

RED MEAT

**Trends, outlook and implications
for New Zealand farmers.**

July 2024



EXECUTIVE SUMMARY

Globally, red meat consumption is growing. Per capita consumption has been trending lower in high-income countries but is rising elsewhere. Changing relative prices and customer preferences are leading to some substitution into other types of protein.

China is the big swing factor that drives consumption of beef and sheep meat. Other markets, like the US and EU provide a stable source of demand for red meat.

New Zealand is a bit player in beef markets, but we are still the world's second largest exporter of sheep meat despite our small production.

Low beef and lamb prices and higher input costs have put the squeeze on farm profitability. That's likely to remain the case over the remainder of 2024, despite slightly higher world prices.

Profitability should be slightly better in 2025 but will remain under pressure. While world prices for red meat are expected to increase, much of this is likely to be undone by a stronger NZ dollar. Meanwhile, farm input cost inflation is set to remain at current levels.

Thereafter, profitability should improve significantly. That is likely to reflect much stronger world prices for red meat, contained input costs (including lower debt servicing costs) and a more stable NZ dollar.



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THE GLOBAL RED MEAT MARKET

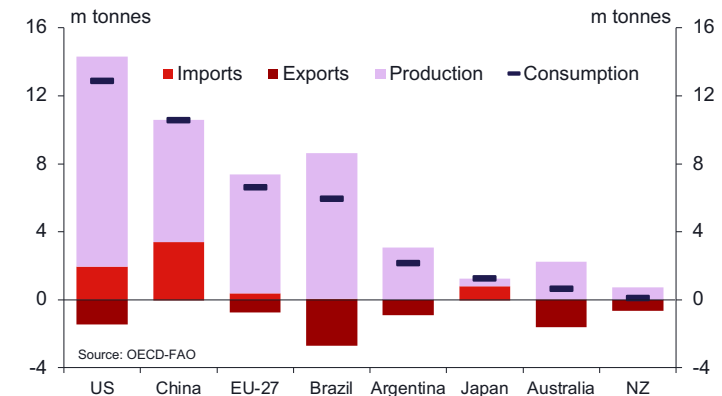
China, US and Brazil dominates beef.

- The US is the world's largest producer and consumer of beef. It is also the largest importer, as well as the second largest exporter, after Brazil.
- China is the world's third largest producer of beef. A sizeable growing middle class means it is also the world second largest consumer of beef.
- EU is both a big producer and consumer of beef but does little trade.
- Brazil is a big producer and heavily reliant on exports into China and the US.

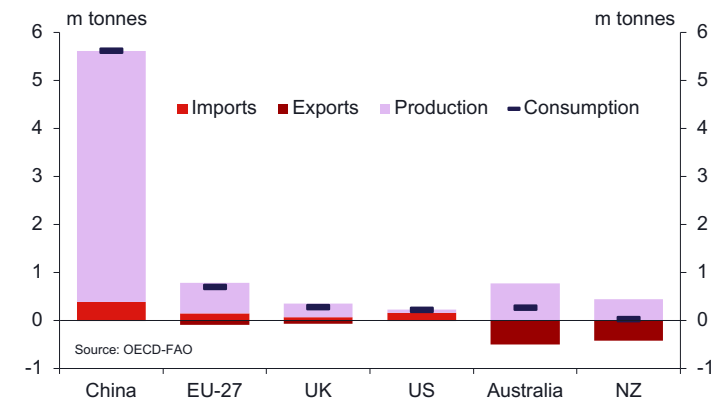
China dominates lamb.

- China is by far the world's largest producer and consumer of sheep meat. It is also the biggest importer. While small relative to domestic production, China's imports equate to New Zealand's entire production.
- The US is the world's second largest importer of sheep meat, importing about half of what China does.
- The EU-27 and UK imports small quantities to fill production gaps.
- Australia is the world's second largest producer and the biggest exporter.
- New Zealand is a small producer but is the world's second largest exporter.

