What is next for the NZ sheep and beef sector

Agri benchmark Global Forum
The Royal York Hotel
England

19 June 2013

Peter Weeks

Future for NZ sheep & beef:

- Global demand & NZ$
- Land use change
- On-farm productivity
- Seasonal conditions
- Market prices
- NZ beef forecast
- NZ sheep forecast
- What next?

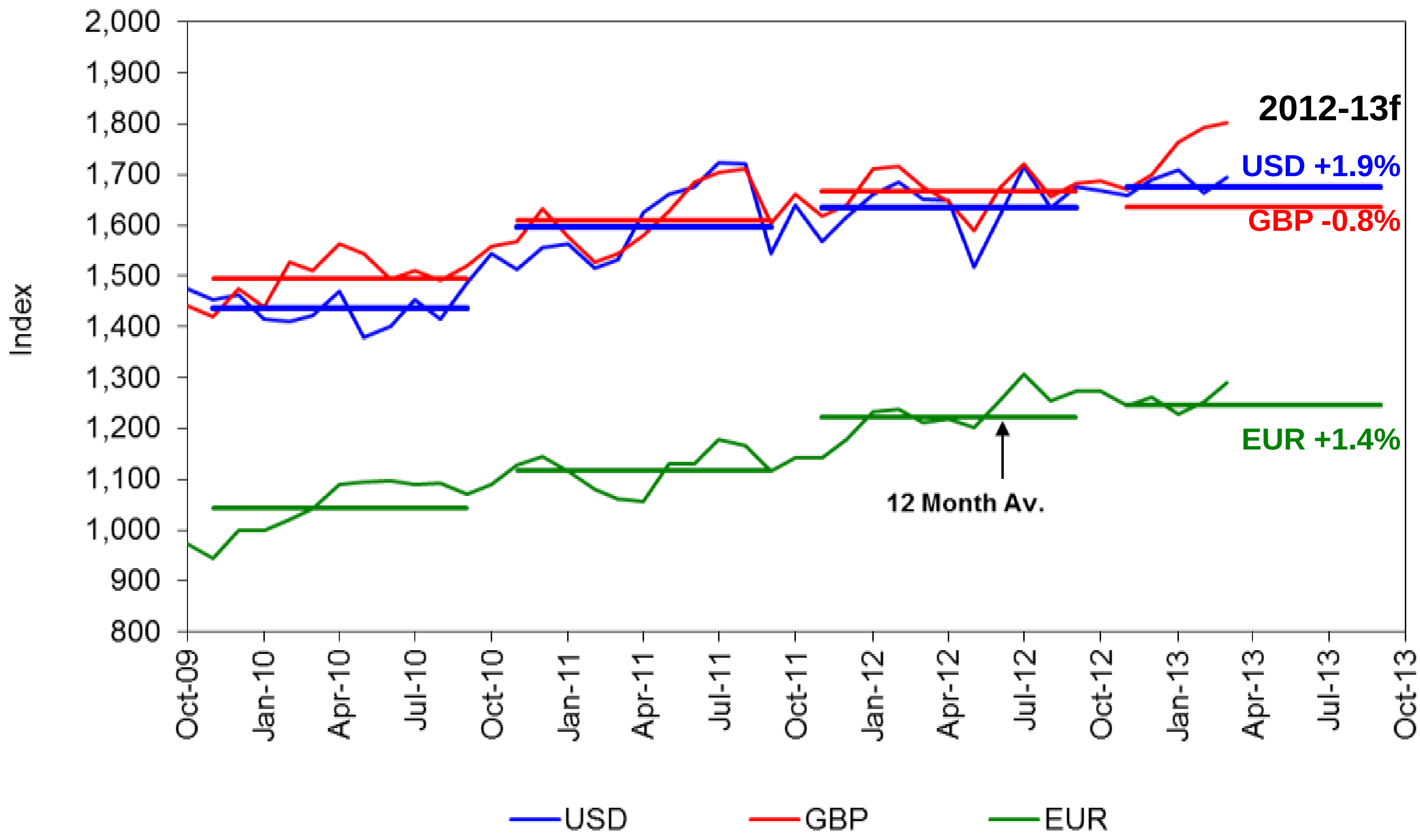
Livestock sector export-dependent

2011-12	% Exported	Exports $m
• Wool	91%	$776
• Lamb*	92%	$2,670
• Mutton*	94%	$454
• Beef and Veal*	80%	$2,470
• Dairy	96%	$12,478
• Deer [$265m] + Other	96%	$917
Pastoral Sector		$19,765

*Includes co-products
June Year
Source: Beef + Lamb New Zealand Economic Service, SNZ

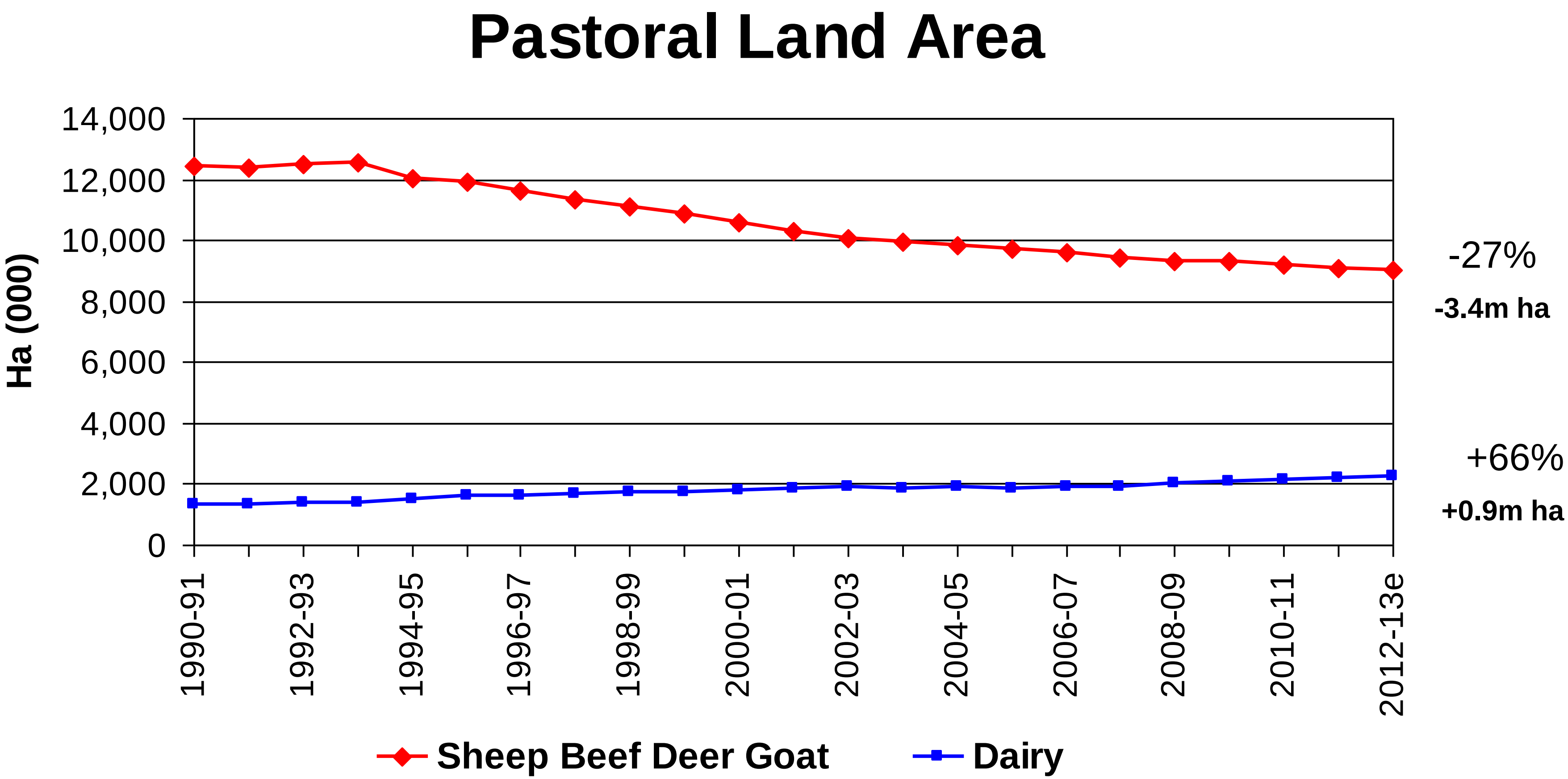
State of the world economy vital

High NZ dollar impacts export returns (2000 Jan = 1000)



