



Rabobank

**Media Release
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New Zealand sheep meat – ‘full cup, steady hand’

While New Zealand sheepmeat producers have been enjoying a ‘full cup’ in recent times – with strong farmgate returns – a ‘steady hand’ will be required to balance future production levels with demand uncertainty across European markets, Rabobank reports.

In its recently-released report ***Sheepmeat – full cup, steady hand***, the global agribusiness banking specialist says the New Zealand sheepmeat sector has been enjoying strong farmgate returns in the past two seasons as a result of retail price increases and limited supply availability.

However, the report cautions, a ‘steady hand’ will be required to manage the sector’s immediate future due to demand uncertainty across European markets as consumers feel the pressure of rising food costs against wage stagnation.

Report co-author Rabobank senior analyst Hayley Moynihan says global sheepmeat supplies are forecast to increase from 2013, off a low production base, although this volume growth is expected to be modest and availability will not fully recover 2010 levels until 2015.

“While sheepmeat demand has softened in developed markets, we expect retail prices will normalise at new levels – typically 10 per cent higher than the three-year average for most regions,” she says.

“For New Zealand producers, a positive outlook will persist in export markets as the economic outlook improves and the market balance remains tipped in their favour.”

EU feels the pressure

However, Ms Moynihan says – with European countries such as the United Kingdom and Germany key export destinations for New Zealand sheepmeat – the economic problems in Europe pose challenges for future demand.

As the governments of the EU countries seek to restore balance to their economies, policy changes are expected to place increasing pressure on consumer purchasing powers.

In real terms, Ms Moynihan says, the increased cost of living for the average EU consumer is likely to exceed any growth in income – at least for the next 12 to 24 months.

“Added to this, annual food price inflation is running at three per cent and has been above total inflation since November 2011,” she says.

“Meat price inflation has led the charge, averaging 4.5 per cent year-on-year, with eastern European countries experiencing increases as high as 10 per cent in 2011.



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These factors can be expected to weigh heavily on sheepmeat demand and to limit growth prospects.”

2015 outlook – steady hand required

The economic outlook for developed economies is for a slow recovery through to the end of 2013, Ms Moynihan says.

“Consumers in these markets will have to contend with protracted low real wage growth, which will limit sheepmeat demand growth and the potential for extracting further value gains,” she says.

“Emerging markets will continue to grow, albeit slightly below the rate of previous years, and offer opportunities for sheepmeat demand growth.”

The Rabobank report says retail prices will also be influenced by continued strength of competing meat prices; the impact of lower beef production from the US and EU on global supplies; and the rising beef production costs from Brazil, China and Australia.

“These factors are likely to mean that retail price movements for lower-value cuts will continue to rise faster than high-end cuts. This will be particularly evident across emerging economies and consequently will only provide limited upward pressure on farmgate returns for exporters,” it says.

Ms Moynihan says by 2015, sheepmeat production from key exporting regions is expected to lift by an additional 135,000 tonnes per annum, which would bring global export supply back to 2010 levels.

“With potential economic growth in Asia and the Middle East, continued pressure on flocks in continental Europe and economic recovery in the EU, a bust in prices is not likely,” she says.

“With the cup of farmgate returns for sheepmeat in Oceania above half full, a steady hand will be required to ensure production grows in line with global market requirements.”

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