



FARM MONITORING 2012

SOUTH ISLAND HIGH COUNTRY SHEEP AND BEEF

Key results from the Ministry for Primary Industries 2012 sheep and beef monitoring programme

KEY POINTS

- Above average pasture growth conditions led to an increase in sheep and cattle sale weights and wool production in 2011/12.
- Net cash income increased 11 percent to \$1 046 100 in 2011/12 as a result of increased prices for sheep, cattle and wool. Net cash income is forecast to remain similar in 2012/13 at \$1 036 400.
- Farm working expenses increased 13 percent to \$620 600 in 2011/12 as farmers increased expenditure on fuel, fertiliser, lime, repairs and maintenance. Expenditure is expected to remain at similar levels in 2012/13 at \$610 700.
- Farm profit before tax increased 60 percent to \$290 400 and is expected to increase a further 10 percent to \$320 400 in 2012/13.
- Farmer optimism is high as a result of two good seasons of above average prices and production. The outlook for 2012/13 is positive, with stock going into winter in excellent condition and increased contract prices for sheep and wool.

Table 1: Key parameters, financial results and budget for the South Island High Country sheep and beef farm model

| Year ended 30 June | 2008/09 | 2009/10 ¹ | 2010/11 | 2011/12 actual | 2012/13 budget |
|---|---------|----------------------|---------|-------------------|-------------------|
| Effective area (ha) | 10 212 | 10 212 | 10 212 | 10 212 | 10 212 |
| Breeding ewes (head) | 5 251 | 5 513 | 5 692 | 5 586 | 5 721 |
| Replacement ewe hoggets (head) | 1 366 | 1 531 | 1 534 | 1 553 | 1 351 |
| Other sheep (head) | 2 892 | 2 914 | 2 914 | 2 800 | 2 863 |
| Breeding cows (head) | 205 | 256 | 260 | 267 | 275 |
| Rising one-year cattle (head) | 140 | 115 | 118 | 123 | 144 |
| Other cattle (head) | 59 | 79 | 55 | 40 | 40 |
| Opening sheep stock units (ssu) | 8 238 | 8 082 | 8 245 | 8 132 | 8 160 |
| Opening cattle stock units | 1 971 | 2 221 | 2 140 | 2 134 | 2 273 |
| Opening total stock units (su) | 10 540 | 10 659 | 10 742 | 10 644 | 10 813 |
| Stocking rate (stock unit/ha) | 1.0 | 1.0 | 1.1 | 1.0 | 1.1 |
| Ewe lambing (%) | 89 | 86 | 81 | 83 | 89 |
| Average lamb price (\$/head) | 57.20 | 68.77 | 95.14 | 98.67 | 90.88 |
| Average store lamb price (\$/head) | 51.22 | 60.00 | 83.00 | 87.90 | 80.00 |
| Average prime lamb price (\$/head) | 71.72 | 74.00 | 101.00 | 104.70 | 96.60 |
| Average wool price (\$/kg) | 5.92 | 8.11 | 9.83 | 11.39 | 11.21 |
| Total wool produced (kg) | 39 557 | 41 650 | 38 834 | 39 919 | 40 500 |
| Wool production (kg/ssu) | 4.80 | 5.15 | 4.71 | 4.91 | 4.96 |
| Average rising two-year steer (\$/head) | 730 | 717 | 1 106 | 1 130 | 1 097 |
| Average cull cow (\$/head) | 522 | 550 | 811 | 711 | 671 |
| Net cash income (\$) | 553 425 | 764 976 | 938 524 | 1 046 149 | 1 036 390 |
| Farm working expenses (\$) | 413 591 | 513 237 | 547 718 | 620 624 | 610 721 |
| Farm profit before tax (\$) | -36 | 81 811 | 181 800 | 290 360 | 320 423 |
| Farm surplus for reinvestment (\$) ² | -49 770 | 56 212 | 177 294 | 165 897 | 125 498 |

Notes

¹ The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

² Farm surplus for reinvestment is the cash available from the farm business, after meeting living costs, which is available for investment on the farm or for principal repayments. It is calculated as farm profit after tax plus depreciation plus stock adjustments less drawings.

