

## Fortnightly Agri Update

6 April 2016

**Hook line and sinker**

Last week Westpac Economics released an Industry Insight report on the Fishing, Aquaculture and Seafood Industry written by Industry Economist David Norman (available for download here <http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Industry-Insights-Aquaculture-Fishing-and-Seafood-March-2016.pdf>).

The report is well worth a read – whether you're a participant in sector, a weekend angler or just interested in the outlook for the New Zealand agricultural sector more broadly. It not only highlights some of the challenges the industry will face in the coming years, but also parts of the sector which have been performing particularly well.

It also highlights a wide range of challenges and opportunities the sector is currently facing. Some of the key themes included:

- **Exports are the lifeblood of the sector, but further growth will likely hinge heavily on improved prices given the constraints on production growth.**

Around 77% of production in the Fishing Aquaculture and Seafood industry is exported (mostly as an intermediary), however export growth has been modest in recent years. While the Quota Management System is widely regarded as a success in balancing the demand of the environment and commercial fishing operations, it does limit the potential for growth in export volumes. Instead, growth in the value of seafood exports will probably need to be driven by increased prices. This could be through an increased emphasis on fresh and chilled products, marketing new species or better promoting the sustainability of New Zealand fishing operations. The report concluded that some form of internationally coordinated marketing by New Zealand seafood companies would be beneficial.

- **The industry is introducing new technologies to reduce costs, limit the environmental impact of operations and improve the quality of product on offer.**

Use of technology in the sector is increasing. Automation has increased, leading to a reduction in the number of people employed. More positively, advances such as Precision Seafood Harvesting (PSH) have the potential to improve the quality of the catch, but reduce the inadvertent by catch along the way. It can also provide better tracking of where the fish was caught, giving better visibility from “sea to the plate”.

- **Exports from this sector are destined for relatively few key markets.**

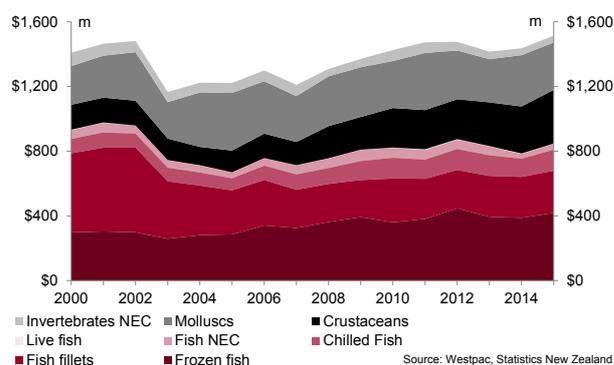
Almost 50% of exports from this sector are destined for China and Australia. This makes exports fairly highly concentrated compared to other export industries. While clearly Chinese and Australian markets both offer good opportunities (albeit for quite different reasons), having a large number of eggs in one basket does bring risks if demand from these markets slows for any reason.

- **There are tensions between the allocation of finite fisheries resources for commercial gain and public enjoyment.**

In the fishing industry this tension manifests most vocally as competition between commercial fishing and the demands of people who fish recreationally. In particular there is debate about proposed recreational reserves which would allow for recreational fishing reserves in areas where commercial fishers hold quotas.

Perhaps what struck me the most reading the report is just how readily many of these themes transfer beyond the Fishing, Aquaculture and Seafood industry into other parts of New Zealand's agriculture sector. The dairy sector is currently feeling the effects of reduced demand in a dominant export market, the kiwifruit industry is well advanced in the operation of a monopsony model and the meat industry is focused on how producing a premium product (and brand) can add value to the industry. Almost without exception, primary producers are looking to leverage New Zealand's reputation when competing in global markets. A task much easier said than done, but one potentially worth its weight in gold (or perhaps crayfish) if accomplished successfully.

Seafood exports by sub-sector, 2000 to 2015





## GlobalDairyTrade Auction Results, 6 April 2016

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	6.7%	\$3,203
Butter Milk Power (BMP)	-8.2%	\$1,395
Butter	-2.0%	\$2,702
Skim Milk Powder (SMP)	0.1%	\$1,721
Whole Milk Powder (WMP)	1.5%	\$2,013
Cheddar	10.5%	\$2,778
GDT Price Index	2.1%	

