ANZ RESEARCH

AGRI FOCUS

OCTOBER 2023

REGAINING GROUND

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INSIDE

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OVERVIEW

Global economic conditions are challenging, but export returns are currently holding or improving.

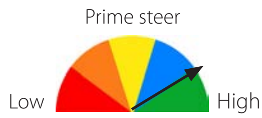
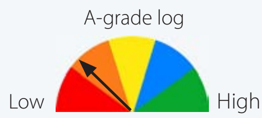
Tighter supply is helping balance the relatively lacklustre demand for products such as logs and dairy. Meat supply from competitors is high, but only small volumes of beef and lamb are being processed locally.

There is still reasonable underlying demand for New Zealand's products; it is just a challenge to get high prices, as consumers across the globe are cutting spending in response to tighter economic conditions.

Interest rates are expected to remain high for some time, and many farm operating costs are up. Most farms are cutting costs where they can, to try to break even this season.

The longer-term outlook is more positive, as global competitors are facing similar challenges and curbing production.

Discussion on pricing New Zealand Emissions Units (NZU) is expected to resume after the 14 October election. Once details are agreed the outlook will become clearer for many farm businesses.

Prices at farm/orchard level relative to 10yr average[1]		
Dairy	Dairy commodity prices have started to improve, and Fonterra has revised up its milk price forecast by 50c to a mid-point of $7.25/kg for milk solids (MS). That's just above our own forecast of $7.15/kg MS.	
Sheep	Lamb returns at the farmgate level have stabilised but prices this season are expected to be the lowest seen in the past five years.	
Beef	Demand for beef is proving more resilient than many other proteins with global markets absorbing elevated supplies from Australia and South America.	
Forestry	Log returns have lifted a little, but international demand is subdued, so little improvement in pricing is expected before 2024.	

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

ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

Global economic conditions continue to tighten, as central banks keep interest rates high to quell demand for goods and services and thereby reduce inflation.

The combination of higher interest rates, high production costs and low returns will eat into farm profits this year.

Other parts of the economy are less affected, and house prices are now rising again. An increase in immigration is putting pressure on housing demand but should help ease the tight labour market.

GLOBAL DEMAND MIXED

Global demand for New Zealand's export commodities is mixed at present, reflecting how the economies of our various trading partners are performing.

In general, economic growth is slowing, but some economies, such as the US, are more resilient than others. While US demand for our export goods is strong, demand in most other markets is subdued.

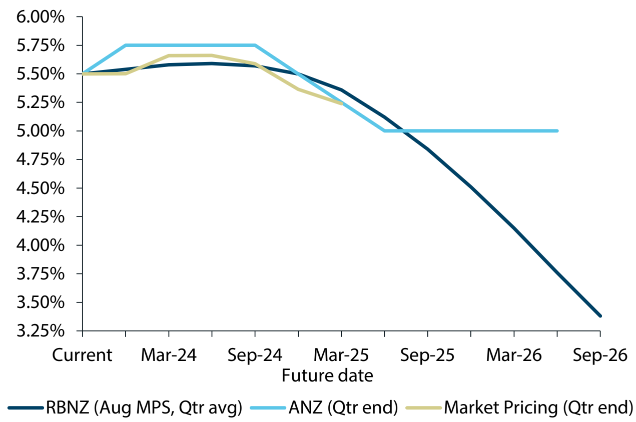
Prices for agricultural commodities generally have risen a little in the past month but are still low and are expected to remain so through much of the current production season.

This is putting pressure on profits, particularly for farming businesses carrying high levels of debt.

INTEREST RATES 'HIGH FOR LONGER'

The RBNZ has held the Official Cash Rate (OCR) at 5.50% since May, and it is not clear whether further tightening will be required. We think the RBNZ has a little more work to do to quell domestic inflation, so we expect a 25bp lift in the OCR when the Monetary Policy Committee meets in November, or if the RBNZ requires more convincing, February.

OCR FORECAST



Source: Bloomberg, RBNZ, ANZ Research

Rates are unlikely to ease any time soon. The OCR is not expected to be cut until 2025. There is a risk of inflation becoming entrenched if the OCR is not high enough to slow demand and relieve upward pressure on prices. If inflation persists, the Reserve Bank may have to keep interest rates high for longer. There is naturally also a risk that some kind of negative shock comes along and precipitates cuts earlier than expected, but that falls firmly into the 'be careful what you wish for' camp.

LOW NEW ZEALAND DOLLAR

The NZD remains relatively low against the currencies of most of our trading partners. This is helping to offset the impact of low commodity prices. Farmgate returns would be considerably weaker if the NZD were stronger.

We anticipate the NZD will sit at its current level, near or below USD0.60, until the end of the year, before appreciating in 2024.

Click here to access our latest forecasts.

DAIRY

ON THE UP

Dairy markets have turned a corner, but producers are not out of the woods yet. Prices are improving, but further increases are required to deliver a farmgate milk price that will allow most farmers to achieve a profit this year.

Milk production levels are expected to be relatively subdued in New Zealand and in most other major dairy-exporting economies. This will restrict the supply of products, but demand needs to recover before prices can lift substantially and sustainably.

Dairy commodity markets are often something of a rollercoaster, with steep drops in prices often followed by sharp rises. At present, prices appear to have passed the dip and are heading up the slope. Sales have regained momentum, but the rise is unlikely to be straight up.

This firming in prices is coinciding with an increase in the volume of New Zealand product being offered to the market. This indicates that underlying demand is robust, because just to maintain prices buyer appetite would need to be rising.