Table 2: South Island high country sheep and beef model budget

| | 2011/12 | | | 2012/13 budget | | |
|--|-------------------|------------------|----------------------------------|-------------------|------------------|----------------------------------|
| | Whole farm (\$) | Per hectare (\$) | Per stock unit ¹ (\$) | Whole farm (\$) | Per hectare (\$) | Per stock unit ¹ (\$) |
| Revenue | | | | | | |
| Sheep | 453 670 | 44 | 55.79 | 428 214 | 42 | 52.47 |
| Wool | 454 677 | 45 | 55.91 | 454 005 | 44 | 55.64 |
| Cattle | 133 099 | 13 | 62.38 | 146 162 | 14 | 64.30 |
| Grazing income (including hay and silage sales) | 0 | 0 | 0.00 | 0 | 0 | 0.00 |
| Other farm income | 71 030 | 7 | 6.67 | 65 155 | 6 | 6.03 |
| Less: | | | | | | |
| Sheep purchases | 56 207 | 6 | 6.91 | 51 615 | 5 | 6.33 |
| Cattle purchases | 10 120 | 1 | 4.74 | 5 531 | 1 | 2.43 |
| Net cash income | 1 046 150 | 102 | 98.29 | 1 036 390 | 101 | 95.85 |
| Farm working expenses | 620 624 | 61 | 58.31 | 610 721 | 60 | 56.48 |
| Cash operating surplus | 425 526 | 42 | 39.98 | 425 669 | 42 | 39.37 |
| Interest | 79 717 | 8 | 7.49 | 71 122 | 7 | 6.58 |
| Rent and/or leases | 25 300 | 2 | 2.38 | 27 630 | 3 | 2.56 |
| Stock value adjustment | 27 073 | 3 | 2.54 | 48 341 | 5 | 4.47 |
| Minus depreciation | 57 223 | 6 | 5.38 | 54 835 | 5 | 5.07 |
| Farm profit before tax | 290 360 | 28 | 27.28 | 320 423 | 31 | 29.63 |
| Income equalisation | 0 | 0 | 0.00 | 0 | 0 | 0.00 |
| Taxation | 70 217 | 7 | 6.60 | 115 274 | 11 | 10.66 |
| Farm profit after tax | 220 143 | 22 | 20.68 | 205 149 | 20 | 18.97 |
| Allocation of funds | | | | | | |
| Add back depreciation | 57 223 | 6 | 5.38 | 54 835 | 5 | 5.07 |
| Reverse stock value adjustment | -27 073 | -3 | -2.54 | -48 341 | -5 | -4.47 |
| Drawings | 84 395 | 8 | 7.93 | 86 145 | 8 | 7.97 |
| Farm surplus for reinvestment² | 165 897 | 16 | 15.59 | 125 498 | 12 | 11.61 |
| Reinvestment | | | | | | |
| Net capital purchases | 38 420 | 4 | 3.61 | 31 255 | 3 | 2.89 |
| Development | 8 515 | 1 | 0.80 | 2 975 | 0 | 0.28 |
| Principal repayments | 39 210 | 4 | 3.68 | 45 056 | 4 | 4.17 |
| Farm cash surplus/deficit | 79 752 | 8 | 7.49 | 46 212 | 5 | 4.27 |
| Other cash sources | | | | | | |
| Off-farm income | 4 900 | 0 | 0.46 | 4 900 | 0 | 0.45 |
| New borrowings | 0 | 0 | 0.00 | 0 | 0 | 0.00 |
| Introduced funds | 0 | 0 | 0.00 | 0 | 0 | 0.00 |
| Net cash position | 84 652 | 8 | 7.95 | 51 112 | 5 | 4.73 |
| Assets and Liabilities | | | | | | |
| Farm, forest and building (opening) | 9 991 825 | 978 | 938.77 | 9 988 842 | 978 | 923.82 |
| Plant and machinery (opening) | 361 595 | 35 | 33.97 | 345 776 | 34 | 31.98 |
| Stock valuation (opening) | 1 875 716 | 184 | 176.23 | 1 902 789 | 186 | 175.98 |
| Other produce on hand (opening) | 0 | 0 | 0.00 | 0 | 0 | 0.00 |
| Total farm assets (opening) | 12 229 136 | 1 198 | 1 148.97 | 12 237 406 | 1 198 | 1 131.78 |
| Total assets (opening) | 12 388 516 | 1 213 | 1 163.95 | 12 396 786 | 1 214 | 1 146.52 |
| Total liabilities (opening) | 1 090 699 | 107 | 102.48 | 1 069 504 | 105 | 98.91 |
| Total equity (farm assets - liabilities) | 11 138 437 | 1 091 | 1 046.50 | 11 167 902 | 1 094 | 1 032.86 |

