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Livestock and Products (Beef) Semi-Annual Report 2010

Report Categories:

Livestock and Products

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Report Highlights:

Post reduced the forecast for total slaughter in MY 2010 by 4.8% to 3.74 million head. Beef production is forecast to fall by just 1% due to good pasture conditions and an expected increase in carcass weights.

Forecasts for domestic consumption are unchanged at 120,000 tons for both MY 2009 and MY 2010. Post forecasts total exports to drop 1.35% in MY 2010. Industry contacts expect shipments to the US market to be the same as in MY 2009 at 235,000T (CWE)

Executive Summary

Post reduced the forecast for total slaughter in MY 2010 by 4.8% to 3.74 million head. This reflects an 8% decline in the cow slaughter forecast, a 6% decline in the calf slaughter forecast, and a 2% reduction in the other adult cattle slaughter forecast. Beef production is also forecast to fall but by just 1% due to good pasture conditions and an expected increase in carcass weights.

Forecasts for domestic consumption are unchanged at 120,000 tons for both MY 2009 and MY 2010. Domestic beef consumption remains relatively static at approximately 27.14 kilograms per capita.

Post forecasts total exports for MY 2010 at 364,000T (PW) or 510,000T (CWE). This is a 1.35%, or 7,000 ton (CWE) reduction from the previous update. Industry contacts expect shipments to the US market to be the same as in MY 2009 at 235,000T (CWE). Prevailing market conditions are largely the same as in late MY 2009 and other manufacturing beef markets are offering competitive prices for New Zealand product.

The first round of the TransPacific Partnership negotiations is set for March 2010. The New Zealand meat industry is advocating for the elimination of U.S. tariffs. They maintain that New Zealand's beef exports to the US are complimentary to US beef production because lean meat from New Zealand is blended with US fat trimmings to manufacture value-added products such as burgers, patties, and pizza toppings.

In January 2010, the New Zealand Government gave the go-ahead for the National Animal Identification and Tracing (NAIT) project, a livestock traceability scheme. Under the program, the Government will provide funding to build and operate the new system and would draw up legislation to make it compulsory for cattle and deer farmers

