**Sheep and beef farmers face tough year if NZD stays high**

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A range of factors including currency fluctuations, a weak and volatile outlook for lamb and wool, plus the impact of drought and Facial Eczema, which was widespread in the North Island where half New Zealand’s sheep are farmed, will impact on sheep and beef farmer profitability this season.

The Beef + Lamb New Zealand New Season Outlook 2016-17 predicts beef prices to remain favourable and limited availability should ensure good returns for breeders, however competition for store stock is likely to reduce the margins for those finishing farmers, Beef + Lamb New Zealand Chief Operating Officer Cros Spooner says.

While sheepmeat prices are uncertain, farmer reports indicate that it has been a very favourable lambing with high survival.

The Outlook predicts that the average farm profit before tax on sheep and beef farms in New Zealand will fall 13 per cent to $67,000 this season.

“This outlook sets the scene for a tough year and we’ll see farmers tightly control expenditure and focus on what can be optimised behind the farm gate to make the most of the season and be best placed for the next,” Spooner says.

“With the completion of lambing and calving, the season is essentially set for farmers. Depending on their location, farmers will be implementing strategies to maximise returns.

“For example those in Southland have had a good autumn, mild winter and spring, which has provided ideal conditions for lambing. Southland farmers are most dependent on sheepmeat prices, and to combat the lower per kg prices we’re likely to see farmers considering taking lambs to higher carcase weights and we may see higher hogget mating this year.

“At the other extreme, those in North Canterbury and parts of Wairarapa and Hawke’s Bay have faced a dry summer, autumn and winter and this has continued into spring.

“These farmers have reduced stock numbers but will be concerned by the continuing dry conditions. The uncertainty for these farmers is when it will rain. They’ll want to concentrate on growing their lambs, ensuring their ewes and hoggets are in good condition and looking to bring on finishing stock. However, availability and price is already indicating this will be challenging.

“Facial Eczema was widespread and farmers will be looking closely at climatic trends that might provide early warnings this season.”

Spooner says much of the outlook depends on the value of the New Zealand dollar, which is at 71cents against the US dollar at the moment, up 8 cents on this time last year.

“While this is good news for importing oil, TVs and consumer goods because fewer NZDs are needed to buy these items, it cuts back New Zealand’s export receipts. This particularly impacts on sheep and beef farms because around 90 per cent of production is exported, and domestic meat prices reflect the export price.”

The weakness of sterling since the Brexit referendum in June also has a negative impact because the UK normally accounts for 20 per cent of New Zealand’s lamb exports.

“This season, New Zealand’s 11,300 commercial sheep and beef farmers will spend a total of $4.2 billion on fertiliser, interest, repairs and maintenance and general farm operating items, down $80 million on last year ( 2%).

Much of the profit decline is the result of a fall in wool (11%), lamb and sheep revenue (2.4%) and dairy grazing revenue (11%). Cattle revenue is expected to be similar to last year with production up slightly but a continuation of the USD at its current level would reduce cattle revenue.

Spooner says international demand is expected to remain reasonable for beef this year, while tight sheepmeat supplies in Australia and New Zealand have potential to support prices with the unknown factor firmly centred on the exchange rate trend for 2016-17.

“In this context, any improvement in export prices is primarily expected to come from a weaker New Zealand dollar, but there is considerable uncertainty whether that will happen.”

Export lamb production is forecast to decrease marginally – by 1.6 per cent – in 2016-17. The largest markets for lamb are the UK accounting for 20 per cent, the rest of EU accounting for 18 per cent and China 32 per cent.

New Zealand beef production is expected to be similar to last year, with the US, which is New Zealand’s largest market, accounting for 50 per cent of exports followed by China (18%), Taiwan, Canada and Japan.

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