Notes

1 Sheep stock units are used in the per stock calculation for sheep and wool income and sheep purchases. Cattle stock units are used for cattle income and purchases. The remainder of the time total stock units are used.

2 Farm surplus for reinvestment is the cash available from the farm business, after meeting living costs, which is available for investment on the farm or for principal repayments. It is calculated as farm profit after tax plus depreciation plus stock adjustments less drawings.

Table 3: South Island high country sheep and beef model expenditure

| | 2011/12 | | | 2012/13 budget | | |
|---|-----------------|------------------|---------------------|-----------------|------------------|---------------------|
| | Whole farm (\$) | Per hectare (\$) | Per stock unit (\$) | Whole farm (\$) | Per hectare (\$) | Per stock unit (\$) |
| Farm working expenses | | | | | | |
| Permanent wages | 113 330 | 11 | 10.65 | 115 045 | 11 | 10.64 |
| Casual wages | 5 970 | 1 | 0.56 | 6 055 | 1 | 0.56 |
| ACC | 4 018 | 0 | 0.38 | 3 548 | 0 | 0.33 |
| Total labour expenses | 123 318 | 12 | 11.59 | 124 648 | 12 | 11.53 |
| Animal health | 31 480 | 3 | 2.96 | 32 260 | 3 | 2.98 |
| Breeding | 2 780 | 0 | 0.26 | 4 330 | 0 | 0.40 |
| Electricity | 13 150 | 1 | 1.24 | 15 895 | 2 | 1.47 |
| Feed (hay and silage) | 32 590 | 3 | 3.06 | 28 025 | 3 | 2.59 |
| Feed (feed crops) | 11 990 | 1 | 1.13 | 12 195 | 1 | 1.13 |
| Feed (grazing) | 0 | 0 | 0.00 | 0 | 0 | 0.00 |
| Feed (other) | 9 965 | 1 | 0.94 | 9 555 | 1 | 0.88 |
| Fertiliser | 80 800 | 8 | 7.59 | 84 325 | 8 | 7.80 |
| Lime | 10 230 | 1 | 0.96 | 11 610 | 1 | 1.07 |
| Cash crop expenses ¹ | 30 | 0 | 0.00 | 0 | 0 | 0.00 |
| Freight (not elsewhere deducted) | 7 600 | 1 | 0.71 | 8 055 | 1 | 0.74 |
| Regrassing costs | 23 760 | 2 | 2.23 | 22 460 | 2 | 2.08 |
| Shearing expenses ² | 72 730 | 7 | 8.94 | 71 635 | 7 | 8.78 |
| Weed and pest control | 17 835 | 2 | 1.68 | 16 805 | 2 | 1.55 |
| Fuel | 32 610 | 3 | 3.06 | 33 060 | 3 | 3.06 |
| Vehicle costs (excluding fuel) | 22 810 | 2 | 2.14 | 18 875 | 2 | 1.75 |
| Repairs and maintenance | 50 100 | 5 | 4.71 | 39 110 | 4 | 3.62 |
| Total other working expenses | 420 460 | 41 | 39.50 | 408 195 | 40 | 37.75 |
| Communication costs (phone and mail) | 5 600 | 1 | 0.53 | 5 450 | 1 | 0.50 |
| Accountancy | 7 390 | 1 | 0.69 | 7 535 | 1 | 0.70 |
| Legal and consultancy | 9 230 | 1 | 0.87 | 8 690 | 1 | 0.80 |
| Other administration | 5 880 | 1 | 0.55 | 6 430 | 1 | 0.59 |
| Water charges (irrigation) | 2 925 | 0 | 0.27 | 3 005 | 0 | 0.28 |
| Rates | 13 295 | 1 | 1.25 | 13 765 | 1 | 1.27 |
| Insurance | 14 605 | 1 | 1.37 | 15 120 | 1 | 1.40 |
| ACC employer | 4 641 | 0 | 0.44 | 4 467 | 0 | 0.41 |
| Other expenditure | 13 280 | 1 | 1.25 | 13 415 | 1 | 1.24 |
| Total overhead expenses | 76 846 | 8 | 7.22 | 77 877 | 8 | 7.20 |
| Total farm working expenses | 620 624 | 61 | 58.31 | 610 721 | 60 | 56.48 |
| Calculated ratios | | | | | | |
| Economic farm surplus (EFS ³) | 320 376 | 31 | 30.10 | 344 175 | 34 | 31.83 |
| Farm working expenses/NCI ⁴ | 59% | | | 59% | | |
| EFS/total farm assets | 2.6% | | | 2.8% | | |
| EFS less interest and lease/equity | 1.9% | | | 2.2% | | |
| Interest+rent+lease/NCI | 10.0% | | | 9.5% | | |
| EFS/NCI | 30.6% | | | 33.2% | | |
| Wages of management | 75 000 | 7 | 7.05 | 75 000 | 7 | 6.94 |