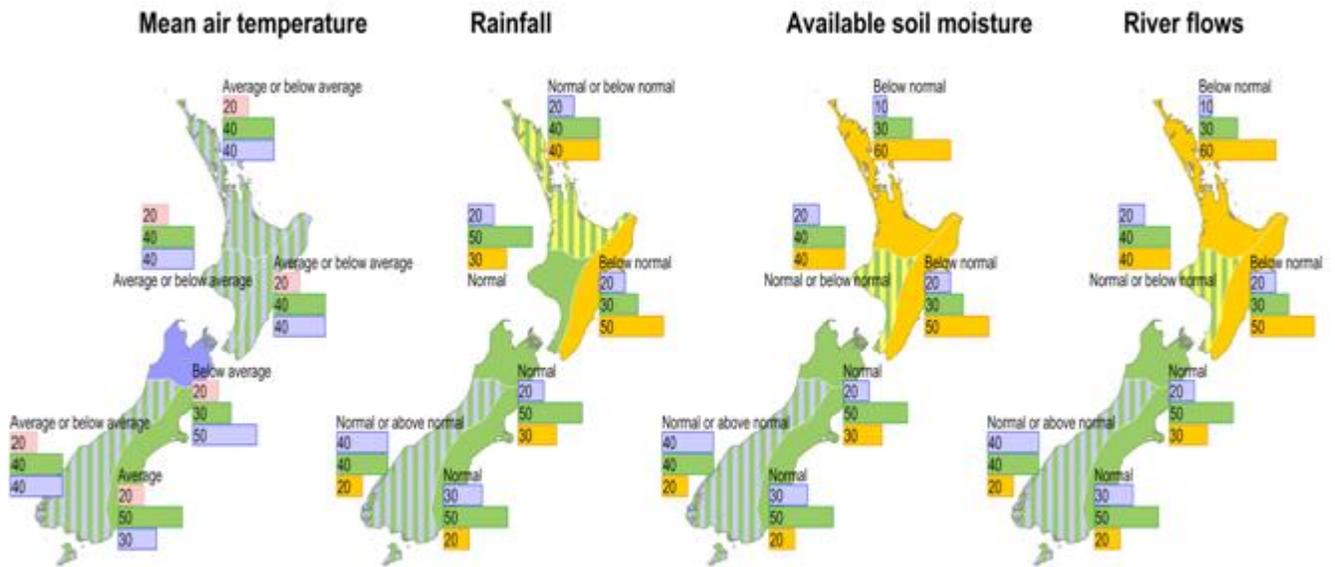
PRODUCTION

Pasture Conditions

- Plentiful rain during January and early February over most of the North Island has resulted in good pasture growth throughout the North Island, with the exception of Northland. With plenty of pasture available, farmers are holding stock back from slaughter, which will result in higher carcass weights.
- The outlook from February through April 2010 (late summery/early fall) is for good rainfall, especially in the eastern party of the country. However, the good pasture conditions mask an underlying trend toward decreasing utilization of fertilizer. Fertilizer use peaked in 2002/03 at 170 kilograms/ha and is now down to 90 to 100 kilograms/ha. Fertilizer expenditure on a per hectare basis is virtually the same now as it was in 2002/03. Completely withholding fertilizer reduces

total pasture growth by between 1 to 5% per annum.

Outlook for February-April 2010



Key to maps (example interpretation)

Below normal
 Upper tercile: 20% chance of above normal 20
 Middle tercile: 30% chance of normal 30
 Lower tercile: 50% chance of below normal 50

In this example the climate models suggest that below average conditions are likely (50% chance of occurrence), but, given the variable nature of the climate, the chance of normal or above normal conditions is also shown (30% and 20% respectively).

Slaughter

MY 2009

Total slaughter for MY 2009 was 3.85 million head, 2% less than post's forecast. Calf slaughter was down 3%, largely because of the relatively low prices paid by meat processors, cow slaughter was down less than 1%, and other adult cattle slaughter was down 2.4%.

MY 2010

Post forecasts MY 2010 total slaughter at 3.74 million head, a 4.8% reduction from the previous

forecast. This reflects an 8% decline in the cow slaughter forecast, a 6% decline in the calf slaughter forecast, and a 2% reduction in the other adult cattle slaughter forecast. Factors supporting the downward adjustment include:

- Lower prices for veal and calf by-products;
- An increase in the milk price (NZ \$6.00/kg milk solids compared to NZ \$5.20 last year), which will encourage farmers to retain more dairy cows, especially as many dairy farmers were thought to be short of desired herd numbers last spring;
- an expected increase in beef heifer retentions and beef cow numbers due to improved pasture conditions and an uptick in farmer confidence;
- the ongoing trend to expand the dairy herd by approximately 100,000 head per year and the need for replacements suggests a lower cow kills; (Note: Given a total combined beef and dairy cow herd of 5.7 million head, with an average life expectancy in the herd of 7 to 8 years, past estimates that between 875,000 and 925,000 head are typically available for slaughter. However, the trend since 2000 has been for the dairy cow herd to increase by approximately 100,000 head each year and this trend is likely to continue this year. As the number of replacements retained is inadequate to support the increase in the dairy herd, the cow kill is likely to be reduced.)
- A decline in adult cattle slaughter during the fourth quarter when the lower retentions of the last few years will be felt. (Cattle slaughter will likely fall during the first quarter as producers take advantage of good pasture growth, however, an upturn is expected during the second quarter.)

Inventory

MY 2009

According to Statistics NZ, the ending inventory for MY 2009 was 9.917 million head of cattle, which is

1% above post's latest forecast.

MY 2010

Post increased the total ending inventory forecast for MY 2010 to 10.09 million head, up nearly 2%, or 186,000 head. The increase is attributable to:

- An expected 100,000 head increase in the cow herd;
- A likely increase in dairy heifer retentions to support the larger dairy herd; and,
- A 20,000 to 30,000 head increase in beef heifer retentions for beef cow replacements because of better pasture conditions and growing confidence in the future of beef breeding.

