

AGRI BITES

At peak protein?

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Paul Clark, Industry Economist
+64 9 336 5656 | +64 21 713 704
paul.clark@westpac.co.nz

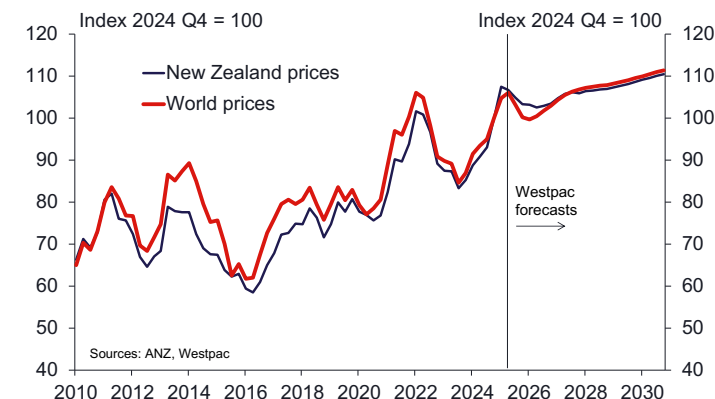


SUMMARY

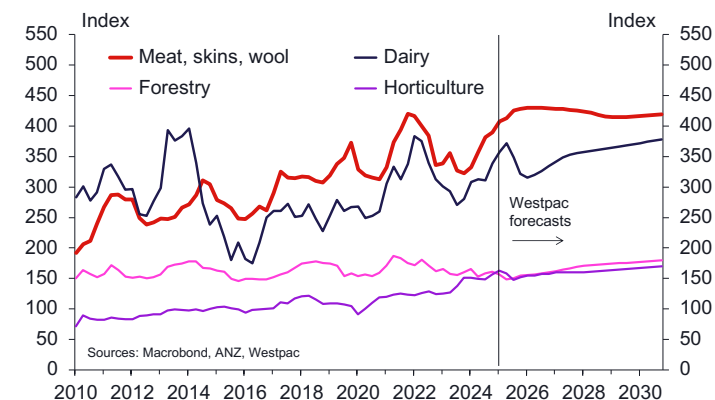
Agricultural export prices to remain elevated.

- We have maintained our farmgate milk price forecast of \$10.00/kg for this season. This forecast assumes dairy prices will continue to ease somewhat over the remainder of the 2025/26 season as global production increases.
- By contrast, beef export prices are likely to remain elevated, mainly because of ongoing supply constraints and still-strong demand for high quality proteins, particularly in the US and in Europe. That said, with real export prices for beef sitting at or close to record highs, we think that further gains will be limited.
- Lamb prices should remain well supported, with production in New Zealand and Australia still constrained. That said, it's unlikely that the large increases seen recently will continue, given where real lamb prices currently sit relative to historic norms, as well as reports of price resistance in key export markets.
- Kiwifruit and apple prices will remain elevated over the coming year, with strong demand underpinning higher prices despite increased production. Management of supply and a strong marketing effort, backed up by ongoing quality improvements, will continue to generate better returns for orchardists.
- Log prices should rise gradually over the coming year. But while low port inventories suggest some upside potential, the fortunes of China's presently moribund property sector and the impact of US tariffs on China's manufactured goods will weigh heavily on prices.

