

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **New Zealand**

**Post:** Wellington

### **New Zealand Cattle and Beef Semi-Annual Report**

**Report Categories:**

Livestock and Products

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**Report Highlights:**

Beef production is forecast to fall 9% in 2011, reflecting an expected decline in slaughter rates during the first half of the year. Exports are forecast at 478,000 tons (CWE) in 2011, which is 4% less than the previous forecast and 10% lower than 2010 export volumes. The decline is primarily driven by the on-going reduction in the size of the beef herd and the spike in slaughter during the last quarter of 2010.

## **Executive Summary**

Dry weather and drought concerns during the fourth quarter of 2010 helped boost cattle slaughter. Total slaughter hit 3.991 million head, which is 5% more than the previous forecast and up 4% from the previous year. The spike in slaughter translated into an unexpected increase in both production and exports. At 643,000 tons carcass weight equivalent (CWE), production was 4% higher than previously forecast and up 3% over the previous year. Exports finished the year at 530,000 tons (CWE), 4% ahead of the previous forecast and 3.1% up from the previous year.

Beef production is forecast to be 3% less than originally forecast in 2011, reflecting an expected decline in slaughter rates during the first half of the year. This puts forecast beef production at 8.75% less than in 2010 and 3% lower than the previous forecast. Likewise, exports are forecast at 478,000 tons (CWE) in CY 2011, which is 4% less than the previous forecast and 10% lower than 2010 export volumes. The decline is primarily driven by the on-going reduction in the size of the beef herd and the spike in slaughter during the last quarter of CY 2010.

While originally forecast to remain stable, exports to the US market fell 6% to 222,000 tons (CWE) in 2010 and are forecast to fall further in 2011 to 205,000 tons (CWE), due partly to the sharp decline in cow beef production and the ongoing decline in bull beef production, which are the basic components of exports to the US market. While still the largest market for New Zealand beef, the US share of total New Zealand exports has been trending downward. It currently stands at approximately 42%.

Indonesia became New Zealand's second largest beef market, on a quantity basis, in 2010. Exports jumped 41% to 36,940 tons (PWE). Exports to the Korean market reversed a downward trend in CY 2010 jumping 7% to 34,292 tons (PWE). Exporters report a spike in demand from the Korean market due in part to the Australian floods in Queensland and the FMD outbreak in Korea.

New Zealand is aggressively negotiating Free Trade Agreements (FTAs). While exporters report that FTAs do not necessarily drive business decisions, they do provide a framework to work out trade-related issues, especially SPS and non-tariff barriers, and, in some cases, significant market access gains. For instance, in the New Zealand - China FTA, tariffs, which ranged from 12 to 25% when the agreement was signed, will be eliminated by 2016. New Zealand beef exports to China have increased from 5,300 tons (PWE) in 2008, the year the agreement went into force, to 8,022 tons in 2010, a 51% increase.

## **Production**

## Weather Conditions

Virtually all beef in New Zealand is pasture based, which means weather (particularly rainfall and temperature) plays a significant role in determining production from year to year. Pasture conditions going into the southern hemisphere autumn months are average to good, particularly on the North Island, and stock are generally in good condition. This is partly because rainfall in December 2010 alleviated dry conditions prevalent across much of the country during the fourth quarter of 2010. Dry conditions returned in January but were tempered by widespread heavy rainfall later in the month.

## Inventory and Slaughter Numbers

### 2010 Ending Stocks

Ending stocks in calendar year (CY) 2010 were 20,000 head more than originally forecast. While dairy and beef cow numbers were down 53,000 and 22,000 head, respectively, on previous estimates, replacement dairy and beef heifers and finishing cattle numbers were up by a total of 95,000 head according to Statistics New Zealand.

Overall, the cattle herd was stable in 2010 with beginning stocks at 9.917 million head and ending stocks at 9.907 million head.

### 2011 Ending Stocks

CY 2011 ending stocks are forecast at 10 million head, up 1.1% from the previous estimate and 1.5% for the year. Ending stocks are expected to get a boost from a forecast 2.5% increase in dairy herd numbers and an estimated 120 new dairy farms coming into production in 2011.

