Research

Rural Wrap

12 August 2026

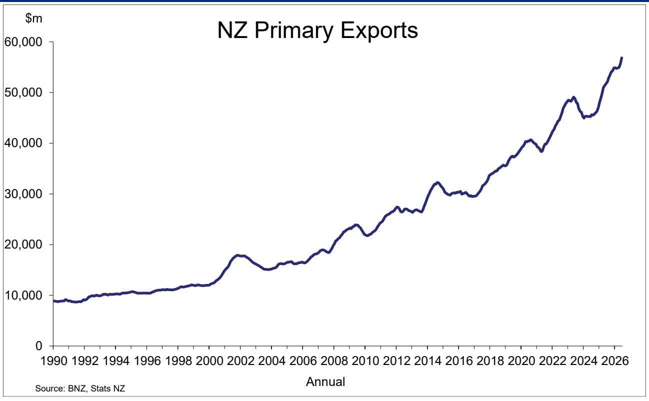
Buoyant but at risk

- **Primary sector exports strong**
- **Many factors in play for what comes next**
- **Geopolitics and trade developments important**
- **El Nino a key risk this season**
- **Disease, inflation, and interest rates on the radar too**
- **Global growth and NZD provide reasonable backdrop**

New Zealand's primary exports have been buoyant over the past 18 months or so – with elevated pricing and decent volumes across many major products. Confidence in the agricultural sector is strongly positive.

This is quite remarkable in the context of global goings on especially given that assessing what comes next is fraught with difficulty due to a litany of uncertainties and risks that could materially and abruptly alter the outlook for better or worse. There are many items on the radar.

Buoyant



First, geopolitics. Events in the Middle East remain unforecastable. The to-and-fro between hostilities to talk of peace deals has caused violent swings in oil and fertiliser prices. Meanwhile, the Russia-Ukraine conflict continues. Strikes on ships are disrupting trade and exerting its own pressures on energy and commodity prices.

In just the past five months, oil prices have swung up toward $US120/bbl, unwound to near $US70/bbl, jumped to $US100/bbl, and back to $US80/bbl. They currently sit near $US90/bbl. Who knows where they will be when you read this. International fertiliser prices have also swung wildly. Domestic fertiliser prices are materially higher than a year earlier.

The uncertainty and volatility themselves are unhelpful – let alone the net lift in costs. It all makes budgeting difficult. Indicative of the upward cost pressure, Dairy NZ's recent quarterly update saw 2026/27 forecasts for farm working expenses up nearly 10% on the previous season, and the season's average breakeven milk price estimate rose to $8.79kgMS.

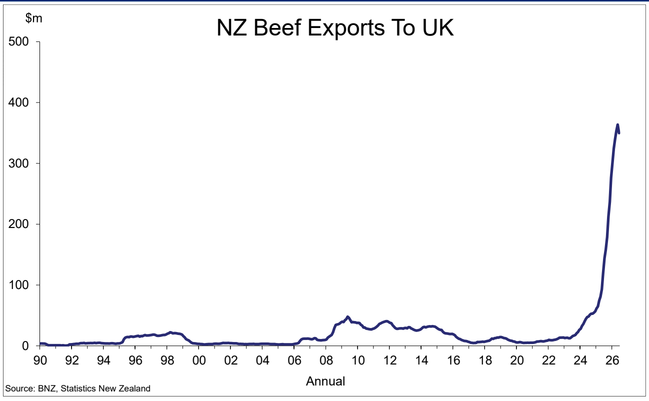
Second, trade developments. Another wave of US tariff changes occurred in late July, pushing ahead with imposing 10% to 12.5% tariffs on imports from most of its major trading partners, including New Zealand. This change was not a surprise. The new tariffs follow the expiry of previous temporary tariffs. Many countries have rejected the forced-labour premise of the new tariffs.

NZ goods entering the US will now generally face a 12.5% tariff. This is up from the previous temporary 10% tariff, though below the 15% rate in place before the US Supreme Court ruled against it earlier in the year. While the changes are relatively small and NZ faces similar US tariff rates to many others, there is still an added cost to absorb – either by US consumers, as many have argued has largely been the case to date, through the supply chain, or both. Ongoing changes in themselves create uncertainty and adds to the cost of trade.

