continuing to improve steadily. Our milk price forecast remains at \$7.70/kg milk solids (MS) for the current season and \$8.50/ kg MS for the 2024-25 season. Fonterra has recently upgraded its forecast to \$7.80/kgMS for the current season.	<p>Milk price</p> <p>Low High</p>
Sheep	Lamb farmgate returns have dropped sharply and are likely to fall further once the period for supplying the Easter markets is over.	<p>19kg lamb</p> <p>Low High</p>
Beef	Demand for beef is steady, but prices are expected to come under pressure as the US market becomes oversupplied in the coming months.	<p>Prime steer</p> <p>Low High</p>
Forestry	Log returns have improved a little but it's now a waiting game to see how strong end-user demand is after the Lunar New Year holiday period ends.	<p>A-grade log</p> <p>Low High</p>

¹ All prices are in New Zealand dollars, except where otherwise indicated.



ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

Challenging global economic conditions are suppressing demand for New Zealand's exports. Food products are holding up a little better than other products, but prices are low.

Inflation remains a problem in New Zealand and elsewhere, and interest rates won't be eased until it is under control. We expect the RBNZ will lift the Official Cash Rate (OCR) further to tame inflation.

RESILIENT GLOBAL MARKETS

Global economic conditions are deteriorating, on the whole, but many economies are showing surprising resilience.

Strong growth makes it hard to get inflation under control, meaning interest rates are less likely to be eased any time soon. At this stage, it looks like most of New Zealand's trade-related economies could start easing interest rates later this year.

China, where growth has been lower than expected, is working hard to get its economy back on track, but consumer confidence is low and may take some time to restore. Until this happens, we expect demand to be weaker than we have seen in recent years. This has particularly impacted our lamb exporters, who are heavily reliant on the China market.

The US is growing strongly, and this is evident in its demand for our exports. It has imported a lot more beef in the past year, taking some of the volume that would normally have gone to China.

INFLATION STILL A CONCERN

Inflation remains of concern for the RBNZ. The latest Consumer Price Index showed non-tradable inflation (essentially, domestic inflation) is still problematic. The recent drop in the headline inflation figure came mostly

from the tradable inflation subindex, meaning it has more to do with a fall in global than local prices.

Monetary policy is clearly cooling the economy, but progress on bringing domestic inflation down has been slower than the RBNZ expected to see when it stopped raising the OCR last May. Accordingly, we expect the RBNZ will lift the OCR further in two 25bp lifts in February and April. Only once inflation is clearly under control will the RBNZ be able to dial back monetary policy tightening.

Rural enterprises tend to carry high levels of debt, although this is not spread evenly across rural sectors. Those with high debt are finding it increasingly difficult to manage, as higher interest rates have coincided with generally lower returns and higher farm operating costs.

Rural businesses tend to be good at cutting spending when needed, but their belt-tightening has a secondary impact on rural communities.

DEMAND FOR EXPORT COMMODITIES MIXED

Global demand for our export commodities varies considerably between products and markets.

Dairy product prices are improving but meat products are proving to be harder to sell. Log prices have lifted, despite very high reliance on the China market.

Food commodities are returning better prices than "hard" commodities such as oil. The Bloomberg Commodity Price Index tracks a range of commodities, including energy (such as oil), metals, grains and other food, and livestock. It has fallen 5% in the past year.

Global economic growth is expected to ease this year. Our world GDP growth forecast for 2024 is 2.7%, down from an estimated 3.0% in 2023. By 2025, we expect global growth to improve.



ECONOMIC OVERVIEW

The European Union (EU) and UK economies are expected to remain subdued this year, which will make it difficult to achieve higher returns from those markets. The UK is a large market for New Zealand's wine and apples, and we sell a lot of kiwifruit and onions to the EU.

CHALLENGES TO SHIPPING

Another factor that will make it difficult to export goods to western Europe is global shipping costs.

Global shipping is being hampered by two major obstacles: drought has lowered the water level in the Panama Canal, limiting the size and number of ships that can pass through, and Houthi attacks on ships in the Red Sea have led to ships being diverted around Africa rather than travelling through the Suez Canal.

New Zealand's exports to Asia are not directly impacted, but the longer shipping routes and delays are tightening the supply of containers and increasing costs. This is flowing broadly through freight costs.

LOW NEW ZEALAND DOLLAR

The NZD strengthened towards the end of 2023 but has since retreated. At present, it is trading at just over USD0.60, slightly weaker than it was a year ago. We expect it will gradually strengthen, reaching USD0.63 by the end of the year. But, if it strengthens more quickly, it will erode farmgate returns.

NZD/USD



Source: Bloomberg, ANZ Research

Click [here](#) to access our latest forecasts.



DAIRY

DAIRY PRICES STEADILY IMPROVING

Dairy product prices are slowly trending higher, supported by a reduction in global milk supplies.

Weather has favoured milk production across New Zealand's major dairy regions, delivering higher milk volumes despite a reduction in the number of dairy cows.

Global commodity prices have helped achieve our current milk price forecast of \$7.70/kg for milk solids (MS) this season.

GLOBAL PRODUCTION SLOWING

Global dairy markets are rebalancing, as supply is contracting. Supply from the northern hemisphere tends to fall at this time of year, but milk production has also slowed after a period of relatively low returns. Slower production has helped balance weaker demand.

The biggest fall in demand has come from China, the world's largest importer of dairy products. China's growth has slowed since the pandemic. Along with consumer confidence, birth rates there have dropped sharply, reducing demand for infant formula. As we enter the Chinese Year of the Dragon, a favourable year on the zodiac, this trend may slow, as Dragon years often show a lift in the annual birth rate.

Chinese authorities are trying various methods to stabilise the economy. If successful, this may bolster consumer confidence and stimulate demand for imported foods. But growth rates are unlikely to return to last decade's levels any time soon.