Beef – production vs consumption (2023)



Sheep meat – production vs consumption (2023)



PRODUCTION DRIVERS

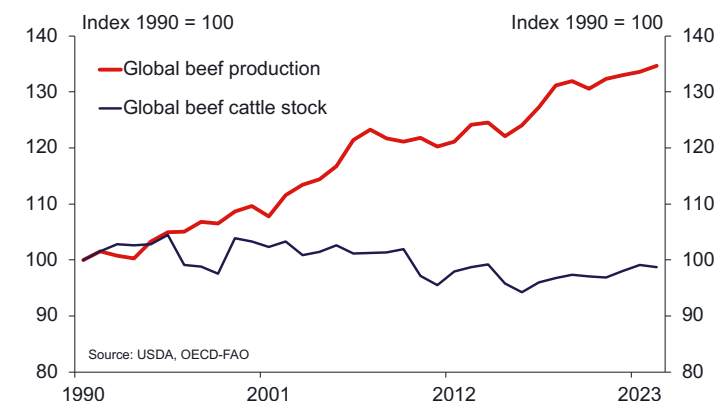
Global beef production continues to track higher.

- Beef production continues to rise in line with global population growth.
- However, the number of cows to service that production globally has trended lower over time.
- That reflects productivity gains, both at the farm and processor level in key producing countries.

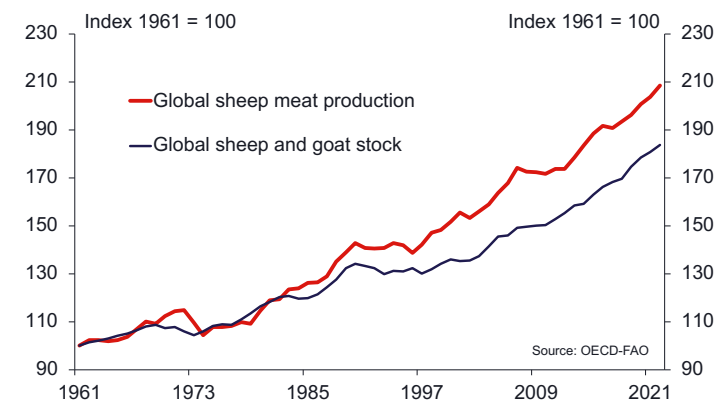
Global lamb production is really a China story.

- Lamb production is largely driven by capacity expansion in China. Production in that country has grown strongly as its middle class has expanded.
- In contrast to beef, global sheep stock levels have also increased. Again, that is mainly due to an increase in the Chinese flock.
- That said, increases in output have still outpaced changes in flock size, reflecting productivity gains.
- However, whereas productivity gains in beef have trended higher over time, the pattern for sheep meat production has been less consistent, growing more strongly in the three decades ending 2010, and moderating thereafter.

Beef – production vs stock levels



Sheep meat – production vs stock levels



CONSUMPTION: MACRO-DRIVERS

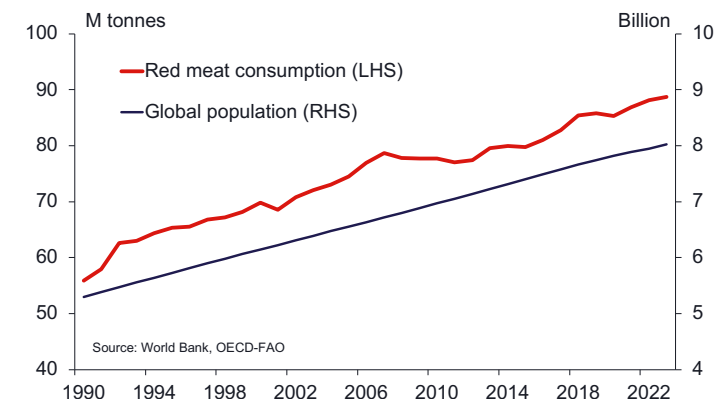
Global consumption of red meat continues to increase.

- Changing demographics and population growth continue to drive global consumption of red meat at the aggregate level.
- Global sheep meat consumption is growing twice as fast but still only equivalent to about 1/4 of beef consumption by volume.

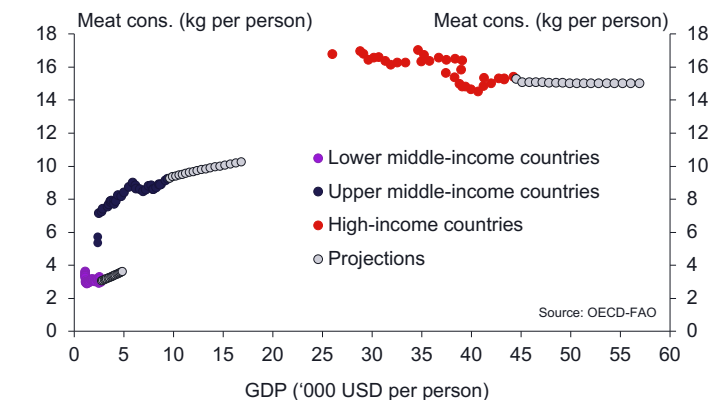
Per capita consumption trends are diverging.