The influence of the tariff changes will vary by sector. Some products like beef and kiwifruit remain exempt. The US tariff on NZ lamb has increased to the same as applied to Australian lamb, a net negative at the margin. A US investigation into whether to impose additional tariffs on Australian lamb imports continues. Uncertainty remains.

On a more positive note, NZ continues to pursue trade agreements including recently starting discussions with Switzerland and finalising an agreement on essential supplies with Singapore. The NZ-India free trade agreement is expected to come into force later this year, with evidence of activity picking up ahead of it. Off a low base, NZ exports to India lifted 24% in the June 2026 quarter compared to the equivalent quarter a year earlier. Benefits from previous agreements continue to accumulate, such as beef exports to the UK that nearly tripled in the year to June 2026 compared to the previous year.

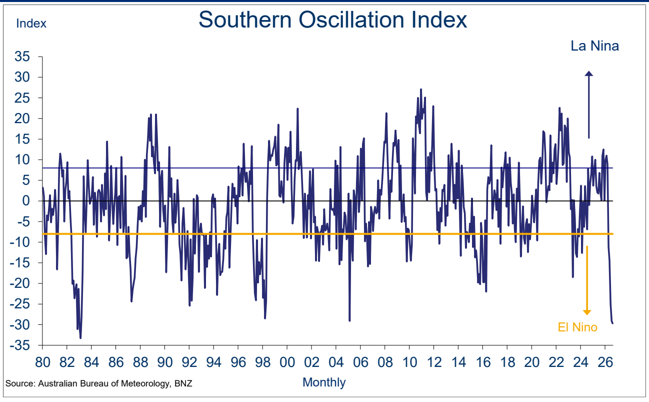
Trade agreement benefits



Third, weather. El Nino warnings abound, as we discussed in the previous *Rural Wrap*. Suffice to repeat here that the high chance of a strong event extending into NZ's spring and summer brings meaningful downside risk to production in the primary sector. Of course, nothing is a given with the weather, and each El Nino event is different. But the extreme strength of the current indicators strongly suggest that this risk should be taken seriously and watched closely.

El Nino is already affecting agricultural and other producers around the world. The World Bank has warned that El Nino could push world food prices higher. Indeed, there is some evidence that it already is.

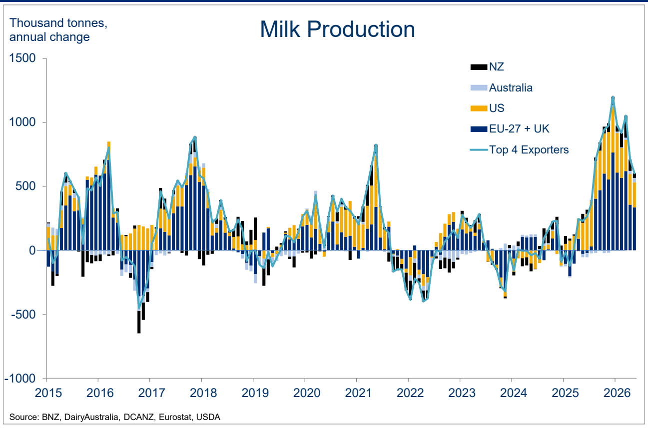
Weather warning!



Ongoing heatwaves in the EU and UK have presented challenges for primary production including via heat stress on cows slowing milk production. Increasing supply risks may have encouraged some contingency demand. Global dairy prices that had been trending lower on previous supply strength found stability at the late July and early August GDT auctions.

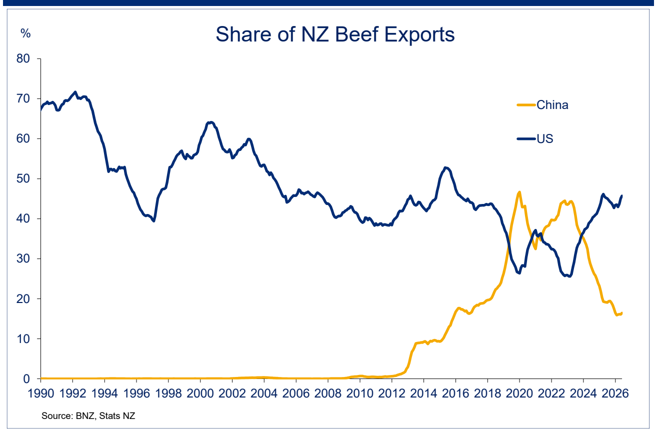
Fourth, disease. H5N1 bird flu was detected for the first time in NZ last month. While very few birds in NZ have been detected with the disease to date, experts warn it is likely to become endemic, as it has elsewhere in the world. H5N1 has not yet been detected in NZ poultry. However, the sector is on alert and taking precautionary and protective measures. Again, this adds cost. The bigger concern is if bird flu hits poultry restricting chicken and egg production.

