ANZ RESEARCH

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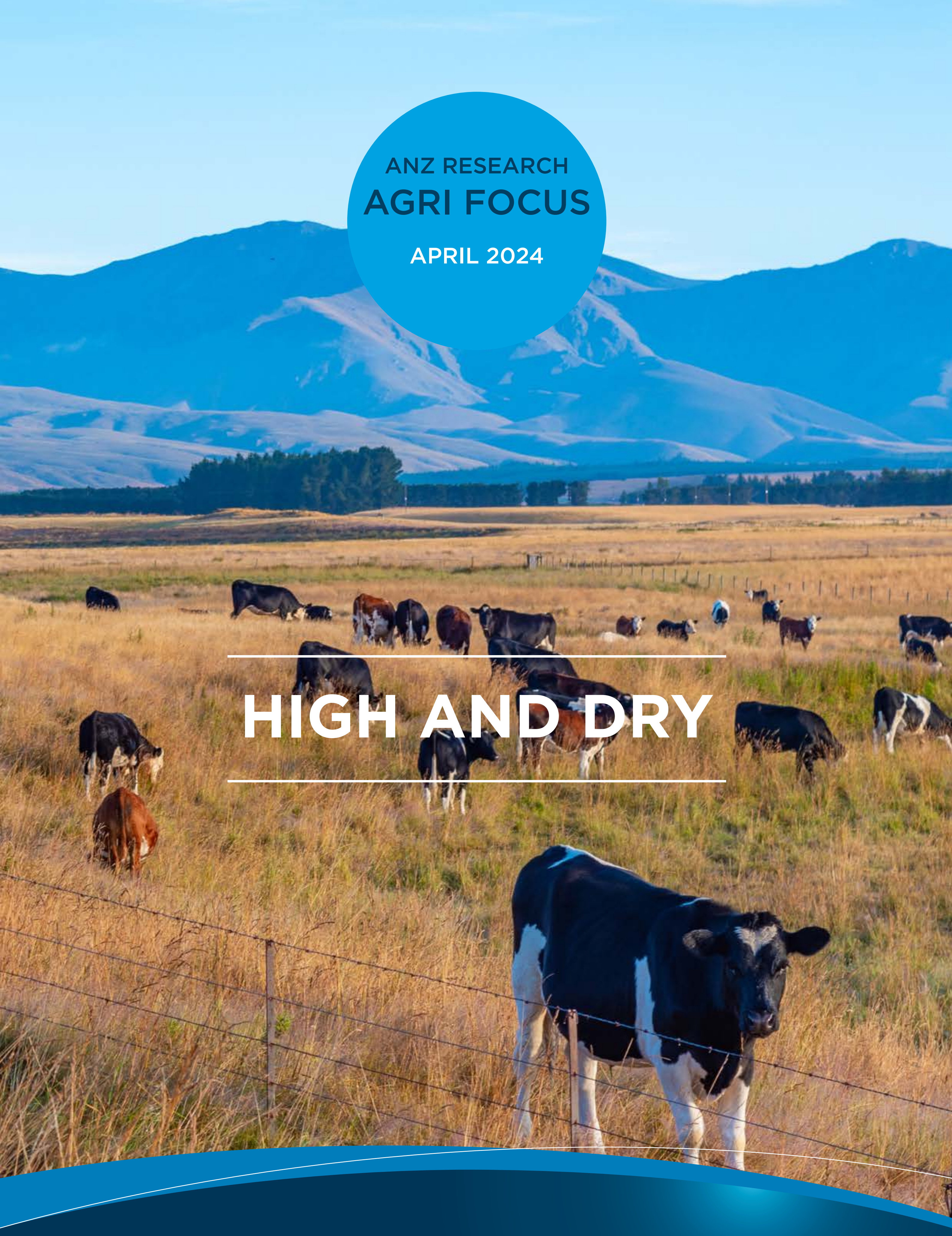
APRIL 2024

HIGH AND DRY



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INSIDE

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Publication date: 19 April 2024

OVERVIEW

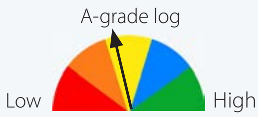
The global outlook and the climatic outlook vary hugely between industries and locations.

Consumer confidence in China remains low and this has reduced demand for a range of New Zealand's export products, from lamb and mutton to logs. What these products have in common is a dependence on sales into China, which has tended to pay higher prices than other markets for many years.

Demand from European markets is proving more robust, despite the region's current economic downturn. This should probably come as no surprise, as many of our food exports are staple foods there.

New Zealand's autumn has so far been hot and dry, which has assisted with the harvest of many horticultural products, particularly grapes. However, pastural farmers are being hindered by drought.

Rains are starting to fall, but for a lot of farms it will be difficult to grow enough feed before cooler winter weather sets in. Many have also eroded their feed reserves, which would normally cover the winter period.

Prices at farm/orchard level relative to 10yr average[1]		
Dairy	Dairy commodity prices have generally improved in the past couple of months and remain supportive of our milk price forecast of $7.85/kg milk solids (MS) for the current season and $8.50/kg MS for the 2024-25 season.	
Sheep	Global markets for lamb products are mixed at present but overall returns are low and this is not expected to change anytime soon. Lamb farmgate prices have stabilised at low levels and low returns are expected to persist next season.	
Beef	Demand from the US market for beef is strong, which will help support prices throughout New Zealand's autumn when cattle processing is at its seasonal peak.	
Forestry	Demand for logs has not lifted as much as was expected following the Lunar New Year holiday. Felling rates are slowing due to weak international demand. Domestic demand for logs is steady.	

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

ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

Inflation remains a challenge for New Zealand but is gradually being tamed. This is coming at the expense of economic growth, particularly for the country's agricultural sectors. The RBNZ is not expected to loosen monetary policy until 2025, and the exact timing will depend on how long it takes to get inflation back towards the long-term target of 1-3%.

RURAL SECTOR FEELING THE BRUNT OF HIGHER RATES

New Zealand's economy is cooling at disparate rates across sectors. Agriculture-related sectors are bearing the brunt of tighter monetary conditions, as most rural businesses have relatively high debt levels.

Monetary policy tightening via higher interest rates has coincided with relatively low commodity prices and high operating costs, creating a "perfect storm" that is damaging farm profitability.

The job of monetary policy is to manage inflation and it does that by slowing the economy, which reduces demand and takes pressure off prices. This is starting to occur, with the economy now in recession.

