



**Rabobank**

**Media release  
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## ***Solid returns expected for red meat sector in 2019 with sheepmeat leading the way – industry report***

While some downward pressure is expected on beef prices in next 12 months, sheepmeat pricing is anticipated to remain strong, signalling another year of solid returns for New Zealand's red meat sector in 2019, according to a recently-released report by agricultural lending specialist Rabobank.

In its **Global Animal Protein Outlook 2019 – Value, not volume: The new growth focus** Rabobank says increasing global beef supplies, combined with weakened US demand, are expected to put downward pressure on New Zealand's beef export returns throughout 2019, however, a more favourable exchange rate is forecast to soften some of the impact on farm gate beef prices.

Rabobank animal proteins analyst Blake Holgate said with US demand for New Zealand beef exports expected to reduce, China would become an increasingly important export market for the NZ beef sector.

"Just five years ago China accounted for less than 10 per cent of New Zealand's total beef export receipts, however, this was up to 23 per cent last season," he said.

"While the US remains New Zealand's largest beef export market, the proportion of product being exported to China is anticipated to grow further in 2019," he said.

The report says New Zealand beef production is forecast to decline slightly in 2019.

"New Zealand's cow slaughter is expected to be lower than it was in 2018, when the culling of a mature New Zealand dairy herd led to a jump in overall beef production," Mr Holgate said.

"This is forecast to reduce New Zealand's beef production by approximately three per cent on 2018."

For New Zealand sheep meat, the report says the outlook remains positive for the coming year with solid market fundamentals expected to underpin strong pricing.

"Despite some consumer resistance to high prices, and the potential for Brexit to disrupt New Zealand sheepmeat exports into the UK and EU market, continuing strong demand in New Zealand's other key export markets, particularly China and the US, is expected to hold farmgate prices within a similar range to what was experienced last season," Mr Holgate said.

Mr Holgate said total lamb slaughter was forecast to decrease to 19 million head in 2019, a fall of two per cent from 2018.

"This would make it New Zealand's lowest lamb kill on record and is being driven by the continual



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decline of New Zealand's sheep flock and a lower national lambing percentage this season," he said.

Mr Holgate said while New Zealand's sheep and beef farmers could expect solid farmgate pricing in the coming year, they would also "be wise" to keep a close eye on local issues which had the potential to impact on-farm production costs and productivity.

"In order to address local concerns about the impact livestock farming is having on the environment, regulation of the New Zealand agricultural sector is set to tighten over the next 12 to 18 months," he said.

"New regulation relating to water quality, indigenous bio-diversity and greenhouse gas emissions is expected in the short to medium term and farmers will need to look carefully at the detail of any incoming regulation to ensure they understand how it is likely to impact their operations, what investment will be required to meet new targets, and how any investment can be leveraged."

Mr Holgate said sourcing labour was another issue impacting the red meat sector supply chain.

"Both farm owners and meat processing companies have had some difficulty sourcing workers in 2018 and, with labour availability expected to remain tight in 2019 as a result of low levels of unemployment and restricted access to migrant labour, there is scope for this to impact on producer and processor productivity," he said.

### **Global outlook**

On the global front, the report says total animal protein production growth – across all terrestrial and aquatic species – is expected to continue growing in 2019, although the rate of expansion is slowing.

Mr Holgate said global animal protein growth below the five-year average was forecast for 2019, after stronger-than-expected growth in 2018.

"Pork and wild-catch seafood are expected to see the largest declines, although the slow-downs in poultry and beef growth are also material," he said.

The report says while higher global production implies trade needs to increase, a shift to protectionist policies and US dollar strength means "the only thing clear about trade in 2019 will be the lack of clarity".

Mr Holgate said the US-China trade war had re-shaped pork and seafood trade in 2018 and, as major players in global animal protein trade, their bilateral disagreement was having much wider implications.

"Of most significance for New Zealand sheep and beef farmers is the impact of the trade war on beef trade flows. While we do not see any direct beef trade between the US and China in 2019,



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we do see US exports looking for a new destination markets and this has the potential to distort other trade flows,” he said.

The report says global feed prices are set for a gradual increase in 2019, supported by robust demand against a backdrop of tightening supply.

Mr Holgate said higher global feed prices would help to improve New Zealand’s competitiveness in comparison to other key exporters of animal protein, particularly beef.

“Given New Zealand’s minimal use of feed in comparison to our export competitors for red meat products, an increase in feed costs is likely to more significantly lift our competitors’ overall cost of production and create a comparative cost advantage for New Zealand.”

#### **Key watch factors**

Beyond trade and feed costs, the report identifies five key factors expected to influence the global animal proteins sector in 2019 – biosecurity risks, labour shortages, industry consolidation, rising sustainability and ethical demands and the continued emergence of alternative proteins.

Mr Holgate said, of these, biosecurity risks shaped as the factor with the potential to most significantly impact the sector in the coming year.

“In 2018, disease has affected all of animal protein, from livestock to poultry to aquaculture and we expect biosecurity to become a major theme in many countries and for many companies in 2019.

The report says African Swine Fever (ASF) and Avian Influenza (AI) are now worldwide threats, with both expected to create volatility in trade streams and change global trade flows in the coming year.

“While New Zealand has not been directly impacted by either ASF or AI, the Mycoplasma Bovis outbreak highlights that New Zealand cannot be complacent when it comes to biosecurity and every effort must be made to ensure the integrity of our biosecurity systems,” Mr Holgate said.

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***Rabobank New Zealand is a part of the global Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has nearly 120 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 39 countries, servicing the needs of about 8.4 million clients worldwide through a network of close to 1000 offices and branches. Rabobank New Zealand is one of the country’s leading agricultural lenders and a significant provider of business and corporate banking and financial services to the New Zealand food and agribusiness sector. The bank has 32 branches throughout New Zealand.***

#### **Media contacts:**

David Johnston

Denise Shaw



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Media Relations Manager  
Rabobank New Zealand  
Phone: 04 819 2711 or  
027 477 8153

Email: [david.johnston@rabobank.com](mailto:david.johnston@rabobank.com)

Head of Media Relations  
Rabobank Australia & New Zealand  
Phone: +61 2 8115 2744 or  
+61 439 603 525

Email: [denise.shaw@rabobank.com](mailto:denise.shaw@rabobank.com)