



Situation and Outlook for Primary Industries

March 2019

Contents

Acknowledgements

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Notes

Annual figures are for the year ended June, unless otherwise noted. Currency figures are in New Zealand dollars, unless otherwise noted. Some totals may not add due to rounding.

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Overview 2

Dairy 6

Meat and wool 8

Forestry 10

Horticulture 12

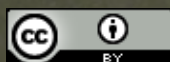
Seafood 16

Arable 18

Other primary sector exports and foods 20

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Dairy

New Zealand's dairy export revenue is forecast to rise 5.5 percent to \$17.6 billion for the year ending June 2019. Sustained favourable weather promoting good pasture growth has supported increased milk solids production. A reversal of declines in key dairy commodity prices at the end of 2018 has continued into 2019 and a weaker New Zealand dollar has increased the prospect of higher export revenues for 2019 and 2020.



Meat and Wool

Meat and Wool export revenues are forecast to increase to \$10.1 billion for the year ending June 2019, up 6.0 percent from last year. The main driver is high prices, which are being driven by strong international demand (especially from China) and supply constraints in Australia due to drought and a recent flood.



Forestry

Forestry revenue is forecast to reach \$6.8 billion for the year ending June 2019, an increase of 7.0 percent from 2018, based on strong growth in log export volumes. Much of this growth has come from increased Chinese demand for New Zealand logs, supporting both robust prices and near-record export volumes. Demand is expected to remain steady over the next year, with an expected increase in Chinese residential construction despite a weakening Chinese economy.



Horticulture

Horticulture revenue is forecast to rise 15.7 percent for the year ending June 2019 to \$6.2 billion driven by increases in kiwifruit, apple, and wine exports. Kiwifruit exports are expected to rise by 33.3 percent due to increases in both volumes and prices. Volume increases are being driven by both increasing yields and expansion in planted area. Wine export revenue is expected to increase by 3.9 percent and apple and pear revenue is expected to increase by 11.5 percent.



Seafood

Export revenue from seafood is expected to rise 5.8 percent in the year ending June 2019 to \$1.8 billion. This growth is mostly due to increasing prices. Increasing demand from key markets along with limited supply growth, particularly of wild capture fisheries, is expected to keep prices high. Forecast growth in aquaculture production will result in higher export volumes in the coming years.



Arable

Arable exports are expected to fall 3.2 percent to \$235 million for the year ending June 2019 as the impacts of the poor 2018 season are partially offset by an expected increase in export volumes from the 2019 harvest. Strong pasture growth in the dairy sector has weakened demand for supplementary feed, leading to a softening in grain prices and lower palm kernel expeller (PKE) imports.



Other primary sector exports

Export revenue from New Zealand's other primary sector exports and foods is expected to increase to \$2.8 billion for 2019, up 3.5 percent from 2018 due to small increases across most categories in this sector. In particular, innovative foods, 'other' products, and sugar and confectionery products, are growing faster than previously forecast.

Overview

Good Prices, Better Weather in 2019

Primary industry export performance continues to outpace expectations for the year ending June 2019, with export revenue now forecast to reach \$45.6 billion. This is 6.9 percent higher than the previous year, and 3.0 percent higher than MPI's December forecasts. This increasingly positive outlook is driven by a strong production season and a renewed surge in dairy and meat prices (Figure 1). More specifically:

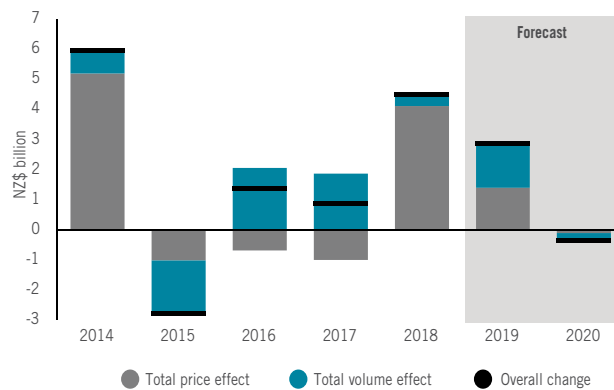
- Excellent growing conditions across most of the country have increased production estimates, particularly for dairy, sheep and beef, and kiwifruit.
- Import demand from China continues to strengthen for most primary industry products, even as some indicators show weakness in the Chinese economy and the tariff dispute between the US and China continues to hang over international trade flows.
- Strong or rising prices continue to be maintained across most sectors, with a weaker New Zealand dollar (NZD) further boosting export returns.

New Zealand's current export performance is all the more impressive considering a more modest outlook for the global economic environment and the high degree of uncertainty generated by trade tensions.

The dairy sector's outlook has brightened, due to strong production growth, which is now estimated to be 3.7 percent higher than last year. This has been accompanied by a recovery in prices, as production growth expectations stall in other exporting regions and the EU has sold down their skim milk powder (SMP) stocks which have weighed on markets over the past few years.

Great pasture conditions this spring and summer have also benefited the red meat sector, with positive lambing percentages and above average slaughter weights this season.

Figure 1: Both export prices and volumes are increasing in 2019



Primary industry export growth by price and volume, year ended June 2014-2020.
Source: Stats NZ and MPI.

At the same time, red meat prices have continued to exceed expectations. Lamb is the standout, on track for average export prices to exceed last year's record prices by 5 percent.

Forestry export revenue continues to build, supported by growth in Chinese demand for New Zealand logs. Harvest volumes reached near-record levels in the December 2018 quarter, with prices remaining steady at over \$200 per cubic metre.

The kiwifruit sector continues to outperform as well, with high yields expected again for the 2019 Gold3 harvest. Productivity for the 2018 harvest was estimated to have exceeded 13 thousand trays per hectare, some 17 percent above the previous Gold3 record. It now appears that the Gold3 variety can regularly deliver high yields, including in 2019. Despite this rising production, export demand continues to increase even faster, supporting rising export prices.

Table 1: Primary industries export revenue, 2014-20 (NZ\$ million)

Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Dairy	17,791	14,050	13,289	14,638	16,655	17,570	17,160
Meat & wool	8,162	9,000	9,200	8,355	9,542	10,110	9,990
Forestry	5,199	4,683	5,140	5,482	6,382	6,830	6,760
Horticulture	3,805	4,185	5,000	5,165	5,376	6,220	6,340
Seafood	1,500	1,562	1,768	1,744	1,777	1,880	1,930
Arable	232	181	210	197	243	235	250
Other primary sector exports*	2,002	2,417	2,714	2,638	2,706	2,800	2,870
Total exports	38,692	36,079	37,323	38,219	42,682	45,645	45,300
% Change	+18.0%	-6.8%	+3.4%	+2.4%	+11.7%	+6.9%	-0.8%

Source: Stats NZ and MPI.

* Other Primary Sector Exports and Foods includes live animals, honey, and processed foods.

Looking out to 2020, primary sector export revenue is forecast to fall slightly to \$45.3 billion. Dairy production and export volumes are expected to fall following the current year's excellent run of weather, and meat and log prices are expected to soften slightly, but remain near the current historic highs.

On the biosecurity front, the plan to eradicate *Mycoplasma bovis* from New Zealand is proceeding, following the disease's discovery in mid-2017. As of 25 February, there are 30 infected properties in the country, and 80,545 cattle have been culled in the response so far. In February, Biosecurity New Zealand responded to five invasive fruit flies detected in Auckland, representing a significant threat to the horticulture industry if they were to become established in New Zealand. As of 25 February, there has been no indication of an established breeding population.

Great pasture conditions in spring and summer starting to dry out

Summer has generally been good for farmers, with more rainfall than was forecast in earlier in the season. Mild temperatures and consistent moisture in the first half of summer resulted in an abundance of feed and leaves most farmers in a good position to deal with dry weather with stock in good condition and feed on hand. The more recent drying off in most regions, particularly in the north and west, is consistent with what is often seen in late summer.

Impacts of these dry conditions were especially felt in the Nelson-Tasman region where the fire in February 2019 covered an area of approximately 2,350 hectares and at its height had a perimeter of over 35 kilometres. Plantation forestry was a significant land use within the affected area, and the full costs are not yet known. Also in Tasman, water restrictions have forced fruit and vegetable growers on the Waimea Plains to prioritise which crops or individual varieties to irrigate.

An uncharacteristic El Niño pattern developed at the end of summer in the central Pacific. According to the National Institute of Water and Atmospheric Research (NIWA) outlook for March to May, the weak El Niño and warm sea surface

temperatures in the Tasman Sea could contribute to a warm, moist autumn, with some increased risk of occasional heavy rainfall events. However, this may not fall consistently or be enough to raise soil moisture levels significantly at the beginning of autumn in the North Island.

Uncertainty in global economic outlook cause for pause

Slowing global economic indicators, rising protectionist sentiment, and outbreaks of African Swine Fever (ASF) are yet to have a direct impact on New Zealand's primary industry exports. However, these issues do provide an increasingly uncertain backdrop to the otherwise positive outlook for New Zealand's primary industry exports.

Trade tensions between the US and China, the two largest economies in the world, and the UK's separation from the EU (see page 4) represent the greatest risk factors for international trade and global economic growth.

Adding to this uncertainty, ASF outbreaks in China and Europe are looming over global protein markets and presents a significant risk to the New Zealand pork industry. ASF, for which there is no treatment or vaccine, continues to spread in key provinces of China where half the world's swine population resides.

More recently it has also been detected in northern Vietnam, confirming the containment challenges ASF brings. Like China, Vietnam is a major pork consumer with pork accounting for roughly 75 percent of meat consumption. If the outbreak continues, China's already-strong meat import demand could increase over the next few years.

For New Zealand however, these factors are counterbalanced by increased opportunities associated with the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) which came into force on 30 December 2018. This agreement has the potential to deliver an estimated \$222 million of tariff savings annually to exporters and open up new export destinations.