The goods sector is leading the slowdown, but we are now also seeing slowing in the services sector. We anticipate the economy will continue to slow, but the question is around when the Reserve Bank of New Zealand (RBNZ) will feel confident enough to loosen its hold on monetary policy.

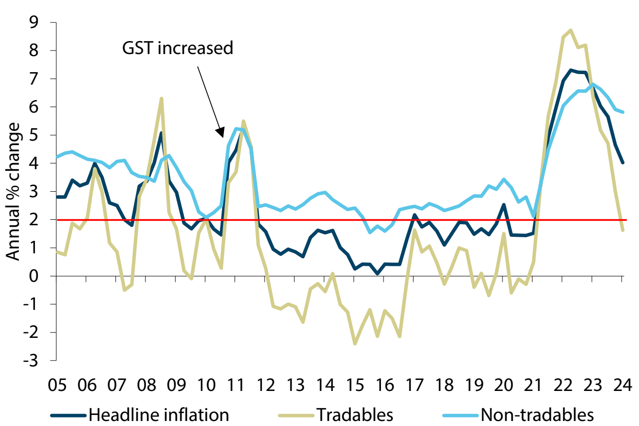
MONETARY POLICY TIGHT THROUGHOUT 2024

At this stage, we do not see any loosening of monetary policy occurring until 2025. In its latest Monetary Policy Review, the RBNZ held the Official Cash Rate at 5.5%, as expected, stating that the "Committee agreed that interest rates need to remain at a restrictive level for a sustained period". Exactly how long that turns out to be will depend on how quickly inflation recedes.

Inflation is easing. Prices are still rising but not as quickly as they were. Substantially more easing is required to get inflation back to the 1-3% target band. At the end of 2023, inflation was running at 4.7% y/y. It is now at 4.0% but still a long way from dropping below 3%.

Domestically induced inflation (non-tradable) continues to outpace the inflation generated from overseas (tradable), but both are receding. Tradable inflation has dropped sharply and is expected to continue to fall. Non-tradable inflation is currently at 5.8% y/y and remains a problem for the RBNZ. Until domestic inflation is tamed we won't see any easing in monetary conditions.

CPI INFLATION COMPONENTS



Source: Stats NZ

Pressure on inflation from wage rises is expected to ease as the labour market starts to soften. Reduced demand for workers combined with a big surge in supply is reducing labour market pressure. The increase in supply is largely due to the massive lift in migration, but migration policies are now tightening.

ECONOMIC OVERVIEW

GLOBAL MARKETS HAVE COOLED

Global markets have generally cooled, and demand for a variety of goods and services has eased. However, global demand varies considerably between products and markets.

Demand for iron ore has dropped as manufacturing in China has slowed.

Global prices have firmed for oil, which is typically a barometer for global economic health. Supply factors have primarily led to this recent price increase, so it doesn't indicate that demand is strengthening.

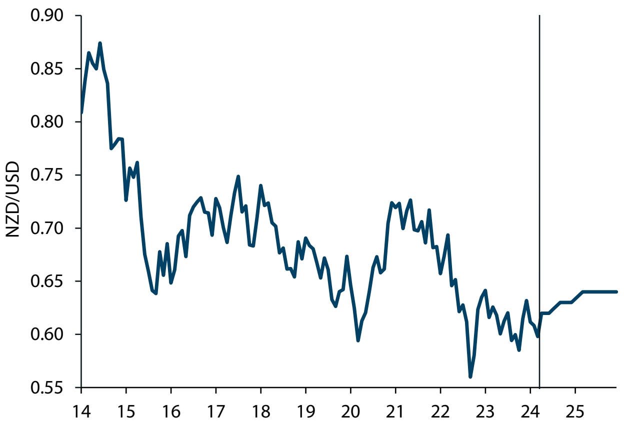
Food and feed commodity prices are mixed. Grain prices are generally easing due to better-than-expected harvests and higher inventories. Cheaper priced meats, such as beef, are doing better than more expensive products. Dairy demand is subdued but prices are being assisted by tighter supplies. In general, food demand from Europe and the US is still strong, whereas exporters selling into the China market are struggling. This should not come as a surprise given that the former tend to be staple foods and the latter tend to be discretionary.

LOW NEW ZEALAND DOLLAR

The NZD remains relatively weak, and this is not expected to change anytime soon. This supports returns at the farm- and orchard-gate level but also means the cost of imported inputs, such as diesel and fertiliser, are relatively high.

At present, the NZD is trading at near 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.

NZD/USD



Source: Bloomberg, ANZ Research

Click here to access our latest forecasts.

DAIRY

DAIRY MARKETS REBALANCE

Dairy product prices have bounced about recently but are expected to firm a little in the months ahead.

Global demand for dairy products is still a little weak but markets are now more balanced as global milk supplies remain subdued.

Milk production in New Zealand is now rapidly slowing. Output for the full season is currently running ahead of last season, but we expect this figure will be pared back in the final months of the season.

DAIRY PRICES SEESAW

Global dairy prices trended lower during March, giving up some of the gains made in the previous month. However, tightening supply is supportive of higher prices ahead.

At the Global Dairy Trade event in April, prices lifted 2.8%, with stronger-than-expected demand for whole milk powder (WMP). Much of the WMP traded globally comes from the Southern Hemisphere where milk production is slowing seasonally. This will result in tighter availability in the coming months, which should support prices in the short term.

MILK PRICE FORECASTS REVISED UP

Our milk price forecast for the 2023-24 season remains at $7.85/kg MS.

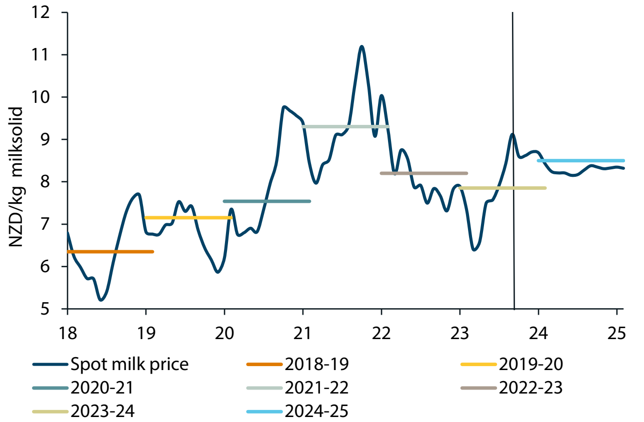
Fonterra recently tightened its milk price forecast for the current season to a range of $7.50–$8.10, which held the mid-point at $7.80.

The deterioration of dairy commodity prices during March put downside risk into these forecasts. If prices improve through the rest of the season, a milk price at the level we are forecasting can be expected.