Commodity prices – World and NZ dollar denominated



Commodity prices by category

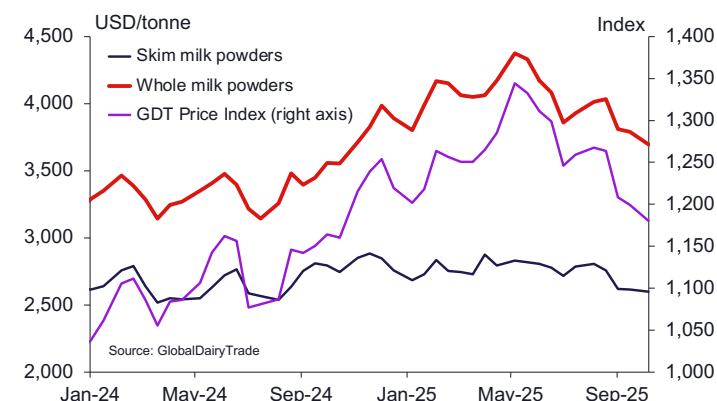


DAIRY

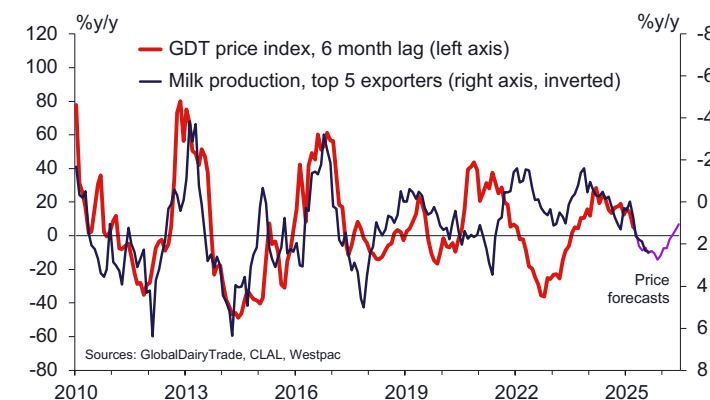
Farmgate milk price forecast incorporates a fall in global prices.

- With a breakeven milk price of \$8.45/kg and Fonterra recently confirming a payout of \$10.16/kg (as well as a dividend of 57 cents per share) for the 2024/25 season, New Zealand dairy farmers are well in the money.
- With a forecast milk payout of \$10.00/kg and an updated breakeven milk price of \$8.66/kg from DairyNZ for the 2025/26 season, farmers should still sit relatively comfortably over the coming year.
- Our forecast payout assumes that dairy prices will track below current levels by an average of 5% over the rest of the season.
- Much of that has to do with a big rise in global milk production, with the top five exporting regions running 2.4% ahead of a year ago.
- The increase in production reflects both the absence of disease, especially in the Northern Hemisphere; and farmers having been incentivised by higher milk prices to lift output levels. Milk production in 2024 was affected by avian flu in the US and bluetongue in Europe.
- The fall in world prices recently has been partly offset by a more favourable exchange rate. By August, Fonterra had hedged 66% of its FX exposure for the season at a better average rate than we had assumed. The recent fall in the New Zealand dollar should help further.

Recent GDT dairy price trends



Dairy prices versus global milk production

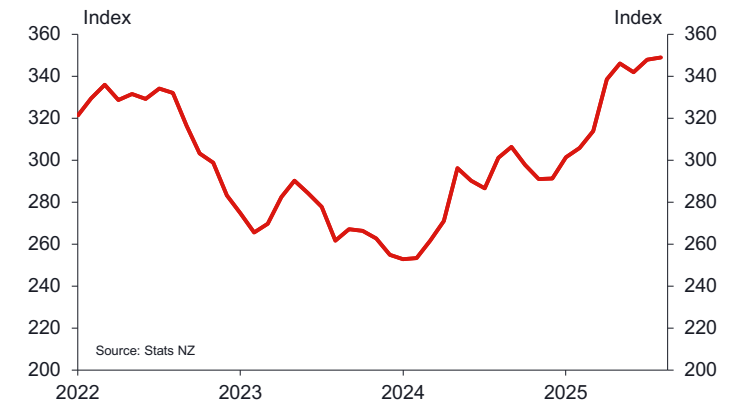


BEEF

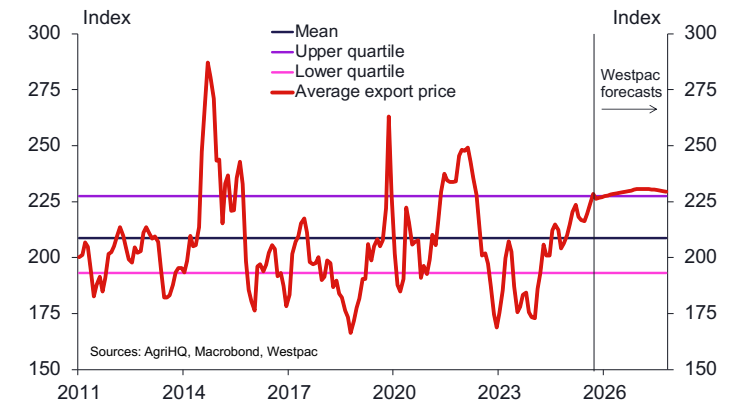
Beef export prices looking toppish.