- Consumption growth in low to middle income countries is outstripping that of high-income countries.
- In low-to-middle-income countries, growth in per capita red meat consumption is positively correlated to per capita GDP growth.
- The opposite seems to be true for per capita consumption in high-income countries.
- Irrespective, changes in per capita sheep meat consumption reflects a stronger relationship with per capita GDP growth than beef consumption.
- In both country groups, per capita consumption of cheaper substitutes like poultry exhibit a positive correlation with per capita GDP growth.

Red meat consumption vs population



Red meat consumption vs per capita GDP

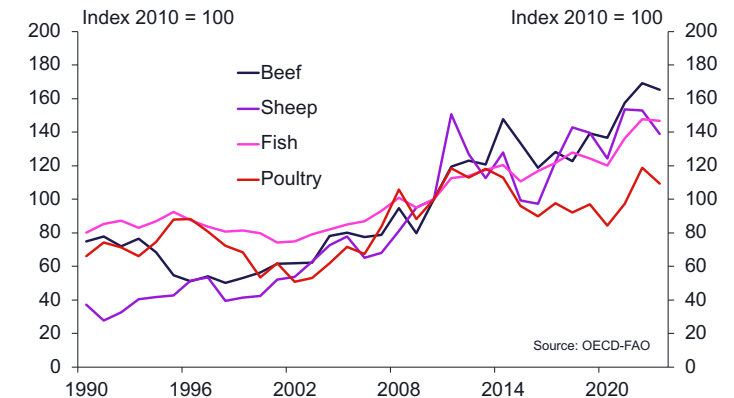


CONSUMPTION: MICRO-DRIVERS

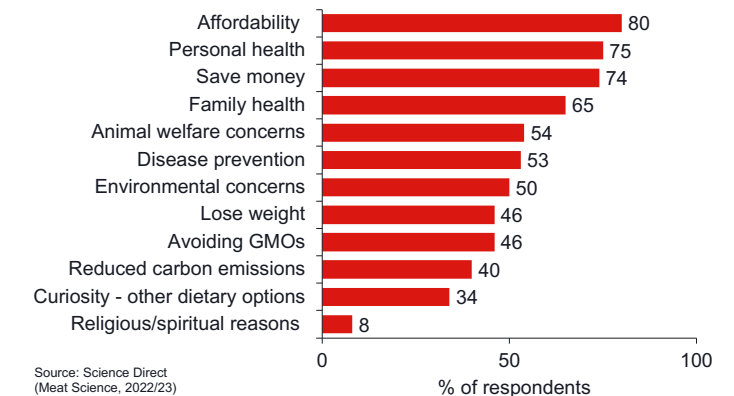
Customer preferences are shifting.

- Attitudes towards red meat are driven by several factors:
 - **Psychological** – lifestyle values, attitude and beliefs, expectations, and socio/cultural factors
 - **Marketing** – relative prices of competing proteins (including poultry, and pork), branding, labelling and convenience
 - **Sensory** – taste, appearance, colour and aroma
 - **Health** – heightened risk of heart disease, cancer, diabetes associated with the high intake of red meat
 - **Production** – animal welfare concerns, traceability from farm to fork, use of antibiotics, growth hormones and GMO animal feed
 - **Environmental** – carbon emissions, climate change and environmental sustainability
- The weightings of these factors differ according to income. Irrespective, considerations such as affordability and health are universal.

World prices for competing proteins



Factors that influence meat consumption



NEW ZEALAND: PRODUCTION AND CONSUMPTION

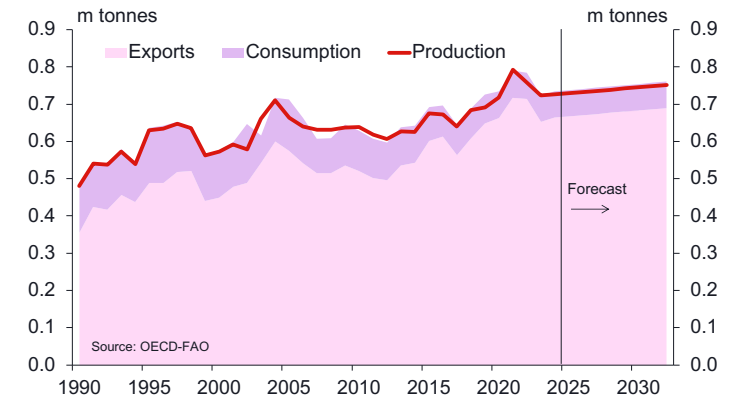
Beef production is growing, mostly driven by export demand.