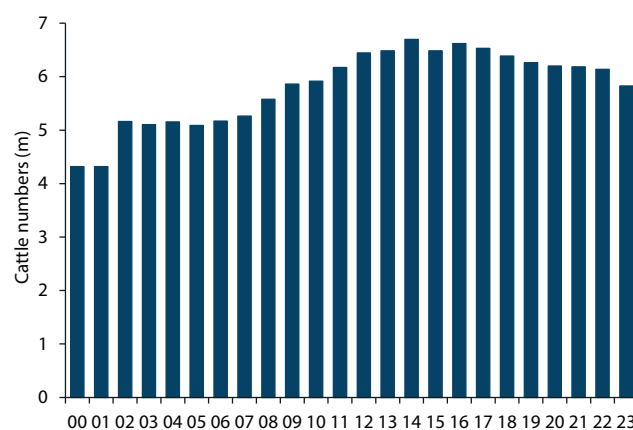
LOW RETURNS LIMIT PRODUCTION

Milk prices are relatively low in most dairy-producing regions. They tend to fluctuate more in New Zealand than in other countries due to the small domestic market and our exposure to global markets.

Costs of production have risen in most countries as inflationary pressures continue. Environmental challenges are inducing farmers to limit stock numbers, curbing milk output. This is particularly evident in Ireland and the Netherlands.

In New Zealand, dairy cow numbers are falling. Official statistics show they fell 2% in the year to June 2023. There are now 13% fewer dairy cows than when the number peaked nine years ago, and numbers are at their lowest since 2008. That said, improved per-cow production in New Zealand has largely offset the fall in numbers, with milk volumes stabilising in recent years.

DAIRY CATTLE IN NEW ZEALAND



Source: Stats NZ, ANZ Research

PRODUCTION UP ON LAST SEASON

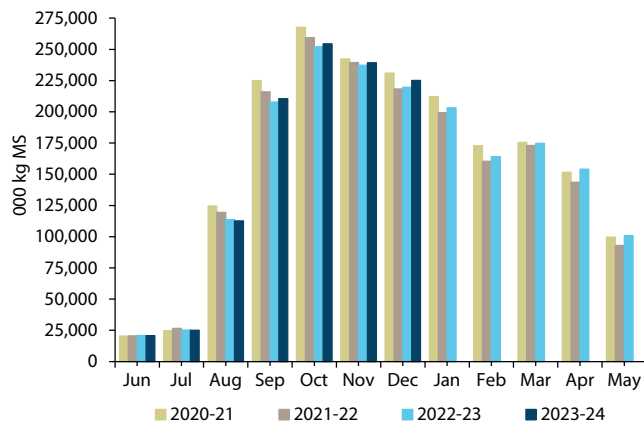
New Zealand milk production for the season to date (June-December) is up 1% year-on-year (y/y) when measured on a milksolid basis. On a volume basis, milk collections are slightly lower. After a slow start to the season, year-on-year production improved during the peak production months (October to December).



DAIRY

Pasture growth through the summer so far has been favourable in New Zealand's main dairy regions, which should keep production ahead of last season. Some eastern regions are struggling and have reduced milking frequency to once a day.

NEW ZEALAND MILK PRODUCTION



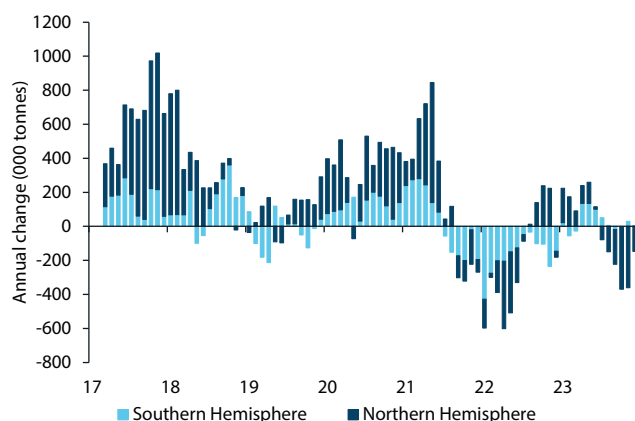
Source: DCANZ

Milk production in Australia improved this season after several poor seasons, but EU and US output has been lacklustre.

Milk production in the US has been trailing last season since the middle of 2023. Production across the full calendar year was on par with the previous year, as growth in the first half of the year offset the weaker second half. The number of cows in the US and production per cow are both currently declining.

US milk production is forecast to lift slightly in 2024, as profit margins improve. But EU production is expected to have fallen about 1% in 2023, and we are unlikely to see a recovery in 2024.

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



Source: Fonterra, DairyNZ, ANZ Research

The slowdown in milk production in dairy-exporting economies has been partially offset by stronger production in countries that focus solely on domestic markets.

China's official milk production figures show output has lifted in recent years after years of stagnation. However, there are also reports of dairy farms struggling financially. In this environment, it seems unlikely that China's domestic milk production will continue to grow.

MILK PRICE FORECASTS REVISED UP

Our milk price forecast for the 2023-24 season remains at \$7.70/kg MS. Fonterra recently upgraded its milk price forecast for the current season to a range of \$7.30-\$8.30, which lifts the mid-point of the forecast by 30c to \$7.80. The forecast range was not narrowed despite Fonterra being well through the selling season.

Fonterra recently started publishing the exchange rate used in its milk price calculation, which will help with the accuracy of our forecasts.