Notes

1 Includes forestry expenses.

2 Shearing expenses per stock unit based on sheep stock units.

3 EFS is calculated as follows: net cash income plus change in livestock values less farm working expenses less depreciation less wages of management (WOM). WOM is calculated as follows: \$31 000 allowance for labour input plus 1 percent of opening total farm assets to a maximum of \$75 000.

4 Net cash income.

FINANCIAL PERFORMANCE OF THE SOUTH ISLAND HIGH COUNTRY SHEEP AND BEEF MODEL IN 2011/12

Cash operating surplus increased from \$390 800 in 2010/11 to \$425 500 in 2011/12. The increase of 9 percent (\$34 700) resulted from a significant increase in sheep and wool revenue in 2011/12.

INCREASE IN REVENUE

Net cash income was \$1 046 100 in 2011/12 (\$98.29 per stock unit), up 11 percent from \$938 500 in 2010/11 as a result of both increased production and better prices.

Sheep revenue up 13 percent

Sheep revenue (sales less purchases) was \$397 500 in 2011/12, up 13 percent from \$351 500 in 2010/11. At \$87.90 per head, the store lamb price was 6 percent higher than 2010/11 due to increased sale weights and strong demand. The prime lamb price was up 4 percent to \$104.70 per head due to an improvement in carcass weight. The price received for winter lamb was 27 percent higher at \$121.90 per head, due to increased weights and a higher schedule price. Many of the winter lambs finished in 2010/11 were sold prior to the marked increase in schedule price. The lambing percentage increased from 81 percent in 2010/11 to 83 percent in 2011/12. This result was back around 10 percentage points on farmer expectations as a result of snow in mid-October, which caused significant lamb losses on many properties.