Rising prices tend to stimulate additional activity, as buyers try to secure stock before prices rise further. Buying cautiously is good strategy when prices are falling, but as prices rise buyers try to build a buffer in stocks.

Rather than supply-side dynamics, concerns over end-user demand for dairy products has kept buying at low levels in recent months. Those concerns are ongoing, particularly around Chinese demand, but it is increasingly clear that milk production will be relatively subdued this season in New Zealand and other parts of the world.

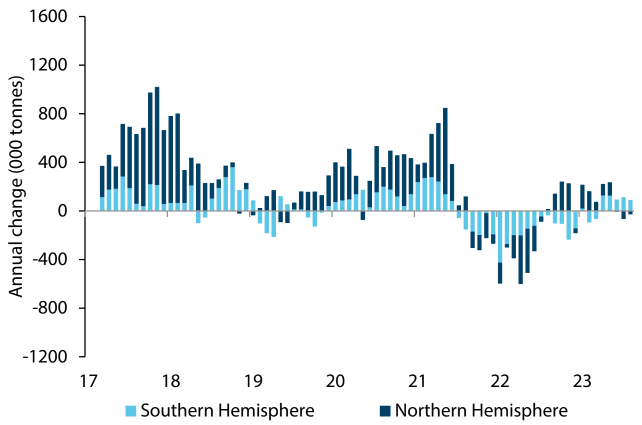
DAIRY PRODUCTION SUBDUED

New Zealand's official milk production data are only available up to August, but they don't paint a strong picture. Production this season is tracking 2.2% behind a year ago for the June to August period. Milk inputs during this period can vary from season to season due to winter milk contracts and the timing of calving, but it appears this trend will continue through the peak production months.

The milk intake varies between the North and South islands. Fonterra data show milk intakes for the North Island are tracking 3.9% behind last season, while the South Island's milk intake is 3.3% ahead. Extremely wet weather in the lower North Island over winter has constrained early-season pasture growth and milk production. The weather has normalised, but it will be difficult to make up for the poor growth this season.

Globally, other major dairy-producing regions are also experiencing relatively weak production. At present, major dairy-exporting nations are increasing milk output by just 0.2%. China isn't included in this calculation, and there is anecdotal evidence of higher growth in milk supplies there, but producing milk in China is expensive. At present it is cheaper for Chinese dairy companies to import milk than to produce it themselves.

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



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

DAIRY

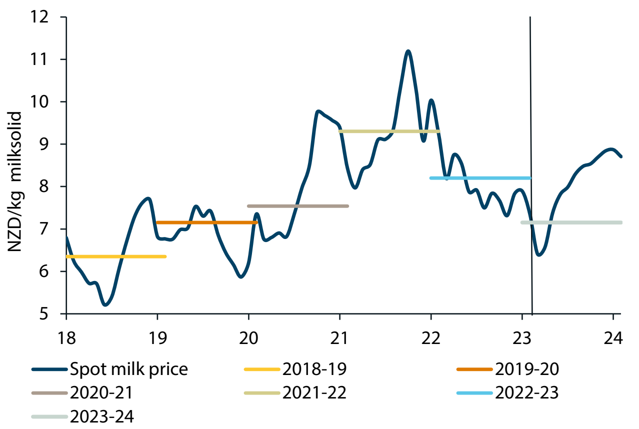
Australia's largest dairy product company, Saputo, plans to shut several of its milk-processing plants, as the volume of milk available is diminishing. Milk intakes fell 5% in the year to June 2023. Dairy Australia expects milk production will stabilise this season, but it has been trending down whilst domestic demand has grown, which leaves less product for Australia to export.

Milk production in the US has slowed in recent months, while growth in the EU and UK remains low at well under 1% y/y.

New Zealand's farmgate prices are low but the outlook is improving. Fonterra recently revised up its farmgate milk price for the 2023-24 season by 50c. Its forecast range is now $6.50–8.00/kg MS, with the mid-point at $7.25/kg MS.

ANZ Research's farmgate milk price forecast for the 2023-24 season remains at $7.15/kg MS, but based on current dairy commodity prices there is now upside risk to that. It is still early in the season, but it is unlikely that dairy commodity prices will just keep rising for the foreseeable future!

FARMGATE MILK PRICE HISTORIC AND FORECAST



Source: Fonterra, ANZ Research

Wherever the milk price finally lands it is expected to be lower than last season, and most farms will need to contain costs to break even. Operating costs vary considerably from farm to farm, with productivity levels and debt levels two of the major variables that impact profitability.

LAMB & WOOL

LAMB MORE CHALLENGING TO SELL

Lamb markets are a little weak at present but could pick up as the year progresses.

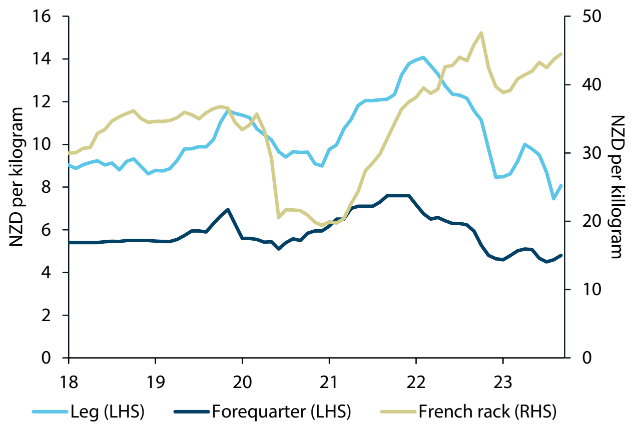
Farmgate prices are stable currently but are expected to come under pressure as larger volumes of new-season lambs become available closer to Christmas. Returns are expected to be the lowest in the past five years.

