ANZ RESEARCH

AGRI FOCUS

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OUTLOOK IMPROVING

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INSIDE

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OVERVIEW

Global markets for New Zealand's commodity exports are showing glimmers of improvement, but this is not consistent across products or regions. The primary driver for higher prices is tighter supply of particular products, rather than strong consumer demand.

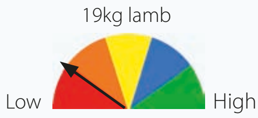
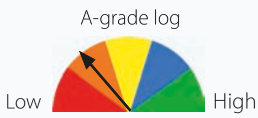
Consumers across the world are feeling the impact of slower economic growth, which is weighing on confidence and capacity to spend. This means demand is soft for several products, particularly higher-priced proteins, for which consumers are seeking cheaper alternatives.

New Zealand's winter so far has generally been favourable for pasture production and animal wellbeing, with most farms heading into the spring in good shape. However, some North Canterbury hill country and other regions had not recovered from drought before the winter arrived.

Dairy and beef returns are forecast to improve this season, but it is expected to be another tough year for sheep farms. Returns from forestry are also expected to remain subdued.

Farm profitability will continue to be hampered by high costs, including borrowing costs, in the year ahead, although inflationary pressures are fading and interest rates are starting to ease.

Prices at farm/orchard level relative to 10yr average[1]

Dairy	Dairy commodity prices have trended higher, providing upside risk to our milk price forecast of $8.50/kg for milk solids (MS) for the 2024-25 season.	
Sheep	Export returns for lamb and mutton are expected to remain at low levels for another season.	
Beef	Beef returns are looking good for the season ahead, and this strength is reflected in the markets for store cattle.	
Forestry	Log prices have lifted slightly due to lower supply volumes. Overall returns are relatively low.	

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

ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

The RBNZ is now confident that inflationary pressures will continue to ease, seeing inflation return sustainably to target, and as a result the easing cycle has now officially commenced. Markets anticipated these movements and wholesale interest rates have already moved lower.

Lower rainfall has made it easier to farm this winter, but also means lake levels are extremely low, causing a spike in wholesale electricity prices. This is affecting all parts of New Zealand's economy, with some primary goods processors opting to shut down factories to avoid the high operating costs.

GLOBAL VOLATILITY

Volatility in global markets has risen. The growth outlook is challenged in many countries, elections are taking place in several major economies, and war continues in the Middle East, impacting trade routes and driving up shipping costs.

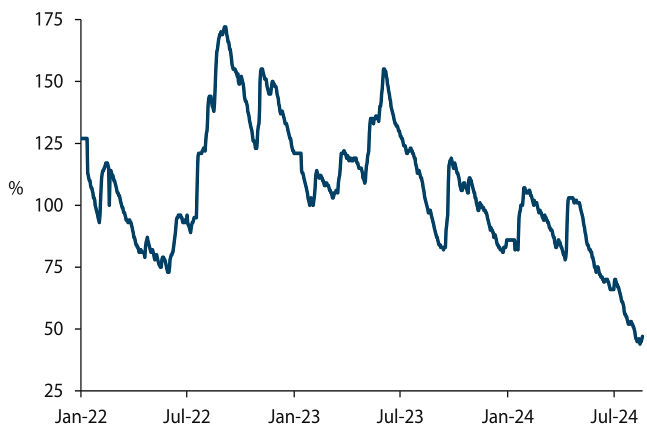
Markets are keenly anticipating when central banks will loosen monetary policy. Many are starting to loosen policy, or are poised to do so. The Bank of Japan's tightening of monetary policy triggered a recent spike in volatility in equity and bond markets.

Global commodity prices generally trended lower from June to August. Despite the unrest in the Middle East, oil prices have receded in the past couple of months due to ample supply and waning demand. Aluminium prices have declined, as softer economic conditions curb investment in energy-efficient forms of electricity and vehicles.

ENERGY COSTS

Electricity prices in New Zealand have risen. Demand tends to peak during winter as heating needs increase, but this year low water levels in hydro lakes are limiting electricity production. Lake levels have been low for some time, and during the summer and autumn, the release of water for irrigation was restricted across many water schemes. Some farms in drought-struck regions entered the winter with very low feed reserves.

HYDRO STORAGE (% OF AVERAGE STORAGE)



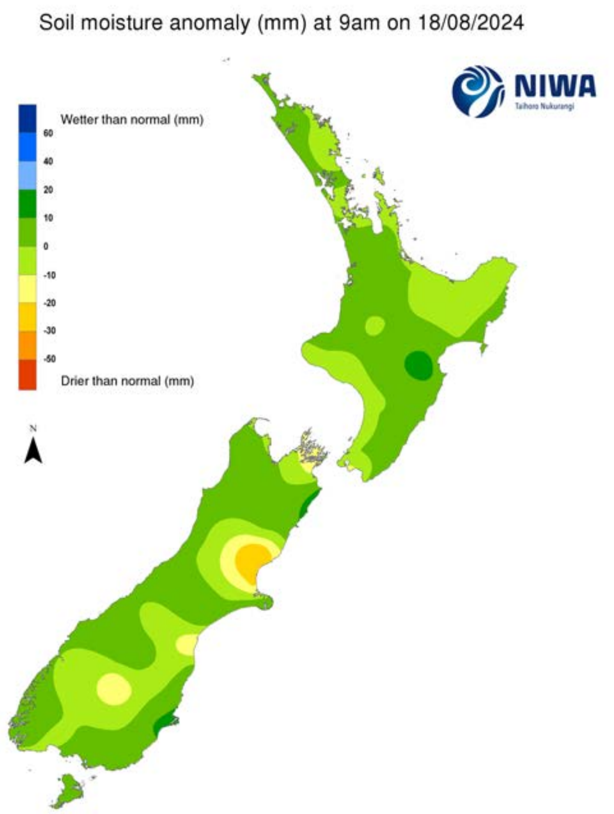
Source: NZX, ANZ Research

Soil moisture levels are relatively low across most of New Zealand at present. This is making wintering stock a lot easier than last season when it was excessively wet. Pastures are expected to be in good shape for the spring.