Looking ahead to next season, we still see a milk price of $8.50/kg MS. Again, there has been some recent downside risk in this forecast but if dairy prices continue to improve then we will begin the 2024-25 season in a much stronger position than last season.

The relatively low value of the NZD also supports our milk price forecast.

FARMGATE MILK PRICE FORECAST



Source: Fonterra, ANZ Research

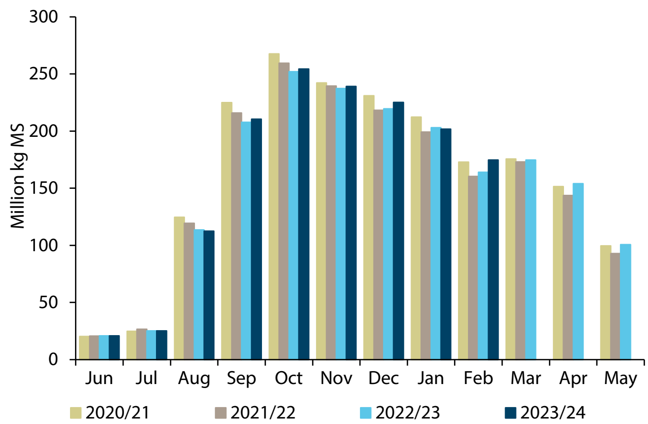
AUTUMN MILK PRODUCTION HOLDING

New Zealand's milk production season is expected to have a reasonably strong finish. It will be difficult to match the production achieved over March to May last year, as growing conditions last autumn were exceptional.

Most dairy producing regions are in relatively good shape in terms of feed availability. The exception is drought-affected farms that are not fully irrigated or have experienced water use restrictions.

DAIRY

NEW ZEALAND MILK PRODUCTION



Source: DCANZ

Looking at the milk production chart above, February 2024 was a leap year, so February included an extra day of production which elevated its yield. If milk intakes for the final three months of the season are within 5% of last season's production, total output will be equal or better than last season's.

Milk production for the season to February is up 1.4% y/y. Strong production during the peak-producing months earlier in the season will offset the expected slowdown during the autumn.

The number of dairy cows being culled early in the autumn so far has been minimal, indicating that meat processors may be busier than normal during May.

DairyNZ recently updated its Econ Tracker, which produces a breakeven milk price while recording and forecasting spending across many cost lines. The average breakeven milk price currently sits at $7.75/kg MS for this season and is projected to be at the same level next season.

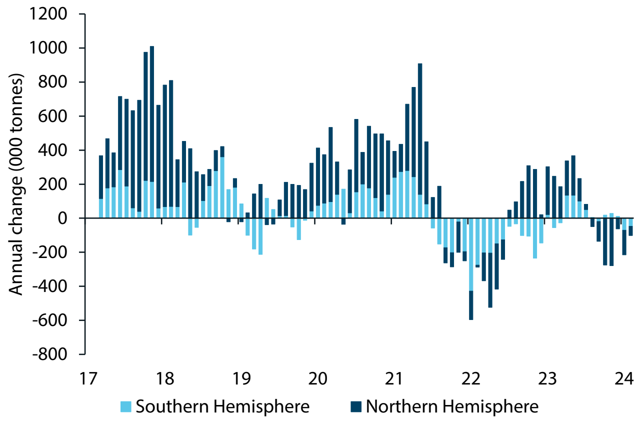
To achieve this breakeven level, spending across several cost lines has fallen compared to the 2022-23 season. Spending on fertiliser and feed has been cut, partially due to a softening in fertiliser prices. But there has also been a sharp decrease in the use of fertiliser and supplementary feed. Other cost lines being trimmed include repair & maintenance and drawings. Whilst these costs are somewhat discretionary, much of the reduction is simply delaying spending to when returns improve.

Interest costs are expected to remain near current levels through the 2024-25 dairy season. These are highly dependent on debt levels. The DairyNZ Econ Tracker tool shows they are higher in the Waikato region than elsewhere when measured on a milk solid per kilogram basis. The higher land costs in the Waikato relative to production capacity is a contributing factor. This essentially means the average Waikato dairy farm requires a higher milk price ($7.96/kg MS) to break even.

DAIRY FARMERS UNDER PRESSURE ACROSS THE GLOBE

Profits are under pressure for dairy farmers globally. Low returns are resulting in less milk being produced or at least a slow down in growth.

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



Source: DCANZ, Dairy Australia, EuroStat, USDA, CLAL

Milk production in the US is down 0.2% y/y for the 12 months to February. US production is particularly sensitive to movements in milk prices and feed costs. The latest World Agricultural Supply and Demand Estimates from the US Department of Agriculture revised down US milk production expectations due to fewer cows and reduced expectations of output per cow. The USDA still expects some growth in milk production to occur in 2024 but has pared back expectations for dairy export volumes.

Feed costs were particularly high throughout 2022 and 2023 but have trended lower recently. If this continues, we may see improved margins for dairy farmers, which may eventually translate into more milk produced. For now, however, we expect output to be a little softer in the coming months.

The EU has seen a shift to increased production of cheese, butter and skim milk powder. WMP production has declined, and exports of WMP have fallen even more sharply due to increased domestic use. In 2023 the EU is forecast to export 257,000 tonnes of WMP, which is 30% less than a decade ago. By comparison, NZ exported more than that in the first two months of this year. This means the global whole milk powder market has become more reliant on NZ. Despite China buying less WMP than previously, it is still the main buyer.

LAMB RETURNS FORECAST TO REMAIN LOW

Global market returns remain mixed, with reasonable prices in the European and US markets, but prices have weakened for lower value cuts.

Schedule prices have not changed a lot in recent weeks, and lamb throughput is slower than normal. Many farmers are struggling to put weight on lambs and others are trying to grow lambs out to heavier weights to offset the lower prices.

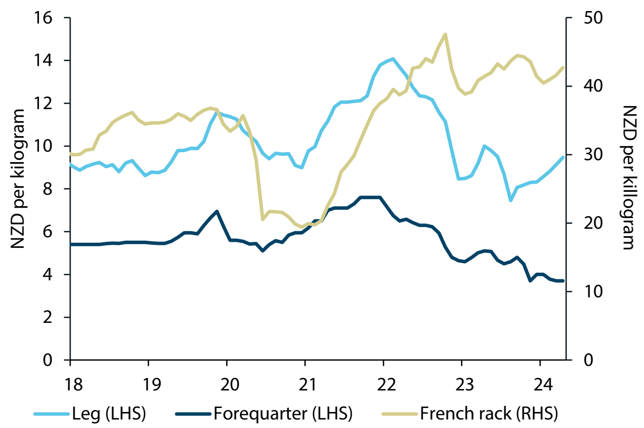
Wool prices have eased a little, and there is now a distinct trend towards self-shedding genetics to reduce shearing costs.