Beef Production

MY 2009

Post revised the beef production estimate for MY2009 downward by 10,000 tons, or 1.6%, to 624,000 tons. This reflects reduced slaughter numbers in the fourth quarter, mainly from other adult cattle (steers, heifers, bulls) which were down 2.4% or 37,000 head from the last update. The cold, wet spring was part of the reason for the reduced kill as it restricted cattle growth rates.

The reduction in beef herd numbers in MY 2009 is impacting on the number of cattle coming forward for slaughter in the current marketing year.

MY 2010

Post reduced the forecast for total beef production by 1% to 619,000 tons. Factors contributing to the downward revision in the forecast include:

- Cow slaughter is now forecast at 8% below the previous estimate (but carcass weights will be up 1%, or 3 kilograms/head, because of better pasture conditions.)

- The calf slaughter forecast has been revised downward 6% to 1.46 million head because farm gate prices will not be high enough to encourage increased supply. It is anticipated that carcass weights will increase because the processors don't want to process lighter calves and farmers are likely to feed calves a day or two longer to make sure that what is sent to market is sufficient weight.
- While the adult other cattle slaughter forecast has been revised downward by 2%, good pasture conditions are expected to influence cattle growth rates for the rest of the year. It is anticipated that carcass weights will be, on average, 10 kilograms heavier than the previous year bringing them more in line with carcass weights experienced in 2006 and 2007. While Post had anticipated an increase in carcass weights in the previous update, this is a further 2% improvement on that previous forecast.

New Zealand Beef Production Table									
Marketing Year	2008			2009			2010		
	Est. CW kgs/hd	Number Slaughtered 1000's	Total Beef Production Tons	Est. CW kgs/hd	Number Slaughtered 1000's	Total Beef Production Tons	Est. CW kgs/hd	Forecast Slaughter 1000's	Forecast Beef Production Tons
Cow Slaughter	203	701	142303	200.3	838	167851	203	808	164024
Calf Slaughter	16.9	1,488	25147	16.5	1,454	23991	18.5	1,460	27010
Heifer Slaughter	NA	NA	NA	NA	NA	NA	235	420	98808.6
Steer slaughter	NA	NA	NA	NA	NA	NA	317	586	185824
Bull Slaughter	NA	NA	NA	NA	NA	NA	310	462	143362
Other Adult Cattle Slaughter	277.13	1,718	476111	281.96	1,533	432250.3	291.3	1,469	427995
Total Slaughter	164.7	3,907	643561	163.2	3,825	624093	165.6	3,737	619029