Source: Beef + Lamb New Zealand Economic Service
Reserve Bank of New Zealand

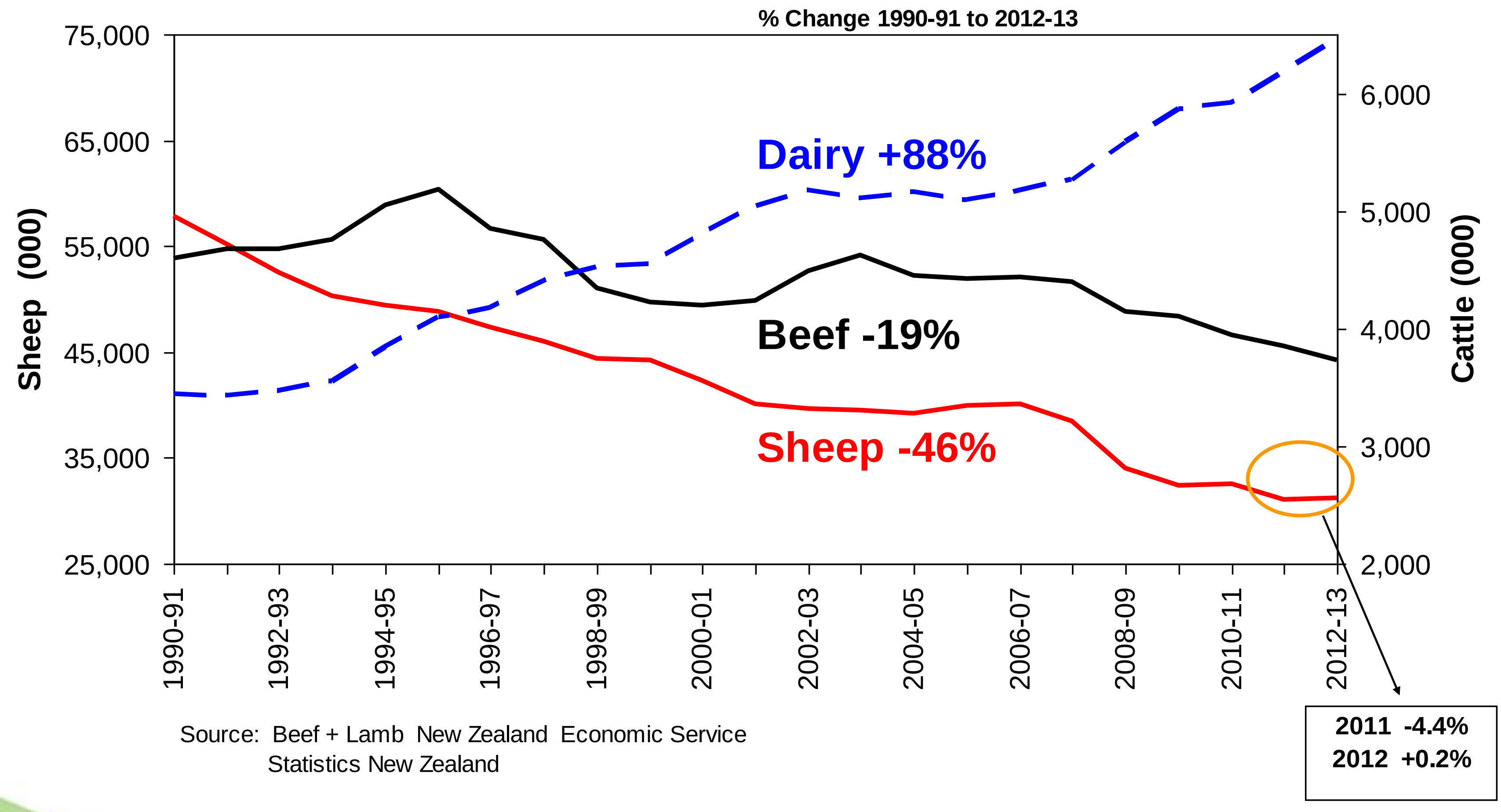
Gradual loss of pastoral land to dairy



Source: Beef + Lamb New Zealand Economic Service
Statistics New Zealand

Overall -27%
-3.4 m Ha
1990 to 2012

Declining sheep and cattle numbers 1990-91 to 2012-13



Source: Beef + Lamb New Zealand Economic Service
Statistics New Zealand

NZ beef production up
Lift in productivity

1990-91 to 2012-13e

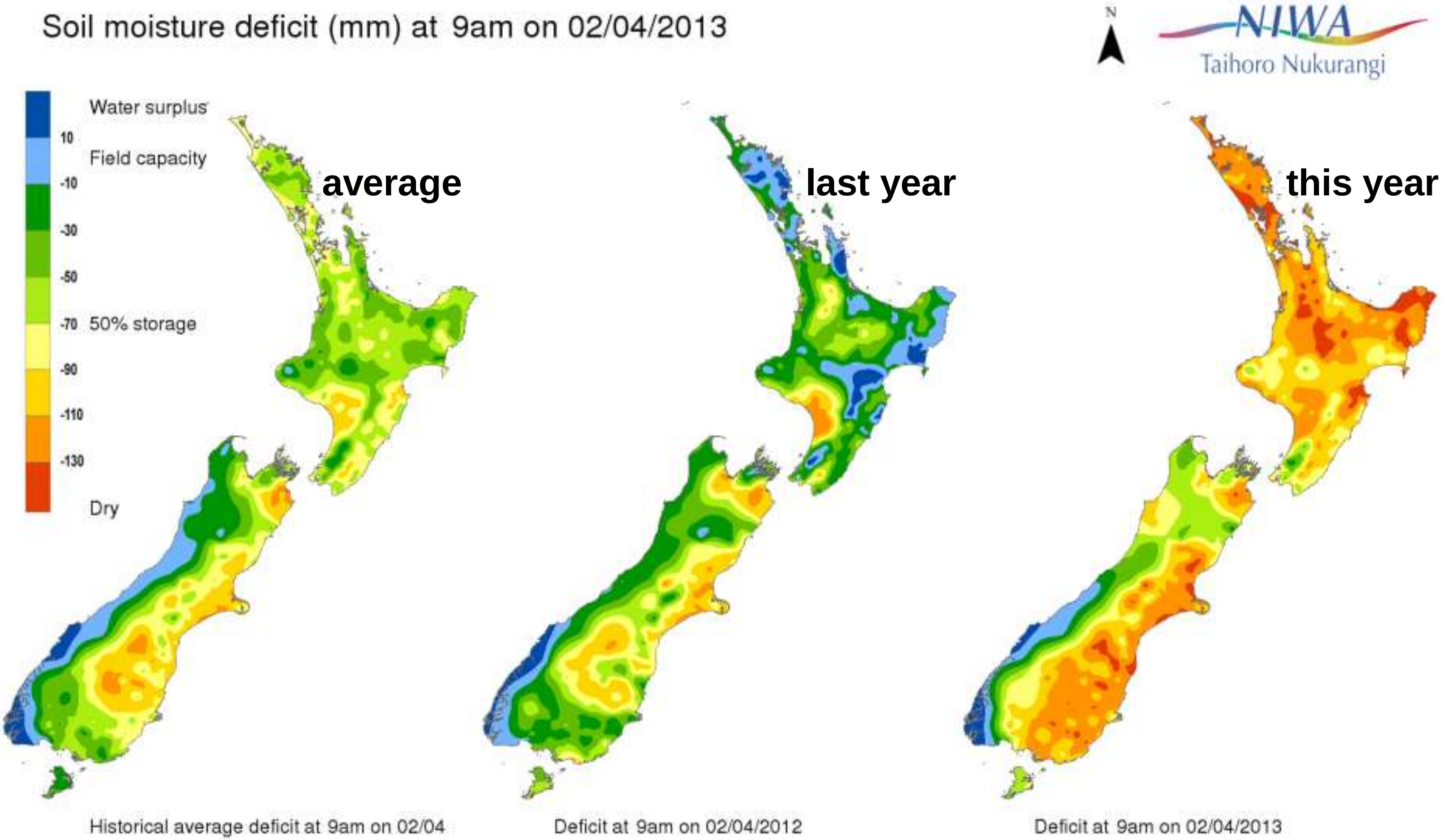
More Dairy	+175%
More Beef and Veal	+20%
Less Lamb	-7%

but from <u>46%</u> fewer sheep!

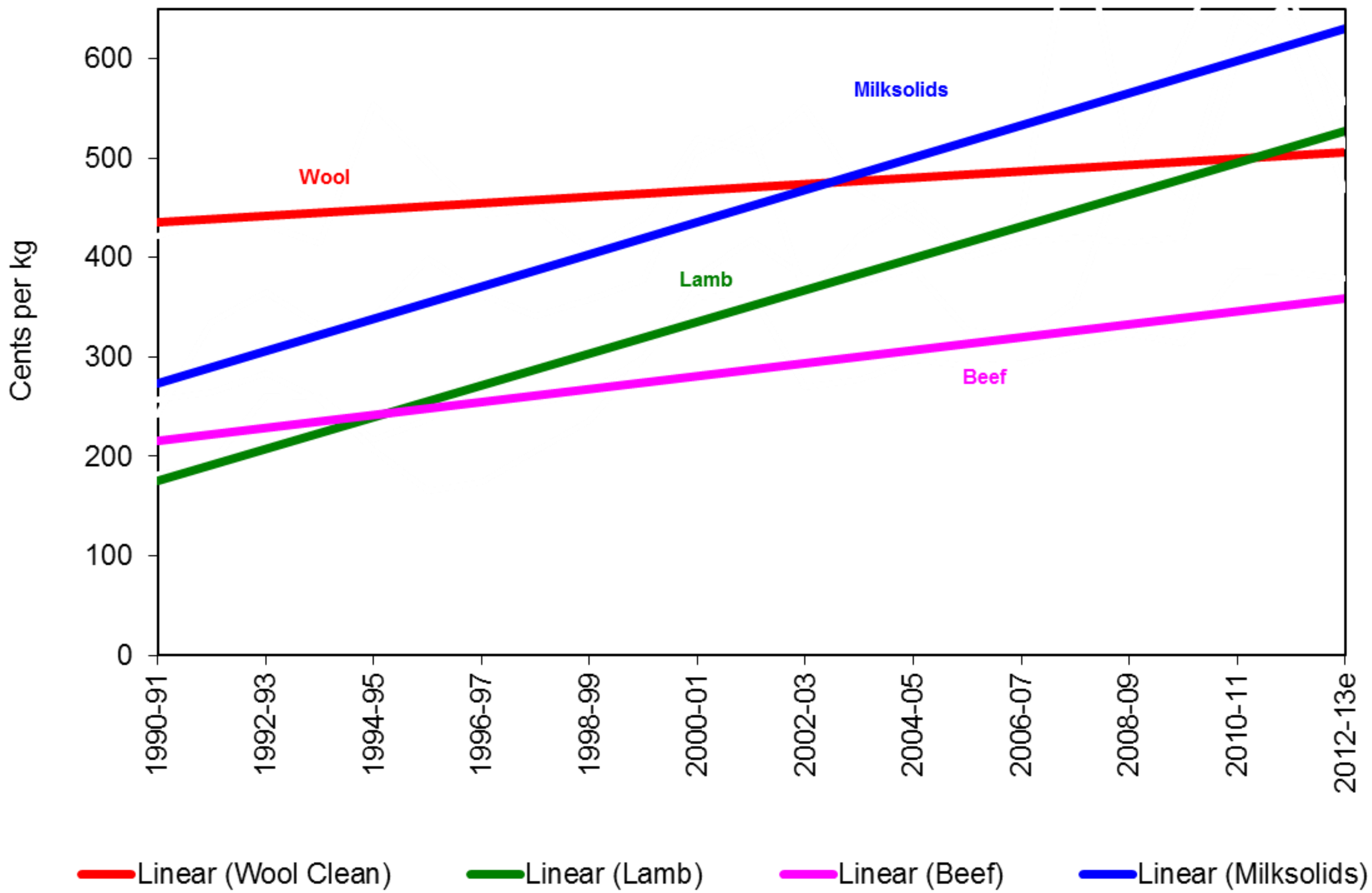
Largest productivity gains in lambs

	1990-91	2012-13e	
Lambing percentage (ewe)	100.4%	123.3%	+23 lambs
Average lamb wt (kg)	14.35	18.14	+26%
Lamb sold (kg/ewe)	9.76	18.12	+86%
Wool prodn (kg/head greasy)	5.28	5.41	+3%
Average steer wt (kg)	297	309	+4%
Milk solids per cow (kg)	260	340	+31%

