

7. New Zealand's dairy growth set for sharp slowdown (Agrimoney.com)

The rocketing pace of milk production growth in New Zealand, the world's biggest dairy exporter, is to decline sharply as red tape and weighty debts curb farmers' willingness to invest.

New Zealand's milk production has grown by an average of 4.6% a year over the past two decades, lifted by productivity improvements and doubling to 4.4m head in the country's cow herd.

However, analysts believe the growth rate will slow to 2-3% in the "near-to-medium term", curbed by financial and regulatory hurdles, the US Department of Agriculture's Wellington bureau said in a report.

"There are ongoing concerns about the profitability of dairy farming," the briefing said.

"High debt levels, high input costs, and new costs associated with the implementation of New Zealand's emissions trading scheme are all negatively impacting on profitability."

Farm constraints

The country's dairy farmers last year reported their third loss in four years, of NZ\$1.65 per kilogramme of milk solids, squeezed both by a fall in prices and higher debt servicing costs.

These averaged NZ\$1.34 per kilogramme of milk solids, and are expected to rise to \$1.50 per kilo this year.

Even farmers willing to swallow those charges are constrained from investment by tighter credit, and a fall in land values which has lowered collateral values and is seen as largely responsible for an increase to 40-45% in their debts, as a proportion of assets, from 35% two years ago.

Furthermore, the immediate costs of complying with the emissions trading scheme, aimed at limiting New Zealand's greenhouse gas production, will cost farms an estimated NZ\$10,200 apiece.

Drought damage

Operating conditions have been particularly difficult of late for northern areas, struck by a drought which cut April milk output in Waikato by some 25%, year on year. Waikato typically accounts for some 30% of national milk production.

Indeed, New Zealand's North Island is expected to continue losing market share to South Island regions, which have greater potential for conversion to dairy, and where yields are higher.

South Island dairy farms produced 1,108 kilogrammes of milk solids per hectare in 2008-09 compared with an average of 892 kilogrammes on North Island.

The bureau blamed the North Island drought for a cut of 300,000 tonnes, to 16.7m tonnes, in its forecast for New Zealand's milk production for the year ending this month.

However, a reliance on stocks has helped the country maintain export hopes, with shipments of skimmed milk powder particularly buoyant.