New Zealand Drought Index Maps December 2018 to March 2019

1 December 2018



15 January 2019



1 March 2019



● Dry ● Very dry ● Extremely dry ● Drought ● Extreme drought

NZDI

1.75

1.50

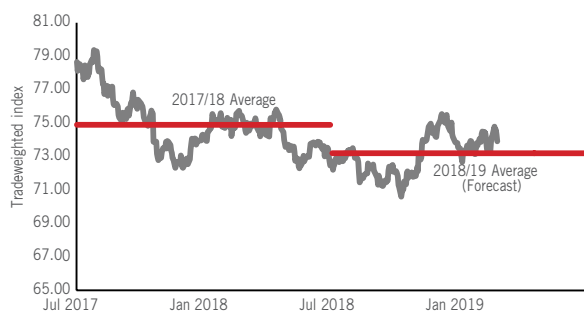
1.25

1.00

0.75

Source: National Institute of Water & Atmospheric Research (NIWA)

Figure 2: The NZD has fallen, boosting export returns



New Zealand trade-weighted index, Jul 2017-Feb 2018.
Source: Reserve Bank of New Zealand.

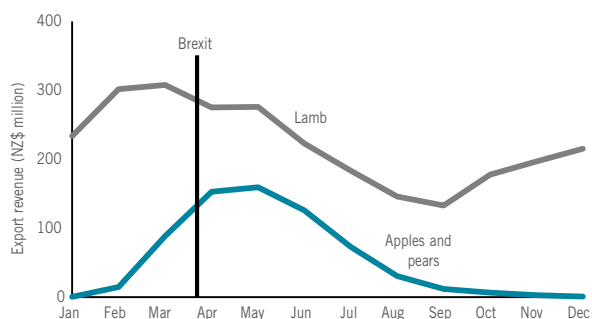
New Zealand's exporters have continued to be supported by weakness in the New Zealand dollar against those of our major trading partners. The NZD has fallen over the past year, and the average trade-weighted index for the year ending June 2019 is forecast to be 2.2 percent lower than the previous year (Figure 2). This has provided a helpful support to New Zealand's primary producers' export returns.

Brexit situation remains fluid

Significant short-term trade disruption is likely if the UK exits the EU on 29 March 2019 without a deal in place – a 'no-deal' Brexit. Without a deal, the current conditions under which the UK trades with other countries in Europe will no longer apply.

With the potential for border delays and additional costs, a 'no-deal' Brexit presents significant issues for primary sector exporters to consider. These risks include a potential split in preferential tariff quotas for meat and dairy products, reducing exporters' current access by removing their flexibility to trade into their preferred market. These risks are heightened by the seasonality of our trade with Brexit potentially coinciding with the peak Easter period of supply for lamb and the start of the apple supply season (Figure 3).

Figure 3: Brexit occurs at a time of peak trade for some products



Seasonal pattern of lamb and apple export revenue, 5-year average 2014-18.
Source: Stats NZ.

By contrast a 'yes-deal' (involving the UK Parliament passing the proposed Withdrawal Bill) would allow a transitional arrangement that would maintain existing trade conditions with all countries until December 2020. In short, this would allow an additional 2 years for the UK to negotiate its exit terms with the EU and potentially begin negotiating trade deals with other nations (such as New Zealand) to preserve trade stability (and for third countries like NZ to potentially put in place other arrangements to preserve trade).

MPI is working via a New Zealand government Brexit taskforce to mitigate risks of a 'no-deal' Brexit to the primary sectors, and put in place arrangements to preserve continuity in our trade conditions with the UK.

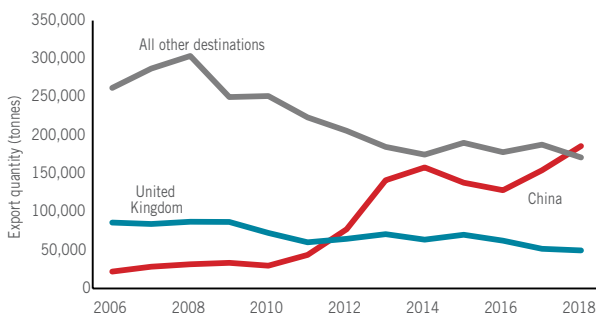
An example of this is the signing of the Veterinary Agreement and Mutual Recognition Agreement, which are important milestones in New Zealand's preparedness for Brexit. Both agreements roll over existing trade agreements with the EU and the Veterinary Agreement helps provide certainty for New Zealand companies that export animal products to the UK.

MPI's website provides regular updates and information to exporters on how a 'no-deal' Brexit may impact them and measures that can be taken to prepare.

Despite concerns around declining UK consumer confidence since the Brexit referendum in 2016, New Zealand's primary industry exports to the UK have remained relatively consistent. Wine exports to the UK have continued to rise since 2016, and all other primary industry exports (excluding lamb and mutton) have been stable.

By contrast, lamb and mutton exports to the UK have fallen significantly. However, much of this decline can be attributed to other market factors. In particular, China's demand for sheep meat imports has increased significantly since 2011 (Figure 4). This transformation is also taking place for all meat from all destinations.

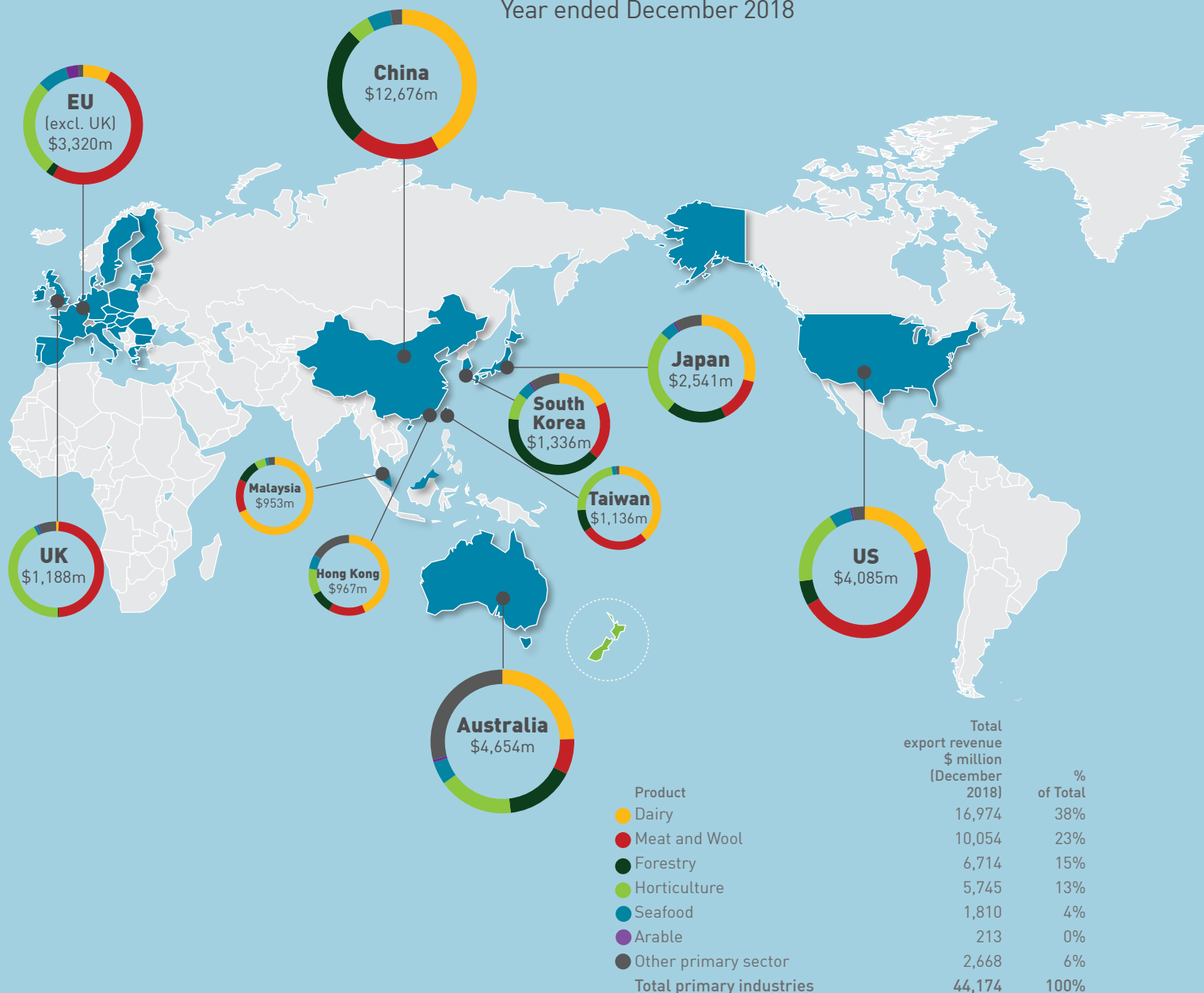
Figure 4: Lamb and mutton exports have shifted strongly towards China over the last decade



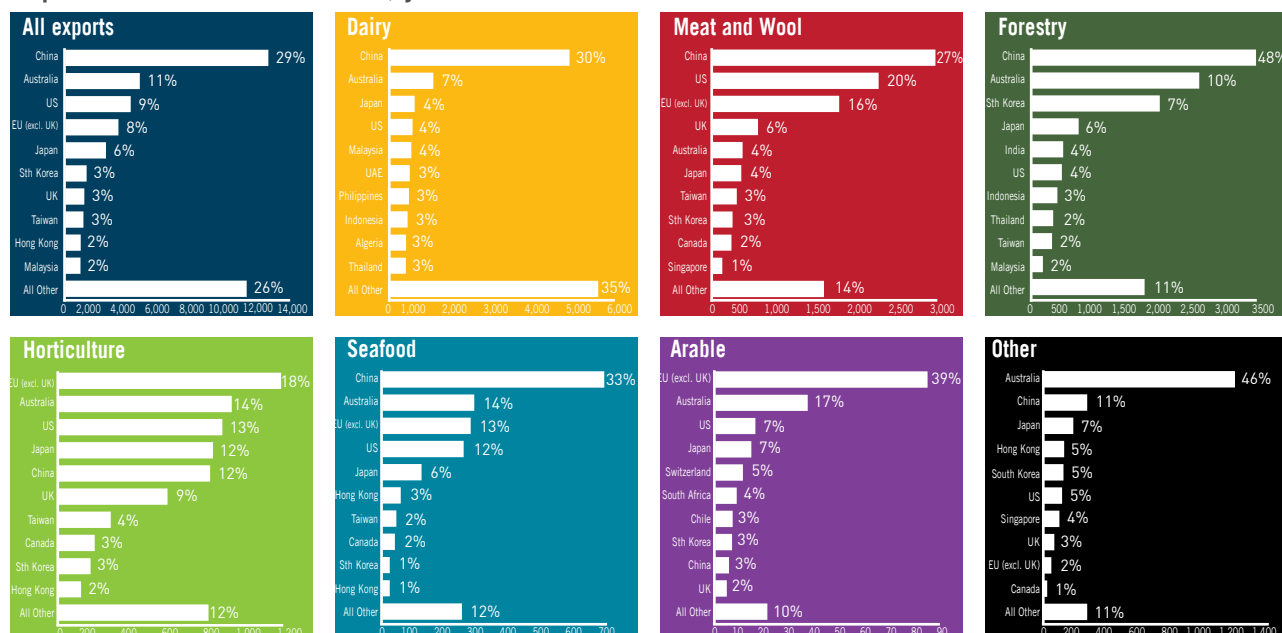
Source: Stats NZ and MPI.