There are several factors potentially impacting stock levels in CY 2011, especially the significant run up in sheep meat and wool prices. While the price increase could result in a drop in beef cattle numbers to make way for additional sheep, alternatively, higher prices could result in an increase in adult sheep slaughter, which would cause ewe numbers to fall and encourage beef numbers to increase to maintain stocking rates. According to Beef+Lamb New Zealand's mid-season update, beef herd numbers are expected to remain stable. *(Note: Beef+Lamb's forecast is partially based on ongoing farmer surveys that sample approximately 5% of commercial farms in New Zealand.)*

**PSD Table 1. Cattle Slaughter**

Animal Numbers,	2009	2010	2011
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Cattle New Zealand  (1,000 head, %)	Market Year Begins: Jan 2009			Market Year Begins: Jan 2010			Market Year Begins: Jan 2011		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Total Cattle Beg. Stocks	9,715	9,715	9,715	9,917	9,917	9,917	9,887	9,887	9,907
Dairy Cows Beg. Stocks	4,348	4,348	4,348	4,597	4,597	4,597	4,753	4,753	4,700
Beef Cows Beg. Stocks	1,104	1,104	1,104	1,096	1,096	1,096	1,136	1,136	1,114
Production (Calf Crop)	4,523	4,523	4,523	4,400	4,400	4,559	4,462	4,462	4,565
Intra-EU Imports	0	0		0	0	0	0		
Other Imports	0	0		0	0	0	0		
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	14,238	14,238	14,238	14,317	14,317	14,476	14,349	14,349	14,472
Intra EU Exports	0	0		0	0	0	0		
Other Exports	13	13	13	18	18	26	20	20	30
Total Exports	13	13	13	18	18	26	20	20	30
Cow Slaughter	838	838	838	810	810	868	810	810	714
Calf Slaughter	1,454	1,454	1,454	1,460	1,460	1,562	1,500	1,500	1,590
Other Slaughter	1,533	1,533	1,533	1,527	1,527	1,561	1,450	1,450	1,458
Total Slaughter	3,825	3,825	3,825	3,797	3,797	3,991	3,760	3,760	3,762
Loss	483	483	483	615	615	552	625	625	625
Ending Inventories	9,917	9,917	9,917	9,887	9,887	9,907	9,944	9,944	10,055
Total Distribution	14,238	14,238	14,238	14,317	14,317	14,476	14,349	14,349	14,472
CY Imp. from U.S.	0	0		0					
CY. Exp. to U.S.	0	0		0					
Balance	0	0	0	0		0			0
Inventory Balance	202	202	202	169		(10)			148
Inventory Change	0	0	0	2		2			0
Cow Change	(1)	0	(1)	2		0			0
Production Change	2	1	2	0		1			0
Production to Cows	83	81	83	80		80			79
Trade Balance	13	15	13	13		26			30
Slaughter to Inventory	39	40	39	38		40			38

Note. These are not official USDA forecasts.

## CY 2010 Slaughter Numbers

At 3.991 million head, actual beef slaughter was 5.1% higher than previously forecast, due largely to an increase in slaughter rates during the fourth quarter of CY 2010. A combination of strong farm gate prices and the onset of what seemed to be a severe drought on the North Island in November prompted the fourth quarter cow kill. Cow slaughter was up 7.2% and bobby calf slaughter was up 7% over previous estimates. Steer and bull slaughter, which was lagging behind the previous estimate, was also up during the fourth quarter pushing adult other cattle kill up 2.2%.

## CY 2011 Slaughter Numbers

CY 2011 slaughter is forecast at 3.762 million head, just 2,000 higher than the original forecast but 5.7% down on last year. A forecast 6% increase in the calf kill and a 12% drop in the cow kill are the two primary factors driving the lower slaughter rate.

The following factors influence the slaughter forecast:

- the estimated 100,000 head increase in dairy cow numbers, which will largely come from retained mature cows rather than young stock replacements (as they aren't yet available), will contribute to a decrease in the cow kill and an increase in the bobby calf kill;
- slaughter rates during the fourth quarter of 2010 will reduce the numbers that would have been killed during the first half of CY 2011;
- adult "other" ending stocks are expected to be stable;
- at an expected 79%, cow reproductive rates will likely be slightly lower than in 2010 (80%) and 2009 (83%), due largely to higher loss rates in the dairy herd, which accounts for an increasing percentage of the total cow herd; and,
- an estimated 442,000 bull calves will be retained from the dairy herd progeny.

## Beef Production

### CY 2010 Beef Production

At 643,000 tons Carcass Weight Equivalent (CWE), total annual production was 4% higher than originally forecast, largely because of the fourth quarter increase in slaughter rates. As a result, beef production was up 19,000 tons bucking the downward trend. Carcass weights (both cows and calves) were also lighter than in past years.

### CY 2011 Beef Production

The spike in the slaughter rate during the fourth quarter of CY 2010 suggests that beef production during the first half of CY 2011 will be lower than it otherwise would have been. Total production is forecast at 587,000 tons, which reflects an expected drop in cow slaughter, and to a lesser extent steer and bull slaughter, during the first half of the year. This puts CY 2011 forecast beef production at 8.75% less than the previous year and 3% lower than the previous forecast.