## Payout Forecast Table

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

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Senior Economist

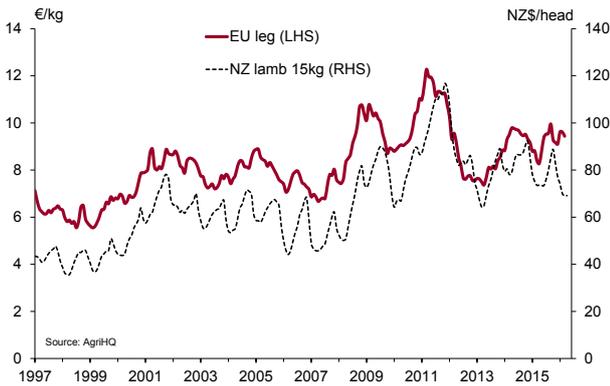
# Beyond the farm gate



## Lamb

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

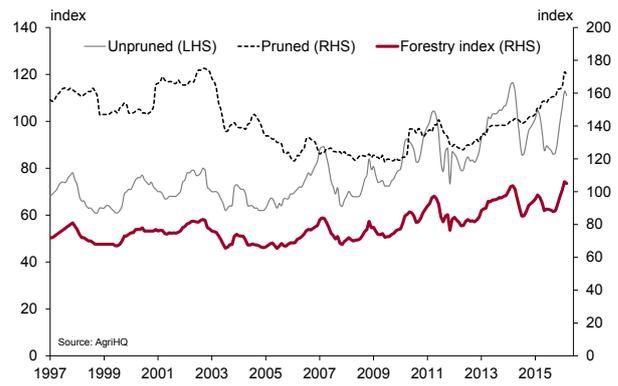
Lamb supplies are expected to tighten over the next couple of months which could support local prices in the near term. However, internationally there is little change to the bigger picture of tight global supplies and weaker growth in demand in key markets such as China and the Middle East.



## Forestry

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

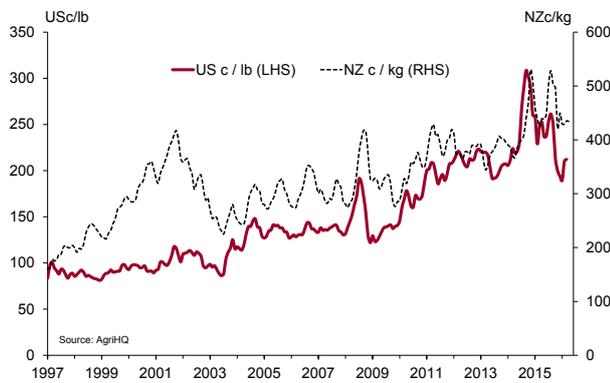
International log prices eased in March, but are continuing to hold up better than we had anticipated. Domestically, the buoyant construction sector, led by strong building activity in Auckland and Canterbury, continues to support local prices. Residential consent issuance bounced back in February after 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	→

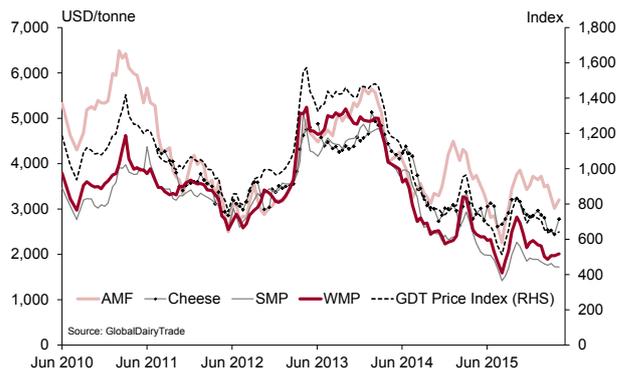
Over the medium term, international beef prices are likely to be underpinned by relatively tight global supply as beef exports from Australia and, to a lesser extent New Zealand, contract. However this will be balanced against increasing domestic supplies in the US with changes to market access for Brazil's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



## Dairy

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

International dairy prices rose 2.1% in last night's GlobalDairyTrade auction, largely unwinding the 2.9% fall in the previous auction. Beneath this headline, whole milk powder prices lifted 1.5% to \$US 2013 per tonne. Unusually, while the lift in dairy prices was broadly in line with futures market pricing, the NZD still reacted, rising around a third of a cent against the USD. Although last night's lift was small, any improvement in prices will be welcomed by the embattled dairy sector. However, while there are a few more positive straws in the wind suggesting that the pace of growth in production in Europe has eased a little (in seasonally adjusted terms, as we detailed in our last Fortnightly Agri Update) and sentiment in commodity markets has noticeably improved in recent weeks, a substantive recovery in prices is likely to be some way off yet. We remain of the view that prices are likely to continue to bump around near current levels, before gradually grinding higher later in 2016 as global supply growth moderates and demand improves.



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

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