Wool revenue continues to rise

Wool revenue rose 19 percent (\$72 900) to \$454 700 in 2011/12 due to an increase in both production and price. This increase followed a 13 percent lift in wool revenue to \$381 700 in 2010/11. Wool production increased 4 percent to 4.91 kilograms per sheep stock unit due to improved feed conditions in 2010/11. Wool price for this model increased 16 percent in 2011/12 to \$11.39 per greasy kilogram. Many of the monitored farmers sold wool too early to realise the full increase in market prices in the 2010/11 season. Wool revenue continues to be of importance to this model, comprising 43 percent of total net cash income in 2011/12.

Cattle revenue declines

A reduction in the total number of cattle sold resulted in a 19 percent decrease in cattle

revenue (sales less purchases) from \$152 400 in 2010/11 to \$123 000 in 2011/12. More calves were retained to utilise surplus pasture growth and fewer mixed age cows were sold as farmers replenished breeding numbers. The steer calf price rose 7 percent to \$550 per head, while the price for rising two year steers increased 2 percent to \$1130 per head. Much of the increase in prices for calves and finished cattle was the result of higher sale weights. Prices for mixed age cows decreased 12 percent to \$711 per head.

Other farm income

Income from velvet and venison sales increased 35 percent to \$46 800 in 2011/12 following an increase in venison schedule prices and steady demand for velvet. Deer income constituted 66 percent of other farm income, with the remainder coming from tourism, rentals and a small contribution from the sale of pre-1990 carbon credits.

SIGNIFICANT INCREASE IN EXPENDITURE

Total farm working expenses increased 13 percent to \$620 600 (\$58.31 per stock unit) in 2011/12 as many farmers took advantage of the increase in revenue to catch up on deferred expenditure.

Fertiliser, lime and regrassing expenditure increases significantly

Expenditure on fertiliser increased 50 percent from \$53 900 in 2010/11 to \$80 800 in 2011/12. At \$7.59 per stock unit, expenditure on fertiliser was the highest that it has been for this model over the past decade. Expenditure on lime increased 21 percent to \$10 200 in 2011/12. Much of the additional fertiliser and lime was flown onto hill country. Expenditure on regrassing increased 39 percent to \$23 800 as farmers carried out a greater area of pasture renewal. Feed crop expenses increased 8 percent to \$11 900 in 2011/12. Fuel expenditure increased 18 percent to \$32 600 due to an increase in cultivation and development work.

Repairs and maintenance increases

Expenditure on repairs and maintenance rose 37 percent to \$50 100 in 2011/12. Much of this increase was on farm buildings, water and irrigation systems; however, increases were also evident in

repairs and maintenance of fences, tracks, plant and machinery. Vehicle costs increased 13 percent to \$22 800 in 2011/12.

Shearing and labour costs up

Shearing expenses increased 8 percent to \$72 700 as shearing costs increased. Total labour expenses increased 5 percent to \$123 300 in 2011/12 as some farmers employed permanent labour and reduced expenditure on casual labour.

Increase in weed and pest control

Expenditure on weed and pest control increased 18 percent from \$15 100 in 2010/11 to \$17 800 in 2011/12. The cost of rabbit and wallaby control is increasing for many farms in this model.

FARM PROFIT BEFORE TAX UP 60 PERCENT

Farm profit before tax increased 60 percent to \$290 400 (\$27.28 per stock unit) in 2011/12, half of this as a result of an increase in sheep and cattle stock units and hence the total value of sheep and cattle at year end.

Farm surplus for reinvestment decreased 6 percent to \$165 900 in 2011/12. Contributing factors included a 15 percent increase in rent/lease to \$25 300, an increase in drawings of 11 percent to \$84 400 and a 136 percent increase in taxation to \$70 200. Reinvestment declined 19 percent as farmers reduced spending on development and moderated voluntary principal repayments.

