

Ministry of Agriculture and Forestry (MAF) SONZAF Report 2010- Implications for the Hawke's Bay Region

1.0 Introduction

This report provides a short analysis of the main findings of this year's MAF national commentary on the 'Situation and Outlook for New Zealand Agriculture and Forestry' and their implications for the Hawke's Bay rural production sector and wider economy. The MAF study has just recently been released. Given the critical contribution of the sector to the regional economy, it is important to understand the implications of the study for the Hawke's Bay area.

2.0 Hawke's Bay Agriculture and Forestry

It is valuable, at the outset, to appreciate the scale, regional economic significance and diversity of Hawke's Bay's rural production and related processing, manufacturing and servicing sector. These aspects are illustrated in the table below:

Table 1: Hawke's Bay Rural Production, Processing and Servicing Sectors 2009/10

Industry	Economic Indicators		
	Number of Enterprises	GDP in Current Dollar Terms (\$M)	Total Full/Part Time Employment
Vegetables	118	33.8	530
Other Horticulture	123	14.0	220
Pipfruit Growing	297	262.4	4,120
Grape Growing	217	42.7	670
Other Fruit Growing	171	67.4	1,059
Pastoral Farming	2,232	187.9	2,950
Rural Support Activities	379	239.3	3,760
Forestry/Logging	313	213.9	470
Pastoral/Product Processing	26	396.1	3,045
Fruit/Vegetable Processing	23	235.5	1,810
Wool Scouring & Tanning	21	57.0	850
Log Sawmilling	15	36.6	210
Other Wood Processing	8	154.9	890
Agricultural Manufacturing	21	20.0	180
Commercial Agricultural Services	351	101.9	1,886
TOTALS	4,315	2,063.4	22,650

The table indicates 15 different broad industry groups within the region's rural production, processing, manufacturing and servicing sector. The sector accounts for 23% of all enterprises in Hawke's Bay, 35% of total

regional GDP and 30% of total regional employment. Agriculture accounts for 51% of total rural sector GDP and 61% of total sector employment. Primary production processing and related manufacturing accounts for 43% of rural sector GDP and 30% of rural industry employment. Commercial services supplied to the rural production and processing sector account for 6% of total sector GDP and 9% of total sector employment.

3.0 Trends

The Hawke's Bay rural sector has faced a range of operating pressures over the past five years as a result of a number of factors, including adverse climatic events (drought, hailstorms and frost), a relatively high and fluctuating exchange rate, and the latest major international economic downturn which began from 2008.

Total agricultural sector GDP in the region fell 1.8% in real terms over 2007-2009. However, forestry sector GDP increased 9.2% at the same time. Over the year to March 2010, agricultural sector GDP rebounded by 2.1% whilst forestry sector GDP fell marginally.

Since 2007, total primary commodity processing real GDP in Hawke's Bay has fallen steadily and overall by 11.8%. Food processing GDP has fallen by 15.1% and textile processing by 12.4%, whilst forest products processing GDP has increased by 4.8%.

Total primary production sector employment has risen by 4.8% over the past three years; processing sector employment has fallen though by 12.5%.

Since 2006, the number of new farm buildings in the region receiving consent to proceed has fallen overall by 28.2%. At the same time, the number of farm building alterations consented has declined by 35.6%.

The latest industry growth forecasts from the New Zealand Institute of Economic Research point to 4% annual average real GDP growth for the national agricultural sector as a whole, over the next five years. The forecast figure for the national forestry and logging industry is 3.5%, food processing 0.4%, textiles and apparel processing -1.8% and wood/paper products processing 0.8% annual average real GDP growth.

4.0 SONZAF Forecasts

Against the above background, this section summarises the main findings of the SONZAF 2010 report with regard to those national primary production industries which also make a significant contribution to the Hawke's Bay regional economy, as indicated in **Table 1**. For each of the listed industries, comment is provided with regard to historical and forecast production levels, exports, expected prices trends and key growth influences. The forecasts relate to the **2010-2014** period.

(i) Key Underlying Economic Assumptions

- The New Zealand TWI (Trade Weighted Index) exchange rate, which is a composite measure of changes in the exchange rate of the country's major trading partners relative to the \$NZ, is forecast to fall (depreciate) gradually over time.

- The World is emerging from the major economic downturn of 2008-2009 and is expected to gradually recover. Annual GDP growth in excess of 4% is forecast for New Zealand's major trading partners as a group, over the next few years.

