

Situation and Outlook for the Sectors

Agriculture

INTRODUCTION

1. Agriculture is at the heart of the New Zealand economy. In summary:
 - New Zealand agriculture provides 50% of New Zealand's total exports;
 - 87% of New Zealand's agricultural production is exported;
 - 13% of New Zealand's population is involved either on the farm, or in processing or marketing of agricultural production;
 - agriculture provides 17% of New Zealand's GDP from only 13% of the population;
 - in the last 15 years agriculture has grown at the rate of 4% per annum, much higher than the growth rate of the economy as a whole; and
 - New Zealand agriculture continues to have a competitive edge, helped by high product safety and integrity, and despite trade barriers and New Zealand's distance from markets.
2. The agricultural sector is dominated by the pastoral sector, horticulture is expanding, however arable farming is contracting. Nearly all agricultural outputs are influenced by the world prices for their respective products. Prices for most of New Zealand's main agricultural export products are affected by the agricultural policies (e.g. domestic support, market access and export subsidies) of other trading nations, particularly those in North America and the European Union as well as Japan. Details of agricultural export values and gross agricultural revenue and expenditure are in the appendices.
3. The viability of all farming types for the last three years, up until June 2002, was strong, with the highest real profits in 20 years during 2000/01, especially in the dairying and sheep and beef sectors. The last two years of rural prosperity appear to indicate a turnaround in aggregate farm investment, which in real terms had declined since peaking in 1985. Farmers have spent a lot more on repairs and maintenance, upgrading vehicles, fertiliser, and further development. The productive capacity of many farms has been restored after being run down during the 1990s. Property values over the last two years have increased overall, and dramatically in Southland and Central Otago.

SITUATION AND OUTLOOK

4. Farmers are responsive to change in market signals, production economics and technology, and these have driven changes in average farm size, land use and production trends.

Changing farm sizes, land uses, and production trends

5. The average land area and per-farm stock numbers of sheep and beef and dairy farms has continued to increase as farmers take advantage of economies of scale to minimise costs. Leasing and amalgamations of properties over the last two years have resulted in larger, more economically viable, units. Conversion of land from sheep and beef to dairy and deer continues to be a major trend in the agricultural industry.
6. Land use and livestock estimates from the June 1999 Agricultural Production Survey are as follows:

Total land area farmed

- 1.76 million ha for dairy
- 5.99 million ha for sheep and beef
- 3.02 million ha for sheep
- 1.73 million for forestry (net stocked planted production forest)
- 1.44 million ha for mixed livestock farming
- 0.67 million ha for beef
- 0.45 million ha for horticulture
- 0.18 million ha for deer

Livestock numbers

- 4.32 million total dairy cattle (of which 3.34 million represent the milking herd)
- 4.64 million beef cattle
- 1.68 million deer
- 45.7 million sheep.

DAIRY

7. For the year to May 2002, the volume of milksolids supplied for manufacturing into dairy products was estimated at 1.094 billion kg, 4.6 percent higher than the previous season. Around 93 percent of New Zealand's manufactured dairy products are exported. This equates to approximately 90 percent of New Zealand's milk production. New Zealand produces around 1.5 percent of the world's milk production, but has just over a 30 percent share of accessible international dairy trade.
8. Dairy farmers received a record industry-average payout (net of "industry good" deductions) of \$5.32 per kg of milksolids for the 2001/2002 season, compared to \$5.01 in 2000/2001. The outlook is for the dairy payout to drop in 2002/03 to \$3.70 per kg of milk solids (a 30% drop). This will slow dairy conversions, and put some heavily indebted farmers under financial pressure. It should be noted that these payout figures are the latest available and are based on final 2001/02 season payout announcements by Tatua Co-operative Dairy Company Ltd and Westland Milk Products Ltd, and on an updated 2002/03 estimate by Fonterra Co-operative Group.

