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New Zealand Cattle and Beef Report 2015

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Report Highlights:

The New Zealand cattle industry both dairy and beef sectors are now in a period of change which has not played out in entirety yet. During Marketing Year 2016 New Zealand is forecast to boost its beef production to 674,000 metric tons (MT). For MY2015 beef production is estimated at 658,000MT. This is a sharp rise from 620,000MT in MY2013. Exports, especially to the U.S., are also forecast up at 592,000MT in MY2016 and 576,000MT for MY2015.

Executive Summary

The New Zealand cattle industry both dairy and beef sectors are now in a period of change which has not played out in entirety yet. The medium term direction of both sectors won't be clear until dairy farmers, who are battling with very low milk prices, make longer term decisions on herd numbers. This will only become evident over the next twelve to eighteen months.

During Marketing Year 2016 New Zealand is forecast to boost its beef production to 674,000 metric tons (MT). Only three years ago in MY2013 it looked like production had plateaued at around 620,000MT. But the combination of a sharply increased dairy cow slaughter and high beef prices has stimulated a nine percent jump in production since MY2013. A rapid decrease in live animals exported from 79,000 head in MY2014 to 22,000 head and 25,000 head in MY2015 and MY2016 respectively is also contributing to the beef production increase. For MY2015 beef production is estimated at 658,000MT.

Domestic consumption is expected to remain steady at 100,000MT in MY2016 and MY2015.

Beef exports are forecast to reach 592,000MT (carcass weight equivalent-CWE) in MY2016 which would be 3% greater than MY2015. The MY2015 export volume is now estimated at 576,000MT CWE, 0.5% less than MY2014. The increased volume of manufacturing beef (90-95% chemical lean specification) being produced and the high prices for imported manufacturing beef in the United States has boosted exports to the United States. It is likely the Voluntary Restraint Agreement (VRA) limit of 299,000MT CWE for a calendar year will be reached in both MY2015 and MY2016. In order to avoid the 23% tariff on over quota exports it is estimated approximately 11,000MT CWE of beef will be held in bond for up to a month in December of both MY2015 and MY2016 to be released on January 1 of the succeeding year.

Beef exports to China are booming. For the first half of MY2015 shipments are up 44% and are likely to reach between 60-70,000MT for the full year. Under the China-New Zealand Free Trade Agreement the tariff rate on most beef products is only 1.3% for 2015 and will be zero in 2016. This is a substantial advantage compared to Korea for example where beef exports from New Zealand face a 40% tariff at present.

The New Zealand cattle inventory peaked at 10.4 million (m) head at the beginning of MY2015. By the beginning of MY2016 the inventory is forecast at 10.3 m head, one percent down, and by the end of MY2016 is forecast to drop to 10.1m head a further 1% reduction. The national dairy cow herd (both in-calf and dry) reducing from a peak of 5.66m head in MY2015 down to a forecast 5.42m head by the end of MY2016 is the prime cause for the inventory reductions. The resultant increase in cow slaughter numbers is a main contributor to the increased beef production in MY2014 and MY2015. The increased cow kill is forecast to continue into MY2016 at 1.08 million head and coupled with better other adult cattle slaughter numbers and carcass weights is behind the beef production increase in MY2016

Note: the Marketing Year (MY) is the calendar year; the 2015 marketing year is shown as MY2015

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.UnitedStatesda.gov/psdonline>

