

## Report card

The March quarter trade figures, released last week, provide an opportunity to step back and examine how New Zealand's wider basket of commodity exports has fared over the early part of this year. Overall, the experience has been more varied than the popular (dairy-dominated) commentary might suggest. Clearly the dairy and forestry sectors are being buffeted by global forces relating to both demand and supply. But beef exports have had a very strong run, thanks to the growing US economy and a shortage of supply, and there have been pockets of resilience in areas such as wool, wine and fruit. It's worth bearing in mind that the value of the non-dairy exports listed below actually exceeds the value of dairy exports.

The trade figures also provide some insight as to how the agricultural sector will contribute to the March quarter national accounts, to be released in June. We expect to see a lift in export volumes, meaning a positive contribution to GDP growth. However, higher volumes were more than offset by lower prices, implying a fall in export revenue and a likely widening of the current account deficit.

**Dairy:** Dairy export volumes were broadly steady in seasonally adjusted terms in the March quarter. Shipments to China remained soft, and a greater share of dairy exports have been heading to other major markets such as the Middle East as a result. Average prices fell by 6.5%, a less severe drop than the 15% fall seen in the December quarter. The decline was partly arrested by a tilt towards higher-value products such as milkfat.

**Beef:** The volume of beef exports rose to their highest in a decade. The 1% rise in the March quarter came on top of a 9% surge in the December quarter, as New Zealand and Australia rushed to fill a shortfall in the US's beef supply. Recent slaughter numbers suggest that these volumes won't be maintained: the accelerated cull earlier in the season meant that by March slaughter numbers were running below year-ago levels. Average beef prices edged down by 2.5%, but that barely put a dent in the 23% price surge seen in the December quarter.

**Lamb:** Lamb and mutton export volumes were about flat, leaving them down 8% on a year ago. Average prices, which had reached a three-year high in the December quarter, fell back by 6% in the March quarter. Chinese demand for mutton, which emerged as a major source of support during the 2013 drought in particular, appears to have dried up.

**Wool:** Export volumes were steady, while average prices rose to a three-year high. Lambs' wool has been the standout, with growing demand from China in the last year.

**Forestry:** Wood export volumes fell 5% in the March quarter, to be down almost 12% on a year ago. The tentative recovery that began in the December quarter appears to have stalled again. Prices were steady, though that likely reflects a drop in world log prices offset by a weaker New Zealand dollar.

**Fruit:** The export season for apples and kiwifruit has only just kicked off, so no reliable data on prices is available at this point. However, the volume data indicate a slower start for apple exports compared to last year, while kiwifruit exports are on track for a surge this season as the industry recovers from the Psa virus. Overall, the value of fruit exports was up 8%.

**Seafood:** The value of seafood exports was down 3%, reflecting small declines in both volumes and prices.

**Wine:** The value of wine exports surged by 14% in seasonally adjusted terms in the March quarter, reaching a new record high. Wine is less 'commodified' than the other sectors covered here, so calculating a price/volume split needs to be done with caution. However, the trade figures suggest that the growth for the quarter was likely to have been driven entirely by volumes.

## Global Dairy Trade Auction Results, 6 May

	Change since last auction	Price USD/Tonne
Anhydrous Milk Fat (AMF)	-6.3%	\$3,505
Butter Milk Power (BMP)	-14.0%	\$1,748
Butter	-0.8%	\$3,005
Skim Milk Powder (SMP)	-7.5%	\$2,048
Whole Milk Powder (WMP)	-1.8%	\$2,386
Cheddar	9.1%	\$3,012
GDT Price Index	-3.5%	

## Payout Forecast Table

	2013/14 - Final	2014/15		2015/16
	Fonterra	Fonterra	Westpac	Westpac
Milk Price	\$8.40	\$4.50	\$4.50	\$5.70

**Michael Gordon**  
Senior Economist

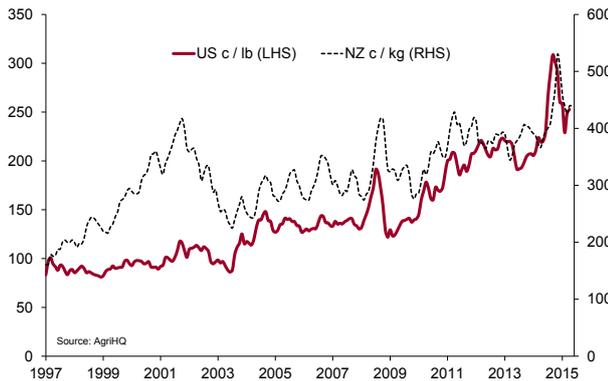
# Beyond the farm gate



## Beef

	Current price level compared to 10 year average	Next 6 months
Trend	Above Average	→