Major exporter milk supply growth large, but slowing



Fifth, a combination of weather, disease, and trade issues. Prolonged dry conditions have contributed to US cattle numbers falling to their lowest level since 1951, underpinning significant strength in US beef prices. Last year the US banned Mexican cattle imports to restrict the spread of the flesh-eating new world screwworm, further tightening supply. The US accounted for around 46% of NZ beef exports in the year to June. The US currently plans to start allowing Mexican cattle back across the border from late August. And with Brazil and Australia running into annual beef import quota limits into China, more product is likely to be redirected to the US. US beef prices have eased from recent extreme highs.

Export shares of NZ beef



Sixth, inflation and interest rates. Consumer price inflation rose to 4.1% in the second quarter of the year, with core measures continuing to track above a level consistent with the Reserve Bank's target. The Reserve Bank lifted the Official Cash Rate (OCR) to 2.50% in July and implied further increases ahead. Term interest rates have generally pushed upwards this year as the market lifted its expectations of a higher OCR.

This is not an exhaustive list of risks. But it does highlight some of the many and varied factors in play along with the uncertainty around how things may evolve from here.

Amid such developments it would be understandable if folk thought world economic growth was struggling. But global growth forecasts, at least for now, are reasonable. Initial downgrades on the oil shock were small and have unwound. The consensus has reverted to a trend-like 2.6% forecast expansion for the coming 12 months. It is not just that the negative impacts from the war have been less than some feared. The positive offset from the AI capex boom, particularly on North Asian manufacturing and exports, has been material.

It is a reasonable backdrop for NZ trading partner growth, export demand, and primary product prices. Meanwhile, the value of the NZ dollar hasn't stood in the way. The sum has been a strong export performance and a generally buoyant primary sector.

There is clearly a wide fan around any point forecast of what lies ahead. The price outlook varies by major sector. We anticipate the 2026/27 season's average beef and lamb price to remain above average on an inflation-adjusted basis, albeit ease back from the season currently ending. Zespri forecasts solid pricing across kiwifruit varieties, with the latest 2026/27 forecasts very close to previous season outcomes. We continue to see 2026/27 season milk prices a bit lower than the prior season and a touch under its long-term average on an inflation adjusted basis.

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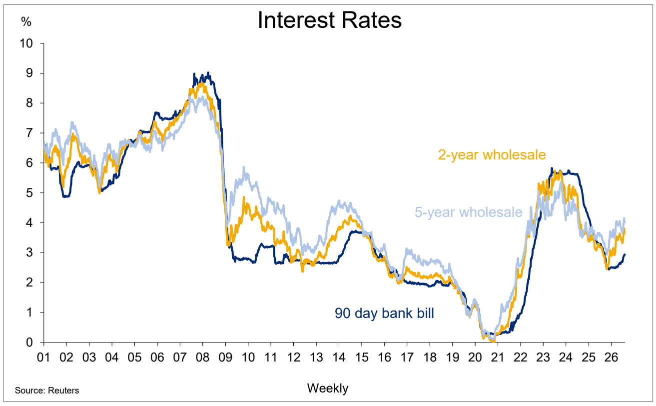
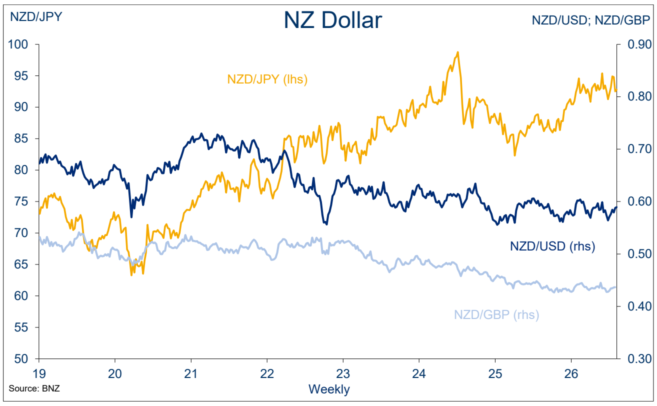
Key Macro Drivers for Commodity Producers