Drought has hit industry hard
NIWA as 2 April 2013

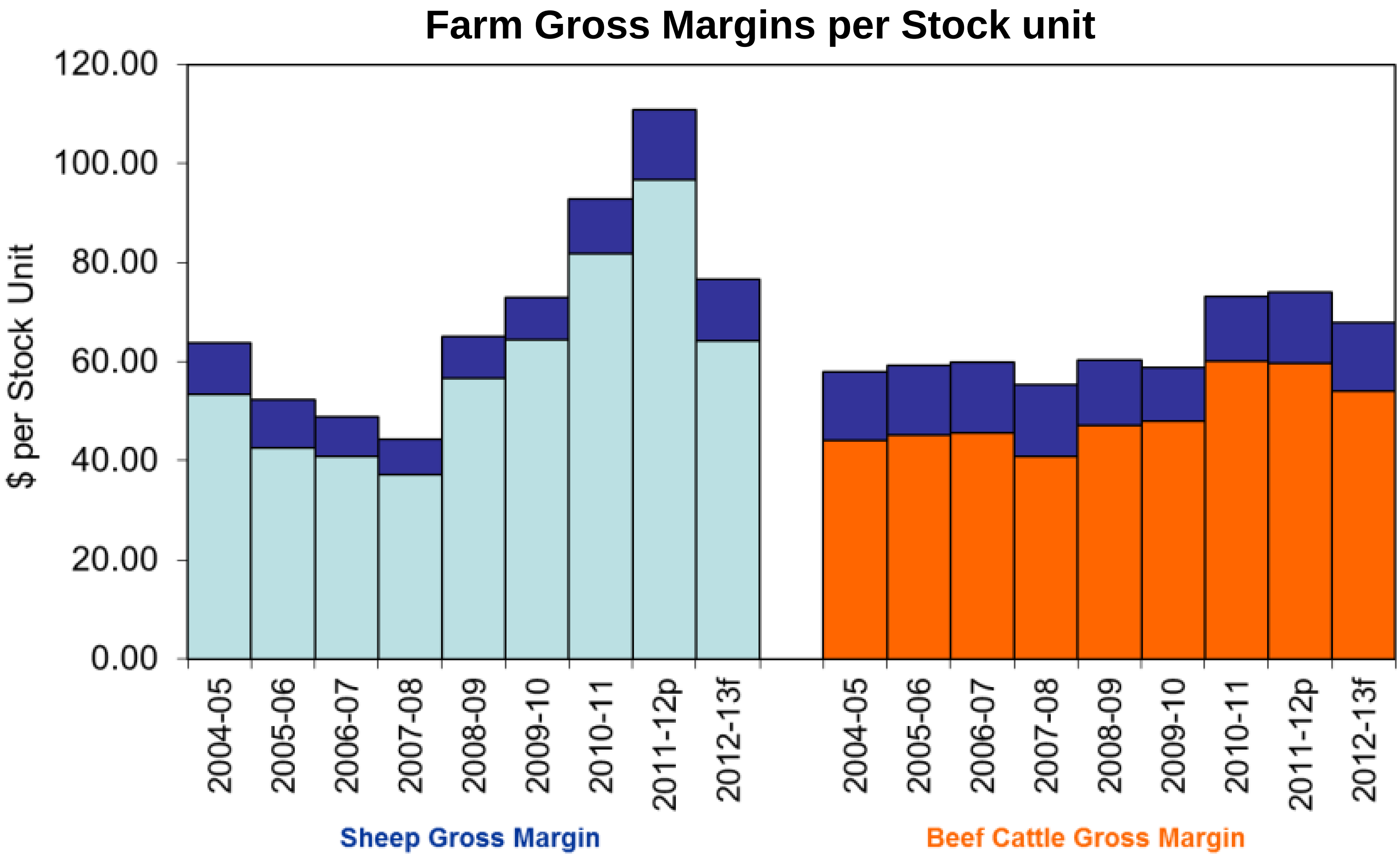


Relatively poor wool & beef price trend
Nominal farm price trend, ¢ per kg



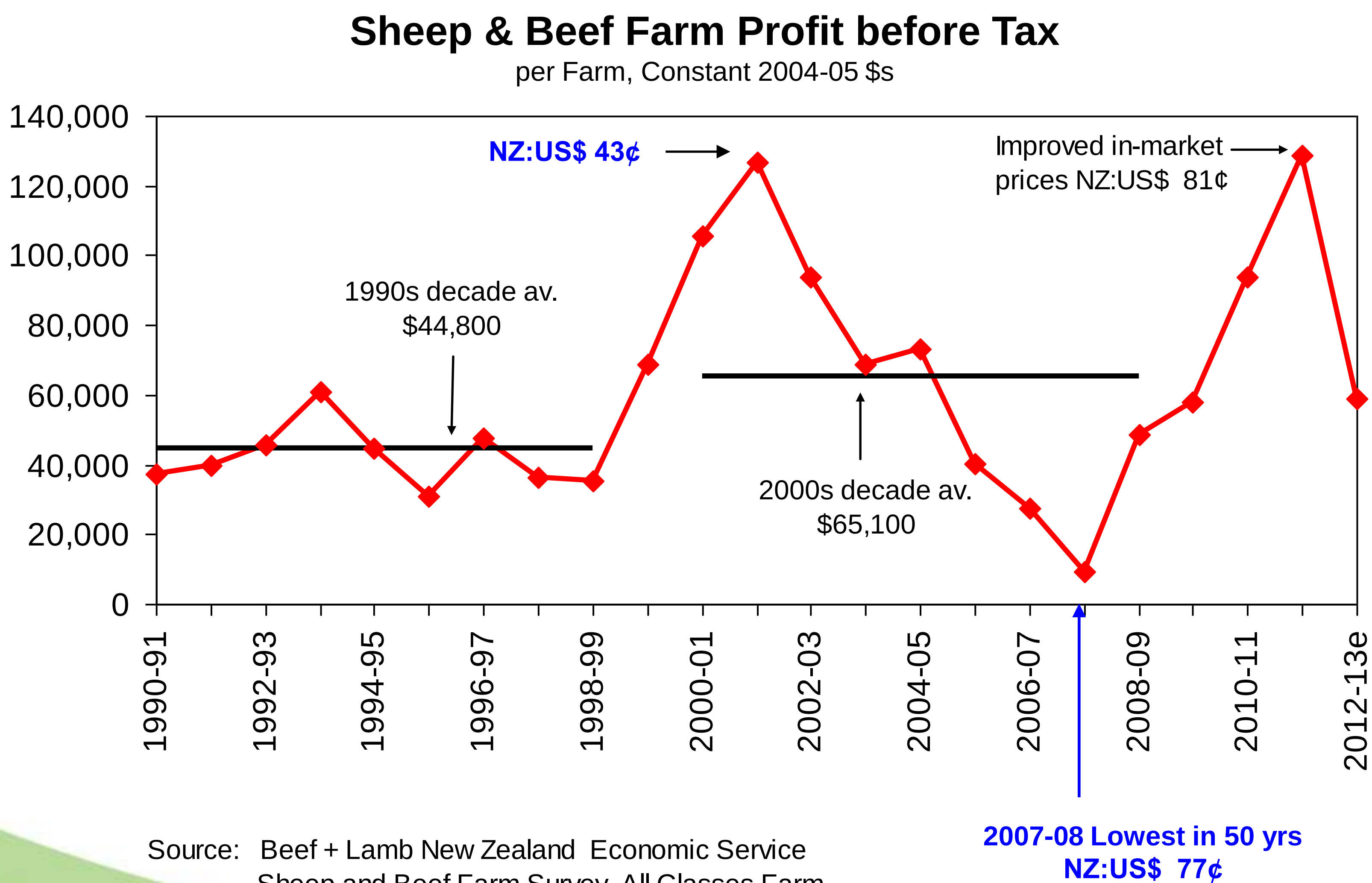
Source: Beef + Lamb New Zealand Economic Service
Livestock Improvement Corporation, DairyNZ