VARIABILITY IN MARKETS

International prices for lamb vary considerably depending on the market and the cut.

Racks are priced well above their five-year average, and are typically sold into higher value restaurants in the US and Europe.

LAMB PRICES, BY CUT



Source: AgriHQ, ANZ Research

Leg cuts are trading about 20% below their five-year average, but some of this difference is being made up by the relatively low value of the NZD. The UK is a major market for lamb legs, along with other European markets.

Forequarter prices are struggling, having dropped about 40% (in NZD terms) compared to the five-year average. China has been the main market for this cut, along with many other lower value cuts such as flaps and mutton, which tend not to be favoured by the European and US markets. In recent years these have achieved high returns.

As consumers in China are selecting cheaper forms of protein or reducing their protein consumption, demand for low-end cuts has plummeted and exporters are struggling to generate good returns this season.

Lamb production in the UK has been slightly stronger this year so far than last year. Imports are also up slightly. Prices being paid for lambs in the UK are considerably higher than a year ago. These factors indicate that consumer demand for lamb has improved in this market, which is a good sign.

Unfortunately, the strength of this market is not expected to offset the weakness in demand from China, which accounts for over half of the lamb carcass.

PROCUREMENT PRESSURE

Lamb slaughter in New Zealand is currently running 4.5% ahead of last season for the period from October to mid-March. The South Island is further ahead (+4.9%) than the North Island (-4.1%).

Lamb weights in the South Island are also better, averaging 19.0kg for the season to date compared to 18.9kg in the North Island. The difference in weights has widened in recent weeks. This time last year North Island farmers were drafting lambs at exceptionally heavy weights, but this season's drought means more lambs are being drafted at lower weights. Also distorting North Island figures was the impact of Cyclone Gabrielle last

LAMB & WOOL

year, which dropped processing capacity sharply during late February and March; and damage to roads, bridges and farm access meant many lambs were processed later than planned.

Procurement pressure has supported prices to date as the volume of lambs for processing remains steady but sufficient for processors to pull back on pricing. This trend is expected to continue in coming months.

Based on Beef + Lamb New Zealand's (B+LNZ) estimates of this season's numbers, there will be 230,000 fewer lambs to process in the second half of the season (April–September), with the difference spread relatively evenly across islands. So, processors will be competing for slightly fewer lambs.

AUSTRALIA SUPPLIES HIGH

Australia is still processing high volumes of both lambs and ewes. It is expected to process a record volume of lamb meat this season. The number of sheep being farmed in Australia has grown significantly, resulting in a surge in meat volumes. Meat & Livestock Australia anticipates there may be a small reduction (-3%) in overall sheep numbers due to the currently high slaughter rates. However, sheep numbers are expected to remain above the 10-year average from 2024 to 2026.

A drought-induced reduction in the Australian flock a few years ago resulted in the cull of poorer quality ewes which meant the quality of the flock has improved.

Australia's currently high slaughter rates and the expectation of strong sheep numbers in the years ahead means New Zealand exporters will face strong competition from Australian in international markets. This is one reason we are unlikely to see a significant improvement in returns in the near term.

WINTER PRICING

International prices are unlikely to give processors enough confidence to provide high winter contracts this season.

Some processors are offering minimum-price contracts, which limit downside risks to farmers while allowing them to receive a higher price if markets improve and schedule rates are higher at the time of delivery. From a processor's point of view, the contracts help lock in supply, which helps with planning.

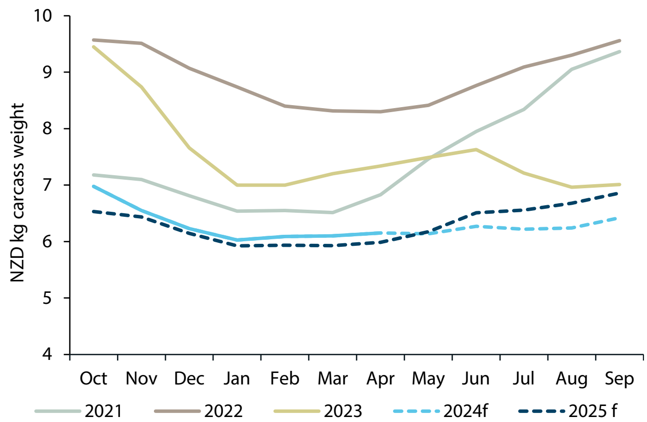
OUTLOOK FOR 2024-25 SEASON

Unfortunately, the outlook for the 2024-25 season is looking similar to the current season. The two major factors dragging down returns are the increase in the supply of lamb from Australia and softer demand in China. Neither of these factors are expected to change significantly in the year ahead.

Some diversion of product into alternative markets is helpful. As is the better-than-average returns we are seeing for some cuts of lamb, such as racks, and better-than-normal demand from some markets, such as the UK. And while Australia's lamb supply will remain elevated, it may ease a tad from current levels.

Therefore, the most positive thing we can say about the outlook is that farmgate prices in the 2024-25 season shouldn't be any worse than the current season.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

WOOL PRICES STRUGGLING TO GAIN TRACTION

Strong wool prices continue to bounce. Prices have receded a little in the past couple of months but remain a little higher than a year ago.

Unfortunately, a sustained upward trend in wool prices has not been maintained, so shearing costs continue to exceed the value of the wool. This is pushing more farmers to look for alternative breeds of sheep.

The popularity of self-shedding breeds is rising amongst commercial farmers. It takes a while to breed new genetics into a flock, but many farmers are reporting labour savings relatively quickly. While sheep may still need to be yarded regularly, as flocks transition towards self-shedding the portion that needs to be crutched reduces quickly resulting in significant labour savings. Farmers are also reporting that the introduction of self-shedding genetics is not reducing finishing weights.

BEEF

BEEF RETURNS STILL STRONG

Exporters continue to focus on the US market where demand for beef is significantly stronger than other markets. This is reducing, but not stifling, the volume of beef available for export to China. Domestic demand for cattle also remains strong.

Feed in drought-affected regions is starting to erode but there is enough supplementary feed to provide options for farmers.

STRONG DEMAND FOR BEEF FROM US MARKET

The US continues to be the standout market for New Zealand's beef exports. Demand from the US for imported beef is elevated as domestic supplies ease and inventories diminish.