EXPORT DEMAND SOFT

Export demand for New Zealand's lamb and mutton is weak at present. This is partially due to our high reliance on the currently weak Chinese market and partly to lamb being a relatively high-priced protein.

Economic conditions are tight in China, Europe and the UK, which collectively buy most of our exports. The one bright spot is the US where the economy appears hard to suppress. Demand there is much stronger than it is in other markets, but it is not going to soak up all the lamb we usually send to other markets, as it is only interested in specific cuts.

LAMB CUT PRICES



Source: AgriHQ, ANZ Research

International prices for all cuts of lamb have dropped to varying degrees. Lamb legs have fallen about 33% over the past year, while lamb racks have fallen only marginally, sustained by robust US demand.

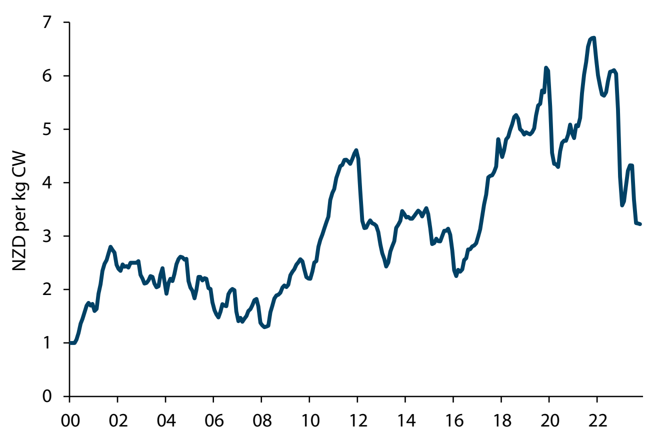
The most challenging product to move at present is mutton. We have been selling nearly all of our mutton to China, which pays far more than other markets. But in the face of weak demand there, it is proving challenging to rekindle demand elsewhere.

Meat processors are reporting demand is relatively slow, as is apparent in export volumes and prices.

MUTTON PRICES EXTREMELY WEAK

The schedule price for mutton is nearly half what it was a year ago. At present there are few ewes being culled, but that will change after weaning. The last time mutton was priced this low was in 2017.

FARMGATE MUTTON PRICE



Source: AgriHQ

LAMB & WOOL

FARMGATE LAMB PRICES WELL DOWN

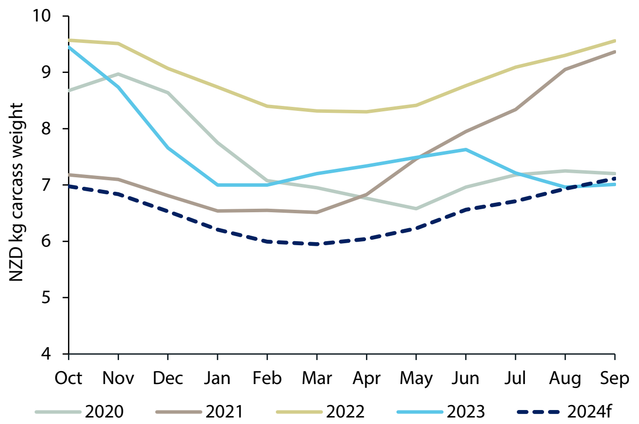
Farmgate prices for lamb are currently about 25% lower than a year ago, but values are likely to fall as more lambs become available. Small numbers of old-season lambs are still being processed, but we will soon see more new-season lamb becoming available.

Farmgate prices for lamb are currently sitting at or near $7/kg carcass weight (CW). A year ago, these lambs were priced at $9.60/kg CW.

Values are likely to hold near current levels for early-season lamb, but as more lambs reach slaughter weight downward pressure on prices is expected, unless underlying market conditions improve.

Peak season, lambs may be priced nearer to $6/kg CW. The expected fall in schedule prices and the forecast of a dry summer ahead will increase the incentive for farmers to finish lambs early or sell into the store market.

FARMGATE LAMB PRICE FORECAST



Source: AgriHQ, ANZ Research

WOOL PRICES IMPROVING

Wool prices are above where they were at this time of year in the past two seasons but are still relatively low. Current prices are up about 7% from three months ago and about 11% on a year ago.

There is demand for our wool. Most offered at regular auctions is selling well, with very little passed in. Demand from buyers appears to be improving, and this is raising prices.

BEEF

GLOBAL SUPPLY LIFTS BUT PRICES HOLD

Global demand for beef is still robust with the US remaining the bright spot for exporters.

There is plenty of beef being exported from both Brazil and Australia and this is having an impact on the prices that are achievable in markets such as China.

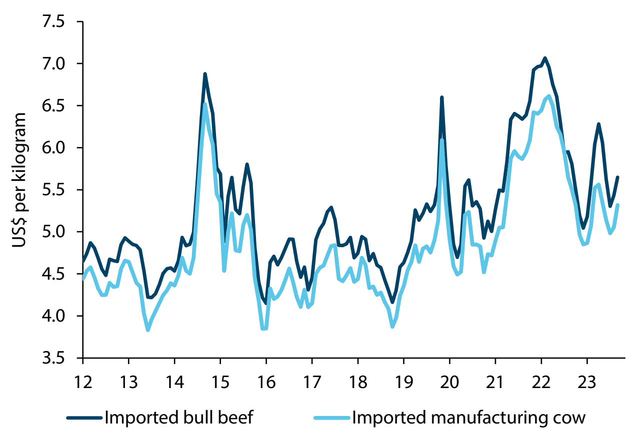
GOOD DEMAND FOR CHEAPER MEAT

Global demand for beef is mixed. Demand from the US market is strong whilst demand from China is more subdued. Beef pricing is holding up well despite more challenging global economic conditions.

