BEEF + LAMB NEW ZEALAND ECONOMIC SERVICE

beef+lamb new zealand

MID-SEASON UPDATE 2012-13

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CONTENTS

BEEF + LAMB NEW ZEALAND

PO Box 121
Wellington 6140
New Zealand
Phone: 04 473 9150
Fax: 04 474 0800
E-mail: **econ@beeflambnz.com**

CONTACT:

Rob Davison, Executive Director
04 471 6034

Andrew Burtt, Chief Economist
04 474 0842

Enrique Gonzalez-Macuer, Agricultural Analyst
04 494 9508

Rob Gibson, Agricultural Analyst
04 471 6037

EXECUTIVE SUMMARY – OUTLOOK 2012-13

EXCHANGE RATES

In 2013, global economic recovery continues to be subdued – “fragile and timid”, according to the International Monetary Fund (IMF). Prospects are uneven. Contraction is expected in Europe, there are some signs of improvement in Japan, the US is growing modestly, and emerging markets like China and Indonesia continue to grow strongly, albeit at slower rates than in recent years.

For the year to September 2013, the New Zealand dollar is estimated to strengthen against the US dollar (+1.9%) and euro (+1.4%) to 0.83 and 0.63 respectively, but remain similar against pound sterling (0.50).

LIVESTOCK NUMBERS

Overall, total sheep numbers at 30 June 2012 were provisionally 31.2 million, almost static compared with the previous June. Breeding ewe numbers decreased 0.8 per cent to 20.3 million.

The number of beef cattle at 30 June 2012, was provisionally down 2.9 per cent to 3.74 million head. Dairy cattle numbers continued to grow more strongly – provisionally up 4.7 per cent to 6.46 million head.

The outlook to 30 June 2013 is for sheep numbers to remain unchanged, with a 0.4 per cent increase in beef cattle numbers and a 0.9 per cent decrease in total dairy cattle numbers.

LAMB

In 2012-13, total FOB receipts for lamb are estimated to decrease 14 per cent to $2.3 billion, driven by a 12 per cent decrease in average value of lamb meat offsetting a lift (+2.7%) in export volumes, and a decrease in receipts for lamb co-products.

The export lamb slaughter for 2012-13 is estimated at 20.0 million, up 5.7 per cent on 2011-12. This reflects an increase in the number of lambs born, largely due to livestock being in good condition during mating because of favourable feed conditions. The estimate is slightly lower than the New Season Outlook 2012 as official statistics show sheep numbers now slightly lower than previous forecasts.

Farm-gate prices for export lambs are expected to average $85 per head (for an average 18.1kg lamb), down sharply from the records set in 2010-11 and 2011-12.

BEEF

For 2012-13, total FOB receipts for beef products (including co-products) are estimated to increase 3.0 per cent to $2.6 billion. Beef shipments are expected to increase by 5.2 per cent while the average export value is estimated to decrease (-1.1%).

Export cattle slaughter is estimated at 2.27 million up 8.8 per cent on 2011-12. A carry-over of cull dairy cattle from the previous year contributes to an increase in cow slaughter.

The average export cattle carcase weight is estimated to decrease 3.3 per cent on 2011-12. This was due to a return to more normal seasonal conditions, with North Island regions experiencing low rainfall compared with the previous year.

Cattle carcase weights are estimated to decrease 3.3 per cent on the previous year as that year’s excellent seasonal conditions give way to conditions that are more normal overall and dry in some key areas of the country.

Farm-gate prices are expected to ease, primarily as a result of a stronger NZD.

WOOL

In 2012-13, the amount of shorn wool sold is forecast at 147,000 tonnes greasy, up 3.2 per cent on the previous season. This reflects an increase in wool production per head while sheep numbers remain almost unchanged.

Export receipts are forecast to decrease by 23 per cent in 2012-13, due to a forecast 25 per cent decrease in average Free on Board (FOB) value.

The average auction price for the season is estimated to decrease 23 per cent.

SHEEP AND BEEF FARMS

In 2012-13, gross farm revenue for the All Classes Sheep and Beef Farm is estimated to decrease 19 per cent. This is due to a 27 per cent decrease in sheep revenue, resulting from a lower lamb price more than offsetting an improvement in lamb production.

Total expenditure for the All Classes Sheep and Beef Farm is estimated to decrease 3.6 per cent for 2012-13. Prices paid for inputs used on sheep and beef farms are estimated to increase 1.5 per cent, with a 7.0 per cent increase in the price of fertiliser, lime and seeds offset by a decrease in interest rates.

The combined effect of a large decrease in revenue and a smaller decrease in expenditure is that Farm Profit before Tax, which is spent on tax, debt reduction, capital purchases of plant and machinery, savings and farm family living expenses, is estimated to fall 54 per cent to $73,000 in 2012-13. In inflation-adjusted terms this is similar to the average profit during the first decade of the 21st century.

ECONOMIC CONDITIONS

GLOBAL GROWTH PROSPECTS

Table 1

Economic Growth
Annual Average % Change, March Year

	2010 %	2011 %	2012 %	2013f %	2014f %	2015f %
USA	-1.6	2.4	2.0	2.0	2.2	2.9
UK	-2.2	1.8	0.5	0.0	1.3	2.0
Euro-zone (1)	-2.8	2.3	0.9	-0.5	0.2	1.3
Japan	-2.1	3.3	-0.1	1.4	1.2	0.8
China	10.4	9.8	8.9	7.7	8.0	7.9
South Korea	3.4	5.2	3.3	2.5	3.7	3.9
Australia	1.8	2.2	3.0	2.9	3.0	3.1
Trading Partners	1.9	4.6	3.4	3.3	3.6	3.8
New Zealand	**-1.3**	**1.6**	**1.6**	**1.5**	**2.5**	**2.6**

(1) Euro-zone comprises countries using the Euro currency
f forecast
Source: Statistics New Zealand, Consensus Forecasts, NZIER

The susceptibility of the Euro-zone to political crisis coupled with its slow decision-making will make the recovery of the world's economy "fragile and timid" according to the International Monetary Fund (IMF).

The IMF estimates that the world economy will grow about 3.5 per cent in 2013, slightly better than 2012's 3.2 per cent, but the improvement is uneven. The Euro-zone and Japan are in recession, the US is growing, and emerging economies such as China are expanding much more quickly.

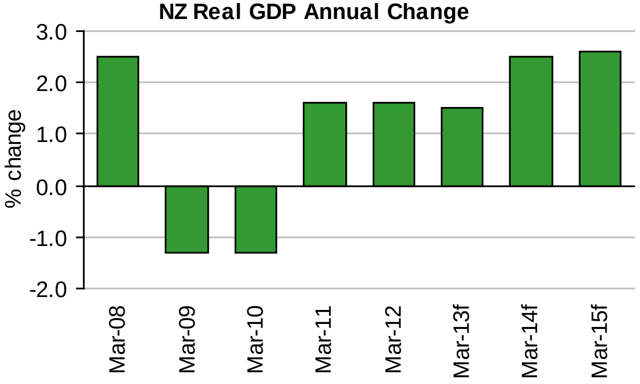
Europe has made substantial progress in recovering from the credit crisis, reflected in improving financing conditions and market sentiment, but still there is a long way to go. With gross domestic product for the region contracting for a second year running; southern European states such as Greece, Spain and Italy stuck in recession; France and Germany stagnating; and unemployment across the region at record levels, the recovery is far from over.

The US is showing signs of recovery with housing data and auto industry indicators starting to improve, which helped to push the stock market to a five-year peak. However, unemployment remains high and hiring modest. Unemployment has reduced only slowly to 7.8 per cent despite the number of jobs added each month holding steady for the past two years at about 150,000 a month.

After seven quarters of slowing growth, China's economy headed up in the last quarter of 2012, according to Chinese officials, and analysts expect the economy to grow about 8 per cent in 2013, 2014 and 2015. Domestic consumption is becoming a more important driver of growth as evidenced by the steady shrinking in the current account surplus, a trend encouraged by China's macroeconomic policies.

In September 2012, Japan's new government, which is led by Prime Minister Shinzo Abe, unveiled a new economic policy that has been quickly dubbed "Abe-nomics". When announced, the policy was described as "a clear commitment to pro-growth policies" and designed to reverse Japan's prolonged deflation and accelerate GDP growth.

NEW ZEALAND



Source: Beef + Lamb New Zealand Economic Service
NZIER

The New Zealand economy is recovering slowly and modestly, and it will remain so for another 2-3 years, according to the NZIER, which forecasts growth in real GDP of 1.5 and 2.5 per cent in the years ending March 2013 and 2014 respectively.

Lower than expected inflation in the December 2012 quarter reflected the on-going influence of a strong New Zealand dollar, falls in commodity export prices over much of the year and subdued domestic demand.

The residential property market is recovering strongly, driven by rebuilding in Canterbury following the February 2011 earthquake and the rise in new homebuilding in Auckland.

The manufacturing and job markets, which have been at the centre of the political debate lately, showed signs of recovering in the latest Statistics New Zealand quarterly employment survey with a clear indication the Canterbury reconstruction is picking up pace.

However, the New Zealand dollar continues to appreciate, making exports less competitive and eating away export gains.

The global risks are still high, as pointed out earlier, but China continues to be a growing market for New Zealand's pastoral production and became New Zealand's second largest lamb market by volume in 2011-12.

