

Fortnightly Agri Update

18 July 2018



Kiwifruit – a rising star

New Zealand's horticulture sector has gone from strength to strength of late, driven in part by improving fortunes in the kiwifruit industry. Traditionally one of New Zealand's key primary exports, in recent years the kiwifruit industry has overcome significant adversity to become one of the leading lights of New Zealand's agriculture sector. In today's Agri Update we look in more detail at the Kiwifruit industry, and consider some of the risks and opportunities for the sector from here.

A Brief History

Kiwifruit were introduced to New Zealand from China in the early 1900s. Initially known as Chinese gooseberries, they proved a popular fruit well suited to NZ growing conditions. In the 1920s a new cultivar was developed by New Zealander Hayward Wright. By the 1960s The Hayward became the standard kiwifruit cultivar, helping growers meet the increasing demand international demand for kiwifruit.

The sector expanded rapidly in the 1970s and first part of the 1980s. However there was a sharp downturn in the industry in the late 1980s as competition amongst NZ growers depressed prices. The Government moved to regulate the sector and the Kiwifruit Marketing Board was established in 1988. It had monopoly powers to distribute

and market kiwifruit offshore, except to Australia. This eventually became grower owned Zespri Group in 1999, which provided a single point of entry marketing structure for NZ kiwifruit (though these days some kiwifruit grown offshore is also marketed under the Zespri brand name).

The industry has continued to have its ups and downs. European kiwifruit began to enter the market in the early 1990s increasing global supply and depressing prices. This coincided with a hit to New Zealand producers' reputation when exporters were prosecuted for high pesticide levels.

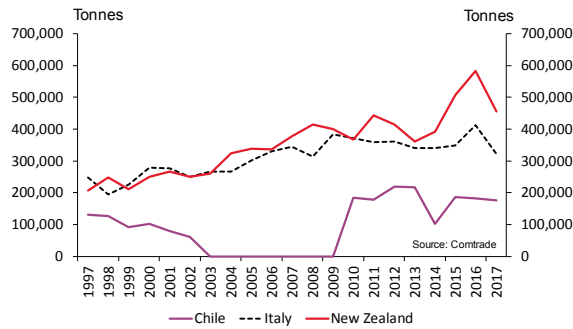
More recently the industry has faced a biosecurity incursion. In November 2010 symptoms of vine killing disease *Pseudomonas syringae* pv. *Actinidiae* (Psa) were discovered. The disease quickly spread and infected a large proportion of orchards. While the industry acted to stop the speed of the disease, it also developed new varieties, in particular a Gold variety which proved to be relatively resistant to the disease.

The sector today

Home to the giant Kiwifruit, the Bay of Plenty is the lynchpin of New Zealand's Kiwifruit industry. Almost 80% of New Zealand's kiwifruit plantings are in this region, including 85% of green planting and 72% of gold.

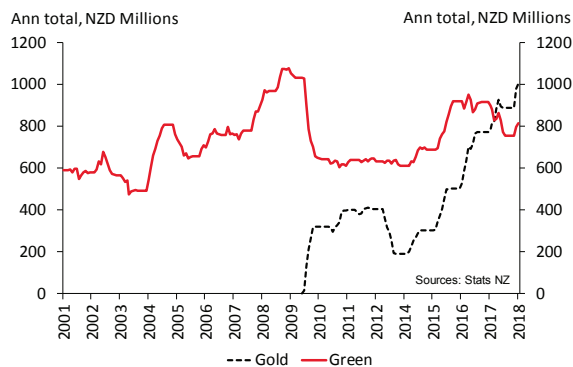
New Zealand is also a significant player in international kiwifruit markets, producing around 35% of all traded kiwifruit (by volume) and 46% by value.

Kiwifruit export volumes

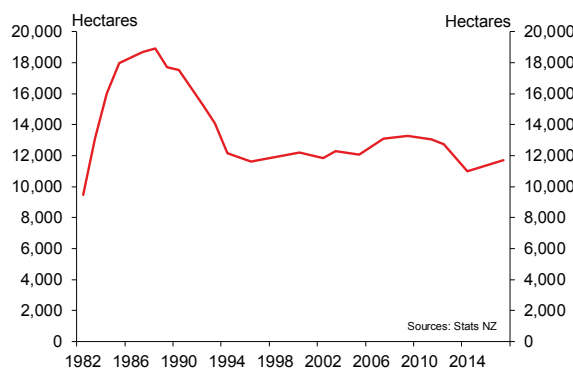


In the year to May 2018, NZ kiwifruit exports were worth \$1.8bn, 6.6% higher than a year earlier. Export growth in recent years has largely been driven by a lift in the value of gold kiwifruit exports. Gold sales to China have grown particularly strongly, but the fruit has also proved popular in the likes of Japan and the EU. Production of gold kiwifruit is set to grow further in the coming years as current plantings mature and further plantings are added. This, along with a slower growth outlook in China, will probably prove a headwind for further growth in prices.