(ii) Vegetables

- Fresh vegetable export volumes from New Zealand are forecast to increase a little this year from last year and then stabilise over 2011-2013.
- Forecast export volumes for processed vegetables follow a similar pattern.
- The total value of fresh and processed vegetable exports is forecast to increase over the next few years by 7.5% overall, compared to the 15% decline during the past three years.
- Export volumes for onions and squash, the dominant fresh vegetable export crops, are forecast to remain relatively static due to rising production costs and increased international competition.

(iii) Pipfruit

- Total export volumes are forecast to be down about 15% this year, compared to 2009. However, the current forecast is for export volumes to recover by about 10% next year and then stabilise at the 16.5 million TCEs (Tray Carton Equivalents) level over 2012/13.
- Pipfruit prices are forecast to increase gradually during the next 3 years, from \$23.70 per TCE this year to \$26.25 in 2013.
- The total value of pipfruit exports from New Zealand is forecast to fall by 17% this year, but pick up fairly steadily from 2011 with an overall gain of 25% over the 2010-2013 period.
- Positive future growth influences include new Asian and Middle Eastern market growth, new apple varieties to meet new markets and the assumed depreciation of the \$NZ. Future seasonal climatic conditions will, as usual, also significantly influence the industry's performance.

(iv) Grapes/Wine

- The total New Zealand wine export volume has increased by 91% since 2007. This indicator is forecast to increase by 10% over the coming year and by a further 12% over 2011-2013, before stabilising in 2014.
- The FOB (Free on Board) price of wine is forecast to remain at the current level of \$7.50 per litre into next year, before increasing to \$9.80/litre by 2014.
- The total value of wine exports from New Zealand has risen by 56% since 2007 and is forecast to continue to increase over the next 4 years and overall by in excess of 60% during 2010-2014.
- Key future growth influences for the industry include international and domestic economic conditions, market and product diversification, and exchange rate trends.

(v) Pastoral Farming

- **Lamb** export volumes for New Zealand increased by almost 2% in 2010 and are forecast to stabilise over the coming year, before increasing gradually from 2011/12. The lamb schedule price is forecast to continue to decline overall into next year, before recovering and increasing by close to

40% over 2012-2014. Lamb export values are forecast to fall by about 4% in total over the coming year but recover by 37% during the next 3 years.

- **Wool** export volumes from New Zealand are estimated to increase by 2.4% over the latest year, following the 14% fall over the 2009 year. The national export volume is forecast to be stable over the next 2 years, before falling back over 2013 and 2014. Average sale prices were down about 3% this year on 2009, but are forecast to recover very sharply (+42% overall) over the next four years. Accordingly, the total value of wool exports from the country are also expected to increase to a similar degree, over the period.
- **Beef** schedule prices have fallen noticeably over the past year but are forecast to increase gradually over the next 4 years. Export volume forecasts reflect a similar pattern, with an overall gain of 6% during 2010-2014. The increase in export values over the same period is forecast at almost 50%.
- Key growth influences for the pastoral farming industry over the medium-term include international commodity supply levels and competition from other world suppliers; relative prices of different pastoral products; the extent of premium niche/value-added production; domestic supply, climatic and construction/development activity (eg carpet demand); and growth levels in developing markets.

(vi) **Forestry**

- **Log and Chip** prices are forecast to increase steadily over the next 4 years, overall by 48%. Export volumes rise by 11%.
- **Timber** prices are forecast to rise by a very significant 74%, whilst export volumes are forecast to rise by just over 9%.
- **Pulp** prices are forecast to improve steadily over the period and overall by 56%. Pulp export volumes are expected to increase by 4% overall.
- Key future sector growth influences include strong Chinese log demand and growing South Korean/Indian demand, growing demand for sawn timber and wood pellets, the forecast increased log harvesting potential within New Zealand, production and housing market trends in both New Zealand and overseas countries.

5.0 **Summary**

- The rural production and processing sector is key to the successful economic progress of the Hawkes Bay region.
- Export production represents about 60% of the sector's total annual production value.
- International business and market conditions therefore have a critical influence on the sector's overall economic performance.
- Hawkes Bay's rural industries have generally been significantly impacted by the major World economic downturn occurring over 2008/2009 and which continues to make its presence felt in the region.
- The general tenor of the SONZAF report is one of a gradually recovering international and domestic economy, accompanied by generally improving commodity prices and export levels.