

Research Rural Wrap

30 May 2025

Records and Inflation

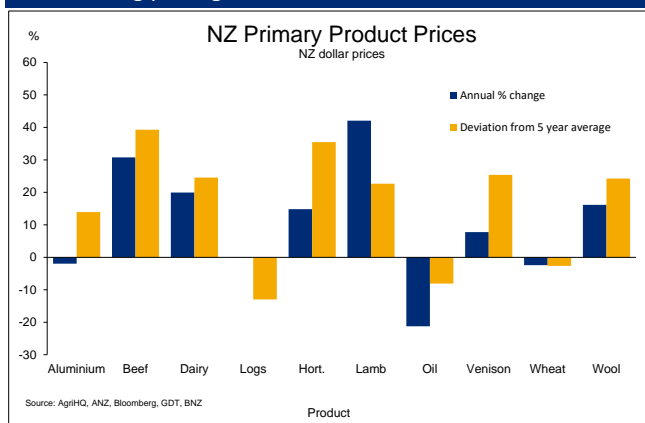
- Lamb, beef, dairy prices much higher than a year ago
- Price levels higher than recent averages too
- Inflation-adjusted estimates reveal broader context
- Outlook highly uncertain
- Forecast ranges very wide

Higher prices for some of NZ's major primary export products have been a feature of the past 12 months. Lamb, beef, and dairy product prices stand out with prices over the past month up in the order of 40%, 30%, and 20% respectively over the same period a year ago.

Positive influences have been many and varied, but typically some combination of reasonable demand, tightness in global supply, and a supportive NZD.

Price gains have been instrumental in generating significant increases in overall export returns and rural incomes. In the first four months of 2025, total goods export values were 20% higher than a year ago. This was driven by a 26% expansion in agricultural exports. Very positive.

Some strong price gains



Price gains for our major primary products are welcome, but where do they sit from an historical perspective? We look at lamb, beef, and dairy pricing to put some context around the recent increases. The view varies by product. Then we consider what it may mean for the future.

The first thing to point out is that the past year's price gain sees the price level for each of the three products above their respective 5-year average. The degree varies by product, but all are substantially above recent averages: lamb by 23%, beef by 39%, and dairy by 25%.

These are positive for sure, but costs are higher too. We need to account for inflation to get a better perspective of where things sit in real (inflation-adjusted) terms. The table summarises current season average prices along with where it sits relative to history in both nominal and inflation adjusted terms.

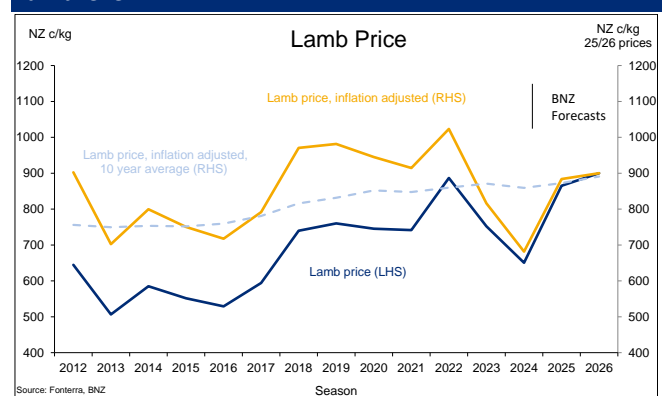
Price gains and level perspective

	23/24 season	24/25 (f/cast) season	season % change	24/25 level	24/25 level inflation adjusted
Lamb, c/kg	651	865	33	close to record	near average
Beef, c/kg	599	750	25	record	record
Milk, kg/MS	783	1000	28	record	well above average

Lamb – from very weak to good

In lamb's case, prices are currently threatening to push through \$9/kg on tightening supply, which has this season's average pressing up to around \$8.65/kg. That would be up about a third on the previous season and near the 2021/22 all-time high of \$8.87/kg. That is the dark blue line in the chart.