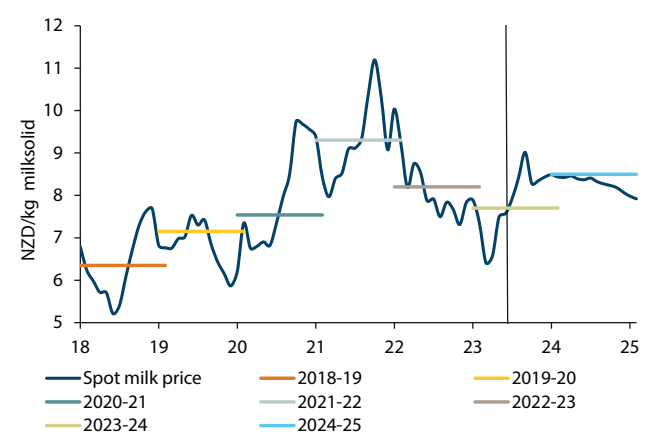
Fonterra's forecast average conversion rate for the season is USD0.6317 (at 7 December), at which point 84% of its expected USD requirements had been hedged. This rate is very close to our estimate for the season, so it won't impact our forecast.

Dairy commodity prices are steadily trending higher, and this is expected to continue in coming months.

Looking ahead to the 2024-25 season, we forecast a milk price of \$8.50/kg MS. If achieved, this should deliver some profit back into the industry, as this price will end up near breakeven for the average farm.

Farms with high debt levels are finding it particularly challenging to keep up with the rapid rise in interest rates and other costs.

FARMGATE MILK PRICE FORECAST



Source: Fonterra, ANZ Research



LAMB & WOOL

TOUGH SEASON FOR SHEEP FARMERS

The 2023-24 season is proving tough for sheep farmers. Returns are low for both lamb and mutton, while on-farm costs continue to rise.

The physical environment is also challenging. Drought is affecting many of New Zealand's regions. Some have had summer rain and feed is holding up, but for those that haven't had adequate rain, finding feed is becoming a challenge.

Wool prices are better than in recent years, but the cost of shearing still exceeds returns for coarse wool.

LAMB SCHEDULES STABILISE

Global lamb markets are suffering from weak consumer demand and strong global supply. This combination has weakened selling opportunities and put downward pressure on prices.

Lamb is a relatively pricey protein, and as global economic growth has slowed, so has demand for lamb. Demand from China has been particularly weak. New Zealand has become used to this market paying good prices for many lower-priced cuts. China is also the major market for mutton.

The supply of lamb from Australia has been high in recent months. The quantity of lambs processed in Australia shot up last year as it rebuilt its flocks. In the spring, summer drought was forecast to reduce available feed, which lifted culling rates. As it turned out, rains came – too much in some regions – so kill numbers should start to slow. But, at present, plenty of Australian lamb is still being exported.

EXPORTERS FOCUS ON EASTER MARKETS

New Zealand exporters are focusing on supplying lamb to Europe for Easter. The volume of lambs available for

processing typically lifts at this time of the season, but there has been a lull in the number of lambs sent for processing.

The lamb schedule dropped back after Christmas but has now stabilised and even improved slightly in some cases, as buyers are working hard to secure sufficient lambs to meet Easter contracts.

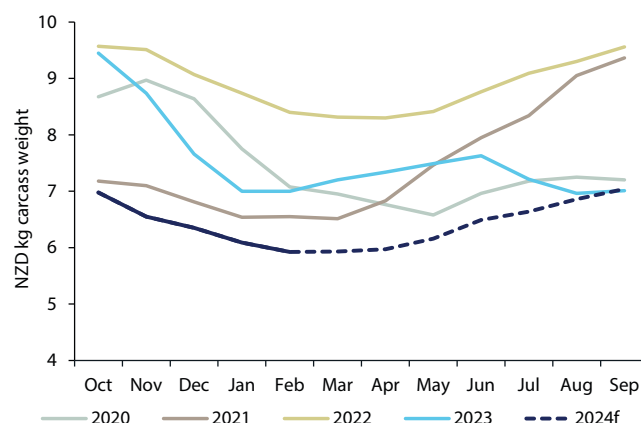
Many farms sold lambs earlier in the season, and the remaining lambs have been a little slow to finish, as the drier conditions have impacted feed quality and quantity. In some cases, farmers are looking to grow lambs to slightly higher weights to try to offset some of the impact of the lower per-kilogram prices.

In the South Island, the lamb kill for the three-months to December is trading 5.6% ahead of last season. In the North Island, processing numbers are behind by 8.2% y/y.

Farmgate lamb prices are still above \$6/kg carcass weight (CW) in the North Island, where lambs are a little harder to source, but are below \$6/kg CW in the South Island.

Farmgate lamb prices are down about 15% y/y.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

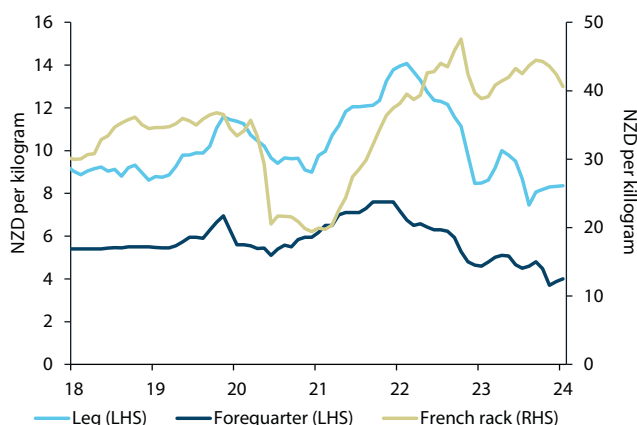


LAMB & WOOL

LAMB RACKS ARE THE BEST-PERFORMING CUT

In the international market, price movements vary. Lamb racks are the best-performing cut, with prices at similar levels to a year ago, whereas prices for lower-value cuts have dropped significantly.

LAMB PRICES, BY CUT



Source: AgriHQ, ANZ Research

It is difficult to see a significant improvement in pricing any time soon. The strength of consumption during the Lunar New Year and Europe's Easter holiday period will be key to pricing for the rest of the season.

