Research

Rural Wrap

4 February 2025

Upswing Welcome

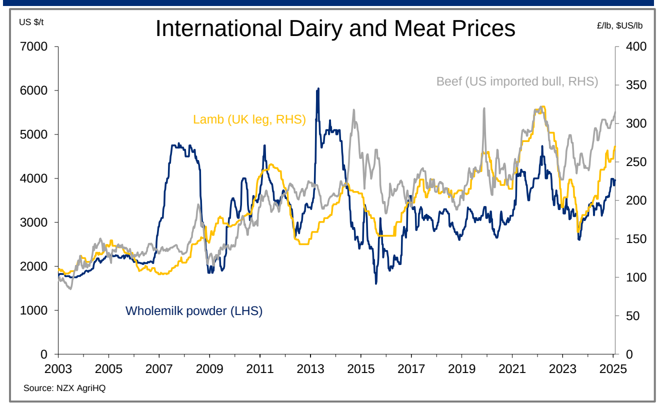
- **Higher prices, lower NZD welcomed by exporters**
- **Confidence and investment intentions positive**
- **But spending subdued to date**
- **US-initiated trade war adds risk**

There has been a decent upswing in global prices for some of NZ's major primary export products over the past year. For example, wholemilk powder prices are up 18%, the price of a leg of lamb is up 41%, and the US imported bull beef price is up 24%.

Such gains will be welcomed by domestic producers and those directly connected to primary sector returns alike.

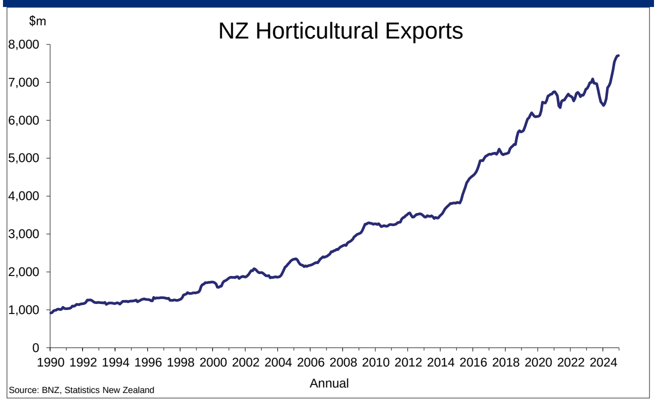
To be sure, not all primary prices have performed as well and some of the price gains have been off previously very low levels (like lamb), but they still represent a significant improvement from year ago levels. It offers material support to the prospect for export returns for the current season's produce relative to the previous season.

All rise



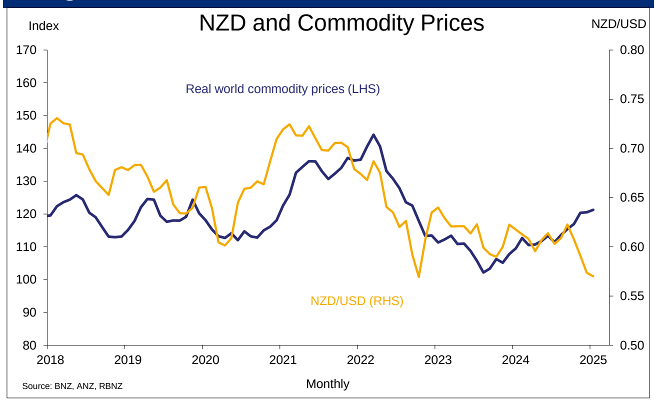
The positives have not been restricted to the major pastoral sectors. Horticulture export returns have also stepped higher. Latest figures show horticulture exports in 2024 were 31% higher than in 2023. This was driven by kiwifruit with a hefty gain of 44% while apple exports rose 14%. These gains were buoyed by the season's bumper production volumes, which was a major change from the previous cyclone-affected season. The gains represent more than a bounce back, with horticulture exports punching up to a record high over the past 12 months.

Record



As is almost always the case, inflation-adjusted (or 'real') primary product price gains have not been as strong as the nominal ones. And real commodity prices are not especially high overall. But they have pushed above their historical norm and at a time when the NZ dollar has headed south. That combination is an unusual double-positive for export returns and revenue to domestic primary producers.