CONSUMER PRICES

Table 2

Consumer Prices
Annual Average % Change, March Year

	2010 %	2011 %	2012 %	2013f %	2014f %	2015f %
USA	0.2	2.0	2.9	2.3	2.1	2.2
UK	2.5	3.6	4.1	2.6	2.2	2.6
Euro-zone (1)	0.6	1.9	2.6	2.2	1.8	2.0
Japan	-1.2	-0.6	-0.3	-0.2	0.3	1.2
China	0.3	3.8	4.9	3.4	3.6	3.6
South Korea	2.9	3.3	3.8	3.0	3.1	3.0
Australia	2.1	3.0	3.2	2.7	3.0	2.8
Trading Partners	1.4	2.8	3.4	2.7	2.8	2.8
New Zealand	**1.9**	**2.9**	**3.3**	**1.2**	**2.0**	**2.2**

(1) Euro-zone comprises countries using the Euro currency
f forecast
Source: Statistics New Zealand, Consensus Forecasts, NZIER

Global inflationary pressures remain subdued due to slow global economic growth. The outlook is for low inflation in developed countries, particularly North America and Europe. This looks set to continue until certainty around global growth is evident.

New Zealand inflation for the 2013 March year is expected to decrease 2.1 percentage points compared with the previous March year. Despite the strong New Zealand dollar and falling commodity prices, there are pockets of inflation according to the NZIER, especially insurances, rates and other government charges.

Tradable inflation decreased one per cent influenced by international prices and the strong exchange rate over the past year, and non-tradable inflation increased 1.3 per cent.

"Tradable" refers to goods and services that are imported or are in competition with foreign goods and services, while "non-tradable" describes goods and services that do not face foreign competition.

INTEREST RATES

Table 3

90-Day Commercial Bill Rate
(March Year)

	2010 %	2011 %	2012 %	2013f %	2014f %	2015f %
USA	0.2	0.0	0.1	0.1	0.5	1.2
UK	0.8	1.1	1.1	1.2	1.6	2.3
Euro-zone	0.9	1.4	1.1	0.8	1.3	1.8
Australia	4.5	5.4	5.6	5.5	5.1	5.0
New Zealand	**2.7**	**3.0**	**2.9**	**2.9**	**3.9**	**3.9**

f forecast
Source: Reserve Bank of New Zealand, NZIER

Forecasts of short-term interest rates in the US, UK and Euro-zone continue to reflect slow recovery from recession. After a number of instances of quantitative easing, low interest rates are expected to continue in these regions.

When New Zealand's Reserve Bank reviewed the Official Cash Rate (OCR) in January 2013, it maintained it at 2.5 per cent and indicated that the strong New Zealand dollar was holding consumer price increases below the bank's inflation target. Overall the Reserve Bank expects economic growth to strengthen during 2013 with inflation slowly increasing towards 2.0 per cent, which is the mid-point of the bank's target range.

EXCHANGE RATES

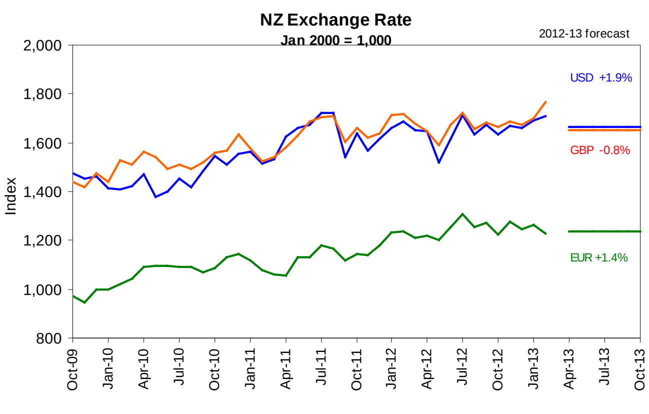
Table 4

NZ Dollar Exchange Rates (Annual Average)			
	USD	GBP	EUR
2010-11	0.79	0.49	0.56
2011-12	0.81	0.51	0.62
2012-13f	0.83	0.50	0.63

Table 4 shows the annual average exchange rates for the three major currencies in which New Zealand meat and wool products are traded, with the figures for 2012-13 being the estimated "average" for the season. For the year to September 2013, the NZD is estimated to strengthen against the USD (+1.9%) and EUR (+1.4%) but remain similar to GBP (-0.8%). Figure 2 shows the exchange rate variability.

Other sections in this report show outcomes at the midpoint, and selected higher and lower, exchange rates to illustrate the impact different exchange rates have on returns and sheep and beef farm profitability.

Figure 2



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

EXCHANGE RATE SENSITIVITY – 2012-13

Table 5

	NZD Exchange Rates						
USD	0.73	0.78	0.83	0.88	0.93		
GBP	0.45	0.48	0.50	0.54	0.57		
EUR	0.56	0.59	0.63	0.67	0.70		
Farm-Gate Prices Received						**Exchange Rate Change from USD 0.83**	
$/head						**to USD 0.73**	**to USD 0.93**
Lamb	101	92	85	78	72	19.1%	-15.2%
Mutton	82	74	67	60	55	22.7%	-18.1%
Steer/Heifer	1,354	1,228	1,130	1,030	952	19.8%	-15.8%
Bull	1,516	1,375	1,266	1,154	1,066	19.8%	-15.8%
Cow	738	669	616	562	519	19.8%	-15.8%
All Beef	1,157	1,049	966	880	813	19.8%	-15.8%
¢/kg							
Lamb[1]	558	507	469	428	398	19.1%	-15.2%
Mutton[1]	334	299	272	244	223	22.7%	-18.1%
Steer/Heifer	487	441	406	370	342	19.8%	-15.8%
Bull	500	453	417	380	351	19.8%	-15.8%
Cow	365	331	304	278	256	19.8%	-15.8%
All Beef	454	412	379	345	319	19.8%	-15.8%
Fine[2]	973	944	932	879	854	4.4%	-8.3%
Medium[2]	479	465	459	433	421	4.4%	-8.3%
Crossbred[2]	321	312	308	290	282	4.4%	-8.3%
All Wool[2]	398	386	381	360	350	4.4%	-8.3%

[1] includes wool and skin
[2] wool ¢/kg greasy
Source: Beef + Lamb New Zealand Economic Service

Table 5 shows farm-gate prices under five exchange rate scenarios to examine the potential effects of continued short-term exchange rate volatility in 2012-13.

The shaded column shows estimated exchange rates for the major currencies and the related farm-gate prices used to derive the base estimates of FOB export receipts and farm revenue in this report. However, alternative exchange rate scenarios are shown to demonstrate the effect of currency changes on farm-gate prices and Farm Profit before Tax.

In Table 5, the same relativities between currencies that were observed for the last six months of calendar 2012 are used in the different scenarios.

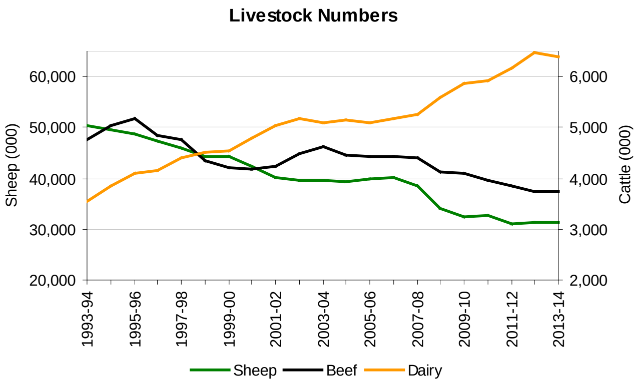
Meat and wool production is seasonal with the majority of production sold from late November through to June. This means that the exchange rates during this period are crucial to farmers, export companies and New Zealand.

The NZD is forecast to strengthen against the USD and EUR but remain similar against the GBP compared with 2011-12 (see Table 4). These exchange rate changes will impact season average prices for beef, lamb and wool and thus farm revenues.

Above all, it is important to understand the large leveraged effect exchange rate movements have on farm-gate prices, i.e. an appreciation of the NZD against the USD from 0.83 to 0.93 (+10¢) and the associated cross rates against the GBP and EUR decreases the farm-gate lamb price 15.2 per cent. Conversely, with the NZD depreciating from 0.83 to 0.73 (-10¢) against the USD the farm-gate lamb price increases 19.1 per cent.

LIVESTOCK NUMBERS

Figure 3



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

Total sheep numbers at 30 June 2012 were provisionally 31.2 million, almost static (+0.2%) on the previous June. Within this there was a 2.7 per cent lift in the number of hoggets while breeding ewe numbers declined slightly (-0.8%) to 20.3 million. This breeding ewe decline reflected a continuing high cull of breeding ewes that was underpinned by reasonably strong prices for export mutton for the second year. However, this was a considerable slowdown on the previous year's ewe flock decline of 6.0 per cent (-1.31m).

Total hoggets on hand increased 2.7 per cent (+0.26m) at 30 June 2012 to 9.8 million. Good grass growth conditions provided opportunity to carry over lambs from the previous season to increase carcase weights. There was also an increased number of hoggets in lamb which again reflected an excellent growing season relative to recent years.

North Island sheep numbers increased 1.6 per cent (+0.25m) to 15.7 million head at 30 June 2012 for reasons noted earlier. Within this, ewe numbers remained almost static (-0.3%), while hogget numbers increased 4.8 per cent compared with the previous year.

South Island sheep numbers decreased 1.1 per cent (-0.18m) to 15.5 million head at 30 June 2012. Within this, ewe numbers declined 1.3 per cent (-0.14m), while hogget numbers remained almost static.

Total beef cattle numbers provisionally decreased 2.9 per cent (-0.11m) to 3.74 million head at 30 June 2012. Within this decrease, beef breeding cow numbers at 1.06 million remained static. The number of "other" beef cattle was down 3.0 per cent partly reflecting a poor calving in the spring of 2010.

North Island beef cattle numbers were static (-0.3%) at 2.74 million head. This was due to increased numbers of beef breeding cows, up 23,000 head, almost offset by decreases in other beef cattle. The North Island contains 73 per cent of the beef cattle herd.

South Island beef cattle numbers provisionally decreased 9.2 per cent (-0.10m) to 1.00 million head at 30 June 2012. Much of this decrease was underpinned by pressure from alternative land uses in Marlborough-Canterbury with stock being finished earlier and fewer older cattle being carried through winter.