The volume of beef in cold stores in the US is 12% lower than normal for this time of year. This has pushed up the price of US domestic 90CL beef in recent weeks, as buyers look to secure product before stores run down. Stocks of other sources of protein, such as chicken and pork, are also lower than normal.

Beef inventories in the US tend to trend down from January to June as cattle slaughter weights typically fall during this time. Demand for imported beef tends to lift and that is particularly evident this year.

The recent surge in demand for US beef has lifted the price of frozen imported beef, although imported product is trading at a considerable discount to local fresh product.

Both Australia and New Zealand are exporting higher-than-normal volumes of beef to the US to meet this strong demand. Ongoing weakness in the Asian markets is also a factor in exporters directing more beef to the US.

CHINA DEMAND STILL WEAKER

China's demand for imported beef is still high, and it remains the world's largest importer, but its level of demand has stabilised. China once had to pay more than other markets to secure sufficient beef to meet its growing demand, but this is no longer the case. Other markets are now keener to secure New Zealand beef than China, so New Zealand is currently exporting more beef to the US and less to China.

This situation, of strong US demand and soft China demand, is expected to continue in coming months.

AUSTRALIA BEEFS UP SUPPLY

Beef supply in Australia is high following years of rebuilding herds. Slaughter numbers are up, as is the supply of young cattle. This indicates we can expect strong competition from Australian beef in coming months and years ahead.

More Australian beef is currently being exported to the US, but demand is such that this additional volume has not dampened demand for New Zealand beef.

SOUTH AMERICAN SUPPLY EASES

The supply of beef from South America is slowing a little but this remains the main supply of beef to China. The volume of beef coming out of Brazil was extremely high but is now starting to ease. Plenty of beef from Uruguay is still heading into the US market, but volumes are small compared to supplies from Australia and New Zealand. Uruguay is also a relatively small producer and exporter of beef compared to its much larger neighbours – Brazil and Argentina.

BEEF

BEEF CATTLE NUMBERS FALL IN NEW ZEALAND

Beef production this season is forecast by B+LNZ to fall by 3.2%. B+LNZ also estimates that beef cattle numbers fell 2.4% in the year to June 2023. StatsNZ reported a 60,000 head reduction, and that number may be even greater.

The cull of a greater than usual number of prime cattle earlier this season, in preparation for drought, means the number of cattle on hand is probably considerably less than earlier estimates from B+LNZ.

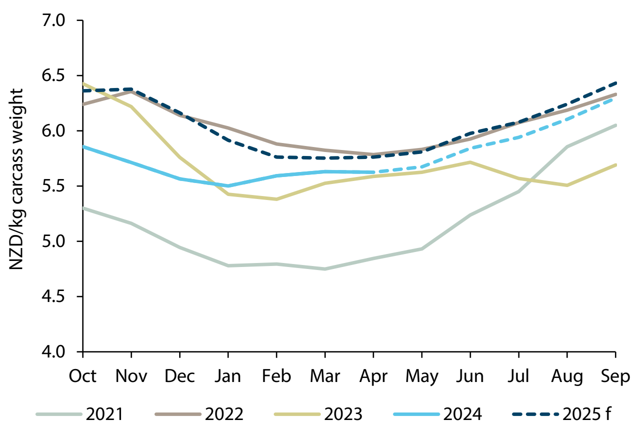
Beef slaughter numbers are running 0.5% ahead of last season. The North Island is up by 14,000 head, but this is partially offset by lower numbers in the South Island. The cow kill is well behind, particularly in the South Island, which is offsetting the greater throughput of steers and heifers earlier this season.

Cow processing is ramping up. Beef cows are becoming available for processing following the weaner fairs; and the annual dairy cull is underway, albeit a little later than normal.

Demand for replacement cattle remains relatively strong, with pricing similar to last year's level. This is particularly evident in the eastern regions of the North Island where numbers are still recovering from the effects of the February 2023 floods.

Prices paid by processors for cows are now easing in the South Island, and the North Island is expected to follow once more stock become available for processing.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

OUTLOOK FOR BEEF PRICES

The outlook for international beef prices is firm, based on strength in the US market. Demand from China is stable, but buyers are not competing hard to secure supply.

The US market is well supported in the short to medium-term, due to low inventories, a reduction in the volume of cattle to be processed and strong domestic demand. So, we may see beef returns for the 2024-25 season at similar levels to the 2022 season.

DEER

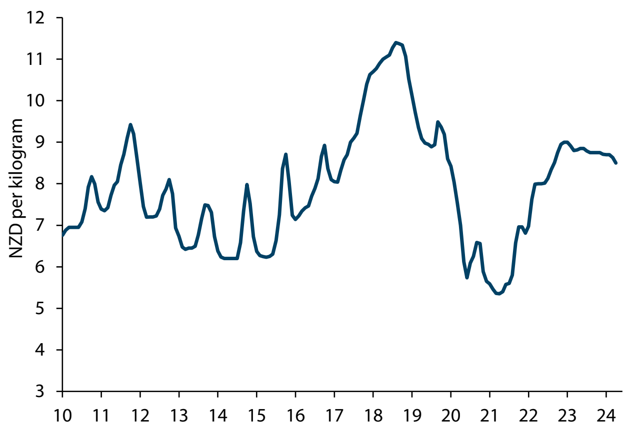
VELVET ACCESS TO CHINA IN FOCUS

Farmgate prices for venison have eased a little as the season has progressed.

Velvet returns are steady, but this could change if access into China for New Zealand's frozen velvet is not resolved.

Farmgate prices for venison have edged down in recent months. Schedule prices in the North Island are now near $8.60/kg carcass weight (CW) for young stags, with slightly softer prices in the South Island.

VENISON FARMGATE PRICES (BASED ON 60KG STAG)



Source: AgriHQ

We did not see the usual drop in schedule prices once the chilled-sales period ended, so it is not surprising that we are now seeing some erosion in farmgate prices.

Venison prices have been more stable than lamb prices in recent years, despite the similarities of the two meats. Venison exporters have done a good job of understanding their end consumer and positioning their product accordingly. But selling a high-priced form of protein at a time when many consumers are under economic pressures will always be challenging.

Air New Zealand is featuring wild venison on its menu for premium passengers. While this is not the same as the farmed product, it is likely to heighten awareness of venison as a premium dish.

Promotion of venison in new markets is ongoing. The China market has grown to be a similar size to the US market. Europe remains the main destination for venison, but there is now more diversity in markets than there was five years ago.