Divergence



We had been expecting primary sector prices to improve, although it is fair to say the extent of it has been a bit more than forecast over the past six months or so. Firm pricing underpins our forecast for NZ exports to post a double-digit percentage gain in 2025, representing a decent boost to exporter incomes.

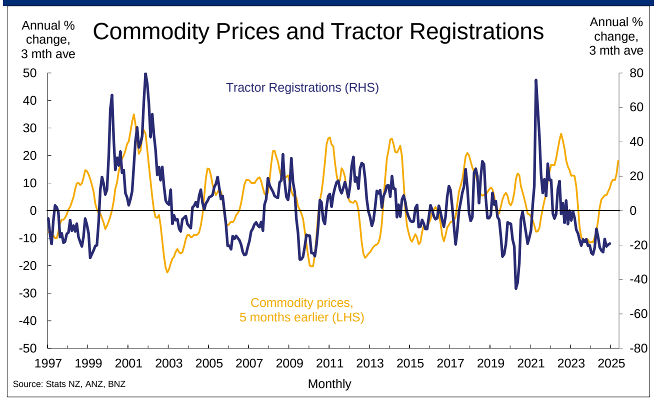
For primary producers with borrowings, there is the potential for additional cashflow benefits from the downward pressure on lending rates from reductions in the official cash rate over recent months. It all bodes well for more activity ahead.

Not that we have seen much evidence of that yet. Farm spending and investment indicators over the past year have been subdued. This is understandable, given previous price weakness and tight monetary conditions, as well as the uncertainty around the trade outlook offshore on geopolitical tensions and US-initiated tariff threats.

Primary sector operating expenditure looks to have broadly stabilised into the second half of last year, following a prior period of decline. Capital expenditure indicators remain materially lower than a year ago.

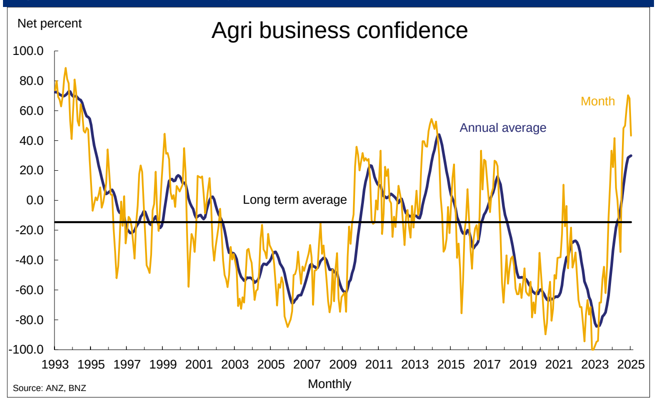
Take tractor registrations for example. There were 1,978 in 2024, which was 19% fewer than in 2023 and the lowest annual figure since 2001. And farm building consents. The 1,648 consents issued in 2024 were 7% fewer than the number of consents issued in 2023 and the lowest annual figure since at least 1991.

Spending lagging income upswing



Many farm spending indicators are still trailing year earlier levels over recent months, but to a lesser degree than was previously the case. As better export returns and the influence of lower interest rates filter through, some pick up can be expected. Confidence within the agriculture sector has improved.

Agri confidence buoyant



However, for some, improvement is from a low base such that more revenue will be about filling gaps rather than expansion. And even for those with expansion plans there are some factors that may temper enthusiasm including the new US administration's willingness to institute tariffs, blurring the external trading environment.

Late last week, the US announced import tariffs would be set for Canada and Mexico at 25% and for China at 10%, to begin this week. The only carve out being a 10% tariff on energy products from Canada. Retaliation plans got underway. Over the weekend, Canada and Mexico announced retaliatory tariffs on the US and China has said it will take 'counteractive measures' and that it will file a lawsuit with the World Trade Organisation.

However, in a very dynamic environment, following meetings between the US President and his counterparts in Mexico and Canada, the implementation date for the tariffs has been delayed a month. An on-again, off-again tariff risk itself creates uncertainty and is likely to dampen growth. Financial markets have been volatile.

It is impossible to know, in detail, the impact of such potential tariffs with the situation fluid. But there is a clear risk of more inflation in the US and likely tighter than otherwise monetary conditions should material tariffs be put in place. Growth is likely to be lower than otherwise in the disputing areas, as trade is disrupted, with flow on influences elsewhere.