Cattle Situation

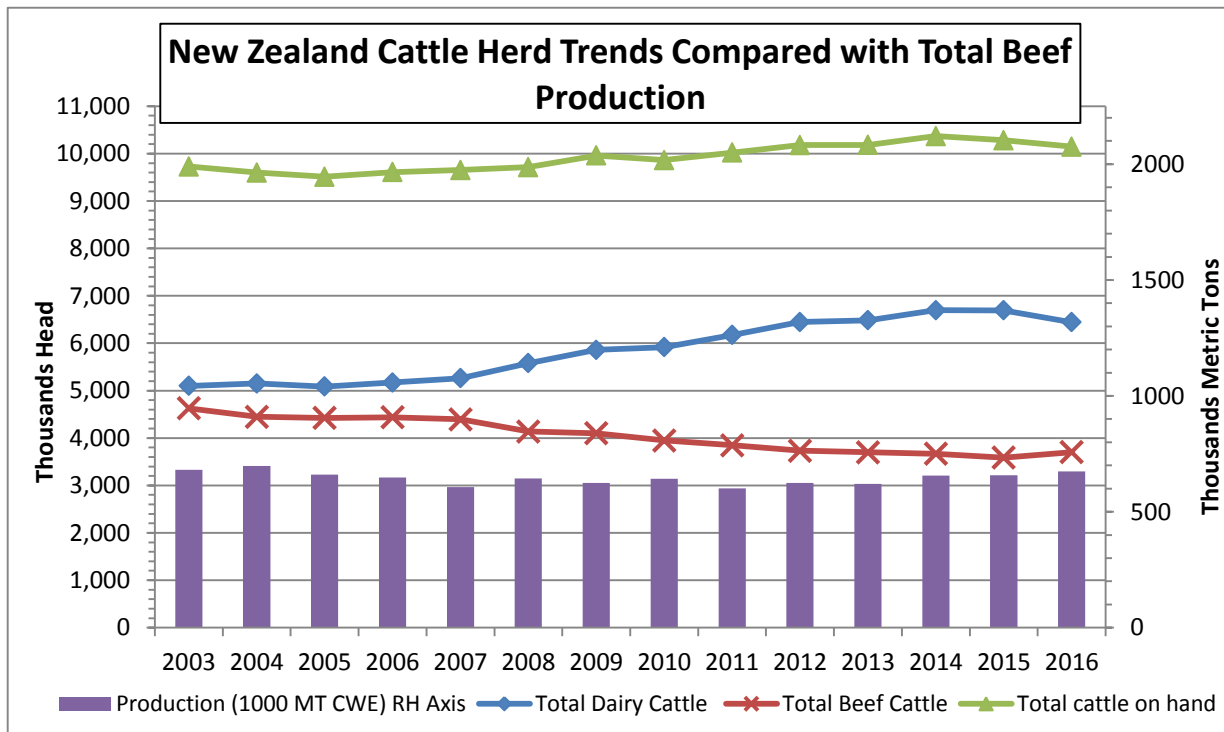
Inventory Changes

The New Zealand cattle inventory has peaked at 10.4 million (m) head at the beginning of MY2015. By the beginning of MY2016 the inventory is forecast at 10.3 m head, one percent down, and by the end of MY2016 is forecast to drop to 10.1m head a further 1% reduction.

The national dairy cow herd (both in-calf and dry) reducing from a peak of 5.66m head in MY2015 down to a forecast 5.42m head by the end of MY2016 is the prime cause for the inventory reductions. Dairy farmers are now to endure a second season of very low milk prices and possibly the prospect of only a marginally profitable milk price in the 2016/17 milk production year. This is leading to dairy farmers questioning their business models and contemplating major changes on-farm which would result in cow numbers being reduced significantly to lower the expense on supplementary feed and off-farm grazing of replacement stock and non-lactating cows. At this stage there is no hard evidence that this has happened to any extent.

In contrast sentiment among beef farmers is positive as a result of the high farm-gate beef prices of the last twelve months which are forecast to continue for another twelve months to two years albeit with some volatility. Total beef cattle numbers are forecast to reach 3.7m head by the end of MY2016 after having dipped down to 3.59m head at the end of MY2015 from 3.67m head in MY2014.

Beef cow numbers have not responded to the better market prices and continue to decrease. They are estimated to be 972,000 head by the end of MY2015 from 1.01m head in MY2015, a four percent reduction and are forecast to stabilize at this number in MY2016. Dry conditions on the east coasts of the North and South Islands in the first quarter of MY2015 together with high beef prices are factors behind this. In addition over time farmers in the hill country have developed their farms with more fencing subdivision and fertilizer and have increased the productivity of their sheep flocks which has reduced the need for beef cow herds to control pasture quality.