Beef is a relatively cheap source of protein, and demand for products such as burgers remains high. The volume of beef being supplied to global markets has been high, and price levels have firmed slightly. In the past month the price of bull meat imported into the US has lifted 6%.

The large beef-producing countries, particularly Brazil and Australia, are supplying more beef than normal.

US IMPORTED BEEF PRICES



Source: USDA, AgriHQ

In Australia dry conditions are encouraging producers to cull more mature stock than normal. The only factor constraining kill volumes is a shortage of labour at meat-processing plants. Processing space in some plants is booked up until Christmas, and farmers are sending a large volume of slaughter-weight cattle to sale yards as they run out of options to offload stock.

A similar trend is occurring in Brazil, which means both Brazil and Australia have more manufacturing-grade beef to offer to export markets.

Fortunately for New Zealand beef, US demand is still good. Demand from China is more subdued and tends to be patchier, but a lift in demand is expected as buyers secure supply for the Chinese New Year holiday in February.

Japan is reported to be carrying very high beef inventories. While it isn't a major market for New Zealand's beef, some of our competitors will be diverting meat typically destined for Japan to other markets.

AUSTRALIA'S EXPORT VOLUMES

Australia's beef exports are currently considerably higher than in recent years. Exports to the US for the year to August are already higher than the total volume for last year. This is due not only to destocking ahead of a wave of dry conditions but also to the herd rebuilding that has occurred over the past couple of years.

The upside is that even though global economic growth is poor, there is still good demand for beef, so the higher volumes on offer are being readily absorbed by markets.

SEASONAL LULL

Beef processing in New Zealand is at its seasonal lull. Processing tends to slowly pick up with some culling on dairy farms late in the calendar year – particularly if feed supplies start to tighten and milk prices look low.

Farmers will be mindful that El Niño is forecast for this summer, and there is a higher than usual risk of drought. Offloading cull stock early will be one of the strategies deployed this summer.

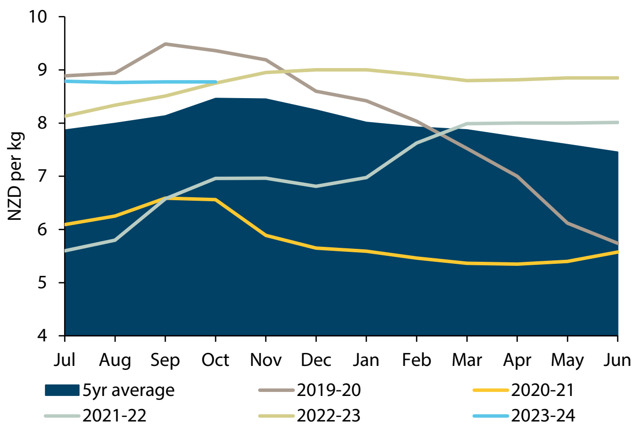
DEER

GOOD DEMAND FOR CHILLED VENISON

Demand for venison is steady, as processors fill orders ahead of the strong seasonal demand associated with the European Christmas. This is helping to keep farmgate prices firm.

Farmgate prices for venison are holding up well, despite the tough economic conditions in our main export markets.

VENISON FARMGATE PRICES (BASED ON 60KG STAG)



Source: AgriHQ

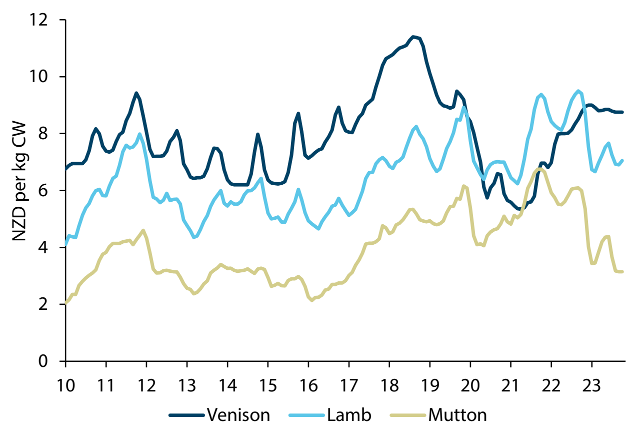
We are currently in the main processing season for young stags. Traditionally the largest demand for New Zealand's venison is around Christmas. Venison is often on winter menus at European restaurants, and the New Zealand industry has tended to line up supply to match this demand.

This means at present most of the venison is being exported chilled, which tends to sell at a premium price relative to frozen product.

Produce will need to be on the water by late October to reach European markets in time for Christmas. Sometimes additional product is airfreighted to this market, but that is dependent on wholesale demand and relative costs. Most product will be shipped rather than flown.

As the price of other forms of protein has fallen away sharply, the question will be how much of venison's strong pricing will carry over once the lucrative seasonal trade finishes.

FARMGATE PRICES BY SPECIES



Source: AgriHQ

The deer industry has been working hard to develop alternative markets to support pricing throughout the season and reduce its reliance on the European winter market.

Processors are reporting that demand for venison in both the US and China is progressing well. There have also been several promotional campaigns in the UK, as this is seen as a market with potential.