Average carcass weight (CW) is expected to fall due to calf and cow slaughter accounting for a larger percentage of total slaughter. Given current pasture levels, average CWs for adult cattle (non cow) should trend back up but will be tempered by the adult cattle killed in the last quarter of 2010.

New Zealand Beef Production									
Calendar Year	2009			2010 Provisional			2011 Forecasts		
	Est. CW kgs/hd	Slaughter	Total Beef (tons)	CW kgs/hd	Slaughter	Total Beef (tons)	Est. CW kgs/hd	Slaughter	Total Beef (tons)
Cow Slaughter	200.3	838	167,851	198	868.20	171,947	202	714	144,228
Calf Slaughter	16.5	1,454	23,991	16.5	1,562.5	25,781	16.5	1,590	26,235
Heifer Slaughter				235	493	115,647	235	461	108,335
Steer slaughter				309	632	195,251	310	579	179,490
Bull Slaughter				307	437	134,175	307	418	128,326
Other Adult Cattle Slaughter	281.96	1,533	432,245	285.1	1,560.9	445,073	285.4	1,458	416,151
Total Slaughter	163.2	3,825	624,087	161	3,991.6	642,801	155.9	3,762	586,614

Source: Agricultural Affairs Office estimate ; NZ Ministry of Agriculture and Forestry, Beef + Lamb NZ, Statistics NZ

**PSD Table 2. Beef**

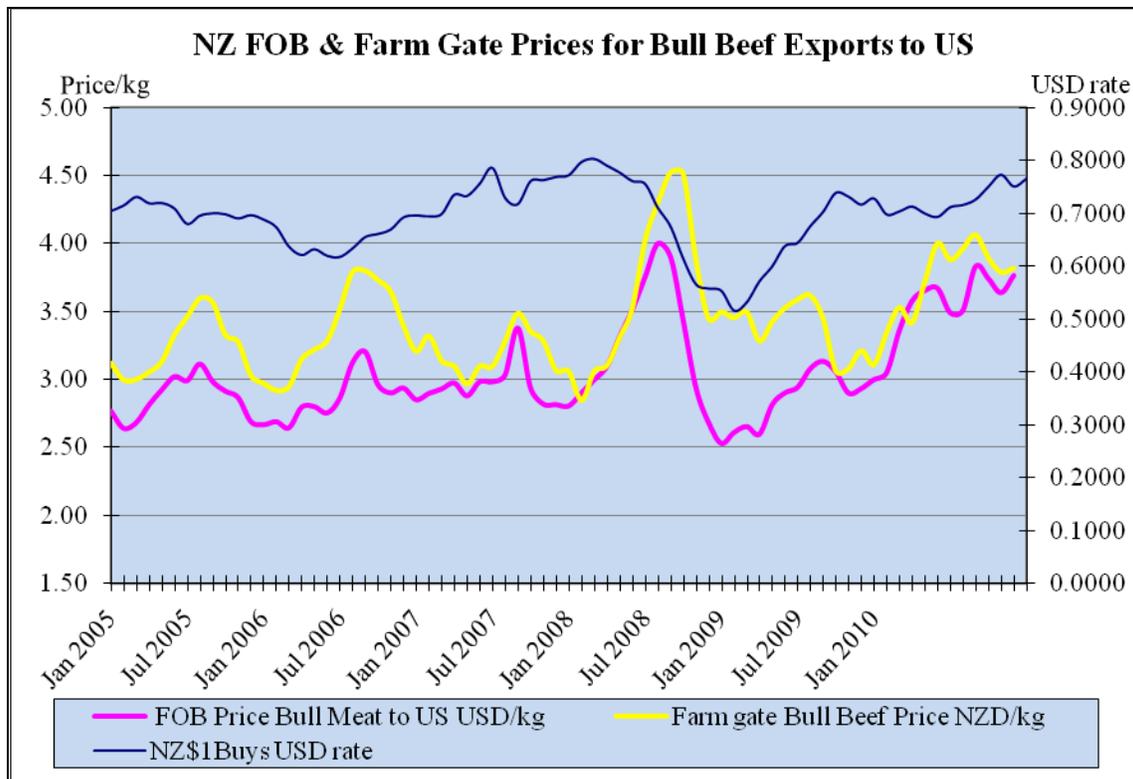
Meat, Beef & Veal New Zealand (1,000 hd, 1,000 MT CWE)	2009			2010			2011		
	Market Year Begins: Jan 2009			Market Year Begins: Jan 2010			Market Year Begins: Jan 2011		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Slaughter (Reference)	3,825	3,825	3,825	3,797	3,797	3,991	3,760	3,760	3,762
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	624	624	624	619	619	643	605	605	587
Intra-EU Imports	0	0	0	0	0	0	0		
Other Imports	10	10	10	10	10	11	11	11	11
Total Imports	10	10	10	10	10	11	11	11	11
Total Supply	634	634	634	629	629	654	616	616	598
Intra EU Exports	0	0		0	0	0	0	0	0
Other Exports	514	514	514	510	510	530	496	496	478
Total Exports	514	514	514	510	510	530	496	496	478
Human Dom. Consumptio n	120	120	120	119	119	124	120	120	120
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumptio n	120	120	120	119	119	124	120	120	120
Ending Stocks	0	0	0	0	0	0	0		
Total Distribution	634	634	634	629	629	654	616	616	598
CY Imp. from U.S.	0	0	0	0	0	0	0		
CY. Exp. to U.S.	235	235	235	235	235	222	221	221	205
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Weights	163	163	163	163	163	161	161	161	156
Production Change	(3)	(3)	(3)	(1)	(1)	3	(2)	(2)	(9)
Import Change	(17)	0	(17)	0	0	10	10	10	0
Export Change	(4)	(2)	(4)	(1)	(1)	3	(3)	(3)	(10)
Trade Balance	504	504	504	500	500	519	485	485	467
Consumptio n Change	(2)	(2)	(2)	(1)	(1)	3	1	1	(3)