Interest Rates



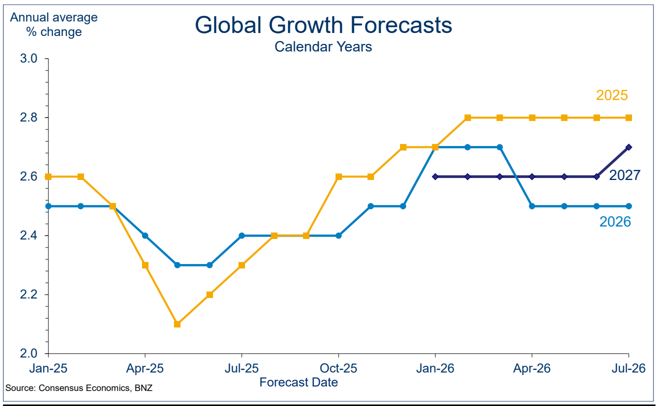
The RBNZ lifted the Official Cash Rate (OCR) 25 basis points to 2.50% at its July Monetary Policy Review and implied further rate hikes ahead. Core consumer price inflation measures continue to track above what would be consistent with the Reserve Bank's target. We see the RBNZ progressively moving the cash rate higher to a level that, in the first instance, it is not adding to inflationary pressure. The next RBNZ meeting is on 2 September where another 25 basis point hike in the cash rate is expected. Term interest rates have generally pushed upwards in 2026 as the market raised its expectations for the future OCR track and higher offshore interest rates exerted upward influence. Current market pricing sees the cash rate around 3% by end of 2026 and around 3.50% by the middle of 2027. Progressive cash rate hikes are not set in stone. The rate outlook can change and depends on how the economy and inflation pressures evolve.

Foreign Exchange



NZ Dollar movements have been generally subdued. For all the noise and uncertainty swirling around in 2026, currency market volatility has been lower than usual this year. Domestic factors added support to the NZD in July with the RBNZ starting to remove some monetary stimulus, via lifting the OCR, and the economic data supporting the notion of recovery. Near-term headwinds for the NZD include the typical negative seasonal forces through August and September, as well as the looming November General Election. In early-July, we downgraded the outlook for the NZD but maintained a positive medium-term bias seeing a sustained move up though 0.60 by early 2027.

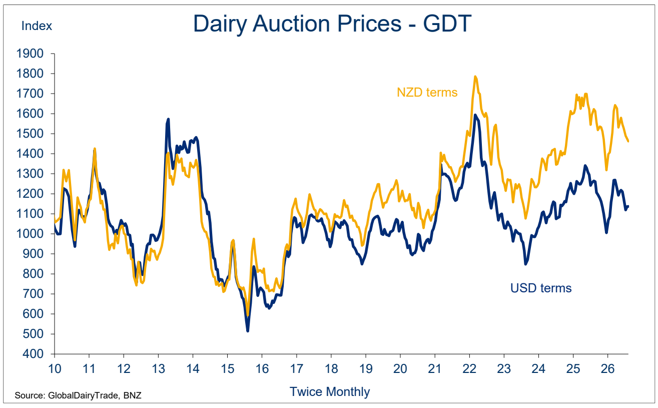
Global Growth



Clearly the international focus remains very much on the fallout from the turmoil in the Middle East. Every time oil prices push higher New Zealand's emerging recovery is put under threat. But the good news is that the impact on trading partner growth has been much less than forecasters had feared. Small initial downgrades to trading partner growth following the initial oil shock have largely been unwound. Meanwhile, soaring demand for computer technology has had a dramatic positive impact on the economic health of Asia. Global growth forecasts provide a reasonable backdrop for export demand and primary product prices, albeit with plenty of risks in the mix.