Top 10 export destinations

Year ended December 2018

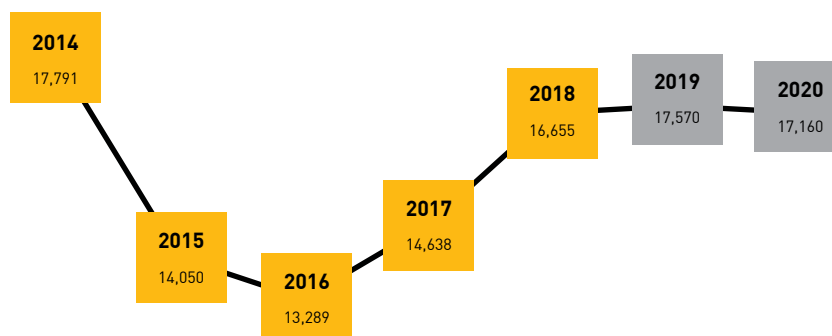


Top markets (\$NZ millions, year ended December 2018)



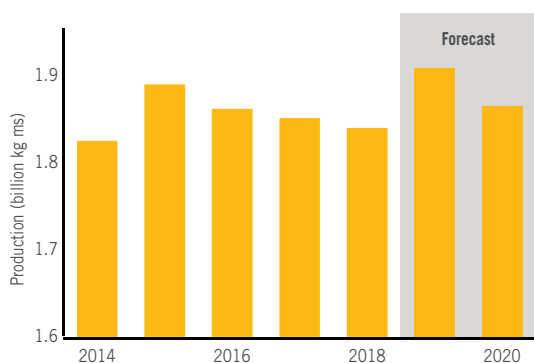
Dairy

Dairy export revenue is forecast to rise 5.5 percent to \$17.6 billion for the year ending June 2019. Sustained good weather and pasture growth has supported increased milk solids production, translating into higher export volumes. A reversal of declines in key dairy commodity prices at the end of 2018 has continued into 2019, assisted by slowing northern hemisphere production growth and the clearance of EU intervention stocks for skim milk powder. When combined with a continued weakness in the New Zealand dollar, this has increased the prospect of higher export revenues for 2019 and 2020.



- The strong start to the New Zealand dairy season has continued, with fine weather and summer rainfall across many dairying regions maintaining soil moisture levels and pasture growth. Milk solids production for the season to date through January 2019 was up 5.6 percent compared to the previous year and 3.0 percent ahead of the five year average.

Figure 5: Milk production on track to reach record

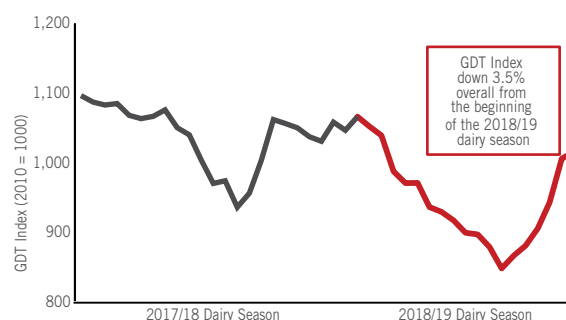


New Zealand milk solids production, year ending May 2014-20.
Source: Stats NZ and MPI.

- Although some dairying regions are now beginning to dry out, relatively benign weather conditions are still forecast for the next three months and on-farm feed levels remain relatively strong. Accordingly we have increased our forecast milk solids production for the 2018/19 season to a record 1,908 million kilograms, a 3.7 percent increase on the previous year (Figure 5).
- Despite the continued strength in New Zealand production, global dairy prices have risen since December due to a lower supply outlook in Australia, the US, and the EU.

- Against the back drop of a poor Australian season, consecutive declines in monthly EU output have now been followed by an expected slowdown in US dairy production over the next quarter.
- Although global milk supply still remains higher than last year, sustained global demand has facilitated a recovery in dairy commodity prices during December and January (Figure 6). Despite these gains, USD prices for most dairy commodities still remain lower than at the beginning of the current New Zealand dairy season (anhydrous milk fat (AMF) down 9.7 percent, butter down 19.5 percent, cheese down 8.3 percent, and whole milk powder (WMP) down 5.7 percent).
- Skim milk powder (SMP) prices are currently the exception in this trend. Efforts by the European Commission to sell down large quantities of SMP intervention stocks are all but complete. This stockpile had depressed SMP prices since 2015. As a result, Global Dairy Trade (GDT) SMP prices have lifted 31.0 percent since the beginning of December and are

Figure 6: Global milk price trends reversed since December

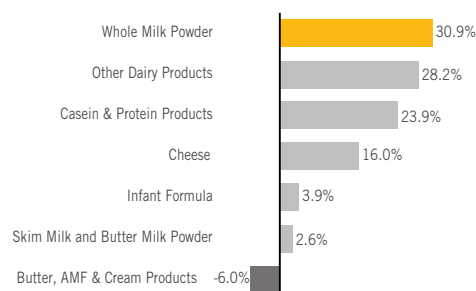


GDT index Jan 2017-Dec 2018 (USD)
Source: Global Dairy Trade.

now 25.8 percent above the price at the start of the season.

- Total dairy exports for the six months ended December 2018 grew 3.8 percent to \$8.7 billion compared to the previous year. Much of New Zealand's production growth has been absorbed by increased demand from China. Dairy exports to our largest trading partner are up 16.6 percent to \$3.2 billion for the six months ended December 2018 compared to the previous year (Figure 7).

Figure 7: Increased dairy exports have been absorbed by increased demand from China, particularly for WMP



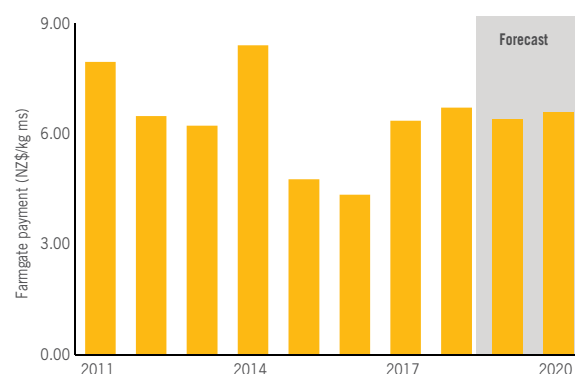
Change in export volumes to China (6 months ended December 2018).
Source: DairyNZ and MPI.

- Market reports indicate that the increased Chinese demand may be due to slowing domestic production driven by hot weather and increased feed costs influenced by the tariffs imposed on imported US feed.
- The volatility in commodity prices experienced over the current dairy season underline an increasingly uncertain outlook for New Zealand's dairy export revenues. There is downside risk to dairy prices if China's economy is damaged by any further escalation in the US-China trade dispute.

Similarly, a return to growth in milk supply in the northern hemisphere could once again place downward pressure on export prices, should market imbalances reoccur.

- Looking ahead, we are forecasting flat to moderate export price growth over the coming 12-18 months, although a weaker NZD outlook will help buffer some of this effect for New Zealand exporters.
- For New Zealand's dairy farmers, the strong production, a recovery of export commodity prices, and a weaker NZD should help ease downward pressure on farm level profitability for the current season. We have accordingly adjusted our all company average farm gate milk solids payout forecast for the 2018/19 season upwards to \$6.41 (including dividend) (Figure 8).

Figure 8: Downward pressure on farmgate milk solids prices is beginning to ease



New Zealand all company average farmgate milk solids payment (including dividend), year ended May 2011-20.
Source: DairyNZ and MPI.

Table 2: Dairy export revenue, 2014-20 (NZ\$ million)

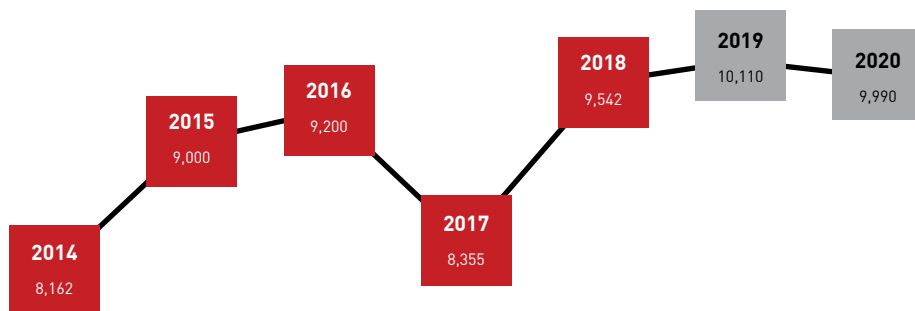
Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Whole milk powder	8,393	5,385	4,609	5,271	5,818	6,360	5,800
Butter, AMF, and cream	2,699	2,219	2,378	2,794	3,812	3,560	3,460
Skim milk & butter milk powder	2,285	1,762	1,347	1,385	1,228	1,310	1,390
Casein & protein products	1,925	2,129	1,834	1,735	1,601	1,530	1,560
Cheese	1,482	1,557	1,720	1,830	1,905	2,030	2,090
Infant formula	401	415	685	778	1,240	1,540	1,620
Other dairy products*	607	582	716	845	1,050	1,260	1,250
Total	17,791	14,050	13,289	14,638	16,655	17,570	17,160
% Change	+35.4%	-21.0%	-5.4%	+10.1%	+13.8%	+5.5%	-2.3%

Source: Stats NZ and MPI.