VELVET ACCESS TOP PRIORITY

Late last year, China changed its rules on the importation of velvet, allowing only the dried product from 1 May 2024. Officials are working hard to regain access for frozen velvet into China, which is currently the largest export market. Much of the velvet that arrives in China is processed and exported to Korea. New Zealand exports directly to South Korea and has domestic plants for drying velvet but not at the volume we produce.

While it is not certain, officials hope China will open access to the frozen product before the new harvest gets underway in New Zealand's spring. All parties involved express and eagerness to get this issue resolved.

New Zealand's industry is also looking at alternative markets should access not be restored. This could involve exporting more product directly to South Korea.

GRAIN

GOOD CONDITIONS FOR HARVEST

Grain prices are generally trending down in both local and international markets, as good harvests have increased the volume of grain available.

Weather conditions have been favourable for growing and harvesting grains this season, resulting in good yields. The challenge now is dealing with the large volume of cereal on hand, as a lot of last season's harvest remains unsold.

PRICES TRENDING DOWN

Global corn inventories are particularly high at present following record production in the US and very strong production from Brazil. Corn prices in the US dropped approximately 30% in the past year.

Wheat prices have also trended down, falling about 15% y/y in the US market. Global wheat production is estimated to be slightly lower than the previous year's record crop but is still very high.

Australia also has harvested a larger volume of both wheat and barley, meaning it will be exporting more grain.

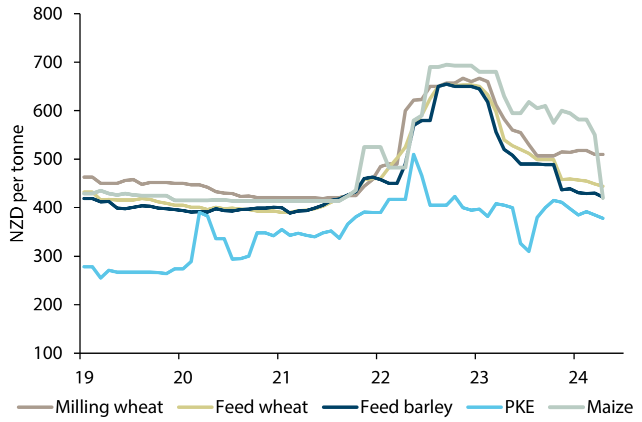
The relatively soft prices for wheat and barley will cap the prices available in New Zealand.

GOOD YIELDS ACHIEVED FOR WHEAT AND BARLEY

The large quantity of grain available is weighing on domestic prices. A lot of last year's wheat and barley was still in silos when this year's harvest began.

There is also a lot more maize available at present. Maize yields in the Waikato and Gisborne regions are looking good, but the drier conditions have reduced yields in Manawatu and Wairarapa.

NEW ZEALAND GRAIN PRICES



Source: NZX

The price of maize for silage is falling rapidly, as growers struggle to find buyers. More maize is expected to be harvested for grain (as opposed to silage) due to the excess quantities produced.

SMALL SEED MARKET OVERSUPPLIED

Prices for small seeds are under pressure due to large inventories, particularly grass seed. Demand for seed from Australian buyers has been good, but China is not buying as much as usual.

The dry conditions in New Zealand this year may prompt some additional reseeding, but it is now a bit late in the season to redrill paddocks. Thus far, demand from both local and international markets is weaker than usual.

Local farmers are cutting costs where possible, reducing spending on cropping and pasture renewal. Fewer paddocks have been drilled with new pasture and fewer feed crops planted.

Local contracting firms are not as busy as usual, and tractor sales have fallen dramatically.

FORESTRY

LOGS PILING UP ON WHARVES

The expected improvement in demand for logs from Chinese users has not eventuated and the stacks of logs sitting on wharves are growing.

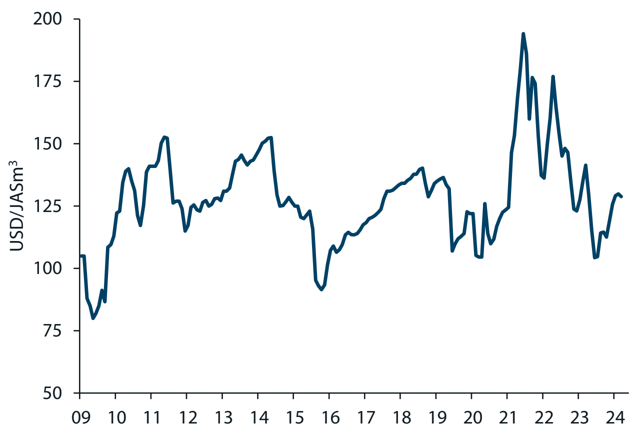
Export demand for logs has fizzled, and prices are under pressure.

Local demand for housing timber is relatively stable, but tighter supply from sawmills has rebalanced markets resulting in small price increases. Sawmill activity is picking up again to meet demand, but housing consent data indicate the pipeline for house construction is still smaller than normal.

LOG MARKET VERY WEAK

Log prices are retreating rapidly. Log inventories on wharves in China grew as uptake slowed over the Lunar New Year holiday and the hoped for lift in demand after that did not materialise.

IN-MARKET LOG PRICES



Source: AgriHQ

New Zealand continues to gain market share in China, but that is still just a bigger share of a dwindling pie. The volume of logs being exported to China from Europe and North America has approximately halved in the past couple of years. Russia is also supplying fewer logs than it used to, and the volume of logs coming from South America has dwindled due to high freight rates.

Freight rates for moving logs are starting to ease, in contrast to what is happening with container ships. Less iron ore is being shipped to China, freeing up ships and softening freight rates.

However, there are still logs building up on wharves in New Zealand, as export market demand is weak. Forestry companies are slowing harvesting, as there is, at present, nowhere for logs to go.

Until China's economy and its demand for timber shows strong signs of improvement, international log prices will remain weak.

More logs are being sent to India, but the volumes are miniscule compared to China. The logistics of selling and shipping logs to India are also more complicated, which limits the appeal of this market.

WHARF GATE RETURNS SOFTEN

Wharf gate returns have softened, and at current prices there is almost no profit left after harvesting costs. This means small forest lot owners will delay harvesting until returns improve.

Large-scale forest owners typically continue with their harvesting plans, as they are large enough to weather the ups and downs in pricing. It is also beneficial to continue to utilise their investments in machinery and maintain their workforce. But, at present, there is little demand for logs so some reduction in harvesting is expected quite soon.

