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## **New Zealand**

**Post:** Wellington

### **Livestock and Products Semi-Annual Report 2016**

**Report Categories:**

Livestock and Products

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**Report Highlights:**

**After the big surge in MY2015 when New Zealand beef production topped 690,000 MT, the highest since 2004, beef production is forecast to reduce to 659,000MT in MY2016. Accordingly exports in MY2016 will be reduced from a record 639,000MT in MY2015 to a forecast 584,000MT. The drivers behind these numbers are diverse but significant among them is an ailing dairy sector reducing cow and heifer numbers.**

## **Executive Summary**

Total cattle numbers in New Zealand have certainly peaked with no hints of significant increases in the immediate future. By the end of MY2016 the total cattle inventory is forecast at 9.98 million head which is 1.7% less than the previous forecast (September 2015). The MY2015 ending inventory is now estimated at 9.97 million (m) head, a substantial 311,000 head or a four percent reduction on the previous estimate.

The main driver for the inventory reduction during MY2015 is the ongoing low milk prices being earned by dairy farmers. They have responded by reducing cow numbers by 172,000 head or 3.3% during MY2015. The overall dairy herd was reduced by 302,326 head or 4.5%.

For MY2016 the total slaughter tally is now forecast at 4.44m head which is 5.1% less than the previous forecast. This is principally driven by a reduction in the forecast calf slaughter numbers. Additionally the adult cattle (other than cows) slaughter number will be reduced in MY2016 from the previous forecast by at least 40,000 head (-2.7%) because of the lack of stock availability stemming from the increased numbers killed in MY2015. The total slaughter number for MY2015 reached 4.84m head, 4.7% above the previous forecast on the back of 85,000 and 51,000 extra cows and other adult cattle respectively being slaughtered.

Beef production in MY2016 is now forecast at 657,000 metric tons (MT), which is 2.5% below the previous forecast. This volume will not match the big surge in beef production in MY2015 which reached 690,000MT, 4.9% up on previous estimates. This volume, the largest since 2004, was achieved from the big increase in the cow kill and increases from the other adult cattle slaughter numbers being greater than expected.

Exports of beef in MY2016 will come off the peak established in MY2015 to settle at 584,000 MT Carcass Weight Equivalent (CWE) (1.4% less than the previous forecast). This is down from a record in MY2015 of 639,000 MT CWE (11% up on the previous forecast).

New Zealand is now predominantly a manufacturing beef producer, at close to 55 percent of the total beef produced. Hitherto the U.S. has been virtually the only market for this meat and has paid well for it. Still in MY2016 it is forecast the U.S. will take 48% of New Zealand's total beef exports, 280,000 MT CWE, but down from nearly 50% and 317,000 MT CWE in MY2015. However the emergence of demand from China is changing the dynamic. Chinese importers are now taking a significant amount of manufacturing beef and it is forecast that approximately 20% of total exports, or 116,800MT CWE will be shipped to China in MY2016 up from 16% and 103,793 MT CWE in MY2015.

If the Trans Pacific Partnership (TPP) trade agreement, now concluded, does get ratified by all twelve member countries it will have significant benefits for New Zealand beef exporters. Specifically there will be removal of all tariffs on beef in TPP countries, except Japan, within 11 years or less from when the agreement enters into force. For the U.S. it is a 5 year timeframe. While the outcome for Japan isn't as good as had been hoped for there will still be a reduction of Japanese tariffs on beef from 38.5 percent to nine percent over 16 years.

Note: the Marketing Year (MY) is the calendar year; the 2016 marketing year is shown as MY2016

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**

Total cattle numbers have certainly peaked with no hints of significant increases in the immediate future. By the end of MY2016 the total cattle inventory is forecast at 9.98 million head which is 1.7% less than the previous forecast (September 2015). The MY2015 ending inventory is now estimated at 9.97 million (m) head, a substantial 311,000 head or a four percent reduction on the previous estimate.

The main driver for the inventory reduction during MY2015 is the ongoing low milk prices being earned by dairy farmers. They have responded with the largest reduction in dairy cow numbers for at least ten years. Between the MY2014 and MY2015 years dairy cow numbers dropped 172,000 head or 3.3%. The overall dairy herd was reduced by 302,326 head or 4.5 percent. With replacement stock being reduced at a faster rate than the main milking herd it is very unlikely the overall dairy cow numbers will be increased in the near future.