* Other dairy products include: liquid milk and cream, ultra-high temperature milk, yoghurt, and ice cream.

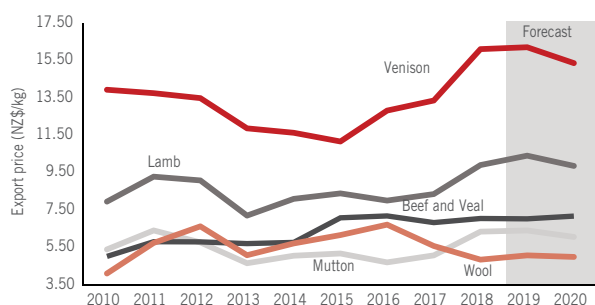
Meat and Wool

Meat and Wool export revenues are forecast to increase to \$10.1 billion for the year ending June 2019, a 6.0 percent increase on last year. Strong international demand – especially out of China – has helped maintain the previous year's high prices. On the supply side, a relatively flat New Zealand production forecast combined with droughts and floods in Australia have constrained global beef and sheep meat supplies, increasing prices further.



- After climbing in the latter half of 2018, export prices for meat products are forecast to remain high through the year ending June 2019 (Figure 9).
- Strong Chinese demand for lamb and mutton over the past 12 months has helped grow export returns with this demand is expected to continue. As a result, lamb and mutton export revenues are forecast to increase by 7.1 percent and 2.5 percent, respectively, for the year ending June 2019.

Figure 9: Meat prices stay high from previous season

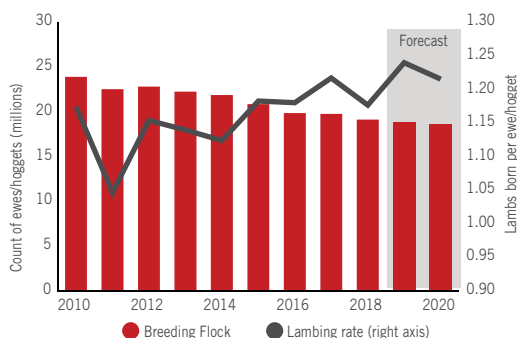


Meat and wool export prices, year ended June 2010-20.
Source: Stats NZ and MPI.

- Strong Chinese demand and constrained global supply for beef and veal should support current high prices export prices, with export revenues forecast to increase by 4.1 percent for the year ending June 2019.
- Australia's national beef herd is projected fall to its lowest level since 2000 due to the current drought. Australia's beef herd has also been significantly affected by flooding in Queensland. Early indications suggest losses will range between 300,000 and 500,000 head of cattle, which equates to 1-2 percent of the Australian beef herd.
- The outlook for New Zealand's higher value beef cuts is looking bright with the recent ratification of the CPTPP, coming into force on 30 December 2018. Tariff rates for New Zealand beef (both frozen and chilled) into Japan will fall from 38.5 percent to 27.5 percent in 2019, providing an advantage over the US.

- Lamb production is forecast to decrease as a result of the downward trend in breeding ewe numbers, although this is being offset in the current season by higher lambing rates and higher slaughter weights (Figure 10).

Figure 10: Higher lambing rates offset smaller breeding flock



Lambing rates and breeding flock, year ended June 2010-20.
Source: Stats NZ and MPI.

- Deer numbers increased for a second consecutive year, up 7 percent from June 2017 to June 2018, with further population growth forecast. Deer population growth is being driven by strong venison and velvet prices. Most of New Zealand's velvet exports go to Asia, particularly South Korea, where velvet is used as an ingredient in the growing health product market. Strong velvet prices have also shifted the sex ratio of deer at slaughter towards stags for velvet as they become more valuable than hinds (Figure 11).

- Wool exports are forecast to increase 0.7 percent to \$550 million in the year ending June 2019. This increase is being driven by marginally higher wool prices, especially in low and mid micron levels. Strong wool export prices have continued to hover around \$4.00 per kg for most of this past year. In contrast, fine wool export prices have remained at near-record prices, around \$22 per kg, over the same period.

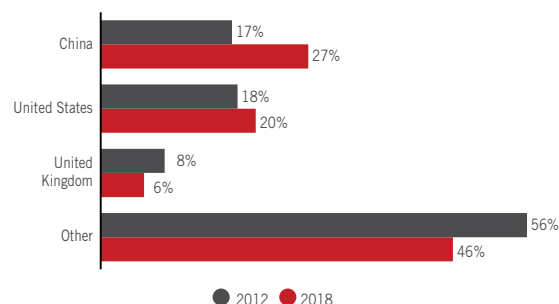
- China now accounts for 27 percent of New Zealand's total meat and wool exports (Figure 12). In the past six years New Zealand's exports have shifted away from the UK and towards China, the rising protein consumption lifting the imports of all meat and poultry.

Figure 11: Strong velvet prices drive increased production



Deer velvet export volume and price, year ended December 2009-18 Source: Stats NZ and MPI.

Figure 12: More reliance on China leading to less diversification in meat and wool export markets



Meat and wool export revenue by destination, 2012 and 2018. Source: Stats NZ and MPI.

Table 3: Meat and wool export revenue 2014-20 (NZ\$ million)

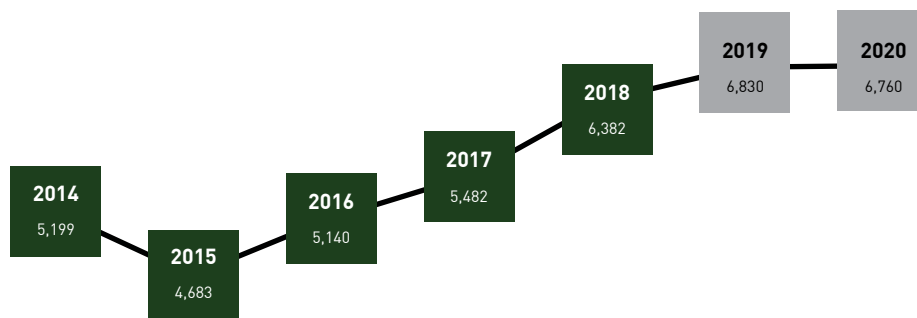
Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Beef & veal	2,199	2,980	3,096	2,706	2,943	3,000	3,080
Lamb	2,485	2,504	2,569	2,441	3,018	3,230	3,080
Mutton	488	418	419	417	575	590	550
Wool	733	805	760	522	543	550	550
Venison	187	174	182	162	196	190	190
Other meat*	438	466	503	513	543	640	660
Hides & Skins	625	570	509	416	396	450	430
Animal by-products	489	578	598	587	700	780	760
Animal fats & oils	130	118	125	156	147	140	150
Animal products for feed	209	216	247	273	332	400	400
Carpets & other wool products	178	172	192	163	148	140	150
Total	8,162	9,000	9,200	8,355	9,542	10,110	9,990
% Change	+4.7%	+10.3%	+2.2%	-9.2%	+14.2%	+6.0%	-1.2%

Source: Stats NZ and MPI.

* Other meat includes: edible offal, processed meat, and poultry.

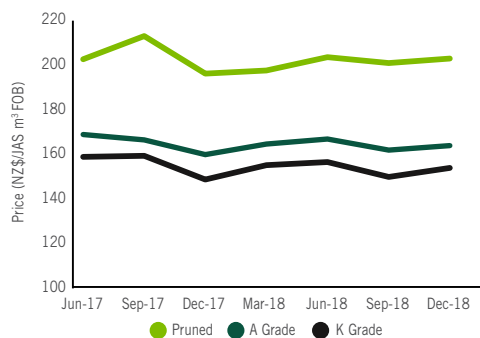
Forestry

Strong growth in log export volumes are driving a 7.0 percent increase in forestry export revenue to \$6.8 billion for the year ending June 2019. Much of this growth has come from increased Chinese demand for New Zealand logs, supporting both continued high prices and record export volumes. Sawn timber export have increased since 2014, driven by a recovery in the US market and ongoing growth in markets such as Indonesia and Malaysia.



- Log export revenue reached a record \$972 million for the December quarter, almost 2 percent up on the previous quarter and 6 percent up on the same quarter last year. As a result, the log export forecast for the year ended June 2019 has been revised upward to \$3.6 billion.
- Export log prices have remained fairly steady over the last 18 months, with the exception of a spike in pruned log prices in the September 2017 quarter (Figure 13).

Figure 13: Export log prices stay steady despite uncertainty in world markets

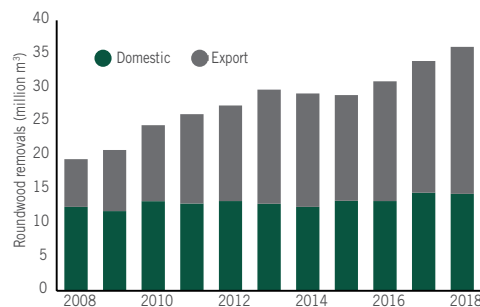


Indicative log export prices for log varieties, June 2017 – December 2018.
Source: MPI.

- Total log production has been increasing steadily over the past decade (Figure 14), with the majority of the increased harvest being exported as logs to China. Processing volumes have remained largely steady over this time. This shift coincided with New Zealand's Free Trade Agreement with China and with a rising number of trees reaching maturity.
- An increase in domestic building activity in China is helping to offset the risk to log exports from a slowing Chinese economy. Along with increased urbanisation driving housing demand, housing in China is seen as a safe asset as it holds value during inflation and currency devaluation.

- There is also an expectation that China's government will increase spending on infrastructure to help stimulate the economy. Any increase is likely to support demand as New Zealand logs are often used for boxing concrete.