Population	4,213,418	4,213,418	4,213,418	4,252,277	4,347,200	4,347,200	4,290,347	4,388,000	4,388,000
Per Capita Consumption	28	29	29	28	27	29	28	27	27
TS=TD			0		0	0		0	0

Note. These are not official USDA forecasts.

## Farmer Profitability

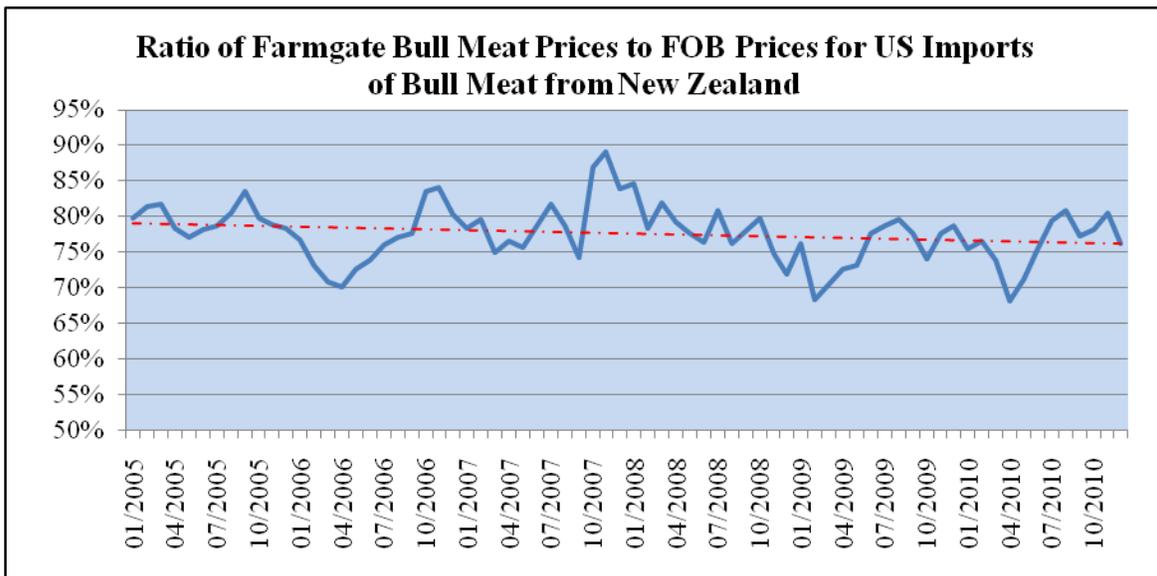
The outlook for sheep and beef farmers in New Zealand has improved dramatically. Farm-gate livestock and meat prices are substantially ahead of last year, wool prices are up considerably, there are no serious drought concerns and profitability is improving.



Source: GTA, Reserve Bank NZ, Market Insight



Source: Beef+Lamb NZ, Note: Data on a June year.



Source: GTA, Market Insight

The chart above gives a broad insight as to how processor margins fluctuate. Above the red trend line it could be said that margins are being squeezed, generally in response to a short supply of animals, which results in processors paying out a greater proportion of the total FOB value. Anything below the line suggests improved margins depending on cost structure.

