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Forestry, arable, and domestic growers brace as Middle East conflict bites

Energy-intensive and domestically-focused sectors are bearing the brunt of rising fuel, fertiliser and freight costs, according to ANZ's latest Agri Focus report.

ANZ agri economist Matt Dilly said fuel has emerged as the most immediate pressure point following the escalation of conflict in the Middle East.

"The main impact of the Middle East conflict has been a stark shift from a stable input cost environment to a volatile one," he said.

Diesel prices have surged rapidly, with overseas benchmarks and local pump prices both rising sharply.

Fuel surcharges are already being applied across land, sea, and air transport, and those costs are flowing through quickly to farm budgets.

Forestry has been hit particularly hard - log harvesting, internal transport, and shipping are all fuel intensive, leaving the sector highly exposed to higher diesel prices.

Shipping costs to China have jumped sharply in recent weeks, the report said, eroding margins for an industry that has already endured several difficult years.

Dilly said higher fuel and cartage costs were expected to slow forestry activity if prices remained elevated, especially for smaller woodlot operators who have less ability to absorb cost shocks.

"Anecdotal reports suggest a decline in forestry activity is expected if fuel prices remain elevated," he said.

Arable farming is also under pressure - several seasons of poor returns had already dented confidence before diesel and fertiliser costs surged again.

In some cases, higher diesel prices hit while crops were still being harvested, compounding the financial impact.

"There's never a good time to face prices doubling on key inputs, but for New Zealand arable farmers it's come at a particularly difficult time," Dilly said.

The fertiliser outlook was adding to that concern - the Middle East is a major source of oil, gas and petrochemical feedstocks, and global urea prices have already roughly doubled.

"So far, local fertiliser prices have only risen slightly, but that is likely to change come spring," Dilly said.

Fuel and fertiliser together accounted for around 12 per cent of total farm expenditure, the report said.

For sheep and beef farmers, fertiliser often became the first thing to cut back on when cashflow tightened - a decision that could reduce productivity over time rather than immediately.

While the jump in input costs is a clear challenge, the report noted that parts of the rural economy are starting from a position of genuine resilience.

Dairy and red meat prices remain elevated, providing a stronger income buffer than many farmers have had in recent years, even as costs rise.

ANZ has also recently revised up its forecast for the 2025/26 farmgate milk price to \$9.85/kgMS, reflecting the lift in global dairy prices over the past few months.

Beef and lamb prices have also held steady at high levels, and optimism is building for this year's apple and kiwifruit crops.

The report said confidence across the rural sector had softened as farmers reassessed spending plans, with some cashflow that might have gone into farm development or expansion instead being held back to buffer against rising costs and interest rate risk.

Freight disruption was adding another layer of uncertainty - cargo destined for the Middle East is being rerouted at extra cost, and fuel surcharges are becoming more common across shipping routes.

Container supply had not yet tightened, but Dilly warned that disruption could not be ruled out.

“Even in the unlikely event that the Strait fully reopens next week, it will take months or years for supply chains and markets to fully return to normal,” he said.

The report concluded that while the conflict was delivering some price support for exporters, it was deeply challenging for sectors already operating on thin margins.

For many farmers, the biggest challenge was not a single cost spike, but managing ongoing volatility in energy, inputs and freight as the global shock continued to unfold.

The latest Agri Focus report can be found here: <https://www.anz.co.nz/agribusiness/agri-focus/>

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