Having sufficient feed on hand reduces some of the pressure many farmers are facing. Unfortunately, financial pressures will persist in the season ahead despite costs starting to subside.

ECONOMIC OVERVIEW

SOIL MOISTURE GOOD FOR MOST OF NZ



Source: NIWA

MONETARY POLICY NOW IN EASING MODE

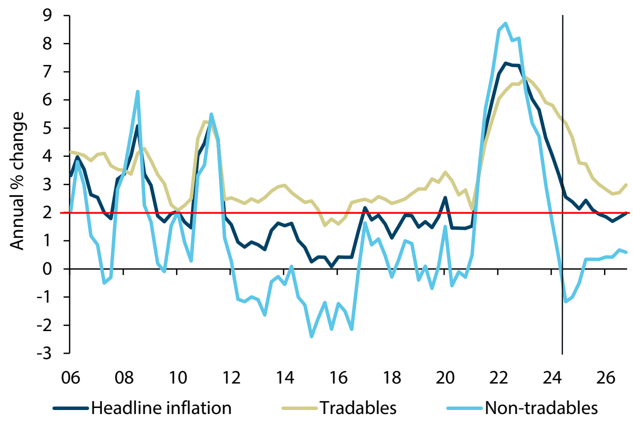
We are starting to see some reduction in bank lending rates, but the degree to which interest costs ease throughout the 2024-25 season will depend on the data flow pertaining to both activity and inflation and whether it supports a cautious or rapid reduction in the Official Cash Rate. Financial pressures for many farms may be greater than they were in the 2023-24 season.

We expect the RBNZ will continue to reduce the OCR in steady 25bp increments at each meeting, with balanced risks around that path regarding whether cuts come faster or slower than that.

INFLATION EASING

Domestic inflation is now slowing, and the RBNZ will want to see this continue in order to keep steadily cutting the OCR. Tradable inflation – driven primarily by what is happening offshore – is slowing faster than domestically driven inflation. That's helpful, but not something the RBNZ can rely on to achieve their inflation target sustainably.

CPI INFLATION COMPONENTS



Source: Stats NZ, RBNZ, ANZ Research

How quickly will the economy respond to rate cuts? Traditionally it takes a very long time to feed through, but there are a couple of reasons the response could be quicker this time. First, many homeowners have opted for shorter fixed terms over the past year in anticipation of interest rate cuts. And second, normally the OCR is cut because the economy has just been hit by a negative income or confidence shock. This recession was unusual in that it was deliberately engineered by monetary policy, and so the recovery could feature different dynamics. Essentially it boils down to how much investment, employment and activity has been deferred awaiting lower interest rates, rather than cancelled. We'll find out.

NZD IMPACTED BY VOLATILITY

As New Zealand's interest rates have started to decrease, so too has the attractiveness of investing funds here. This reduces demand for the NZD. Central banks are also cutting rates in other markets, but in some markets, such as Japan, rates are actually rising. The differences in interest rates and timing of movements tend to impact the various currencies.

Another factor weighing on the NZD is the high level of uncertainty and volatility in global markets. The NZD tends to retreat when global volatility is high, and financial markets have experienced plenty of volatility recently.

Over the past couple of months the NZD has generally weakened, but in August it lifted back above USD0.60.

The relatively low NZD is supporting farmgate prices. We anticipate it will firm a little across the remainder of the year, reaching USD0.62 by the end of 2024.

Click here to access our latest forecasts.

DAIRY

QUIETLY CONFIDENT

Confidence in global dairy markets is growing on the back of a rise in demand for dairy products.

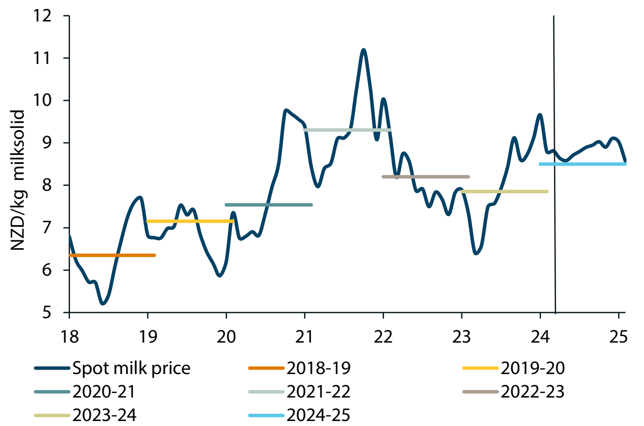
Large volumes of New Zealand's dairy produce hit markets at this time of the year, and demand has been sufficient to absorb that, seeing prices lift. This bodes well, creating upside risk to our forecast for the 2024-25 season.

DAIRY MARKETS STRENGTHEN

Global dairy markets have experienced high volatility in recent months, but the most recent price movements have been positive. Positivity in the markets at this time of the season bodes well for the season ahead.

The volume of product New Zealand has to export is significant during the early part of the season. Volumes offered by Fonterra via the Global Dairy Trade platform tend to peak in September–October, while the seasonal low is in May–June. Prices have firmed even as offer volumes have lifted, indicating significant underlying demand strength in the market.

FARMGATE MILK PRICE FORECAST



Source: Fonterra, ANZ Research

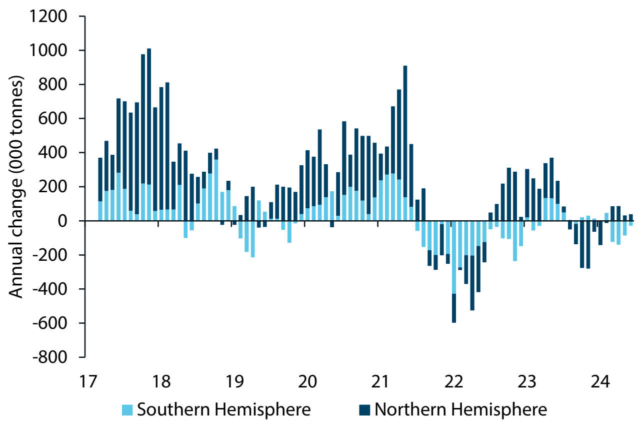
This strength supports an improved milk price for the 2024-25 season compared to last season. We continue to forecast a milk price of $8.50/kg MS for next season. At present there is upside risk in this forecast, but a lot could happen before the end of the season.