Farm gross margins high for sheep flat for cattle



Source: Beef + lamb New Zealand Economic Service
Sheep and Beef Farm Survey

Farm profit halves this year
from 2011-12 peak

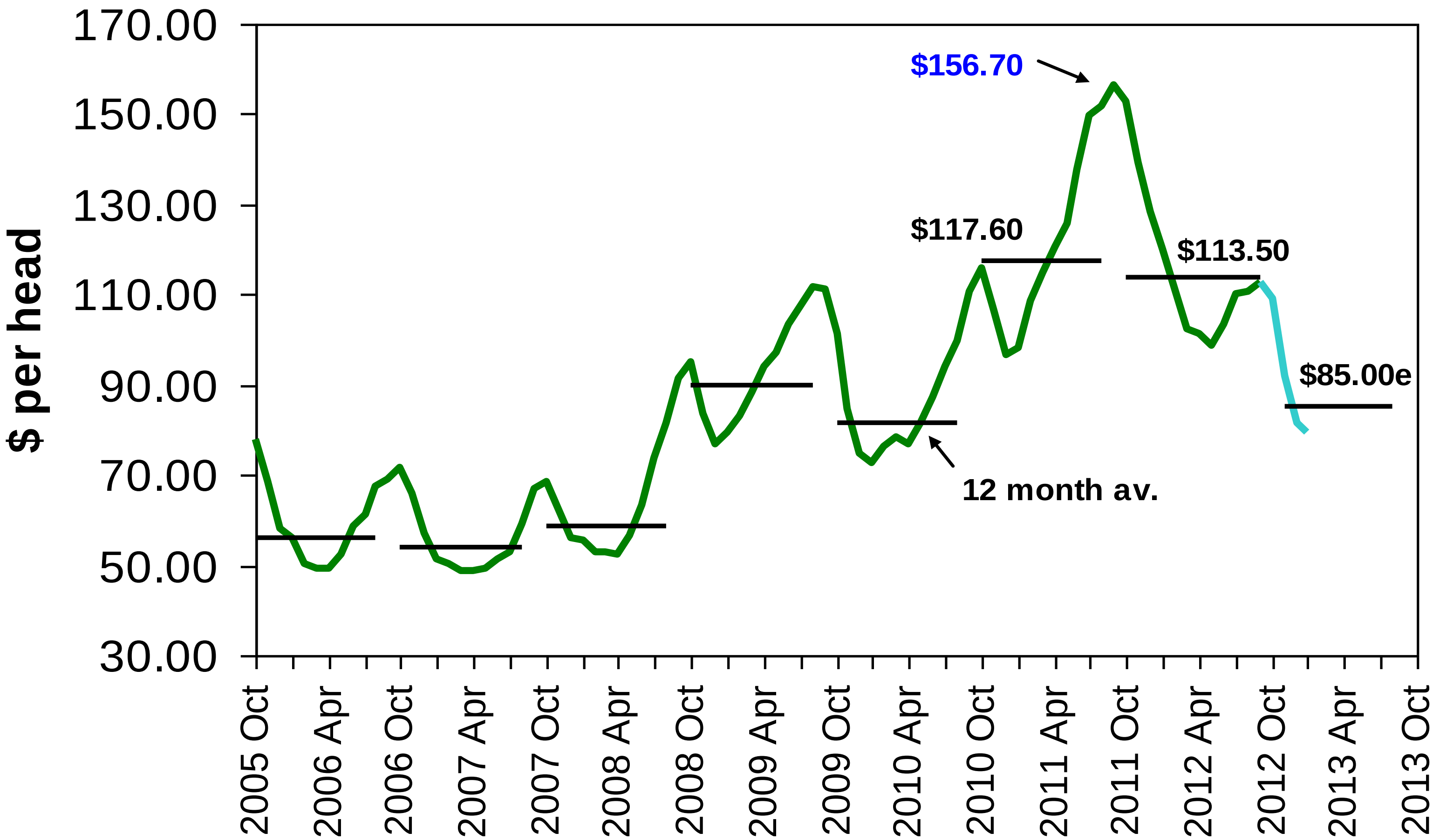


Source: Beef + Lamb New Zealand Economic Service
Sheep and Beef Farm Survey, All Classes Farm

Lamb prices halve

EU & US demand, Aust. competition, NZ$ & drought

Export Lamb Price ($ per head all Grades – weighted average)

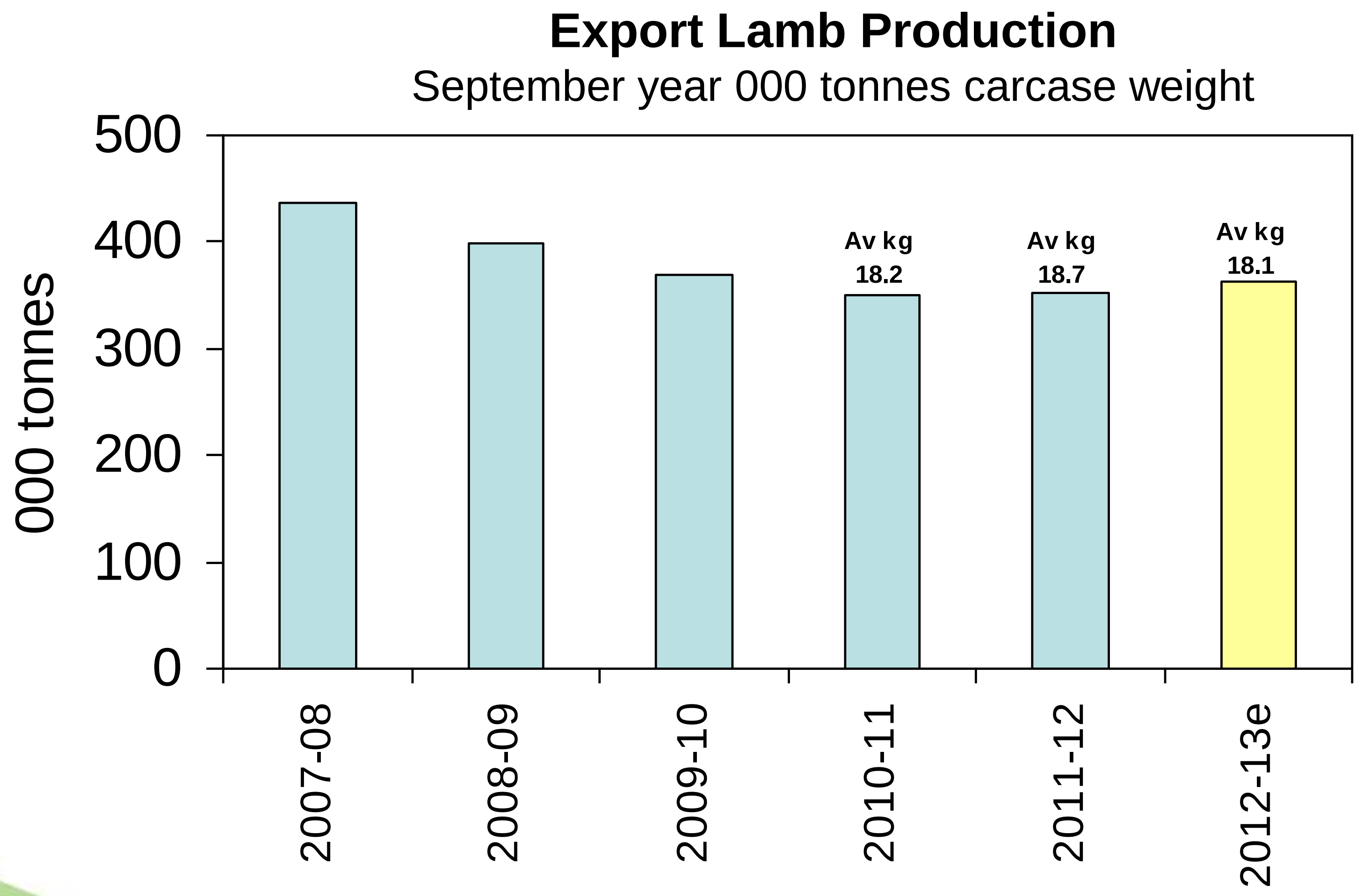


Source: Beef + Lamb New Zealand Economic Service

"…the mood and lack of confidence among (sheep) farmers is worse today than we saw five years ago after three years of low lamb pricing." Beef + Lamb New Zealand chairman Mike Petersen's address to the 2013 annual meeting.