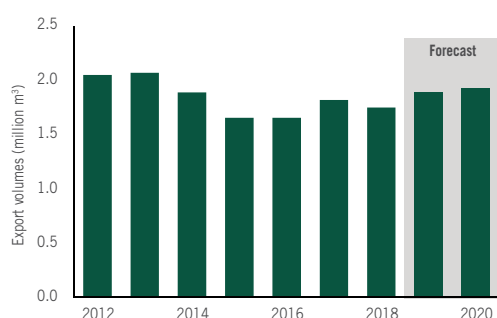
Figure 14: Log exports account for majority of rising harvest volumes this decade



Harvest volume by domestic use or export, year ended December 2008-18.
Source: MPI and Stats NZ.

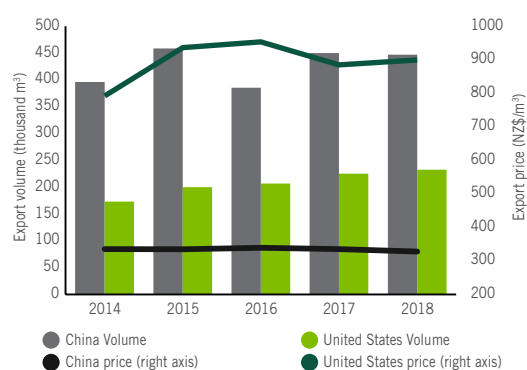
- Provisional trade data had previously shown log exports to Singapore rising significantly, with \$90 million in export revenue reported for the September 2018 quarter. This finding was considered unusual due to the lack of processing capacity in Singapore, but in a recent data revision, these exports have been reallocated to other destinations, with the bulk going to China.
- Despite the increase in log exports over the past decade, volumes available to domestic processors grew to record levels in the 2017 calendar year and remained above 14 million cubic metres in 2018 as well. The increase is driven by strong sawn timber production meeting an increase in export demand.

Figure 15: Sawn timber exports forecast to rise, but remain lower than historical highs



Sawn timber export volume, year end June 2012-20. Source: Stats NZ and MPI.

Figure 16: For sawn timber China ranks first for volume, but the US is first for total value



Market comparison of volume and value of sawn timber exports, December year end, top two markets (China and US). Source: Stats NZ.

- Sawn timber export volumes have reached a five-year high following a slump in 2013-14 (Figure 15), and sawn timber export revenue is forecast to reach \$950 million in the year ending June 2019.
- The value per cubic metre of sawn timber exported to the US and Australia is around 2.5 times higher than the value of that going to China and Vietnam (Figure 16). The difference in price is due to the majority of timber going into the US and Australian markets being appearance grade from pruned logs, whereas the timber going into China and Vietnam comes from unpruned logs.
- Other markets showing growth include Indonesia and Malaysia. Indonesia has more than doubled its import value to over \$40 million since 2014, while Malaysia is up to nearly \$22 million from \$7 million in 2014. Increases in these other markets may help offset any variability in New Zealand's major sawn timber markets.
- Exports of most other products have remained flat over the last five years. Pulp is the main exception, with around 40 percent growth in value from 2014 to 2018, driven by demand from China.

Table 4: Forestry export revenue 2014-20 (NZ\$ million)

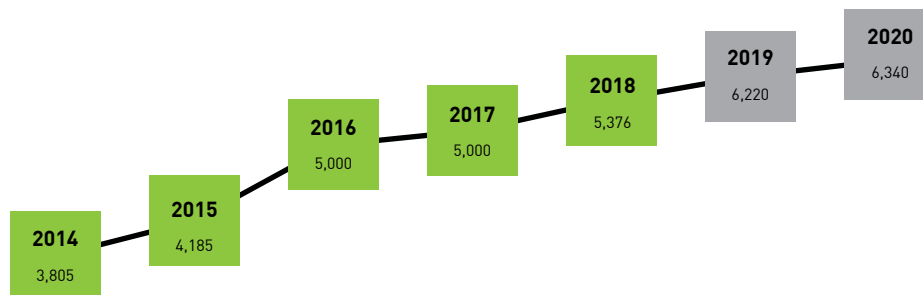
Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Logs	2,541	2,059	2,224	2,687	3,337	3,610	3,540
Sawn timber & sleepers	787	751	860	830	890	950	970
Pulp	606	631	687	655	833	900	890
Paper & paperboard	477	470	518	484	485	530	530
Panels	407	451	512	476	501	520	520
Chips	51	52	64	59	56	60	60
Other forestry products*	331	268	275	290	281	260	250
Total	5,199	4,683	5,140	5,482	6,382	6,830	6,760
% Change	+14.9%	-9.9%	+9.8%	+6.7%	+16.4%	+7.0%	-1.0%

Source: Stats NZ and MPI.

* Other forest products include: structural or moulded wood, furniture, and prefabricated buildings.

Horticulture

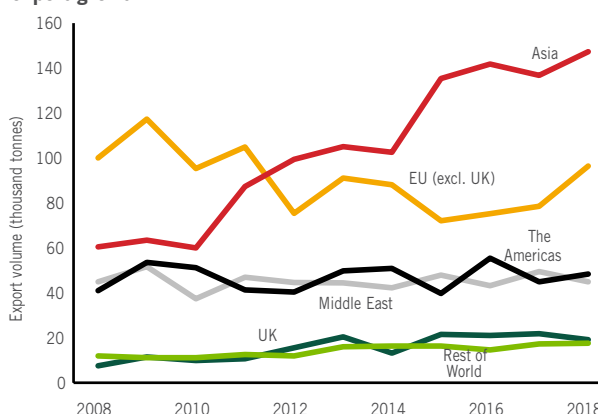
Horticulture revenue is forecast to rise 15.7 percent for the year ending June 2019 to \$6.2 billion driven by increases in kiwifruit, apple, and wine exports. Kiwifruit exports are expected to rise by 33 percent due to increases in both volumes and prices. Volume increases are being driven by both increasing yields and expansion in the area planted. Wine revenue is expected to increase by 3.9 percent due to increasing production and rising prices. Apple and pear revenue is up by 11.5 percent due to increases in the planted area and favourable growing conditions.



Apple and Pears

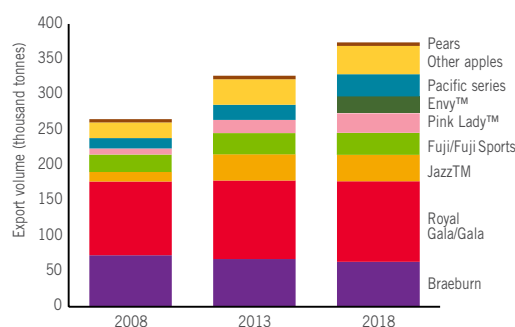
- Apple and pear production is expected to continue its growth trajectory in 2019, arising from an increase in planted area, young trees maturing and favourable growing conditions in the main growing region of Hawke's Bay. An export volume in the range of 396 to 405 thousand tonnes is expected, depending on climatic conditions leading up to and during the harvest.
- NZD export prices for New Zealand apples and pears in 2019 are expected to be similar to last year, influenced by:
 - reduced apple stocks in the US and China compared with the prior year;
 - higher apple stocks in Europe;
 - stable forecast export volumes from the Southern Hemisphere; and
 - a slightly lower New Zealand dollar against the US dollar compared with the 2018 exporting season.
- Over the past decade, New Zealand apple and pear exports have diversified into markets in Asia and the Middle East (Figure 17). This diversification is occurring alongside investment in new apple varieties better aligned with market and consumer preferences such as Envy™, Dazzle®, Pacific Queen™, Rockit™ and high colour strains of Royal Gala, Fuji and Cripps Pink/Pink Lady® (Figure 18).

Figure 17: Asian markets account for most apple and pear export growth



Apple and pear export volume by destination, year ended December 2008-18.
Source: New Zealand Apples & Pears Inc. and MPI.

Figure 18: New varieties have reinvigorated the apple and pear sector



Apple and pear export volume by variety, year ended December 2008, 2013, and 2018. Source: Stats NZ and MPI.

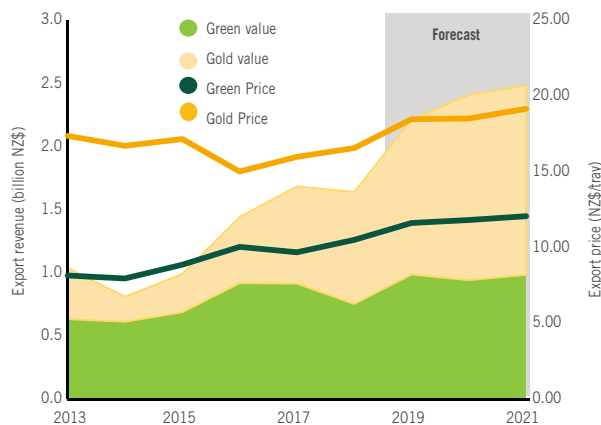
Kiwifruit

- With the high volume crop of 2018, exports of kiwifruit extended later into the season than usual in 2018 resulting in export revenue from September to November being double the previous three year average. This brings the forecast for the kiwifruit season through to March 2019 up to \$2.2 billion (Figure 19).
- The industry is expecting good yields again this year, which, combined with increased producing area from maturing Gold3 vines, should see revenue grow to around \$2.4 billion in 2020.
- Gold kiwifruit production is increasing across most regions. Northland is the fastest growing region (Figure 20), with a 69 percent increase in land area producing Gold3 between 2016/17 and 2017/18, compared with 7 percent growth in the

Bay of Plenty. Processing of the increased crop from Northland will be helped by major investment in packhouse capacity in Kerikeri and a direct shipping line out of Marsden Point.