The relatively weak NZD continues to support the milk price. We are expecting only a modest appreciation in the NZD this season. If it remains subdued and dairy commodity prices remain at or above current levels, a higher milk price may be on the cards next season.

Dairy commodity markets are largely being driven by relatively subdued growth in global milk supply rather than any particular strength in demand.

Milk production in the US has been tracking lower for the past year. Production each month has been lower than the corresponding month in the previous year. The number of milking cows in the US is currently 62,000 head down on last season (-0.7%). Production per cow at current returns is not strong enough to encourage farmers to increase rations to cows to lift productivity.

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



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

DAIRY

European milk production in 2024 is expected to be roughly on par with last season. Production expanded during the European spring but has started to ease. The number of dairy cows in Europe continues to trend down. In 2023, cow numbers fell by 1.7%, with lower numbers recorded in all major European dairy-producing countries except Poland.

China's cow numbers are also expected to drop. It produces about two-thirds of the dairy products its residents consume, but in recent years has pushed to become more self-sufficient, and this has led to an oversupply of raw milk. Its production costs are very high relative to other countries due to feed and water shortages. These high costs mean many of its dairy farms are now struggling financially as milk prices have fallen, and are therefore expected to reduce herd sizes.

Dairy farmers in Argentina are grappling with policy changes. The Government has limited exports to try to reduce the domestic price of dairy products. That means farmers are receiving less income while costs are rising. The US Department of Agriculture expects Argentina's milk production to fall 7.4% y/y in 2024.

The lower volume of milk that is being produced globally is supporting dairy commodity prices as there is less product available.

LAMB & WOOL

ANOTHER TOUGH SEASON AHEAD

Lamb's farmgate returns have increased marginally as the supply of winter lambs dries up. Small improvements in international prices have also been supportive. We expect farmgate prices for the season ahead to be similar to last season.

The winter weather has generally been favourable in regions where lambing is underway.

Wool pricing has improved slightly, but there is still some way to go to catch up with the rapid rise in the cost of harvesting wool.

SMALL IMPROVEMENT IN GLOBAL LAMB MARKETS

Returns for lamb from international markets have improved a little, but the change has been incremental and the recent increases have not been enough to make exporters more confident about the outlook.

The US market is delivering some of the best returns. North America is taking about 20% of New Zealand's lamb exports by volume. The industry is working hard to grow this market, where lamb accounts for only a miniscule proportion of total meat consumption.

European markets are in reasonable shape, particularly the UK, where prices have been trending higher.

UK IMPORTS MORE LAMB AS LOCAL PRODUCTION FALLS

The UK flock is currently at its lowest level in 12 years, and the supply of local lamb is down. That shortfall has been offset by higher import volumes, mostly from Australia and New Zealand.

UK processors paid exceptionally high prices for domestic lambs earlier this season. Prices fell sharply in June and early July but have since plateaued above year-ago levels. Some UK supermarkets have dropped their commitments to sell only UK-produced lamb, as imported lamb is now cheaper.

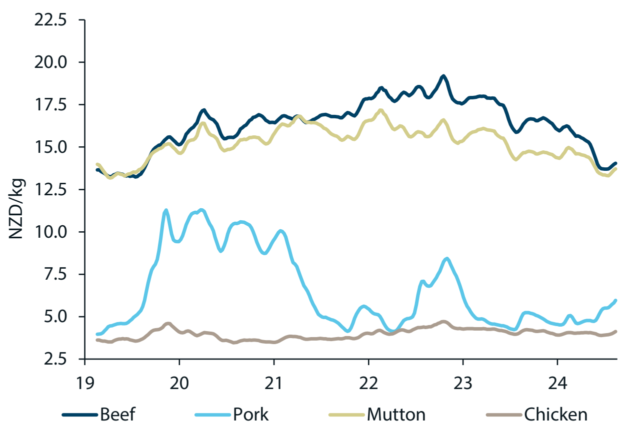
Australia's lamb exports have risen considerably in the past year. The UK is a relatively small market for Australian lamb exporters, but the latter have gained market share at the expense of New Zealand. Other markets that Australia has targeted in recent months include the US and the Middle East.

DEMAND IN CHINA REMAINS CHALLENGING

Like New Zealand, Australia is exporting less lamb to China and other Asian markets than it has in the past.

China remains a challenging market for lamb and mutton. Consumers there are choosing cheaper proteins as they become less confident about their finances.

CHINA WHOLESALE MEAT PRICES



Source: MoA, ANZ Research

The big drop in Chinese demand for mutton has had a major impact on farmgate prices for cull ewes. Mutton is currently selling for about $3.30/kg carcass weight (CW).

LAMB & WOOL

FARMGATE MUTTON PRICE

Source: AgriHQ, ANZ Research

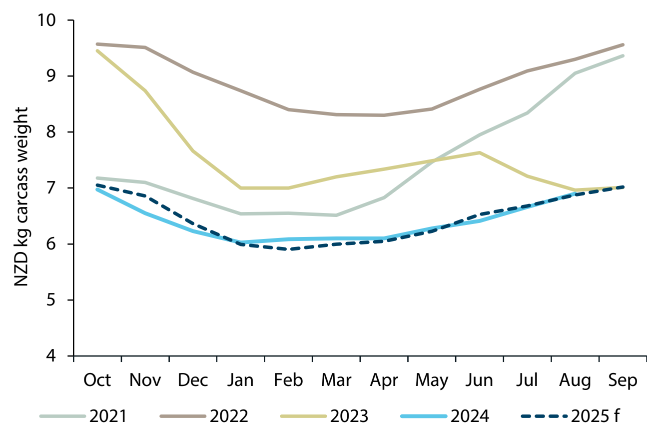
Mutton prices have been particularly low this season. The current increase in prices is due primarily to seasonal factors such as the slowdown in availability of ewes for processing, rather than any significant improvement in underlying market conditions.

