

# GISBORNE HILL COUNTRY SHEEP AND BEEF



This report contains the key results from MAF's 2010 sheep and beef monitoring programme. Please note that the sample of farms has changed between 2008/09 and 2009/10. Caution should be taken when comparing data between these two years.

## KEY POINTS

- › The cold and wet winter of 2009 reduced stock performance, which ultimately reduced the 2009/10 income levels. However, the rest of the 2009/10 year produced reasonably consistent pasture growth, which allowed a recovery in pasture levels and stock liveweight.
- › Net cash income decreased by \$48 500 to \$442 300 in 2009/10, partly due to the impact of the 2008/09 and earlier droughts. However, in 2010/11, the net cash income is budgeted to increase to \$492 000 as stock performance and numbers recover.
- › Farmers are trying to drive costs out of their business. In 2009/10, farm working expenses were \$344 300 with an expected decrease to \$325 100 for 2010/11.
- › The farm profit before tax was \$32 600 in 2009/10 and is expected to increase to \$120 300 in 2010/11, with \$34 300 of the profit made up of additional stock on hand.
- › Farmer morale has lifted due to the recent improvement in cattle prices and on-farm production. However, there is a section of the farming community who are increasingly concerned about their recent poor financial performance and erosion of their equity.

»» TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE GISBORNE HILL COUNTRY SHEEP AND BEEF FARM MODEL

YEAR ENDED 30 JUNE	2006/07	2007/08	2008/09	2009/10 <sup>1</sup>	2010/11 BUDGET
Effective area (ha)	821	821	821	829	829
Breeding ewes (head)	3 070	2 990	3 000	2 792	2 709
Replacement ewe hoggets (head)	1 128	1 060	1 120	760	851
Other sheep (head)	250	167	229	204	284
Breeding cows (head)	272	262	252	257	277
Rising 1-year cattle (head)	234	216	235	232	280
Other cattle (head)	201	177	193	192	156
Opening sheep stock units (ssu)	4 041	3 855	3 950	3 879	4 050
Opening cattle stock units	3 429	3 168	3 283	3 335	3 464
Opening total stock units (su)	7 470	7 022	7 233	7 214	7 514
Stocking rate (stock unit/ha)	9.1	8.6	8.8	8.7	9.1
Ewe lambing (%)	124	113	115	124	133
Average lamb price (\$/head)	47.15	51.42	81.8	74	75
Average store lamb price (\$/head)	33.37	28.58	73.74	66.00	65.00
Average prime lamb price (\$/head)	53.34	58.26	85.98	77.00	77.00
Average wool price (\$/kg)	2.23	2.30	2.18	2.17	2.24
Total wool produced (kg)	18 771	19 356	17 651	17 223	18 459
Wool production (kg/ssu)	4.65	5.02	4.47	4.44	4.56
Average rising 3-year steer and older (\$/head)	957	947	997	924	1 020
Net cash income (\$)	426 213	310 305	490 793	442 337	492 040
Farm working expenses (\$)	234 505	230 471	216 039	344 298	325 141
Farm profit before tax (\$)	68 929	18 029	122 568	32 554	120 257
Farm surplus for reinvestment (\$) <sup>2</sup>	46 266	-70 728	122 188	-5 095	57 770

### Notes

<sup>1</sup> 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.

<sup>2</sup> Farm surplus for reinvestment represents the cash available from the farming business, after meeting living costs, which is available for investment on-farm or for principal repayments. It is calculated as discretionary cash less off-farm income and drawings.