Key Commodities

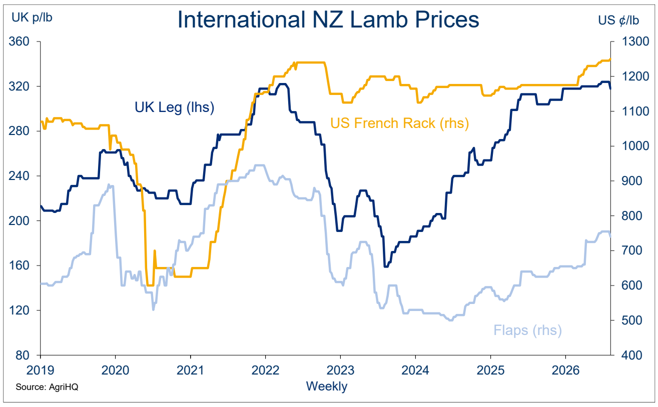
Dairy



Global dairy prices are around 10% below levels a year earlier. In July, Fonterra lowered its 2026/27 milk price forecast to $9.25 (range: $8.00-$10.50) from its season opening forecast of $9.75 ($8.00-$11.00). Global milk supply had been strong. US milk supply growth continues, but heat waves in Europe and the UK have pressured milk production and forecast El Nino conditions are a threat to monitor in the southern hemisphere season. Dairy demand appears reasonable. GDT prices saw some stability at the late-July, early-August auctions. We nudge our 2026/27 milk price forecast up to $9.25 (from $9.00 previously), while continuing to monitor the many factors in play.

	Current	Month ago	Year ago	Next 12 months
Whole milk powder (US $/t)	3500	3420	4040	→

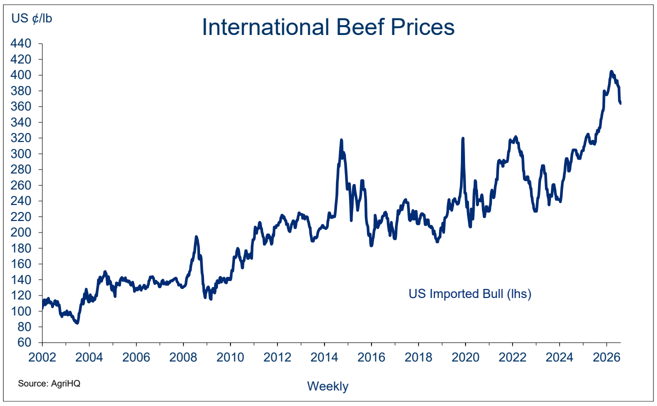
Lamb



NZ lamb prices have lifted to near $12/kg in the latter part of the season with supply dwindling, buoyant markets, and a subdued NZD. The 2025/26 season average prices will be up in the order of 27% on a year ago, to a record high. It will be the highest inflation-adjusted price in at least 36 years. Headwinds and risks need to be monitored. US tariffs on NZ lamb exports have been lifted to 12.5% (from 10%). Separately, a US investigation into its lamb imports continues. El Nino presents downside risk to lamb prices if it were to induce more southern hemisphere supply. Next season's average lamb price is expected to ease from record levels but remain above inflation adjusted averages.

	Current	Month ago	Year ago	Next 12 months
Lamb leg (UK p/lb)	318	324	313	↓

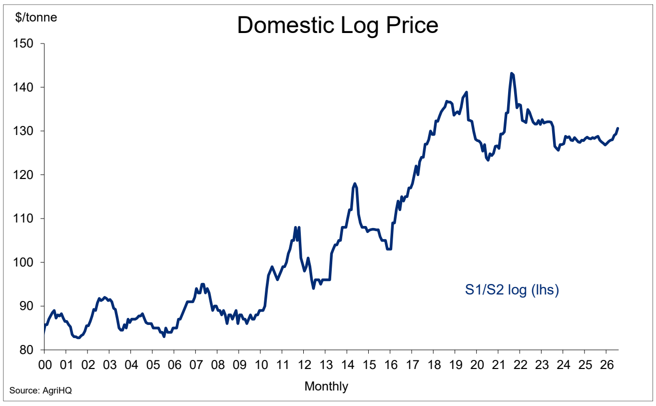
Beef



US imported beef prices have eased from extreme highs, despite tight US sourced supply. With Brazil and Australia running into their annual beef import quota limits into China, more product is likely heading to the US. And the US plans to start allowing Mexican cattle back across the border from late August. Beef products remain exempt from US tariffs. NZ beef exports to the UK continue to lift strongly. We forecast next season's average NZ beef price to retreat from this season's record but remain well above average on an inflation adjusted basis. El Nino presents downside price risk if it were to induce additional southern hemisphere supply.