FORESTRY

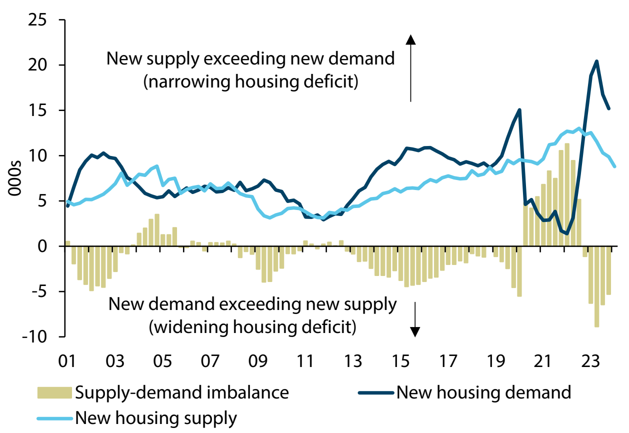
LOCAL DEMAND

Prices for quality logs destined for the local lumber market are stable to slightly higher, depending on the region. North Island prices have improved a little as the supply of raw logs has tightened, but further upside in prices is limited.

Sawmills are reasonably busy again. Local demand for timber has picked up, despite still being well below historic levels. Building consents are still lower than normal, indicating that we will not see a major increase in building activity in the coming months.

Housing is in short supply, as high immigration has been driving population growth. Strong underlying demand for houses is not translating into increased housing development due to high interest rates. This could change later in the year, particularly if regulatory settings, such as the consent process, are streamlined.

HOUSING SUPPLY-DEMAND IMBALANCE



Source: Stats NZ, ANZ Research

Other regulatory changes that are likely to bolster demand for investment in rental property are:

- a reduction in the time that investors must have owned a property to avoid paying capital gains tax when it is sold (from 10 years to 2 years);
- the reinstatement of interest deductibility for investors.

More details about the housing market can be found in the latest Property Focus report.

CARBON MARKET

Carbon pricing has generally trended lower this year. The first auction of Government released carbon credits (known as New Zealand Units or NZU) occurred on 20 March. Some, but not all, of the units on offer traded at $64/NZU. This was also the floor price set for the auction. See insight note for more details.

NZ CARBON PRICE

Source: Bloomberg, ANZ Research

Since the auction the price of NZUs has eased in the secondary market. The market is oversupplied and the potential for regulatory change is undermining confidence in the market.

The Emissions Trading Scheme's current settings skew investment towards offsets (such as planting forests) rather than reductions in gross emissions. This is acknowledged as a problem, but a viable solution is unclear. We need both planting of trees and investment in technologies to reduce emissions to meet New Zealand's climate goals.

HARVEST CONDITIONS FAVOURABLE

The harvest is in full swing, with weather largely favourable for New Zealand's major horticultural export products – apples, grapes and kiwifruit.

The kiwifruit harvest kicked off later than expected, which may cause some congestion in the season.

The hops harvest is near complete, but the real challenge for this sector lies in selling the final product as the global market is oversupplied.

Labour availability has improved, with backpackers available to fill the short-term jobs of harvesting and packing fruit. The availability of labour is a relief to the industry after several challenging seasons.

KIWIFRUIT: GOLD HARVEST IN FULL SWING

Harvesting kiwifruit started later than normal this year, as the fruit has taken longer than expected to mature. The crops are reported to be in good condition, so a plentiful harvest is expected.

Zespri RubyRed™ is the first variety to be picked and delivered to market. It is well liked by consumers but is a challenge to grow, so yields are still relatively low. The industry is cautious about expanding its reliance on this variety. This season a million trays of RubyRed are forecast to be harvested, triple the previous season's volume.

The SunGold™ harvest is also well underway. There is significant growth in the volume of this variety available to pick this season, as more vines reach maturity and produce more fruit.

This season, Zespri expects exports of 190 million trays of kiwifruit, across all varieties and markets. This is 43% greater than the 133 million trays exported in 2023, and higher than the previous record crop of 171 million trays processed in 2022. The sharp increase in volume is expected to challenge packhouse capacity.

Despite the late start to picking, exports are tracking ahead of last season. There is still a risk of packhouse congestion later in the season, but the faster start will help. If fruit is not harvested and processed at the optimal time, quality issues could emerge.

Zespri is keen to get as much fruit processed as early as possible so it can regain shelf space in international markets. Early season fruit is typically worth more than late season, so it benefits growers to have fruit delivered early. Zespri pays a premium for fruit delivered early in the season.

Payments to growers for this season are expected to be lower on a per tray basis, compared to last season, but with higher yields forecast this should deliver higher returns per hectare.

ORCHARD GATE FORECAST PRICES

Kiwifruit variety	2024-25 per tray (March forecast)	2023-24 per tray (Feb: Final forecast)	2024-25 per ha (March forecast)	2023-24 per ha (Feb forecast)
Green	$7.00 - $8.50	$9.44	$52,000 - $68,000	$64,930
Organic Green	$9.50 - $11.50	$12.18	$51,000 - $63,000	$54,516
SunGold	$10.00 - $11.50	$12.62	$124,000 -$148,000	$140,537
Organic SunGold	$12.00 - $14.00	$14.21	$94,000 - $116,000	$109,640
Sweet Green	$8.00 - $9.50	$10.31	$34,000 - $36,000	$48,326
RubyRed	$16.00 - $18.00	$26.54 ($19.05*)	$27,000 - $31,000	$41,057

Source: Zespri

* The 2023-24 February Forecast per tray figure for RubyRed has been restated from $26.54 to $19.05 so the pricing is comparable, due to smaller fruit being included in Standard Supply this season.

HORTICULTURE

APPLES: LABOUR WOES DISSIPATE

The apple harvest is well underway. Weather conditions have been favourable, although some growers in Nelson have struggled to source sufficient water due to the drier-than-normal summer.

Overall, fruit quality is reported to be better than normal in all the major growing regions: Hawke's Bay, Nelson and Gisborne.

Warm dry weather through the picking season will also be favourable. Pricing is variable, and achieving high returns is a challenge. Some varieties and markets are doing well but others are struggling.

Pickers and packers are easier to source this year. The industry is dependent on workers employed under the Recognised Seasonal Employer scheme, many of whom return year after year to the same employer. This scheme is not only helpful to New Zealand's economy, but it also supports many Pacific Island economies.

WINE: MARLBOROUGH YIELDS LOW

The quantity of grapes harvested for wine is expected to be significantly lower this year. Early estimates put the 2024 vintage at 15-30% down on last season.