- Despite a decline in a herd size, beef production in New Zealand continues to track higher. That reflects changes in breeding practices, producing cows with higher average weights and higher feed conversion efficiencies.
- Domestic consumption continues to track lower, reflecting the same pattern of decline that is evident in other high-income countries.
- With that set to continue, New Zealand's beef farmers are likely to become increasingly reliant on export markets.

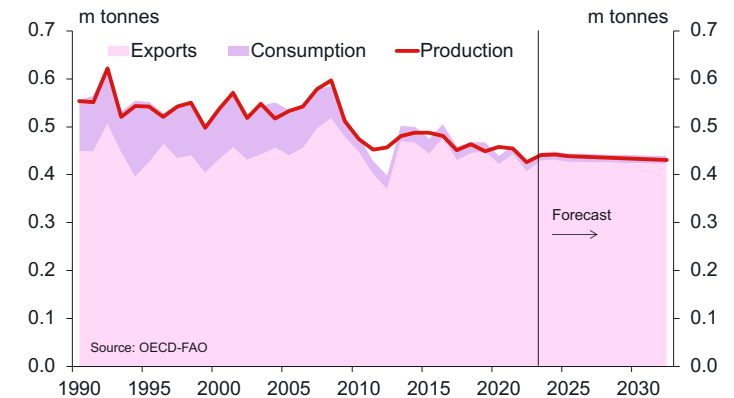
Sheep meat production has trended lower over time.

- That reflects a long-term decline in sheep numbers, following the removal of farming subsidies in the 1980s, falling returns to farmers and changes in land use into dairy.
- It may also reflect declining domestic consumption, which follows a pattern of decline seen in other high-income countries, notably the EU and UK.
- More recently, exports have struggled in the face of stronger competition from Australia. A reversal of the long-term decline in sheep numbers has allowed Australian farmers to flood the market with cheap lamb.

NZ beef production, consumption & exports



NZ sheep meat production, consumption & exports

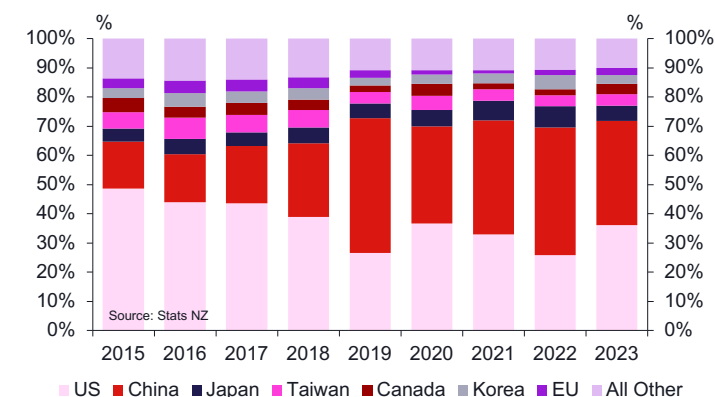


NEW ZEALAND EXPORTS

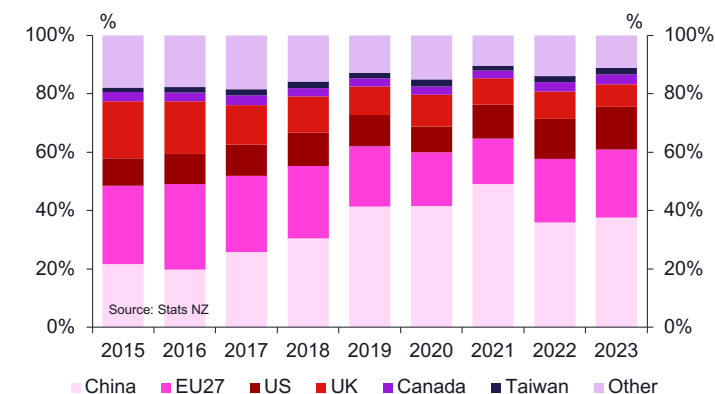
China is the big swing factor for now.