	Current	Month ago	Year ago	Next 12 months
Imported bull (US ¢/lb)	364	385	330	↓

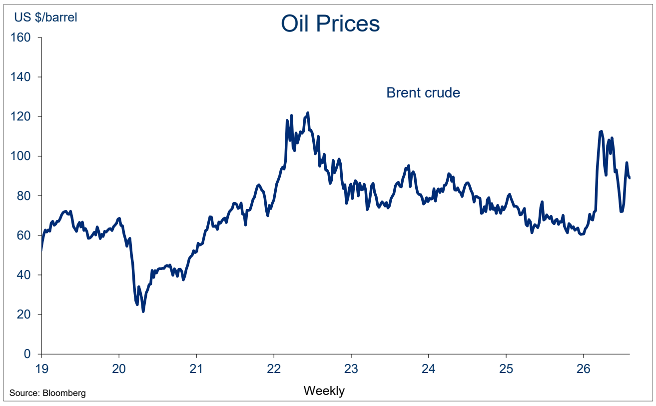
Forestry



NZ export log volumes have been tracking above year earlier levels over the past 12 months, but some price softening has seen export value growth slow. Export log prices steadied in July after cooling in June. Domestically, residential building consents are much higher than a year ago promising more construction activity ahead. Domestic log prices have edged higher, but only toward the middle of their range since 2018. Volatile fuel and transport costs remain troublesome for all and sundry.

	Current	Month ago	Year ago	Next 12 months
S1/S2 log price (NZ $/t)	131	129	129	➔

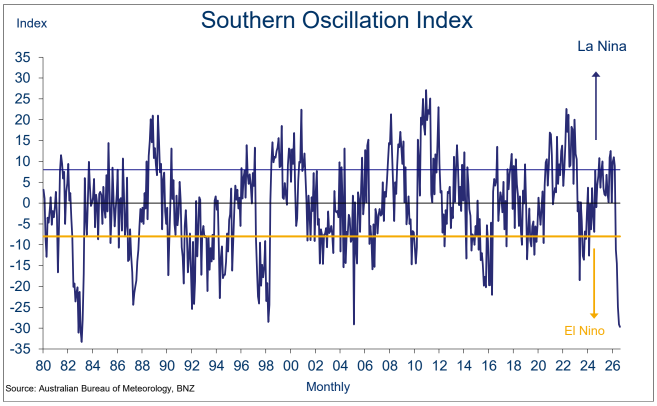
Oil



Oil price volatility remains elevated on the ebb and flow of Middle East tension headlines from possible agreements to more hostilities. In the past five months, Brent crude oil prices initially swung up toward $US120/bbl, unwound to near $US70/bbl at one point, while generally oscillating wildly in between. At the time of writing, they are hovering a touch under $US90/bbl. At this level, oil prices are still higher than before hostilities between the US and Iran kicked off in late February. Similarly, domestic fuel prices have fluctuated wildly and remain firmly higher than before the Middle East conflict. It is no guarantee that oil prices will fall, but Brent crude futures pricing continues to slope downward.

	Current	Month ago	Year ago	Next 12 months
Brent crude (US $/b)	89	76	67	🡓

Weather



Any discussion about the weather outlook at present would be hard pressed not to mention El Nino and the material risk this weather pattern poses to NZ's upcoming growing season. Indicators of the phenomenon are at the extremes on charts, with weather forecasters warning of a very strong event. The Southern Oscillation Index is one such indicator, recently hitting levels not seen since 1982-83. While impacts from El Nino events can vary, the strength of the current episode warrants attention and forward planning. During El Nino's New Zealand tends to experience stronger or more frequent winds from the west and south-west leading to dry conditions in the east and more rain in the west. There is potential for eastern regions to dry out earlier or more than usual in the coming spring and summer. A key risk for the season ahead.