Kiwifruit exports



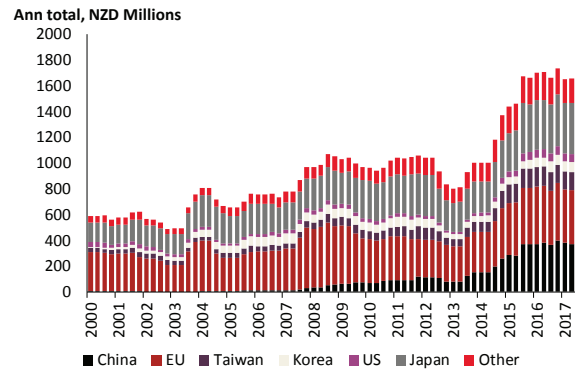
Area planted in kiwifruit



Improving productivity partly due to genetic improvements and higher planting densities has also been an important driver of success in the industry. While the area dedicated to kiwifruit growing in New Zealand declined 10.5% between 2007 and 2017 (to 11,705 hectares) the total volume of kiwifruit exports increased by an impressive 50%. Going forward, we're likely to see further expansion

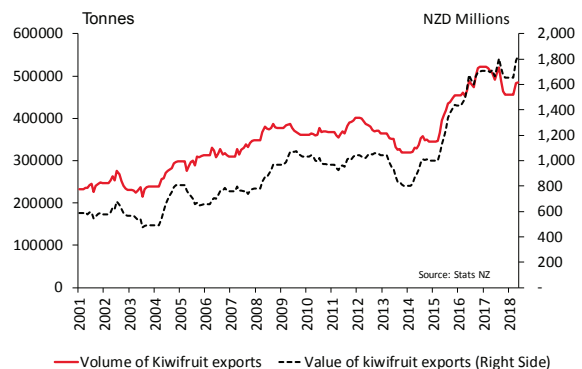
of the industry, in part as a result of changing land use. With farming costs set to increasingly account for carbon emissions associated with production this is likely to, at the margin, increase the incentive to switch from the likes of dairy farming into horticulture production, including kiwifruit.

Kiwifruit exports by country



The strong performance of the kiwifruit industry in recent years has led to strong demand for licences to grow both gold and green fruit. This year Gold3 licences sold for \$253,000-\$260,000 per hectare. The high cost of this licence, alongside increasing land prices, are pushing up the cost of entering the sector (with successful bidders needing to stump up with the funds for the purchase by the end of July). The high capital required to enter the industry may in part be driving increased corporate and large scale investment in the sector. For example, there was a high profile sale recently in the Bay of Plenty where three North Island Iwi joined forces to purchase orchards which are expected to yield up to 1.3 million trays of kiwifruit annually (almost 1% of annual Zespri production).

Kiwifruit exports (annual total)



Where to from here

The outlook for the kiwifruit sector remains positive. Like other New Zealand commodity exports, much will depend on how global growth evolves. In particular slower growth in China is likely to mean more challenging conditions in this market. That said, the relatively diverse nature of kiwifruit export markets (compared to say dairy) should hold the sector in good stead, prospects in important kiwifruit export markets such as Japan and the EU are not as downbeat.

One challenge the sector has faced this season has been sourcing seasonal staff to pick the kiwifruit crop. Packing and processing the kiwifruit harvest is a relatively labour intensive process. And the current tight labour market (the unemployment rate is at just 4.4%) has made sourcing seasonal labour difficult for growers. The tight labour market and rising wage costs are likely to encourage growers and processors to further invest in technology to improve productivity, increase automation and reduce costs in the processing, and to a lesser extent picking, of kiwifruit.

The industry will also need to continue to innovate with the type of product it produces. It has enjoyed recent success with the Gold3 variety. But imitation is the sincerest form of flattery. With success comes the risk other kiwifruit exporters will attempt similar innovations. Staying ahead of the game in terms of both the quality and type of product produced in New Zealand won't be easy. But as the recent successes of the industry have shown, being able to do this will bring rewards.