For NZ, the prospect of the above tariffs places some upside risk to inflation as the NZ dollar falls. A lower NZD will increase the cost of imports but also support returns to exporters. However, higher than otherwise inflation is not a given. While a lower currency will clearly put upside pressure on local prices, slower global growth would exert some disinflationary pressure. The overall balance of these forces is not obvious.

The bigger question is how global does a US-initiated trade war become? The wider the impact, the weaker is growth and the weaker is the NZD. A bigger concern for NZ would be if tensions spread between third party countries in addition to unilaterally with the US. So far, we have seen no sign of expansion in tariff barriers beyond the US. It could end up with even greater US isolationism.

It is the indirect impact of trade tensions that appear a bigger risk to the NZ economy. The direct impact of announcements to date may well be relatively contained overall. But lower global growth would be a drag on economic activity in NZ. Of course, the impact on individual firms, products, and sectors will vary significantly depending on supply chain circumstances.

The US has just overtaken Australia as the second largest market for NZ merchandise exports. Yes, the near 13% share of NZ exports headed to the US is significant, but it is dwarfed by the other 87% of NZ exports headed elsewhere. China remains NZ's largest goods export market, accounting for 25%, effectively buying as much of NZ's exports as the US and Australia do put together.

If the US were to impose material tariffs on all countries, including NZ, the direct impact would be largest on meat exports (principally beef). Dairy is exposed, albeit as a relatively small share of total NZ dairy exports. Wine could take a big hit. Some manufacturers would be impacted.

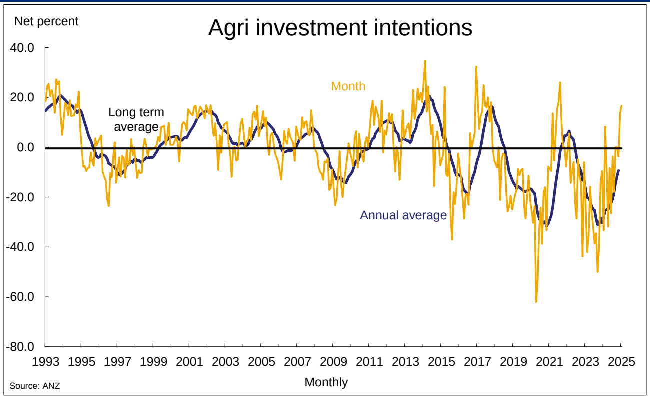
Some mitigating factors for NZ include that we export a lot of primary products for which we can usually find markets. The question is what happens to prices to clear the market and how much of an offset comes via a lower NZD? If oil prices were to dip on reduced global growth prospects, it would be a support for NZ's terms of trade.

The NZ dollar has seen downward pressure over recent months as the uncertainty around the global trading environment has been factored in. A lower NZ dollar is positive for export returns. However, we suggest it should not be seen in isolation. It has been factoring in the risk of more difficult global trading conditions ahead. The balance need not be positive for NZ exporters. A lot is uncertain and unknowable but needs to be monitored closely.

Firm commodity prices and a lower NZ dollar are a positive combination for NZ exporters. However, if the recent dislocation between movements in the NZ dollar and commodity prices persist, it raises the chance of more volatile primary sector incomes.

Investment intentions in the agriculture sector have lifted a long way over the past 12 months. But perspective is required. They were previously deeply negative. Investment intentions returned to be close to their long-term norms toward the end of last year and have only lifted above average in the past month or so. It will be interesting to see if this remains the case following the recent news of the US intending to place significant tariffs on imports from Canada, Mexico, and China with threats of tariffs being put on others too, like the EU.

Investment intentions turn positive



Elevated uncertainty and the prospect of more volatility in the external trading environment may well see a lower propensity for local primary producers to spend and invest recently improved export returns. While this may limit the overall growth upswing from recently improved export returns, the latter is still a very welcome tailwind for the NZ economy. It is also part of an aggressive narrowing trend in New Zealand's external deficit.