Lamb level



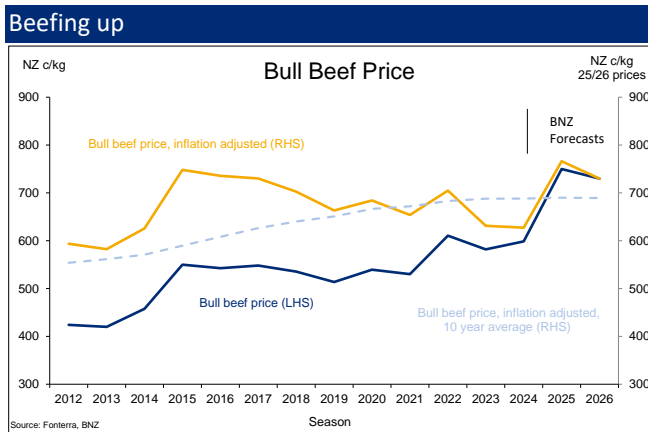
But this 'close to record' strength overstates the case. The yellow line shows inflation-adjusted lamb prices, and the dotted light blue line is that metric's 10-year average. Comparing the yellow line to the dotted line gives a better

assessment of where prices sit in real terms relative to history. In short, lamb prices were very weak last season being some 21% below average in real terms. This season's strong gains effectively see prices back to about their inflation-adjusted average. So more good than great, despite the big gain from last season.

Forecasting in the current world environment is fraught with difficulty. Any forecast must come with a wide range for error. But it is useful to assess where real prices currently sit relative to history to gain a sense of where 'normal' might sit. If prices were to stay in touch with inflation adjusted averages, it would equate to lamb prices near the \$9/kg mark on average for the season ahead. Tightening supply present some upside risk, while global trade tension and associated slower global economic growth outlook present a downside risk.

Beef – from below average to record

For beef, prices have charged higher on very tight US supply and firm exports to both the US and China. The large price gain has the 2024/25 season average shaping up to be a record in both nominal and inflation-adjusted terms. Those are the dark blue line and yellow lines in the chart.



In contrast to lamb, beef's yellow line shows inflation-adjusted prices have pushed above its 10-year average. On an inflation-adjusted basis, beef prices have lifted from being about 9% below average last season to looking like being about 11% above this season. The latter is outright strong.

Looking ahead, above average inflation-adjusted prices raise the chance of a supply side response down the track, which would temper prices in time. But herd rebuilding in the US would be price supportive initially such that prices are expected to remain above their inflation adjusted average next season even if they ease a bit as we think compared to this season's record. Trade uncertainty and associated slower global economic growth outlook is expected to be a price headwind on balance.

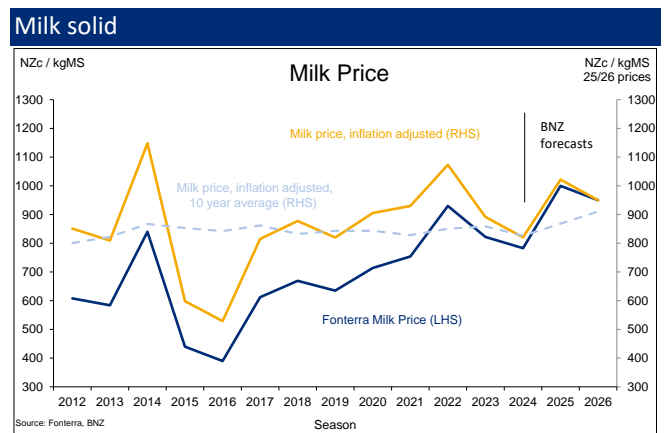
Dairy – from average to well above

Dairy prices have lifted from average levels to well above over the past 12 months. Fonterra's current \$10.00/kgMS midpoint forecast for the 2024/25 season is materially higher than the prior season's \$7.83. A strong lift to a record level, as shown by the dark blue line.

On an inflation-adjusted basis (the yellow line), Fonterra's milk price has lifted from about average last season to well above (18%) this season. While strong, on that basis the 2024/25 season would not be a record but would still be in the top five highest over the past 35 years.

Looking ahead, above average inflation-adjusted prices raise the chance of a global supply response, tempering prices. This may be underway in the likes of the US. There are questions around how much of any additional milk will make it into world markets given trade environment uncertainty and, if it does, at what price?