Source: Post, USDA, StatsNZ

The rest of the beef herd is forecast to increase to 2.73m head by the end of MY2016 up from 2.62m head at the end of MY2015 (up four percent). Extra stock will be sourced from dairy cow progeny as some sheep & beef farmers, who formerly grazed/agisted replacement dairy stock on their farms switch back to beef

production and other farmers make marginal changes to increase beef production to benefit from the high beef prices.

Production Supply & Demand – Cattle Numbers

Animal Numbers, Cattle New Zealand (1000hd, %)	2014		2015		2016		% Change 2016 New Post Data from 2015 New Post Data	% Change 2015 New Post Data from 2015 last Post Est.
	Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		Market Year Begin: Jan 2016			
	Off. Data	New Post Data	Off. Data	New Post Data	Off. Data	New Post Data		
Total Cattle Beg. Stks	10,183	10,183	9,938	10,368		10,283	-0.8%	0.8%
Dairy Cows Beg. Stocks	5,004	5,005	5,000	5,176		5,200	0.5%	1.6%
Beef Cows Beg. Stocks	1,019	1,019	950	1,012		972	-4.0%	2.6%
Production (Calf Crop)	5,080	5,440	4,975	5,178		5,150	-0.5%	0.3%
Total Imports	0	0	0	0		0		
Total Supply	15,263	15,623	14,913	15,546		15,433	-0.7%	0.6%
Total Exports	79	79	100	22		25	13.6%	-26.7%
Cow Slaughter	979	979	900	1,079		1,075	-0.4%	19.9%
Calf Slaughter	2,120	2,121	1,900	2,100		2,100	0.0%	6.3%
Other Slaughter	1,527	1,526	1,450	1,487		1,510	1.5%	3.6%
Total Slaughter	4,626	4,626	4,250	4,666		4,685	0.4%	8.3%
Loss	620	550	605	575		576	0.2%	0.3%
Ending Inventories	9,938	10,368	9,958	10,283		10,147	-1.3%	-2.4%
Total Distribution	15,263	15,623	14,913	15,546		15,433	-0.7%	0.6%
CY Imp. from U.S.	0	0	0	0		0		
CY. Exp. to U.S.	0	0	0	0		0		
Balance	0	0	0	0		0		
Inventory Balance	(245)	185	20	(85)		(136)		
Inventory Change	0	0	(2)	2		(1)		
Cow Change	(1)	(1)	(1)	3		0		
Production Change	3	11	(2)	(5)		(1)		
Production to Cows	84	90	84	84		83		
Slaughter to Inventory	45	45	43	45		46		
Slaughter to Total Supply	30	30	28	30		30		

Not Official USDA Data

Cattle Production

The total cattle slaughter for the MY2016 year is forecast at 4.69m head which is just 0.4% greater than the estimate for MY2015 at 4.67m head. The elevated cow kill which is likely to be evident in both MY2015 and MY2016 is the key factor here. At forecasts of 1.08m head for both MY2016 and MY2015 these numbers are 125,000 to 150,000 head above a long run herd status quo culling number. This means most dairy farmers are in a process of cutting down their total cattle numbers by 3-6% in response to the low milk price payouts and the need to reduce costs.

While the high beef prices are encouraging for sheep and beef farmers, there is of course a lag between making a decision to increase production and actually growing out extra beef animals to slaughter weights. Slaughter rates were boosted in the last quarter of MY2014 and the first quarter of MY2015 by killing younger cattle at lower carcass weights which is likely to leave farmers slightly short of mature stock to kill in the second half of MY2015 which is being shown by a three percent reduction in other adult slaughter in MY2015 to 1.49m head. Additional young stock to boost numbers are only likely to be sourced from the dairy sector commencing in spring 2015 (August/September). Slaughter numbers won't be boosted by the extra retentions until the fourth quarter of MY2016 at the earliest. This is reflected in the small bounce back in other adult slaughter in MY2016 of 1.5% to 1.51m head.