Quarterly Forecasts

Quarterly Forecasts

Forecasts as at 12 August 2026

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27	Jun-27	Sept-27
GDP (production s.a.)	-0.7	0.9	0.5	0.8	-0.2	0.3	0.6	0.6	0.7	0.7
Retail trade (real s.a.)	0.7	2.0	0.9	0.9	0.4	0.6	0.5	0.6	0.7	0.8
Current account (ann, % GDP)	-3.7	-3.5	-3.6	-3.6	-3.6	-4.2	-4.7	-4.7	-4.6	-4.3
CPI (q/q)	0.5	1.0	0.6	0.9	1.5	0.7	0.7	0.4	0.3	0.6
Employment	-0.2	0.0	0.5	0.2	0.5	0.4	0.5	0.5	0.6	0.7
Unemployment rate %	5.2	5.3	5.4	5.4	5.6	5.6	5.5	5.5	5.4	5.3
Pr. avg hourly earnings (ann %)	4.6	4.1	3.5	3.5	3.0	3.1	3.2	3.8	3.2	3.2
Trading partner GDP (ann %)	3.4	3.2	3.3	3.6	3.1	2.8	2.6	2.7	2.8	2.8
CPI (y/y)	2.7	3.0	3.1	3.1	4.1	3.7	3.8	3.3	2.1	2.0
GDP (production s.a., y/y)	-0.9	1.1	1.5	1.5	1.9	1.4	1.5	1.2	2.1	2.5

Interest Rates

Historical data - qtr average		Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter	Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR 3 month	US 10 yr	NZ-US Ten year
2025 Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
Sep	3.08	3.09	3.67	4.42	2.99	3.40	3.95	4.20	4.25	0.17
Dec	2.33	2.51	3.54	4.27	2.71	3.26	3.85	3.80	4.10	0.18
2026 Mar	2.25	2.50	3.96	4.52	3.12	3.71	4.15	3.65	4.20	0.33
Jun	2.25	2.68	3.96	4.47	3.40	3.75	4.15	3.70	4.45	0.00
Forecasts										
Sep	2.75	3.25	4.10	4.66	3.70	3.90	4.30	3.65	4.50	0.16
Dec	3.25	3.65	4.35	4.81	4.00	4.15	4.45	3.65	4.50	0.31
2027 Mar	3.75	4.05	4.35	4.91	4.00	4.20	4.60	3.65	4.50	0.41
Jun	4.00	4.15	4.35	4.91	4.00	4.25	4.65	3.65	4.50	0.41
Sep	4.00	4.15	4.30	4.91	3.95	4.20	4.65	3.65	4.50	0.41
Dec	4.00	4.15	4.25	4.91	3.85	4.15	4.65	3.65	4.50	0.41
2028 Mar	4.00	4.15	4.15	4.91	3.75	4.05	4.65	3.65	4.50	0.41

Exchange Rates (End Period)

	USD Forecasts					NZD Forecasts					
	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.59	0.71	1.15	1.35	159	0.59	0.83	0.51	0.44	93.6	66.8
Forecasts											
Sept-26	0.57	0.69	1.14	1.32	163	0.57	0.83	0.50	0.43	93.0	65.7
Dec-26	0.59	0.70	1.15	1.32	161	0.59	0.84	0.51	0.45	94.7	67.1
Mar-27	0.60	0.70	1.16	1.33	158	0.60	0.86	0.52	0.45	94.5	67.9
Jun-27	0.61	0.69	1.15	1.32	155	0.61	0.88	0.53	0.46	94.6	69.0
Sept-27	0.61	0.68	1.15	1.31	153	0.61	0.90	0.53	0.46	93.0	69.2
Dec-27	0.61	0.67	1.15	1.32	151	0.61	0.90	0.53	0.46	91.4	68.8
Mar-28	0.61	0.67	1.15	1.32	151	0.61	0.90	0.53	0.46	91.4	68.8
						TWI Weights					
						16.2%	17.8%	9.2%	4.0%	4.7%	