Lamb production to rise 3% this year

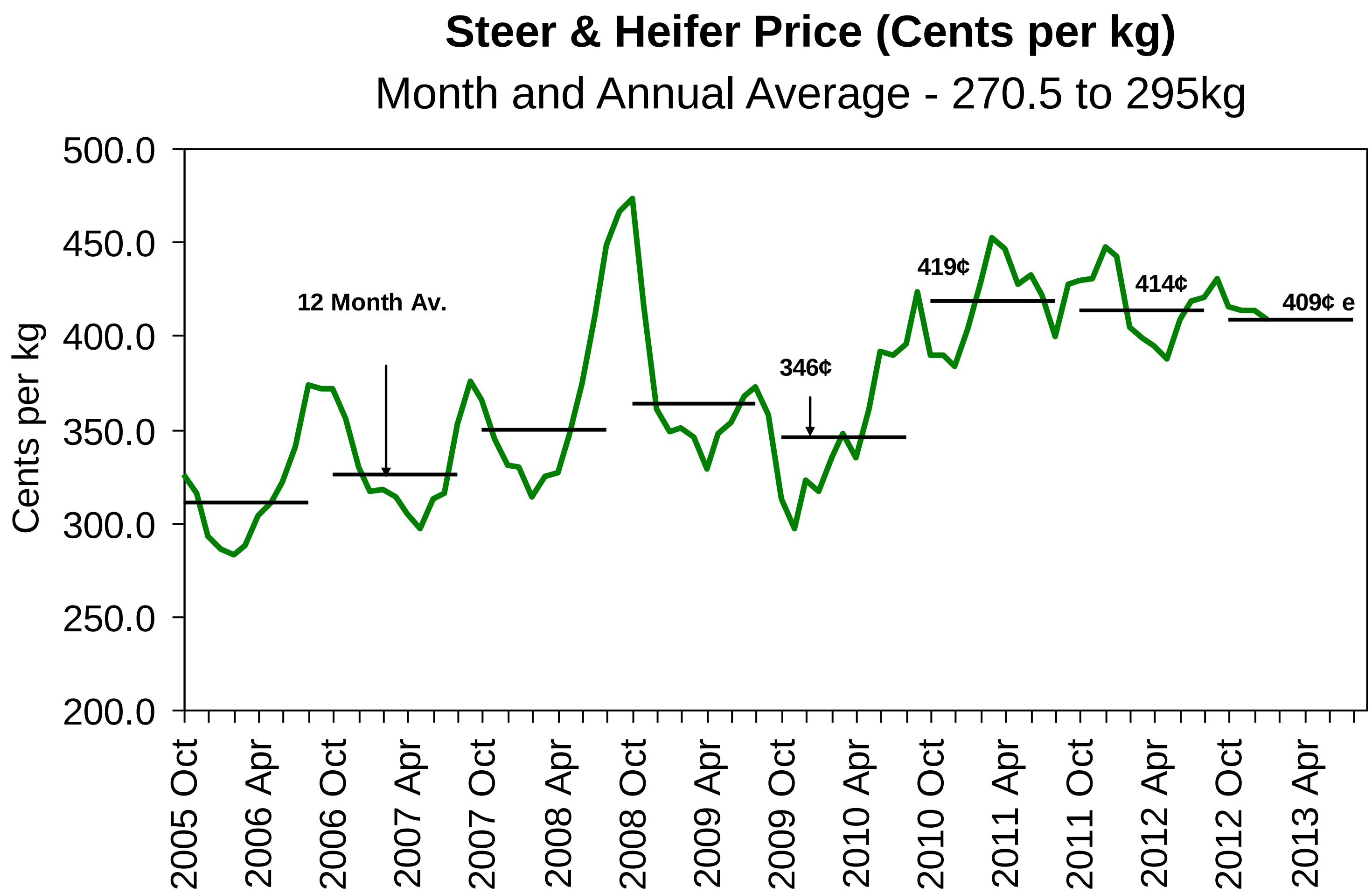
Drought to cause fall next year



Production up 2.7%; 9,700 t

Source: Beef + Lamb New Zealand Economic Service

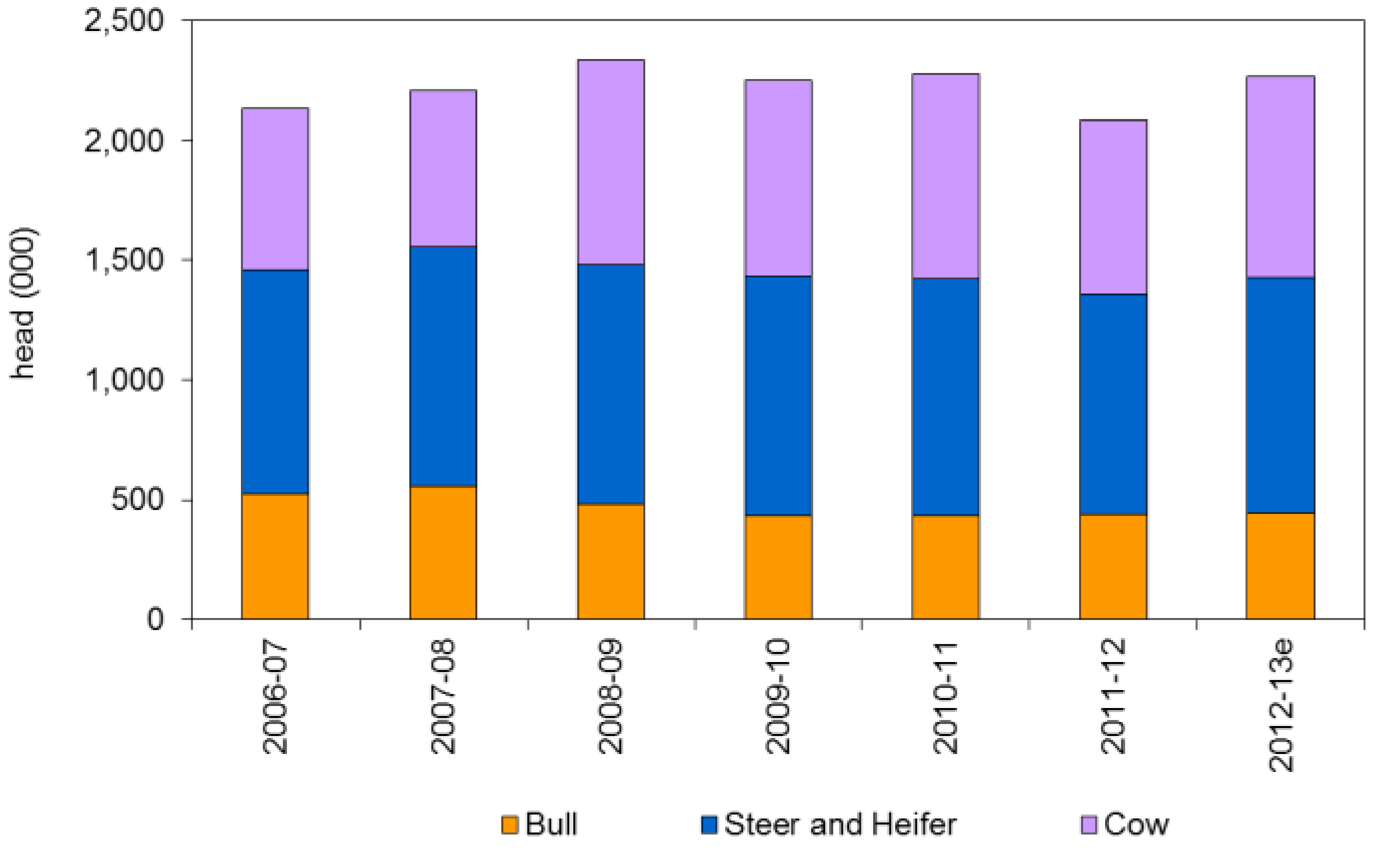
NZ cattle prices fall back: demand & $
but recovery expected



Source: Beef + Lamb New Zealand Economic Service

Export Cattle Slaughter up 9%

Will curtail numbers next year



Source: Beef + Lamb New Zealand Economic Service

	North Island		South Island		New Zealand	
2011-12	1.49m	-12.2%	0.59m	+3.2%	2.09m	-8.4%
2012-13e	1.68m	**+12.2%**	0.59m	0.0%	2.27m	**+8.8%**

What is next?

- Poor lamb prices, drought and falling farm profits
- Continued global economic weakness
- Even so, Great Britain and the rest EU remain important markets for the foreseeable future.
  - US and Canada also important for beef and high value lamb cuts
- North Asia has huge potential but will take time
- NZ grassland area is a constraint, so the focus remains on improving productivity
  - ranges from improving management systems, developing new products and getting the best from genetic gains
- NZ recently completed a Red Meat Sector Strategy, a combined effort from the on-farm, processing and export market sectors.
  - A focus on "informed, aligned behaviour“, so that the extreme peaks and troughs in prices are less likely to occur in future

Questions ?

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What is next for the Australian beef & sheep sectors

Peter Weeks

Weeks Consulting Services

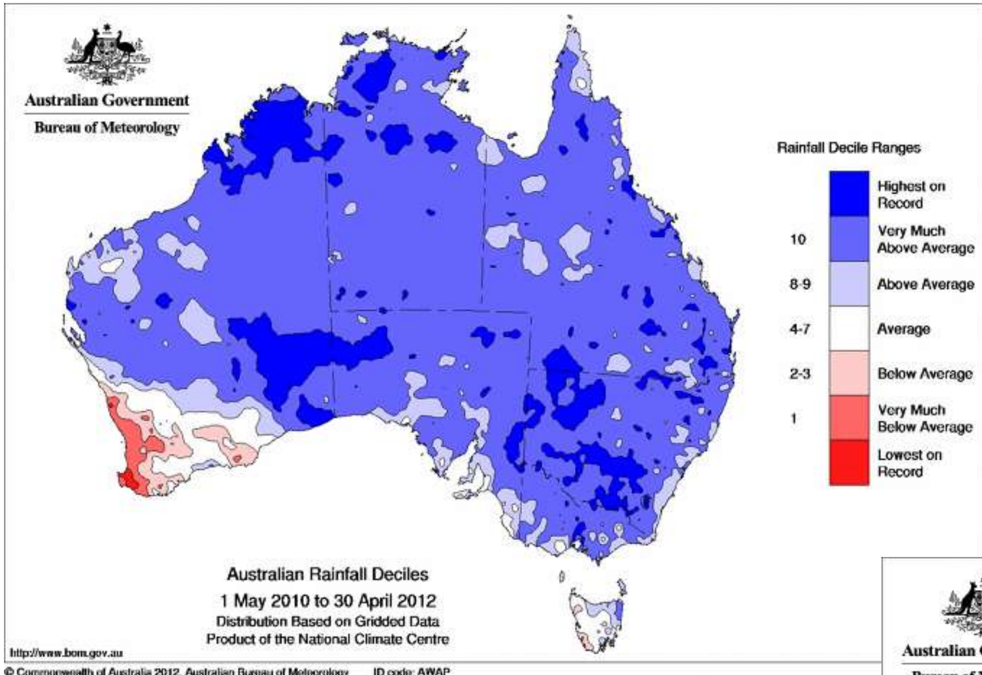
What next for the Australian beef & sheep sectors?

- Main drivers
- Cattle prospects
- Sheep prospects
- Key challenges

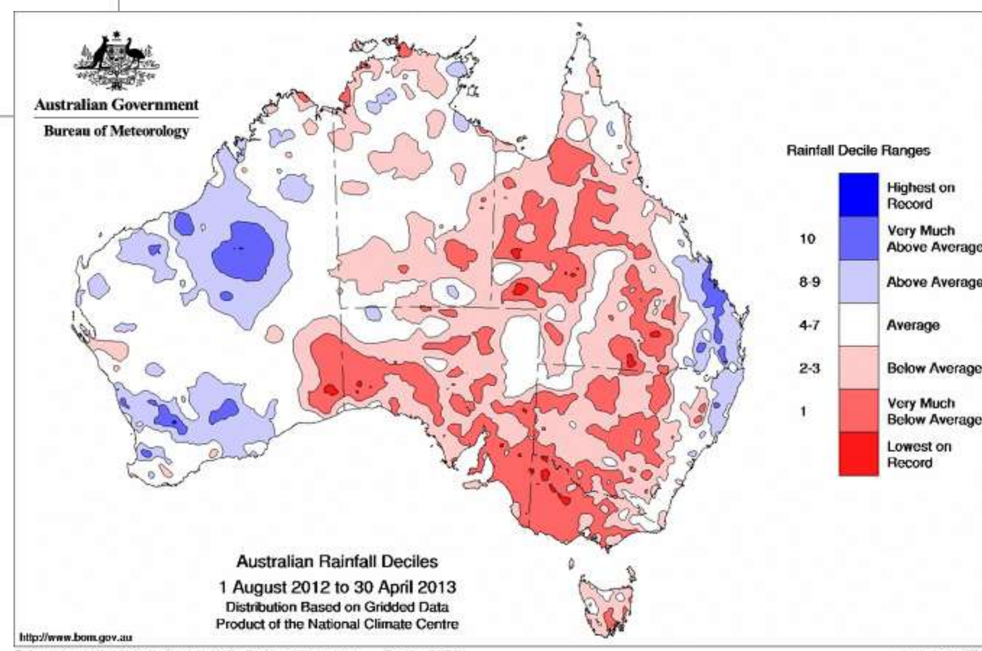
Main drivers at present

- The drought
- Production rise following two good years
- Fall in prices & incomes
- Weak high end retail & foodservice demand
  - Especially Japan, Korea & the US
- High A$
- Booming manufacturing beef trade & growing demand in Asia & Middle East
- Strengthening competition

Heat & dry hit cattle & sheep



2 years of above average rain builds herds, cuts turnoff & inflates prices for young cattle & cows



A dry spring , summer & autumn force producers to offload, and sees an end to restocking & store buying

