ANZ Research

NZ Agri Insight: El Niño and agriculture markets

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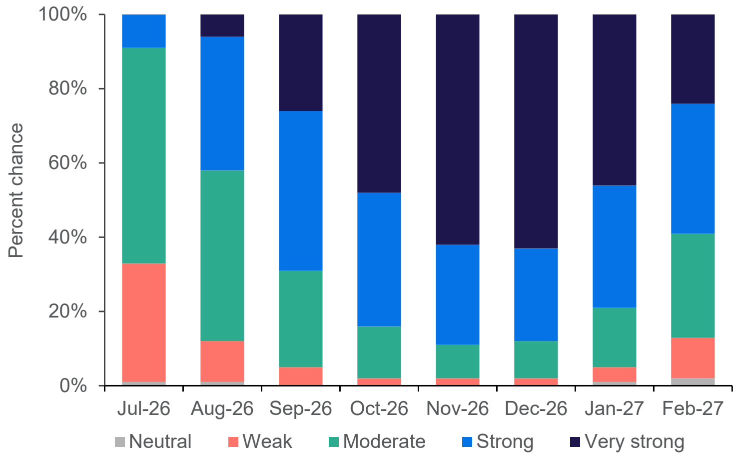
Dry weather, delayed price impacts

- This summer could bring one of the strongest El Niño events since 1950, rivalling events in 1972/73, 1982/83, 1991/92, 1997/98, and 2015/16.
- Strong El Niño events typically bring hot and dry weather to New Zealand's north and east, but every event is different.
- Farmers will face challenges, but are well-equipped to respond, thanks to strong balance sheets, expanded water storage, and better access to weather and market insights than in previous major events.
- Contrary to expectations, perhaps, agricultural prices rarely rise in El Niño years. If prices do rise, it typically occurs 12 to 18 months later as the impacts work through the global agricultural system.
- Lamb and mutton prices are in fact at risk of falling this season (from very high levels). Drought may compel farmers in New Zealand and Australia to destock simultaneously, increasing supply and depressing prices.

From one global issue to the next

We can't have a normal year, it seems. The Strait of Hormuz has only just reopened, hopefully for good, which has allowed global oil and fertiliser prices to drift down from the mid-conflict highs and giving farmers confidence that any input cost rises will be manageable. Meanwhile, meteorologists have raised the prospect of a strong or very strong El Niño this year, with the risk peaking in November/December.

Figure 1. El Niño strength probabilities as at June 2026

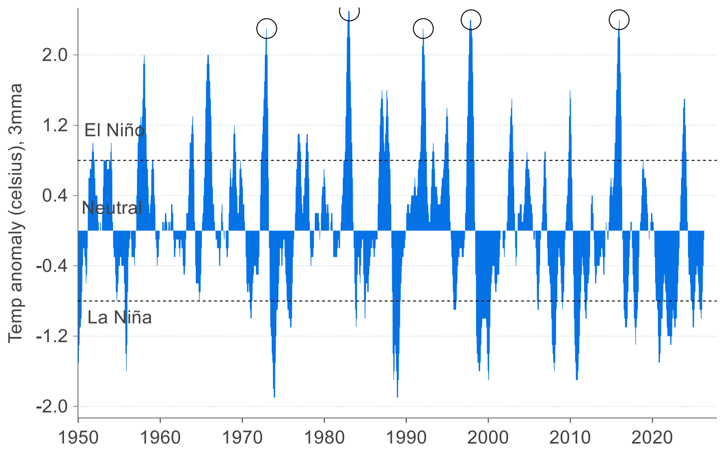


Source: US National Oceanic and Atmospheric Administration (NOAA), ANZ Research

This research note takes a look at what we might expect from agricultural production and prices in an El Niño year. The following analysis lays out broad trends in agricultural production and prices from previous events, but there are no guarantees as to how the coming 2026/27 event will pan out. Each El Niño has its own personality, owing in part to the complex interactions with other climate processes.

The US NOAA's latest forecast shows a 63% chance of sea surface temperature anomalies to exceed 2°C by November, the threshold for a very strong El Niño event. Since 1950, only five such events have been recorded, in 1972/73, 1982/83, 1991/92, 1997/98, and 2015/16. Each of those years featured memorable droughts for eastern and northern parts of New Zealand.