Anne Boniface
Senior Economist

GlobalDairyTrade Auction Results, 18 July 2018

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-5.2%	5,629
Butter	-8.1%	4,953
Butter Milk Power (BMP)	n/a	2,225
Cheddar	-3.3%	3,596
Lactose	-	-
Rennet Casein	-9.5%	4,602
Skim Milk Powder (SMP)	0.8%	1,959
Whole Milk Powder (WMP)	1.5%	2,973
GDT Price Index	-1.7%	970

Farmgate milk price forecasts

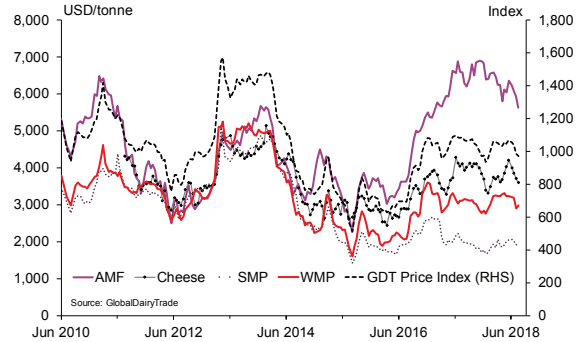
	2017/18		2018/19	
	Westpac	Fonterra	Westpac	Fonterra
Milk Price	\$6.75	\$6.75	\$6.40	\$7.00

Beyond the farm gate

Dairy

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

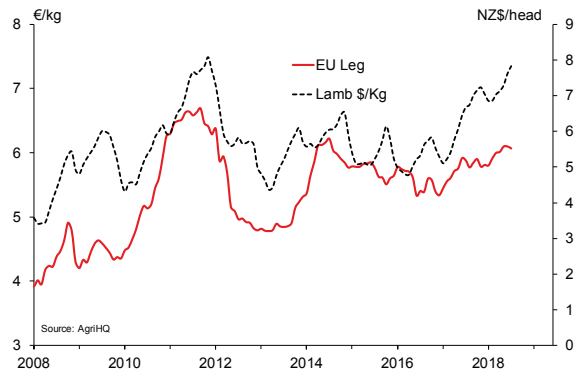
Dairy prices recovered only a little overnight after falling sharply in the early-July auction. In aggregate the GlobalDairyTrade price index fell 1.7%, led by weaker prices for fats. Butter prices dropped 8% and AMF traded 5.2% lower. Fats prices remain at historically elevated levels but have now fallen some way from their recent peaks. Butter prices, for example, have fallen 13% since May. Whole milk powder prices edged up 1.5%, only recovering a little from the sharp fall in the previous auction. While fortnightly dairy auctions can be volatile, the subdued result overnight suggests genuine softness in demand for dairy commodities. We think this is likely at least in part to reflect a weaker demand in China, and also concerns about the potential impact of growing trade tensions. We continue to view Fonterra's \$7 milk price forecast this season as too optimistic.



Lamb

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

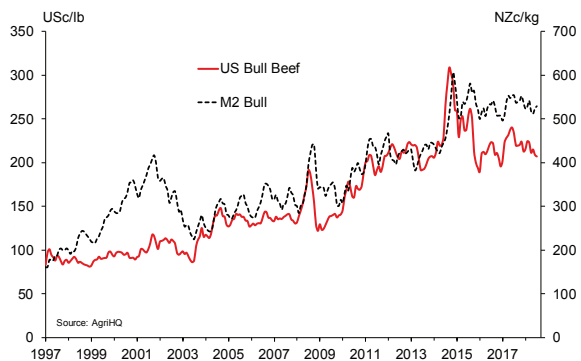
Local lamb prices have improved further in recent months on the back of ongoing tightness in domestic supply. The high prices on offer are likely to encourage some farmers to invest in building flocks, which could further keep the squeeze on lamb supplies locally this year. In the UK, NZ exporters could benefit over the medium term from the recent increase in slaughter there following very dry conditions. In contrast to local prices, international prices have remained more stable albeit at high levels. Tight global supplies are likely to continue to underpin prices, even if we do see some easing in demand on the back of slower growth in China and the Eurozone.



Beef

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

Beef prices have remained relatively stable, despite a strong lift in supply of US and Australian beef. We don't expect this situation will be maintained indefinitely. Over time, we continue to expect this lift in supply will weigh on prices. But for now it appears that robust demand, particularly in the US and China, is outweighing growth in supply and continuing to underpin beef prices.



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

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