Mutton is now worth about half what it was a couple of years ago. This means the net cost of replacing ewes has risen considerably, as the price of two-tooth and older ewes hasn't dropped by nearly as much as the price of cull ewes. Tight returns have seen some buyers favouring older ewes.

SLOWDOWN IN LAMB PROCESSING

Processing of lambs has slowed in both the North and South Islands this winter. Capacity has also been reduced as lamb processing lines switch over to bobby calves. Despite the reduced capacity, plants are struggling to source sufficient lambs. Lamb throughput has been down about 30% in recent weeks.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

More lambs were processed earlier this season than normal, which has reduced current availability. There has been a small increase in prices offered, but there is a limit to how much processors can pay. There are also fewer store lambs on offer at the saleyards. Demand for those on offer is good, as long as they have the potential to be finished while they are still technically lambs.

LAMB AND MUTTON OUTLOOK

The recent up-tick in prices for finished and store stock has been driven by seasonal tightening in the supply of lambs and ewes. International market conditions have improved marginally but remain very tight.

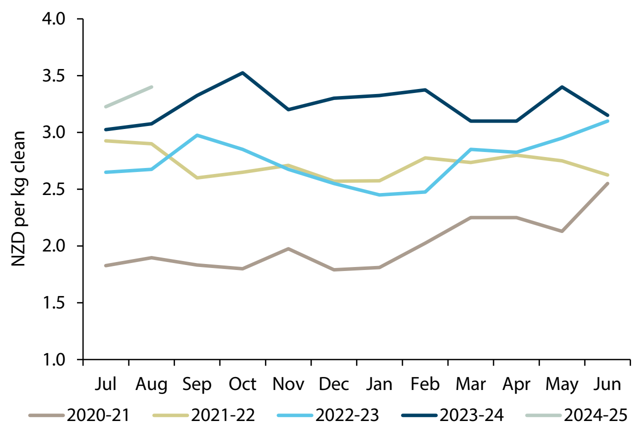
We expect returns for lamb and mutton will remain subdued over the 2024-25 season, with pricing to be similar to last season.

WOOL PRICES SEE A DECENT LIFT

Strong wool prices are generally improving. They are slightly better than they have been in recent years but still have some way to go before they positively impact farm profits. The cost of harvesting wool has significantly increased, so prices need to rise considerably to cover costs.

Recent auctions have seen greater urgency from buyers, as the supply of some types of wool is limited. Wool harvesting tends to slow at this time of the season, as pre-lambing shearing has finished. This means some buyers have been bidding a little harder at auctions to secure supply. Whether this will evolve into better pricing for the season ahead remains to be seen.

STRONG WOOL PRICES



Source: PGG Wrightson, ANZ Research

BEEF

BEEF MARKETS STRENGTHEN

Beef markets have strengthened on improved international returns and tight local supply. Processors are struggling to secure supply, despite paying higher prices for cattle. The combination of strong US demand and low stock numbers means returns are expected to remain elevated this season.

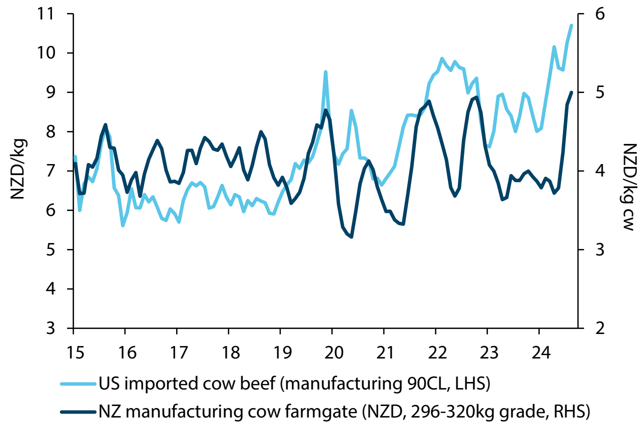
CATTLE IN SHORT SUPPLY

The number of cattle available locally for processing is low, even as processors are working hard to secure supply.

The winter has been mild in many regions and some farms have been slightly understocked, contributing to a lack of urgency to move cattle off farm.

Schedule prices have jumped recently. Manufacturing cow prices have lifted to $5/kg CW, while prices for steers, heifers and bulls now range from $6–7/kg CW depending on grade and location. This means farmgate returns are now up 15–30% y/y and are near a record high for this time of the year.

COW MEAT PRICES



Source: AgriHQ

All classes of stock are difficult to source at present, but the largest slowdown has been in the processing of bulls. Official production data have the bull kill down 10% for the season to date (October 2023 to early July 2024). In recent weeks, the number of bulls processed in the North Island has been about half the normal number.

Steer numbers have been down by a similar amount in recent weeks but are on par with the previous season for the season to date. Cow numbers have also dropped drastically, with fewer beef breeding cows and dairy cows.

STRONGER PRICES FOR FEEDER CALVES

Store stock prices have lifted due to the lack of supply. The shortage of stock is particularly noticeable for aged animals, but prices are stronger across the board, including for feeder calves.

Demand for young calves is considerably stronger this season. As usual, the strongest demand is for the beef breeds out of purebred Friesian cows. Prices for calves are generally about $50 per head more expensive than a year ago.

Prices for older cattle are also strong with those up to one year old (R1) generally trading near $1,000 per head and one- to two-year-olds (R2) hard to source below $1,500 per head.

The lack of profitability in sheep is contributing to current demand for cattle. Many farms are trying to tilt their sheep-to-beef ratio in favour of more beef. Many carry a mix of livestock, the balance of which is mostly influenced by land class and quality, but there is also usually room to adjust numbers. Reducing sheep numbers in favour of beef is a costly exercise at present, as cattle are expensive and sheep values are falling.

BEEF

US MARKET STRONG AT PRESENT

Manufacturing-grade bull and cow meat, which New Zealand exports to the US, has increased in price by about 25% y/y. Prices are currently some of the strongest seen in recent years. In USD terms, prices were stronger in early 2022 than they are now, but the NZD's relative weakness means prices in local currency terms are the strongest recorded in recent years.