Our forecast for the 2025/26 season remains at \$9.50. The small decline from \$10 in 2024/25 is a nod to the current uncertainty around the global economic outlook. It assumes GDT pricing eases over coming months. Those prices could ease a fair way and still be consistent with solid milk payments to farmers in the year ahead. Conversely, if GDT prices remain around current levels, it would be consistent with a milk price well more than \$10.

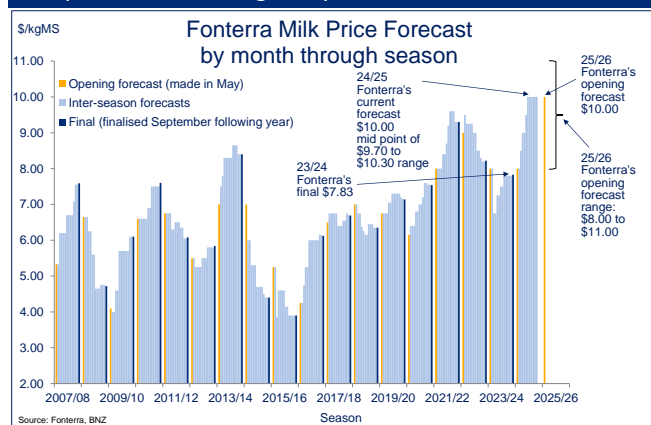


Fonterra has recently reiterated its \$10.00 milk price forecast for 2024/25 and announced an opening forecast of \$10.00 for 2025/26. Not surprisingly, Fonterra has provided a very wide range on next season's forecast of \$8.00 to \$11.00. That is the widest range ever provided and a sign of the times. Interestingly, the co-op's point forecast is in the upper half of the range, rather than the typical mid-point.

The very wide range reflects considerable uncertainty around the outlook, with Fonterra acknowledging 'ongoing geopolitical uncertainty and the potential for a wider series of outcomes across the season.' No argument there. The

range around any point forecast for the new season is extraordinarily wide. It is back to watching the GDT results and NZD to see how things play out ahead.

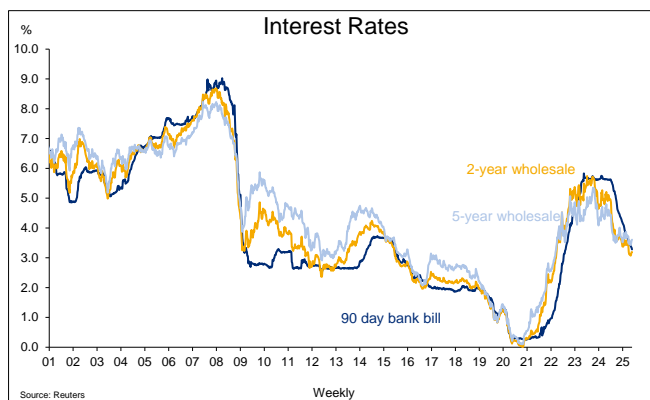
Milk price forecast range very wide



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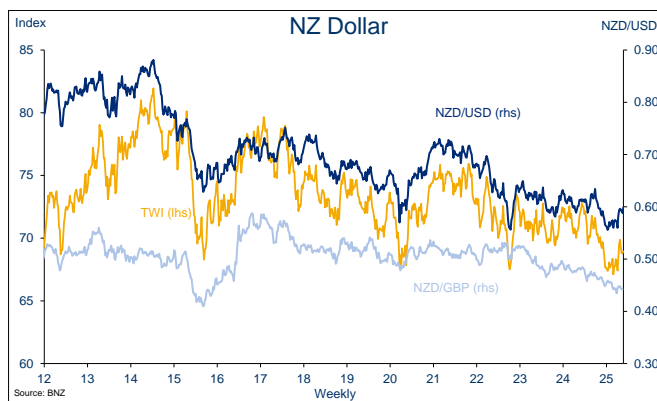
Key Macro Drivers for Commodity Producers