Demand for the main venison cuts has been relatively strong, but demand for lower-grade product such as trim has been less robust. The pet-food market is very fickle and some years this has delivered strong demand for off-cuts. However, this season is more challenging as other forms of protein are currently considerably cheaper.

GRAIN

GLOBAL GRAIN PRICES SOFTER

Global and local grain prices have softened. We expect local demand for feed to fall, given that lower milk prices will squeeze farm profit margins.

Spring planting is in hand, but less land is expected to be dedicated to arable grains this season.

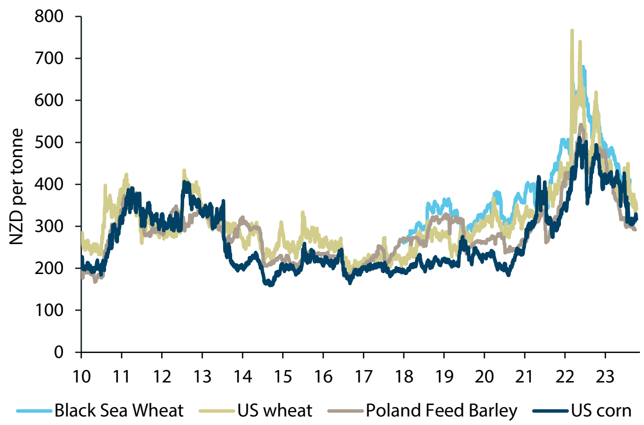
SUPPLY CONCERNS AS RUSSIA PULLS OUT OF BLACK SEA DEAL

Global grain prices have generally softened in recent months as supply concerns abate. Ukraine is moving grain through the Black Sea, despite Russia pulling out of the deal that granted a safe shipping corridor. There is still a high degree of uncertainty around supply due to the ongoing war.

The volume of grain grown in and shipped from Ukraine is lower than normal, but Russia has produced a massive grain crop, which has bolstered global supply.

China has also resumed purchasing large volumes of wheat from the US, which it hasn't done for several years, and is also buying from France. It buys most of its wheat from Australia.

WORLD GRAIN PRICES



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

LOCAL MARKET PRICES EASE

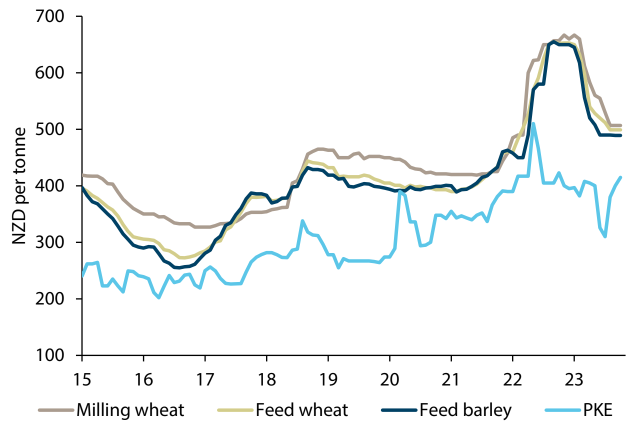
New Zealand's planting season is underway, with favourable ground conditions in most regions, but there are concerns that summer may be drier than normal.

Grain prices are generally falling, so some growers are looking to plant specialist crops to compensate for lower earnings. The July 2023 Arable Industry Marketing Initiative survey showed the volume of unsold grain at the end of last season was less than the previous year, and the area of land expected to be planted this season is also a little lower. Overall, this points to tighter supply of domestic feed grains, which will go some way towards balancing reduced demand.

Demand for grain from the dairy industry is expected to be less than normal, but this will depend on weather conditions and how far milk prices fall.

The price of palm kernel expeller (PKE) has risen significantly and is now not far below the spot price for domestic feed wheat and feed barley. While we may see a reduction in the total quantity of feed purchased by dairy farmers, we are likely to see some farmers buying grain instead of PKE.

NEW ZEALAND GRAIN PRICES



Source: NZX

FORESTRY

LOG MARKETS STILL UNDER PRESSURE

In-market log prices have improved slightly, but demand is still weak, and this is not expected to change soon.

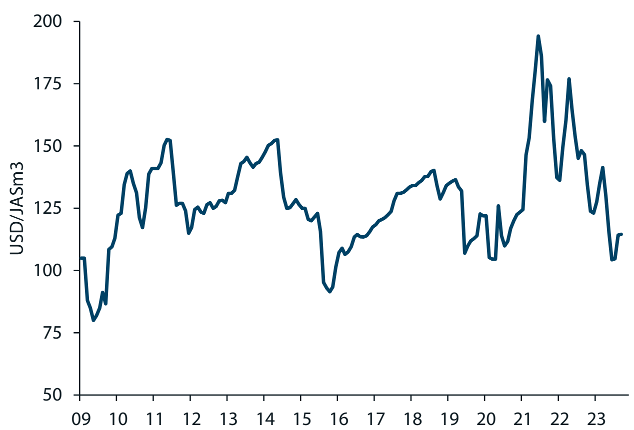
Harvesting costs are increasing, so if returns remain low we are likely to see more selective harvesting, particularly for forests that are not close to ports or are challenging to access.

CHINA USAGE NORMALISES

The uptake of logs from ports in China is back to normal levels for this time of the year. This has helped rebalance the market and has been marginally supportive of in-market prices. However, exporters are not confident that prices will lift further in the near term. A significant improvement in returns for export grade logs is not expected until well into 2024.

The current downturn in pricing cannot be blamed on over-supply from competitors. Measured by volume, New Zealand now supplies nearly half of all logs imported by China. The quantity of logs supplied by the European Union has dropped sharply and is now only about one-third of the volume that was being supplied a couple of years ago.