There is a high probability that the total dairy herd will diminish again in MY2016, in this report it is forecast at a 81,000 head drop from the MY2015 ending inventory or -1.3%. This would put the total dairy herd at 6.32m head. Dairy cow numbers are forecast to stabilize at five million head.

The high farm gate beef prices over the last 18 months, now being projected to last into 2017, caused a reduction in the beef herd in MY2015 of 93,862 head (2.6%) as extra cattle were slaughtered to take advantage of the high prices. By MY2016 it is envisaged farmers will have been incentivized enough to increase their beef cattle numbers by 84,000 head (2.4%). It is forecast that beef cow numbers will grow slightly by 4,000 head to one million head and the rest of the increase will be young stock sourced from progeny from the dairy herd.

There are anecdotal reports of sheep/beef farmers switching from grazing young stock destined for dairy herd replacements to finishing beef cattle. In addition a greater number of dairy farmers are looking at increasing their incomes by rearing additional calves to sell in to the beef herd rather than selling them for slaughter as calves.

### **Cattle Production**

For MY2016 the total slaughter tally is now forecast at 4.44m head which is 5.1% less than the previous forecast (September 2015). This is principally driven by a reduction in the calf slaughter resulting from a lower forecast calf production level and a forecast for increased numbers of calves bred in the dairy herd being retained for the beef herd. The adult cattle (other than cows) slaughter number will be reduced in MY2016 from the previous forecast by at least 40,000 head (-2.7%) because of the lack of stock availability stemming from the increased numbers killed in MY2015.

Now that actual final slaughter numbers for all of MY2015 are available it can be seen that the total slaughter was 4.84m head, 4.7% above the previous forecast. This was led by an extra 85,000 cows being killed in the July to October period of MY2015. In addition 51,000 extra other adult cattle were killed above the previous forecast. Beef farmers were capitalizing on the high beef prices and killing cattle ahead of anticipated pasture shortages that were forecast to be the result of the El Nino weather patterns prevalent over New Zealand from October 2015 through April 2016. In fact much of the East coast of both islands has received reasonable rain over the summer removing the risk of nation-wide drought conditions.

### **Production Supply & Demand – Cattle Numbers**

<b>Animal Numbe</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>% Chan</b>	<b>% Chan</b>
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rs, Cattle New Zealan d  (1000hd , %)	Market Year Begin: Jan 2014			Market Year Begin: Jan 2015			Market Year Begin: Jan 2016			ge 2016 New Post Data from 2015 New Post Data	ge 2015 New Post Data from 2015 last Post Est.
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data		
Total Cattle Beg. Stks	10,1 83	10,1 83	10,1 83	10,3 68	10,3 68	10,3 68	10,2 83	10,2 83	9,97 2	-3.8%	0.0%
Dairy Cows Beg. Stocks	5,00 5	5,00 5	5,00 5	5,17 6	5,17 6	5,17 6	5,20 0	5,20 0	5,00 3	-3.3%	0.0%
Beef Cows Beg. Stocks	1,01 9	1,01 9	1,01 9	1,01 2	1,01 2	1,01 2	972	972	996	-1.6%	0.0%
Productio n (Calf Crop)	5,44 0	5,44 0	5,44 0	5,17 8	5,17 8	5,04 0	5,15 0	5,15 0	5,01 2	-0.6%	-2.7%
Total Imports	0	0	0	0	0	0	0	0	0		
Total Supply	15,6 23	15,6 23	15,6 23	15,5 46	15,5 46	15,4 08	15,4 33	15,4 33	14,9 84	-2.8%	-0.9%
Total Exports	79	79	79	22	22	21	25	25	15	- 28.6%	-4.5%
Cow Slaughter	979	979	979	1,07 9	1,07 9	1,16 4	1,10 0	1,07 5	1,07 5	-7.7%	7.9%
Calf Slaughter	2,12 1	2,12 1	2,12 1	2,10 0	2,10 0	2,13 7	2,10 0	2,10 0	1,90 0	- 11.1%	1.7%
Other Slaughter	1,52 6	1,52 6	1,52 6	1,48 7	1,48 7	1,53 8	1,51 0	1,51 0	1,46 9	-4.5%	3.4%
Total Slaughter	4,62 6	4,62 6	4,62 6	4,66 6	4,66 6	4,83 9	4,71 0	4,68 5	4,44 4	-8.2%	3.7%
Loss	550	550	550	575	575	576	576	576	550	-4.5%	0.2%
Ending Inventorie s	10,3 68	10,3 68	10,3 68	10,2 83	10,2 83	9,97 2	10,1 22	10,1 47	9,97 5	0.0%	-3.0%
Total Distributio n	15,6 23	15,6 23	15,6 23	15,5 46	15,5 46	15,4 08	15,4 33	15,4 33	14,9 84	-2.8%	-0.9%
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0		
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0		
Balance	0	0	0	0	0	(0)	0	0	0		
Inventory Balance	185	185	185	(85)	(85)	(396)	(161)	(136)	3		
Inventory Change	0	0	0	2	2	2	(1)	(1)	(4)		
Cow Change	(1)	0	(1)	3	3	3	0	0	(3)		
Productio n Change	11	0	11	(5)	(5)	(7)	(1)	(1)	(1)		
Productio n to Cows	90	90	90	84	84	81	83	83	84		
Slaughter to Inventory	45	45	45	45	45	47	46	46	45		
Slaughter to Total	30	30	30	30	30	31	31	30	30		