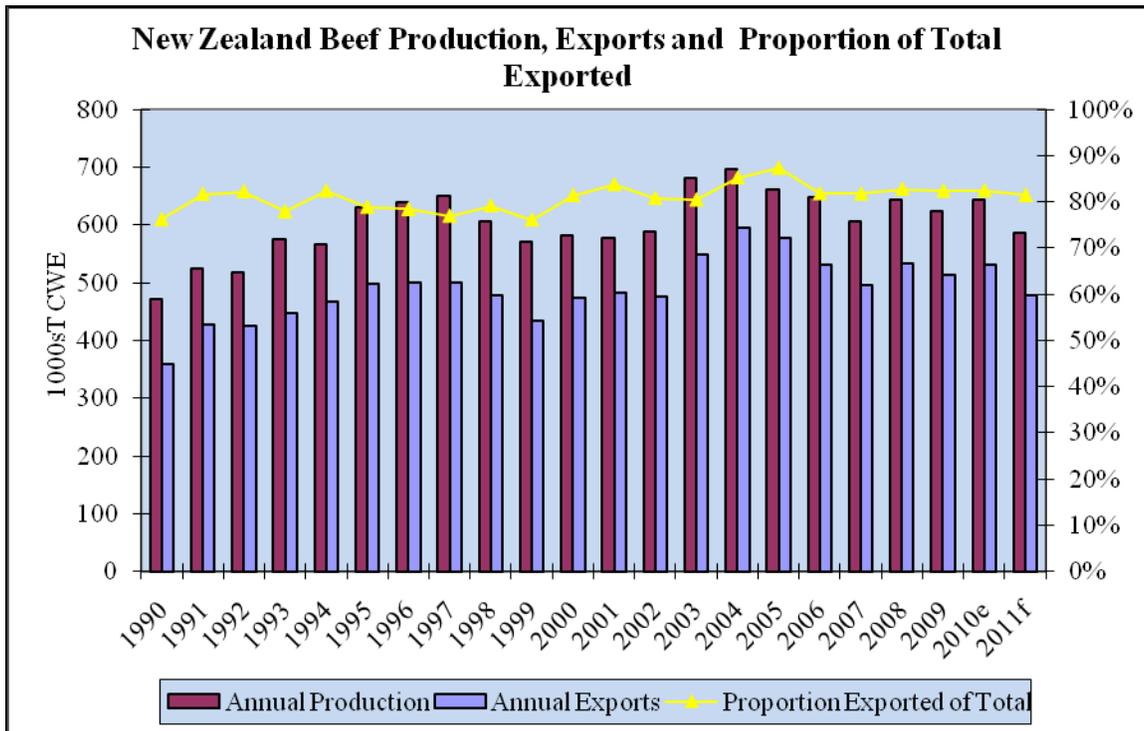
## Consumption

Domestic consumption was up 4% in CY 2010 to 124,000 tons (CWE). Consumption in CY 2011 is expected to fall 4% to 120,000 tons (CWE), largely because of consumer consumers over increasing food prices and the need to cut household expenditures.

The overall food price index was up 2.3% in 2010. The meat and poultry price index was up 2.3% in 2010 and 2.8% during the fourth quarter. The index for milk, cheese and eggs was up 12.6%. While the jump in dairy price was significantly higher, consumers are watching their total grocery bill.

According to Beef + Lamb NZ estimates, per capita meat consumption fell to 27.53 kgs in 2009, down from 31.98 kgs in 2006.