Source: Post, Meat and Wool NZ, StatisticsNZ

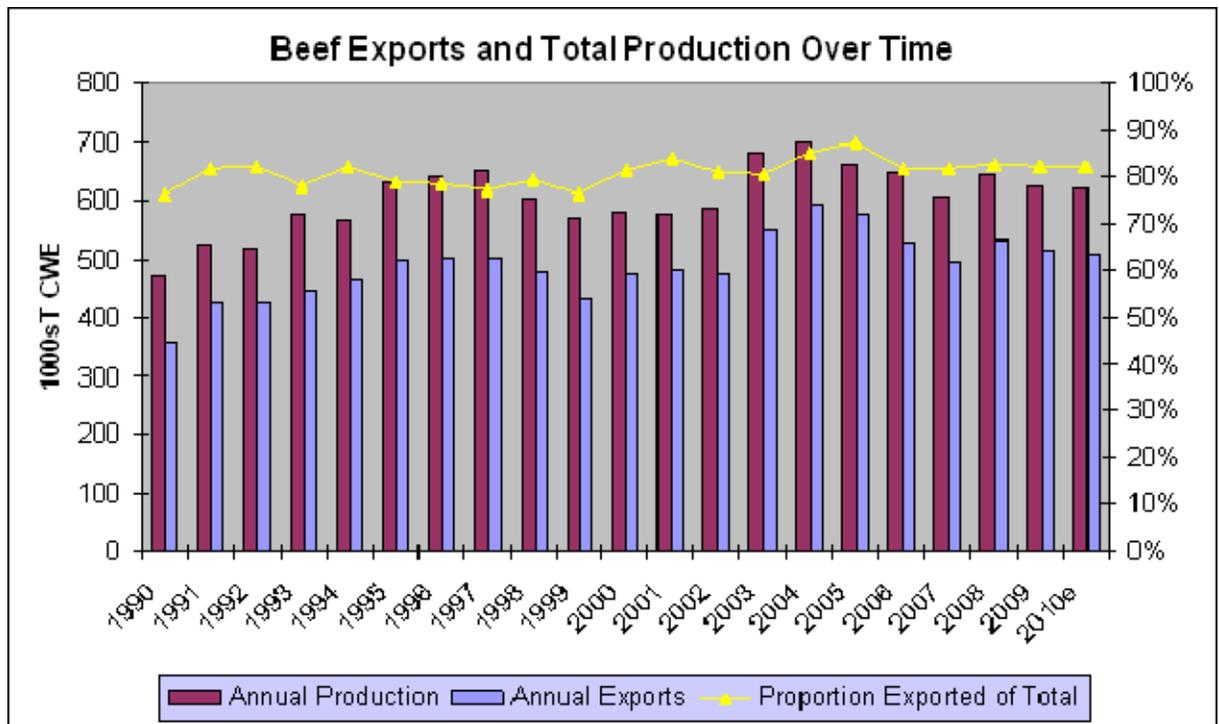
CONSUMPTION

Forecasts for domestic consumption are unchanged at 120,000 tons for both MY 2009 and MY 2010. According to Meat and Wool New Zealand, domestic beef consumption remains relatively static at approximately 27.14 kg per capita.

TRADE

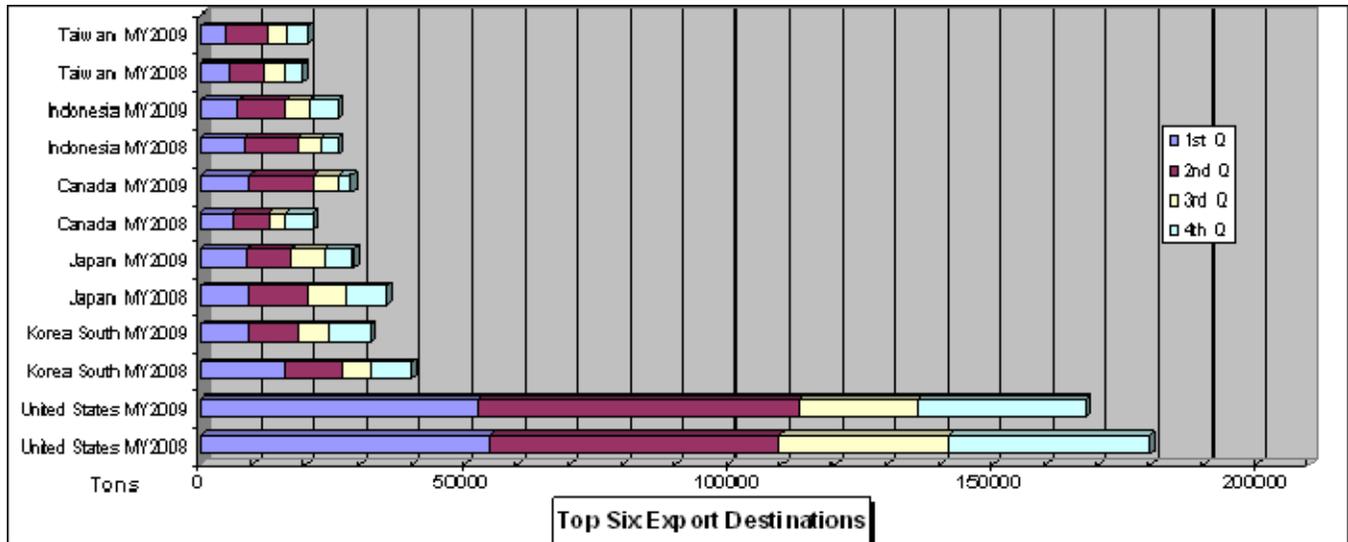
MY 2009 Exports

Total New Zealand beef exports totaled 367,061 tons (product weight) or 514,000 tons (carcass weight equivalent) in MY 2009, which is 2%, or 11,000 tons (CWE) less than post's previous estimate. Fourth quarter slaughter rates were lower than anticipated, especially for steers, bulls and heifers.