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

Annual Forecasts

Forecasts
as at 12 August 2026

	March Years					December Years				
	Actuals			Forecasts		Actuals			Forecasts	
	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027
GDP - annual average % change										
Private Consumption	1.1	0.0	1.4	1.3	2.4	1.1	-0.2	1.4	1.1	2.1
Government Consumption	1.1	-1.3	3.8	1.2	1.0	0.1	-0.9	2.5	2.9	0.4
Total Investment	-1.1	-4.9	-0.2	4.2	3.7	-0.3	-4.8	-1.3	3.2	4.1
Stocks - ppts cont'n to growth	-1.4	0.4	0.3	0.2	-0.1	-1.2	0.4	-0.1	0.5	-0.1
GNE	-0.9	-1.0	1.8	2.3	2.4	-0.7	-1.1	0.9	2.6	2.2
Exports	8.6	3.4	3.3	6.8	3.4	11.5	4.7	2.8	7.1	3.5
Imports	-1.4	1.5	5.4	7.9	2.6	-0.7	1.6	3.3	8.9	3.1
Real Expenditure GDP	1.5	-0.7	1.3	2.0	2.5	2.1	-0.3	0.7	2.2	2.2
GDP (production)	**1.8**	**-0.9**	**0.8**	**1.5**	**2.6**	**2.2**	**-0.3**	**0.3**	**1.6**	**2.2**
GDP - annual % change (q/q)	*1.5*	*-0.8*	*1.5*	*1.2*	*3.0*	*1.5*	*-1.6*	*1.5*	*1.5*	*2.8*
Output Gap (ann avg, % dev)	1.3	-0.4	-0.8	-0.8	-0.2	1.4	0.0	-0.9	-0.7	-0.4
Nominal Expenditure GDP - $bn	417	432	451	472	495	413	427	445	468	489
Prices and Employment -annual % change										
CPI	4.0	2.5	3.1	3.3	2.0	4.7	2.2	3.1	3.8	1.8
Employment	1.0	-0.9	0.5	1.9	2.8	2.6	-1.3	0.2	1.6	2.6
Unemployment Rate %	4.4	5.2	5.4	5.5	5.0	4.0	5.1	5.4	5.5	5.1
Wages - ave. hr. ord. time earnings (private sector)	4.8	3.8	3.5	3.8	3.2	6.6	4.0	3.5	3.2	3.2
Productivity (ann av %)	-0.6	0.1	1.2	0.1	0.1	-0.8	0.1	1.2	0.4	0.0
Unit Labour Costs (ann av %)	6.6	4.4	2.5	3.0	3.1	7.1	4.7	2.9	2.6	3.3
House Prices (stratified, mth)	2.7	-0.7	0.2	-0.7	4.3	0.7	-0.8	-0.3	0.0	3.0
External Balance										
Current Account - $bn	-23.8	-18.3	-16.3	-22.3	-18.6	-25.8	-20.0	-16.0	-22.0	-19.4
Current Account - % of GDP	-5.7	-4.2	-3.6	-4.7	-3.7	-6.3	-4.7	-3.6	-4.7	-4.0
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-3.1	-3.2	-2.6	-2.4	-0.8					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	41.7	41.9	42.4	45.6	46.1					
Bond Programme - $bn (Treasury forecasts)	39.3	42.6	35.0	34.0	32.0					
Bond Programme - % of GDP	9.4	9.9	7.8	7.2	6.5					
Financial Variables (1)										
NZD/USD	0.61	0.57	0.58	0.60	0.61	0.62	0.57	0.58	0.59	0.61
USD/JPY	150	149	159	158	150	144	154	156	161	151
EUR/USD	1.09	1.08	1.16	1.16	1.14	1.09	1.05	1.17	1.15	1.15
NZD/AUD	0.93	0.91	0.83	0.86	0.90	0.93	0.91	0.87	0.84	0.90
NZD/GBP	0.48	0.44	0.44	0.45	0.47	0.49	0.45	0.43	0.45	0.46
NZD/EUR	0.56	0.53	0.51	0.52	0.54	0.57	0.55	0.49	0.51	0.53
NZD/YEN	91.1	85.4	92.8	94.5	91.5	89.5	88.4	90.3	94.7	91.4
TWI	71.2	67.9	66.8	67.9	69.4	72.0	68.5	66.8	67.1	68.8
Overnight Cash Rate (end qtr)	5.50	3.75	2.25	3.75	4.00	5.50	4.25	2.25	3.25	4.00
90-day Bank Bill Rate	5.64	3.60	2.50	4.05	4.15	5.63	4.26	2.49	3.65	4.15
5-year Govt Bond	4.60	4.00	4.10	4.35	4.15	4.50	3.90	3.90	4.35	4.25
10-year Govt Bond	4.60	4.50	4.65	4.90	4.90	4.65	4.45	4.50	4.80	4.90
2-year Swap	4.91	3.35	3.32	4.00	3.75	4.93	3.53	2.98	4.00	3.85
5-year Swap	4.40	3.65	3.87	4.20	4.05	4.43	3.63	3.61	4.15	4.15
US 10-year Bonds	4.20	4.25	4.25	4.50	4.50	4.00	4.40	4.15	4.50	4.50
NZ-US 10-year Spread	0.40	0.25	0.40	0.40	0.40	0.65	0.05	0.35	0.30	0.40

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

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

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