Interest Rates



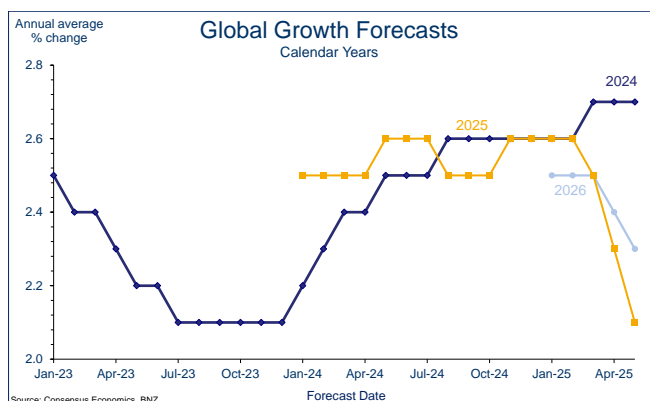
As widely expected, the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) by 25 basis points to 3.25% in May. However, the vote was not unanimous with one Monetary Policy Committee member voting to hold rates unchanged. Comments from RBNZ officials in the press conference suggest they are looking to maintain full optionality on future interest rate decisions. Our forecasts are unchanged, and we still expect the RBNZ to lower the OCR to below 3%. However, uncertainty is heightened as we approach the end of the easing cycle, and this will likely limit the downside for fixed rates. The US Federal Reserve held rates unchanged in May as it waits for more clarity on the outlook for the labour market and inflation.

Foreign Exchange



Foreign exchange markets remain volatile. There has been some tariff de-escalation as the US agreed to lower their 145% tariff on Chinese goods to 30%, and China agreed to lower their 125% tariff on US goods to 10%. The current agreement is only temporary while the two sides negotiate a broader trade deal. Uncertainty on where tariffs finally settle remains elevated. Downgrades to the economic outlook and financial flows out of the US have driven broad-based US dollar (USD) weakness. The New Zealand dollar (NZD) has strengthened to around 0.60 against the USD. While a wide range of scenarios are possible, we have lifted our central NZD forecast to a 2025 year-end target of 0.65. This is the flipside of expected broad weakness in the USD.

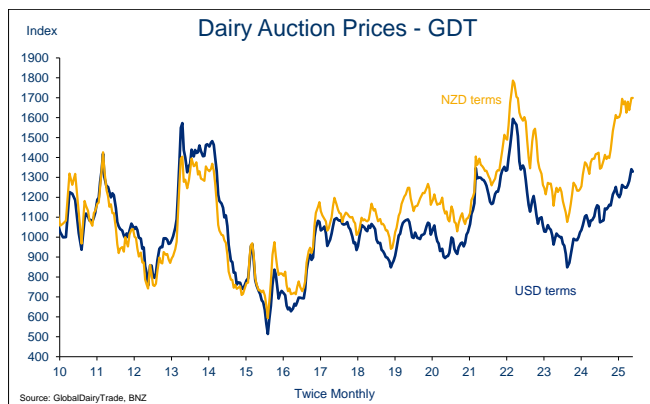
Global Growth



Global economic growth forecasts have been getting rapidly lowered. In NZ, the Treasury and RBNZ recently both revised down their trading-partner forecasts to around 2% for 2025. Tariffs are expected to have the largest negative growth impacts for the US and China. The risk of lower growth in those economies and widespread policy uncertainty has forecasts for other countries also being downgraded. Sentiment is volatile. Consumer confidence lifted significantly after a recent rollback of tariffs. In China, authorities have eased monetary and fiscal policy to help offset tariff impacts. They have reiterated their 5% economic growth target for the year. Consensus forecasts for other Asian economies have also been lowered, particularly for those with more exposure to the US. The prospect of slower global growth presents downside risk to currently strong commodity prices.