- Favourable global supply and demand fundamentals should support beef export prices over the next year or so.
- Global production of beef is expected to fall by about 3% in 2025, mainly because of smaller beef herds in key producing countries, such as the US, Brazil, Europe and New Zealand.
- That said, Australia's beef herd has remained relatively stable, allowing it to lift beef production by 10%. Despite a falling beef herd, China continues to expand production as farmers look to capitalise on higher prices.
- Global production should recover slightly in 2026. US herd rebuilding is expected to be a gradual process, while the EU herd is set to contract further. The Brazilian beef herd should expand in 2026. But with farmers set to hold back breeding stock, that is unlikely to lead to a big pickup in production.
- At the same time demand for beef is likely to remain resilient, with consumers in the US, China and Europe continuing to show a strong preference for premium and grass-fed beef, even at elevated prices.
- Prices are thus expected to remain well supported at current levels, although given where inflation adjusted prices sit relative to long-term averages, further gains are likely to be capped.

Average monthly beef export prices - nominal



Average monthly beef export prices - real

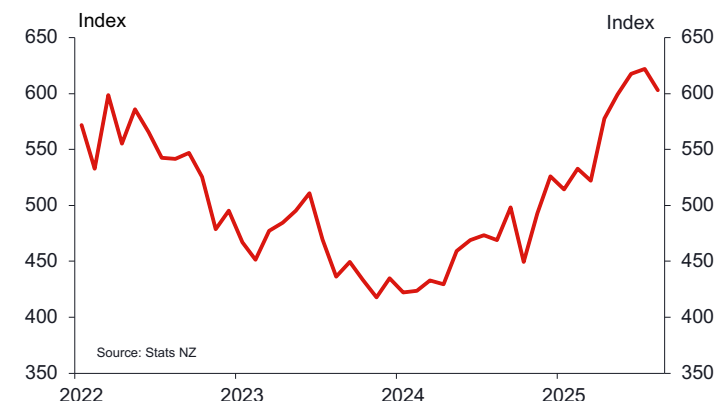


SHEEP MEAT

Lamb export prices could be reaching the top.

- Lamb export prices continue to track at elevated levels, supported by constrained production out of New Zealand and Australia.
- Prices have also been supported by solid demand conditions in key markets such the EU and the UK, further underpinned by a slight recovery in Chinese demand.
- That said, average export prices have edged off recent highs. Reports suggest that consumers in key markets, such as the EU and UK, have started to push back on higher prices. According to AgriHQ, a major US retailer has removed New Zealand lamb from its shelves.
- While lamb production in New Zealand is expected to remain relatively consistent in 2026, Australian output is set to dip slightly as efforts continue to rebuild flock levels. Australian output is expected to lift in 2027.
- At the same time, demand for lamb meat is forecast to remain strong, particularly in the US, UK, Europe and China, underpinned by consumer preferences for high quality protein.
- On balance, a growing resistance to higher prices, and the fact that inflation-adjusted prices are reasonably high relative to long-term averages, suggest that export returns on New Zealand lamb will remain steady.

Average monthly lamb export prices - nominal



Average monthly lamb export prices - real



HORTICULTURE

Kiwifruit and apple prices remain strong, with more to come.

- Export prices continue to lift, reflecting supportive demand conditions for high-quality fruit in established markets such as in Asia (China, Vietnam), the US and the UK. That is particularly true for new varieties.
- Apple export prices have been further supported by a recent levelling off in supply. While supplies has improved as the area under cultivation has increased, volumes available for export remain constrained due to cyclone-related damage.
- A key concern relates to Rockit apples, a premium product, which has struggled in export markets, as production has chased volume without controlling supply or securing sustainable consumer demand.
- The same cannot be said for kiwifruit, where prices continue to track higher on strong demand, even as supply has increased. Demand for kiwifruit is particularly strong in Europe and North America, with additional volume being redistributed away from some of the more challenging markets in Asia.
- According to Zespri, sales remain strong even during through the traditionally more competitive summer fruit season. That together with productivity improvements has helped to keep returns per hectare elevated, with some varieties reaching record levels.

