



POTHOLE DOWNGRADES PREDICTION

Based on Beef + Lamb New Zealand’s October prediction, farmers expected 2022/23 to be a reasonable year but lamb hit a pothole and mutton prices choked. By **Joanna Grigg**.

The Beef + Lamb NZ Mid-season Update (released March) has taken this pothole on board and downgraded forecast revenue and net profit for the average sheep and beef business for 2022/23. Gross revenue is forecast to average \$678,000, down 6.4% on last year and within this, the sheep meat contribution looks to be 14% lower. This is at a US dollar value of NZ\$0.63.

In October it was all smiles as the forecast was for the average lamb farm gate price to be 815c/kg. By March the updated forecast had shaved 55 cents off this – to 7.60c/kg.

Initial forecasts picked mutton prices to slide 3.1% on the previous year, to 519c/kg in the 2022/23 season. But by March this forecast was shot to pieces. The updated annual average mutton farm gate price for the 2022/23 season is now forecast at \$4.30/kg, down 23% on 2021/22, and 11% below the five-year average.

What was forecast to be \$181,000 farm

profit before tax is now looking more like \$96,600. This is a 35% decrease on 2021/22 and below the 10-year average.

There is not much in the kitty to pay tax, feed the family, or for unexpected costs like cyclone damage or drought. Even conservative budgeters are feeling a bit short-changed, given that high hopes for Christmas goodies never eventuated. Farmers exposed to early summer markets were especially impacted. Farms top heavy in sheep, generally those in Southland/Otago, will feel the missing revenue acutely.

Forecast revision

Beef + Lamb NZ (B+LNZ) chief economist Andrew Burt said things did come back more than expected and forecasts have been revised accordingly.

“A key reason is that China’s Covid relaxation took longer than expected.”

The B+LNZ Update also mentioned a hangover effect, from a slow processing winter. The number of lambs processed in the first four months of 2022/23 was

similar to that in the previous season.

In the North Island, lamb processing started strongly as there were carry over lambs from the winter, but tapered off to be behind as more grass was available, which allowed farmers to hold on to lambs longer.

The South Island dry saw lambs continue to flow in, lamb processing get ahead of the five-year average and a drop in farm gate price.

One upside might be the chance of a good rebound, mirroring the fall off. B+LNZ is pitching the farm gate price for lamb to be \$7.60/kg CW average, for 2022/23. With only three-and-a-bit months to roll, this suggests B+LNZ is optimistic the year to June will finish strongly, given the schedule was well below this in early March. Burt agrees in theory.

Statistically, the end of season months would have to be higher than \$7.60/kg CW if the current price was tracking below this, to make the average, he said.

Overall, the view from the top is that

Table 1 Updated Beef + Lamb NZ Farm Gate Prices forecast for lamb, mutton (average for the 20/23 year) and compared to 2020/21 and the Five Year Average. Mid-season Update, March 2023.

	Farm gate price cents/kg carcaseweight	Compared to 20/21	Compared to five-year average
LAMB	760	Down 12%	Down 2%
MUTTON	430	Down 23%	Down 11%

Table 2 New Zealand lamb exports

Sep year	Lamb meat			Co-products	Total lamb	Lamb meat
	000 tonne	\$ / tonne	\$m FOB	\$m FOB	\$m FOB	%
2018-19	305	10,445	3186	203	3389	94%
2019-20	307	10,829	3327	155	3482	96%
2020-21	307	10,435	3201	149	3350	96%
2021-22	292	12,970	3782	215	3997	95%
2022-23e	284	11,561	3286	254	3539	93%
2022-23e % change	-2.5%	-10.9%	-13.1%	+18.0%	-11.4%	

*Lamb Meat value as a percentage of the value of total lamb exports, including co-products. e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, StatsNZ