Supply											
TS=TD	0	0	0	0	0	(0)	0	0	0		

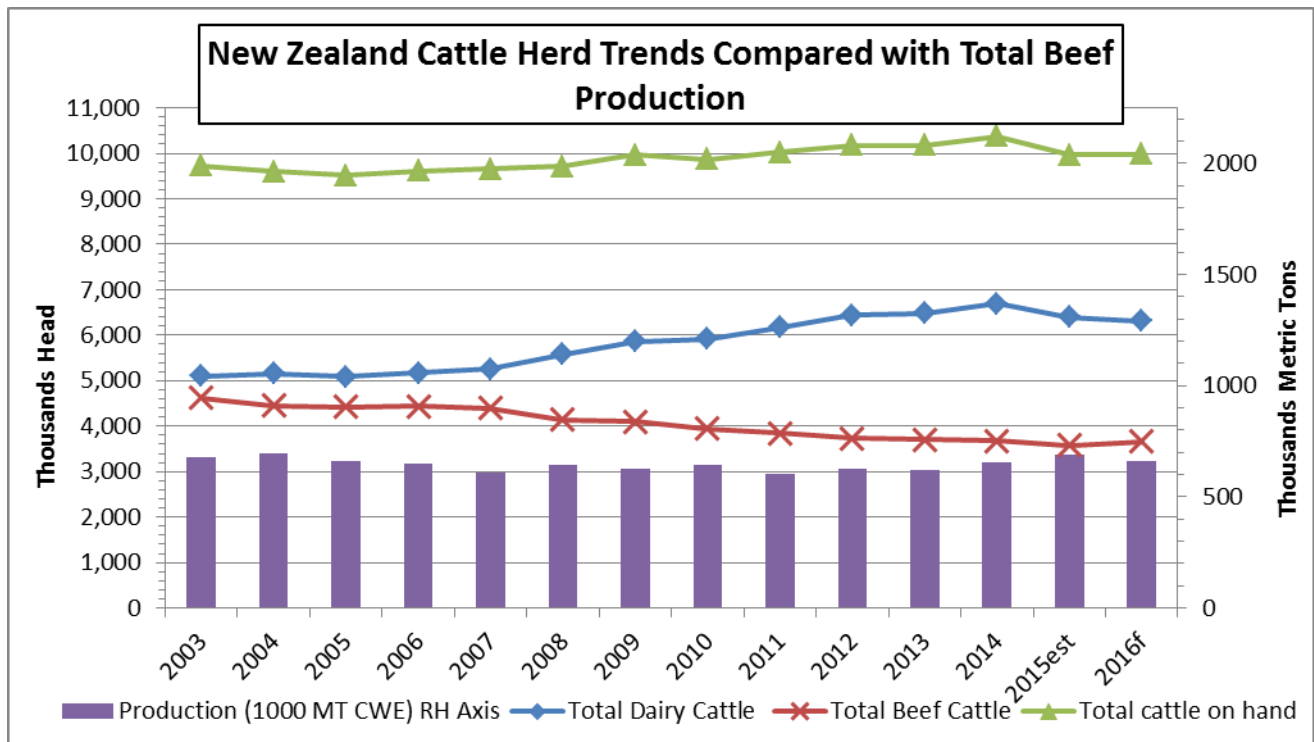
Not Official USDA Data

## Beef Production

Possibly serendipitously New Zealand farmers responded to the high beef prices in late 2014 and into 2015 by boosting MY2015 beef production to 690,000MT, 4.9% up on previous estimates. Somewhat by chance the high beef prices coincided with dairy farmers reducing their cow numbers to reduce costs to combat the low milk prices. This sell down of dairy cows contributed significantly to the increased beef production. The rest of the increase came from the other adult cattle slaughter numbers being greater than expected.