The relatively low numbers of beef cattle being farmed in the US is supporting the US market. The US Department of Agriculture (USDA) has forecast beef production will fall 1.2% y/y in 2024. Further declines are forecast for 2025, but its latest estimates have revised up next year's production relative to prior estimates. This is partially due to stronger returns making it more attractive for US farmers to finish cattle to heavier weights.

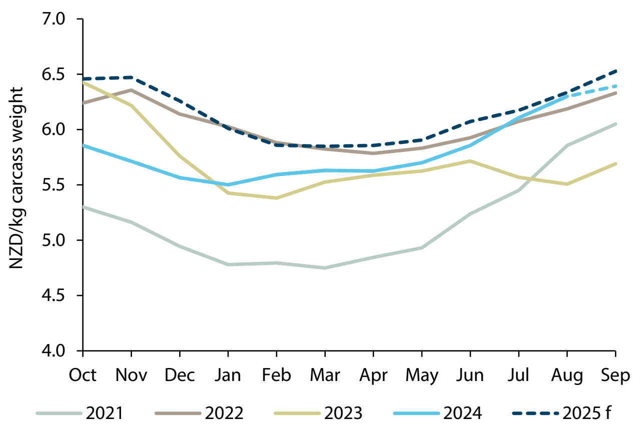
Demand from the US for imported beef is forecast to be up 11.2% y/y in 2024. Most of this additional beef is coming from Australia, where beef exports have surged.

The USDA estimates that global cattle numbers fell by around 3 million head (3.5%) in 2024. The US is expected to account for approximately half of the decrease in global numbers. Large falls are also expected to occur in Brazil, the world's largest cattle producer.

China currently has the world's second-largest population of cattle, and the USDA forecasts that will grow this year. However, a fall in China's wholesale market price for beef leaves little incentive for producers to expand, so numbers may fall rather than grow.

Beef prices have eased in China but have lifted in the US, so New Zealand's exporters have directed more volume into the US. This trend is expected to continue into 2025.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

DEER

US MARKET POSITIVE FOR VENISON

Venison markets, particularly in the US, are showing signs of positivity, but this is yet to have a meaningful impact on farmgate prices.

Access to China's frozen velvet market remains an issue that officials hope to resolve later this year.

Farmgate prices for venison have increased a tad recently, although they vary between processors. In general, there has been very little movement in farmgate returns in the past year.

Processors have held returns at reasonable levels, even when underlying market conditions have been challenging. Therefore, it will take some time before any improvement in international market prices is evident in farmgate returns.

Exporters have been working hard to diversify market risk by becoming less reliant on the European markets. Much of the marketing focus has been on the lucrative US market and greater China. Venison export returns from these markets have increased by 34% and 36% respectively over the past couple of years.

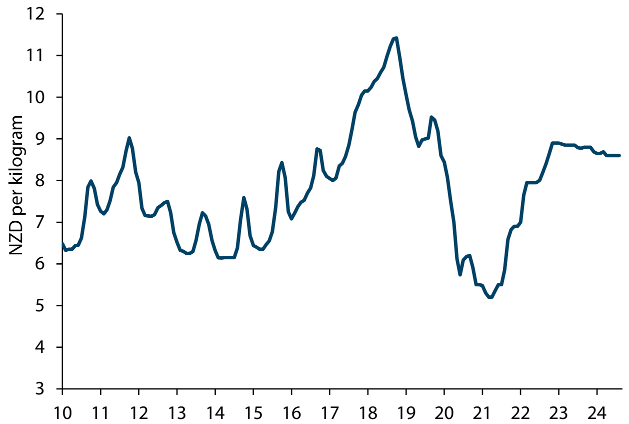
Over time, this strategy is expected to lift overall returns and stabilise demand for venison.

In the year to April 2024 the volume of venison exported to the European Union (EU) fell 8%, but returns have remained consistent, indicating that restricting volumes has supported better prices. In fact, returns have improved across all major markets, which is a massive achievement given challenging global economic conditions and easing protein prices.

VELVET ACCESS TOP PRIORITY

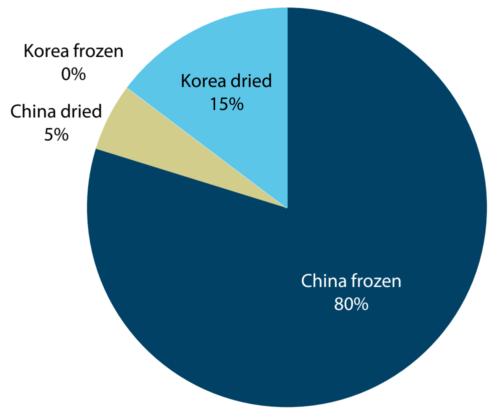
The issue relating to velvet access into the China market remains, but industry and government officials are working to resolved it before the velvet harvesting season gets underway later this year. Frozen velvet currently requires reclassification to comply with China's pharmaceutical rules. Since 1 May 2024, only dried velvet has been allowed into China. If access into this market is not successfully renegotiated, exporters will become more focused on the Korean market. There is some limited capacity to increase velvet drying in New Zealand, but without the China market it is likely that velvet inventories in NZ will grow.

VENISON FARMGATE PRICES (BASED ON 60KG STAG)



Source: AgriHQ

NZ VELVET EXPORT RETURNS BY MARKET (Year to June 2024)



Source: Statistics NZ, ANZ Research

GRAIN

GRAIN PRICES WEAK

Grain prices are trending lower in international markets, as inventories grow. Any improvement in local pricing is likely to be curbed by low international prices.