»» TABLE 2: GISBORNE HILL COUNTRY SHEEP AND BEEF MODEL BUDGET

	2009/10			2010/11 BUDGET		
	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT <sup>1</sup> (\$)	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT <sup>1</sup> (\$)
<b>REVENUE</b>						
Sheep	258 301	312	66.59	269 626	325	66.58
Wool	37 451	45	9.65	41 294	50	10.20
Cattle	201 183	243	60.32	222 710	269	64.29
Grazing income (including hay and silage sales)	7 000	8	0.97	5 040	6	0.67
Other farm income	9 000	11	1.25	9 000	11	1.20
<b>LESS:</b>						
Sheep purchases	34 640	42	8.93	24 660	30	6.09
Cattle purchases	35 958	43	10.78	30 970	37	8.94
<b>Net cash income</b>	<b>442 337</b>	<b>534</b>	<b>61.31</b>	<b>492 040</b>	<b>594</b>	<b>65.48</b>
<b>Farm working expenses</b>	<b>344 298</b>	<b>415</b>	<b>47.72</b>	<b>325 141</b>	<b>392</b>	<b>43.27</b>
<b>Cash operating surplus</b>	<b>98 039</b>	<b>118</b>	<b>13.59</b>	<b>166 900</b>	<b>201</b>	<b>22.21</b>
Interest	53 636	65	7.43	52 586	63	7.00
Rent and/or leases	10 051	12	1.39	10 300	12	1.37
Stock value adjustment	17 152	21	2.38	34 326	41	4.57
Minus depreciation	18 950	23	2.63	18 083	22	2.41
<b>Farm profit before tax</b>	<b>32 554</b>	<b>39</b>	<b>4.51</b>	<b>120 257</b>	<b>145</b>	<b>16.00</b>
Taxation	4 447	5	0.62	8 243	10	1.10
<b>Farm profit after tax</b>	<b>28 107</b>	<b>34</b>	<b>3.90</b>	<b>112 014</b>	<b>135</b>	<b>14.91</b>
<b>ALLOCATION OF FUNDS</b>						
Add back depreciation	18 950	23	2.63	18 083	22	2.41
Reverse stock value adjustment	-17 152	-21	-2.38	-34 326	-41	-4.57
Income equalisation	0	0	0.00	0	0	0.00
Off-farm income	1 700	2	0.24	1 700	2	0.23
<b>Discretionary cash</b>	<b>31 605</b>	<b>38</b>	<b>4.38</b>	<b>97 470</b>	<b>118</b>	<b>12.97</b>
<b>APPLIED TO:</b>						
Net capital purchases	9 000	11	1.25	12 000	14	1.60
Development	4 000	5	0.55	4 500	5	0.60
Principal repayments	16 099	19	2.23	17 274	21	2.30
Drawings	35 000	42	4.85	38 000	46	5.06
New borrowings	0	0	0.00	0	0	0.00
Introduced funds	0	0	0.00	0	0	0.00
<b>Cash surplus/deficit</b>	<b>-32 494</b>	<b>-39</b>	<b>-4.50</b>	<b>25 697</b>	<b>31</b>	<b>3.42</b>
<b>Farm surplus for reinvestment<sup>2</sup></b>	<b>-5 095</b>	<b>-6</b>	<b>-0.71</b>	<b>57 770</b>	<b>70</b>	<b>7.69</b>
<b>ASSETS AND LIABILITIES</b>						
Farm, forest and building (opening)	3 800 000	4 584	526.73	3 795 000	4 578	505.06
Plant and machinery (opening)	93 000	112	12.89	88 050	106	11.72
Stock valuation (opening)	875 194	1 056	121.31	892 346	1 076	118.76
Other produce on hand (opening)	0	0	0.00	0	0	0.00
<b>Total farm assets (opening)</b>	<b>4 768 194</b>	<b>5 752</b>	<b>660.93</b>	<b>4 775 396</b>	<b>5 760</b>	<b>635.53</b>
<b>Total assets (opening)</b>	<b>4 773 194</b>	<b>5 758</b>	<b>661.62</b>	<b>4 775 396</b>	<b>5 760</b>	<b>635.53</b>
Total liabilities (opening)	729 000	879	101.05	720 901	870	95.94
<b>Total equity (farm assets - liabilities)</b>	<b>4 039 194</b>	<b>4 872</b>	<b>559.88</b>	<b>4 054 495</b>	<b>4 891</b>	<b>539.59</b>

**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 represents the cash available from the farming business, after meeting living costs, which is available for investment on-farm or for principal repayments. It is calculated as discretionary cash less off-farm income and drawings.