The big surge in beef production in MY2015 will not be matched in MY2016, which is now forecast at 657,000 metric tons (MT). This will be 2.5% below the previous forecast.

Having killed more adult cattle in MY2015 and having lower numbers of young beef cattle being retained during MY2015 means the availability of mature adult cattle for slaughter will be reduced in MY2016 contributing to the reduced beef production forecast in MY2016. Additionally the reduced cow slaughter numbers being forecast in MY2016 will also be driving the beef production slow-down.



Source: StatsNZ, B+LNZ, Post estimates

New Zealand Beef Production Table									
Marketing Year	2014		Actual	2015		Actual	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.	979	195,0	196.	1,164	228,9	199	1,075	213,92

	2		63	7		64			5
Calf Slaughter	16.1	2,121	34,190	15.8	2,137	33,846	15.5	1,900	29,450
Heifer Slaughter	233.3	471	109,900	232.5	492	114,472	240	460	110,400
Steer slaughter	302.0	579	174,888	301.0	555	167,031	304	524	159,296
Bull Slaughter	298.6	476	142,079	297.2	491	145,818	300	485	145,500
Other Adult Cattle Subtotal	279.7	1,526	426,867	277.9	1,538	427,321	283	1,469	415,196
<b>Total Slaughter</b>	<b>141.8</b>	<b>4,626</b>	<b>656,120</b>	<b>142.6</b>	<b>4,838.8</b>	<b>690,131</b>	<b>148.2</b>	<b>4,444</b>	<b>658,571</b>
<b>% Change from Previous Year</b>									
Cow Slaughter	0.6%	7.8%	8.5%	1.3%	18.9%	17.4%	1.2%	-7.7%	-6.6%
Calf Slaughter	0.0%	9.1%	9.1%	1.7%	0.7%	-1.0%	2.1%	-11.1%	-13.0%
Heifer Slaughter	1.6%	6.6%	4.9%	0.4%	4.5%	4.2%	3.2%	-6.6%	-3.6%
Steer slaughter	1.4%	0.4%	-1.0%	0.3%	-4.2%	-4.5%	1.0%	-5.6%	-4.6%
Bull Slaughter	1.6%	13.4%	11.6%	0.5%	3.1%	2.6%	0.9%	-1.1%	-0.2%
Other Adult Cattle Subtotal	1.6%	6.1%	4.4%	0.7%	0.8%	0.1%	1.7%	-4.5%	-2.8%
<b>Total Slaughter</b>	<b>-2%</b>	<b>8%</b>	<b>6%</b>	<b>0.6%</b>	<b>4.6%</b>	<b>5.2%</b>	<b>3.9%</b>	<b>-8.2%</b>	<b>-4.57%</b>

Source: StatsNZ, B+LNZ, Post Estimates

## 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	old Post Est.	New Post Data	Off. Data	old Post Est.	New Post Data	Off. Data	old Post Est.	New Post Data		
Slaughter (Reference)	4,626	4,626	4,626	4,666	4,666	4,839	4,710	4,685	4,444	8.16%	3.70%
Beginning Stocks	0	0	0	0	0	0	0	0	0		
Production	656	656	656	667	658	690	680	674	659	4.49%	4.86%
Total Imports	18	18	18	18	18	16	18	18	20	25.00%	11.11%
Total Supply	674	674	674	685	676	706	698	692	679	3.82%	4.44%
Total Exports	579	579	579	590	576	639	598	592	584	8.61%	10.94%
Human Dom. Consumption	95	95	95	95	100	67	100	100	95	41.79%	33.00%