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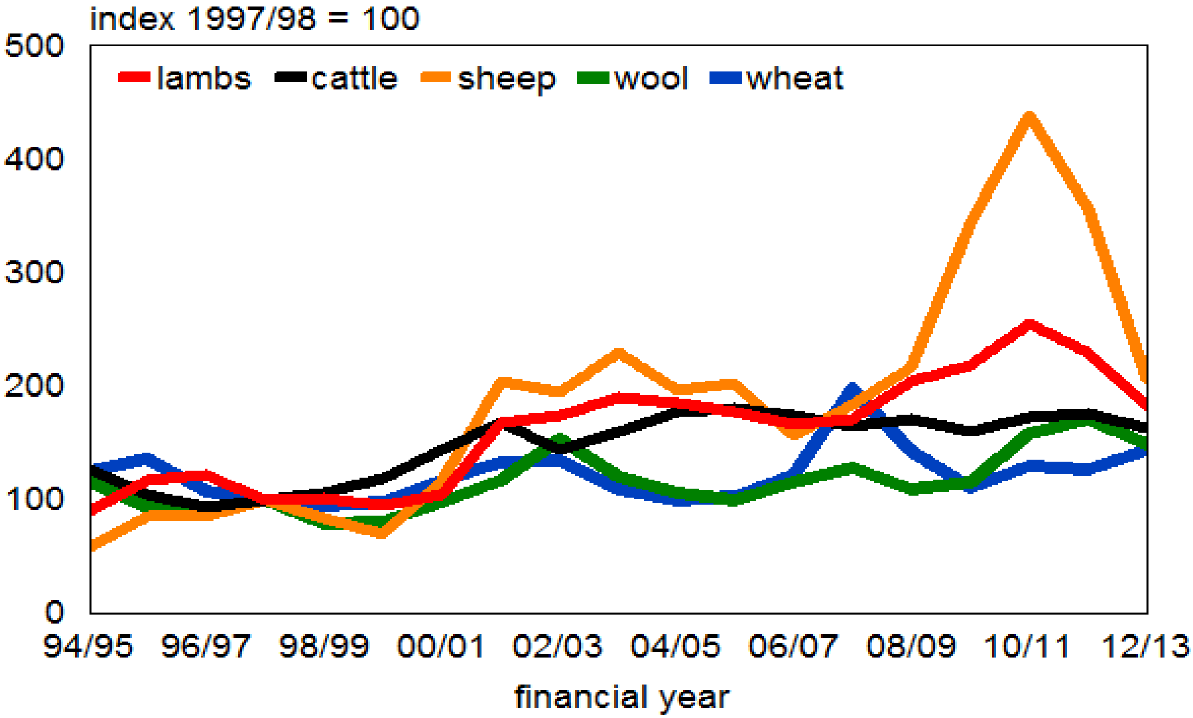
Cattle, lamb & sheep prices have fallen



Source: ABARES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WIN A CASTERTON KELPIE

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BEEF CRISIS

Can this market turmoil turnaround?

By KAREN BAILEY and ANDREW NORRIS

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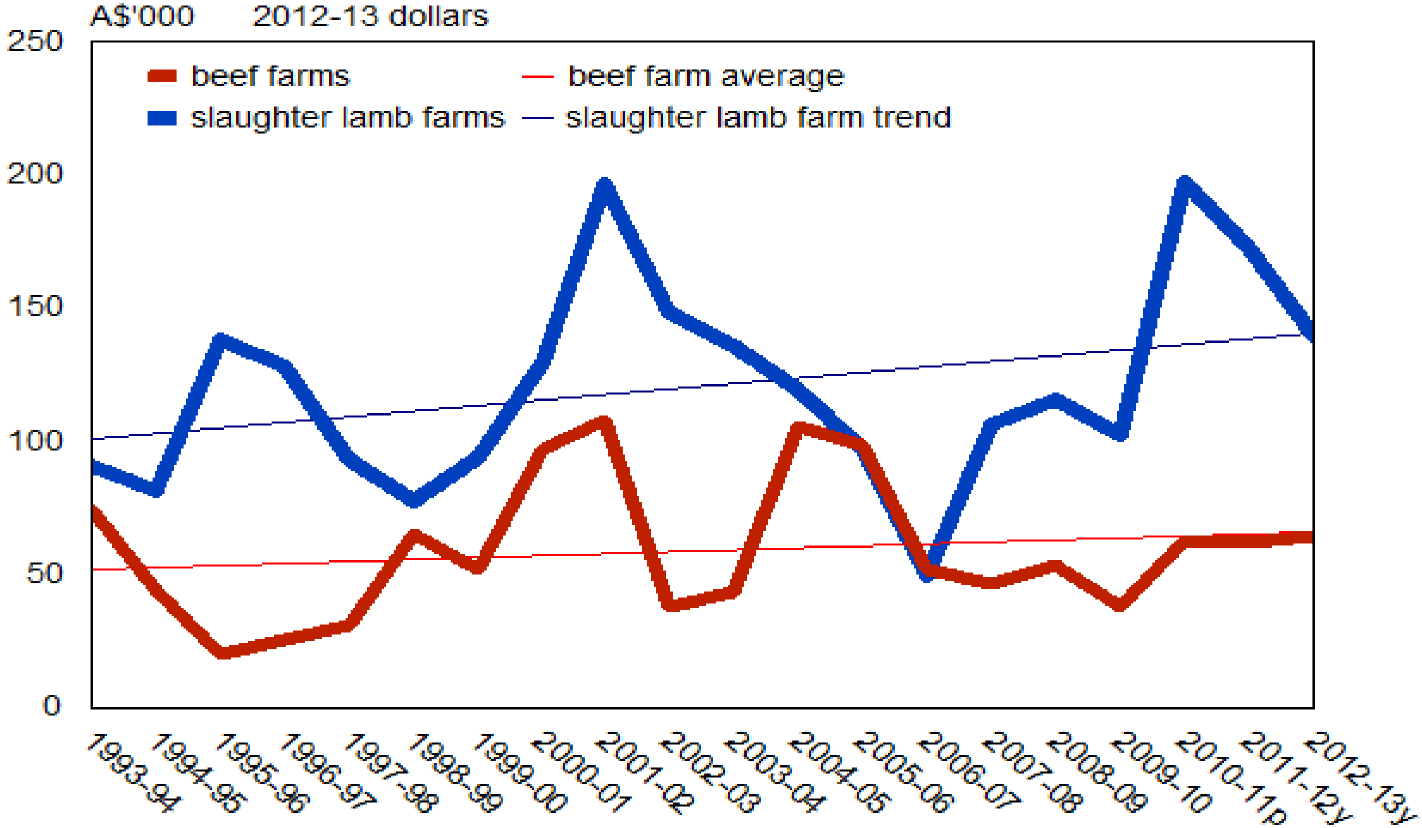
Hence, farm incomes are back to their 20-year upward trend line