Key Commodities

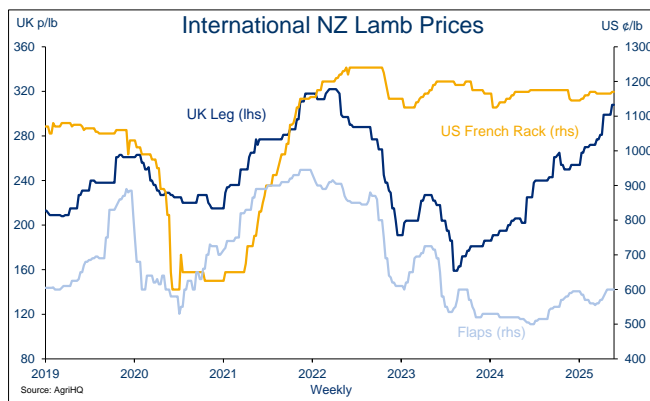
Dairy



Dairy prices remain buoyant and are around 20% above year earlier levels. Farmer confidence has been underpinned by generally solid production, strong export returns, and lower interest rates. Our 24/25 and 25/26 forecasts for Fonterra's milk price remain at \$10.00 and \$9.50 respectively. The dip in the season ahead is a nod to the current massive uncertainty around the global economic outlook at present, noting that any forecast must come with a very wide range. We think GDT pricing will ease over coming months, but it can ease a fair way and still be consistent with strong milk price paid to farmers.

	Current	Month ago	Year ago	Next 12 months
Whole milk powder (US \$/t)	4280	4130	3420	↓

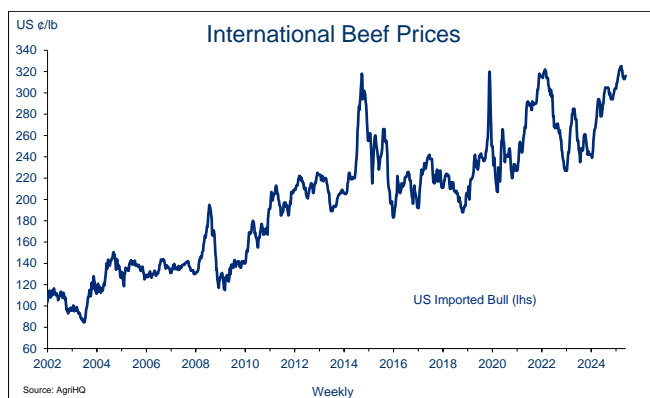
Lamb



Global lamb prices have increased on the back of solid demand and tighter supply. UK leg prices are around 50% higher than a year ago. Despite the imposition of 10% tariffs from the US, NZ exporters remain relatively optimistic. Lamb is less exposed to the US market than beef, and recent commentary suggests that producers are trying to leverage partnerships outside of the US. However, expected slower global growth ahead is likely to weigh on demand at the margin. Domestic lamb supply has tightened. We expect next season's average lamb price to be modestly above this season's assuming global prices do not fall too far from current levels.

	Current	Month ago	Year ago	Next 12 months
Lamb leg (UK p/lb)	308	299	202	↓

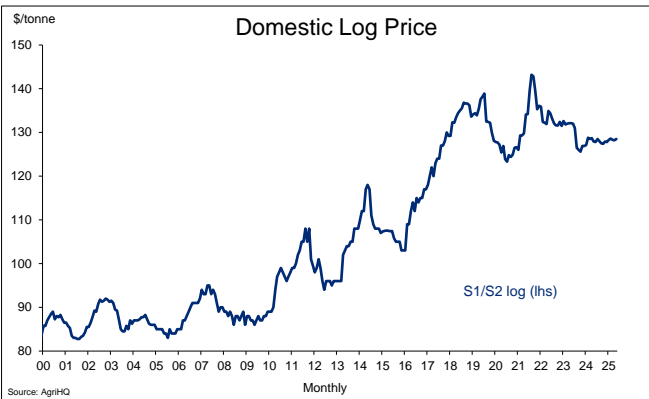
Beef



US beef prices are around 14% higher than a year ago, supported by tight supply. The US is NZ's largest export destination for beef. NZ beef exports to the US hit a record high in April. The US recently imposed tariffs on imports including 10% on those from NZ. NZ's imposition is no higher than any other country supplying the US. Tariff changes, uncertainty, and a softer global growth outlook are headwinds to prices ahead. However, constrained global supply is likely to remain a price support. We expect this next season's beef price to be modestly lower than the likely record set this season.