STORE MARKET PRICING EASES

Farms without irrigation or with limited crops are struggling to find suitable feed to fatten lambs. So far, the drought isn't as widespread as it has been in some years, which means there are still some parts of the country that have good lamb feed available.

Store stock prices have fallen, particularly store lambs. Prices for replacement ewes have eased but pricing hasn't tumbled, indicating there is still underlying confidence in sheep farming, even if that is not reflected in current schedule returns.

Farm costs continue to rise, with the cost of shearing now a significant drag on profits. This is prompting some farmers to consider either shearing less frequently or introducing self-shedding genetics to flocks to reduce the burden of shearing. Cross-bred progeny usually require some shearing, but less often. It also reduces the need to dag ewes and lambs as they carry less wool.

Flystrike has been challenging this season, particularly in areas experiencing warm and wet conditions. While there may not be any financial reward in shearing stock in a timely manner, there are significant animal welfare benefits.

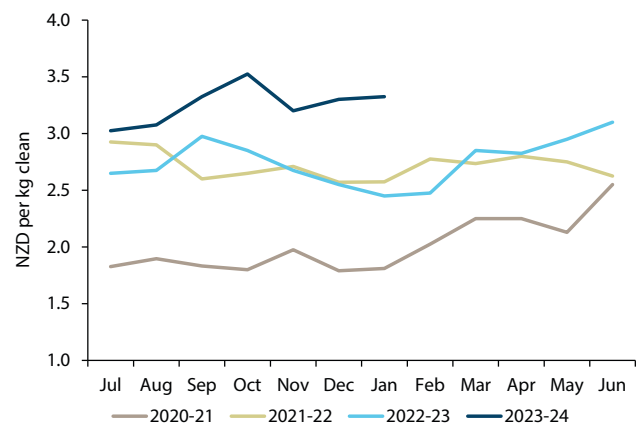
GOOD DEMAND FOR QUALITY WOOL

While they vary week-to-week, depending on the quantity and the quality on offer, wool prices are bouncing along at about 33% higher than a year ago.

The quantity of wool being passed in at recent auctions has been low. There is a wide range of quality on offer, and buyers favour better quality. But given that returns are still low, it is not surprising that many farmers are not focusing on delivering a higher-quality product.

The quantity of wool on offer in the North Island is high at present, given the seasonal lift in shearing over summer. Auctions are now weekly, but the market appears to have sufficient depth to absorb the extra wool on offer, which is a positive signal.

STRONG WOOL PRICES



Source: PGG Wrightson, ANZ Research



BEEF

MORE BEEF DIVERTED TO THE US

Exporters have shifted focus to the US market, as demand from China remains soft.

Supply in the US is expected to build in coming months, as domestic slaughter is high and other producers, including New Zealand, ramp up supply in the southern autumn. This could put downward pressure on prices.

US DEMAND TAKES UP THE SLACK

The global beef market is displaying some interesting trends. There has been a big up-tick in supply from Australia, with most of the extra volume heading into the US market.

The US imported more beef in 2023 (estimated to be up 9%) and exported less (-13%). US domestic production was stronger than expected, and a high proportion of heifers are still being culled, suggesting strong domestic consumption.

Total cattle numbers in the US are not increasing in line with expectations. Official data show cattle numbers in the US down 2% y/y at the beginning of 2024. Almost all stock classes recorded lower numbers, but more cattle are on feedlots at present.

This means we may see more US cattle culled in the short term. Longer term, though, US domestic beef production will decrease.

At present, the US market is well supplied with Australian beef. Australian exports to the US shot up in December, so more beef than normal will have arrived in the US in January. Also bolstering US imports in January were supplies from countries that don't have a specific country quota and therefore will be aiming to get their share of the 65,000t import quota for 'other countries'.

Australia, New Zealand, Argentina and Uruguay have their own supply quotas. The New Zealand and Australian quotas are significantly larger than the other two.

Another 13 countries are approved to supply to the US. Several, including Brazil, compete to supply under the 'other country' quota. Due to the scale of its beef industry, Brazil has dominated this quota category. It also sells a lot of beef to the US outside the quota, but those sales are subject to a steep import tax.

In 2022, Brazil supplied more beef to the US than New Zealand did, as a lot of New Zealand beef went to China. In 2023, New Zealand reclaimed its spot as the fourth-largest supplier of beef to the US, behind Canada, Mexico and Australia.

This rise in beef exports to the US came about due to weaker demand from China. China beef imports are estimated to have lifted just 2% in 2023, which is a far cry from recent years when China's demand for imported beef grew exponentially year-on-year.

US prices for imported beef have been pretty stable since November, but have risen a little in recent weeks. This trend is unlikely to be sustained through the southern autumn, when New Zealand farmers ramp up culling.

SLOWDOWN IN LOCAL PROCESSING

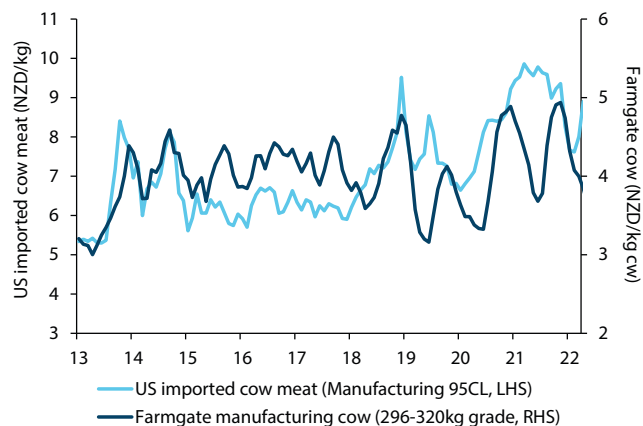
New Zealand has processed less beef than normal in recent weeks. Some regions had strong pasture growth earlier in the season which has now dried off, leaving a lot of poor-quality feed on the ground. This is best managed by grazing mature cattle, so more are being retained on farm to deal with the "rank pastures".