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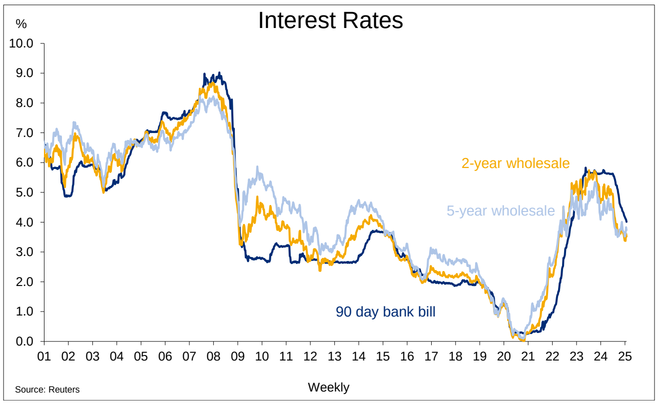
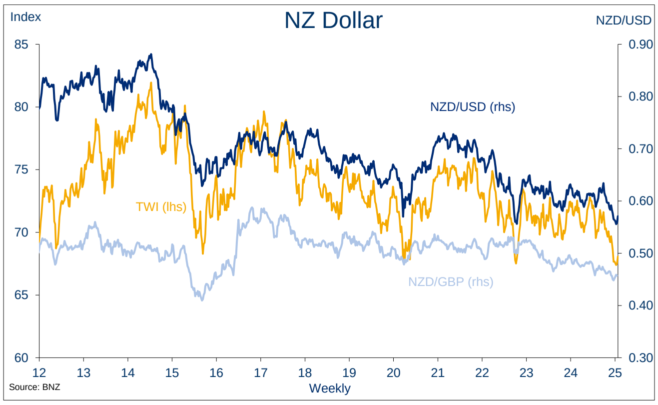
Key Macro Drivers for Commodity Producers

Interest Rates



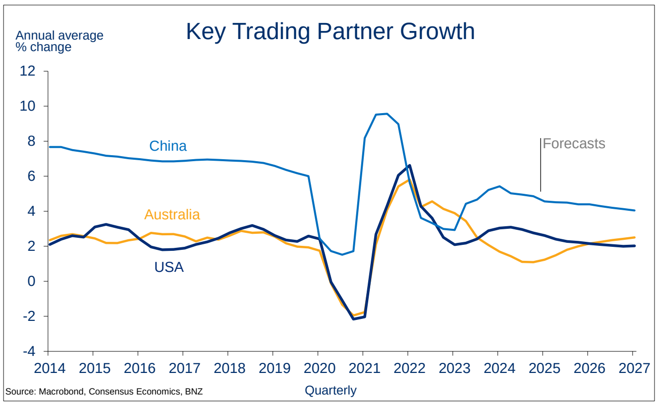
The Reserve Bank of New Zealand cut the cash rate by another 50 basis points at its November Monetary Policy Statement. The cumulative reduction over the past three decisions has been 125 basis points, taking it down to 4.25%. The cash rate remains above RBNZ estimates of neutral, and New Zealand's output gap remains significant, so further cash rate reduction is likely. We think the cash rate will need to get down to at least 3.0% to achieve the central bank's objectives. Our forecasts are for a 50-basis point cut at the February RBNZ meeting with smaller reductions thereafter. The extent of RBNZ easing already priced by the market will likely limit the downside for fixed rates. Most global central banks have slowed their pace of policy easing, including the US Federal Reserve, which held rates unchanged in January.

Foreign Exchange



The NZD ended 2024 on a very weak note. The election of Trump as President and ongoing resilience of the US economy, against a backdrop of a poorly performing NZ economy, were key drivers of this weakness. Since the beginning of 2025, the currency has bounced around on the musings of President Trump with his stance on tariffs the primary focus. In short, the harsher the tariff outlook the weaker the NZD. Note that the key here is not so much the direct impact of tariffs on New Zealand but rather the indirect effect on China, the yuan and global growth. The big picture view is domestic conditions are expected to provide increased support for the NZD in 2025, albeit from a low starting position. But our prevailing currency projections assumed a moderate Trump 2.0 tariff policy. We see downside risk to our NZD projections based on Trump's policy trajectory so far. The situation is fluid.