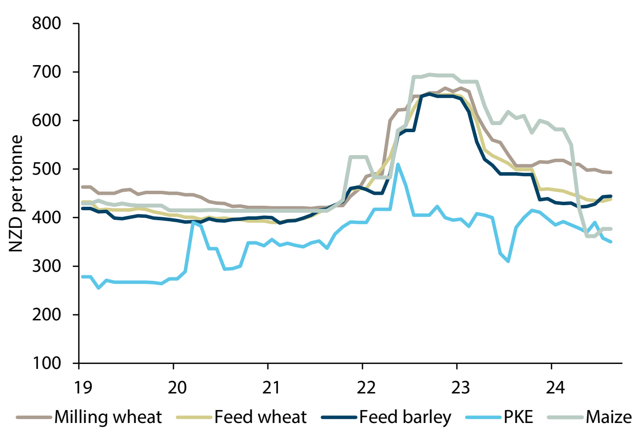
Locally, grain prices have lifted slightly but remain very low. Dairy sector demand for grain remains subdued.

LOCAL GRAIN PRICES IMPROVE SLIGHTLY

Local prices for grains remain relatively low despite some recent improvement.

Milling-grade wheat is trading near its five-year average, but well below the prices growers have received in recent years. Feed wheat and barley prices are well below their five-year average, and the price of maize has lifted marginally above the lowest level recorded in the past five years.

NEW ZEALAND GRAIN PRICES



Source: NZX

An oversupply of maize grain has put substantial downward pressure on prices and resulted in some grain not being harvested.

The Arable Industry Marketing Initiative's June survey revealed strong yields of 11.6t/ha, up from 10.2t/ha last season, which together with an increase in planting has resulted in in a 30% increase in the tonnage of maize grain produced.

This oversupply has prompted producers to reduce the planned maize grain planting area for this spring by 27%.

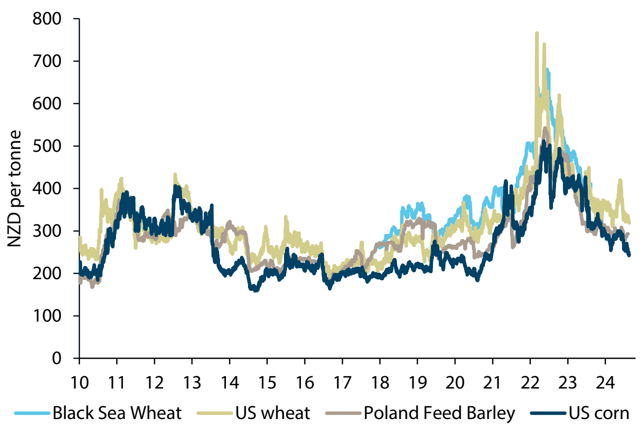
INTERNATIONAL GRAIN SUPPLIES RISING

The international Grains Council is forecasting a 1% increase in global wheat production in the 2024-25 season. Significant increases in production in the US, Canada, Australia and Argentina are expected to offset lower production in the EU, Ukraine and Russia.

Corn and oat production is also forecast to rise marginally as increased supply from the US and Brazil offsets reduced volumes for the other major producing countries. Corn yields in the EU and Russia are expected to be low due to extreme heat.

Global prices for grains are generally trending down as stocks are more than enough to meet current demand. Global maize prices are particularly weak at present, with Chicago corn futures at their lowest price since 2020.

WORLD PRICES FOR SELECTED GRAINS



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

FORESTRY

SAWMILLS UNDER PRESSURE

Markets for export logs have improved marginally but returns are still low and unlikely to improve significantly soon.

Local demand for logs has also eased, as building activity slows and sawmills battle elevated electricity prices.

Carbon prices have not moved a lot recently, and this market remains focused on potential changes to the Emissions Trading Scheme (ETS).

LOG PRICES IMPROVE SLIGHTLY

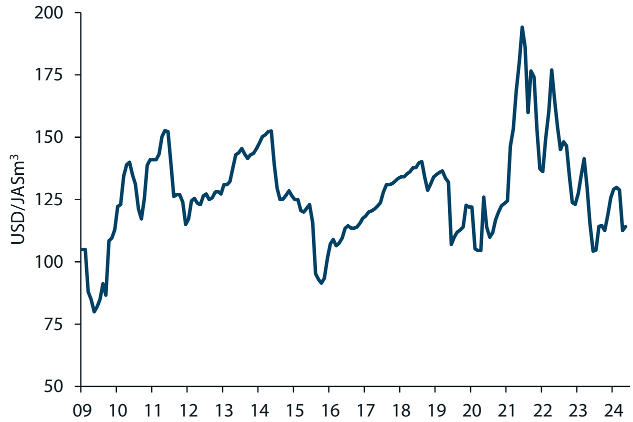
The log export market remains subdued. The large volume of logs sitting on wharves in China is being worked through, which is positive. But this is happening because supply has decreased, not because demand has significantly increased. However, exporters are relatively upbeat and expect to achieve slightly better prices in coming months, although price levels will still be low.

New Zealand's log exports fell 21% y/y in Q2. Log exports to China fell by over 1 million tonnes. Exports to South Korea also dropped dramatically, but slightly more logs headed to Japan. The resumption of exports to India has helped a little, but this market is still very small.

IN-MARKET LOG PRICES

Source: AgriHQ

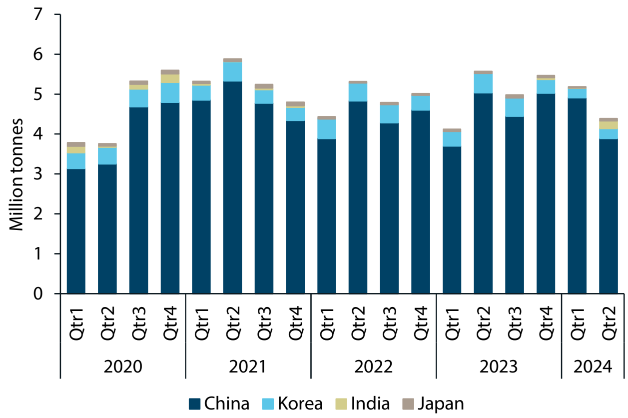
NZ LOG EXPORTS TO INDIA



Source: AgriHQ

During Q2, China accounted for 88% of the logs exported from New Zealand, while India accounted for just 4%. South Korea was the second-largest export market, taking 5%.