on											
Other Use, Losses	0	0	0	0	0	0	0	0	0		
Total Dom. Consumption	95	95	95	95	100	67	100	100	95	41.79%	-33.00%
Ending Stocks	0	0	0	0	0	0	0	0	0		
Total Distribution	674	674	674	685	676	706	698	692	679	3.82%	4.44%
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0		
CY. Exp. to U.S.	289	289	289	310	310	317	310	310	280	11.67%	2.26%
Balance	0	0	0	0	0	0	0	0	0		
Inventory Balance	0	0	0	0	0	0	0	0	0		
Weights	142	142	142	143	141	143	144	144	148	3.50%	1.42%
Production Change %	6	0	6	2	0	5	2	2	(4)		
Import Change %	20	0	20	0	0	(11)	0	0	25		
Export Change %	9	0	9	2	(1)	10	1	3	(9)		
Consumption Change %	(10)	0	(10)	0	5	(29)	5	0	42		
Imports Percent Consumption	19	19	19	19	18	24	18	18	21		
Exports Percent Production	88	88	88	88	88	93	88	88	89		
Population	4401916	4401916	4401916	4438393	4438393	4438393	4474549	4470000	4470000		
Per Capita Consumption	21.6	21.6	21.6	21.4	22.5	15.1	22.3	22.4	21.3		
TS=TD	0	0	0	0	0	0	0	0	0		

Not Official USDA Data

## Exports and Trade

### Live Animal Exports

Live cattle exports are falling in line with the reduction in demand from China. In MY2015 the total at 21,000 head was buoyed up by a one-off shipment to Mexico. However it is assumed this won't be repeated in MY2016. The total shipped live in MY2016 is now forecast at 15,000 head which would be a 40% reduction on the previous forecast.

### Beef Exports

Exports of beef in MY2016 will come off the peak established in MY2015 to settle at 584,000 MT Carcass Weight Equivalent (CWE) (1.4% less than the previous forecast). This is down from a record in MY2015 of 639,000 MT CWE (11% up on the previous forecast).

The MY2015 total was boosted by the significantly increased cattle slaughter numbers (cows and other adult cattle) and the resulting increase in beef production. The MY2016 export total is dropping because of the reduced cattle slaughter numbers forecast in MY2016 (cows and other adult cattle mainly)

It is expected that exports to the U.S. will come off the MY2015 peak to be 280,000MT CWE in MY 2016 from 317,000 MT CWE shipped from New Zealand in MY2015 ( Note 298,900MT CWE is the Voluntary Restraint Agreement volume, above which a tariff of 23 percent kicks in. Most of the excess volume shipped in MY2015 would have been placed in bonded storage for a few weeks to enable it to enter the US in the New Year at a negligible tariff). Along with reduced manufacturing beef supplies in New Zealand forecast further increases in export volumes to China account for the reduction in shipments to the U.S. for MY2016. It is forecast that exports to China could reach 116,800 MT CWE in MY2016 up from 103,793 MT CWE in MY2015 (+12.5%)

## Trade, Products, and the Markets

New Zealand Export Statistics for Beef								by	
Country and Product Weight									
Calendar Years: 2013 - 2015									
Partner Country	2013		2014		2015		Analysis		
	Quantity (MT)	Average FOB Price USD/MT	Quantity (MT)	Average FOB Price USD/MT	Quantity (MT)	Average FOB Price USD/MT	Country % of Total for 2015	% Change 2015 from 2014	
United States	174,544	\$4,511	206,522	\$4,984	226,126	\$5,174	49.6%	9.5%	
China	35,796	\$4,367	41,717	\$4,684	74,138	\$4,937	16.3%	77.7%	
Taiwan	18,277	\$5,774	19,575	\$5,920	23,458	\$5,695	5.1%	19.8%	
Canada	13,681	\$4,362	14,455	\$4,740	23,673	\$4,692	5.2%	63.8%	
Japan	30,699	\$5,144	25,536	\$5,574	16,796	\$6,469	3.7%	-34.2%	
Korea South	24,572	\$3,781	24,143	\$4,483	20,961	\$3,838	4.6%	-13.2%	
Indonesia	9,642	\$4,178	13,248	\$4,118	7,737	\$4,574	1.7%	-41.6%	
Australia	5,375	\$6,318	6,456	\$5,467	6,444	\$5,282	1.4%	-0.2%	
Netherlands	2,169	\$11,882	2,453	\$12,392	2,828	\$11,902	0.6%	15.3%	
French Polynesia	4,152	\$7,436	3,968	\$7,709	3,664	\$7,110	0.8%	-7.7%	
Rest of World	59,054	\$5,723	55,791	\$6,292	50,388	\$6,081	11.0%	-9.7%	
<b>World Total</b>	<b>377,961</b>	<b>\$4,838</b>	<b>413,864</b>	<b>\$5,223</b>	<b>456,213</b>	<b>\$5,273</b>		<b>10.2%</b>	