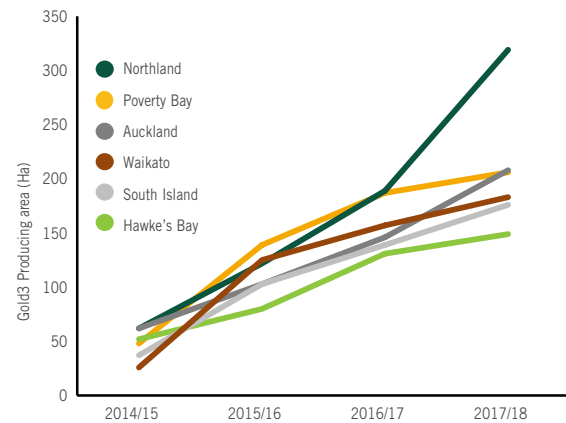
- Other regions are also looking to increase producing areas of Gold3. In future this could include Central Hawke's Bay, where the MPI Sustainable Food & Fibre Futures (SFF Futures) is funding an assessment of 5 sites for growing kiwifruit.
- In the Bay of Plenty, where 80 percent of kiwifruit producing area is located, the industry is looking to address the challenges that seasonal labour shortages brought last year with a campaign to attract workers early to the region.

Figure 19: Export revenue forecast to increase steadily, as yields and producing area grows



Export revenue and prices, year ended March 2013-21.
Source: Stats NZ and MPI.

Figure 20: Northland region is expanding Gold3 plantings the fastest outside the Bay of Plenty



Producing area of Gold3, regions outside of the Bay of Plenty 2014/15-2017/18.
Source: Zespri.



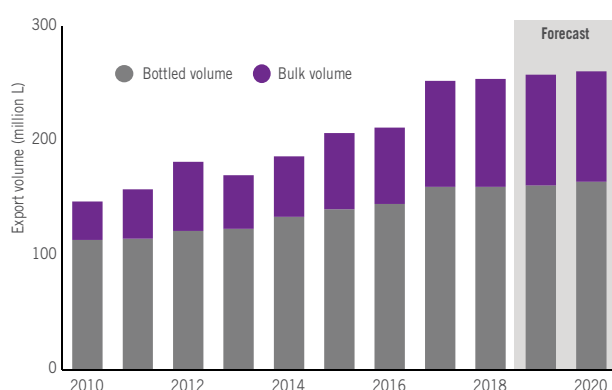
Wine

- Export revenue is forecast to rise by 3.9 percent in the year ending June 2019 to \$1.8 billion driven by a combination of higher volumes (due to the large 2018 vintage) and rising prices.
- Export prices are expected to increase by 2.1 percent in the year to June 2019. Prices continue to recover from the lows seen in the year ended June 2017, when the November 2016 Kaikōura earthquake damaged wine storage facilities, prompting an increase in bulk wine exports (Figure 21).
- The US remains the largest market for New Zealand wine exports, but exports are also expanding to other key markets, including the UK, Continental Europe, and Canada. With the CPTPP bringing improved market access, exports to Canada, worth \$128 million in 2018, is the destination most likely to expand in the next few years.
- The latest Vineyard Register Report was recently released by New Zealand Winegrowers. The report shows New Zealand's total vineyard area has increased 1.6 percent to

38.7 thousand hectares for the 2019 vintage, and is expected to exceed 39 thousand hectares in 2020.

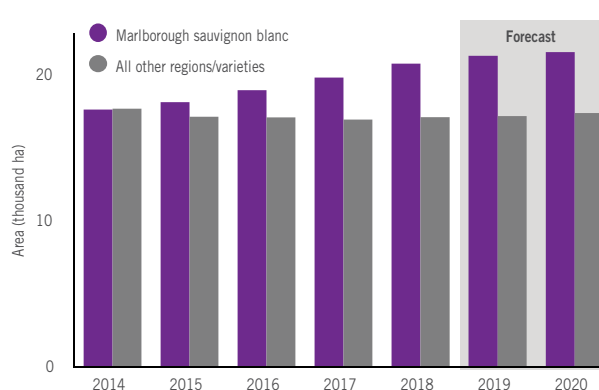
- Marlborough sauvignon blanc continues to account for the majority of the wine sector's growth, rising from 49.9 percent of New Zealand's vineyard area in 2014 to 55.4 percent in 2019 (Figure 22).
- Grapes for the 2019 vintage are currently being harvested. Growing conditions have been average overall this season, with variable weather in the main growing region of Marlborough and just a few frosts around the country.
- With a slightly higher vineyard area this year, this translates to an expected wine production volume of 420 million litres in 2019. This is marginally higher than the 2018 vintage being exported in the current export year. As a result, wine export revenue in the year ending June 2020 is expected to approach \$1.8 billion, supported by these slightly higher volumes from the 2019 vintage.

Figure 21: Bulk exports remain high post-2016 earthquake



Wine export volume by format, year ended June 2010-20.
Source: Stats NZ and MPI.

Figure 22: Sector growth continues to be driven by Marlborough sauvignon blanc



Vineyard area 2014-20.
Source: New Zealand Winegrowers Vineyard Register Report 2019.

Other horticulture

- An improved outcome is expected for New Zealand onion growers in 2019 with average to good yields anticipated, and a significant lift in export prices driven by a shortage of onions in Europe.
- The 2018/19 cherry season in Central Otago was limited by poor weather, particularly with heavy rain just before harvest. This is expected to limit export volume to under 3 thousand tonnes, down from over 4 thousand tonnes in 2017/18, and lower export revenue from \$84 million to under \$70 million.

Table 5: Horticulture export revenue 2014-20 (NZ\$ million)

Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Kiwifruit	931	1,182	1,673	1,664	1,861	2,480	2,470
Wine	1,323	1,408	1,558	1,661	1,694	1,760	1,800
Apples & pears	547	571	701	701	745	830	860
Fresh & processed vegetables*	606	588	612	614	622	690	670
Other horticulture**	398	436	456	525	455	470	540
Total	3,805	4,185	5,000	5,165	5,376	6,220	6,340
% Change	+7.3%	+10.0%	+19.5%	+3.3%	+4.1%	+15.7%	+1.9%

Source: Stats NZ and MPI.

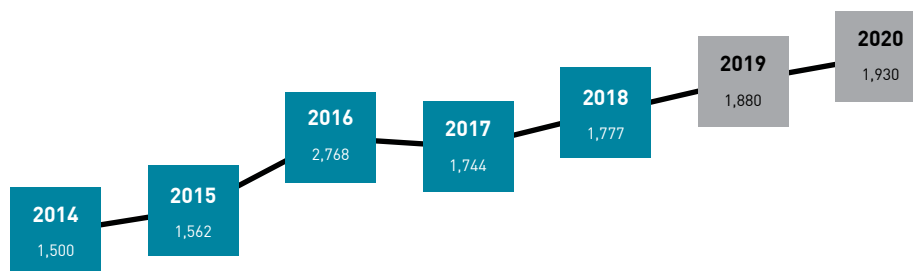
* Fresh vegetable exports include onions, squash, capsicum, potatoes and other fresh vegetables. Processed vegetable exports include frozen vegetables (including frozen potatoes, peas, sweetcorn, etc.), dried vegetables, dry legumes, prepared and/or preserved vegetables, and vegetable juices.

** Other horticulture exports include: other fresh fruit (including avocados, cherries, blueberries, etc.), frozen and processed fruit, fruit juices, nuts and ornamentals.



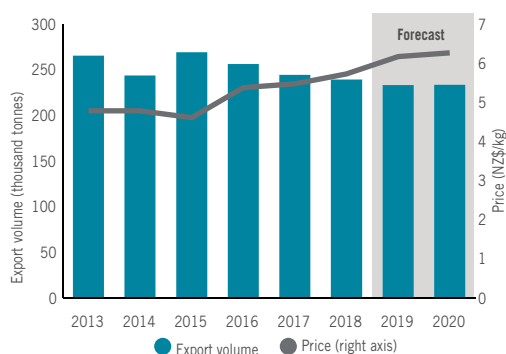
Seafood

Seafood export earnings are forecast to increase 5.8 percent to \$1.9 billion in the year ending June. This forecast growth is expected to be underpinned by rising export prices. Increasing demand from key markets along with limited supply growth (particularly of wild capture fisheries) is expected to keep prices high. Forecast growth in aquaculture production will result in higher export volumes in the coming years.



- Wild capture export volumes are expected to be down for the year ending June 2019. This is due to a voluntary hoki catch reduction of 20 thousand tonnes agreed by quota owners as a precautionary measure for the 2018/19 fishing year (October 2018 to September 2019). The hoki catch is likely to increase in the following fishing year, which should accordingly improve wild capture export volumes in the year ending June 2020 (Figure 23). However, there is limited scope for long-term volume growth from wild capture fisheries due to sustainability constraints.
- Wild capture export prices improved by 3.2 percent in the December 2018 quarter. This was due to an increase in prices, particularly, for deepwater species such as hoki, ling, orange roughy, southern blue whiting, and hake, potentially as a result of lower global supply of whitefish, according to the FAO.

Figure 23: Lower wild capture volumes offset by stronger prices

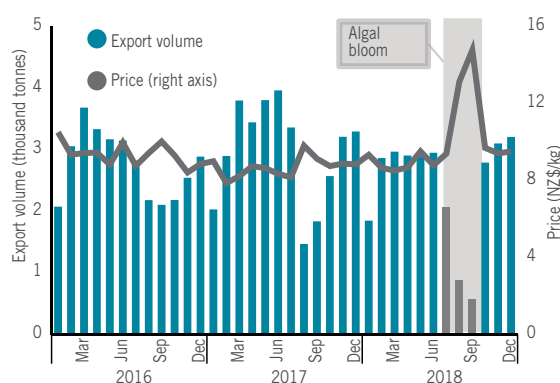


Wild capture export volume and prices, year ended June 2014-20.
Source: Stats NZ and MPI.

- Mussel production and export volumes have recovered since September due to the reopening of mussel farms that were closed for harvesting as a result of the algal bloom disruption in parts of Marlborough Sounds during May-August 2018.

Mussel export prices spiked in response to the reduced supply but have returned to normal levels as production rebounded (Figure 24). Mussel export prices are expected to stabilise along with the expected recovery in production and export volumes in the coming quarters. In the medium to long term, aquaculture production and export volumes are expected to improve gradually due to the availability of hatchery bred mussel spat.