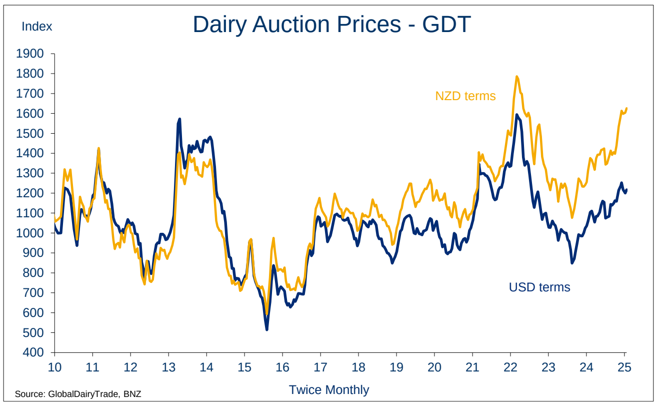
Global Growth



Consensus global economic growth forecasts are broadly unchanged over recent months. Overall, NZ trading partner growth is forecast to be 2.6% in 2025 marginally lower than the estimated 2.7% in 2024. The key focus is the US, as uncertainty about the prospective Trump policy mix reigns. From a New Zealand perspective, the President's decision on tariffs is important. It will influence the tone for the global growth outlook. US growth is expected to moderate in 2025 to 2.2% from a peak of 3.1% in the year ended June 2024. In China, the manufacturing and service sector PMIs were weaker than expected in January, suggesting growth lost momentum. Growth is expected to slow further despite the increased stimulus at the end of last year. The China softening, plus the US moderation, will weigh on the wider Asian region.

Key Commodities

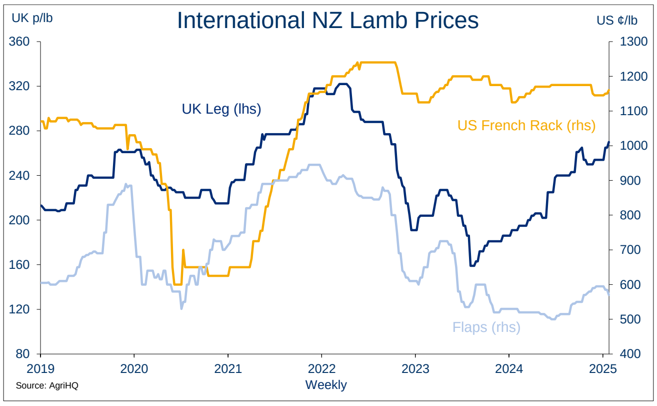
Dairy



Dairy prices are at buoyant levels, supported by firm demand and tight supply. Fonterra's 2024/25 milk price forecast midpoint sits at $10 per kg of milksolids. This matches our own view. An outcome anywhere near this, which looks increasingly likely, would be significantly higher than the prior season's $7.83. Higher global prices, a lower NZD, and more milk production is a very positive mix for NZ farmers. Our initial 2025/26 milk price forecast sits in the mid-9s, on the assumption of some pullback in GDT prices over the coming year but with support from a low NZD. As usual, error bounds around next season's forecast are wide.

	Current	Month ago	Year ago	Next 12 months
Whole milk powder (US $/t)	3960	3990	3370	↓

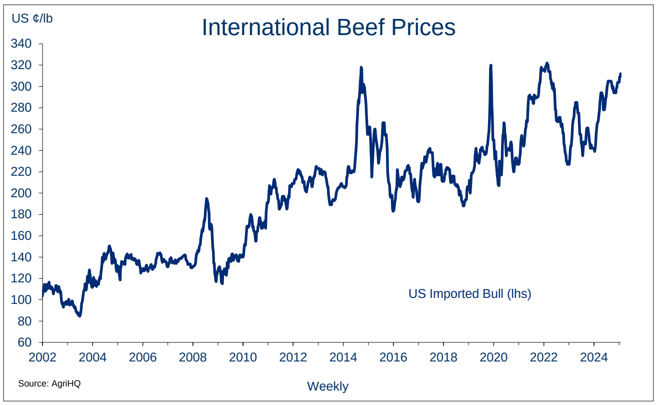
Lamb



EU/UK markets have been buoyant. UK lamb leg prices have continued to improve and are now around 41% higher than a year ago. China has eased a touch of late but is still well above last year's lows. Australian lamb supply remains elevated but has eased off preivous highs offering price support at the margin. Higher prices offshore coupled with a lower NZD are a positive mix for exporters. Local prices have resisted the usual seasonal dip over recent months. The current season's average lamb price is on track to be significantly higher than the previous season's shocker. A 20%+ increase would be enough to see prices get closer to their longer-term average on an inflation-adjusted basis.