New Zealand Beef Production Table									
Marketing Year	2014		Actual	2015		Estimate	2016		Forecasts
Category	CW kgs/hd	Numbers to kill (1000's)	Total tons Beef	CW kgs/hd	Numbers to kill (1000's)	Total tons Beef	Est. CW kgs/hd	Numbers to kill (1000's)	Total tons Beef
Cow Slaughter	199.2	979	195,063	197.0	1,079	212,563	200	1,075	215,000
Calf Slaughter	16.1	2,121	34,190	16.2	2,100	34,020	16.4	2,100	34,440
Heifer Slaughter	233.3	471	109,900	235.0	475	111,625	235	475	111,625
Steer slaughter	302.0	579	174,888	298.0	562	167,476	305	560	170,800
Bull Slaughter	298.6	476	142,079	295.0	450	132,750	300	475	142,500
Other Adult Cattle Subtotal	279.7	1,526	426,867	277.0	1,487	411,851	281	1,510	424,925
Total Slaughter	141.8	4,626	656,120	141.1	4,666.0	658,434	143.9	4,685	674,365
% Change from Previous Year									
Cow Slaughter	0.6%	7.8%	8.5%	-1.1%	10.2%	9.0%	1.5%	-0.4%	1.1%
Calf Slaughter	0.0%	9.1%	9.1%	0.5%	-1.0%	-0.5%	1.2%	0.0%	1.2%
Heifer Slaughter	-1.6%	6.6%	4.9%	0.7%	0.9%	1.6%	0.0%	0.0%	0.0%
Steer slaughter	-1.4%	0.4%	-1.0%	-1.3%	-3.0%	-4.2%	2.3%	-0.4%	2.0%
Bull Slaughter	-1.6%	13.4%	11.6%	-1.2%	-5.4%	-6.6%	1.7%	5.6%	7.3%
Other Adult Cattle Subtotal	-1.6%	6.1%	4.4%	-1.0%	-2.6%	-3.5%	1.6%	1.5%	3.2%
Total Slaughter	-2%	8%	6%	0.5%	0.9%	0.4%	2.0%	0.4%	2.42%

Source: POST, StatsNZ, B+LNZ

Beef Production

During MY2016 New Zealand is forecast to boost its beef production to 674,000 metric tons (MT). Only three years ago in MY2013 it looked like production had plateaued at around 620,000MT. But the combination of the dairy cow sell down and high beef prices has stimulated a nine percent jump in production since MY2013.

The MY2015 production level is now estimated at 658,000MT, six percent up on previous estimates and two percent above MY2014. Again the peak in the cow kill at 1.08m head is behind this change. Average carcass weights for MY2015 are estimated to be on a par with MY2014 but are below trend on account the younger cattle that have been killed.

Barring any nationwide droughts it is anticipated that average carcass weights will increase slightly in MY2016 on MY2015 as farmers attempt to maximize production and capitalize on the high beef prices. El Nino weather conditions are being predicted for the fourth quarter MY2015 and perhaps on into the first quarter MY2016 which often brings dry conditions to the eastern regions of both the North and South Islands. It is estimated the western regions and the Waikato will have normal pasture growing seasons which will allow the carcass weight targets to be met.