Table 3 New Zealand mutton exports

Sep year	Mutton meat			Co-products	Total mutton	Mutton meat
	000 tonne	\$ / tonne	\$m FOB	\$m FOB	\$m FOB	%
2018-19	84	6715	564	100	664	85%
2019-20	86	7523	647	105	752	86%
2020-21	95	7713	729	110	840	87%
2021-22	87	8159	711	114	825	86%
2022-23e	84	6942	581	113	695	84%
2022-23e % change	-3.9%	-14.9%	-18.3%	-0.3%	-15.8%	

*Mutton meat value as a percentage of the value of total mutton exports, including co-products. e estimate, f forecast | Source: Beef + Lamb New Zealand Economic Service, StatsNZ

market fundamentals for NZ lamb and mutton exports are looking positive for the remainder of the 2022/23 season, despite the weak start. This is small consolation for those selling in the first half of the season.

The Meat Industry Association reported that meat exports in January 2023 were “slow”, with total export values down by 7% compared to January 2022. A total of 36,496 tonnes of sheep meat was exported globally, an increase of 18% by volume, but a drop in value of 5% to \$343 million.

Burttt said there was still a lot of lamb to be sold but volume looked to be similar to last season. Farmers should be aware that the forecast is for farmgate prices, which takes into account all payments to farmers. This can be a bit more than the base advertised schedule price.

Mutton woes were firmly related to China. The value of mutton exports dropped significantly in the season to late February, reflecting weakening Chinese demand. B+LNZ puts this down to China relaxing its Covid restrictions, more people getting sick and not eating out. Adding to this, meat inventories seem to have reached their maximum, meaning reduced demand. Since an overwhelming majority of NZ’s mutton exports are to China, the reduced demand has a significant effect on prices at the farm gate.

The outlook is more positive though. China is expected to get over its pandemic hurdles and consumers are expected to go eat out again. The Update said the “pent-up demand” as shown by elevated savings levels in China will be a motivating factor for consumers.

While beef is the one shining star, it isn’t enough to save the day. For most sheep and beef farms, sheep income drives the bulk of the returns, with beef second.

On the negative side, Burttt said Australia is back with more beef, but positives are that China is back in the market and there is a possible chance of United States cattlemen calling for restrictions of Brazilian beef imports into the US.

Exchange rates could make a 16%



difference. The update said a 10% depreciation of the NZ dollar against the US dollar (i.e. from 0.63 to 0.57) and the associated cross rates against the British pound and the Euro, increases the average lamb price received by farmers by 16%. In the 2022/23 season, the value of the NZD is expected to decline against all three currencies.

Weighing up options

Sheep farmers looking to improve revenue before year-end might look to dairy grazing, as revenue is looking to increase here. This category of farm income is usually about 6% of total revenue for the average farm.

“Sheep and beef farmers are thinking carefully about risks from environmental perspectives and charging dairy farmers appropriately,” Burt said.

Farm costs were always pitched to increase. At the start of the season, expenditure for 2022/23 was estimated by B+LNZ to increase 3.4% to \$535,000 for an average farm. This updated

Lamb hopeful \$7.60 by June

LAMB AT \$6.60/KG carcassweight (CW) felt like such a time in the doldrums, given the super summer prices of 2022. Farmers tried to be consoled by the fact it was only a shade below the five-year average for mid-February. But when will it bounce up?

Rabobank analyst Genevieve Steven carries out “educated” crystal-ball gazing for a job. “At the bank we are looking six months out, but also looking at trends that will influence prices five years out – what are the upside and downside risks.”

She said we saw some promising signals from the United States and China through February and expect schedule prices will continue to lift over the coming months to levels in line with five-year average prices.

The five-year average South Island

lamb price is \$7.60/kg CW for lamb (across the whole season).

Higher returns for lamb and mutton in China would bolster schedule prices. With lockdowns in China lifted and life starting to return to normal, sheep meat demand and pricing is expected to tick up gradually through the year, Steven said. But there are some downside risks to the schedule, as farmers keep lambs longer to add extra weight, we could see more lambs coming out in March and April.