BUDGET FINANCIAL PERFORMANCE OF THE SOUTH ISLAND HIGH COUNTRY SHEEP AND BEEF MODEL IN 2012/13

Cash operating surplus is expected to remain unchanged at \$425 700 in 2012/13. A slight (\$9800) reduction in net cash income largely due to lower prices is expected to be balanced by a similar (\$9900) reduction in farm working expenses in 2012/13, as farmers control costs in the face of lower expected income.

REVENUE DECLINES SLIGHTLY

Net cash income is expected to decline 1 percent to \$1 036 400 (\$95.85 per stock unit) in 2012/13. Increased revenue from cattle sales is expected to partially offset a reduction in sheep revenue, with wool revenue expected to be unchanged.

Sheep income declines

Sheep revenue (sales less purchases) is expected to decrease 5 percent to \$376 600 in 2012/13 due to a significant reduction in prices. The store lamb price is budgeted at \$80.00 per head, while the forecast price for prime lamb has been revised back 8 percent to \$96.60 per head. The price for winter lamb is expected to decrease 7 percent to \$113.20 per head in 2012/13 and the price for mixed age ewes is expected to drop 13 percent to \$77.50 per head. The forecast reduction in sheep revenue comes despite an anticipated 5 percent increase in the number of lambs sold in 2012/13.

The lambing percentage is expected to increase six percentage points to 89 percent in 2012/13.

Table 4: South Island High Country sheep and beef model cash farm income

| Year ended 30 June | 2008/09 (\$) | 2009/10 (\$) | 2010/11 (\$) | 2011/12 (\$) | 2012/13 budget (\$) |
|---|-----------------|-----------------|-----------------|-----------------|------------------------|
| Sheep sales less purchases | 197 228 | 261 507 | 351 478 | 397 463 | 376 599 |
| Cattle sales less purchases | 84 495 | 122 110 | 152 401 | 122 979 | 140 631 |
| Wool | 234 180 | 337 853 | 381 738 | 454 677 | 454 005 |
| Grazing income (including hay and silage sales) | 2 580 | 0 | 0 | 0 | 0 |
| Other income | 34 942 | 43 506 | 52 907 | 71 030 | 65 155 |
| Net cash income | 553 425 | 764 976 | 938 524 | 1 046 149 | 1 036 390 |

Note

The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

Expectations are high, due to ewes going into winter in good condition following favourable feed conditions throughout 2011/12. The influence of crossbred breeds has been moderated in this model and contributes two percentage points to the forecast lambing percentage in 2012/13.

Wool revenue static

Wool revenue is expected to remain largely unchanged at \$454 000 in 2012/13. Expectations are for a slight increase in wool production to 4.96 kilograms per sheep stock unit in 2012/13 as a result of favourable feed conditions throughout the 2011/12 growing season. Some farmers are forecasting a slight increase in average fibre diameter as a result of better feed conditions in 2011/12, and hence a reduction in wool price to \$11.21 per greasy kilogram. The majority of merino growers contract a proportion of their clip and hence are less exposed to the reduction in wool market prices that are forecast for 2012/13.

Cattle revenue increases

Cattle revenue (sales less purchases) is expected to increase 14 percent in 2012/13 to \$140 600 due to an increase in cattle sales. The calving percentage is expected to increase two percentage points to 89 percent in 2012/13 as a result of improved cow condition at mating. Calf sales are expected to increase due to an increase in the number of calves weaned. Farmers in this model are also anticipating having to sell some of the additional cattle carried through the 2012 winter, with the expectation of a return to typical summer dry conditions. Farmers are budgeting for a reduction in cattle prices in 2012/13 as sale weights return to average levels. The forecast budget for 2012/13 is \$522 per head for steer calves, \$1097 per head for rising two year old steers and \$671 per head for mixed age cows.

Other farm income

Deer and velvet revenue is expected to decrease 5 percent to \$44 370 in 2012/13. Total other farm income is expected to decline 8 percent to \$65 200 in 2012/13.