Production Supply & Demand – Beef Production

Meat, Beef & Veal New Zealand (1000hd,1000MT CWE, kg, %)	2014		2015		2016		% Change 2016 New Post Data from 2015 New Post Data	% Change 2015 New Post Data from 2015 last Post Est.
	Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		Market Year Begin: Jan 2016			
	Off. Data	New Post Data	Off. Data	New Post Data	Off. Data	New Post Data		
Slaughter (Reference)	4,626	4,626	4,250	4,666		4,685	0.41%	8.26%
Beginning Stocks	0	0	0	0		0		
Production	656	656	635	658		674	2.43%	5.62%
Total Imports	18	18	15	18		18	0.00%	20.00%
Total Supply	674	674	650	676		692	2.37%	5.96%
Total Exports	579	579	555	576		592	2.78%	9.09%
Human Dom. Consumption	95	95	95	100		100	0.00%	-9.09%
Other Use, Losses	0	0	0	0		0		
Total Dom. Consumption	95	95	95	100		100	0.00%	-9.09%
Ending Stocks	0	0	0	0		0		
Total Distribution	674	674	650	676		692	2.37%	5.96%
CY Imp. from U.S.	0	0	0	0		0		
CY. Exp. to U.S.	245	289	245	310		310	0.00%	19.23%
Balance	0	0	0	0		0		
Inventory Balance	0	0	0	0		0		
Weights	142	142	149	141		144	2.13%	-2.76%
Production Change %	6	6	(3)	0		2		
Import Change %	20	20	(17)	0		0		
Export Change %	9	9	(4)	(1)		3		
Consumption Change %	(10)	(10)	0	5		0		
Imports Percent Consumption	19	19	16	18		18		
Exports Percent Production	88	88	87	88		88		
Population	4401916	4401916	4438393	4438393		4470000		
Per Capita Consumption	21.6	21.6	21.4	22.5		22.4		

Not Official USDA Data

Consumption

Domestic consumption is expected to remain steady at 100,000MT in MY2016 and MY2015. A feature of the domestic scene at present is the increased imports of beef from Australia. Primarily this is on account of the competitive pricing. When the high Australian cattle slaughter rates slow down and there is some herd re-building it is likely the Australian beef pricing will not be so competitive and import volumes may retreat.

New Zealand Beef Import Statistics						
Annual Series: 2009 - 2014						
Partner Country	Quantity in Metric Tons					
	2009	2010	2011	2012	2013	2014
Australia	6085	6843	7510	6008	9228	11630
All Other Origins	398	415	359	493	502	476
Total Imports	6483	7258	7869	6501	9730	12106

Source: GTA

Trade

Live Animal Exports

A notable dynamic with regard the cattle supply and demand situation has been live cattle exports. This trade peaked in the second half of MY2014. Ninety nine percent of the 79,000 head exported in MY2014 went to China. These animals were dairy heifers destined to bolster the Chinese dairy herd. The MY2014 total volume was 139% up on MY2013. This rate of trade was short-lived, reportedly by mid MY2015 shipments are now running at only 15-20% of the previous year. For MY2015 it is now estimated that the total to be shipped will be 72% down year-on-year at 22,000 head. For MY2016 it is forecast 25,000 head will be exported lower than the 15 year average of 32,000 head as a result of the reduced demand from China.

Beef Exports

Beef exports are forecast to reach 592,000MT (carcass weight equivalent-CWE) in MY2016 which would be 3% greater than MY2015. This may well be a high point if the high cow kill reduces to a sustainable level and the cow herd numbers stabilize. The MY2015 export volume is now estimated at 576,000MT CWE only 0.5% less than MY2014.

New Zealand Beef Export Statistics								
Harmonizing Codes: 0201, 0202, 021020, 160250								
Annual Series: 2009 - 2014								
Partner Country	Quantity in Metric Tons – Product Weight						mkt share	mkt share
	2009	2010	2011	2012	2013	2014	2013	2014
United States	167,546	158,761	151,873	170,335	174,544	206,522	46.2%	49.9%
China	2,678	2,430	2,821	10,491	35,796	41,717	9.5%	10.1%
Japan	29,029	34,129	30,819	32,207	30,699	25,536	8.1%	6.2%
Korea South	32,088	34,292	35,973	28,785	24,572	24,143	6.5%	5.8%
Taiwan	20,164	19,459	19,445	19,668	18,277	19,575	4.8%	4.7%
Canada	28,420	22,994	22,786	19,090	13,681	14,455	3.6%	3.5%
Indonesia	26,238	36,926	20,880	8,209	9,642	13,248	2.6%	3.2%
Malaysia	2,356	2,577	2,487	6,072	6,875	7,249	1.8%	1.8%
Australia	3,587	4,895	6,220	6,239	5,375	6,456	1.4%	1.6%
Philippines	7,220	9,890	10,028	11,817	8,041	5,029	2.1%	1.2%