	Current	Month ago	Year ago	Next 12 months
Lamb leg (UK p/lb)	270	254	191	→

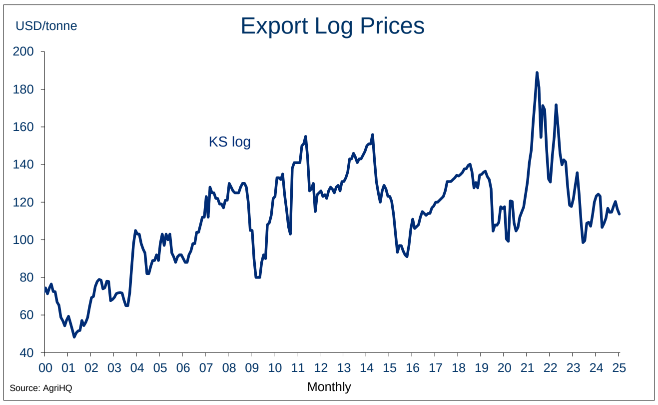
Beef



US beef prices are 24% higher than a year ago. Solid demand has bumped up against ever tighter supply. The US cattle herd shrunk 0.6% last year, to be at its lowest level in 74 years. In NZ, prices have been supported by offshore strength, some domestic supply tightness, and a lower NZD. We forecast the current season's average beef price to post a strong gain on the prior season and push above normal on an inflation-adjusted basis. Amid the current strength, there is heightened risk as US tariff policy is fluid. Higher US prices may not equate higher export returns ahead. The US accounts for a significant share of NZ beef exports.

	Current	Month ago	Year ago	Next 12 months
Imported bull (US ¢/lb)	315	304	255	↑

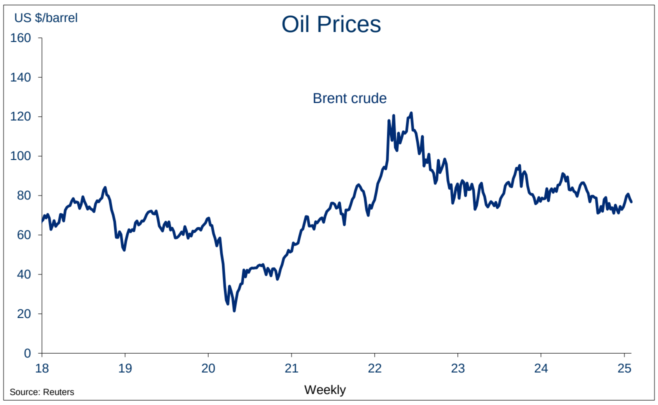
Forestry



Export log prices have remained relatively stable, at a low level, over recent months. The property market in China remains a significant headwind for the sector. New house prices in China have declined for 19 consecutive months, although the pace of decline appears to be slowing. US President Trump's tariff policy on China adds to uncertainty. PF Olsen note that nearly half of US plywood imports are from China and any tariffs introduced could have a significant impact on this supply chain with flow on influences. In New Zealand, domestic construction activity remains weak. Residential building consents are forming a base, and our economic forecasts are for building activity to gradually improve in 2025.

	Current	Month ago	Year ago	Next 12 months
S1/S2 log price (NZ $/t)	128	128	127	➔

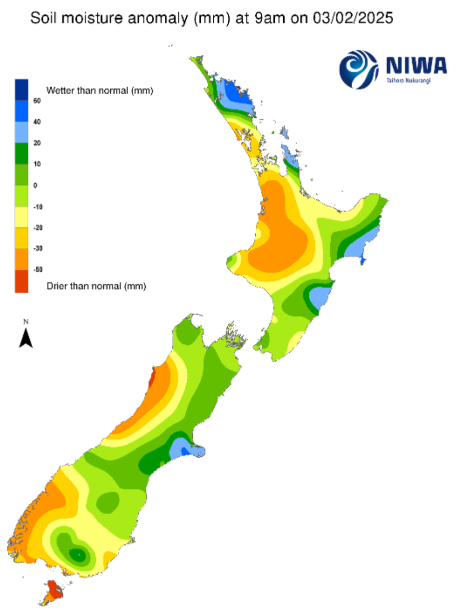
Oil



Oil prices reached the highest level in five months in January following fresh US sanctions against Russia's energy industry. Brent crude traded up around USD82 per barrel. Prices have since retreated as Trump said he was going to ask Saudi Arabia and OPEC to bring down the cost of oil and US tariff uncertainty raised questions about the global growth outlook. Brent crude has dipped back to the mid-USD70s per barrel. On net, crude oil prices have lifted around 3% since just before Christmas. Crude price and NZD volatility has been reflected in local fuel prices.