## Trade



Source: Agricultural Affairs Office, US Embassy, Wellington, NZ

### CY 2010 Beef Exports

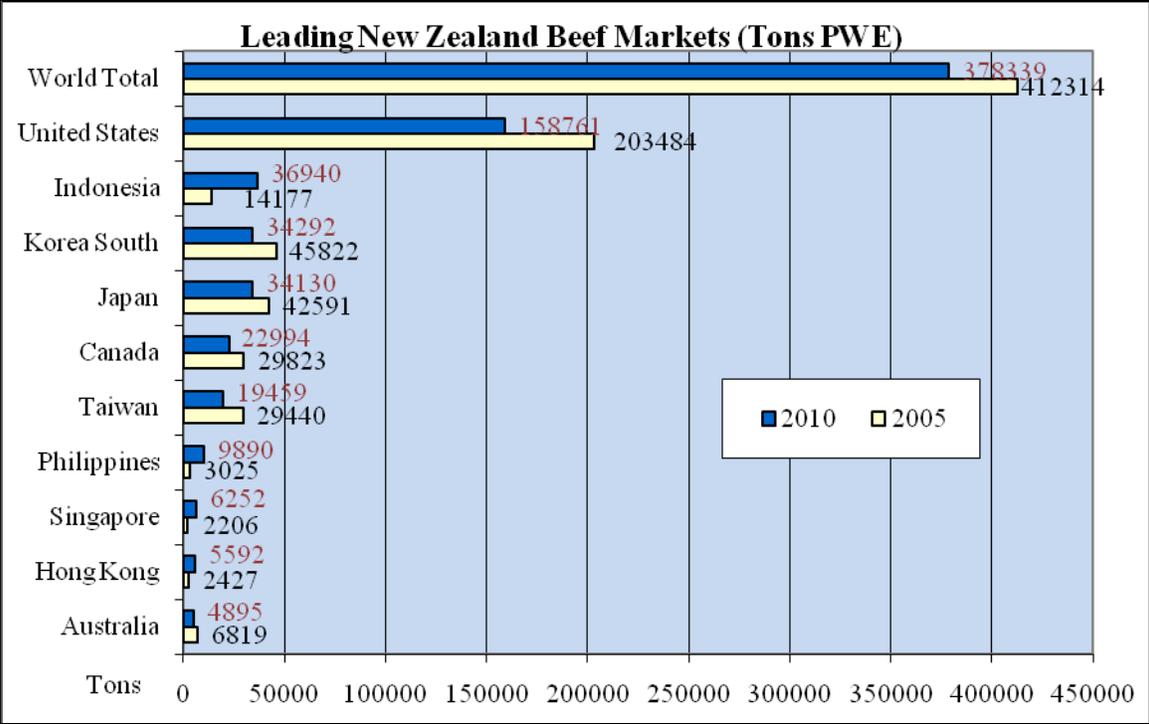
At 530,000 tons (CWE), CY 2010 beef exports were 20,000 tons higher than originally forecast and up 3.1 % from the previous year. This is a direct result of the boost in production during the last quarter of 2010.

Exports to the US market were 222,000 tons (CWE), which is 6% less than the previous forecast.

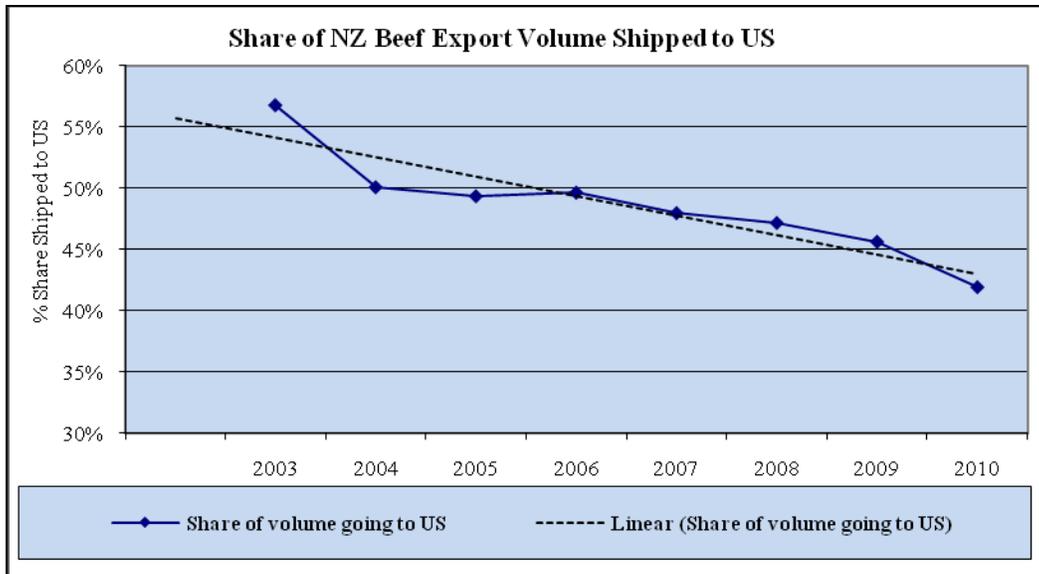
**CY 2011 Beef Exports**

Based on revised production forecasts and a slightly lower level of domestic consumption, exports are likely to be on the order of 478,000 tons (CWE) in CY 2011. This is 4%, or 18,000 tons (CWE), less than the previous forecast and 10% lower than the 2010 export volume. The forecast decline is primarily driven by the on-going reduction in the size of the beef herd and the spike in slaughter during the last quarter of CY 2010.

Exports to the US market are expected to fall to 205,000 tons (CWE) in CY 2011, due largely to a sharp decline in cow beef production and an ongoing decline in bull beef production, which are the basic components of exports to the US market. While still the largest market for New Zealand beef, the US share of total New Zealand exports has been trending downward. It currently stands at approximately 42%.