Total dairy cattle numbers provisionally increased 4.7 per cent (+0.29m) to 6.46 million head at 30 June 2012. As one of the primary drivers of the decline in the sheep and beef cattle numbers, particularly in the South Island, the increase in total dairy cattle numbers was underpinned by an estimated 100 to 120 new dairy farms starting during the spring of 2012 and further increases on recent new dairy farms as their production systems consolidate. The South Island now contains 36 per cent of the New Zealand dairy herd, up from 26 per cent 10 years earlier.

The outlook to 30 June 2013 is for sheep numbers to remain static while beef cattle numbers increase slightly (+0.4%), largely from an improvement in spring conditions following the poor spring of 2010. The outlook for dairy cattle is for a slight decline (-0.9%) in dairy cattle numbers underpinned by a large cull cow slaughter for the 2012-13 season which at the time of publication was 40 per cent ahead of 2011-12. This has been in part triggered by dry conditions in the North Island where 64 per cent of the dairy cattle herd resides.

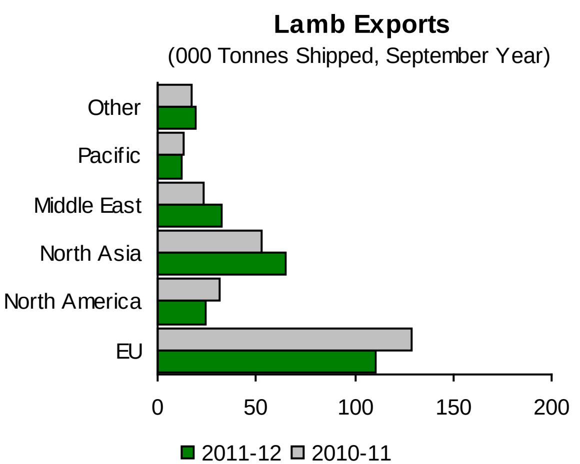
Table 6

	30 June 2012p (million)	30 June 2013e (million)	12-13 to 13-14 % change
Breeding Ewes	20.32	20.32	0.0%
Hoggets	9.84	9.86	0.2%
Total Sheep	31.20	31.22	0.1%
Beef Cattle	3.74	3.75	0.4%
Dairy Cattle	6.46	6.40	-0.9%

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

LAMB EXPORTS

Figure 4



Source: Beef + Lamb New Zealand Economic Service
New Zealand Meat Board

Table 7

FOB Value of NZ Lamb Exports

Sept Year	Shipped Weight 000 t	Lamb Meat $/tonne	Lamb Meat $ m	Co-Products $ m	Total Lamb $ m
2007-08	330	6,791	2,240	278	2,518
2008-09	305	8,500	2,590	250	2,839
2009-10	295	7,958	2,347	239	2,586
2010-11	266	9,563	2,541	297	2,838
2011-12	264	8,646	2,285	363	2,648
2012-13e	271	7,567	2,054	228	2,283

e estimate
Source: Beef + Lamb New Zealand Economic Service
New Zealand Meat Board

In the year ended September 2012, the EU accounted for 42 per cent of New Zealand lamb export volume and 54 per cent of lamb export receipts. The tonnage was split 48 per cent to the UK and 52 per cent to the rest of the EU. Shipments to the UK were down 3.0 per cent on the previous year with shipments to the rest of the EU down 22 per cent.

The overall 14 per cent decrease in shipments to the EU largely reflected the economic conditions in much of Europe: sovereign debt issues and high levels of unemployment in many countries constrained the demand for lamb.

Chilled lamb made up 39 per cent and frozen lamb 61 per cent of shipments to the EU for the year ended September 2012.

The overall average FOB value per tonne of exports to the EU decreased 4.0 per cent, with frozen decreasing 8.4 per cent, and chilled increasing marginally (0.4 per cent).

North Asia, which includes China, was the second largest market accounting for 24 per cent of lamb shipments and 15 per cent of lamb export receipts. Exports to China increased by 36 per cent from the previous year and accounted for 79 per cent of the volume shipped to this region.

Lamb shipments to North America accounted for 9 per cent of New Zealand lamb exports and 14 per cent of receipts reflecting the high proportion of high value cuts and chilled product shipped.

There was also good demand for New Zealand lamb from the Middle East with total lamb exports increasing 41 per cent compared with the previous year while the FOB return per tonne decreased 12 per cent.

In 2012-13, total lamb export receipts under the base exchange rate scenario (USD/NZD 0.83) are estimated to decrease 14 per cent to $2.28 billion. This is driven by a 13 per cent decrease in average returns per tonne for lamb meat that more than offsets a 3 per cent increase in shipped tonnage.

For the previous year – ended 30 September 2012 – lamb export receipts decreased 7 per cent to $2.65 billion. The average FOB value for lamb meat decreased 10 per cent, with some offset from increased co-product receipts driven by a tight supply and high demand.

LAMB PRICE – INTERNATIONAL SITUATION

OVERVIEW

The availability of lamb for export by the main global producers is showing signs of recovery, especially from Australia and New Zealand.

The prospect for demand in the main lamb markets looks uncertain over the next 12 months.

Maintaining strong prices for lamb will be challenging. Europe's debt crisis is far from being solved and there is almost no growth in the region. There are some concerns about economic prospects for the US given its fiscal challenges, and China's economic growth has slowed to about 8 per cent in 2013, the lowest in a decade.

SUPPLY – AUSTRALIA AND EU

In December 2012, ABARES, the Australian Bureau of Agricultural and Resource Economics and Sciences, estimated lamb slaughter to increase (+11.2%) to 21.0 million head in 2012-13, the highest level since 1971-72. Lamb production is expected to increase 10 per cent to 460,000 tonnes carcase weight.

Sheep slaughter is expected to increase 28 per cent to 6.6 million head in 2012–13, producing 152,000 tonnes of mutton, reflecting the effect of less favourable seasonal conditions and forecast lower returns to producers of prime lambs and wool.

The volume of Australian lamb exports is forecast to increase 15 per cent (+26,000 tonnes shipped weight) in 2012–13 to a record 200,000 tonnes shipped weight, with the US, China and the Middle East expected to account for most of the increase.

EUROPEAN UNION

Sheepmeat production has been in decline over the last few years. In 2013, EU production is expected to remain almost unchanged according to the Organisation for Economic Co-operation and Development (OECD) and the UK is one of the only countries in a position to increase output.

In contrast, the drought which occurred in France during 2011 and into 2012 has led to producers partially liquidating their flocks.

DEMAND – EU AND NORTH AMERICA

EU consumption of sheepmeat is expected to fall five per cent in 2012 to average 2.23 kg per person, continuing the trend of the last few years due to low consumer confidence within the Euro-zone region.

The US sheep flock has declined from 50 million head to 5 million over six decades and consumption of American lamb has been declining steadily in the last 20 years, to around 50 per cent of total US lamb consumption.

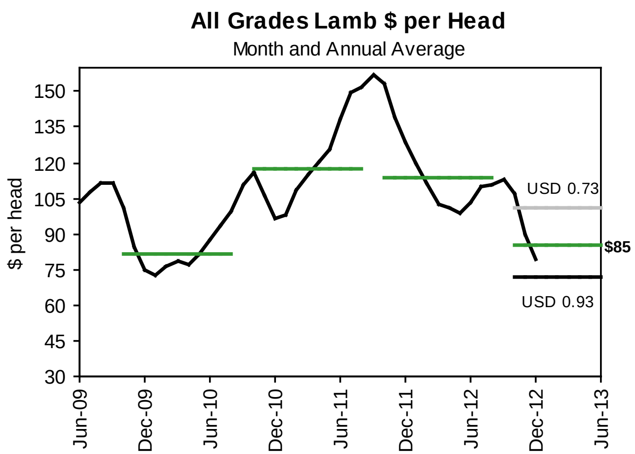
The United States Department of Agriculture (USDA) estimates US lamb and mutton production increased five per cent in 2012, before declining three per cent in 2013, to 68,493 tonnes carcase weight. US lamb imports are forecast to increase 7 per cent in 2013, to 74,843 tonnes carcase weight.

OTHER MARKETS

With demand in many of New Zealand's mature markets being subdued, China has become increasingly important to our sheepmeat industry. Historically a destination for many of the lower value items there has recently been diversification into high value export cuts which is an encouraging signal about this market's development.

LAMB PRICE – FARM-GATE

Figure 5



Average Carcase in 2012-13 forecast at 18.1 kg
Source: Beef + Lamb New Zealand Economic Service

Table 8

All Grades Lamb Price Sensitivity Analysis

	Exchange Rate	NZD per head	
Low NZD			
USD	0.73		
GBP	0.45	$101	**High**
EUR	0.56		
Mid NZD			
USD	0.83		
GBP	0.50	$85	**Mid**
EUR	0.63		
High NZD			
USD	0.93		
GBP	0.57	$72	**Low**
EUR	0.70		

Source: Beef + Lamb New Zealand Economic Service

Figure 5 shows the monthly trend for the All Grades Lamb price along with the estimate for the year ended September 2013.

Three exchange rates scenarios are used in the outlook for 2012-13 because of the volatility in exchange rates. The three scenarios use annual average exchange rates of USD 0.73, USD 0.83 and USD 0.93 and the associated cross rates against the GBP and EUR.

The three exchange rate scenarios shown in the chart highlight the leveraged effect of the exchange rate on the export lamb price received by New Zealand farmers.

At the mid exchange rate of USD 0.83, the forecast lamb price of $85 per head is down 25 per cent from 2011-12's $113.58, which was the second-highest on record, and down 28 per cent on the record $117.64 reached in 2010-11.

An average lamb weight of 18.14 kg is expected in 2012-13 taking into account the dry summer conditions. The previous season's export lamb carcase weights averaged 18.66 kg - the record for New Zealand.

If a lower New Zealand exchange rate of USD 0.73 prevails for 2012-13 then the average lamb price could increase to $101 per head.