- New Zealand's primarily exports to high-income countries, where per capita consumption of beef and lamb is falling.
- That said, China is New Zealand's largest single export market. Its share of red meat exports has risen, as per capita consumption has grown.
- Per capita consumption of beef in China has accelerated over time as incomes have risen. Chinese consumers view beef as a premium product. By contrast, per growth in capita consumption of lamb has slowed. Imports tend to be lower quality cuts where price is the key to purchasing decisions and competition from cheaper pork is strong.
- New Zealand is a major exporter of lean beef trimmings (typically Lean 90CL or 95CL) to the US where it is mixed with lean/fat ground beef from domestic grain fed cattle. Looking forward, the US is expected to continue providing a stable source of demand for beef.
- The same can be said for lamb exports to the EU/UK although that may change given improved market access under recently concluded FTAs.
- From a growth perspective, China matters. Chinese consumption of red meat is set to grow but at an ever-slower pace, as growth in its middle class slows, customer preferences align more closely with those in high-income countries and population growth turns negative.

NZ beef – share of exports by market



NZ sheep meat – share of exports by market

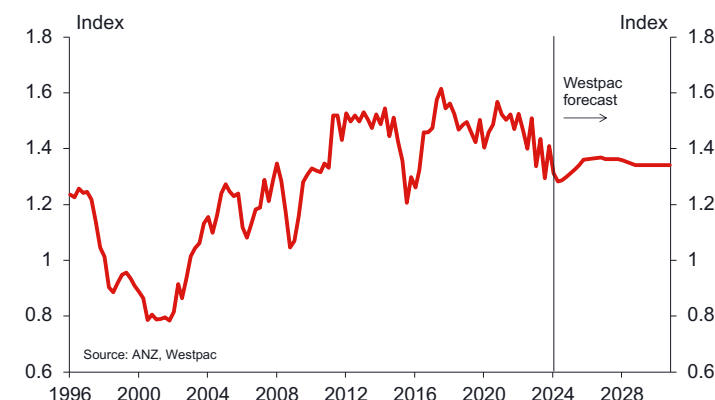


RED MEAT PRICES

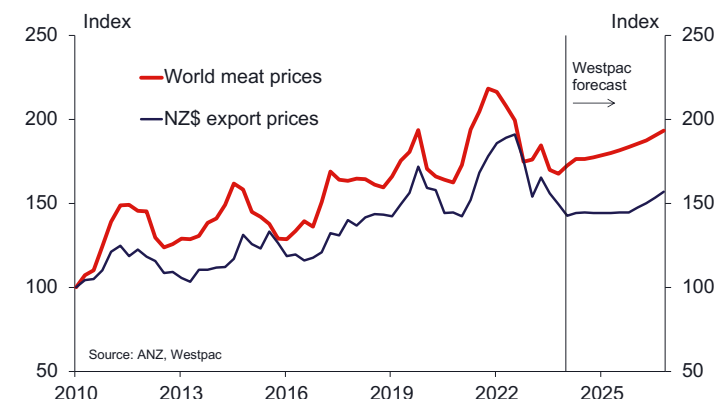
A stronger NZD should dampen higher world red meat prices.

- The NZD/USD will likely trade around current levels in the near term. However, the US dollar will likely come under downward pressure once the Fed starts to ease policy – likely from around September. This will place upward pressure on the NZ dollar.
- World prices for beef and lamb to move slightly higher from current levels.
- Beef prices should be supported by ongoing demand from the US over the remainder of 2024, with some offset coming from weak consumer demand in China. This offset should start to reverse in 2025, providing some additional support to beef prices.
- Sheep meat prices will reflect the additional supply of Australian lamb on world markets and still weak consumer demand in China for the remainder of 2024. In real terms prices are at decade lows and should pick up as these factors begin to reverse in 2025.
- Key here will be a reduction in the Australian sheep flock in 2025 and 2026, following high slaughter rates in prior years.
- A strengthening NZ dollar is likely to dampen the impact of rising world prices for most of 2025. With the exchange rate expected to remain stable, local prices should begin to rise in late 2025, gathering pace in 2026.