Source: Global Trade Atlas (GTA)



Source: GTA

### Indonesia is New Zealand's Second Largest Market

Indonesia became New Zealand's second largest beef market, on a quantity basis, in CY 2010. Exports jumped 41% to 36,940 tons (PWE). Export levels in CY 2011 are less certain, especially in view of the reported ban on imported beef shipments from New Zealand as several of the main importers have had their import permits revoked. The issue is currently working its way through diplomatic channels but it is unclear when it will be resolved and what impact it will have on New Zealand exports volumes to the Indonesian market.

### Exports up to Korean Market

Exports to the Korean market reversed a downward trend in CY 2010 jumping 7% to 34,292 tons (PWE). Exporters report a spike in demand from the Korean market due in part to the Australian floods in Queensland and the FMD outbreak in Korea. These factors have reportedly caused a flurry of demand and a commensurate willingness to pay higher prices. New Zealand exports to the Korean market are expected to increase further in CY 2011.

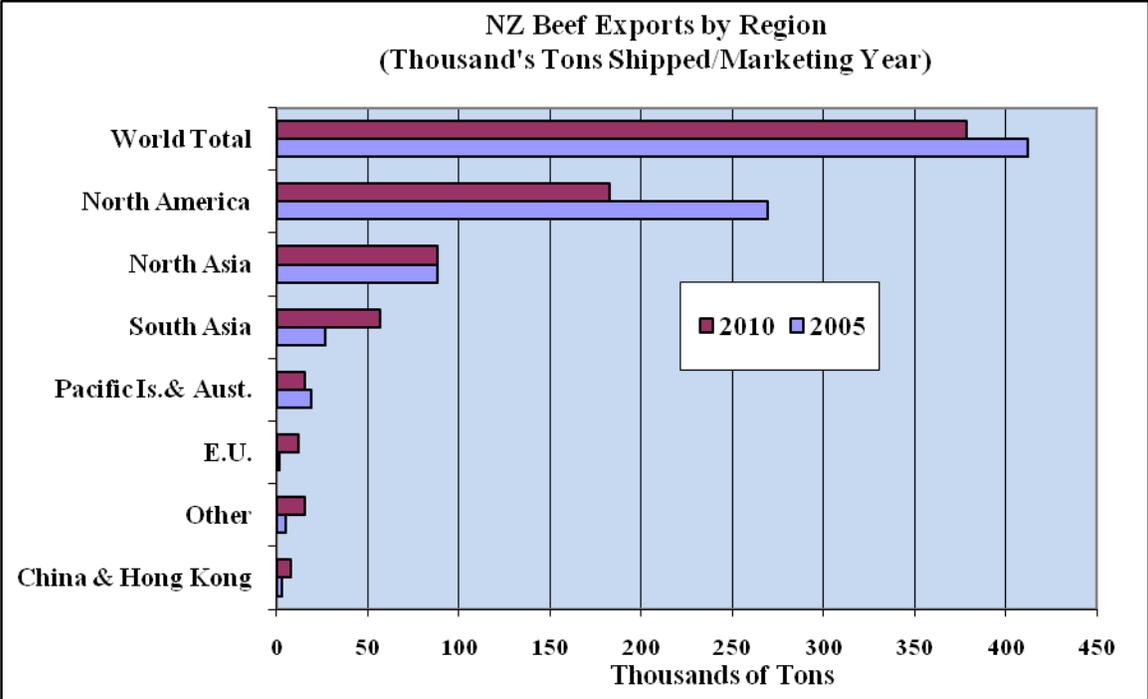
### Exports to Japan Show Solid Growth

CY 2010 shipments to Japan, at 34,130 tons (PWE), showed solid growth, up 18% compared to 2009. However, this is still well below the peak of 42,591 tons (PWE) achieved in 2005. While exporters appear confident regarding the Japanese market, some report that Japanese buyers are price cautious. Exports to Japan are not expected to increase significantly in CY 2011.

### Taiwan Remains Stable

Over the past four years, exports to Taiwan have hovered within 1,000 tons of 20,000 tons (PWE) p.a. CY 2010 was no exception at 19,459 tons PWE. Exports to Taiwan are expected to remain stable.

Over the last decade, many New Zealand exporters, including the smaller players, have worked on diversifying their export market portfolios. As a result of this and other factors, North America has become a less important market while South Asia, the EU, China and other markets have all grown in importance. Virtually all meat exports from New Zealand are slaughtered under halal protocol, which gives exporters flexibility.



