

# Fortnightly Agri Update

18 April 2018



## Guacamole anyone?

In today's Fortnightly Agri Update, we take a closer look at developments in the Avocado industry and examine the risks and opportunities New Zealand's third largest fruit export may face in the coming years.

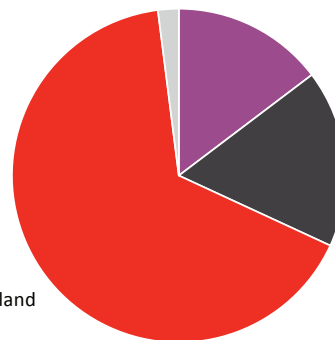
From the 1980s phenomenon of avocado and prawn cocktails to a millennial generation who would be lost without an avocado on toast option on brunch menus, avocados have come a long way in recent years. And while avocados have been around for many thousands of years before that, they have enjoyed something of a revival recently on the back of their versatility, health benefits and photogenic nature (apparently, avocados are a big hit on Instagram).

Locally, the New Zealand avocado industry is growing. Concentrated in the Bay of Plenty and Northland (which produce around two thirds and one third respectively of New Zealand's avocado crop) the industry is dominated by exports. By volume, around 60% of production is exported, accounting for around 80% of industry revenue of around \$200 million in 2016/17. The industry has ambitious goals, to lift returns to \$280 million per year by 2023.

Perhaps surprisingly for those outside the industry, avocados are New Zealand's third largest fresh fruit exports - behind the traditional heavy hitters of apples and kiwifruit. Avocado exports in 2017 were valued at \$122.4 million. This compares to \$690 million and \$1.6 billion for apples and kiwifruit respectively. New Zealand's avocado exports are dominated by exports to Australia with around 85% of avocado exports heading across the ditch in 2017. This has both pros and cons. On the positive side Australians are

big avocado lovers, consuming around 3.2Kg per capita per annum (the highest outside South and Central America). They also have strict quarantine regulations which means New Zealand is the only country that can export avocados into Australia. This stops New Zealand growers competing head to head with the big players in the global avocado industry. Mexico in particular dominates global trade in avocados, producing almost half of global avocado exports.

### Avocado production by region



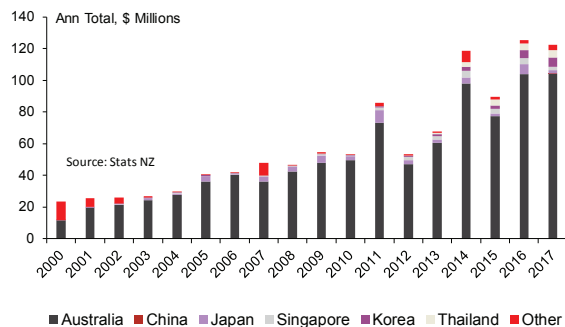
Source:  
New Zealand  
Avocado

■ Far North ■ Mid North ■ Bay of Plenty ■ Rest of NZ

The downside of having all your avocados in one basket is that New Zealand exporters are at the mercy of Australian demand. Should this demand change, perhaps because import regulations are tightened (or alternatively loosened allowing greater competition from other suppliers), domestic production is preferred, or for some reason Australian café patrons fall out of love with smashed

avocado on toast, New Zealand exporters would be left scrambling to find alternative markets for their products. It's probably this risk the industry has been aware of when developing strategies to grow exports to new markets. It's worth noting that while total avocado export volumes have been growing strongly, the proportion of NZ avocado exports headed for Australia has gradually been falling. From above 90% ten years ago to around 85% in 2017. In contrast, export growth to Singapore, Korea and especially Thailand has been very strong.

### Value of avocado exports by country



Yet the real jewel in the crown of any food producer is the ability to export to China's 1.4 billion consumers. New Zealand avocado producers have had a significant win this year, receiving the green light for exporting avocados to China (after an agreement on phytosanitary requirements was reached in November). China's demand for avocados has been growing strongly, and New Zealand producers will now be able to compete with suppliers from Mexico, Peru and Chile to supply "butter fruit" to the Chinese market.

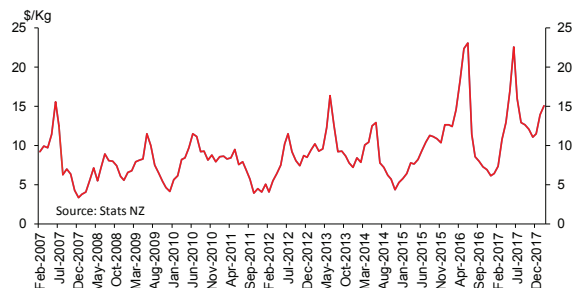
One of the most striking features of avocado sales and production data is the huge variation from season to season. For example, production almost doubled between the 2015/16 and 2016/17 seasons, as average yield rose from 6.1 tonnes per hectare to 11.5 tonnes per hectare. This change, largely due to a tendency for avocado trees to produce more fruit in one year, and less the next year, is one of the key challenges the industry faces.

Such sharp changes in production unsurprisingly give rise to big changes in prices. Locally, where avocado imports are restricted, avocado prices are usually at a seasonal low over the summer months. But avocado prices over January/February this year were around twice as high as the same period a year ago. A similar pattern is reflected in export data. Prices rise strongly during periods of tight supply.