NEW ZEALAND LOG EXPORTS BY MAJOR MARKET



Source: Statistics NZ

FORESTRY

While the volume of logs destined for India is still quite small, it has risen rapidly in recent months. If this continues it may become a more significant market, but India is facing logistical challenges. Regions experiencing severe monsoon flooding face extended delays in getting ships unloaded, which is impeding demand. And the challenge of moving product through the Suez Canal due to Houthi attacks on shipping has made it difficult for India to export products to European markets. This has also reduced India's demand for the timber used in pallets and crates for export goods.

China exports have been strong to date but are also expected to face challenges in the coming months as the US and Europe increase tariffs on Chinese goods. If China exports less product, it will also require less timber for packaging and crates.

NEW ZEALAND DEMAND STILL RELATIVELY WEAK

Local demand for timber is still weak due to the slowdown in the housing sector. Construction also tends to slow over winter.

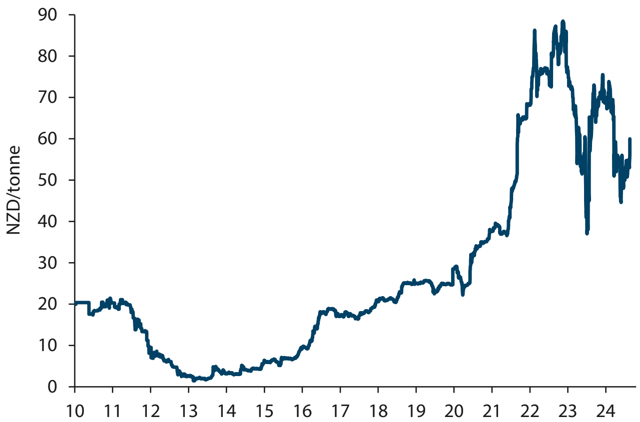
Without strong demand for sawn timber, sawmills have little incentive to buy logs. Sawmill operating costs are still high. Labour costs remain high and electricity costs have recently skyrocketed, which is impeding profitability.

Several mills have opted to reduce operating capacity, while others have temporarily ceased production.

CARBON MARKET

Carbon pricing has been relatively stable for the past few months. Pricing has been near $50/t in recent weeks, well below the $64 minimum price required to be paid to source units at the quarterly government auctions.

NZ CARBON PRICE



Source: Bloomberg, ANZ Research

This means it is unlikely that any units will sell at the government auctions this year, which could start to address the sector's oversupply.

The government's draft Second Emissions Reduction Plan released in July indicates it would like to encourage more trees to be planted, but not on productive farmland. It seeks to limit planting of trees on land classes 6 and below (productive farmland). It is proposed to only allow planting of 15,000ha per year on land class 6, whilst planting on land classes 7 and 8 (hard hill country) will be unrestricted. Previously it was proposed that these limitations would be managed via the ETS registration process. Regulatory change will be required before this policy becomes effective.

The government is also investigating the potential for afforestation on crown land. It is proposing joint-venture type arrangements with the private sector, but how this might work is yet to be established.

HORTICULTURE

FRUIT EXPORTS ON TRACK

Kiwifruit volumes are considerably larger this season and are being well absorbed by global markets.

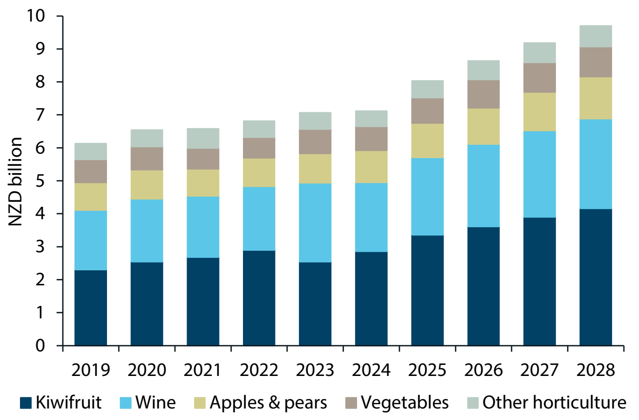
Apple exports are also on track, but some markets are particularly challenging this season, meaning many growers face another season of low returns.

The government anticipates strong growth in horticultural exports in coming years, driven largely by growth in kiwifruit exports.

EXPORT GROWTH FORECAST

The Ministry of Primary Industries (MPI) anticipates horticultural export returns will lift 37% in the five years to 2028. Kiwifruit exports are forecast to lift by 63% over the next five years. This forecast assumes that production volumes will lift at nearly twice the rate achieved in the past five years. Part of this increase in production will come from vines already planted, which will yield larger crops as they mature. The Government's forecasts for this sector are not too dissimilar to Zespri's own forecasts.

HORTICULTURAL EXPORT RETURNS



Source: MPI

The Government also anticipates strong growth of 43% in export returns for the apple industry. While there is plenty of scope for apples to attract higher export prices, industry confidence has been battered by several seasons of low returns, so this target looks ambitious. It will require an increase not just in the volume of apples produced but also in the returns being achieved (by producing more of the varieties that command higher returns). That would require considerable investment.

Wine export revenue is forecast to grow by a more modest 13%, which certainly appears more achievable than the apple forecast.

In 2023, kiwifruit accounted for 38% of horticultural exports by value, followed by wine at 31%.

KIWIFRUIT: GOOD DEMAND ABSORBING EXTRA VOLUME

The kiwifruit season is progressing well. Demand has been sufficient to absorb the higher volumes of fruit this season.

Sales efforts have had to increase to ensure good returns for all fruit exported. The industry remains focused on quality and moving fruit into markets at optimal times.

Sales volumes are running 20% ahead of last season, with approximately half of the current season's crop sold and delivered to consumers. About three quarters of the fruit has now been shipped to offshore markets.

European demand is a little softer this season due to strong competition from other summer fruit. Competition has also been stronger in several key Asian markets.

Expanding the offering of Zespri-branded fruit in the off-season remains a focus. This is being achieved through incentive payments for early-season production and supplementing the offering with fruit grown in the Northern Hemisphere.

HORTICULTURE

Producing fruit early in the season is more challenging. But as long as growers are confident that returns will be higher than the additional costs of production, producing higher volumes of early season fruit is possible.