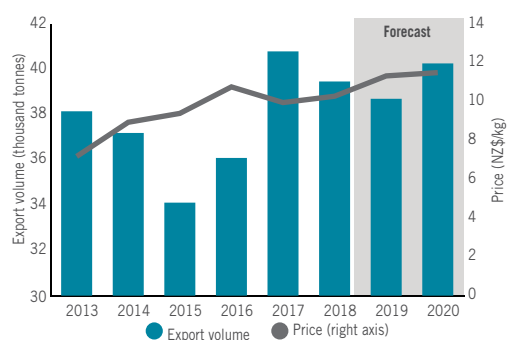
Figure 24: Mussel production recovers following the algal bloom, prices return to normal



Mussel export volume and prices, 2016-18.
Source: Stats NZ.

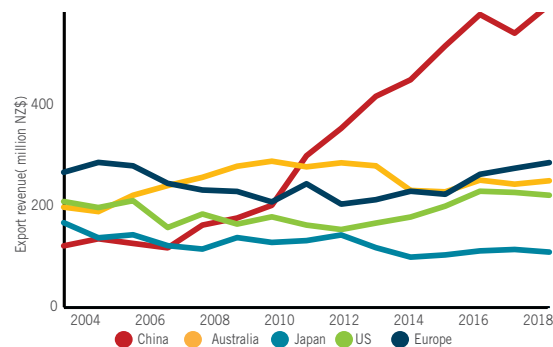
- Overall aquaculture export volumes are expected to slow down slightly in June 2019 due to the lingering effect from the disruption in mussel harvesting in 2018 (Figure 25).
- New Zealand's key seafood markets continue to grow in terms of export earnings (Figure 26). During the last four years (2014-18), export earnings from China grew by 7.4 percent annually to nearly \$600 million in December 2018. Similarly, export earnings from US and European markets grew by around 5.5 percent annually while growth in Australian and Japanese markets was smaller (just over 2 percent). Given global constraints in wild capture fisheries, it is likely that demand from these key markets will remain strong.

Figure 25: Lower mussel production and export volume, offset by stronger prices



Aquaculture export volume and prices, year ended June 2013-20.
Source: Stats NZ and MPI.

Figure 26: Growth in seafood exports continues to be driven by China



Key export markets by revenue for New Zealand's seafood products, 2004-18.
Source: Stats NZ.

- Overall, New Zealand's seafood export prices are expected to remain high given the strong demand from our key markets, combined with lower levels of global supply of wild capture fisheries. Export prices will also be supported by a weaker NZD in the current year relative to the year ended June 2018.

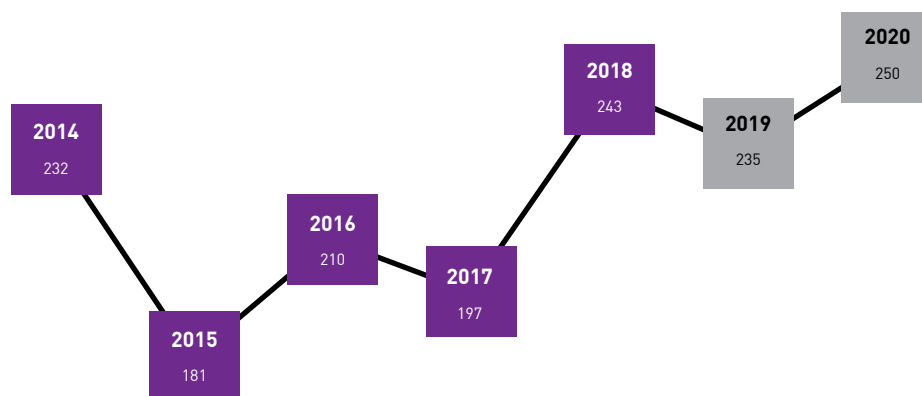
Table 6: Seafood export revenue, 2014-20

	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Wild capture							
Export volume (tonnes)	243,974	269,186	256,604	244,402	239,512	233,200	233,800
Average export price (NZ\$/kg)	4.79	4.61	5.38	5.47	5.73	6.15	6.25
Export revenue (NZ\$ million)	1,168	1,242	1,380	1,338	1,372	1,440	1,470
Aquaculture							
Export volume (tonnes)	37,188	34,112	36,086	40,794	39,462	38,700	40,300
Average export price (NZ\$/kg)	8.94	9.40	10.76	9.95	10.28	11.35	11.50
Export revenue (NZ\$ million)	332	321	388	406	406	440	460
Seafood							
Export volume (tonnes)	281,162	303,298	292,690	285,196	278,974	271,900	274,100
Average export price (NZ\$/kg)	5.34	5.15	6.04	6.11	6.37	6.91	7.04
Export revenue (NZ\$ million)	1,500	1,562	1,768	1,744	1,777	1,880	1,930
% change	-2.9%	+4.1%	+13.2%	-1.4%	+1.9%	+5.8%	+2.7%

Source: Stats NZ and MPI.

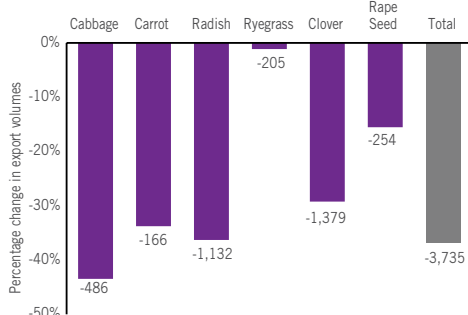
Arable

Arable exports are expected to fall 3.2 percent to \$235 million for the year ending June 2019 as the impacts of the poor 2018 season are partially offset by an expected increase in export volumes from the 2019 harvest. Despite some challenges with the current season, the outlook for New Zealand's seed exports remains positive, with exports forecast to grow to \$250 million by the year ending June 2020. Domestically, strong pasture growth in the dairy sector has weakened demand for supplementary feed, leading to a softening in grain prices and lower palm kernel expeller (PKE) imports.



- Export revenues continue to be hampered by the reduced volumes associated with the poor 2018 harvest (Figure 27). Compared to the previous year, export revenues for the December quarter were down 6.7 percent to \$37 million with total export revenues for the calendar year down 10.8 percent to \$214 million compared to 2017.

Figure 27: Difficult 2018 growing season filters through to lower export volumes for seed growers

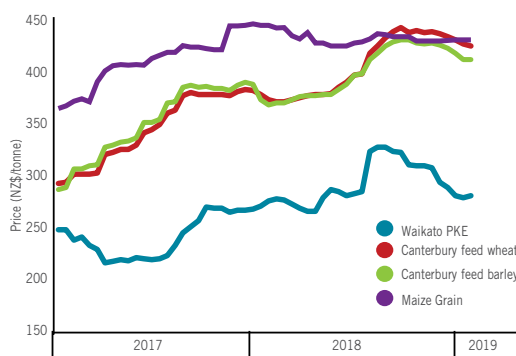


Change in selected seed export volume (percentage and tonnes), year ended December 2018 vs 2017). Source: Stats NZ.

- Following the difficult 2018 season for New Zealand's export seed growers, the current season has also not been without its challenges. The wet spring and early summer has adversely impacted flowering and brought increased disease pressure across a number of crops.
- With the grass seed harvest underway at the time of writing, volumes of both ryegrass and clover are expected to be up overall compared to the previous year. However, an increase in the planted area will be partially offset by reduced yields due to poor flowering.

- By contrast, both spring sown brassica and autumn sown vegetable seed (carrot, spinach, beet, parsnip) crops have had a more positive season with average to above-average yields.
- The expectation of these increased harvest volumes should translate to higher export revenues over the next 12 months. Accordingly, we have adjusted up our arable export forecasts up to \$235 million for the year ending June 2019, with further growth of 6.4 percent forecast for the following year.
- The challenges experienced by seed producers have also translated to the domestic cereal and grain market. Most crops have been affected by increased disease pressure, with Fusarium Head Blight affecting feed and milling wheat in particular this season.

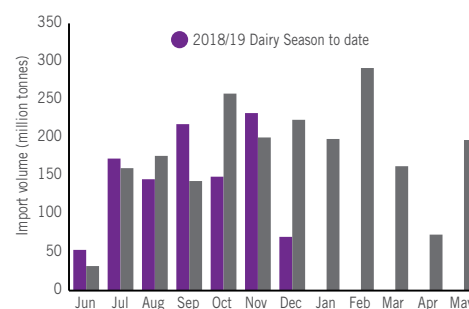
Figure 28: Weaker demand for supplementary feed has softened prices over recent months



Domestic Supplementary feed prices February 2017 – February 2019. Source: NZX.

- The steady rainfall that hampered arable cropping farmers has also contributed to sustained pasture growth for dairy sector, with on-farm feed levels currently robust. This has translated into weaker demand for unsold supplementary feed and a softening of domestic prices (Figure 28).
- The impact of strong pasture growth has also translated into reduced supplementary feed imports for the normally high-demand summer months of the dairy season. Import volumes for PKE in the December quarter were 33.7 percent lower than the same period last year, with overall import volumes down 12.8 percent for the current season to date (Figure 29).
- With early season PKE imports proceeding on expectations of normal dairy season demand, weaker than anticipated demand has led to a build-up of higher than normal domestic inventory levels. This now appears to have contributed to a decline in domestic prices over the major milk production months with Canterbury and Waikato PKE prices falling 16.6 percent and 14.3 percent respectively from September 2018 to February 2019.
- Submissions have now closed on MBIE's consultation over the review of the Plant Variety Rights Act 1987. The review aims to bring this legislation in line with modern plant breeding industry practices and New Zealand's commitments

Figure 29: Strong pasture growth has translated into lower demand for imported PKE in the fourth quarter of 2018



PKE import volumes for 2017/18 and 2018/19 Dairy Season. Source: Stats NZ.

under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

- The aim is to achieve the right balance between strengthening plant breeders' rights, with the hope to encourage innovation and investment, while at the same time preserving the interests of growers, consumers and other interest groups. MBIE intends to develop a range of options ready for a second stage of consultation by mid-2019.