Kiwifruit – average export prices and volumes



Apples – average export prices and volumes

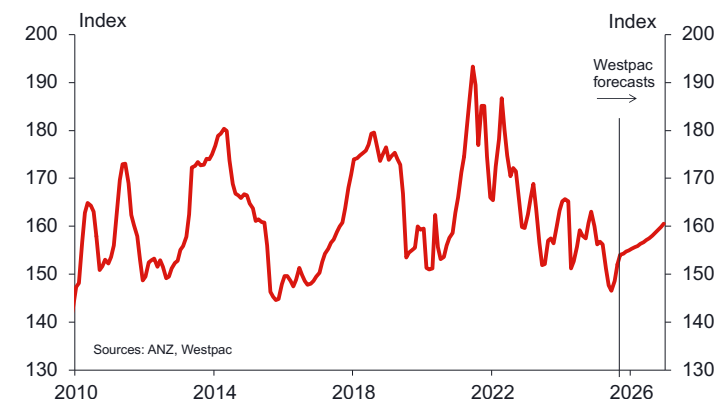


FORESTRY

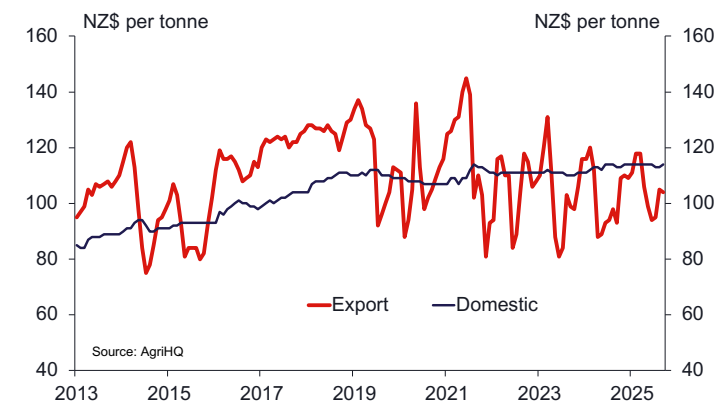
Log export prices to lift marginally.

- As expected, log prices have edged higher as construction activity in China has increased recently as temperatures have begun to cool.
- Daily port offtakes are around 55k to 60k m³, which is slightly up on previous months.
- Log volumes into China increased slightly in the June quarter – but that comes after three consecutive quarters of decline. As a result, Chinese port inventories have fallen to around 2.5m m³.
- The still moribund Chinese construction and property sectors will continue to weigh on log demand and therefore also on log prices. What matters here is whether and to what extent interventions introduced by the Chinese authorities will be successful in boosting end-user demand in these sectors.
- Also likely to weigh on log prices are trade tariffs imposed by the US on China's manufactured exports. US demand accounts for 20% of Chinese wood product exports – anything from plywood boards to furniture – and a big chunk of these products is made from New Zealand sourced logs.
- While there is potential for growth in India, disrupted construction activity due to monsoon rains and a weaker currency (the latter in part due to rising geopolitical tensions) is likely to curb demand over coming months.