	Current	Month ago	Year ago	Next 12 months
Imported bull (US \$/lb)	316	313	278	↓

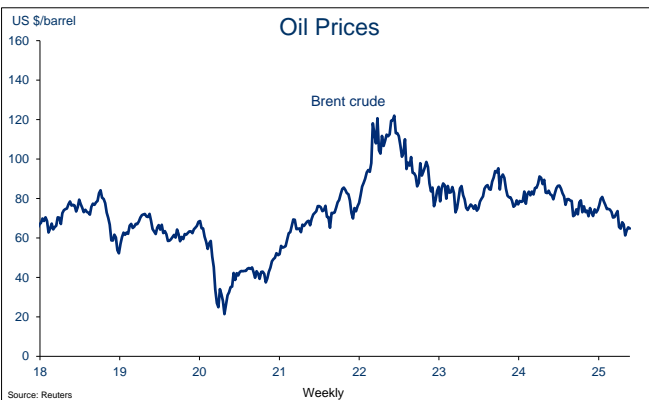
Forestry



Domestic log prices have been stable recently. Domestic building activity remains subdued, with the trend in the number of residential building consents broadly flat. For some of our overseas markets, a stronger NZD has reduced competitiveness of logs from NZ. Log and timber demand from China remains weak, where new home prices have now declined for 22 consecutive months. Some tightening in supply offers hope that recent export price declines may abate. Any easing in shipping costs would also be a help.

	Current	Month ago	Year ago	Next 12 months
S1/S2 log price (NZ \$/t)	128	128	129	➔

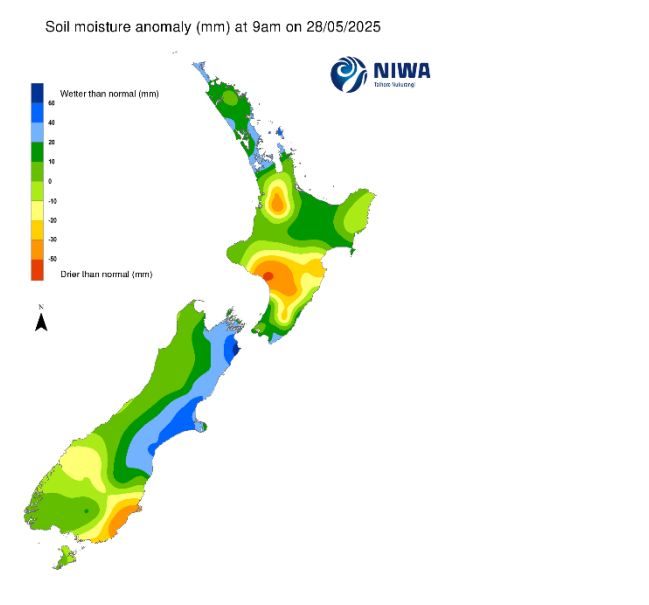
Oil



Oil prices have been wobbling around USD65 per barrel. Brent crude fell early in early May following OPEC+'s decision to increase supply. This was compounded by rising fears of a global growth slowdown. However, oil prices bounced back after a report that US shale output is expected to drop in coming months, assuaging fears of rising global supply from OPEC+. The oil futures curves remain mildly upward sloping. In New Zealand, low crude oil prices and a stronger NZD has put downward pressure on domestic fuel prices.

	Current	Month ago	Year ago	Next 12 months
Brent Crude (US \$/b)	65	67	82	➔

Weather



Soil moisture maps show wetter than normal conditions across most of the South Island. In contrast, some parts of the North Island are still experiencing dry conditions. Overall, the temperature has been well above normal for this time of the year, with forecasts showing this is likely to continue near-term. Reports of some grass growth again in Taranaki are welcome after extreme dry had produced very challenging conditions for some. It is a start. Looking ahead, NIWA forecasts show that May – July rainfall is expected to be above normal for the north of the North Island. For the west coast of the South and North Islands, rainfall is forecast to be near normal or below normal. For the rest of the country, near normal or above normal rainfall totals are about equally likely.