Table 7: Arable export revenue 2014-20 (NZ\$ million)

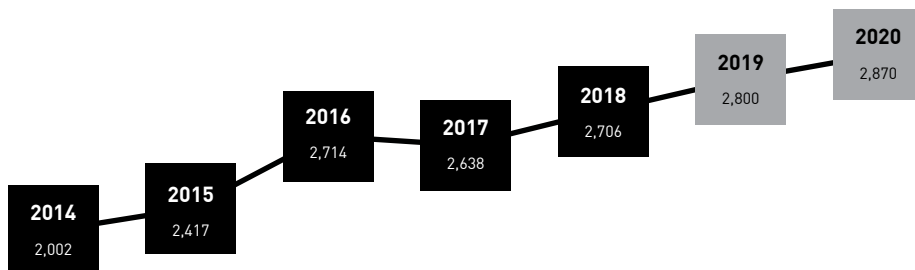
Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Vegetable seed	66	62	74	64	92	85	90
Ryegrass seed	55	49	46	46	55	55	55
Clover/legume seed	20	22	20	23	28	25	30
Other grains and seeds*	91	48	70	63	67	70	75
Total	232	181	210	197	243	235	250
% Change	+1.2%	-21.6%	+15.6%	-6.0%	+23.1%	-3.2%	+6.4%

Source: Stats NZ and MPI.

* Other arable products include: maize, other grains, and oilseeds.

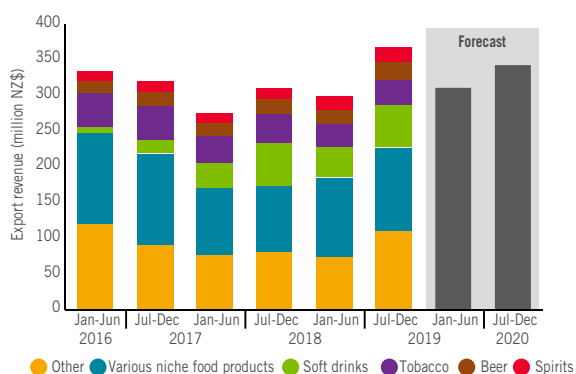
Other

Export revenue from New Zealand's other primary sector exports and foods is expected to increase to \$2.8 billion for 2019, up 3.5 percent from 2018 due to small increases across most categories in this sector. In particular, innovative foods, 'other' products, and sugar and confectionery products, are growing faster than previously forecast.



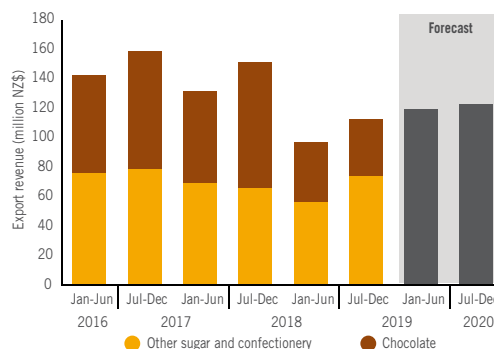
- Exports of innovative processed foods are growing faster than previously predicted, with exports for the year to June 2019 now expected to reach \$780 million if growth continues at a similar rate for the next 6 months. This increase is predominantly due to a surge in exports to China and Singapore. The value of exports to Singapore for the first 6 months of 2019 are almost double exports for the whole of the year to June 2018, while exports of these products to China are up almost 50 percent for this period.
- Exports of "other products" (including beverages and vegetable-based dyes) are also growing faster than expected, with most of the increase going to Australia, the US, and Vietnam. Growth is starting to show across many of these products, in particular various niche products, soft drinks and beer (Figure 30).

Figure 30: Other products sector begins to grow in second half of 2018



Other product export revenue 2016-20. Source: Stats NZ and MPI.

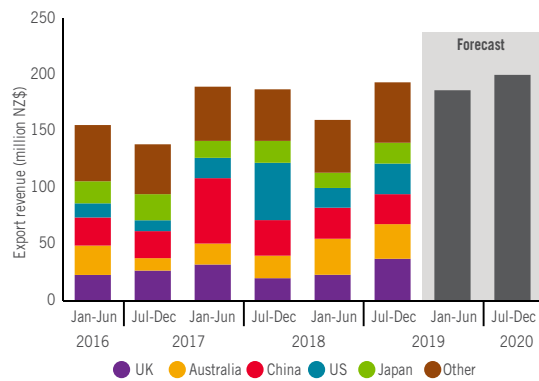
Figure 31: The closure of the Cadbury factory in Dunedin has almost halved chocolate exports



Sugar and confectionery export revenue 2015-20. Source: Stats NZ and MPI.

- A rebound in exports of lactose and sugar confectionery from a slow 2018 is driving an increase in the sugar and confectionery category. Exports are now expected to reach \$240 million for the year to June 2019, up from our previous forecast of \$220 million. Exports of chocolate continue to remain low due to the closure of the Cadbury factory in Dunedin in early 2018 (Figure 31).
- Honey exports are now expected to reach \$380 million for the year to June 2019, up 9.3 percent on 2018. While the average export price dropped marginally in the December quarter, export volumes were slightly higher than expected. Despite this increase, overall export volumes for the year are still on track to remain at recent levels of between 8,000 and 8,500 tonnes.

Figure 32: Honey export destinations shift frequently, and the UK is the top market currently



Honey export revenue by destination 2015-20. Source: Stats NZ and MPI.

- The variability in New Zealand's honey export markets continues. Following strong growth in exports to the UK over the latter half of 2018, this market is on track to surpass the US to become our largest honey export market for the year ending June 2019 (Figure 32).
- Exports to the US slowed during 2018 after the highs of the second half of 2017, but are still higher than historic levels. The strong increase in exports of honey to the US in the July to December 2017 period was likely due to initiatives by industry to establish new relationships with strategic retail partners. Consequently honey exports to the US are expected to grow in the future, albeit at slower rates, as these relationships continue to be developed.

Table 8: Other primary industry export revenue 2014-20 (NZ\$ million)

Year to 30 June	Actual					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Innovative processed foods	332	471	681	664	759	780	780
Honey	187	233	315	329	348	380	380
Sugar & confectionery	290	293	312	305	263	240	250
Cereal products	255	255	274	285	303	310	320
Live animals	208	370	242	274	241	220	240
Soup & condiments	192	183	187	186	184	190	200
Other products*	537	612	704	594	609	680	690
Total	2,002	2,417	2,714	2,638	2,706	2,800	2,870
% Change	-0.6%	+20.8%	+12.3%	-2.8%	+2.6%	+3.5%	+2.5%

Source: Stats NZ and MPI.

* Other products include: beverages, vegetable-based dyes, and spices.

Forecast tracking

The export forecast of \$45.6 billion for the year to June 2019 is up \$1.3 billion from the previous forecasting round in December 2018. The main drivers for this revision are good weather conditions boosting production more than expected and rising optimism for the meat and wool, dairy, horticulture, and forestry sectors.

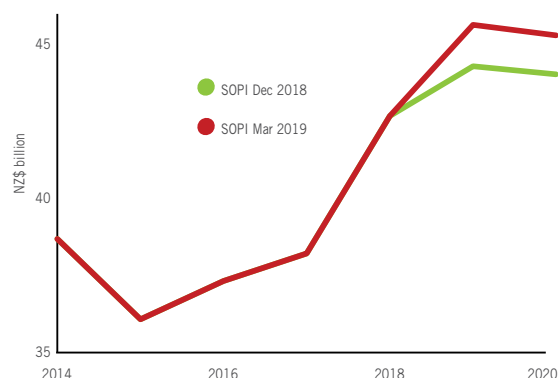
Strong global red meat prices are driving an upwards revision of \$490 million in the meat and wool.

Higher milk production and a reversal of previously-falling dairy prices has pushed the dairy forecast upward by \$370 million.

The forestry forecast has been revised upwards by \$170 million following yet another record quarter for harvest volumes, log exports, and log prices.

The horticulture export forecast has been revised upwards by \$200 million this quarter, primarily due to another large kiwifruit harvest being expected in 2019.

Figure 33: MPI export revenue forecasts 2013-20



Source: Stats NZ and MPI.

Table 9: Export forecast comparison, 2014-20 (NZ\$ million)

							Forecast	
Year to 30 June		2014	2015	2016	2017	2018	2019	2020
Dairy	Mar 2019	17,791	14,050	13,289	14,638	16,655	17,570	17,160
	Dec 2018	17,791	14,050	13,289	14,638	16,655	17,200	16,890
	Difference	-	-	-	-	-	+370	+270
Meat & wool	Mar 2019	8,162	9,000	9,200	8,355	9,542	10,110	9,990
	Dec 2018	8,162	9,000	9,200	8,355	9,542	9,620	9,520
	Difference	-	-	-	-	-	+490	+470
Forestry	Mar 2019	5,199	4,683	5,140	5,482	6,382	6,830	6,760
	Dec 2018	5,199	4,683	5,140	5,482	6,382	6,660	6,590
	Difference	-	-	-	-	-	+170	+170
Horticulture	Mar 2019	3,805	4,185	5,000	5,165	5,376	6,220	6,340
	Dec 2018	3,805	4,185	5,000	5,165	5,376	6,020	6,030
	Difference	-	-	-	-	-	+200	+310
Seafood	Mar 2019	1,500	1,562	1,768	1,744	1,777	1,880	1,930
	Dec 2018	1,500	1,562	1,768	1,744	1,777	1,890	1,960
	Difference	-	-	-	-	-	-10	-30
Arable	Mar 2019	232	181	210	197	243	235	250
	Dec 2018	232	181	210	197	243	230	245
	Difference	-	-	-	-	-	+5	+5
Other	Mar 2019	2,002	2,417	2,714	2,638	2,706	2,800	2,870
	Dec 2018	2,002	2,417	2,714	2,638	2,706	2,680	2,800
	Difference	-	-	-	-	-	+120	+70
Total exports	Mar 2019	38,692	36,079	37,323	38,219	42,682	45,645	45,300
	Dec 2018	38,692	36,079	37,323	38,219	42,682	44,300	44,035
	Difference	-	-	-	-	-	+1,345	+1,265



Economic Intelligence Unit online resources:

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