IN-MARKET LOG PRICES



Source: AgriHQ

The reason for the weaker pricing is lower demand. China's economic growth has slowed, manufacturing is down, consumer confidence is weak and the property sector is under significant pressure. This has impacted demand for New Zealand's softwood logs used in wooden pallets, crates and boxing for concrete construction, amongst other things.

The good news is that current uptake levels from Chinese wharves indicate end-user demand is improving. What we are not seeing is any urgency from importers to buy more logs, so prices remain soft.

WHARFGATE PRICES EASE

The price of logs at the wharf gate eased slightly despite some improvement in international pricing. The problem is an increase in freight prices.

Oil prices have recently strengthened, pushing up fuel prices. Logs are bulky and relatively expensive to move, making them highly sensitive to changes in fuel prices. The higher shipping costs are likely to persist in the near term and will continue to dampen any improvement in market pricing.

OTHER MARKETS

China is now our main market for logs, but historically Japan, South Korea and India have all purchased significant quantities.

A few years ago, New Zealand banned the use of the fumigant methyl bromide. India, however, requires logs to be treated with this specific fumigant. As a workaround, logs are now being treated in the hulls of ships. This has reopened this market to New Zealand's logs, but the volume supplied to India is likely to be relatively small as exporters remain cautious.

FORESTRY

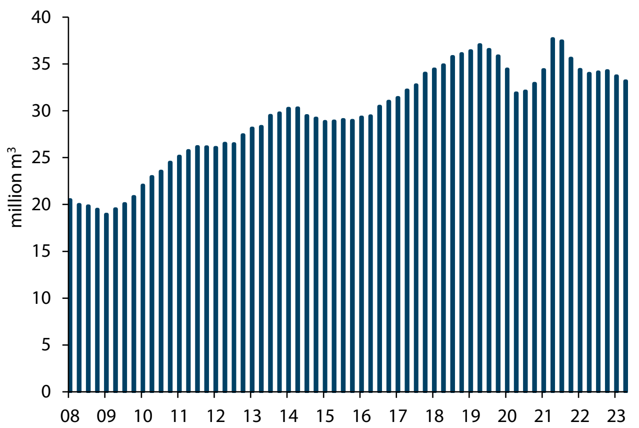
China has typically paid higher prices, which is why most of New Zealand's export logs end up there.

HARVEST VOLUMES FALLING

The volume of trees harvested has diminished for five quarters in a row. In the three months to June 2023, the volume of timber removed from forests was 12% lower than the same quarter two years prior.

The latest Ministry of Primary Industries forest harvesting data show a sharp decline in harvesting of high-quality logs used by the domestic building industry, but this was partially offset by an increase in the volume of timber classified as export grade.

ROUNDWOOD REMOVALS: 12-MONTH ROLLING AVERAGE



Source: MPI

The volume of timber being retrieved for pulp and chip has also dropped dramatically. The global market for pulp-grade timber is currently very weak.

Global demand for paper has eased since the pandemic. This maybe being influenced by the work-from-home trend and the increased use of digital platforms. Demand for packaging-grade paper is increasing as businesses look for sustainable solutions and move away from plastic.

WOOD AS A DOMESTIC ENERGY SOURCE

Within New Zealand, wood has been a fuel for heating homes, but its use as a fuel in industrial processing has been limited. Use of wood pellets and wood chip to fuel processes like milk powder drying are now being seriously considered.

Some researchers expect demand from commercial industry will in future account for 20% of all timber felled. It could also utilise some of the lower-grade timber currently left behind when forests are harvested.

New regulations (National Environmental Standards for Commercial Forestry) mean useable timber (10cm diameter and 2m long) must be removed when trees are harvested. This will add to the cost of harvesting, and the feasibility of doing so will depend on the facilities available to process these types of logs.

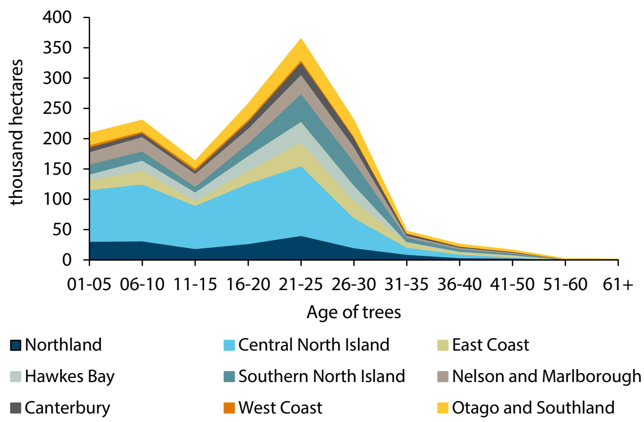
It will take time to develop new plants, but there is a high incentive for manufacturers to move to more environmentally friendly processing and reduce their reliance on coal.

This additional domestic demand could limit the volume of timber available for export markets.

HARVEST VOLUMES TO DECREASE

There is currently a large volume of timber due to be harvested or nearing maturity. Timber planting started to slow about 20 years ago, so in 5-10 years the volume of trees available for harvest is likely to be considerably lower than at present.

FOREST LAND AREA BY REGION AND AGE OF PLANTATION



Source: MPI

The price of carbon will also influence the volume of logs available to harvest as it may be more profitable to leave trees standing to collect carbon revenue than to harvest them.