ORCHARD GATE FORECAST PRICES

Kiwifruit variety	2023-24 per tray (final)	2024-25 per tray (June forecast)	2023-24 per ha (final)	2024-25 per ha (March forecast)
Green	$9.55	$7.50 - $8.50	$65,717	$80,000 - $91,000
Organic Green	$12.53	$9.75 - $11.25	$56,086	$67,000 - $81,000
SunGold	$12.92	$10.00 - $11.25	$146,987	$143,000 -$161,000
Organic SunGold	$14.71	$12.50 - $14.00	$113,449	$129,000 - $144,000
Sweet Green	$10.63	$8.00 - $9.50	$49,841	$51,000 - $56,000
RubyRed	$26.34	$16.25 - $17.75	$40,741	$69,000 - $76,000

Source: Zespri

Zespri revised its orchard gate forecast prices in June. Expected returns for Green kiwifruit lifted, but SunGold returns fell slightly from the previous forecast. Pricing for Organic varieties lifted from the March forecasts.

Returns on a per-hectare basis lifted from previous guidance for Green varieties and look favourable relative to previous season returns.

Pricing for RubyRed has fallen relative to last season due to the expanded production resulting in a larger proportion of smaller fruit.

APPLES: ASIAN MARKETS CHALLENGING

The apple harvest finished some months ago, with growers now focused on winter activities such as pruning.

Most of the fruit harvested has been exported. The remainder is in cool storage, ready to be distributed to markets in the coming months.

This season, trading conditions have been challenging across most Asian markets. This has resulted in lower volumes being exported. Smaller fruit has also impacted the product's appeal in these markets, and returns have suffered.

Returns to growers vary considerably depending on the varieties grown and the quality. Overall returns are relatively low but costs remain high, making it another challenging season for growers.

China is New Zealand's largest export market for apples followed by Vietnam.

RURAL PROPERTY MARKET

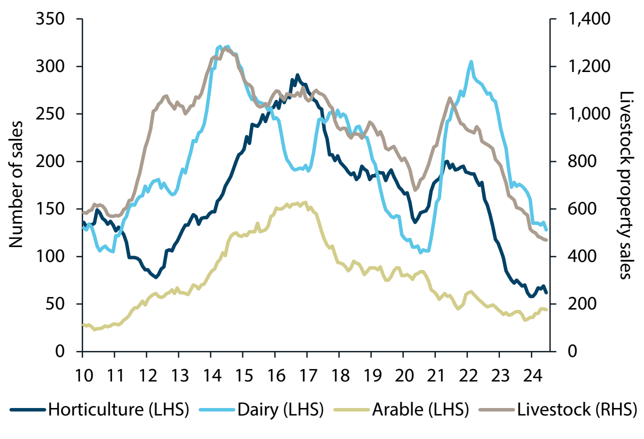
CONFIDENCE QUIETLY GROWING

The rural property market remains subdued in terms of both prices and the number of sales. There are pockets of positivity emerging, but high interest rates and low returns are curtailing investor confidence.

FEWER PROPERTIES TRADED

The number of rural properties traded continues to decline. Lower returns and regulatory uncertainty have resulted in fewer people being keen to invest in rural properties. The number of farms available for sale continues to outnumber buyers.

PROPERTY SALES VOLUMES BY SECTOR



Source: REINZ

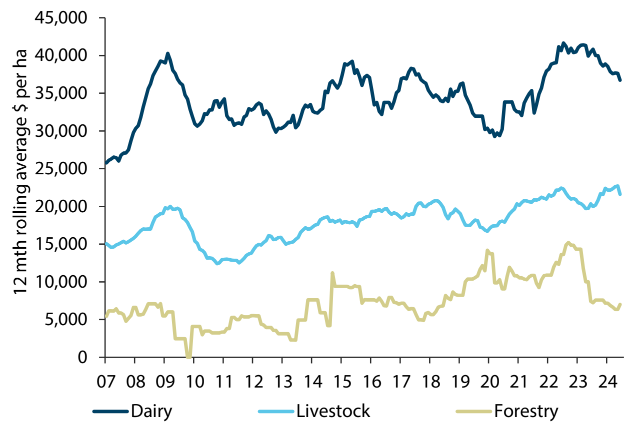
Property prices are adjusting downward, as demand and supply pressures start to rebalance. This process is relatively slow, as sellers hold out for the prices they perceive their properties to be worth.

Median sales prices are distorted upward when sales skew towards higher quality properties. This trend tends to be evident when the market is weak and buyers have a greater number of properties to choose from, meaning poorer-quality properties tend to remain unsold. This effectively increases the median price of properties traded, without necessarily being associated with an increase in the market value of any particular property.

Regulatory uncertainty persists, but rural investors appear to view the environment as more favourable than it was.

The big issue hanging over livestock markets is the pricing of methane emissions. This is now set to commence by 2030, rather than 2025 as previously scheduled. A single method to calculate emissions is expected to be available before the end of the year. That will make reporting requirements easier. But until there is some indication of methane pricing levels and clarity around rewards for on-farm sequestration, it will be difficult to assess potential returns and provide the confidence required to see an increase in investment in the sector.

MEDIAN PROPERTY SALE PRICE, BY SECTOR



Source: REINZ

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	134	174	213	↓	↓
	Median price ($ per ha)	36,736	40,464	35,957	↓	↑
Livestock	Number of sales	469	637	919	↓	↓
	Median price ($ per ha)	21,592	20,325	19,559	↑	↑
Horticulture	Number of sales	62	72	185	↓	↓
	Median price ($ per ha)	270,750	434,778	266,162	↓	↑
Arable	Number of sales	44	41	89	↑	↓
	Median price ($ per ha)	49,120	37,150	40,647	↑	↑
Forestry	Number of sales	42	39	55	↑	↓
	Median price ($ per ha)	7,010	7,415	9,148	↓	↓
All farms	Number of sales	816	1,040	1,502	↓	↓
	Median price ($ per ha)	27,575	27,850	26,603	↓	↑

Source: REINZ

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Last updated: 20 February 2024

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