Procurement pressure for lamb is also expected to remain strong in 2012-13 despite the 5.7 per cent expected recovery in export lamb supply to 20.0 million head but offset by a 2.8 per cent decrease in average carcase weight to 18.14 kg.

At the mid exchange rate of USD 0.83, the estimated mutton price of $67 per head is over $27 lower than the record average mutton price received during 2011-12 ($94.57). Even with the 29 per cent decrease for 2012-13, the mutton price is 19 per cent higher than $56.44 received for 2009-10.

LAMB PRODUCTION

Table 9

Export Lamb Production

Sept Year	Lamb Crop million	Slaughter million	Carcase Weight kg	Production 000 t Bone-in
2007-08	31.0	26.5	16.5	437.4
2008-09	28.0	22.5	17.7	397.9
2009-10	28.2	20.9	17.6	369.5
2010-11	25.0	19.2	18.2	351.0
2011-12	25.9	18.9	18.7	353.2
2012-13e	26.5	20.0	18.1	362.9

e: estimate
Source: Beef + Lamb New Zealand Economic Service
Statistics New Zealand
New Zealand Meat Board

In 2012-13 the number of lambs tailed was provisionally up 2.2 per cent on the previous spring to 26.5 million head.

The increase was largely due to livestock being in good condition due to favourable feed conditions prior to mating, and a lift in lambs born from hoggets. The lambing percentage for the spring of 2012 was 123.3 per cent, up 2.0 percentage points from the previous year.

The export lamb slaughter is estimated to increase 5.7 per cent to 20.0 million, up 1.1 million on 2011-12.

The North Island export slaughter increases 8.6 per cent to 9.6 million, driven by a 4.8 per cent increase in lambs tailed and a higher off-take for slaughter.

The South Island export lamb slaughter is estimated to increase by 3.1 per cent on 2011-12 to 10.4 million. The South Island lambing percentage at 123.2 was up 0.6 percentage points on the previous spring.

The estimate for the year to 30 September 2013 is for export production to increase 2.7 per cent to 363,000 tonnes carcase weight. This increase is driven by a 5.7 per cent increase in export lamb slaughter offset by a 2.8 per cent decrease in the average carcase weight (18.14 kg).

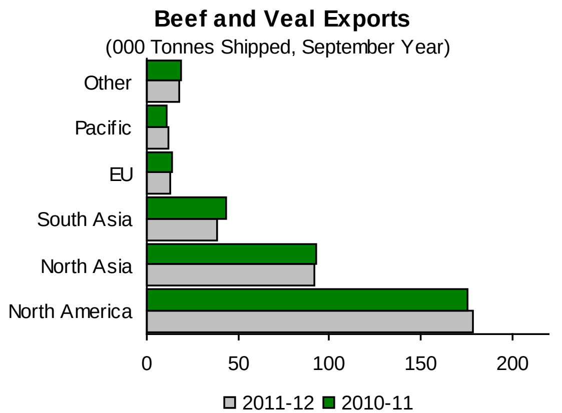
For 2012-13, export mutton slaughter is estimated to increase 0.26 million (+7.6%) on the previous export year to 3.66 million.

The increase reflects a low sheep cull in 2011-12, following deep culling in 2010-11, which was underwritten by strong international prices. The export mutton slaughter for 2011-12 was down a significant 22 per cent on the previous year and the lowest since 1965-66.

The North Island mutton slaughter is expected to increase 16 per cent to 1.85 million and the South Island mutton slaughter to remain almost unchanged at 1.81 million but offset by a 1.8 per cent decrease in average carcase weight to 26.02 kg.

BEEF AND VEAL EXPORTS

Figure 6



Source: Beef + Lamb New Zealand Economic Service
New Zealand Meat Board

In the year ended 30 September 2012, New Zealand beef and veal exports decreased 1.7 per cent to 350,574 tonnes shipped weight and beef export receipts decreased 1.6 per cent to $2.1 billion with the average value remaining almost unchanged at NZD5,925 per tonne.

North America accounted for 51 per cent of beef and veal exports but 47 per cent of export receipts due to shipments being dominated by processing beef.

Total exports to North America increased 1.7 per cent from the previous year to 178,875 tonnes shipped weight. Shipments to USA increased 4.6 per cent while shipments to Canada and Mexico decreased 16 and 11 per cent respectively.

North Asia, the next largest market region, accounted for 26 per cent of New Zealand's beef and veal exports, with the main markets in North Asia being Japan (9.2%), South Korea (7.7%) and Taiwan (5.7%).

Exports to South Asia decreased 13 per cent to 37,991 tonnes shipped weight. The majority of the decrease was to Indonesia (-52%) reflecting restrictions on imports as the country introduced policies designed to push for self-sufficiency in beef production.

New Zealand beef and veal exports to the European Union (EU) in the year to 30 September 2012 decreased 8.8 per cent. Overall the EU accounted for 3.6 per cent of New Zealand beef and veal exports but accounted for 7.2 per cent of total export receipts reflecting the high value mix of cuts that New Zealand ships to the EU.

Table 10

FOB Value of NZ Beef Exports

Sept Year	Shipped Weight 000 t	Beef Meat $/tonne	Beef Meat $ m	Co-Products $ m	Total Beef $ m
2007-08	364	4,879	1,776	443	2,219
2008-09	362	5,262	1,905	380	2,285
2009-10	364	5,084	1,853	397	2,250
2010-11	356	5,835	2,078	472	2,550
2011-12	349	5,872	2,046	458	2,505
2012-13e	367	5,810	2,130	449	2,579

e estimate
Source: Beef + Lamb New Zealand Economic Service
New Zealand Meat Board

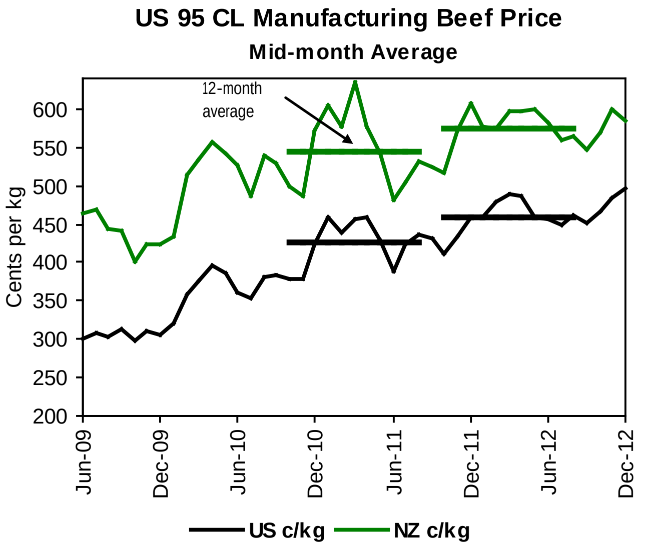
For 2012-13, total FOB receipts for beef products (including co-products) under the USD 0.83 exchange rate scenario are estimated to increase 3.0 per cent on 2011-12 to $2.58 billion. Beef shipments are expected to increase 5.2 per cent on the previous year while the average value is estimated to decrease (-1.1%).

Export receipts from co-products are expected to decrease 2.1 per cent to $449 million, even though the associated beef volume increases.

Final data for the year ended 30 September 2012 shows total receipts for beef (including co-products) were $2.5 billion, down 1.8 per cent on the previous September year. In 2011-12, FOB receipts for beef meat were down 1.5 per cent to $2.0 billion with shipments down 2.1 per cent offset by a small 0.6 per cent increase in average value. Co-products receipts were down 2.8 per cent largely from lower production.

BEEF PRICE – INTERNATIONAL SITUATION

Figure 7



Source: Beef + Lamb New Zealand Economic Service

Figure 7 shows indicative import prices for frozen 95CL bull beef in the US in USD and converted to NZD.

In 2011-12, the annual average in-market US beef price increased 7.6 per cent compared with the previous year while the same price in NZD increased 5.5 per cent. This difference was driven by the slightly weaker USD to the NZD compared with the previous year.

The NZD bought an average USD0.81 in 2011-12 compared with an average of USD0.79 for the previous year.

OVERVIEW

The world's economy continues to struggle, particularly in western economies with insufficient demand, unemployment and the on-going debt crisis in Europe. The US economy is growing but the high debt situation still overhangs the outlook.

UNITED STATES

Three years of drought in the southern plains cattle areas, combined with high feed and fuel costs has caused cattle producers to either shrink herds or go out of business.

The US cattle herd as of 1 January 2013, was 89.3 million head, down 2 per cent from a year earlier. It was the smallest 1 January herd since the 88.1 million head in 1952. US beef cow numbers are 3 per cent lower than a year earlier at 29.3 million. This is the smallest cow herd in decades and it will take years to rebuild, even with favourable weather conditions.

US beef production in 2013 is forecast to suffer its second largest year-on-year decline in the past 35 years, exceeded only by a 6.4 per cent decrease in 2004, the year after BSE was first discovered in the US.

US beef production in calendar year 2012 declined 1.1 per cent with a 3.3 per cent decrease in slaughter partially offset by a 2.3 per cent increase in carcase weights.

US beef exports provisionally reached 1.13 million tonnes in 2012, a decrease of more than 10 per cent compared to the previous year but setting a new value record (USD 5.5 billion), supported by a weaker USD. For 2013, an increase of 9.7 per cent in volume and 13 per cent in value is forecast.

AUSTRALIA

ABARES forecasts the Australian cattle herd to increase by 1.0 per cent in 2012-13 to 27 million head, supported by good weather conditions and pasture growth.

Beef cattle and calf slaughter is forecast to increase by 3.0 per cent to 8.1 million head, the first increase in six years underpinning an increase in beef production of three per cent to 2.2 million tonnes.

Average adult cattle carcase weights are expected to be slightly lower than the highs reached in 2011-12, because of an assumed increase in the proportion of lighter female cattle slaughter.