Cattle available for processing will lift as cull cows become available when calves are weaned. Dairy farms will also offload more cows once feed starts to dwindle. Thus far, however, the main dairying regions are faring well in terms of summer pasture growth.



BEEF

COW MEAT PRICES



Source: USDA, AgriHQ

It is interesting to note on the graph above how large the seasonal swings in farmgate prices for manufacturing grade cows have become since COVID-19. The cost of operating processing plants has also risen due to labour shortages, and this has reduced farmgate returns relative to overseas prices.

CHINA HOLIDAY DEMAND CRITICAL

China's demand for and pricing of imported beef have been steady in the lead-up to the Lunar New Year around 10 February. The holiday will mean a lull in activity from Chinese buyers. But demand may pick up again in March depending on consumption over the holiday period.

SHORTAGE OF STORE STOCK

Farmgate prices for beef are a little weaker than this time last season but not substantially lower. Depending on the grade of beef, pricing is down roughly 3-7%. Procurement pressure is helping to keep downward price movements in check, for now.

International prices don't currently support further downgrading of schedule prices, but this is likely to change if demand from China doesn't lift and the US market becomes oversupplied.

Processors are keen to secure sufficient stock to keep staff busy until the main processing season kicks in. At present, processors risk losing staff due to the lack of shifts available. If this continues, we may see delays in stock processing later in the season.

Store prices for cattle remain robust. Prices have softened a little for most classes of stock over the past month and are now lower on a year-on-year basis.

The numbers of stock being traded is relatively low for this time of the year. Concerns are starting to be raised as to the future availability of cattle. New Zealand's dairy herd is shrinking, fewer dairy-beef cross calves were raised this season, and farmers are less willing to sell existing stock at present. The number of cattle has been less than normal at many of the recent yard sales, with the trend evident in most regions.



DEER

DEER NUMBERS FALLING

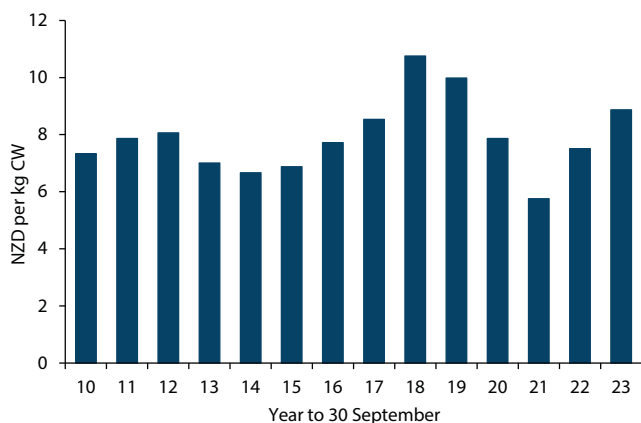
Farmgate prices eased slightly in December but have held steady since then. Exporters are working hard to keep returns at a reasonable level. Deer numbers have plummeted in recent years, and the industry is working hard to turn this trend around.

Farmgate prices for venison dropped by 5–10c/kg in December as the season for chilled production finished, with most meat now being frozen.

Schedule prices are now holding near \$8.70/kg CW for young stags. This is near the average price for the 12 months to September 2023.

Prices are not yet where producers would like them to be, but stable returns are providing a level of certainty to farmers.

VENISON FARMGATE PRICES (BASED ON 60KG STAG)



Source: AgriHQ

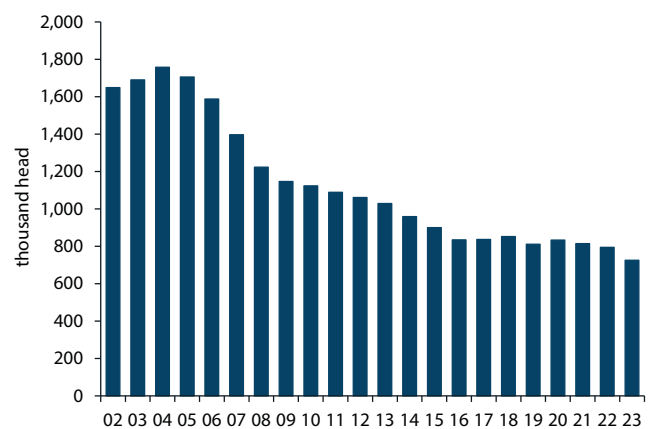
DEER LESS FAVOURED

The number of deer farmed continues to plummet, as low returns in previous years mean deer have fallen out of favour. During the pandemic shutdowns venison

prices plummeted relative to prices of other meats, resulting in many farmers easing back on deer numbers in favour of sheep or cattle.

The deer industry is working hard to deliver sustainable returns to farmers to rebuild confidence in the industry.

NUMBER OF DEER FARMED IN NEW ZEALAND (YEAR TO JUNE)



Source: Stats NZ

Falling deer numbers mean more deer are being slaughtered, which increases the supply of venison.

CONFIDENCE HIGH IN VELVET INDUSTRY

Confidence amongst deer farmers who concentrate on velvet (antler skin) production remains high, despite challenges. This is reflected in strong prices being paid for trophy and breeding stags.

Late last year, China changed its rules on the importation of velvet, which is used in Traditional Chinese Medicine. Most velvet had been exported frozen, but from 1 May 2024 only dried velvet will be allowed. However, New Zealand does not have adequate drying facilities to further process all velvet here.



DEER

Officials from New Zealand's Ministry of Primary Industries are working with Chinese authorities to resolve the issue before next season. Velvet cut this season will need to be exported to China before the regulatory change takes place.