ANZ world forestry prices



Export vs domestic log prices – New Zealand

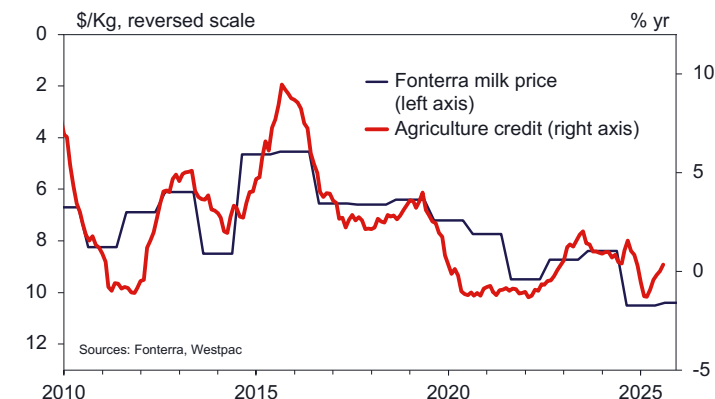


FINANCIAL POSITIONING

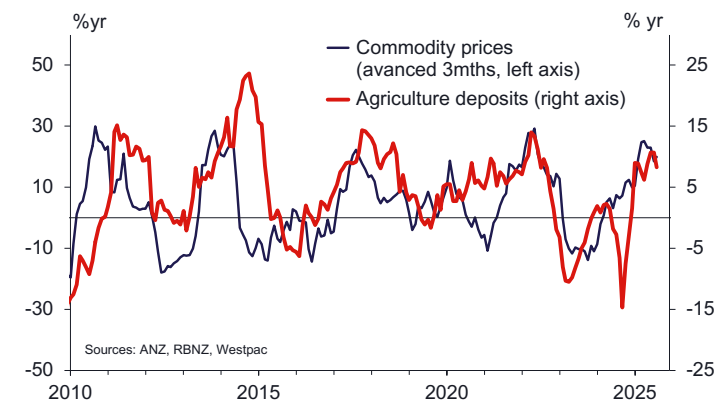
Debt, deposits and spending to rise over the coming year.

- Elevated farmgate prices, subdued input cost inflation and lower interest rates are helping to boost on-farm profitability and raise confidence levels to multi-year highs across the sector.
- These factors are supporting spending in regions that have a large agricultural backbone. That includes spending on repairs and maintenance previously delayed, as well as capex.
- Most of that will have been funded out of cash resources, but it's also likely that some farmers will have taken on more debt because of low debt servicing costs (some of that debt will also be funding farm purchases).
- Total loans to the sector have increased by almost 2.3% since the start of 2025, and are now back to levels last seen prior to Covid. Loans to dairy farmers rose by 3.1% over the same period, while sheep and beef farmers were more circumspect, increasing debt levels by just 0.9%.
- With commodity prices set to remain elevated, and interest rates forecast to fall further, it's likely that debt levels will lift over the coming year.
- With commodity prices having risen strongly over the past year, many farmers have built deposits. Farmers' could use these deposits to invest or spend or use these funds if returns moderate.

Agricultural sector credit and the milk price



Agricultural sector deposits and commodity prices



FORECASTS

New Zealand commodity prices (end of period)

	Latest	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
NZ commodities index	386	377	375	378	383	387	392	397	400	402
Dairy price index	342	322	315	320	326	334	341	348	353	356
Whole milk powder USD/t	3,790	3,550	3,600	3,650	3,750	3,850	3,950	4,050	4,080	4,110
Skim milk powder USD/t	2,615	2,450	2,500	2,550	2,600	2,650	2,700	2,750	2,770	2,790
Lamb price index	603	619	619	617	611	606	601	598	595	593
Beef price index	334	333	335	337	338	340	340	341	340	340
Forestry price index	150	155	156	157	158	160	162	164	167	169

New Zealand commodity prices (annual averages)

	Levels				% change			
	2024	2025f	2026f	2027f	2024	2025f	2026f	2027f
NZ commodities index	357	390	381	398	8.4	9.1	-2.3	4.5
Dairy price index	318	350	324	349	10.9	10.2	-7.5	7.9
Whole milk powder USD/t	3439	3948	3681	4020	11.6	14.8	-6.8	9.2
Skim milk powder USD/t	2686	2699	2554	2738	1.8	0.5	-5.4	7.2
Lamb price index	462	589	614	598	0.3	27.4	4.3	-2.7
Beef price index	283	331	337	340	4.4	16.9	1.7	1.0
Forestry price index	159	152	158	166	-0.1	-4.4	3.4	5.1

Forecasts as at 6 October 2025.

CONTACT

Westpac Economics Team
westpac.co.nz/economics
economics@westpac.co.nz

Kelly Eckhold, Chief Economist
+64 9 348 9382 | +64 21 786 758
kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist
+64 9 336 5668 | +64 21 710 852
satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist
+64 9 367 3368 | +64 21 794 292
darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist
+64 9 336 5670 | +64 21 749 506
michael.gordon@westpac.co.nz

Paul Clark, Industry Economist
+64 9 336 5656 | +64 21 713 704
paul.clark@westpac.co.nz

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