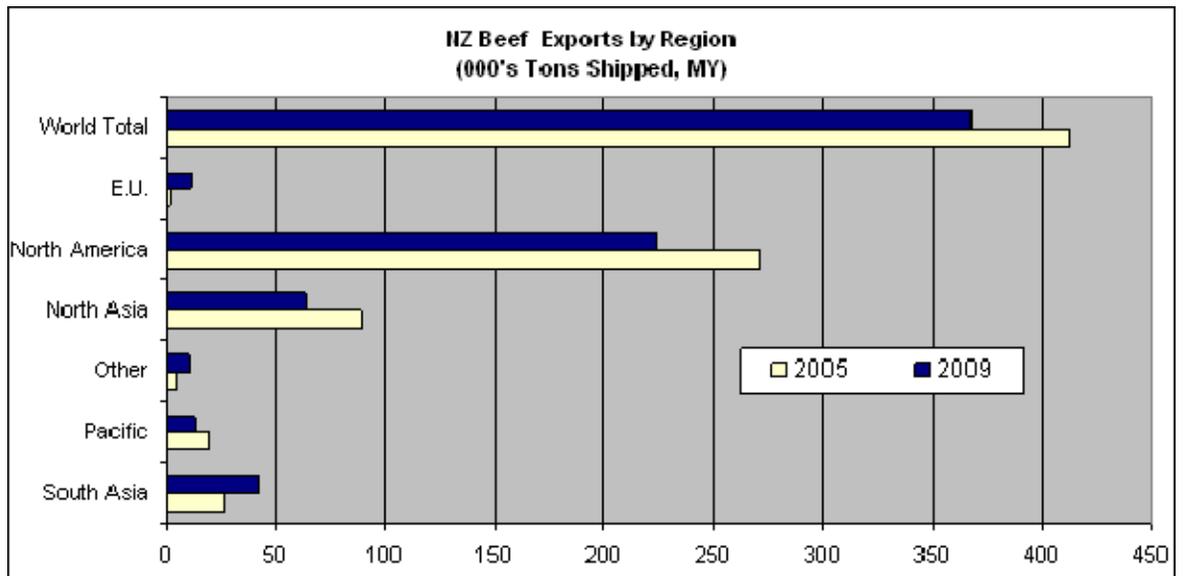


Source PSD online, 2010 Post estimates

By the end of MY 2009, New Zealand had only shipped 167,546T (PW) to the United States as compared to the 186,000 tons previously forecasted. This is partly because the reduction in slaughter numbers had more of an effect on manufacturing beef production than other categories, and, during the 2nd half of the year, other markets began to emerge that were paying marginally higher returns including Indonesia, Malaysia, Hong Kong, the Middle East and Canada.



Source GTA



Source: GTA

MY 2010 Exports

Post forecasts total exports for MY 2010 at 364,000T (PW) or 510,000T (CWE). This is a 1.35%, or 7,000 ton (CWE) reduction from the previous update.

Industry contacts expect shipments to the US market to be the same as in MY 2009 at 235,000T (CWE). Prevailing market conditions are largely the same as in late MY 2009 and other manufacturing beef markets are offering competitive prices for New Zealand product. However, during the last five weeks, the US manufacturing beef price for 95% chemical lean imported beef has increased by 13%. Since the beginning of the year, it is up 22%. This implies that exporters could start to divert product to the US market, but slaughter rates at the moment are so low that, even if as much product is shipped to the US as possible, it is unlikely to surpass MY 2009 levels. Some contacts report that the spike in US import prices could be short lived and, as soon as supply from Australia picks up and the winter woes affecting logistics of cattle in the US cease, then the US price will fall.