Koreans consume most of the velvet exported from New Zealand, and the product's reputation is growing. Many Korean companies specifically use New Zealand velvet in their health food products.

Trade relationships with South Korea are also strengthening. Currently, a lot of the velvet destined for Korea is processed in China, but exporters are starting to send a larger amount directly to South Korea for processing.

GRAIN

GRAIN PRICES TREND DOWN

Grain prices continue to ease in both local and international markets.

Global and local supplies are adequate to meet demand. The international situation may change if disruptions to shipping routes worsen.

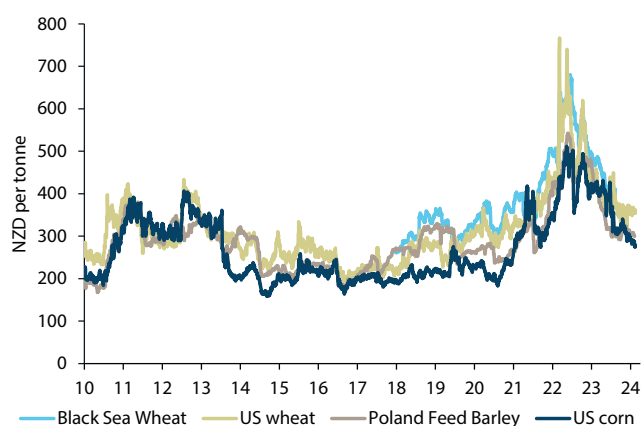
Locally, farmers are looking to offload last season's harvest to make room for the new season's harvest.

Global wheat production for the 2023-24 season is forecast to be lower than the record volume produced last year. Global wheat stocks are estimated to be at their lowest level since 2015.

Global wheat prices have generally trended lower in the past three months, as seasonal availability lifts and recently harvested Australian wheat reaches the market. Demand from China for imported wheat has waned, which has also softened prices.

Exports of wheat from Russia are increasing and are forecast to reach record levels this year. Russia is now exporting a lot of wheat to Brazil and Mexico.

WORLD GRAIN PRICES



Source: CME Group, Polish Ministry of Agriculture & Rural Development, ANZ Research

Ukraine is exporting less than half the volume of wheat it was trading prior to Russia's invasion, but it is getting more into the European Union via overland (rail and road) routes than the now-disrupted shipping routes through the Black Sea.

A recent Indian ban on rice exports means many countries in sub-Saharan Africa will be looking to import more corn and wheat as they will struggle to find alternative sources of rice.

Global corn production is forecast to lift. The US has had a record corn harvest and is carrying large stocks. Prices have trended down over the past 12 months but stabilised a little in recent months.

Although global wheat supplies are forecast to be lower, production of coarse grains such as maize and barley is expected to be greater. China is expected to import more grain, primarily to feed pigs and cattle.

While the price of corn has fallen, the cost of shipping it has lifted due to the challenges of getting ships through the Panama Canal or the Suez Canal. The Panama Canal is low on water, which is restricting both the number of ships allowed through and the weight they can carry. Getting through the Suez Canal has become increasingly dangerous due to Houthi attacks on ships in the Red Sea.

LOCAL PRICES SOFTEN

Grain prices in New Zealand continue to trend down, and this trend is evident across almost all grades of grain and feed.

Despite the rapidly drying weather, there has not been sufficient demand in the spot market to push feed prices higher. Grain stocks are relatively high, and there is pressure to clear existing stocks from silos before the new season harvest. This is putting downward pressure on prices.

While most of the country is experiencing a dry summer, parts of Canterbury (where most of the arable crops are grown) have received more rainfall than normal. This

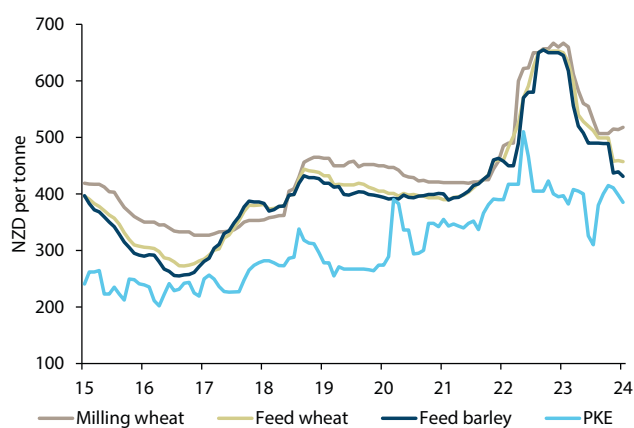


GRAINS

will help bolster yields, but arable farmers will now be looking for a sustained period of fine weather for harvest. Harvesting of barley and wheat is underway, with timing dependent on the location and maturity of the crop.

There is limited appetite for contracts for the new-season harvest, as buyers are reluctant to lock in prices while there is a market expectation that prices may soften further.

NEW ZEALAND GRAIN PRICES



Source: NZX



FORESTRY

LOG PRICES IMPROVE

Log prices have softened a tad, as international demand eases during the Lunar New Year holiday. India is paying more for imported logs, due to increases in shipping costs.

Local demand has picked up a little due to summer building activity.

An extended holiday period for many sawmills has tightened supply and allowed the local market to become more balanced.

LOG MARKET STABILISES

Log prices have generally been trending up in recent months but have now stabilised. Prices have softened slightly since a short-lived rise in late 2023, but are largely stable at present.

International demand is a little softer at the moment due to the Lunar New Year holiday, but it is expected to pick up once that ends.

IN-MARKET LOG PRICES



Source: AgriHQ

Leading into the holiday, the offtake of logs from Chinese wharves slowed, as expected, but stocks are not reported to be growing excessively at present.