Carbon prices have eased a little over the past month with the market currently trading just over $60 per NZU. No units were sold at the September carbon auction and the same result is expected for the December auction. If the units don't trade in December, the entire 2023 allocation will be written off, effectively tightening the supply of units. At present there is an oversupply of units, so a reduction will help the market function better in the future.

SELLING SEASON NEAR COMPLETION

The last shipment of kiwifruit for the season is on the water, and the apple export season is drawing to a close.

Smaller crops and slightly stronger returns have been the key takeouts for the current season.

Growers are now focusing on the season ahead as spring growth takes off.

KIWIFRUIT: HARVEST

The kiwifruit season is complete, with the last shipments on the way to international markets.

Distribution has been faster than usual this season due to the smaller crop. This has helped boost the overall quality, and the smaller crop has made it easier to obtain higher prices.

Quality was a focus this season as the industry worked to restore its reputation after a challenging season in 2022. Next season's crop is forecast to be considerably larger than this year, with SunGold volumes expected to be about 50% higher. It is therefore important to have as many international players as possible vying for supply.

Zespri will now start selling its northern hemisphere grown fruit. A record volume is expected to be produced in Italy, France, Japan and Korea under the Zespri brand. This fruit will help keep Zespri fruit on supermarket shelves until the 2024 New Zealand grown crop is available.

Orchard-gate pricing is expected to improve this season, but it may be challenging to maintain this level of returns with the larger crop next season. Unfortunately, revenue for many growers will still be low this season, due to the smaller yields.

ORCHARD GATE FORECAST PRICES – AUGUST 2023

Kiwifruit variety	2023-24 per tray forecast	2023-24 per tray forecast range	2023-24 per ha forecast	2023-24 per ha forecast range
Green	$8.10	$7.80 - $8.60	$55,683	$54,000 - $60,000
Organic Green	$11.20	$10.70 - $11.70	$49,956	$48,000 - $52,000
SunGold	$11.50	$11.00 - $12.00	$130,908	$125,000 - $137,000
Organic SunGold	$13.10	$12.60 - $13.60	$101,076	$97,000 - $105,000
Sweet Green	$9.80	$9.30 - $10.30	$45,947	$44,000 - $48,000
RubyRed	$23.30	$22.80 - $24.80	$36,044	$35,000 - $38,000

Source: Zespri

WINE: SURPLUS BUILDS IN-MARKET

New Zealand's wine exports have been extremely strong this year. It is now the sixth-largest exporter of wine, despite producing only about 2% of the world's wine.

Despite the strong year, it is not easy to sell wine into international markets at present. The work-from-home culture has reduced demand from restaurants and bars in many central business districts.

Australia, our third-largest export market, has a surplus of wine, but this is mainly red varieties. It still faces heavy tariffs in China, which was its largest market before the tariffs were imposed in 2021.

Sauvignon blanc continues to dominate New Zealand's wine export market. The smaller 2023 harvest means there is less wine to sell, which is supporting prices to some extent.

HORTICULTURE

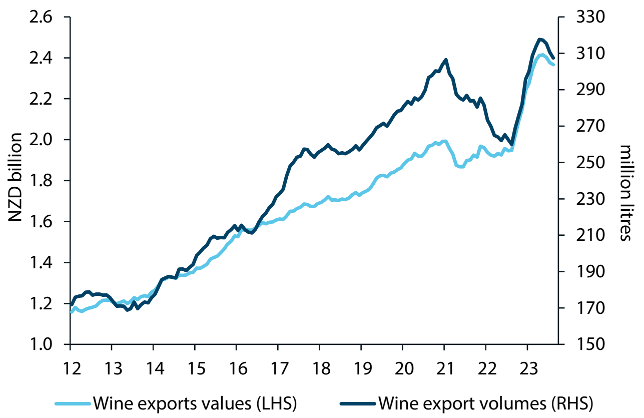
The wine industry estimates that New Zealand's floods earlier this year meant 20,000 fewer tonnes of grapes were harvested in Hawke's Bay and Gisborne.

Looking forward it may be challenging to keep prices at current levels. Grower returns generally lifted this season but weren't quite as strong as some were hoping. Returns vary quite a lot depending on who growers are contracted to and which party is responsible for harvest-related costs.

The industry is continuing to expand at a steady pace. Some of the new plantings are replacing older or damaged vines, but the area planted in grapes continues to expand. This is particularly the case in Marlborough where grapes tend to generate a higher return than alternative land uses. At present there is estimated to be 41,860 hectares in grape production, of which 65% is Sauvignon Blanc.

Wine growers are currently focused on the 2024 crop. Several periods of unseasonably cold weather may have an impact on yields, particularly for the varieties that flower earlier and for vineyards without frost protection. However, at this stage, the extent of any damage is expected to be minor.

NZ WINE EXPORTS (12 MONTH ROLLING)



Source: Stats NZ

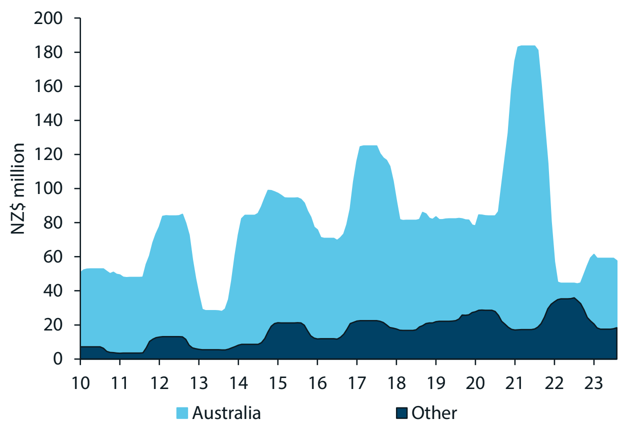
AVOCADO: SURPLUS SUPPLY

The global market for avocados is oversupplied, with severe consequences for prices.