Commodity weighted NZD exchange rate



World and NZ red meat prices



INPUT COST INFLATION TRENDS

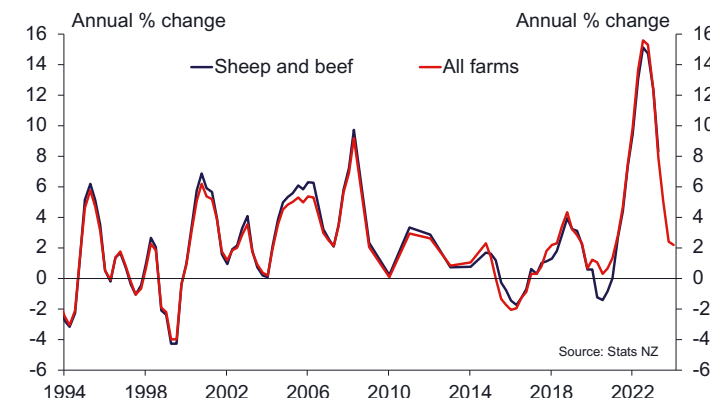
Farm input cost inflation has moderated.

- Annual farm input cost inflation (excluding livestock) sheep and beef sector has come off the boil, rising 2.5% over the year to March 2024.
- That's well down from the peak of 15.6% in the year to September 2022.
- That said, input costs are almost 28% higher than they were prior to the pandemic, underpinned by high costs for fuel and debt servicing.

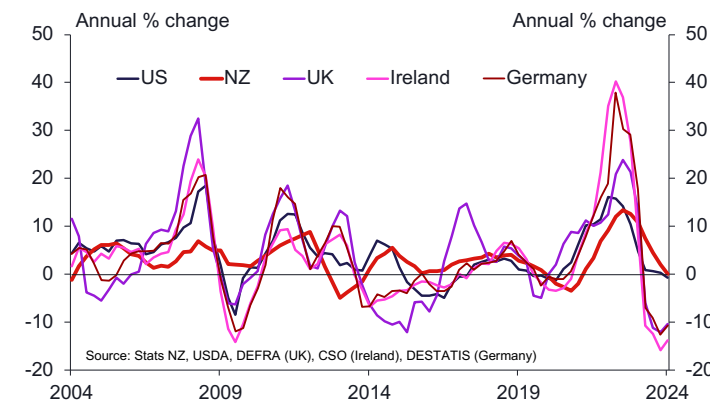
Similar, but different patterns are evident in other countries.

- The recent drop in input cost inflation in New Zealand is mirrored in other countries.
- However, many of these countries seem to experience much greater variability in input cost inflation than New Zealand.
- That likely reflects differences in cost structures that result from different farming practices. For example, farming in New Zealand requires hardly any supplementary feeding and housing, whereas in the EU and the UK, soil conditions and harsher weather conditions result in a need to sometimes house stock indoors, which adds to cost.

Farm input cost inflation (excluding livestock)



Comparative farm input cost inflation (all inputs)



OUTLOOK FOR INPUT COST INFLATION

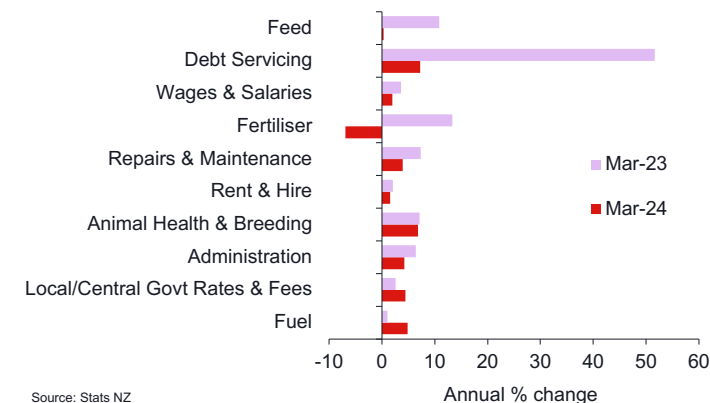
Slowdown in input cost inflation has been broad based.