Quarterly Forecasts

Forecasts as at 30 May 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.7	0.4	0.4	0.5	0.7	0.8	0.7	0.6	0.6	0.5
Retail trade (real s.a.)	1.0	0.8	0.6	1.0	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.2	-5.5	-4.6	-4.2	-3.8	-3.7	-3.8	-4.0	-4.1	-4.0
CPI (q/q)	0.5	0.9	0.6	0.7	0.4	0.5	0.4	0.4	0.3	0.7
Employment	-0.2	0.1	0.0	0.3	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.1	5.2	5.3	5.3	5.2	5.1	4.9	4.9	4.9
Pr. avg hourly earnings (ann %)	4.0	3.8	3.5	3.0	2.3	3.0	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.1	2.5	2.3	2.2	2.5	2.6	2.6	2.7	2.8
CPI (y/y)	2.2	2.5	2.8	2.8	2.6	2.2	2.0	1.8	1.7	1.9
GDP (production s.a., y/y)	-1.1	-1.1	0.4	1.9	1.9	2.3	2.6	2.8	2.7	2.4

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Forecasts										
Jun	3.25	3.00	3.55	4.60	2.90	3.35	4.20	4.30	4.40	0.20
Sep	2.75	2.90	3.50	4.50	3.00	3.40	4.20	4.05	4.30	0.20
Dec	2.75	2.90	3.55	4.45	3.15	3.55	4.25	3.65	4.25	0.20
2026 Mar	2.75	2.90	3.65	4.35	3.40	3.70	4.20	3.55	4.10	0.25
Jun	2.75	2.90	3.75	4.25	3.70	3.85	4.15	3.40	4.00	0.25
Sep	2.75	3.30	3.90	4.30	3.95	4.05	4.25	3.15	4.00	0.30
Dec	3.25	3.55	3.95	4.30	4.10	4.15	4.30	3.05	4.00	0.30

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.60	0.64	1.14	1.35	144
Jun-25	0.61	0.66	1.18	1.37	138
Sep-25	0.63	0.68	1.24	1.43	130
Dec-25	0.65	0.70	1.23	1.41	125
Mar-26	0.65	0.70	1.23	1.41	125
Jun-26	0.68	0.73	1.26	1.45	119
Sep-26	0.68	0.73	1.27	1.46	118
Dec-26	0.68	0.73	1.28	1.47	117
Mar-27	0.69	0.74	1.26	1.45	116

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.93	0.53	0.44	86.1	69.2
Jun-25	0.61	0.92	0.52	0.45	84.2	70.3
Sep-25	0.63	0.93	0.51	0.44	81.9	71.2
Dec-25	0.65	0.93	0.53	0.46	81.3	72.5
Mar-26	0.65	0.93	0.53	0.46	81.3	72.5
Jun-26	0.68	0.93	0.54	0.47	80.9	74.1
Sep-26	0.68	0.93	0.54	0.47	80.2	73.9
Dec-26	0.68	0.93	0.53	0.46	79.6	73.7
Mar-27	0.69	0.93	0.55	0.48	80.0	74.6