Figure 2. Sea surface temperature anomaly 1950-2026

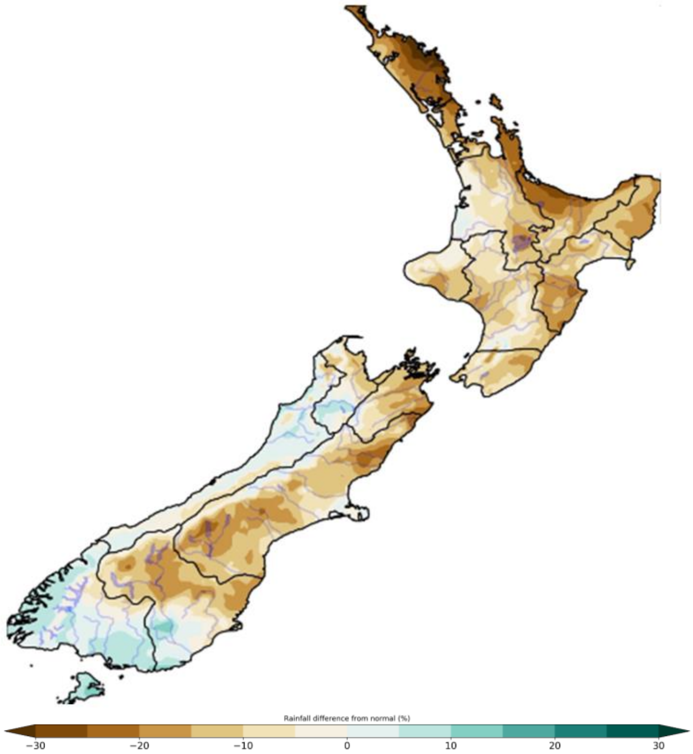


Source: Australia Bureau of Meterology, Macrobond, ANZ Research

Let's talk about the weather

For New Zealand, El Niño favours westerly winds, bringing moisture to the western parts of the country but warm and dry winds to rest of the country. Historically, Westland has been reliably wetter than normal. Taranaki and Southland have been wetter in some El Niño previous events, but not all. In contrast, the entire East Coast of both islands have been reliably hot and dry in prior events. The upper half of the North Island is likely to also skew warm and dry.

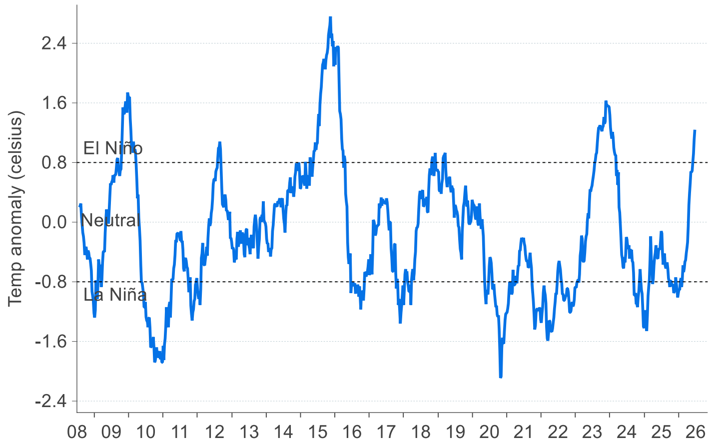
Figure 3. Average summer rainfall anomalies during El Niño events



Source: Earth Sciences New Zealand

We are already in El Niño territory. While the impacts are likely to peak at the end of the year, it is already drier than normal in Canterbury and coastal Otago. However, there is a chance the weather doesn't pan out as one might expect in an El Niño year. One or two timely rain events can make a big difference. And in 2018/19, an El Niño event was widely expected but never quite arrived (see Figure 4 below).

Figure 4. Sea surface temperature anomaly 2008-2026



Source: Australia Bureau of Meterology, Macrobond, ANZ Research

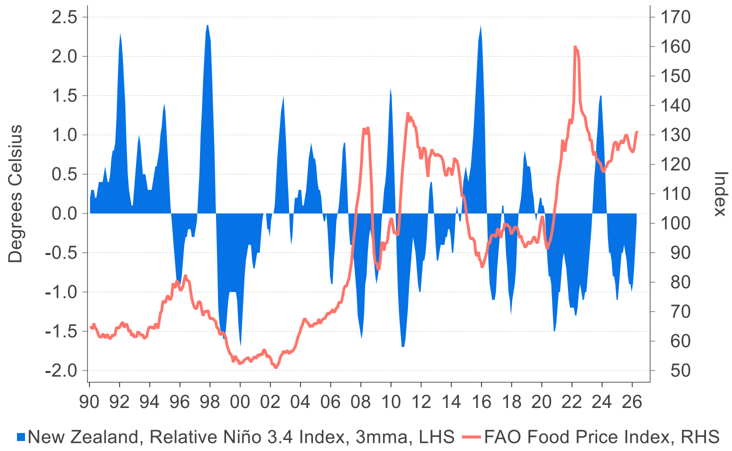
Price impacts? Ask me again in 2028

With drier weather in New Zealand and other weather disruptions around the world, we should expect higher commodity prices during a strong El Niño. That's true, but the link isn't as direct as one might think.