Hong Kong	7,276	5,592	5,071	5,604	4,848	4,987	1.3%	1.2%
Saudi Arabia	774	2,273	1,542	1,762	4,268	4,898	1.1%	1.2%
French Polynesia	4,644	4,755	4,645	4,154	4,152	3,968	1.1%	1.0%
United Kingdom	3,810	3,232	4,149	3,521	3,641	3,714	1.0%	0.9%
United Arab Emirates	2,176	2,283	2,440	2,866	2,705	3,294	0.7%	0.8%
Other Destinations Total	29,039	33,837	38,187	38,367	30,845	29,073	8.2%	7.0%
World Total	367,045	378,325	359,366	369,187	377,961	413,864	100.0%	100.0%

Source: GTA

New Zealand Beef Export Statistics							
Harmonizing Codes: 0201, 0202, 021020, 160250							
Year To Date: January - June							
Partner Country	Quantity(MT) Product Weight			% Share			% Change
	2013	2014	2015	2013	2014	2015	15/14
United States	117,768	129,516	151,218	49.1%	50.8%	55.1%	16.8%
China	25,233	26,556	38,256	10.5%	10.4%	13.9%	44.1%
Taiwan	11,126	13,629	13,741	4.6%	5.3%	5.0%	0.8%
Korea South	15,332	15,199	13,558	6.4%	6.0%	4.9%	-10.8%
Canada	8,372	8,800	10,938	3.5%	3.5%	4.0%	24.3%
Japan	19,282	14,508	10,424	8.0%	5.7%	3.8%	-28.1%
Malaysia	4,316	5,236	5,074	1.8%	2.1%	1.8%	-3.1%
Indonesia	4,241	9,983	3,709	1.8%	3.9%	1.4%	-62.8%
Australia	2,314	3,215	3,224	1.0%	1.3%	1.2%	0.3%
Philippines	5,825	2,564	2,768	2.4%	1.0%	1.0%	8.0%
Singapore	2,510	2,124	1,911	1.0%	0.8%	0.7%	-10.0%
French Polynesia	2,050	2,080	1,843	0.9%	0.8%	0.7%	-11.4%
Netherlands	1,225	1,489	1,694	0.5%	0.6%	0.6%	13.8%
Saudi Arabia	1,352	1,812	1,687	0.6%	0.7%	0.6%	-6.9%
United Arab Emirates	1,199	1,468	1,478	0.5%	0.6%	0.5%	0.7%
Other Destinations Total	17,829	16,695	13,085	7.4%	6.6%	4.8%	-21.6%
World Total	239,974	254,874	274,608	100%	100%	100%	7.7%