Source: GTA

### Trends in NZ Beef Production and Exporting



Description of Trend/Year	2010	2014	2015	2016f
Cow & Bull Meat Production % of Total	47.6%	51.4%	54.3%	54.6%
Proportion of beef exports shipped to the U.S.	42%	49.9%	49.6%	48%
Proportion of beef exports shipped to the China	1%	10.1%	16.3%	20%

Source: GTA, Post estimates, B+LNZ, StatsNZ

New Zealand is now predominantly a manufacturing beef producer. Cow and bull meat production now make up nearly 55 percent of the total produced. Manufacturing beef from New Zealand is low fat (cow 90% lean and 10% fat; bull 95% lean and 5% fat) and is an ingredient in minces, patties, and burger meats. A very small proportion from some bull carcasses gets taken out for table cuts.

The proportion of manufacturing beef being produced of the total is not going to change in the foreseeable future. From the table above it can be seen that in the past the U.S. has been the first choice market for this meat and as the proportion grew over the last two years so did the share of exports shipped to the U.S. Certainly the price spike for imported beef prices in the U.S. during late 2014 and on into 2015 helped this. However the meteoric rise in shipments to China over the last two years is changing the dynamic for the exporters, who for so long have relied on, almost solely, the US market for manufacturing beef exports.

Chinese importers are rapidly diversifying the product mix they are taking. Originally exports were mostly lower value cuts for "hotpot" style restaurants. The emergence of Western style Quick-Service-Restaurants, such as McDonalds has stimulated demand for manufacturing beef from New Zealand. In addition exporters can supply niche markets for New Zealand style grass-fed beef table cuts for the consumers who want something different.

The trend to increased exports to China is only likely to be strengthened with the purchase by Shanghai Maling, China's largest meat processor, of 50% of the assets of Silver Fern Farms, New Zealand's largest meat company and the largest beef processor. This transaction still awaits New Zealand Overseas Investment Office approval, expected in the first half of 2016, before it can be completed. Additionally, under the NZ China free trade agreement, beef entering China from NZ in 2016 will be tariff free.

### **Trade Policy – Trans Pacific Partnership (TPP)**

Negotiations, which began in 2010, for the (TPP) Agreement between: Australia, Peru, Viet Nam, Chile, Singapore, Brunei, Mexico, Malaysia, United States, Canada, Japan, and New Zealand were concluded in October 2015. The TPP is the first FTA with a membership spanning Asia, Oceania and the Americas. This group commands 36 percent of world GDP and is already the destination of 40 percent of New Zealand's total goods exports. It is estimated annual tariff savings for New Zealand exports once TPP is fully implemented will be NZ\$259 million. While the negotiations have concluded and the agreement signed each country still has a ratification process to go through which may take between two and three years before there is entry into force.

The meat industry in New Zealand is happy with the outcome of negotiations as access to the other member states will become significantly freer.

Specifically there will be removal of all tariffs on beef in TPP countries, except Japan, within 11 years or less from when the agreement enters into force. For the U.S. it is a 5 year timeframe. While the outcome for Japan isn't as good as had been hoped for there will still be a reduction of Japanese tariffs on beef from 38.5 percent to nine percent over 16 years. If the TPP is implemented quickly, it will achieve a level playing field with Australia by removing the tariff advantage Australian beef enjoys under the Australia-Japan trade agreement.

Japan has also agreed to remove all tariffs on edible offals, over periods ranging from six to 16 years depending on the specific product. These tariffs range from 12.8 percent to 50 percent and this will provide significant benefits for New Zealand as Japan is the industry's largest market for edible offals.

Of equal importance for the industry, will be the implementation of the chapters covering Sanitary and Phytosanitary Measures and Technical Barriers to Trade that provide for non-tariff barriers to be addressed.

The TPP, together with the recently signed NZ-Korea free trade agreement and the existing trade deals with China and Taiwan, will secure market access and the red meat sector's competitiveness not only into North Asia but will further integrate New Zealand into the Asia-Pacific regional supply chains.

For more information about TPP from a New Zealand perspective navigate to: <http://www.tpp.mfat.govt.nz>