Total Australian beef exports are estimated to increase by two per cent to 970,000 tonnes shipped weight, reflecting increased production and increased exports to the US and other smaller markets continuing the trend of market diversification.

Exports to Japan are expected to decline due to increased competition from the US and Canada.

NORTH ASIA

The Japanese economy is expected to show some growth as a result of a new government and its policies that are committed to more aggressive stimulus, more spending and a much looser monetary policy.

The Japanese Health, Labour and Welfare Ministry eased restrictions on imports of beef from the US and Canada from 1 February 2013 to allow meat from cattle aged 30 months or younger, up from the current age limit of 20 months.

Japan banned all beef imports from Canada and the US in 2003 following the discovery of mad cow disease in those countries. In 2005, Tokyo partially lifted the ban, allowing beef from cattle aged 20 months or younger.

Japan imported 9 per cent of New Zealand's beef and veal exports for the year ended 30 September 2012.

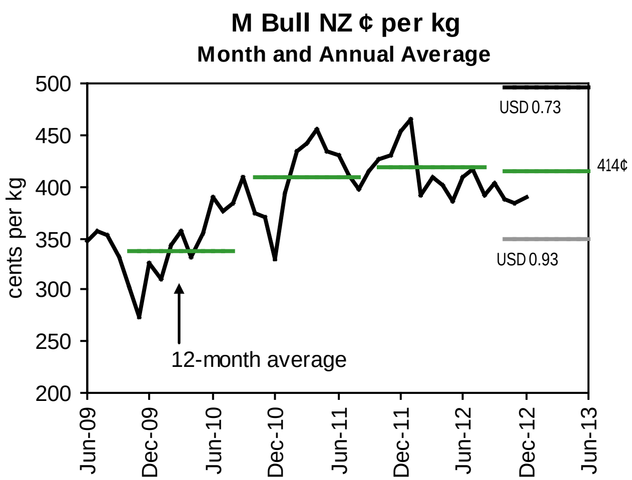
EUROPEAN UNION

Beef and veal production in the EU in 2013 is likely to change little from the decline in production in 2012, according to EBLEX, part of the UK's Agriculture and Horticulture Development Board (AHDB).

The forecast for EU-15 production in 2012 is a little over 7 million tonnes, while production for 2013 is expected to be just below this figure. Output in France, Italy and Poland is forecast to be lower, while production in Ireland is forecast to be up on levels a year earlier. In the UK, output in 2013 is anticipated to be little changed from 2012.

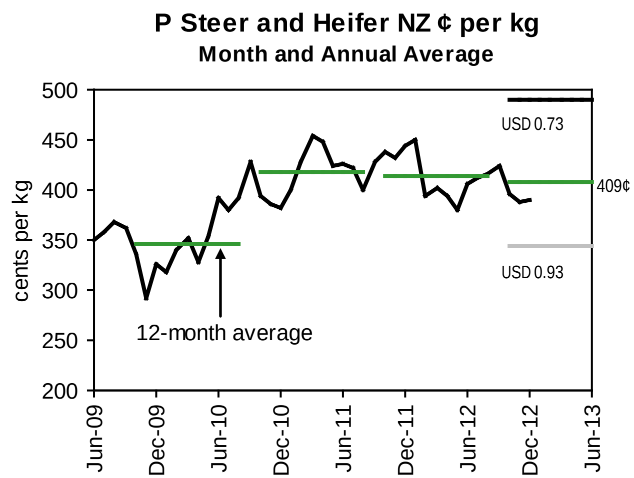
BEEF PRICES – FARM-GATE

Figure 8



Carcase 270-295 kg
Source: Beef + Lamb New Zealand Economic Service

Figure 9



Carcase 270-295 kg
Source: Beef + Lamb New Zealand Economic Service

Figures 8 and 9 show respectively the monthly trend for the M Bull and P Steer and Heifer prices paid to farmers.

Three exchange rate scenarios are used in the 2012-13 outlook because of the volatility in markets and exchange rates. The three scenarios use annual average exchange rates of USD 0.73, USD 0.83 and USD 0.93 and the associated cross rates against the GBP and EUR. At USD 0.83, the estimated average price for M Bull is 414 cents per kilogram and for P Steer and Heifer 409 cents per kilogram.

The three exchange rate scenarios shown in the figures highlight the comparison with last year's prices and how changes in the USD have a leveraged effect on the New Zealand beef price to farmers, i.e. moving from USD 0.83 to USD 0.73 (-12.0%) increases the beef price 19.8 per cent.

The majority of New Zealand beef exports are traded in USD. In 2011-12, the average exchange rate was USD 0.81 against the NZD.

BEEF PRODUCTION

Table 11

Export Beef Slaughter Composition

Sept Year	Steer (000)	Heifer (000)	Cow (000)	Bull (000)	Total (000)
2007-08	616	382	652	558	2,208
2008-09	594	405	856	482	2,337
2009-10	595	400	819	436	2,249
2010-11	577	409	856	434	2,276
2011-12	547	373	727	439	2,086
2012-13e	559	423	843	443	2,269

e estimate
Source: Beef + Lamb New Zealand Economic Service
New Zealand Meat Board

Table 12

Export Beef Carcase Weights

Sept Year	Steer kg/head	Heifer kg/head	Cow kg/head	Bull kg/head	Average kg/head
2007-08	305.0	227.5	202.4	298.1	259.5
2008-09	305.5	232.6	199.8	300.8	253.2
2009-10	313.3	239.4	199.3	311.3	258.3
2010-11	306.1	234.4	198.2	298.6	251.2
2011-12	316.8	245.2	205.5	309.0	263.6
2012-13e	309.2	237.3	202.3	303.4	255.0

e estimate
Source: Beef + Lamb New Zealand Economic Service
New Zealand Meat Board

CATTLE OVERALL

In 2012-13, cattle slaughter is estimated to increase 8.8 per cent to 2.27 million head. The increase is driven primarily by an expected increase in cow (+16%) and heifer (+14%) slaughter linked to carry-over of cull dairy cattle from the previous year.

The 2011-12 export cattle slaughter decreased 8.4 per cent to 2.09 million. The decrease was from low cow and heifer slaughter. An excellent season resulted in a higher rate of cows and heifers in calf than usually expected, particularly in the North Island.

CATTLE WEIGHTS

The average export cattle weight is estimated to decrease 3.3 per cent to 255.0 kg for 2012-13. Slaughter weights decrease across all classes.

For 2011-12, the average weight increased 4.9 per cent to 263.6 kg, supported by good seasonal conditions, which contributed to high carcase weights, and the lower cull cow slaughter, which helped lift the overall average weight.

COW

For 2012-13, the cow slaughter increases an estimated 16 per cent to 843,000 head, up 116,000 head on the previous season. This is largely from the expanding dairy herd and carry-over of cull cows from previous years.

The 2011-12 cow slaughter decreased 15 per cent to 727,000 head. This was largely due to favourable climatic conditions, which resulted in more in-calf cows being carried over in the milking herd for another season.

BULL

In 2012-13, the export bull slaughter is estimated to increase slightly (+0.9%) to 443,000 head compared with the previous season.

The 2011-12 bull slaughter lifted (+1.3%). This reflected reasonable returns for beef, continued dairy herd expansion, and a four percentage point increase in the dairy calving percentage in the spring of 2010.

HEIFER

For 2012-13, the New Zealand export heifer slaughter is estimated to increase 14 per cent to 423,000 head, up 50,000 on the previous year. This largely reflects fewer beef cow replacements and increased cull heifers from the expanding dairy herd.

For 2011-12, the export heifer slaughter decreased 8.9 per cent to 373,000 head.

STEER

The steer slaughter for 2012-13 increases to an estimated 559,000 head (+2.3%). This reflects a recovery in beef cow numbers in 2010-11 (+2.0%) followed by a 7.6 per cent increase in beef weaners on hand from the previous year.

For 2011-12, steer slaughter numbers decreased 5.3 per cent to 547,000 head. Contributing to this decline was the earlier decline in beef breeding cows (-0.7%) at 1 July 2009. In addition, beef weaners decreased 11 per cent following consecutive years of drought in some North Island regions.

WOOL EXPORTS

Table 13

Raw Wool Exports and Auction Prices

June Year	Auction Price $ per kg clean	Wool Exports FOB $ per kg clean	000 tonnes clean	$m FOB
2008-09	4.15	4.93	115.4	568.6
2009-10	4.21	4.50	122.9	552.6
2010-11	6.02	6.29	113.7	715.3
2011-12	6.63	7.31	106.3	777.1
2012-13e	5.12	5.51	109.6	603.4

e estimate

Source: Beef + Lamb New Zealand Economic Service
New Zealand Wool Services International Ltd
Statistics New Zealand

The outlook for 2012-13 is for wool exports to increase 3.1 per cent to 109,600 tonnes clean. Total wool export receipts for 2012-13 decrease 22 per cent on the previous year largely due to a 25 per cent decrease in average FOB value.

Weaker economic conditions in Europe and slowdown in the Chinese economy are causing concern for the wool industry worldwide.

However, China's industrial production in October and November increased 10 per cent and New Zealand's wool exports to China climbed 21 per cent from July to December 2012 compared with the previous season.

The property market in China is showing signs of strengthening and demand in emerging markets will partially offset weaker export growth to the EU and the US.

While wool exports to China were up 21 per cent in the first six months of the wool production year, export receipts were down 13 per cent reflecting a 28 per cent decrease in wool receipts per tonne.

Wool export receipts to 30 June 2012 totalled $777 million, 8.6 per cent up on the previous year. The increase was driven by a 16 per cent increase in average FOB value reflecting a strong lift in in-market prices on the back of tight global supplies.