Source: GTA

United States

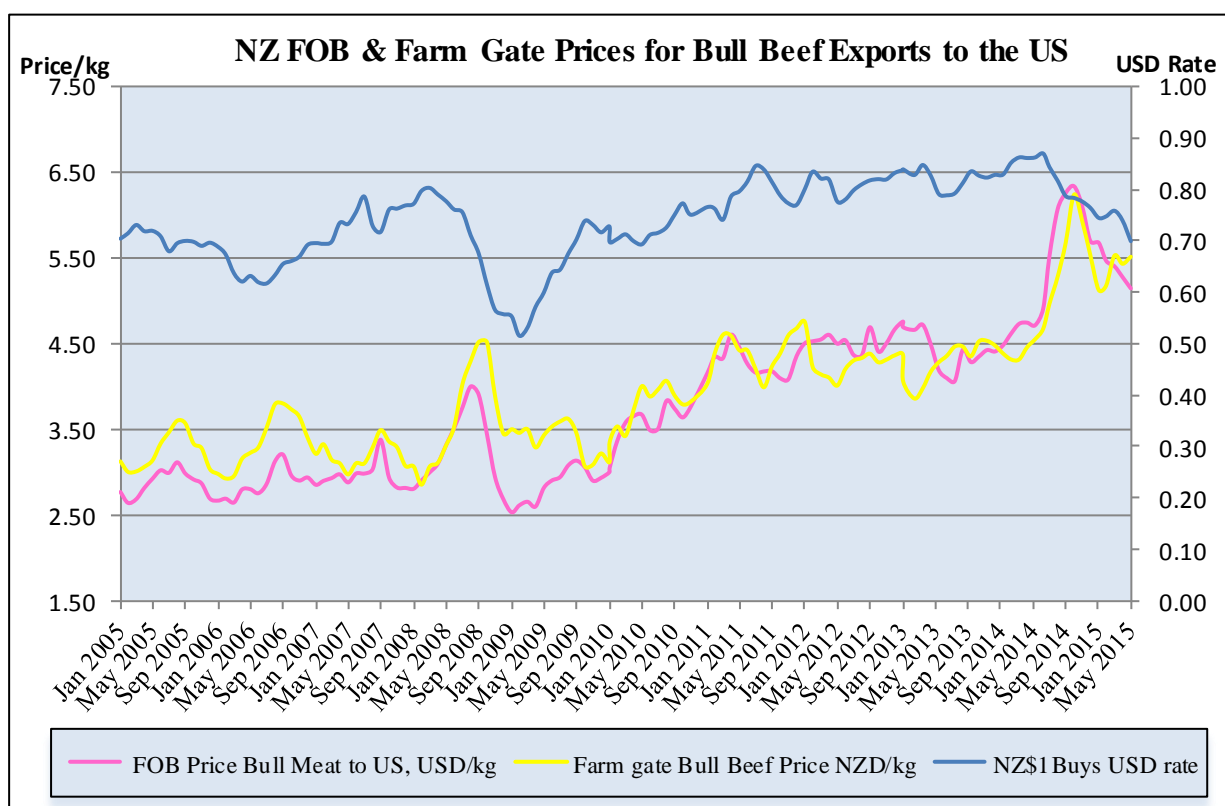
The continued high prices for imported beef with 90-95% chemical lean specifications in the United States has allowed New Zealand exporters to ship the increased volumes of cow beef profitably and meet the U.S. demand without impacting any other markets over the last eighteen months. Having shipped close to the Voluntary Restraint Agreement (VRA) limit of 213,402MT (product weight-PW) for a calendar year in MY2014

with 206,522MT (an 18% increase on MY2013) industry insiders are thinking the VRA will be triggered in MY2015. It is estimated 221,500MT will be shipped but 8,000MT will be held in bond until January 1, 2016 rather than incur the 23% tariff on over quota volumes.

Each year quota volume is allocated to the exporters based on historical market share. Some exporters have husbanded their quota share carefully and won't exhaust it until mid-December while one or two major players are likely to exhaust their quota up to a month earlier. Smaller exporters who don't have much history and were aiming to grow their volumes will be in the biggest difficulty in the coming months.

The ramifications of the quota complications which will affect both New Zealand and Australia are likely to cause price volatility both in the market place in the United States and at farmgate level in New Zealand.

For MY2016 it is forecast that a similar pace of shipments will continue and the volume will again reach 221,500MT with the resulting VRA overhang of 8,000 MT PW again being held in bond until January 2017.



Source: GTA, RBNZ, Market Insight

China

Beef exports to China are booming. More New Zealand meat processing sites have been registered for export to China and buyers in China take a range of product from manufacturing grades through to high quality cuts. As prices and demand in Korea and Japan have waned product has been re-directed away from these markets to China. For the first half of MY2015 shipments are up 44% and are likely to reach between 60-70,000MT for the full year. Under the FTA the tariff rate on most beef products is only 1.3% for 2015 and will be zero in 2016. This is a substantial advantage compared to Korea for example where beef exports from New Zealand face a 40% tariff at present.