Generating a more consistent avocado harvest is not a new challenge for the sector but, it is one that is likely to be an ongoing constraint to expansion. Challenges with

big fluctuations in revenue can make financing capital expenditure difficult and lenders cautious. There is also a long wait for sourcing trees for new plantings (with a reported 2 year wait for new rootstock) as well as challenges similar to those faced by other horticultural producers.

### NZ consumer Avocado Prices



Yet despite this, interest in the sector is growing. 600 hectares of new avocado orchards are planned for the far north as dairying land is converted to orchards. This is one example of a trend we expect to see more of in the coming years. As the costs of carbon emissions are incorporated into production costs, land is likely to shift away from dairy, towards its next best use. And in parts of the country, that could well see avocado orchards becoming an increasingly common part of the landscape.

**Anne Boniface**  
Senior Economist

### GlobalDairyTrade Auction Results, 18 April 2018

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	5.3%	6,120
Butter	2.9%	5,654
Butter Milk Power (BMP)	N.a	n.a.
Cheddar	4.6%	3,855
Lactose	14.8%	687
Rennet Casein	3.1%	5,792
Skim Milk Powder (SMP)	3.6%	1,913
Whole Milk Powder (WMP)	0.9%	3,311
GDT Price Index	2.7%	3,587

### Farmgate milk price forecasts

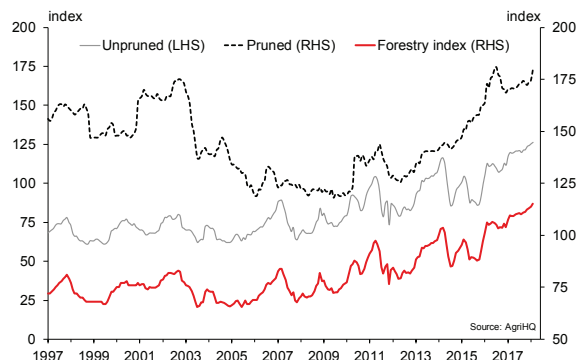
	2017/18		2018/19
	Westpac	Fonterra	Westpac
Milk Price	\$6.55	\$6.55	\$6.50

# Beyond the farm gate

## Forestry

	Current price level compared to 10 year average	Next 6 months
Trend	High	↘

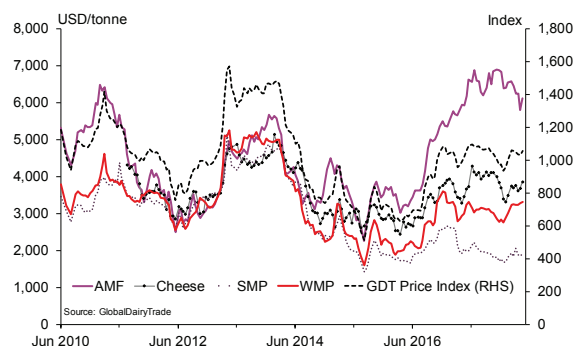
Log prices have flattened off in recent months, as export volumes remain elevated. Sentiment in the key Chinese market is reported to remain relatively upbeat. Looking further ahead, we continue to think that slower economic growth in China this year and the next is likely to put downward pressure on log prices. Locally, there are signs of capacity constraints biting in the construction sector. Consent issuance has been flattening on a nationwide basis, albeit at a high level. This could see local demand for wood products flattening off.



## Dairy

	Current price level compared to 10 year average	Next 6 months
Trend	Average	↘

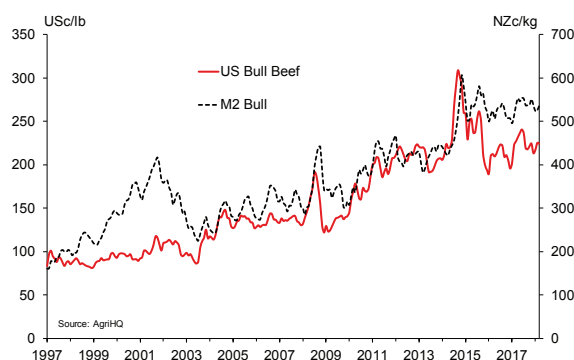
Dairy prices rose in last night's GlobalDairyTrade auction, with the headline price index up 2.7%. Increases were led by a 14% jump in lactose prices (however, this was on small volumes, with the product not regularly traded on GDT platform). Although price increases were more modest for other products on offer, they were also widespread. Prices rose for all products on offer with the smallest move a 0.9% increase in whole milk powder prices. The relative stability in recent GlobalDairyTrade auctions supports our view that dairy markets appear to be broadly balanced. While we expect further increases in global milk supply to put downward pressure on dairy prices in the coming months, we continue to expect this adjustment to be gradual.



## Beef

	Current price level compared to 10 year average	Next 6 months
Trend	High	↘

Local beef prices have held up remarkably well in recent months. However, looking ahead, changes in global supply conditions mean this is unlikely to be sustained indefinitely. US domestic beef production is expected to grow for the third consecutive year in 2018, and while strong consumer demand in the US has supported prices to date, the price of beef relative to alternative proteins may constrain demand going forward. This could be particularly true of pork, if China's retaliatory move to put tariffs on US pork imports leads to increased pork supply in the US market, and downward pressure on pork prices.



**Note:** Trend arrows indicate direction of change in world prices.



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