	Current	Month ago	Year ago	Next 12 months
Brent Crude (US $/b)	77	77	77	➔

Weather



It has been a cloudier and cooler start to the year for most regions, as New Zealand has had plenty of easterly winds bringing in cloud cover. Soil moisture maps have changed from a lot of areas being wetter than normal, to now generally close to normal for the country at large – for the time of year. But that is with a distinct drier in the west, wetter in east look – again relative to what is normal for this time of year. In the North Island, it's National Park, King Country, and into the Waikato proving to be the driest. It's been wetter than usual in the east of NZ, especially in Canterbury and Gisborne. NIWA expect soil moisture levels and river flows for early 2025 to be near normal or below normal across the North Island and the east of the South Island, and near normal for the west and north of the South Island.

Quarterly Forecasts

Forecasts as at 4 February 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Dec-24 to Mar-26

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	0.3	0.3	-1.1	-1.0	0.1	0.3	0.7	0.8	0.8	0.9
Retail trade (real s.a.)	-1.8	0.5	-1.2	-0.1	0.0	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-6.9	-6.6	-6.6	-6.4	-6.1	-5.5	-4.9	-4.6	-4.3	-4.0
CPI (q/q)	0.5	0.6	0.4	0.6	0.5	0.8	0.5	0.7	0.4	0.6
Employment	0.3	-0.4	0.2	-0.5	-0.2	0.0	0.2	0.4	0.6	0.7
Unemployment rate %	4.0	4.4	4.6	4.8	5.1	5.3	5.5	5.5	5.4	5.2
Avg hourly earnings (ann %)	6.6	4.8	4.0	3.2	3.4	3.9	3.6	3.0	2.9	3.0
Trading partner GDP (ann %)	3.2	3.1	2.9	2.9	3.0	2.8	2.9	2.9	2.9	2.8
CPI (y/y)	4.7	4.0	3.3	2.2	2.2	2.4	2.4	2.5	2.3	2.1
GDP (production s.a., y/y)	0.9	1.3	-0.5	-1.5	-1.6	-1.7	0.0	1.8	2.6	3.1

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.64	4.90	5.07	5.28	4.85	4.90	5.65	4.45	0.64
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.60	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.60	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.35	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.85	4.30	0.19
Forecasts										
2025 Mar	3.75	3.50	3.70	4.50	3.20	3.55	4.15	4.65	4.30	0.20
Jun	3.25	3.00	3.45	4.45	2.90	3.35	4.15	4.40	4.25	0.20
Sep	2.75	2.90	3.45	4.45	3.00	3.40	4.20	4.15	4.25	0.20
Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	3.90	4.00	0.30
2026 Mar	2.75	2.90	3.65	4.30	3.40	3.65	4.15	3.90	4.00	0.30

Exchange Rates (End Period)

USD Forecasts / NZD Forecasts

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.56	0.62	1.03	1.24	155	0.56	0.91	0.55	0.45	87.4	67.6
Mar-25	0.58	0.65	1.04	1.27	155	0.58	0.89	0.56	0.46	89.9	69.0
Jun-25	0.57	0.64	1.05	1.27	155	0.57	0.89	0.55	0.45	88.4	68.7
Sep-25	0.59	0.66	1.06	1.28	153	0.59	0.89	0.55	0.46	89.5	69.5
Dec-25	0.60	0.67	1.07	1.28	150	0.60	0.89	0.56	0.47	89.3	70.1
Mar-26	0.62	0.69	1.08	1.29	144	0.62	0.89	0.57	0.48	88.6	71.4
Jun-26	0.64	0.71	1.11	1.32	140	0.64	0.89	0.57	0.48	88.9	72.7
Sep-26	0.65	0.72	1.13	1.34	135	0.65	0.90	0.58	0.49	87.8	73.6
TWI Weights						15.6%	18.4%	9.2%	3.9%	5.5%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts
as at 4 February 2025