Source: ABARES

p: preliminary   y: provisional

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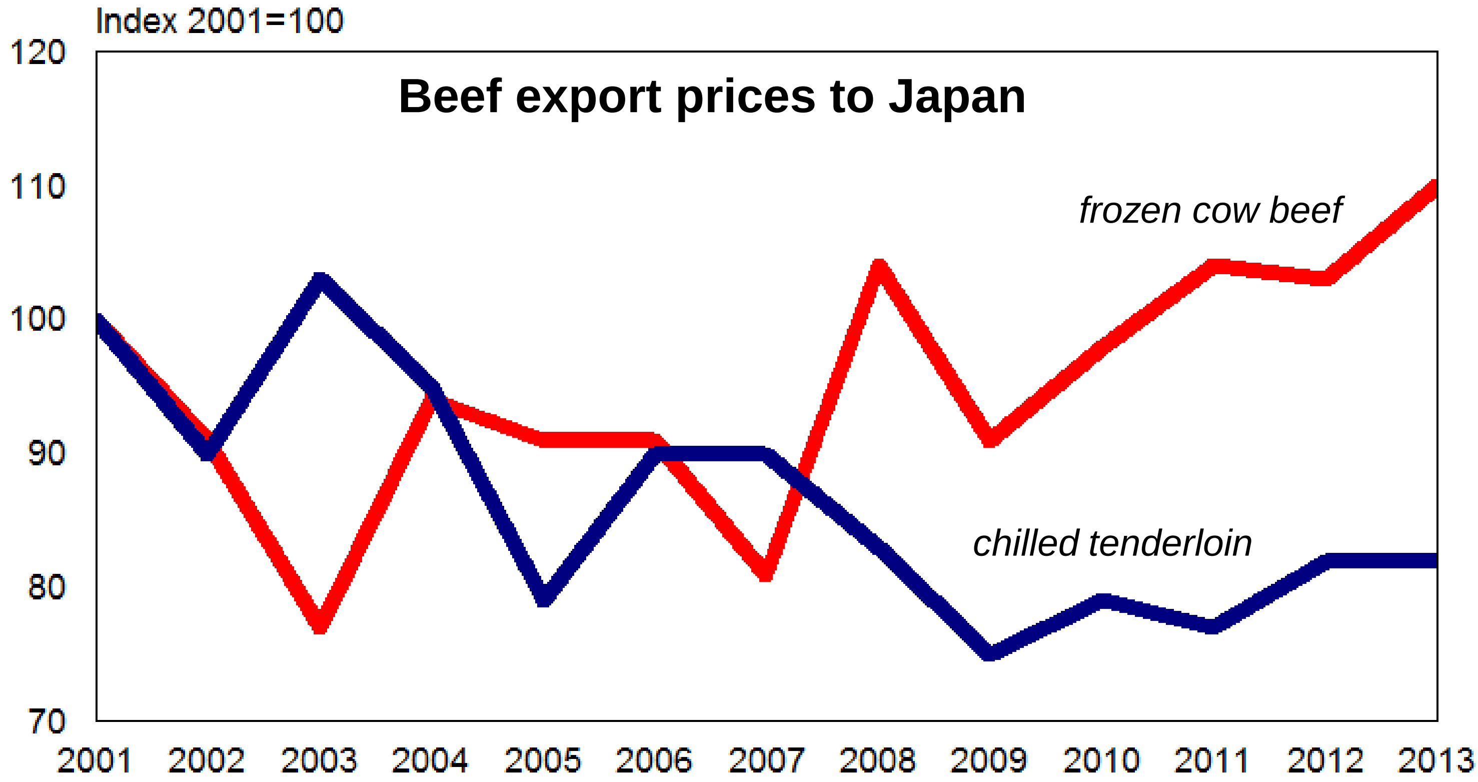
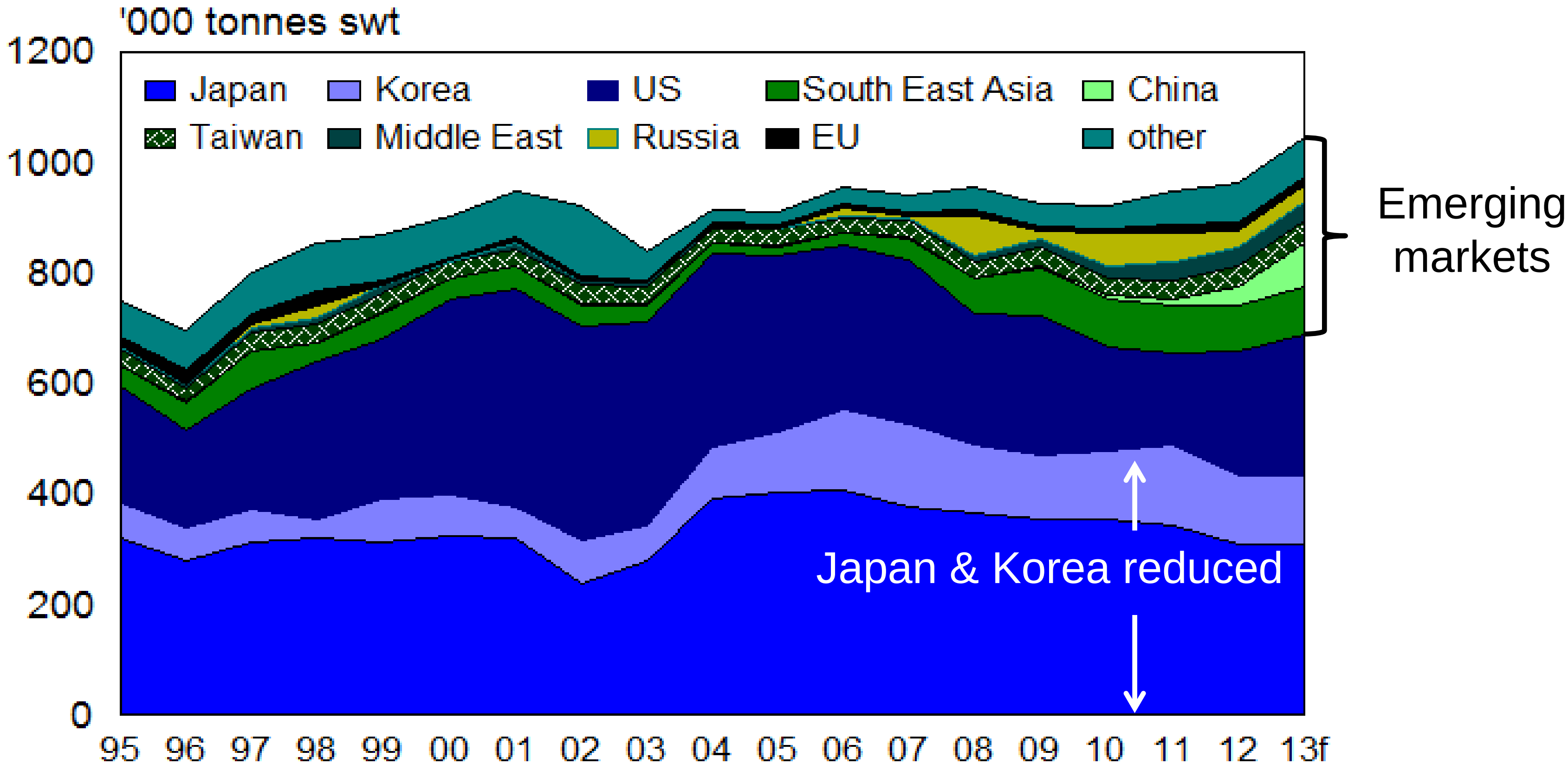
Global demand for frozen beef booming While demand for quality chilled beef is low



Source: MLA

Hence, there is a shift in world beef markets

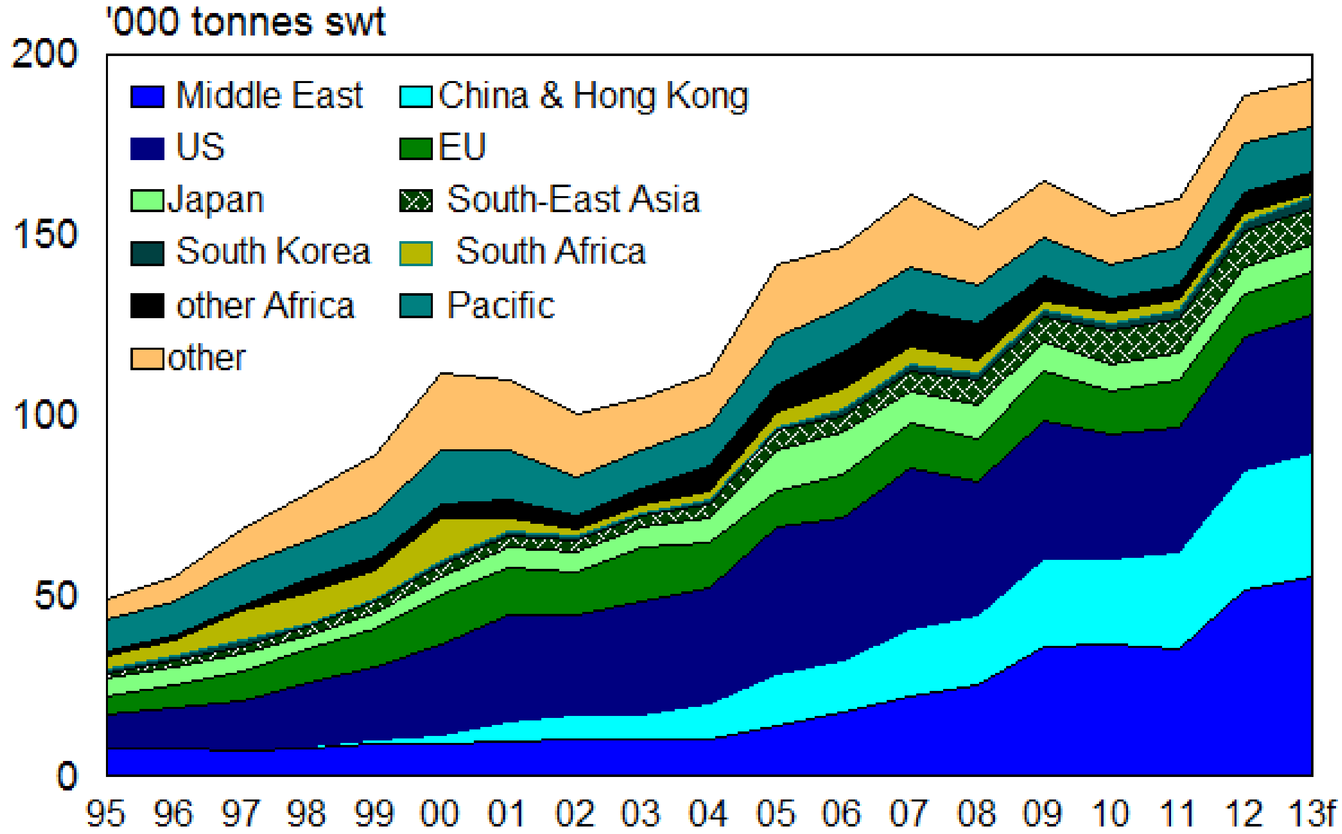
To US & emerging markets from Japan & Korea



