

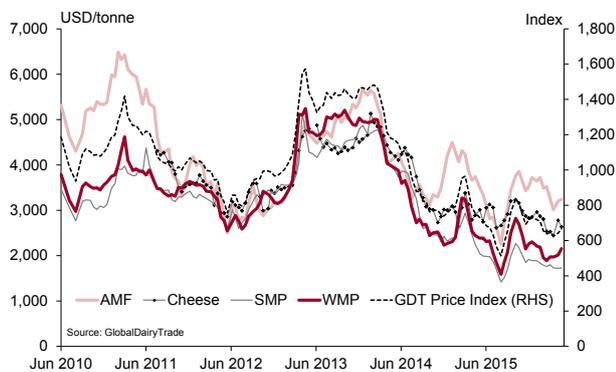
Fortnightly Agri Update

20 April 2016

Rural real estate

International dairy prices rose 3.8% in last night's GlobalDairyTrade auction, including a 7.5% jump in whole milk powder (WMP) prices. This brings WMP prices back to near where they started the year. The lift will come as welcome news for beleaguered dairy farmers. And it was notably stronger than anticipated by the futures market. On its own, it suggests some upside risk to our \$4.60 milk price forecast for next season. However, we'd caution against getting too carried away by last night's move.

Dairy prices



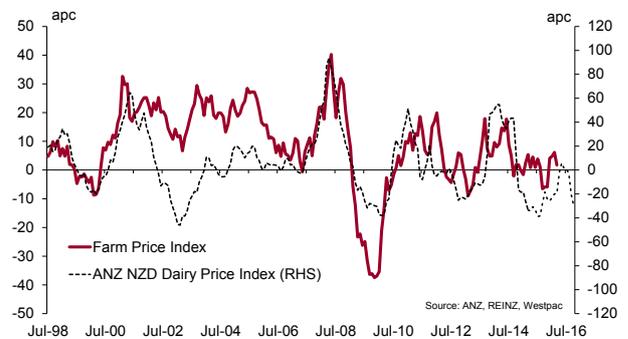
The sustained period of lower prices has given many buyers the opportunity to stock up, and while there have been preliminary signs of slower growth in European milk production, growing stockpiles will eventually be released onto the market, meaning a significant and sustained improvement in prices is likely to be some way off yet. What's more, the volume of product currently being offered on the GlobalDairyTrade auction platform is low, in line with the seasonal decline in New Zealand production. Recent strength in the New Zealand dollar, which is now sitting back above 70c against the US dollar, will also temper the good news for farmers.

And while any improvement in dairy prices is good news for the sector, prices remain 12% below where they were a year ago, and more than 30% below a five year average. Low dairy prices are starting to dent confidence in both the agricultural sector and beyond. Surveys of business confidence have taken a step down in the first quarter of this year as businesses beyond the agriculture sector contemplate just what the cost cutting on farm and reduced investment might mean for them. Our own survey

of regional confidence showed distinct differences between downbeat dairy dependent regions and their more diverse neighbours. Even workers have adjusted their outlook. Those in rural centres are noticeably more downbeat about employment prospects than their urban counterparts.

Another area we expect to see the impact of depressed dairy prices is on land values, and this week's REINZ rural data did hint at a softening in the rural property market.

New Zealand farm prices and dairy prices



There was a sharp fall in the number of farms sold in the three months to March, down 10% on the same period a year ago. And while prices have held at roughly the same levels as a year ago (up 1.7% in the three months to February compared to the same period a year ago), they are well down from their 2014 highs.

Looking at dairy farms in particular, weakness is more apparent. Sales in the year to March are 23% below the previous period, with prices down 19% in the three months to March compared to a year earlier. On a per hectare basis, prices are 9% lower than a year ago. While data can be volatile from month to month, it is clear that dairy farm prices are coming under downward pressure.

Of course statistics only ever tell part of the story – especially when it comes to a market as heterogeneous and relatively illiquid as rural property. In some regions anecdotes point to many more farms being unofficially on the market than the official data suggest, while on the positive side, reports of good local demand for the “right” properties continue.

Looking ahead, we'd expect to see further downward pressure on farm prices, particular dairy farms. That's even taking into account our forecast that dairy prices will gradually improve over the next couple of years.