	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.3	3.4	1.0	0.2	2.2	7.6	4.2	1.0	0.1	1.6
Government Consumption	8.0	2.7	2.0	-1.3	-0.1	7.9	5.2	0.8	-0.2	-0.6
Total Investment	9.1	3.3	-1.6	-4.9	1.4	10.9	4.2	-0.6	-4.9	-0.9
Stocks - ppts cont'n to growth	0.5	0.3	-1.6	0.2	0.4	1.4	0.0	-1.4	0.1	0.3
GNE	7.9	3.7	-1.1	-0.6	2.1	9.9	4.5	-0.9	-0.8	1.3
Exports	2.5	5.6	8.6	1.4	3.1	-2.7	-0.8	11.4	3.5	2.2
Imports	17.2	4.4	-1.3	1.5	3.6	14.8	4.6	-0.6	1.9	2.4
Real Expenditure GDP	4.6	3.9	1.3	-0.8	2.0	5.8	3.2	1.8	-0.2	0.9
GDP (production)	**4.5**	**3.5**	**1.4**	**-1.3**	**1.9**	**5.6**	**2.9**	**1.8**	**-0.6**	**0.7**
GDP - annual % change (q/q)	*0.5*	*3.0*	*1.3*	*-1.7*	*3.1*	*2.6*	*3.1*	*0.9*	*-1.6*	*2.6*
Output Gap (ann avg, % dev)	1.0	2.0	0.9	-1.4	-1.0	1.3	1.9	1.2	-0.7	-1.3
Nominal Expenditure GDP - $bn	359	394	417	428	450	353	386	412	426	444
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.4	2.1	5.9	7.2	4.7	2.2	2.3
Employment	2.5	3.1	1.1	-0.5	1.9	3.3	1.7	2.8	-0.9	1.2
Unemployment Rate %	3.2	3.4	4.4	5.3	5.2	3.2	3.4	4.0	5.1	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.4	2.9
Productivity (ann av %)	1.7	1.3	-1.2	-0.7	1.2	3.6	0.7	-1.3	-0.4	0.6
Unit Labour Costs (ann av %)	4.7	5.7	7.2	4.6	1.8	2.3	6.0	7.7	4.9	2.4
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.4	7.0	22.5	-13.8	0.6	-1.0	6.8
External Balance										
Current Account - $bn	-24.5	-33.8	-27.6	-23.7	-18.2	-21.3	-35.6	-28.6	-25.9	-19.0
Current Account - % of GDP	-6.8	-8.6	-6.6	-5.5	-4.0	-6.0	-9.2	-6.9	-6.1	-4.3
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.7	-2.4	-3.1	-4.1	-3.1					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	35.4	39.3	42.4	45.1	45.1					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	39.3	40.0	40.0					
Bond Programme - % of GDP	5.6	7.1	9.4	9.3	8.9					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.61	0.58	0.62	0.68	0.63	0.62	0.57	0.60
USD/JPY	119	134	150	155	144	114	135	144	154	150
EUR/USD	1.10	1.07	1.09	1.04	1.08	1.13	1.06	1.09	1.05	1.07
NZD/AUD	0.93	0.93	0.93	0.89	0.89	0.95	0.94	0.93	0.91	0.89
NZD/GBP	0.52	0.51	0.48	0.46	0.48	0.51	0.52	0.49	0.45	0.47
NZD/EUR	0.62	0.58	0.56	0.56	0.57	0.60	0.60	0.57	0.55	0.56
NZD/YEN	81.5	83.0	91.1	89.9	88.6	77.4	85.6	89.5	88.4	89.3
TWI	73.9	71.0	71.2	69.0	71.4	73.0	72.9	72.0	68.5	70.1
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	3.75	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.64	3.50	2.90	0.92	4.55	5.63	4.26	2.90
5-year Govt Bond	2.90	4.40	4.60	3.70	3.65	2.20	4.30	4.50	3.90	3.55
10-year Govt Bond	3.20	4.35	4.60	4.50	4.30	2.35	4.25	4.65	4.45	4.30
2-year Swap	3.00	5.15	4.91	3.20	3.40	2.22	5.21	4.93	3.53	3.15
5-year Swap	3.20	4.50	4.40	3.55	3.65	2.56	4.62	4.43	3.63	3.50
US 10-year Bonds	2.10	3.65	4.20	4.30	4.00	1.45	3.60	4.00	4.40	4.00
NZ-US 10-year Spread	1.10	0.70	0.40	0.20	0.30	0.90	0.65	0.65	0.05	0.30

(1) *Average for the last month in the quarter*

Source: Statistics NZ, BNZ, NZ Treasury

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