“Processors could possibly respond by holding prices or taking a few cents out of the schedule if a situation arises where there are backlogs – this scenario is more likely in the South Island than in the North Island.”

Another factor to consider is the additional bobby calves that need to

be run down the slaughter chain this spring, due to changes in Fonterra’s policy.

“They may come on stream when farmers are selling those Merino/crossbred lambs that went through winter,” Steven said.

“The schedule is heading in the right direction, but don’t fantasise about big schedules anytime soon.”

The record highs seen in 2021/2022, are unlikely to be seen again in the medium term, she said.

Steven’s advice is to do what’s right for your farm – do a good feed budget and gross margin analysis and explore selling store lambs if a feed market is pushing them to good prices.

Mutton kill is well behind in the South Island, because of labour challenges and little demand from China, Steven

forecast is similar (a 4.1% increase), as farmers have to keep a tight lid on costs and look to screw it down even more. Repairs and maintenance are forecast to decrease to an estimated \$44,500 per farm in 2022/23. This is only 7% above the five-year average.

Statistics New Zealand reported Q4 2022 costs were +15 higher (year on year) with interest rates up 46%, fuel 36% and fertiliser 28%. Burttt makes the point that farm expenses are made up of both value and volume, so farmers have dropped the volume of purchases to control overall expenses. Fertiliser, lime and seed expenditure is forecast to increase 6.1% to \$102,100 per farm.

Burttt said farmers are deferring repairs and maintenance, and fertiliser.

“If you don’t buy the chocolate bar, the high price of chocolate won’t appear in your accounts.”

“Sheep and beef farmers are thinking carefully about risks from environmental perspectives and charging dairy farmers appropriately.”

Interest expenditure is forecast to be 12.5% higher (to \$54,000 for an average B+LNZ farm).

“This formula involves looking at our individual farms and seeing what they have fixed and floated, and also debt repayment levels.”

Coming off a high is not a nice feeling, especially where there is uncertainty where it might land. Mutton still had a way to go before it achieved the levels it had in the previous two seasons. Farmers enjoyed record high farm gate profits for sheep meat and beef in 2021/22. Provisional tax following this good year is squeezing cash flow. The B+LNZ

Update suggests the tax bill will decrease by 35% from the 2021/22 level.

One surprise has been the reported decrease in sheep numbers, via Statistics NZ December 2022 figures. Breeding ewes were reported to have dropped 6% and hogget numbers lifted 5%.

“We will be very interested in the final May numbers,” Burttt said, adding that the issue seems to be that the ewe decline reported is not reflected in the mutton kill.

“It doesn’t really stack up.”

The B+LNZ Economic Service will update figures further when final data is released by Statistics NZ in May 2023. 🔄

i The average B+LNZ economic service farm is 4500 stock units grazing on 700 hectares, average stocking rate of 6.4 stock unit/ha (2885 sheep, 395 beef cattle and 30 deer).

said. Demand from China is strongest during their winter months and in the lead up to the Spring Festival.

In 2022, 206,000t of NZ sheep meat was exported to China at an average price of \$7.65/kg FOB (free on board). This was down from \$8.19/kg the previous year, she said.

Chief economist at Beef + Lamb NZ Andrew Burttt said by early March, the vibe from meat companies went from being nervous and hopeful to feeling a lot more confident about lamb.

NZ lamb is expected to recover to near levels achieved last season, despite the weak start. B+LNZ is forecasting that at an exchange rate of US\$0.63, the average farm gate lamb price to be 760c/kg for 2022/23. Burttt said the farm gate price can be different to the schedule base price as it reflects what is actually paid to the surveyed farmer, including premiums. 🔄



Figure 1: South Island lamb prices opened in 2023 below the five-year average and are picked to inch up to the average of \$7.60/kg CW. Source: RaboResearch 2023.