WOOL PRICES

Table 14

Season Average Auction Wool Prices
(cents per kg greasy, June Yr)

June Year	Fine	Medium	Strong
2010-11	955	443	412
2011-12	1,146	491	431
2012-13e	932	459	308
2012-13 % change	-18.7%	-6.6%	-28.7%

e estimate

Source: Beef + Lamb New Zealand Economic Service
New Zealand Wool Services International Ltd

The overall auction wool price for 2012-13 is expected to decrease 23 per cent on the previous year. This decrease is driven by a 19 per cent price decrease for fine wool, a 6.6 per cent decrease for mid micron wool while strong wool prices decrease 29 per cent.

Offshore market prices in 2012-13 for all woollen products remain substantially uncertain. This is a result of a decline in demand stemming from the global financial crisis, and low consumer confidence that has dampened retail demand in major wool apparel markets.

Wool prices are likely to remain subdued. Even with some recent seasonal improvement in prices, demand for wool is likely to remain soft with continued strong competition from alternative fibres.

WOOL PRODUCTION

Table 15

Wool Production

June Year	Sheep million	Shorn 000 t greasy	Slipe 000 t greasy	Total 000 t greasy	Shorn Wool kg / head* greasy
2008-09	34.1	132.4	25.1	157.5	3.88
2009-10	32.4	162.7	23.0	185.8	5.02
2010-11	32.6	154.6	21.7	176.3	4.75
2011-12	31.1	142.5	21.3	163.7	4.58
2012-13e	31.2	147.0	21.2	168.2	4.71

*excludes wool on sheepskins
e estimate

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

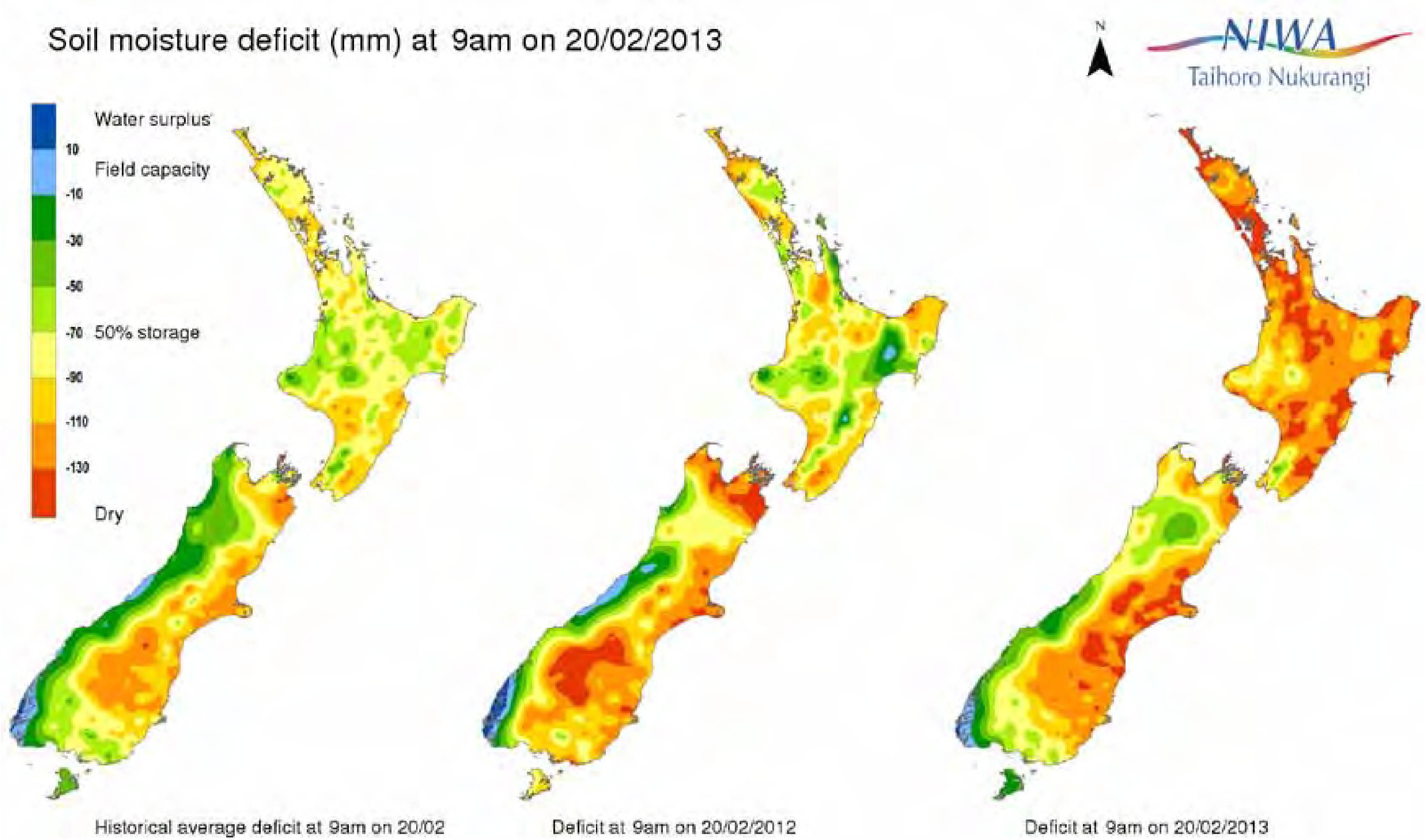
In 2012-13, the amount of shorn wool sold is forecast at 147,000 tonnes greasy, 3.2 per cent up on the previous year. This reflects a 3.0 per cent increase in wool production per head and sheep numbers remaining almost static (+0.2%).

Shorn wool production for 2011-12 fell 7.9 per cent, which reflects lower sheep numbers (-4.4%) and a 3.6 per cent decrease in wool production per head.

Decreased sheep processing in 2011-12 resulted in a 1.8 per cent decline in slipe wool production.

CLIMATIC CONDITIONS

Figure 10



Source: NIWA

SPRING 2012

Temperature

A cooler than average spring occurred in many regions due to enhanced south-westerly winds. Spring temperatures were below average in Waikato, Hawke's Bay and the Tararua District. The national average temperature during spring 2012 was 11.8°C (0.3°C below the 1971-2000 spring average).

Rainfall

Most North Island regions, and Marlborough and the Kaikoura Coast, experienced an extremely dry spring with rainfall significantly below that of a normal spring in many areas. In contrast, spring was wetter than usual across much of the southern half of the South Island (exceeding 120 percent of spring normal).

Sunshine

Waikato and south Canterbury experienced an unusually sunny spring. Many locations in southern North Island and northern South Island experienced record or near-record sunshine.

Soil moisture

Unusually dry soils occurred across much of the North Island at the end of spring. Exceptions were Gisborne and northern Hawke's Bay. In contrast, soils remained wetter than usual for the time of year across much of south Canterbury.

OUTLOOK – JANUARY TO MARCH 2013

Presently, conditions in the Pacific Ocean are considered "ENSO-neutral" (neither El Niño nor La Niña). Indications are that these conditions are likely to persist into the autumn. Lower than normal pressures and increased south-westerly winds are expected for New Zealand.

Temperature

Temperatures are expected to be above average or below average in the west of the North Island, but near average in all other areas.

Rainfall

Rainfall is likely to be near or above normal in the west and south of the South Island, but near normal or below normal in the east of the North Island. In all other regions, rainfall is expected to be near normal.

Soil moisture

Soil moisture levels are likely to be below normal or normal in the east of the North Island, and near normal in all other regions of New Zealand.

Source: NIWA

FARM REVENUE, EXPENDITURE AND PROFIT – NEW ZEALAND

Table 16

Sheep and Beef Farm Revenue and Expenditure
($ per All Classes Average Farm)[1]

	2008-09	2009-10	2010-11	Provisional 2011-12	Estimate USD 0.73 2012-13	Estimate USD 0.83 2012-13	Estimate USD 0.93 2012-13	11-12 TO 12-13 USD 0.83 % Change	11-12 TO 12-13 USD 0.93 % Change
Revenue									
Wool	32,089	33,130	52,088	55,300	49,000	42,200	36,800	-23.7%	-33.5%
Sheep	166,153	180,602	216,788	256,700	230,600	187,500	154,300	-27.0%	-39.9%
Cattle	78,307	79,307	90,544	96,000	104,800	87,600	74,200	-8.8%	-22.7%
Dairy Grazing	16,485	13,602	15,943	19,100	22,200	22,200	22,200	16.2%	16.2%
Deer + Velvet	4,388	3,867	4,112	5,200	6,000	4,900	4,100	-5.8%	-21.2%
Goat + Fibre	17	57	25	0	0	0	0		
Cash Crop	41,685	48,561	41,840	53,600	44,400	44,400	44,400	-17.2%	-17.2%
Other	16,740	16,768	23,251	20,100	20,500	20,500	20,500	2.0%	2.0%
Total Gross Revenue	**355,864**	**375,894**	**444,591**	**506,000**	**477,500**	**409,300**	**356,500**	**-19.1%**	**-29.5%**
Expenditure									
Fert, Lime & Seeds	46,249	50,470	58,124	69,400	63,400	62,300	61,500	-10.2%	-11.4%
Repairs & Maintenance	20,578	23,219	25,591	27,800	25,300	24,900	24,600	-10.4%	-11.5%
Interest & Rent	67,018	58,856	60,833	54,500	51,300	51,600	51,900	-5.3%	-4.8%
Other Expenses	167,077	176,478	187,803	197,200	202,100	197,500	193,800	0.2%	-1.7%
Total Expenditure	**300,922**	**309,023**	**332,351**	**348,900**	**342,100**	**336,300**	**331,800**	**-3.6%**	**-4.9%**
Farm Profit Before Tax[2]	**54,942**	**66,871**	**112,240**	**157,100**	**135,400**	**73,000**	**24,700**	**-53.5%**	**-84.3%**
Real (2004-05$) Farm Profit[3]	**48,500**	**58,000**	**93,800**	**128,600**	**108,900**	**58,900**	**19,900**	**-54.2%**	**-84.5%**
Index of Real Farm Profit	662	792	1,281	1,755	1,486	804	272	-54.2%	-84.5%
Fertiliser Use kg per su	13.0	17.8	21.4	23.5	20.6	20.2	19.9	-14.0%	-15.1%
Prices									
Wool auction ¢ per kg clean	415	421	602	663	534	512	470	-22.7%	-29.1%
All wool ¢ per kg greasy[4]	259	250	392	423	333	319	293	-24.5%	-30.8%
Lamb $ per head	90	81	118	114	101	85	72	-25.2%	-36.5%
Mutton $ per head	50	56	92	95	82	67	55	-29.2%	-42.0%
Beef ¢ per kg	323	314	387	386	454	379	319	-1.8%	-17.3%

REVENUE

Total gross farm revenue for 2012-13 with an exchange rate scenario of USD 0.83 is estimated to decrease 19 per cent to $409,300 for the All Classes Sheep and Beef Farm.