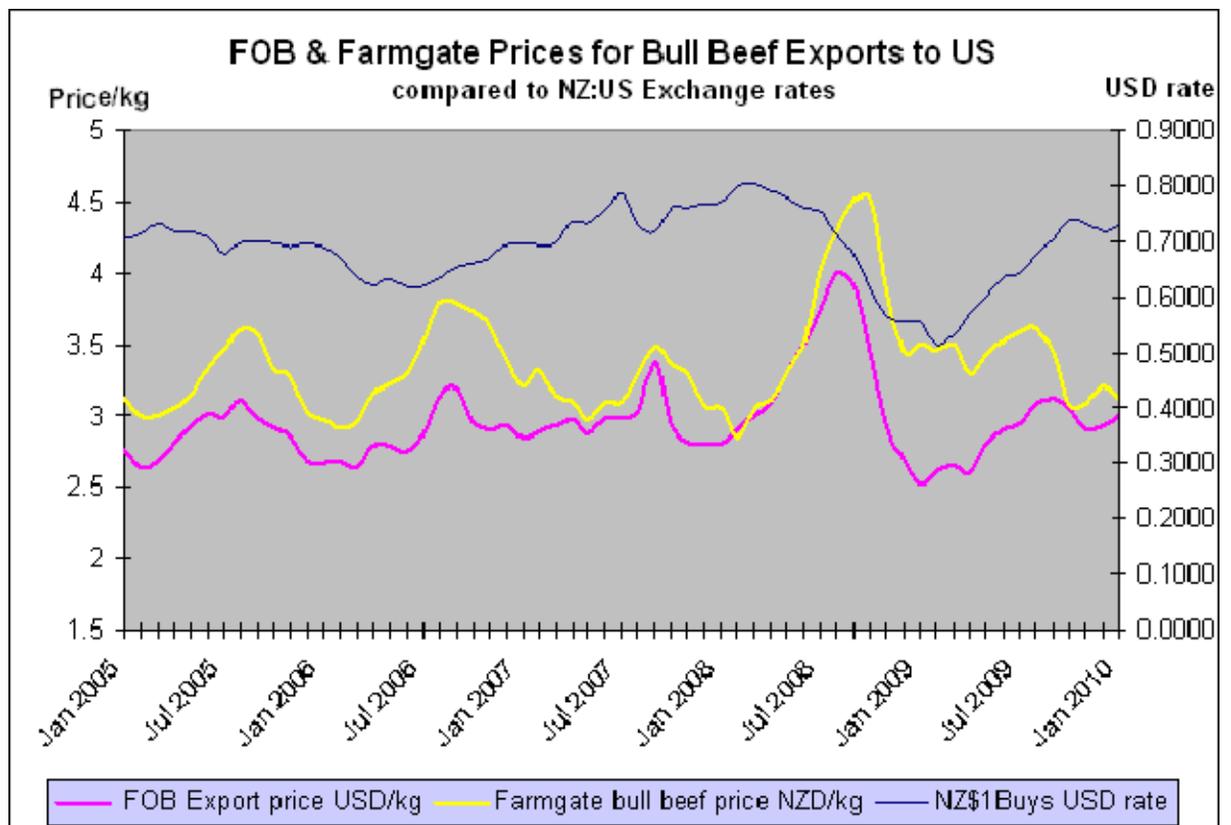
Generally, New Zealand exporters are bullish on beef prices, especially in view of the short supply of beef on the international market, which has become apparent over the last month or so. Rather than a blip, many exporters perceive this as a 12 to 18-month trend. Factors supporting this trend include:

- According to exporters, consumer demand is picking up but, in some markets, consumers are still concentrating their purchases on the lower end of the market (eg burgers);
- North Asian demand is solid and prices have firmed during January and February 2010;
- Middle Eastern and South East Asian markets are generally showing continued volume growth;
- The Russian market is beginning to open up, and while quantities shipped from New Zealand may be limited (MY 2008 3,830 tons shipped but in MY 2009 only 274 tons), the increased demand may have spin-off effects in other markets in terms of tighter supply and higher prices; and,

- Exporters are getting calls from niche markets in the EU and elsewhere.

Export Pricing

As demonstrated by the chart below, which features just one market segment, exchange rate volatility can either moderate market price movements at the farm gate or accentuate them. The last few weeks are a case in point. While US imported beef prices are at historical highs for this time of the year (23% ahead of the five-year average), New Zealand farm gate prices are only 6% ahead of the average. All other grades of beef are similarly impacted although perhaps not to the same extent as bull meat, which is very much a pure commodity product.



