



Rabobank

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“Moment of truth” for New Zealand agriculture in 2017 – industry report

New Zealand agriculture faces a “moment of truth” in 2017, according to a report by agribusiness banking specialist Rabobank.

In its recently-released **New Zealand Agricultural Outlook 2017** report, Rabobank says as an industry traditionally characterised by a liberal operating environment, and a key beneficiary of several decades of global shift to freer trade, agriculture faces a period of heightened regulatory uncertainty and change on both fronts.

Releasing the report, Rabobank Country Banking general manager Hayley Moynihan said 2017 was ushering in a period of considerable change and uncertainty for New Zealand agriculture with developments throughout the year likely to have a significant impact on the sector’s prospects this year and in the years to come.

“The industry will be keeping a close watch on global trade developments in 2017 following Donald Trump’s election in the US and the resulting breakdown of the Trans Pacific Partnership (TPP) agreement,” she said.

“The breakdown of this agreement brings with it increased risk of an escalation to rising protectionism already evident through the last few years in many parts of the world, as well as increasing the importance of this year’s trade negotiations with China – on an improved Free Trade Agreement (FTA) – and with the United Kingdom and the European Union on FTAs,” she said.

Ms Moynihan said New Zealand’s tightening environmental regulations and the 2017 general election could also have a major impact on the outlook for the sector.

“Tightening environmental regulations, particularly in the Waikato and in Southland where significant plan changes are taking place, have the potential to increase costs and restrict intensification or change land use in 2017 and beyond,” she says.

“Environmental regulation could also become an election issue, as could other topics relevant to the sector such as greenhouse gas liabilities and rules around foreign investment. Policy relating to these areas may be subject to change, especially if a coalition government including Labour, NZ First and the Green party were to be voted in.”

Ms Moynihan said the agricultural sector has the opportunity to influence in some form each of these factors and industry groups would be lobbying hard to achieve favourable outcomes.

“The importance to the New Zealand agricultural sector of the coming year should not be underestimated. How the industry navigates through this period will fundamentally shape its prospects in the years to come,” she said.



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Despite the uncertainty, the report says the outlook in 2017 is still positive for many of New Zealand's key agricultural sectors.

"In the dairy sector, market fundamentals will further support farmgate milk prices in 2017 restoring profit margins and allowing dairy farmers to move on from two very difficult seasons," Ms Moynihan said.

"We expect to see a slower rate of growth in New Zealand milk production emerge in the 2017-18 season and beyond due to increasing environmental regulation, resource constraints and social pressures. A further factor which will influence production levels is the investment appetite of dairy farmers, and the size of this appetite will become much clearer at the start of next season when dairy farmers make a call on whether to invest profit in further expansion or prioritise debt repayment."

The report says the outlook for New Zealand's key horticultural sectors in 2017 is also positive.

"Another strong year of production and export growth is expected for New Zealand's leading horticulture sectors with bumper crops expected for avocados, apples and kiwifruit and demand from Asian markets for these products continuing to rise," Ms Moynihan said.

The prospects for the wine sector were also strong, the reports says, with the good prices achieved in 2016 likely to carry through to 2017.

"At this early stage of the season, grape production is tracking around average levels and with wine company inventory still ample for the current demand trajectory, wine grape pricing is expected to hold steady in the coming year."

Sheep and beef producers can expect a more challenging 2017, according to the report, with beef and sheepmeat price improvement looking unlikely over the next 12 months.

"Record global beef production will see downward pressure on New Zealand cattle prices while the strong New Zealand dollar is the major headwind for greater sheepmeat returns during 2017," Ms Moynihan said.

"Industry participants will be keeping a close eye on the impact of recent corporate changes in the animal proteins sector with most hoping these changes will bring on-going benefits to suppliers through plant rationalization and improved access to China."

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Rabobank New Zealand is a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 115 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 40 countries, servicing the needs of approximately 8.8 million clients worldwide through a network of more than 1000 offices and branches. Rabobank New Zealand is one of New Zealand's leading rural lenders and a significant provider of business and corporate banking and financial services



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to country's food and agribusiness sector. The bank has 33 branches throughout New Zealand. Rabobank also operates RaboDirect, New Zealand's first internet-only bank specialising in savings and deposits.

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