This is due to a 27 per cent decrease in sheep revenue to $187,500 compared with 2011-12 which stems from a lower season average lamb price compared to 2011-12 more than offsetting a lift in lamb production.

Export lamb prices declined during 2011-12 to average $113.58 for the season, while the season average price for mutton at $94.57 per head was a record partly explained by grass market conditions and a younger ewe flock due to a large cull during the previous season. Lamb and mutton prices for 2012-13 are estimated to decrease to $85.00 (-25%) and $67.00 (-29%) respectively. Dry conditions, particularly in North Island regions, and a strengthening of the New Zealand dollar have contributed to this decrease.

Wool revenue is estimated to decrease 24 per cent for 2012-13 compared with the previous year. This is due to a decrease in the net wool price (-25%) but slightly higher opening sheep numbers (+0.2%).

1 The Weighted Average All Classes Sheep and Beef Farm for 1 July 2012 carried stock numbers of 2,868 sheep, 298 beef cattle and 33 deer, totalling 4,063 stock units.

2 Farm Profit before Tax is required to meet personal drawings, taxation payments, debt repayments and the purchase of capital items.

3 Deflated by June year Consumer Price Index.

4 All shorn wool sales (auction 62% and private 38%) net of charges and freight.

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

Cattle revenue decreases 8.8 per cent to $87,600 per farm for 2012-13 compared with 2011-12. This is due to a decline in average cattle sale prices, particularly for bull beef and 2 Yr + Steers, which combined make up 55 per cent of the beef cattle sales account.

Dairy grazing revenue increases 16.2 per cent to $22,200 per farm. This increase comes from an 11.1 per cent increase in dairy grazers and a dairy grazing fee increase of around 4.5 per cent.

The cash cropping account decreases 17.2 per cent for 2012-13. This is due in part to good seasonal conditions for the previous year setting a high base against which to benchmark this season's production. Declining total production for this season, underpinned by lower yields due to seasonal conditions, has been the primary catalyst towards reducing the cropping account.

Aggregate Sheep and Beef Farm Revenue at the farm gate is $5.1 billion, down 19 per cent on 2011-12. Gross farm revenue is spent buying farm goods and services, taxation requirements, debt reduction and then personal living expenses.

EXPENDITURE

Total expenditure for the All Classes Sheep and Beef Farm is estimated to decrease 3.6 per cent to $336,300 for 2012-13.

Prices for inputs used on sheep and beef farms are forecast to increase 1.5 per cent for 2012-13. This follows a 2.4 per cent increase for the previous year that was strongly influenced by the 7.0 per cent increase in the price of fertiliser, lime and seeds but dampened by a decrease in the price of interest, i.e. interest rates.

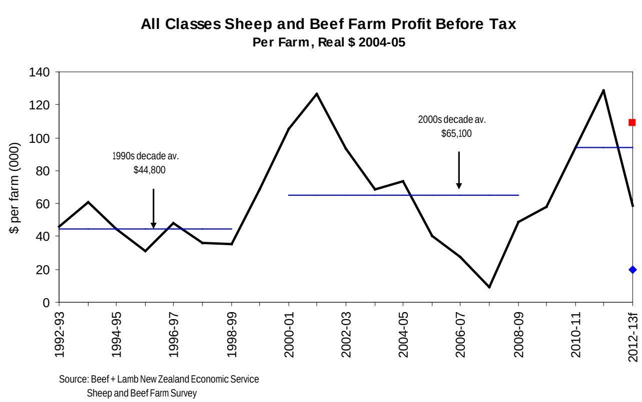
Fertiliser expenditure is estimated to decrease 11.3 per cent for 2012-13 compared with the previous year. This is largely a volume effect. Fertiliser application per stock unit and per hectare decrease 14.0 and 12.4 per cent respectively. This decrease is underpinned by a dampened outlook for commodity prices forcing farm businesses to become more conservative with on-farm expenditure. This follows a high base in 2011-12 when fertiliser expenditure in nominal terms reached the highest level since the Sheep and Beef Farm Survey began, however, in volume terms this was the highest per hectare usage rate since 2004-05.

Interest expenditure is estimated to decrease 4.5 per cent for 2012-13. This is due to a decrease in farm debt in the previous year and lower interest rates for debt refinanced during the year.

Repairs and maintenance expenditure decreases an estimated 10.4 per cent to $24,900 for 2012-13. This decrease is in part due to stronger profits during recent years having provided the opportunity for increased expenditure in this area, and reflects lower gross farm revenue.

Feed and grazing expenditure decreases 9.6 per cent, cash crop expenses decreases 8.9 per cent and weed and pest control decreases 5.8 per cent. Expenditure on "other" working expenses remains almost static for 2012-13. Increased expenditure on standing charges is also estimated to occur with rates up 4.5 per cent, insurance up 4.6 per cent and rent up 1.8 per cent.

Figure 11



FARM PROFIT BEFORE TAX

Figure 11 shows the trend in Farm Profit before Tax in inflation-adjusted, 2004-05 dollar terms. This shows the steep fall in profitability from 2001-02 to the 50-year low in 2007-08 followed by a recovery from 2007-08, which was underwritten by improved international prices that exceeded the effect of the strengthening NZD.

The provisional inflation-adjusted profit of $128,600 per farm for 2011-12 is the highest since the early 1970s and similar to 2001-02 when real Farm Profit before Tax was $126,900 per farm. Farm Profit before Tax for 2010-11 and 2011-12 resulted from significant increases in farm revenue which flowed straight through to the bottom line.

Table 16 shows three different exchange rate scenarios for 2012-13.

1. At the "estimated" annual average exchange rate (USD 0.83) Farm Profit before Tax is estimated at $73,000 per farm (or $58,900 in inflation-adjusted terms), down 54 per cent on 2011-12's $157,100.
2. In the lower exchange rate scenario (USD 0.73) Farm Profit before Tax is estimated to be $135,400. While this would be down 14 per cent on 2011-12, this would be a favourable outcome, and would continue to assist recovery from the period of low profitability during 2005-06 to 2009-10.
3. If the New Zealand dollar continues to strengthen, increasing to USD 0.93, farm profit is estimated at $24,700, an 84 per cent decrease on 2011-12. This drop in profit would be underwritten by a 30 per cent decrease in revenue, which would more than offset a 5 per cent decrease in expenditure.

FARM REVENUE, EXPENDITURE AND PROFIT – REGIONAL

Table 17

2012-13 Revenue, Expenditure and Farm Profit Before Tax (per Farm)

Region	Stock Units	USD 0.83 Revenue $	USD 0.83 Expenditure $	USD 0.83 Profit $	USD 0.93 Profit $	2011-12p Profit $
Northland-Waikato-BoP	3,131	284,400	240,100	44,300	8,800	88,200
East Coast	4,922	393,000	320,600	72,400	18,000	156,300
Taranaki-Manawatu	4,568	355,500	290,300	65,200	12,300	162,900
North Island	**4,092**	**339,100**	**278,500**	**60,600**	**14,300**	**131,200**
Marlborough-Canterbury	3,840	550,600	490,300	60,300	13,100	154,900
Otago/Southland	4,043	403,300	289,200	114,100	59,700	209,800
South Island	**4,028**	**492,000**	**404,400**	**87,600**	**36,100**	**187,600**
New Zealand	**4,063**	**409,300**	**336,300**	**73,000**	**24,700**	**157,100**

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

NORTH ISLAND SUMMARY

Under the USD 0.83 scenario, North Island sheep and beef Farm Profit before Tax decreases an estimated 54 per cent to $60,600 for 2012-13. This reflects a gross farm revenue decrease of 20 per cent, and a 4.3 per cent decrease in total farm expenditure.

Most parts of the North Island have had a dry spring/summer for grass growth for 2012-13. This in turn has contributed to downward price pressure on the market for store stock, while lamb slaughter numbers for the North Island were up 21 per cent cumulatively compared with the previous season.

This is contrary to the grass market conditions which occurred during the previous season and which required careful management to control feed quality.

Sheep revenue is estimated to decrease 27 per cent for 2012-13. This is due to decreased prime (-22%) and store lamb (-30%) sales revenue following softening prices for the current season. Sheep revenue accounts for 47 per cent of total farm revenue for the “average” All Classes Sheep and Beef Farm in the North Island.

The North Island has 50 per cent of the sheep flock, 73 per cent of the beef cattle herd and 64 per cent of the dairy cattle herd.

SOUTH ISLAND SUMMARY

Under the USD 0.83 scenario, South Island sheep and beef Farm Profit before Tax decreases 53 per cent to $87,600 for 2012-13. This reflects a gross farm revenue decrease of 19 per cent, and a 2.8 per cent decrease in total farm expenditure.

Sheep, wool and cropping accounts are all estimated to decrease. Softer pricing for lamb and mutton, and lower yields on cash crops compared with the previous year contributed towards this.

Together these accounts make up 73 per cent of total gross farm revenue for the All Classes Average South Island Sheep and Beef Farm.