Mexico and Peru are both having strong seasons for avocado production, as is Israel. While Mexico and Peru typically supply the American market and Israel supplies Europe, the global supply level affects prices for New Zealand's avocados, which are typically sold to Australia and Asia. South Africa is diversifying from exporting to Europe and Russia to also supplying China.

Australia is so oversupplied with avocados there have been reports of them selling for just AUD0.90 in Queensland where about half the country's avocados are grown. It exports only a small percentage of the fruit it grows and that tends to go to nearby Asian markets. As part of its free trade agreement, it has negotiated access for avocados into India, which is expected to help soak up the excess supply, but biosecurity and food safety tests must be done on these initial shipments before large volumes are accepted, and it is not clear how long this will take.

AVOCADO EXPORT RETURNS



Source: StatsNZ

New Zealand has traditionally relied on Australia as its main export market but has started to move into Asian markets. Returns to growers this season are expected to be considerably lower than in recent years because of subdued export demand and increased local supply.

RURAL PROPERTY MARKET

SALES VOLUMES FALL

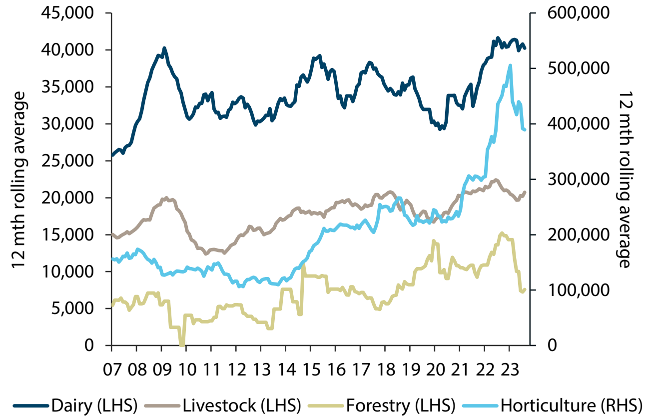
Activity in the rural property market is extremely subdued at present. Prices are generally easing and sales volumes are particularly low. That said, interest tends to pick up as spring progresses through to summer.

At the moment buyers are spoilt for choice, but investors are taking a cautious approach. This is not surprising given the amount of regulatory change underway and low profitability in many sectors.

The rural property market is typically relatively quiet at this point in the year, and this season is no exception. But the trend seems to be more than seasonal.

In the year to August 2023, the median price reported by REINZ was weaker for virtually all sectors. Sales volumes were considerably lower and median prices eased. The volume of dairy farms changing hands over the past year was down 36% year-on-year and 23% lower than the 10-year average.

MEDIAN PRICE BY SECTOR



Source: REINZ

Uncertainty surrounding methane emissions regulations is a major factor impacting demand for pastoral farms.

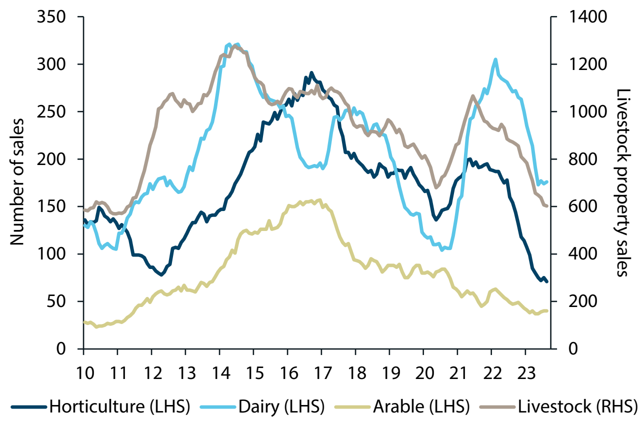
There are plenty of listings, so those on the hunt for a new property or investment have ample choice.

LIVESTOCK PROPERTIES NO LONGER UNDERPINNED BY CARBON DEMAND

There were also few transactions for livestock farming properties (sheep & beef) with the number sold back 31% y/y and 38% below the 10-year average.

Aside from uncertainty around environmental regulations, pricing in this sector is no longer underpinned by demand for land for carbon forests. The rise of carbon farming provided an alternative use for land and bolstered the value of many low-performing livestock farms. However, uncertainty brought about by the review of the Emissions Trading Scheme means there is little demand for farms to convert to carbon forests at present. This may change once the review is completed, but for now it is not clear how carbon sequestered in forests will be priced in the future.

SALES VOLUMES (12 MONTH ROLLING AVERAGE)



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	173	272	224	↓	↓
	Median price ($ per ha)	40,258	41,209	35,545	↓	↑
Livestock	Number of sales	602	872	970	↓	↓
	Median price ($ per ha)	20,750	21,750	19,220	↓	↑
Horticulture	Number of sales	71	154	191	↓	↓
	Median price ($ per ha)	389,250	443,000	251,345	↓	↑
Arable	Number of sales	40	47	92	↓	↓
	Median price ($ per ha)	37,150	36,500	39,408	↑	↓
Forestry	Number of sales	49	56	54	↓	↓
	Median price ($ per ha)	7,573	14,883	9,119	↓	↓
All farms	Number of sales	1,014	1,488	1,567	↓	↓
	Median price ($ per ha)	27,942	29,842	26,175	↓	↑

Source: REINZ

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Last updated: 18 April 2023

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