9. The dairy milking herd at June 2002 is estimated at 3.88 million and is projected to rise to 4.2 million by June 2007. The size of the dairy milking herd (cows and heifers in milk or calf) is estimated to have increased an average of 6 percent over the last two seasons (2001/02 and 2002/03). This rate of growth is much higher than previous years, and is primarily due to the large number of dairy farm conversions that occurred in the preceding two years (195 farms converted in 2000/01, 81 in 2001/02). Most dairy farm conversions are in the South Island. These new conversion farms typically have much larger herds than established dairy farms, with a national average herd size of around 500 cows for new conversions, compared with an overall average herd size of 251 cows. Herd sizes are increasing while the total number of herds is decreasing.
10. Following the long term trend of dairy company mergers, and one unsuccessful attempt at a 'mega-merger', in December 2000 the New Zealand Co-operative Dairy Company Ltd ("New Zealand Dairy Group") and Kiwi Co-operative Dairies Ltd announced they had agreed terms for a merger that would also integrate the New Zealand Dairy Board into a new company. The new company was later named Fonterra Co-operative Group Ltd (Fonterra). Fonterra processes just over 96 percent of New Zealand's milk. Most of the remaining milk is processed by Westland Co-operative Dairy Company Ltd and Tatua Co-operative Dairy Company Ltd, which both opted not to participate in the merger. These three export-orientated co-operative dairy companies now process nearly all of New Zealand's milk.
11. The liberalisation of dairy export marketing creates a new, empowering environment for the dairy industry. This is designed to foster innovation and entrepreneurship, and allow new dairy-related businesses to emerge to exploit specialised niche markets.

MEAT

12. In the year to September 2001, meat processors were supplied with 26.3 million lambs, 5.51 million adult sheep, 2.18 million adult cattle, 1.21 million calves and vealers, 696,000 pigs, 504,000 deer and 140,000 goats.
13. New Zealand exported 76 percent of sheepmeat production in 2001, accounting for 53 percent of international trade. Lamb is processed into chilled and frozen products and exported to around 86 countries. For the year ended September 2001, lamb exports amounted to 298,300 tonnes (up slightly on the previous year), of which 23 percent was chilled and 76 percent was bone-in cuts. Mutton exports amounted to 57,800 tonnes (up 14 percent on the previous year) with just two percent as chilled products and 65 percent as boneless cuts.
14. For beef, 81 percent of production was exported, accounting for 9 percent of international trade. Beef and veal is processed into chilled and frozen products and exported to around 77 countries. For the year ended September 2001, beef and veal exports amounted to 328,961 tonnes (up 5.7 percent from the previous year), of which 19,003 (5.8 percent) were chilled products and 181,270 tonnes (55 percent) was manufacturing grade.
15. Lamb and beef prices continue to be strong. The New Zealand all grades average lamb price for the year to September 2002 is estimated at \$64.90, and is forecast to fall gradually over the next three years before recovering slightly to \$56.60 in the year to

September 2006. The prime steer price for the September 2002 year is estimated at \$3.38 per kg and is forecast to fall over the next four years to \$2.37 per kg in the September 2006 year.

16. Total sheep numbers are expected to continue declining as land use changes to dairy, forestry and deer continue. Total sheep numbers at June 2002 are estimated at 42.94 million and are projected to fall to 38.64 million by June 2007.
17. Total beef cattle numbers at June 2002 are estimated at 4.85 million and are projected to fall to 4.50 million by June 2007.
18. The rationalisation of the sheep and beef processing industry continues due to more efficient use of slaughtering and processing facilities. Environmental concerns continue to impact on the processing industry. There is also a slow but steady trend towards greater production to consumer specification.
19. Total deer numbers at June 2002 are estimated at 2.2 million and are projected to rise to 3.42 million by June 2007. Venison is fully processed into both chilled and frozen products, and nearly all production is exported to around 30 countries, of which 90 percent goes to Europe. Exports of venison for the year ended June 2001 were up 13 percent to 17,700 tonnes, of which 16 percent was chilled.
20. The New Zealand pigmeat industry has undergone significant restructuring in recent years, largely due to the inability of some producers to produce pigmeat at a price that is competitive with imported product. Consolidation has resulted in fewer pig producers, with those producers who remain producing more pigs per year, with heavier weights at slaughter. Pigmeat producers have received much improved product prices in the last two years.
21. There is a high level of vertical integration within the poultry industry with three major suppliers owning and controlling most of the stages of production. Grow-out farms are used for rearing flocks of chickens in custom-designed broiler sheds. Consumption of poultry meat in New Zealand has almost doubled in the last ten years, and future demand growth is likely to allow further economies of scale to be achieved.