- Annual rural cost inflation slowed modestly in the March 2024 quarter, with mixed performance across the major expense categories.
- Feed costs, previously, impacted by the war in Ukraine and geopolitical events in the Middle East, have now flatlined.
- Debt service costs, a key driver of rural cost inflation, have slowed to about 7% from over 50% a year earlier

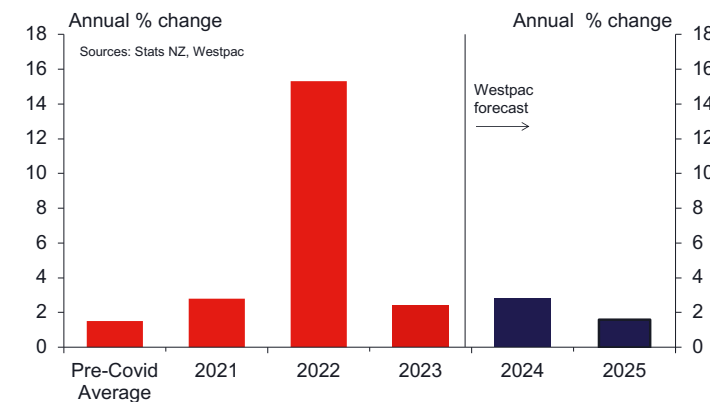
Farm input costs to be contained in coming years.

- We expect costs to rise by around 2.8% in 2024, after falling to 2.4% in 2023. The slight pickup in 2024 reflects the impact of higher insurance and administered costs.
- Ongoing disruptions to freight traffic in the Red Sea, pushing up freight costs, present an upside risk for rural cost inflation over this year.
- Input cost inflation should slow in 2025 due to an ongoing easing in the labour market, slowing wage growth, and perhaps more importantly (given its high weighting in the farm input cost index), a decline in debt service costs, which are set to turn negative as interest rates fall in 2025 (and 2026).

Farm input cost inflation by expense category



Outlook for farm input cost inflation

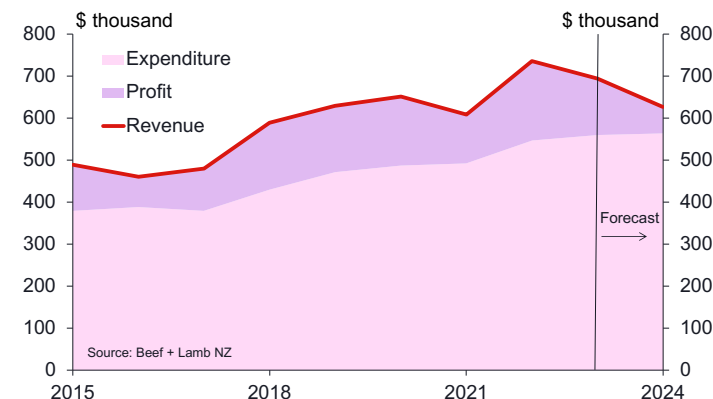


FARMGATE PROFITABILITY

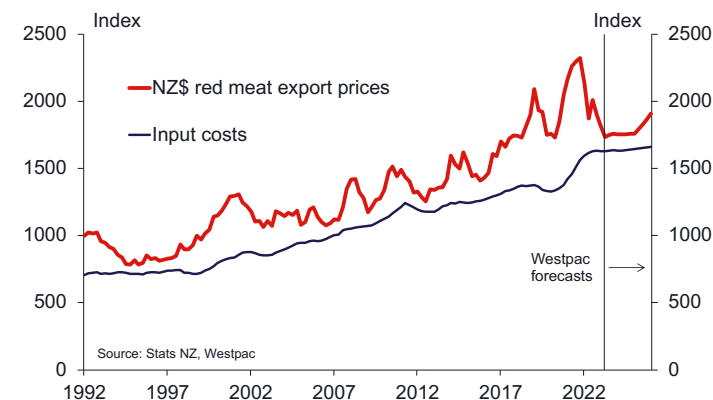
Profitability under pressure for the next year, improving thereafter.

- Supply/demand fundamentals suggest that world prices for red meat will edge only higher over the remainder of 2024.
- With cost structures up almost 28% on pre-Covid levels, that is likely to mean profitability will remain under pressure for the remainder of 2024.
- World prices for red meat are likely to be stronger in 2025, although much of this will likely be undone by stronger NZ dollar.
- Profitability is likely to remain under pressure in 2025. Key here will be the timing and extent of the eventual decline in interest rates, as debt servicing carries a heavy weighting in the farm expenses index.
- Assuming a broadly stable NZ dollar, profitability is expected to improve significantly in 2026. Much of that will have to do with an increase in world prices as consumer demand in China gathers momentum.
- Input cost inflation is also likely to remain contained over the period, especially if interest rates continue to fall as we expect.
- Longer term, profitability should move back to sustainable levels, as less efficient farmers offshore with high-cost structures are squeezed out, and prices reflect a resulting rebalancing of global demand and supply.

Beef + Lamb NZ financial forecasts



Red meat prices and farm input costs



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