Source: GTA, iFarm, Reserve bank

POLICY

Halal

The two New Zealand-based Halal certifiers were delisted by the Indonesian clerical authority early in 2009. The Indonesian clerical authority has set up its own certifying system and the New Zealand-based certifiers remain delisted for Indonesian audits. Under the new system, auditors are flown in from Indonesia several times a year to carry out audits on meat and milk processing facilities as required.

Malaysia FTA

The Malaysia –New Zealand Free Trade Agreement (FTA) was signed in Kuala Lumpur on October 26 2009. All beef products exported to Malaysia from New Zealand were already duty free so the effect on meat exports will be negligible. Additionally, because of the issues with Halal certification, only two beef production plants are registered to export to Malaysia. MY 2009 exports were 2,356 tons, as compared to zero in MY 2006 when all plants were de-registered. Before this, New Zealand exported approximately 7,000 tons per year to the Malaysian market.

Hong Kong-New Zealand Closer Economic Partnership

The New Zealand/Hong Kong, China Closer Economic Partnership (CEP) was concluded by officials on the margins of APEC and announced on November 13, 2009. Officials must complete legal verification of the agreement before it can be signed. This is likely to take place around March 2010). Details of the agreement will be made public at that time.

New Zealand-Gulf Cooperation Council (GCC) Free Trade Agreement

Negotiations on the New Zealand – Gulf Cooperation Council (GCC) Free Trade Agreement (FTA) successfully concluded on October 31, 2009 following six rounds of negotiations. Officials must now complete the legal verification process before the FTA can be signed. It is likely that the agreement will be signed in the first half of 2010.

TransPacific Partnership Agreement

The Obama Administration announced on November 14, 2009 that the United States will engage with the Trans-Pacific Partnership (TPP) countries “with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21st century trade agreement”. The first round of negotiations is set for March 2010. Meat and Wool NZ and the Meat Industry Association jointly made submissions to the Ministry of Foreign Affairs and Trade on the TPP. In summary, they would like to see the US tariff rate quota, which currently stands at US 4.4 cents/kg, be reduced to zero. They are also advocating elimination of the over-quota tariff rate, which is currently 26.4% on fob value. They maintain that New Zealand’s beef exports to the US are complimentary to US beef production because lean meat from New Zealand is blended with US fat trimmings to manufacture value-added products such as burgers, patties, and pizza toppings. Meat and Wool New Zealand contends that New Zealand only supplies at most 2% of total US consumption, and because of land constraints, is not going to be able to increase this. More information on TPP can be found at:

<http://www.mfat.govt.nz/downloads/trade-agreement/transpacific/Submissions-part-7.pdf>

Further information on New Zealand’s FTA’s can be found at:

<http://www.mfat.govt.nz/Trade-and-Economic-Relations/Trade-Agreements/index.php>

Animal Welfare

On February 19, 2010, the Minister of Agriculture David Carter tabled the Animal Welfare Amendment Bill 2010 for its first reading in parliament. It has gone to the Primary Production Select Committee, which is due to report back with recommendations by April 30, 2010. The Bill seeks to beef up the penalties for animal ill-treatment and now will consider three levels of offense: willful ill-treatment; reckless ill-treatment; and ill-treatment.

NAIT

In January 2010, the Minister of Agriculture David Carter announced that the Government has given the go-ahead for the National Animal Identification and Tracing (NAIT) project, a livestock traceability scheme. The Minister said the Government would provide funding to build and operate the new system and would draw up legislation to make it compulsory for cattle and deer farmers. Farmers would face the costs of providing the new ear tags needed and any on-farm infra-structure such as tag readers. Testing of the new system is intended to start in 2011 and will be available for voluntary use from that time. If everything goes according to plan, NAIT will become mandatory for cattle near the end of 2011, with deer following a year later. While there is widespread support for the project, Federated Farmers has voiced major concerns over privacy issues with the central database and the efficacy and future proofing of the on-farm technology.