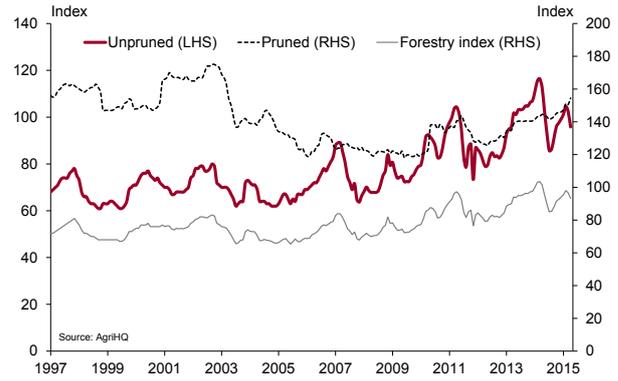
US beef prices remain high, although off last year's peaks as demand is now being well serviced by supply from Australia and New Zealand. The early cull as a result of the dry summer is now having an inverse effect on slaughter numbers, which were down on year-ago levels in March.



## Forestry

	Current price level compared to 10 year average	Next 6 months
Trend	Above Average	↘

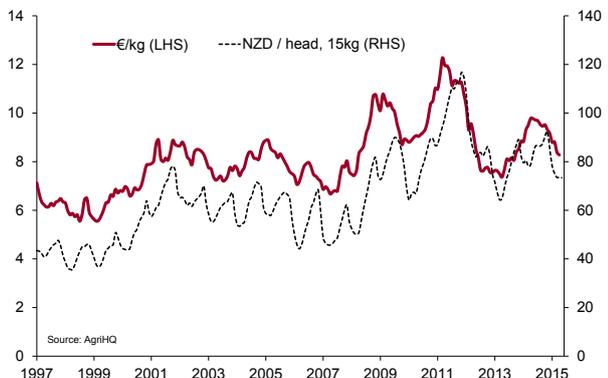
Export log prices have fallen in recent months, as excess stocks have built up at Chinese ports again and the weaker ruble has made Russian logs more competitive. In contrast, domestic log prices have held up. The upward trend in housing construction continues, although quake-related activity in Christchurch is expected to peak this year.



## Lamb

	Current price level compared to 10 year average	Next 6 months
Trend	Average	↘

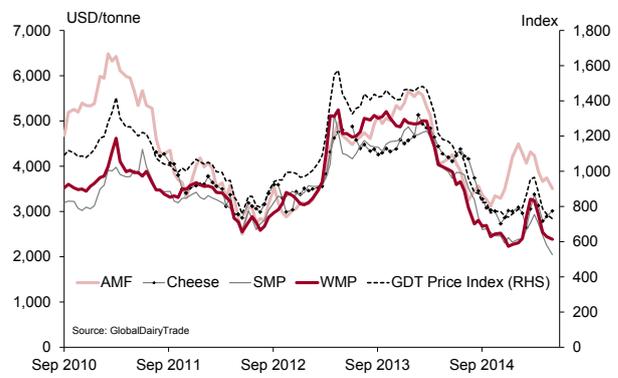
Good growing conditions in the UK, Europe and China mean that the global supply of lamb is likely to remain plentiful this year. The dry summer in New Zealand has probably had less of a depressing effect on prices than initially feared: lamb slaughter numbers peaked in January, but were significantly below year-ago levels in February and March.



## Dairy

	Current price level compared to 10 year average	Next 6 months
Trend	Low	→

World dairy prices fell 3.5% at the latest GlobalDairyTrade auction, and futures markets suggest that no uplift in prices is expected until late this year. Fonterra recently revised down its expected milk price for the current season by 20c to \$4.50/kg, in line with stronger than expected milk production. The first estimate of next season's milk price is due in late May; our forecast currently stands at \$5.70/kg.



NB: Trend arrows indicate direction of change in world prices.

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