Taiwan

Even though New Zealand has entered a FTA with Taiwan (Dec 2013) volumes to this market remain stable. The tariff rate for MY2015 is NT\$5/kg and will be free in MY2016. There has been a New Zealand origin marketing program publicizing the attributes of grass-fed beef during MY2015. This market may well take increased volume during MY2016 if there is product available.

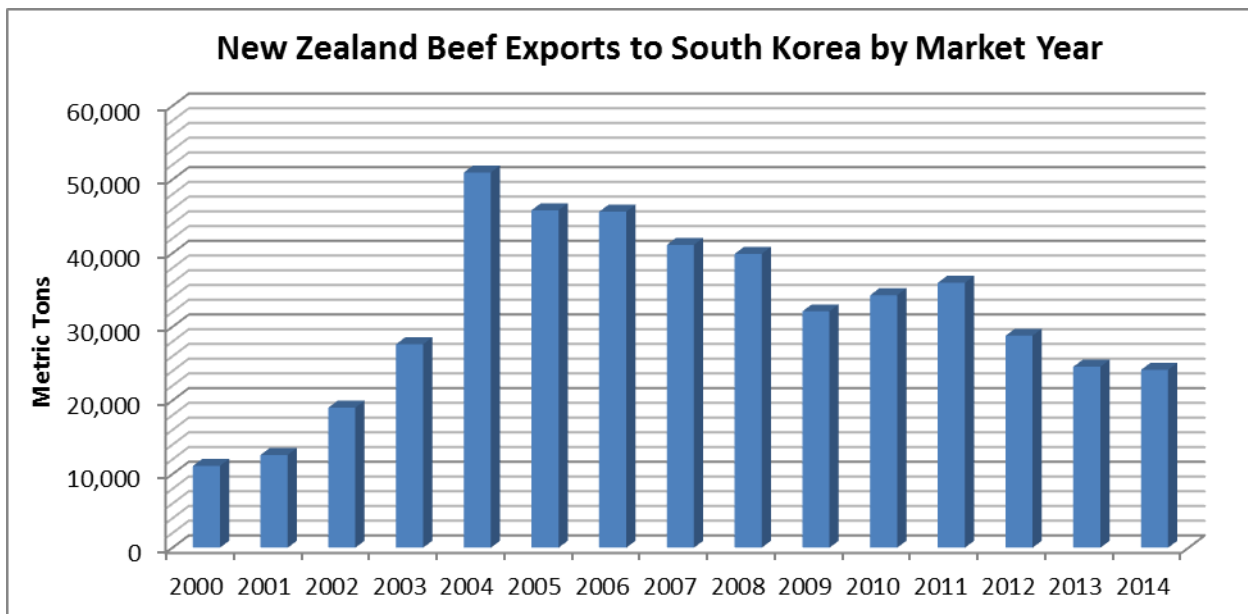
Japan

A combination of flat to reducing demand and competition from Australia and the United States, who now have reducing tariff rates, is weighing heavily on NZ exporters ability to profitably ship to this market. Shipments from New Zealand are down 28% in the first half of MY2015 which continues a downward trend. One New Zealand has a longstanding trade with Japan supplying the only grain fed beef produced in New Zealand in any quantity which is likely to continue. However other exporters are likely to continue the move away to other markets such as China and Taiwan.

New Zealand – South Korea Free Trade Agreement

After nine formal rounds of negotiations which commenced in 2009 South Korea and New Zealand (NZ) have concluded negotiations on a free trade agreement that was announced November 15, 2014. The agreement is still to be ratified by the respective Governments before it can enter into force.

The New Zealand meat industry is generally satisfied that the 40% tariff levied over most meat products (92% of volume in MY2014) will be reduced at the rate of 2.67% per annum over a 15 year period to zero. Beef products make up 82% of all meat exports to Korea from NZ by value. Sources indicate this deal is essentially the same as that obtained for beef in the KORUS FTA, except that United States exporters already have a two year head start on the reduction timeline. In addition market access negotiations around SPS/TBT conditions should become swifter with improved cooperation and understanding between the regulators in each country.



Source:

GTA