Source: GTA

### Overall Market Tone

Exporters report that they are generally satisfied with the level of market demand. They characterize the Foot and Mouth Disease (FMD) outbreak in Korea and the floods in Australia as short-term factors driving price increases, and the delayed herd rebuilding in the United States, and growing consumption levels, specifically in Asia, as long-term factors contributing to higher prices and sustained demand.

## **Policy**

### **National Animal Identification and Tracing Scheme (NAIT)**

Under NAIT, electronic tagging of cattle will be mandatory in New Zealand as of November 1, 2011. Currently, only cattle and deer are included. The cost of the tags is not significantly higher than the plastic tags that were already mandated under the Animal Health Board program, which will be rolled in to NAIT. There are likely to be some productivity gains but the program has been controversial among farmers. More detail on the scheme can be found at: <http://www.nait.org.nz/>

### **Meat Industry Strategy**

Beef+Lamb NZ, the Meat Industry Association, New Zealand Trade and Enterprise, and the New Zealand Ministry of Agriculture and Forestry are funding a two-phase study looking at how to increase profitability of the sector, both at the farm and processor level. A consulting company has reportedly nearly completed the first phase of the study and is expected to make the report public in May 2011. More information can be found at:

<http://www.beeflambnz.com/main.cfm?id=31&nid=290>

### **Primary Growth Partnership (PGP)**

The PGP matches New Zealand Government funding with industry contributions to stimulate research and innovation in the primary, food and forestry sectors. The Government has committed to making available NZ \$190 million through to 2012/13, and thereafter NZ \$70 million per annum. To date, two projects related to the meat sector have been approved securing a total of NZ\$74.5 million of Government funding over a seven year time frame.

More details on the fund can be found at: <http://www.maf.govt.nz/agriculture/funding-programmes/primary-growth-partnership.aspx>

## **Trade Policy**

The New Zealand Government has negotiated several free trade agreements (FTAs). The following agreements are in force:

- [New Zealand-Hong Kong, China Closer Economic Partnership](#) (NZ-HK CEP entered into force on 1 January 2011)
- [New Zealand-Malaysia Free Trade Agreement](#) (MNZFTA entered into force on 1 August 2010)
- [ASEAN-Australia-New Zealand Free Trade Agreement](#) (AANZFTA) - 2010
- [New Zealand-China Free Trade Agreement](#) (NZ-China FTA) - 2008
- [Trans-Pacific Strategic Economic Partnership](#) (P4) - 2005
- [New Zealand-Thailand Closer Economic Partnership](#) (NZTCEP) - 2005
- [New Zealand-Singapore Closer Economic Partnership](#) (NZSCEP) - 2001

- [Australia-New Zealand Closer Economic Relationship \(CER\)](#) - 1983

In addition, the New Zealand Government is currently negotiating the following FTAs:

- [New Zealand-Gulf Cooperation Council Free Trade Agreement](#) (NZ-GCC FTA negotiations have been concluded but not yet signed)
- Expansion of the [Trans-Pacific Strategic Economic Partnership](#) (TPP)
- [New Zealand-Korea Free Trade Agreement](#) (NZ-Korea FTA)
- [New Zealand-India Free Trade Agreement](#) (NZ-India FTA)
- [New Zealand-Russia-Belarus-Kazakhstan Free Trade Agreement](#) (NZ-RBK)

While exporters report that FTAs do not drive business decisions, they do provide a framework to work out trade-related issues, especially SPS and non-tariff barriers, and, in some cases, significant market access advantages. For instance, in the New Zealand -China FTA, tariffs on beef products, which ranged from 12 to 25% when the agreement was signed, will be eliminated by 2016. New Zealand exports have increased from 5,300 tons (PWE) in 2008, the year the agreement went into force, to 8,022 tons in 2010, a 51% increase.

### **TransPacific Partnership Agreement (TPP)**

Meat and Wool NZ (now called Beef+Lamb NZ) and the Meat Industry Association jointly made submissions to the Ministry of Foreign Affairs and Trade on the TPP. In summary, they would like to see the US tariff rate quota, which currently stands at US 4.4 cents/kg, reduced to zero. They are also advocating elimination of the over-quota tariff rate, which is currently 26.4% on FOB value. They maintain that New Zealand's beef exports to the US are complimentary to US beef production because lean meat from New Zealand is blended with US fat trimmings to manufacture burgers, patties, and pizza toppings. Beef+Lamb NZ contends that New Zealand only supplies at most 2% of total US consumption, and because of land constraints, is not going to be able to increase this.

More information on TPP can be found at:

<http://www.mfat.govt.nz/downloads/trade-agreement/transpacific/Submissions-part-7.pdf>