EXPENDITURE DECLINES

Total farm working expenditure is expected to decrease 2 percent (\$9900) to \$610 700 in 2012/13 to more usual levels of expenditure on most items.

Fertiliser and lime expenditure continues to increase

Farmers are budgeting for a further 4 percent increase in fertiliser expenditure to \$84 300 (\$7.80 per stock unit) in 2012/13. Expenditure on lime is also budgeted to increase 13 percent to \$11 600 (\$1.07 per stock unit). A favourable net cash position in 2011/12 and forecast net cash income for 2012/13 means that farmers are expecting to be able to continue topdressing hill country in 2012/13.

Feed costs fall

Expenditure on hay and silage production is expected to decline 14 percent to \$28 000 in 2012/13. This follows two years of higher than average expenditure on winter feed conservation and anticipation of a return to more average levels of pasture growth in 2012/13. Farmers are planning to maintain expenditure on pasture renewal at similar levels to that of 2011/12.

Repairs and maintenance decreases

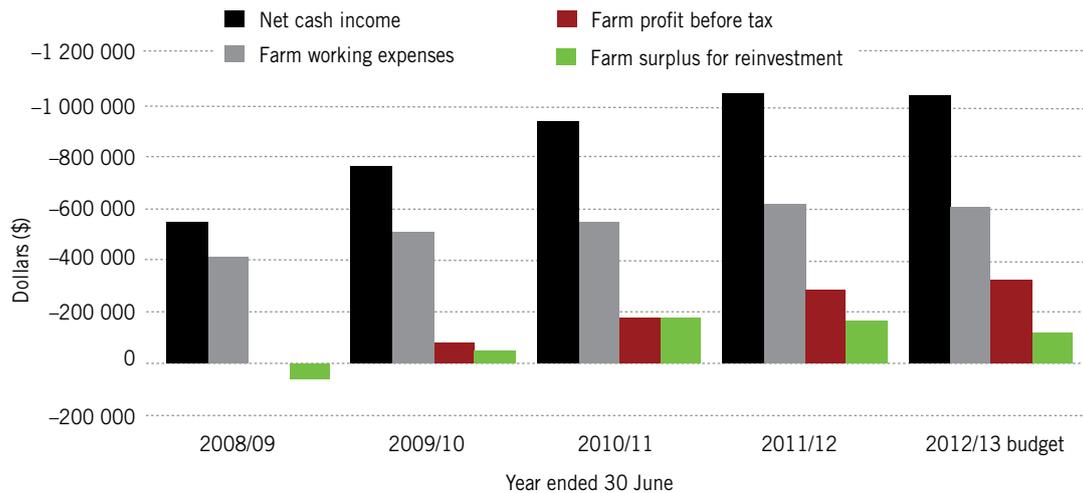
After a year of above average expenditure on repairs and maintenance, farmers are planning to reduce spending on repairs and maintenance by 22 percent to \$39 100 in 2012/13. Similarly, farmers are budgeting for a 17 percent reduction in vehicle costs to \$18 900 in 2012/13.

PROFIT INCREASES BUT CASH SURPLUS DECLINES

Farm profit before tax is expected to increase 10 percent to \$320 400 (\$29.63 per stock unit) in 2012/13. Two-thirds of this increase comes from a 3 percent increase in stock units with the consequent increase in the value of stock on hand at the end of the year; while interest payments decline 11 percent to \$71 100 in 2012/13 due to repayments of principal and anticipation of continued low interest rates for the year ahead.

Farm surplus for reinvestment is forecast to decline 24 percent (\$40 400) to \$125 500 in 2012/13. Taxation is budgeted to increase 64 percent to \$115 300 following a substantial lift in farm profit before tax in 2011/12. Farmers are expecting to reduce expenditure on capital purchases and development in 2012/13 and continue to focus on debt consolidation, budgeting \$45 100 for principal repayments in 2012/13.