The reason for this is unfavourable growing conditions at various critical points earlier in the season, such as flowering. The drought has also impacted the fruit but made harvesting much easier.

A smaller vintage could be favourable for the industry as there is presently a lot of wine from the previous harvest sitting in bulk tanks looking for a home. Global demand has been weaker than usual, pushing down returns.

International demand for New Zealand's bottled wine is relatively weak and inventories are full along the supply chain. The smaller than usual harvest this season may prompt some buying action, but for now the market is weak.

The price for grapes has fallen by as much as 20%, but there is a large variation depending on contract terms, variety and region.

Overall, the 2024 vintage is expected to deliver good quality wines.

HOPS: PRICES STILL LOW

The hops harvest is now over, and growers appear happy with both quality and quantity. The challenge for the industry is now to sell the produce. Most of the hops are processed into pellets and sold to international breweries.

New Zealand's hop varieties are known for their flavour and have a strong following amongst craft beer brewers. But beer consumption is falling globally, and the global market for hops is well supplied, making it challenging to achieve good returns.

New Zealand's hop industry has grown rapidly in the past decade, but low returns in recent years have slowed the development of hop gardens.

RURAL PROPERTY MARKET

LIMITED APPETITE FOR PROPERTIES

Rural property sales are down, as challenging economic conditions discourage buyers.

For many properties there is a substantial gap between buyer and seller expectations, making it challenging for a selling price to be agreed upon.

Demand is mixed with some properties still generating a high level of buyer interest whilst others are being pulled off the market due to the lack of appetite from potential buyers.

FINDING AN EQUILIBRIUM

Property sales numbers remain very low as in many cases buyers and sellers are not yet aligned on property values.

There are plenty of properties potentially available, but most sellers are expecting higher prices than buyers are prepared to offer. The increase in interest rates means buyers are acutely aware of financing costs, and it can be difficult to see a profitable return.

Banks tend to take a longer-term view when assessing financing costs, as most rural-sector lending is long term. However, the current higher interest rate environment impacts cashflows and short-term profitability.

LOW RETURNS IMPACT BUYER CONFIDENCE

Buyer confidence has been dashed by the lower returns many sectors are facing. This is particularly the case for sheep farmers who are juggling low returns for both meat and wool.

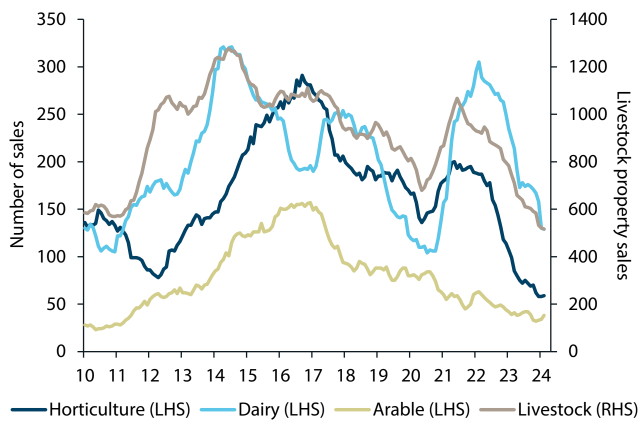
Dairy prices have improved but remain close to breakeven for the average farmer. Those with high debt or low productivity will have a higher breakeven point. This is making it harder for many potential purchasers to justify taking on debt.

The number of rural properties officially on the market has eased a little as some owners are holding onto properties until demand improves. While these properties are not currently being advertised, they will still be unofficially on the market.

It is hard to see a major improvement in farmgate returns in the year ahead, particularly for sheep products. Unless sellers are prepared to accept lower prices, properties are unlikely to trade.

The carbon market, which has been supporting the value of many less productive sheep and beef farms, has also softened. While carbon prices are still at healthy levels compared to returns from other land uses, regulations are expected to change and that is undermining investor confidence.

PROPERTY SALES VOLUMES BY SECTOR



Source: REINZ

The total number of rural properties traded in the 12 months to February 2024 was 43% less than the 10-year average. Sales of nearly all property types are down, with dairy and horticulture sales down 40% y/y and 30% fewer livestock properties trading. Forestry is the exception, with a few more blocks selling in the past year than the year before.

RURAL PROPERTY MARKET

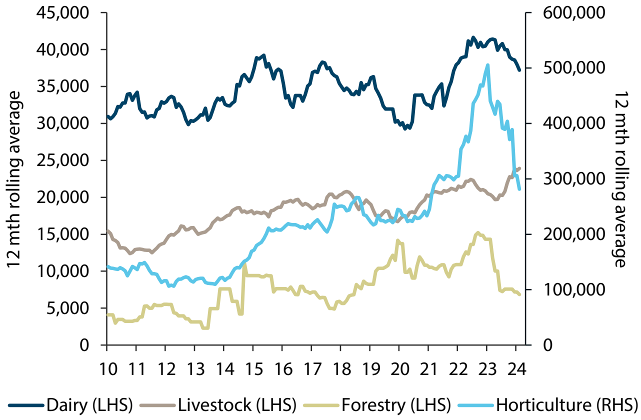
PRICES GENERALLY TRENDING LOWER

Prices of rural properties are generally trending lower. The median price does not paint the full picture, as higher quality farms are often easier to sell during a downturn which artificially inflates the average sale price.

But there is a clear downward trend in pricing evident in virtually all sectors, the exception being livestock properties. This is a very wide category and incorporates properties sold for alternative use, such as conversion to forestry, so it doesn't always provide an accurate picture of the current market.

What is obvious is that there are not a lot of sales in many regions, which is making it quite difficult to accurately assess current market values.

MEDIAN PROPERTY SALE PRICE, BY SECTOR



Source: REINZ

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	127	214	218	↓	↓
	Median price ($ per ha)	37,218	41,345	35,822	↓	↑
Livestock	Number of sales	517	744	939	↓	↓
	Median price ($ per ha)	23,917	20,383	19,522	↑	↑
Horticulture	Number of sales	59	99	187	↓	↓
	Median price ($ per ha)	281,250	440,727	262,609	↓	↑
Arable	Number of sales	38	39	90	↓	↓
	Median price ($ per ha)	35,100	37,625	39,752	↓	↓
Forestry	Number of sales	47	44	55	↑	↓
	Median price ($ per ha)	6,860	14,333	9,149	↓	↓
All farms	Number of sales	865	1,219	1,528	↓	↓
	Median price ($ per ha)	28,633	28,717	26,499	↓	↑

Source: REINZ

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Last updated: 20 February 2024

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