The UN Food and Agriculture Organisation's Food Price Index is a good place to start (Figure 5). In the event of a strong El Niño event, food prices actually tend to decline initially. Food prices do eventually rise, but there can be a 12-to-18-month lag from the start of the El Niño to any resulting price increase. There are many lags in the global agricultural system and it can take time for supply disruption to translate to higher prices.

So the link is there, but it is hard to demonstrate that El Niño is a decisive factor for food price inflation, even though it does put pressure on the global food system. And other factors influence prices. To illustrate, some of the biggest food price rises in the past 35 years have been during La Niña events in 2008/09 and 2021/22. It wouldn't be fair to blame the 2008 Global Financial Crisis or the 2022 Russia-Ukraine war on the weather.

Figure 5. El Niño and food prices

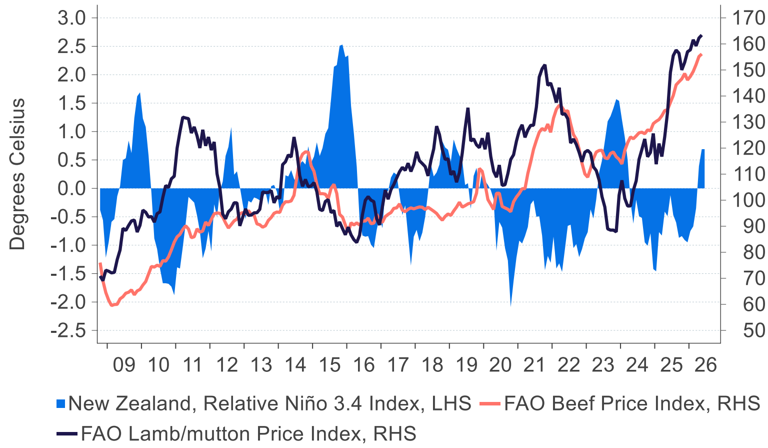


Source: FAO, US NOAA, Macrobond, ANZ Research

Digging into the various agricultural markets of interest to New Zealand, that same trend holds. Dairy and grain prices have often fallen in El Niño years, for example. The key takeaway here is that each agricultural product has its own key drivers, and the weather is just one factor in supply and demand.

Meat, however, is one area where the historical trends make sense, even if the logic path is a bit more complicated. Droughts affect pasture growth (except in irrigated areas), lowering the effective carrying capacity of the land. This forces farmers to send surplus stock to the meat works or to nearby regions with better pasture conditions. As a result of this surge in supply, livestock and meat prices fall. Then prices recover as the rebuilding cycle gets underway alongside improving pasture conditions.

Figure 6. Destocking pushes beef and sheep prices lower



Source: FAO, Bureau of Meteorology, Macrobond, ANZ Research

That's the theory, and the price trends in 2015/16 and 2023/24 matches up. Effects are most noticeable in lamb and mutton because of geographic concentration. Australia and New Zealand combine for around 85% of global sheep meat exports, and El Niño brings dry weather to both.

In contrast, beef prices seem less impacted. Global beef exports are more evenly distributed across North America, South America, Oceania, and India. This means the price impact of El Niño is less noticeable for beef.

On-farm responses

Farm working expenses are likely to rise as farmers adapt to drier conditions across most of the country, but El Niño on its own does not guarantee a poor production season.

Hot dry conditions typically are not great for livestock productivity. Pasture growth slows, reducing the effective stocking rate on unirrigated blocks. And above a certain temperature, sheep and cattle focus on regulating their body temperature rather than producing milk and adding weight.

Irrigation will help those who have it, primarily in Canterbury and the main horticulture regions. There is some risk for water restrictions because demand will be higher not just for a lack of rain, but also because hot, windy weather dries out soil and plants more quickly. The potential for irrigation restrictions will vary widely across the country, based on the nature of the resource and how consent conditions are structured. There hasn't been much expansion in irrigated area since the last strong El Niño in 2015/16, but there has been some investment in water storage capacity, which could increase reliability.

At the national level, there's not always a direct link between drought and production, but farm working expenses are likely to rise. Imported feed demand will increase, and increased irrigation means increased energy costs. Some regions will fare better, offsetting the impacts in the hardest-hit areas. On the milk production front, national milksolids per cow does tend to decrease in El Niño years. However, none of the lowest years since 2008 for milk production coincide with the strong El Niño periods identified above.

Despite all the gloomy implications of a strong El Niño, New Zealand's agri sector is well-placed to adapt and respond. Balance sheets have been boosted by strong returns the past two years, giving many farmers the financial resilience to deal with adversity.

Farmers are also much more connected than they were even a decade ago, with much better access to information and insights to take action if needed. Weather forecasts are much improved, contrary to all the old jokes about their accuracy. With all the information and advice available, farmers should be well prepared for a potential drought and able to respond quickly as conditions change.

A strong El Niño is very likely, but New Zealand's agri sector is in a good place to weather the storm, so to speak.

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