Figure 1: South Island high country sheep and beef model profitability trends



MERINO WOOL REPORT

Favourable pasture growth conditions in the 2010/11 season resulted in an increase in merino wool production in 2011/12. Estimates from The New Zealand Merino Company (NZM) indicate production was up around 10 percent in 2011/12¹ compared with that of 2010/11. Average fibre diameter was similar to or slightly above that of the 2010/11 season, while staple length and strength increased significantly as a result of favourable feed conditions throughout 2010/12. The staple length and strength of merino wool tested by the New Zealand Wool Testing Authority was well above that of the previous three seasons².

Wool prices steadily fell from record high levels over the 2011/12 season. The Australian Wool Exchange Eastern Market Indicator dropped 25 percent from 1409 cents per kilogram clean at 1 July 2011³ to 1054 cents per kilogram clean at 15 June 2012⁴. A survey carried out in April 2012 by the International Wool Textile Organisation reported a softening in production levels for the early stage processing, spinning and weaving industries at the end of 2011 due to economic uncertainty in Europe and the United States⁵. The Italian wool textile industry reported the most difficult conditions due to its exposure to the European market. Mills expect conditions to

become more difficult over the next six months due to continued uncertainty in Europe⁶.

Prices and demand were sustained in more specialised areas of the fine wool market. Consumer demand for active outdoors merino wool apparel products has continued to increase and brands have recently increased their long-term contract pricing to growers to reflect the reliance on the supply of quality New Zealand merino wool. New season prices for Icebreaker and Smartwool contracts have increased significantly. Whole-clip contracts were introduced by NZM in 2011 and were widely used by growers. Prices for these contracts were significantly ahead of the market in 2011/12. Contracts continue to be sourced by merino growers and by June 2012 NZM had 45 percent of the 2012/13 clip contracted forward⁷ with more contracts likely to be negotiated prior to the 2012 shearing.

The outlook for New Zealand merino wool production in 2012/13 is positive with a further increase in production predicted as a result of excellent feed conditions throughout 2011/12. Fibre diameter is expected to remain at similar levels to that of 2011/12. Favourable feed conditions throughout 2011/12 are expected to translate into above-average staple length and strength in 2012/13. Auction prices are expected to fall, owing to the likelihood of continued economic uncertainty in Europe. Contract wool prices are expected to remain above that of the market in 2012/13.

1 The New Zealand Merino Company Ltd.

2 New Zealand Wool Testing Authority Merino Greasy Wool Statistics, May 2012.

3 *Australian Wool Innovation Wool Market Review*, 1 July 2011.

4 *Landmark Wool Weekly*, 15 June 2012.

5 *Landmark Wool Economic Focus*, May 2012.

6 *Landmark Wool Economic Focus*, May 2012.

7 *New Zealand Merino Market Update*, 19 June 2012.

INFORMATION ABOUT THE MODEL

The South Island high country model represents 220 high country properties throughout the South Island. The properties average 10 212 hectares and range in size from 1000 to 45 000 hectares. The model is based on a high country property consisting of 32 percent freehold and 68 percent pastoral lease. Nearly 90 percent of these properties farm merino sheep, the balance farm either mid-micron or crossbred sheep.

This is a dynamic farming system with irrigation development promoting a gradual change away from the traditional extensive high country merino grazing system. In 2011/12, 335 store lambs were purchased in the model reflecting the increasing contribution of finishing systems on these properties. The model now also includes a small component of ewe hogget mating (10 percent of ewe hoggets mated in 2011/12) to

reflect the contribution of crossbred breeds in this model.

These farms traditionally have beef breeding cow herds selling progeny store. The model has a herd of around 270 breeding cows and replacements. With limited irrigation being introduced on a small proportion of these farms, there has been a move to finishing beef systems. A small proportion of these farms have a deer herd producing venison and velvet with the farm model having around 380 deer stock units.

Please note that the sample of farms has changed between 2010/11 and 2011/12. Caution should be taken if comparing data between these two years.

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