Life-Cycle Carbon Analysis (LCA)

Perhaps better known as carbon foot printing, this analysis work is being sponsored by the Ministry of Agriculture and Forestry (MAF) for all the agricultural, horticultural, and forestry sectors to help them understand where the CO₂ emissions emanate from within the production –marketing-consumption chain and the comparative volume of emissions per unit of output. MAF and the meat sector have been working

on a LCA for beef and lamb, which is expected to be completed in the near future.

PSD

Animal Numbers, Cattle Zealand (1000hd, %)	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Total Cattle Beg. Stks	9,730	9,730	9,730	9,715	9,715	9,715	9,810	9,810	9,917
Dairy Cows Beg. Stocks	4,280	4,280	4,280	4,348	4,348	4,348	4,470	4,470	4,597
Beef Cows Beg. Stocks	1,200	1,200	1,200	1,104	1,104	1,104	1,075	1,075	1,081
Production (Calf Crop)	4,446	4,446	4,446	4,500	4,500	4,523	4,540	4,540	4,540
Intra-EU Imports	0	0		0			0		
Other Imports	0	0		0			0		
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	14,176	14,176	14,176	14,215	14,215	14,238	14,350	14,350	14,457
Intra EU Exports	0	0		0			0		
Other Exports	17	17	17	10	10	11	12	10	11
Total Exports	17	17	17	10	10	11	12	12	11
Cow Slaughter	701	701	701	840	840	838	875	875	808
Calf Slaughter	1,488	1,488	1,488	1,500	1,500	1,454	1,550	1,550	1,460
Other Slaughter	1,718	1,718	1,718	1,570	1,570	1,533	1,500	1,500	1,469
Total Slaughter	3,907	3,907	3,907	3,910	3,910	3,825	3,925	3,925	3,737
Loss	475	475	537	485	485	485	513	513	623
Ending Inventories	9,777	9,777	9,715	9,810	9,810	9,917	9,900	9,900	10,086
Total Distribution	14,176	14,176	14,176	14,215	14,215	14,238	14,350	14,350	14,457
CY Imp. from U.S.	0	0		0					
CY. Exp. to U.S.	0	0		0					
Balance	0	0	0	0	0	0		0	0
Inventory Balance	47	47	(15)	115	95	202		90	169
Inventory Change	1	1	1	0	0	0		1	2
Cow Change	1	0	1	1	0	0		0	0
Production Change	6	6	6	1	1	2		1	0
Production to Cows	81	81	81	81	83	83		82	80
Trade Balance	17	17	17	15	10	11		12	11
Slaughter to Inventory	40	40	40	40	40	39		40	38
TS=TD			0		0	0		0	0

Meat, Beef & Veal New Zealand (1000hd,1000MT CWE)	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Slaughter (Reference)	3,907	3,907	3,907	3,910	3,910	3,910	3,925	3,925	3,737
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	644	644	644	634	634	624	625	625	619
Intra-EU Imports	0	0		0			0		
Other Imports	12	12	12	11	11	10	12	12	11
Total Imports	12	12	12	11	11	10	12	12	11
Total Supply	656	656	656	645	645	634	637	637	630
Intra EU Exports	0	0		0			0		
Other Exports	533	533	533	525	525	514	517	517	510
Total Exports	533	533	533	525	525	514	517	517	510
Human Dom. Consumption	123	123	123	120	120	120	120	120	120
Other Use, Losses	0	0		0			0		
Total Dom. Consumption	123	123	123	120	120	120	120	120	120
Ending Stocks	0	0		0			0		
Total Distribution	656	656	656	645	645	634	637	637	630
CY Imp. from U.S.	0	0		0	0				
CY. Exp. to U.S.	235	251	251	245	260	235		266	235
Balance	0	0	0	0	0	0			0
Inventory Balance	0	0	0	0	0	0			0
Weights	165	165	165	163	163	160		159	166
Production Change	6	6	6	(2)	(2)	(3)		(1)	(1)
Import Change	0	0	0	0	0	(17)		9	10
Export Change	7	7	7	(2)	(2)	(4)		(2)	(1)
Trade Balance	521	521	521	513	513	504		505	499
Consumption Change	0	0	0	(2)	(2)	(2)		0	0
Population	0	0		0	0				
Per Capita Consumption	0	0	0	0	0	0		0	0
TS=TD			0			0		0	0