Overall, demand from China is subdued due to the challenges in its property sector, which has slowed construction. Authorities continue to try different ways to stimulate the economy.

The economies of India and China are expected to slow this year relative to 2023. Despite that, the International Monetary Fund recently revised up its economic growth forecasts for both, putting China at 4.6% and India at 6.5%. Our forecasts are slightly lower at 4.2% for mainland China and 6.2% for India.

Growing economies tend to increase their spending on infrastructure projects, which helps bolster demand for materials such as logs.

INDIA BECOMING A MORE VIABLE OPTION

New Zealand ships most of its export logs to China but is starting to ship some logs to India. The cost of getting logs to India from Europe has lifted significantly as hostility in the Red Sea increases the time and costs involved due to needing to sail around Africa.

Similarly, the cost of getting logs to India from North America through the Panama Canal has skyrocketed as drought limits both the number and weight of ships allowed to pass through. Passage through the canal is being auctioned, sharply adding to costs, which is particularly problematic for bulky low-value goods such as logs.

India will need to pay more to secure logs, which will make trade more lucrative for New Zealand exporters. India was once a major market but, over time, China became the preferred destination due to the higher prices on offer.



Log exports to India were also impacted by New Zealand's ban on methyl bromide. India requires all imported logs to be fumigated with this gas, but a workaround has been put in place that allows fumigation of logs at sea during transit.

LOCAL DEMAND STEADY

The local market for timber improved a little towards the end of 2023. Typically, there is a seasonal boost in demand for timber as more construction occurs during the dry summer months. The holiday season also lifts demand for home-improvement materials, particularly decking timber.

Many sawmills took extended shutdowns through the Christmas and New Year period. This has tightened the supply of timber in local markets.

Demand for the round-wood typically used for fence posts is quite weak at present. Farmers are facing poor returns this season so are avoiding spending on capital items including new fence lines and pole sheds.

House construction activity has also softened. Housing consents have fallen sharply, indicating demand for timber for construction will be lower than normal for some time. Housing consents typically lead construction activity by three to six months, and we are yet to see an increase in consents.

That said, there is an air of confidence returning to some businesses and consumers that may translate into improved demand for housing in general and eventually into demand for new housing. Immigration levels have also been high, meaning there are now about 130,000 more people to house than a year ago.

Mortgage rates are expected to ease in the second half of the year, which is likely to translate into additional demand for homes later in the year. Construction costs are also expected to ease as the year progresses, meaning building a new home should stack up better, from a financial point of view, in the second half of the year than it does now.



HORTICULTURE

HARVEST LOOMS

The apple harvest has commenced. Harvesting is just underway for kiwifruit and will start next month for grapes.

Growing conditions for horticultural crops are largely favourable, and warm, dry conditions should favour fruit quality.

Labour availability has improved, but operating costs are high.

Shipping is likely to cause challenges, particularly for perishable goods heading to Europe.

KIWIFRUIT: BIG SEASON AHEAD

The kiwifruit season is looking good on a number of fronts. Growing conditions are reported to be favourable as we head toward harvest. At this stage volumes are expected to be similar to the record of 2021.

Picking, packing and selling a larger volume of fruit will be challenging for the industry. Processes ran smoothly last season when yields were low, but the larger yields expected this season will test capacity and processes. Labour is expected to be less of a problem this season than in recent years.

Zespri has steadily increased its use of charter ships to get fruit to market. Charters have proven more reliable and quicker, particularly at the peak of the season when there is sufficient fruit to fill an entire ship. The company recently chartered a ship to move Italian-grown fruit to its Asian markets ahead of Lunar New Year. This halved the time it would have taken using a mixed-container ship, meaning the fruit was on retail shelves in time for the festive season.

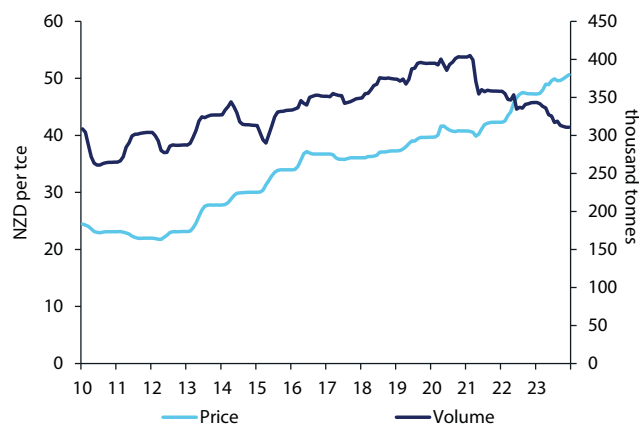
It is much harder for horticulturalists exporting smaller quantities to justify chartering, as they can't fill an entire ship.

APPLES: PRICES UP, VOLUME DOWN

Traditionally about 10% of New Zealand export apples are sold to Europe (UK=7%, EU=3%). Getting apples to Europe this year is likely to be more challenging and expensive as using the Suez Canal becomes increasingly dangerous. Accordingly, we expect to see an increased reliance on Asian markets.

The apple harvest is just underway. There are more backpackers and new migrants and the job market is starting to tighten, which should make it easier for growers to find sufficient labour for picking.

APPLE EXPORT VOLUMES AND PRICES



Source: Stats NZ, ANZ Research

Apple export volumes have trended down in recent years. This has been partially offset by higher export prices.

Apple growers have been facing challenges. During COVID-19 lockdowns, limitations on people movements and staff shortages meant not all fruit was harvested.

The 2023 Hawke's Bay floods had a devastating impact on last year's harvest. Many orchards were decimated or sustained substantial damage. It will take years for the



industry to recover from this setback and some orchards will not be worth replanting. The area planted with apple trees is estimated to have diminished by approximately 16%, and some existing orchards are no longer as productive.