GlobalDairyTrade Auction Results, 20 April 2016

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	1.6%	\$3,240
Butter Milk Power (BMP)	2.4%	\$1,460
Butter	2.0%	\$2,746
Skim Milk Powder (SMP)	0.3%	\$1,727
Whole Milk Powder (WMP)	7.5%	\$2,156
Cheddar	-3.9%	\$2,636
GDT Price Index	3.8%	

Payout Forecast Table

	2015/16		2016/17
	Fonterra	Westpac	Westpac
Milk Price	\$3.90	\$4.00	\$4.60

Anne Boniface
Senior Economist

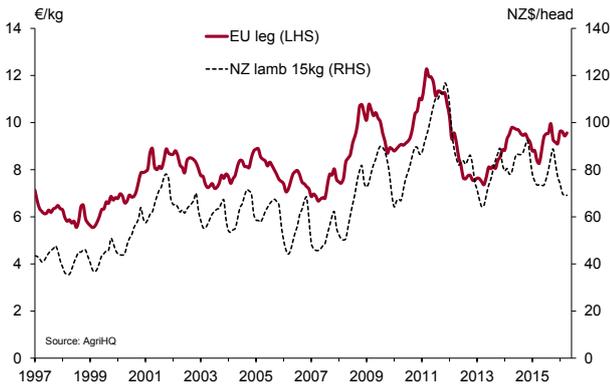
Beyond the farm gate



Lamb

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

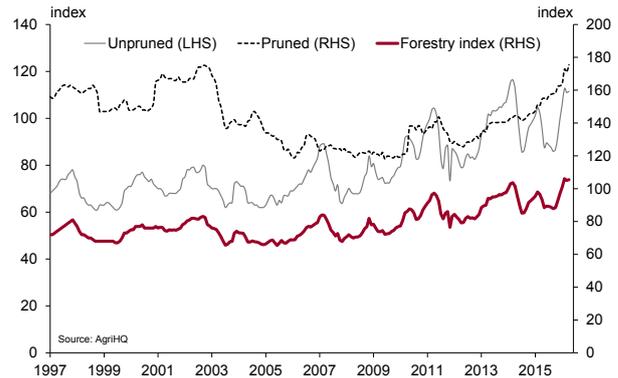
Lamb supplies are expected to tighten over the next couple of months which could support local prices in the near term. However, internationally there is little change to the bigger picture of tight global supplies and weaker growth in demand in key markets such as China and the Middle East.



Forestry

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

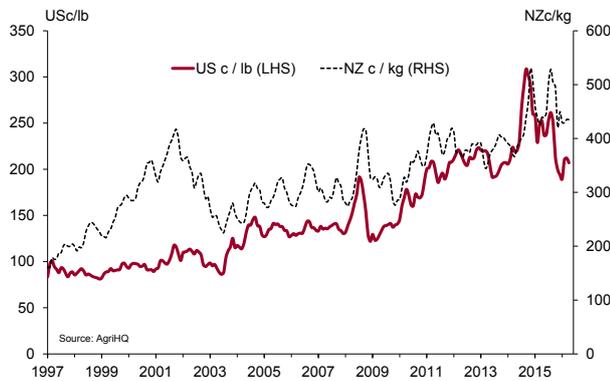
International log prices eased in March, but are continuing to hold up better than we had anticipated. Domestically, the buoyant construction sector, led by strong building activity in Auckland and Canterbury, continues to support local prices. Residential consent issuance bounced back in February after a soft outturn in January. Internationally however, soft demand in key markets and increased supply still looks likely to weigh on prices further in the coming months.



Beef

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

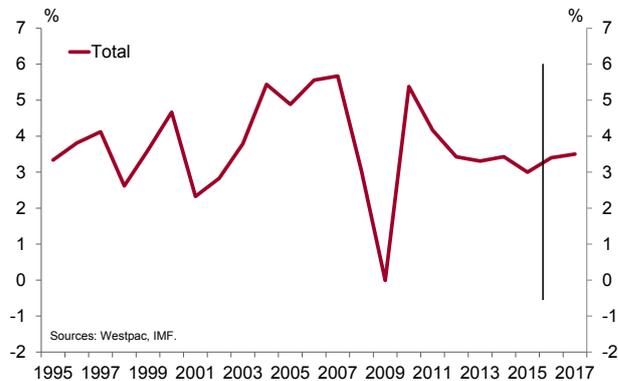
Over the medium term, international beef prices are likely to be underpinned by relatively tight global supply as beef exports from Australia and, to a lesser extent New Zealand, contract. However this will be balanced against increasing domestic supplies in the US with changes to market access for Brazil's chilled beef exporters an important wild card that could influence prices. A lift in New Zealand's cow cull as the local dairy season winds up will also add to domestic supply in the coming months.



Global Growth

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

This week we released our latest Monthly Market Outlook which updates the Westpac Economics Team's view of the global economy. Our global growth forecasts have eased a touch for this year from 3.4% to 3.3%, but forecasts for 2017 remain unchanged at 3.5%. We remain of the view that growth in China is set to slow further this year and next. The recent rebound in commodity prices and improved market sentiment is a positive development. However, tensions remain apparent just below the surface. Global market sentiment is probably best described as skittish rather than calm.



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

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