Dairy grazing revenue is estimated to increase 27 per cent and contribute up to 6.0 per cent of total gross revenue for 2012-13, up from 3.9 per cent for the previous year. This stems from continued expansion of the dairy herd (+4.7%) with more dairy grazers on sheep and beef farms and a lift in per head grazing fees (+2.3%) compared with the previous year.

Sheep revenue contributes 45 per cent of South Island sheep and beef farm gross revenue. This is followed by crop/grain and seeds revenue (18%), and then the cattle account (14%). The South Island has 50 per cent of the sheep flock, 27 per cent of the beef cattle herd and 36 per cent of the dairy cattle herd.

REGION COMMENT – NORTH ISLAND

NORTHLAND-WAIKATO-BAY OF PLENTY

- Total gross revenue decreases an estimated 16 per cent to $284,400 per farm for 2012-13. This is largely due to decreases in both sheep (-26%) and cattle (-8.8%) revenue accounts compared with 2011-12. Combined, these two accounts contribute 75 per cent of total gross revenue for this region.
- The decrease in sheep revenue is underpinned by a sharp decline in prices and lighter weights. This offsets a slight lift in sales numbers for prime (+2.1%) and store (+16%) lambs for 2012-13. Dry conditions have resulted in an increase in the number of store lamb sales and has been reflected in prices.
- Cattle revenue decreases 8.8 per cent to $111,700 for 2012-13. Average beef cattle sales prices decreased (-6.2%), most notably with cull cows down 12.7 per cent on 2011-12. However, the largest impact comes from decreased revenue from 2 Yr + Steers (-19%) and Bull Beef (-3.5%) which combine to contribute 61 per cent of total sales revenue for the cattle account. A softening outlook for cattle prices has been the leading contributor, while sales and purchase numbers for the full season are forecast to decrease on the previous year.
- On-farm expenditure is estimated to decrease 4.2 per cent to $165,700 for 2012-13. Fertiliser expenditure decreases 7.3 per cent to $46,800, representing 20 per cent of total farm expenditure for this region. Interest expenditure decreases 8.1 per cent due to reduced average term interest rates, and repairs and maintenance expenditure decreases 15 per cent.
- Farm Profit before Tax decreases 50 per cent on the previous year to $44,300 per farm. This leaves real (inflation-adjusted) Farm Profit before Tax at $35,800 per farm (2004-05 base). The highest real Farm Profit before Tax in the 2000s was $110,700 for 2001-02.
- Sheep and beef farms in this region averaged 3,130 stock units on 346 effective hectares at 30 June 2012.

EAST COAST

- Total gross farm revenue for the East Coast of the North Island decreases to $393,000 (-21%) for 2012-13 due to decreased sheep, cattle and wool revenue.
- Sheep revenue decreases 25 per cent to $211,400. This is due to lower average sales prices compared with the previous year which offsets a lift in the number of lambs sold. Dry conditions have also had a large impact on store stock prices, particularly with this region recording its highest lambing percentage since the Sheep and Beef Farm Survey records were computerised in 1968-69. Sheep revenue makes up 54 per cent of total gross revenue in this region.
- Wool revenue decreases 21 per cent, compared with the previous year, to $41,800 for 2012-13. This is due to a large decrease in the net price of wool (-25%) partly offset by a lift in the number of sheep shorn as well as farms selling inventories built up in previous years. However, dry conditions leave the clip per head down (-2.4%) on 2011-12. Wool revenue contributes 10.6 per cent of total gross revenue for Sheep and Beef Farms.
- Cattle revenue decreases to $112,600 (-17%) for 2012-13. This is due to a decrease in average sale prices (-13.5%) and numbers (-4.4%) on 2011-12. Dry seasonal conditions contribute toward a lift in the bull beef off-take for the North Island, which at the time of writing was 10.9 per cent ahead of 2011-12. Bull beef represents 52 per cent of total sales revenue for the cattle account and the cattle account contributes 29 per cent to total gross revenue for this region.
- On-farm expenditure decreases 5.8 per cent for 2012-13. Fertiliser expenditure decreases 23 per cent to $49,100 per farm due to a decrease in on-ground applications after some catch-up in recent years when incomes were high.

- Interest expenditure decreased 10.7 per cent on 2011-12 due to lower average term interest rates and some reduction on debt built up during low income years.
- Farm Profit before Tax decreases 54 per cent to $72,400 for 2012-13. Gross farm revenue decreases 21 per cent while total expenditure decreases at a slower rate of 5.7 per cent. This demonstrates how exposed Sheep and Beef Farm Profits are to commodity price changes.
- In inflation-adjusted terms (2004-05 base), this leaves Farm Profit before Tax at $58,400 per farm, down $69,500 (-54.3%) on 2011-12.
- Sheep and beef farms in the region averaged 4,920 stock units on 580 effective hectares at June 30 2012.

TARANAKI-MANAWATU

- Total gross revenue per farm decreases 23 per cent to $355,500 for 2012-13. Large declines occurred across wool, sheep and cattle accounts compared with 2011-12.
- Sheep revenue decreases 29 per cent to $186,900. This is due primarily to decreased prices for prime and store lambs. Sheep revenue makes up 53 per cent of total gross revenue for this region.
- Wool revenue decreases 24 per cent for 2012-13. A decrease in the net sale price (-29%) offsets increased wool volumes sold per farm (+7.7%) for 2012-13, which reflects sales of inventories held over from previous years to offset a decrease in clip per head (-2.4%) for 2012-13.
- Good growing conditions for 2011-12 meant breeding ewes were in good condition when they were mated. Furthermore, the lack of weather shocks for the spring of 2012 contributed to a record breeding ewe lambing percentage up 7.4 percentage points to 127 per cent.
- Cattle revenue decreases 15 per cent for 2012-13 largely due to a decrease in sale price per head which offsets increased numbers of beef cattle sold. The effect is most significant for rising 2 year old and older steers, and bull beef, which combined contribute 70 per cent of total cattle sales revenue.
- On-farm expenditure decreases 2.9 per cent for 2012-13. Fertiliser expenditure decreases 17 per cent due to lower per-tonne expenditure and a decrease in volume applied compared with 2011-12. Lower tonnage stems from reduced revenue for 2012-13 and follows a year of high application rates.
- Interest expenditure decreases 5.8 per cent due to lower average interest rates and continued debt reduction.
- Farm Profit before Tax decreases 60 per cent to $65,200 for 2012-13. This is due to a 23 per cent decrease in gross revenue, which offsets the 2.5 per cent decrease in expenditure for 2012-13. In inflation-adjusted terms (2004-05 base), farm Profit before Tax is estimated at $52,600 per farm.
- Sheep and beef farms in the region averaged 4,570 stock units on 500 effective hectares at 30 June 2012.

REGION COMMENT – SOUTH ISLAND

MARLBOROUGH-CANTERBURY

- Total gross revenue decreases 16 per cent to $550,600 for 2012-13.
- Sheep account revenue decreases 28 per cent to $182,500 for 2012-13 compared with the previous year. While total sales revenue decreased 30 per cent on the previous year, this was offset by a decline in expenditure on purchases. Weaker average sale prices for prime lambs (-33%) and hoggets (-24%) are estimated to have the largest impact on the sheep account.
- Wool revenue decreases 27 per cent to $45,200. This is due to a decrease in the net sale price per kg (-21%) for greasy wool, with the volume of wool sold per farm down (-5.8%) on the previous year.
- Cattle revenue decreases 8.2 per cent to $82,700. This is a combination of a decline in sales revenue (and purchases) with average sale prices and numbers down on the previous year.
- Crop, grain and seeds revenue decreases 19 per cent to $152,200 for 2012-13. This is due to lower yields from crops, particularly for wheat (-13.8%) and barley (-10.3%), compared with 2011-12, which was a high base because record production levels were achieved. Revenue from cash crops accounts for 28 per cent of total revenue on sheep and beef farms in this region.
- On-farm expenditure decreases 2.7 per cent to $342,100 for 2012-13. Fertiliser expenditure decreases 7.1 per cent to $69,900 and interest expenditure decreases 5.3 per cent due to a drop in average interest rates on liabilities and some debt reduction.
- Farm Profit before Tax decreases 61 per cent to $60,300 for 2012-13. In inflation-adjusted terms (2004-05 base), Farm Profit before Tax is estimated at $48,700, down on 2011-12 which was the highest real profit since 1972.
- Sheep and beef farms in this region are estimated to average 3,840 stock units on 935 effective hectares for the start of 2012-13. The average effective area is high because the region includes large, extensive High Country runs.

OTAGO-SOUTHLAND

- Total gross revenue decreases 21 per cent to $403,300 for 2012-13.
- Sheep account revenue decreases 27 per cent to $252,000 for 2012-13. This is due to price decreases that offset a lift in prime and store lamb sales numbers on 2011-12. The lift in sales numbers is largely due to a 1.5 percentage point increase in breeding ewe lambing percentage.
- Cattle account revenue decreases 3.7 per cent for 2012-13 due to softer average sale prices and a decline in the numbers sold. Rainfall for Otago-Southland has also provided opportunity to put weight on stock.
- Wool revenue decreases 21 per cent to $57,500 for 2012-13, due to a 22 per cent decrease in the net wool sale price and a slight decline in clip per head.
- On-farm expenditure increases 5.0 per cent to $201,900 for 2012-13. Fertiliser expenditure decreases 5.1 per cent to $44,200 and represents 22 per cent of on-farm expenditure for 2012-13.
- Farm Profit before Tax decreases 46 per cent for 2012-13 to $114,100 per farm. In inflation-adjusted terms (2004-05 base), Farm Profit before Tax is $92,000 per farm, the highest regional average in New Zealand in 2012-13.
- Sheep and beef farms in the region averaged 4,000 stock units on 760 effective hectares at the start of 2012-13. The average effective area is influenced by large, extensive High Country runs.

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