WOOL

22. Total wool sales for the year ended June 2001 were down 7.6 percent from the previous year to 178,435 tonnes clean. Shorn wool accounted for 152,541 tonnes clean. Auction sales accounted for 44 percent of the total sales, up from 42 percent last season, while private sales accounted for the balance. Wool exports for the year ended June 2001 were 165,485 tonnes, down 3 percent from the 1999/00 level of 169,938 tonnes. Scoured wool accounted for 72 percent of total wool fibre exports.
23. The wool industry has recently regained some confidence due to improvements in prices. The average wool price at auction for the year to June 2002 was \$5.45 per kg clean, and is forecast to fall over the next two years before recovering to \$6 per kg for the year to June 2006. The distribution and marketing of wool is undergoing major changes, and this has the potential to lift farmers' confidence in the wool sector.

ARABLE

24. The arable industry is continuing to evolve, with farmers tending to specialise based on their personal strengths and preferences, capital position and their farms' capabilities. Some are developing more cereal-based enterprises, some are growing specialised seed crop varieties including vegetables and other small seeds, and others are running more livestock. The processing, marketing and servicing industry is adjusting in response to direct market signals. The industry is continuing to become centred on irrigated land in the Mid-Canterbury region.

25. International grain prices have stabilised, with low stocks, creating a market that is likely to be somewhat volatile in response to events that impact on global production. While the recently rising New Zealand currency will increase the competitiveness of imported grains, New Zealand growers now have more opportunities in domestic markets than ever before, such as providing quality silage, grain and grazing for the dairy industry, and feed grain for white meat production. Overall, the recent MAF Farm Monitoring programme identified that the sector is sound and quietly optimistic about the future, despite the most recent harvesting period being one of the most difficult ever experienced climatically.

Appendix 1

AGRICULTURAL EXPORT VALUES FOR MARCH YEARS (\$MILLION FOB)

Year ended March	2000/01	2001/02e	2002/03f	2003/04z	2004/05z	2005/06z
Dairy	5,818	7,154	6,417	6,280	6,817	7,417
Meat	3,928	4,486	4,656	4,033	3,924	3,875
Wool	861	920	888	839	851	916
Co-products	1,169	1,214	1,215	1,068	1,041	1,127
Total Pastoral Products	11,776	13,763	13,153	12,220	13,631	13,331

Estimate= e, Forecast = f, Projection = z.

Note: Due to rounding, totals may not add up

Sources: *Statistics NZ and MAF*

Appendix 2

GROSS AGRICULTURAL REVENUE AND EXPENDITURE (\$MILLION)

Year ended March	2000/01	2001/02e	2002/03f	2003/04z	2004/05z	2005/06z
Dairy	5,028	5,780	4,873	4,779	5,075	5,405
Cattle	1,834	2,087	2,036	1,792	1,723	1,563
Sheepmeat	1,759	1,819	1,915	1,616	1,531	1,587
Wool	693	756	711	673	697	760
Deer	206	218	231	230	252	286
Poultry/Eggs	95	98	101	105	109	113
Pigs	147	170	173	167	166	165
Other Farming	188	198	199	202	207	215
Sales of Live Animals	1,149	1,159	1,137	1,091	1,020	958
Value of Livestock Change	290	86	180	-82	61	48
Fruit	1,091	858	1,010	1,038	1,088	1,136
Vegetables	648	677	685	697	708	719
Other Horticulture	281	284	296	299	302	304
Crops and Seeds	335	419	424	411	404	404
Agricultural Services	1,364	1,563	1,474	1,428	1,384	1,341
Non-Farm Income	197	202	207	210	214	217
Total Gross Revenue	15,305	16,372	15,652	14,655	14,938	15,221
Intermediate Consumption	7,297	8,513	7,983	7,509	7,654	7,799
Contribution to GDP	8,007	7,858	7,670	7,146	7,284	7,422
Wages	1,289	1,338	1,382	1,432	1,478	1,522
Indirect Taxes (-)	349	358	368	374	380	386
Subsidies (+)	22	22	22	22	22	23
Operating Surplus	4,912	4,602	4,429	3,946	4,004	4,066
Interest Paid	545	448	496	496	496	496
Interest Received	319	262	290	290	290	290
Agriculture Sector Income	4,686	4,416	4,223	3,740	3,798	3,860

Estimate = e, Forecast = f, Projection = z.

Explanatory Notes

Gross revenue is the value of output at farm/orchard gate prices for the agriculture sector.

Contribution to GDP is total gross revenue minus intermediate consumption.

Intermediate consumption is the value of inputs used by the agriculture sector from other sectors of the economy.

Agriculture sector income is an estimate of taxable income.