TWI Weights

15.6% 18.4% 9.2% 3.9% 5.5%

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

Annual Forecasts

Forecasts as at 30 May 2025	March Years					December Years				
	Actuals					Actuals				
	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026
GDP - annual average % change										
Private Consumption	3.4	1.0	0.1	2.1	2.8	4.2	1.0	0.2	1.5	2.9
Government Consumption	2.7	2.0	-0.9	-0.8	-0.1	5.2	0.8	0.0	-0.7	-0.4
Total Investment	3.3	-1.1	-4.9	0.4	5.8	4.2	-0.1	-4.6	-1.7	5.6
Stocks - ppts cont'n to growth	0.3	-1.6	0.4	0.6	0.1	0.0	-1.4	0.2	0.5	0.2
GNE	3.7	-0.9	-0.6	2.0	3.0	4.5	-0.8	-0.8	1.4	3.1
Exports	5.6	8.6	3.5	4.8	3.9	-0.8	11.4	4.2	5.6	3.7
Imports	4.4	-1.3	2.9	5.2	4.9	4.6	-0.6	2.4	4.9	5.0
Real Expenditure GDP	3.9	1.4	-0.6	1.8	2.6	3.2	1.9	-0.1	1.1	2.6
GDP (production)	3.5	1.4	-1.1	1.6	2.6	2.9	1.8	-0.5	0.8	2.6
<i>GDP - annual % change (q/q)</i>	<i>3.0</i>	<i>1.4</i>	<i>-1.1</i>	<i>2.3</i>	<i>2.4</i>	<i>3.1</i>	<i>0.9</i>	<i>-1.1</i>	<i>1.9</i>	<i>2.7</i>
Output Gap (ann avg, % dev)	2.0	1.0	-1.1	-0.8	0.0	1.9	1.2	-0.6	-1.0	-0.1
Nominal Expenditure GDP - \$bn	394	418	430	451	473	386	413	427	445	468
Prices and Employment -annual % change										
CPI	6.7	4.0	2.5	2.2	1.9	7.2	4.7	2.2	2.6	1.7
Employment	3.1	1.0	-0.7	1.6	2.3	1.7	2.8	-1.2	1.0	2.5
Unemployment Rate %	3.4	4.4	5.1	5.2	4.9	3.4	4.0	5.1	5.3	4.9
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	3.8	3.0	3.3	8.1	6.6	4.0	2.3	3.4
Productivity (ann av %)	1.3	-1.1	-0.2	1.4	0.2	0.7	-1.2	-0.1	1.3	0.3
Unit Labour Costs (ann av %)	5.7	7.1	4.7	2.2	3.1	6.0	7.6	4.9	2.7	2.9
House Prices (stratified, qtr)	-12.8	2.8	-0.6	7.0	5.4	-13.8	0.6	-0.9	6.8	6.1
External Balance										
Current Account - \$bn	-33.8	-27.6	-23.5	-16.5	-19.1	-35.6	-28.6	-26.4	-17.0	-19.1
Current Account - % of GDP	-8.6	-6.6	-5.5	-3.7	-4.0	-9.2	-6.9	-6.2	-3.8	-4.1
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-2.3	-2.6	-1.7					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	38.7	41.7	42.7	43.9	45.7					
Bond Programme - \$bn (Treasury forecasts)	28.0	39.3	43.0	38.0	36.0					
Bond Programme - % of GDP	7.1	9.4	10.0	8.4	7.6					
Financial Variables ⁽¹⁾										
NZD/USD	0.62	0.61	0.57	0.67	0.69	0.63	0.62	0.57	0.65	0.68
USD/JPY	134	150	149	120	116	135	144	154	125	117
EUR/USD	1.07	1.09	1.08	1.25	1.26	1.06	1.09	1.05	1.23	1.28
NZD/AUD	0.93	0.93	0.91	0.93	0.93	0.94	0.93	0.91	0.93	0.93
NZD/GBP	0.51	0.48	0.44	0.47	0.48	0.52	0.49	0.45	0.46	0.46
NZD/EUR	0.58	0.56	0.53	0.54	0.55	0.60	0.57	0.55	0.53	0.53
NZD/YEN	83.0	91.1	85.4	80.4	80.0	85.6	89.5	88.4	81.3	79.6
TWI	71.0	71.2	67.9	73.6	74.6	72.9	72.0	68.5	72.5	73.7
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.50	4.25	5.50	4.25	2.75	3.25
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	4.05	4.55	5.63	4.26	2.90	3.55
5-year Govt Bond	4.40	4.60	4.00	3.65	4.00	4.30	4.50	3.90	3.55	3.95
10-year Govt Bond	4.35	4.60	4.50	4.35	4.30	4.25	4.65	4.45	4.45	4.30
2-year Swap	5.15	4.91	3.35	3.40	4.15	5.21	4.93	3.53	3.15	4.10
5-year Swap	4.50	4.40	3.65	3.70	4.20	4.62	4.43	3.63	3.55	4.15
US 10-year Bonds	3.65	4.20	4.25	4.10	4.00	3.60	4.00	4.40	4.25	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.25	0.30	0.65	0.65	0.05	0.20	0.30
⁽¹⁾ Average for the last month in the quarter										

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

Contact Details

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