Apple export returns grew continuously until 2020, as both yields and prices trended higher. Export volumes were particularly low last year but are expected to be a little higher this season.

Export prices have continued to lift but volumes have plummeted, meaning export returns are trending lower.

The Rockit apple variety is now the third most valuable export variety, behind Royal Gala and Envy, despite accounting for only 3% of export volumes.

WINE: HARVEST SEASON LOOMS

Wine growers are busy in the lead-up to harvest. Netting grapes is a time-consuming process but necessary to prevent the maturing fruit from being eaten by birds.

The main grape-growing region of Marlborough is experiencing a particularly hot and dry summer. If this weather persists until harvest it should result in some good-quality wines. Unfortunately, volumes are expected to be well down. Unfavourable weather conditions during the critical pollination period has reduced the quantity of fruit on the vines this season.

Conditions are also hot and dry in the Wairarapa with this region drying out very quickly after Christmas. Hawke's Bay and Gisborne have had more rain than normal thus far, making the grapes susceptible to fungal diseases.

The area of land planted in grapes continues to steadily increase. Two-thirds of the grapes planted are Sauvignon Blanc and 70% of total plantings are in the Marlborough region.

The US and the UK are our largest and most valuable markets for wine. Shipping to these regions is becoming more expensive but, unlike most of our horticultural exports, wine is not a perishable product, so a longer journey to market does not impact quality.



RURAL PROPERTY MARKET

RURAL PROPERTY MARKET SUBDUED

Sales activity remains subdued for almost all types of rural properties.

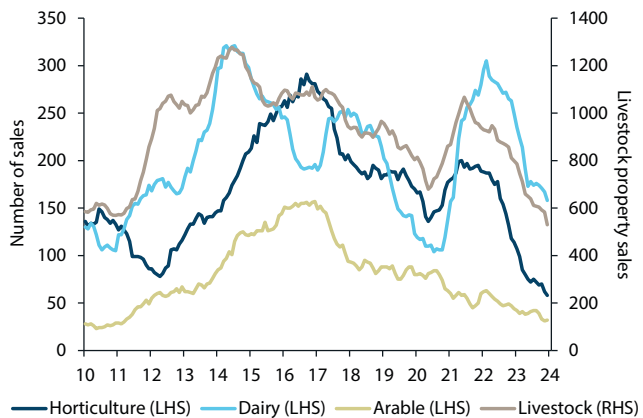
Relatively low returns from farming, uncertainty about the future and high interest rates have dampened investor confidence. These factors will need to change before there is a marked improvement in property sales.

LOW RETURNS LIMIT ACTIVITY

The combination of low returns from most forms of farming, uncertainty regarding future legislation and high interest rates are together damping down the rural property market.

The number of rural properties that changed hands in 2023 was 42% below the 10-year average. Just 32 arable farms changed hands, 65% less than normal. Horticultural properties were also out of favour, with only half the number of sales of the previous year.

SALES VOLUMES BY SECTOR

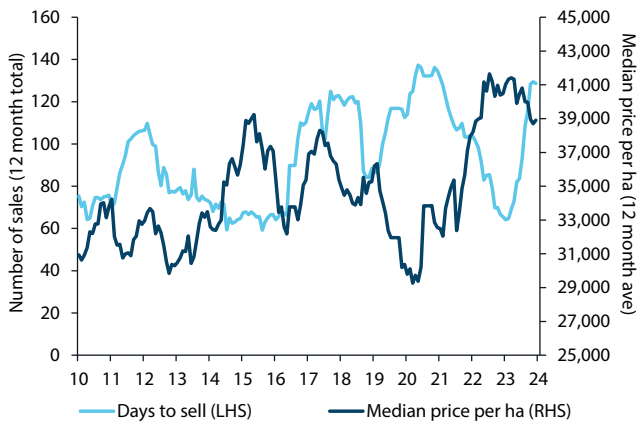


Source: REINZ

LITTLE APPETITE FOR DAIRY PROPERTIES

Dairy farm sales activity may be low and other indicators are also weak. Median prices for dairy sales have been trending lower again. As an indicator of value, median prices have their limitations, but we have also seen a substantial increase in the time it is taking for dairy farms to sell. On average dairy farms are taking over four months to sell from the date of listing. Dairy farms are selling at a slower pace than other types of properties.

DAIRY FARM SALES



Source: REINZ

The farms that are selling the quickest are livestock properties. This category covers a wide range of properties from flat finishing and support properties to extensive hill country properties.

Regions where rural properties are selling the quickest are Wellington, Auckland, Hawke's Bay and Otago.

The property market is expected to remain relatively subdued for the current season. Interest rates are expected to trend lower later this year. If that is combined with more healthy returns then we may see an improvement in the property market, but in the short term the market is expected to remain subdued.



RURAL PROPERTY MARKET

FARM SALES BY FARM TYPE

Annual average/total		Past 12 months	Previous 12 months	10-Year Avg.	Chg. Y/Y	Chg. P/10yr
Dairy	Number of sales	129	235	221	↓	↓
	Median price (\$ per ha)	38,909	40,482	35,740	↓	↑
Livestock	Number of sales	530	799	951	↓	↓
	Median price (\$ per ha)	23,775	20,883	19,417	↑	↑
Horticulture	Number of sales	58	114	188	↓	↓
	Median price (\$ per ha)	317,333	489,667	259,790	↓	↑
Arable	Number of sales	32	44	91	↓	↓
	Median price (\$ per ha)	37,900	36,550	39,645	↑	↓
Forestry	Number of sales	45	43	54	↑	↓
	Median price (\$ per ha)	7,182	14,333	9,159	↓	↓
All farms	Number of sales	872	1,317	1,544	↓	↓
	Median price (\$ per ha)	29,075	28,742	26,390	↑	↑

Source: REINZ

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Last updated: 18 April 2023

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