Source: DAFF, MLA forecasts

f = forecast

Similarly, Middle East & China lead the surge in lamb exports

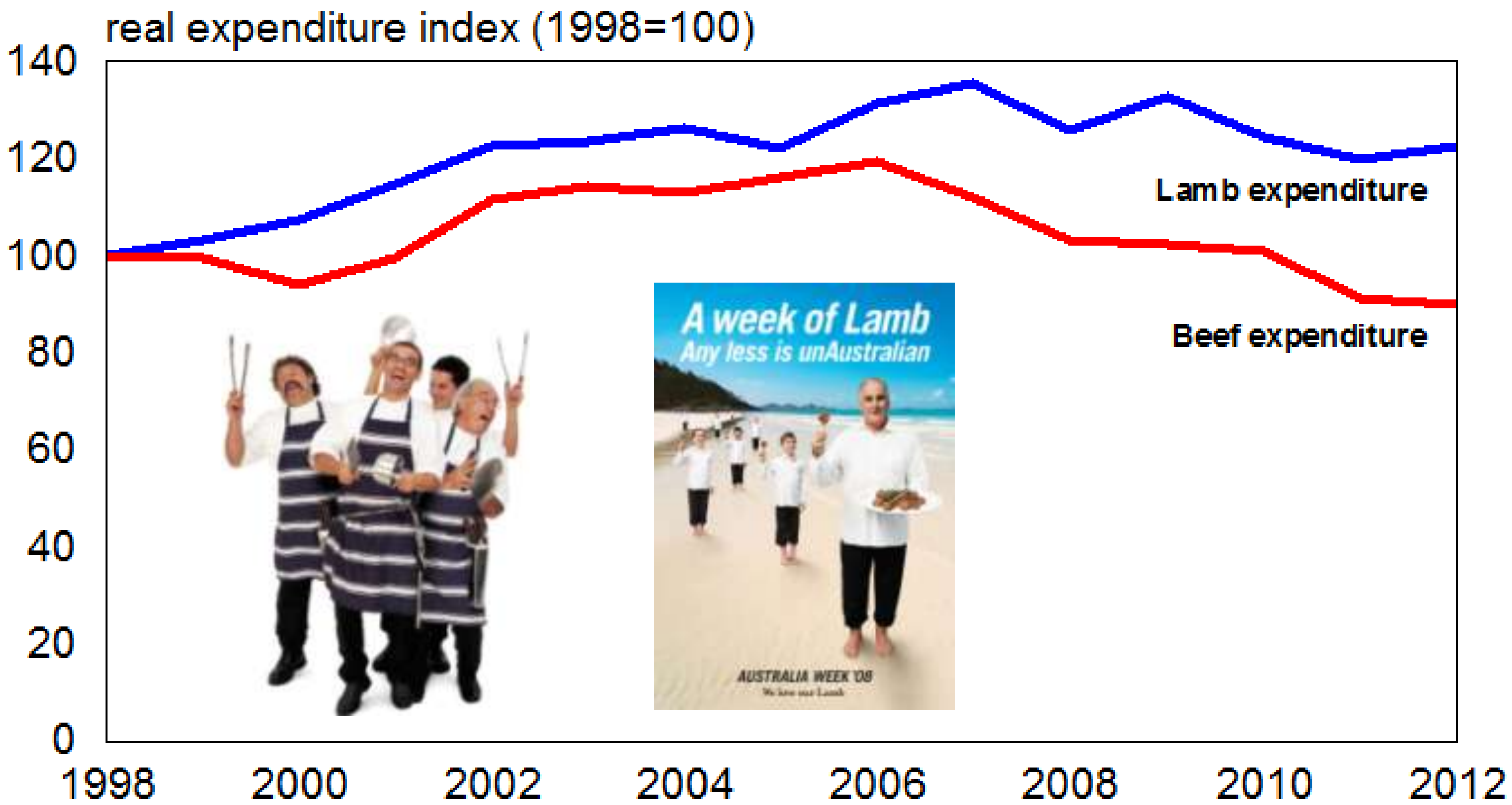


Source: DAFF, MLA forecasts

f = forecast

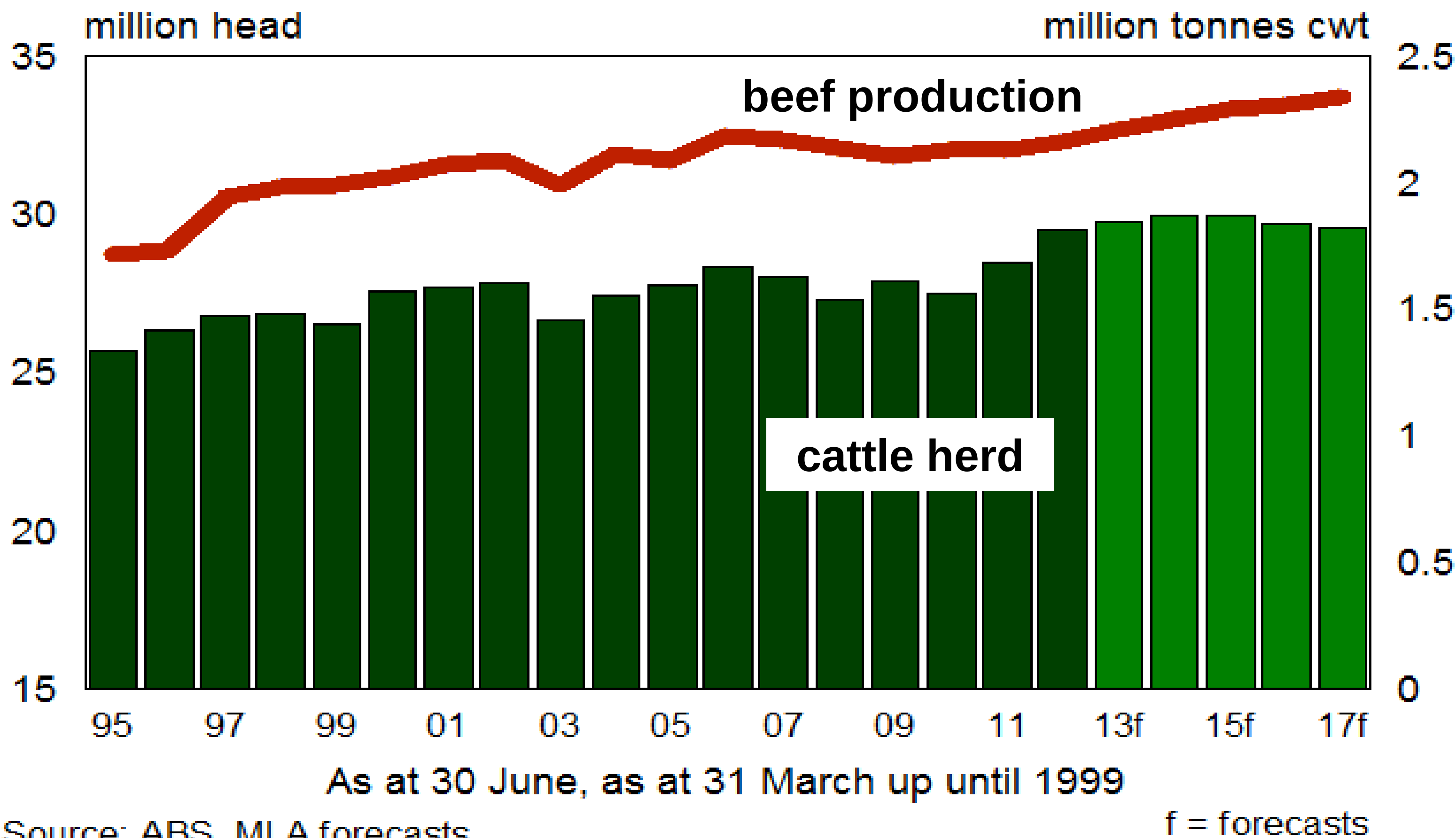
Domestic market flat since 2007

incomes & employment , asset values, confidence & costs



Source: MLA estimates using ABS & ABARE data

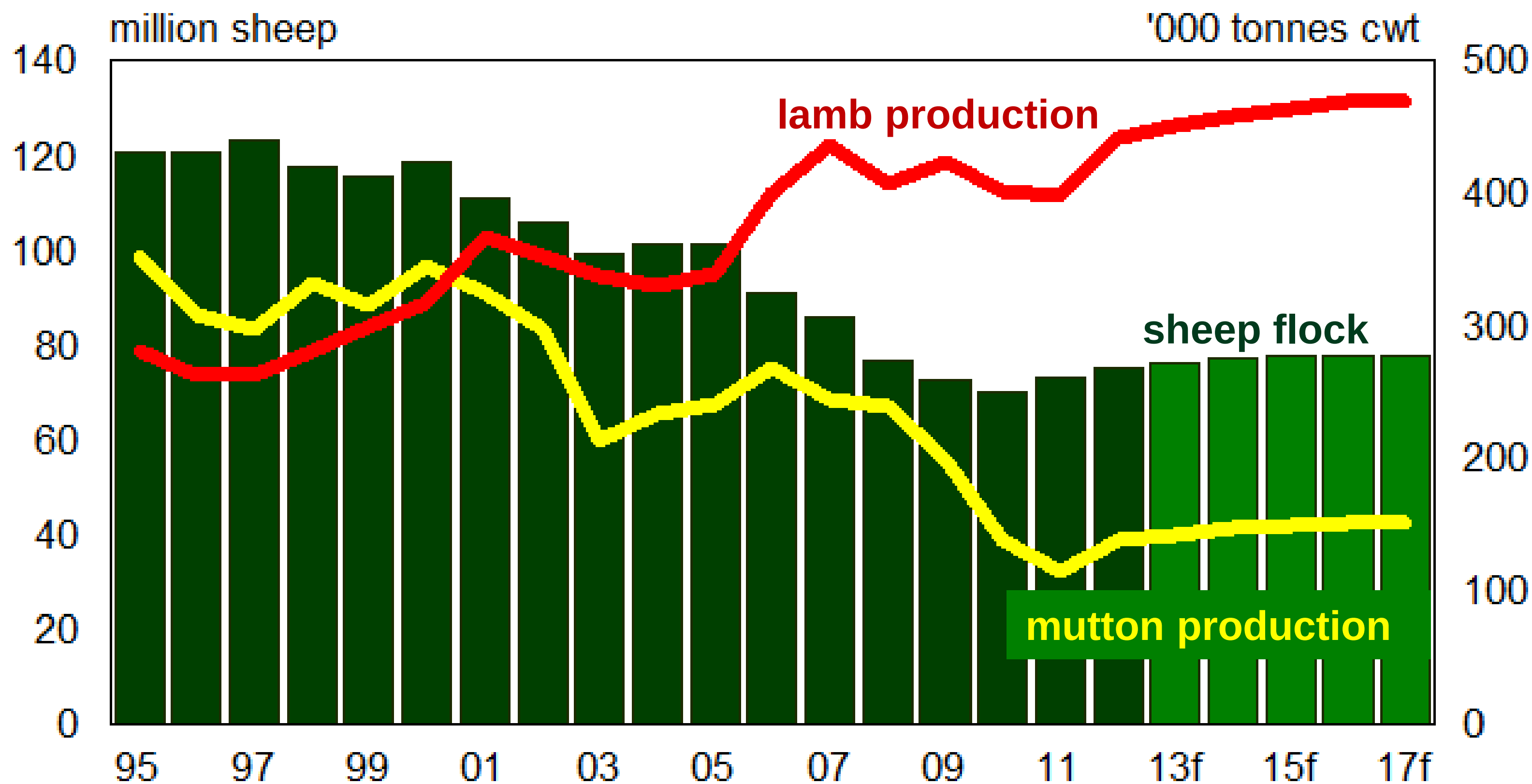
The dry seems likely to herald an end to Australia's herd rebuild, but beef supply to rise



Source: ABS, MLA forecasts

The sheep flock rebuild to slow

lamb & mutton supply to rise slowly



Source: ABS, MLA forecasts

f = forecast

What next for the Australian beef & sheep sector s

- Relief from the hot, dry conditions
- An expectation of a cattle, lamb & sheep price recovery later this year & further rises over coming years
- Helped by an easing in the A$
- Reasonable cattle profitability, better for sheep
- An end to cattle herd growth & only modest sheep expansion
- Some further growth in production & exports
- Continued shift in beef & lamb exports to the US & emerging markets
- Some recovery on the domestic market for beef

Major challenges

- Increasing climate variability
- Environmental sustainability
- Low productivity growth
- Animal welfare (live trade)
- Rising costs, especially feed, energy and fuel
- Mining encroachment & threat to water quality
- Water supply
- Failure of the global multilateral round threatens a fracturing of world trade under bilateral agreements & more technical barriers

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thank you & questions...