»» TABLE 3: GISBORNE HILL COUNTRY SHEEP AND BEEF MODEL EXPENDITURE

	2009/10			2010/11 BUDGET		
	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT <sup>1</sup> (\$)	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT <sup>1</sup> (\$)
<b>FARM WORKING EXPENSES</b>						
Permanent wages	83 467	101	11.57	83 104	100	11.06
Casual wages	9 035	11	1.25	7 182	9	0.96
ACC	1 889	2	0.26	3 922	5	0.52
<b>Total labour expenses</b>	<b>94 391</b>	<b>114</b>	<b>13.08</b>	<b>94 208</b>	<b>114</b>	<b>12.54</b>
Animal health	22 778	27	3.16	23 000	28	3.06
Breeding	3 094	4	0.43	3 200	4	0.43
Electricity	6 700	8	0.93	7 460	9	0.99
Feed (hay and silage)	3 343	4	0.46	1 800	2	0.24
Feed (feed crops)	6 100	7	0.85	5 100	6	0.68
Feed (grazing)	3 102	4	0.43	1 100	1	0.15
Feed (other)	0	0	0.00	0	0	0.00
Fertiliser	48 359	58	6.70	36 000	43	4.79
Lime	2 506	3	0.35	5 300	6	0.71
Cash crop expenses <sup>2</sup>	0	0	0.00	0	0	0.00
Freight (not elsewhere deducted)	4 400	5	0.61	4 600	6	0.61
Regrassing costs	1 700	2	0.24	1 024	1	0.14
Shearing expenses	23 170	28	5.97	24 500	30	6.05
Weed and pest control	10 380	13	1.44	10 814	13	1.44
Fuel	9 234	11	1.28	9 725	12	1.29
Vehicle costs (excluding fuel)	14 500	17	2.01	16 500	20	2.20
Repairs and maintenance	34 522	42	4.79	26 000	31	3.46
<b>Total other working expenses</b>	<b>193 888</b>	<b>234</b>	<b>26.88</b>	<b>176 123</b>	<b>212</b>	<b>23.44</b>
Communication costs (phone and mail)	2 600	3	0.36	2 700	3	0.36
Accountancy	9 400	11	1.30	9 400	11	1.25
Legal and consultancy	7 300	9	1.01	6 900	8	0.92
Other administration	4 000	5	0.55	4 200	5	0.56
Water charges (irrigation)	0	0	0.00	0	0	0.00
Rates	14 750	18	2.04	15 300	18	2.04
Insurance	5 315	6	0.74	5 550	7	0.74
ACC employer	5 540	7	0.77	3 360	4	0.45
Other expenditure	7 114	9	0.99	7 400	9	0.98
<b>Total overhead expenses</b>	<b>56 019</b>	<b>68</b>	<b>7.76</b>	<b>54 810</b>	<b>66</b>	<b>7.29</b>
<b>Total farm working expenses</b>	<b>344 298</b>	<b>415</b>	<b>47.72</b>	<b>325 141</b>	<b>392</b>	<b>43.27</b>
<b>CALCULATED RATIOS</b>						
Economic farm surplus (EFS <sup>3</sup> )	21 241	26	2.94	108 143	130	14.39
Farm working expenses/NCI <sup>4</sup>	78%			66%		
EFS/total farm assets	0.4%			2.3%		
EFS less interest and lease/equity	-1.1%			1.1%		
Interest+rent+lease/NCI	14.4%			12.8%		
EFS/NCI	4.8%			22.0%		
Wages of management	75 000	90	10.40	75 000	90	9.98

**Notes**

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

2 Includes forestry expenses.

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 GISBORNE HILL COUNTRY SHEEP AND BEEF FARM MODEL IN 2009/10



In 2009/10, the cash operating surplus on the Gisborne hill country model was \$98 000 (\$118 per hectare). This comes from a net cash income of \$534 per hectare, of which a total of \$415 per hectare (78 percent) was spent on farm working expenses. The cash operating surplus fell because of a combination of increased levels of expenditure and less stock available for sale due to previous dry seasons.

### REVENUE DROPS

Net cash income decreased \$48 500 to \$442 300 in 2009/10 with reductions occurring in both sheep and cattle income. Drought recovery on farm and rebuilding stock numbers were a major driver of this result.

### DROUGHT RECOVERY

In 2009/10, the Gisborne and Wairoa districts were not as affected by drought as they have been in previous years. Many farmers felt that they had been battling semi-drought conditions for the past three seasons.

The start of winter 2009 saw a large number of frosts, resulting in low soil temperatures. Very wet and cold conditions followed producing critically low pasture levels across the district. In August and September, favourable soil temperatures saw improved pasture growth levels for this time of the year. However, this growth was short-lived with dry conditions returning across much of the district in September and October.

Pasture growth and pasture covers were above average during 2010 following reasonable rainfall in January and February 2010. The pasture covers on farms as they enter winter 2010 are estimated to be 200 kilograms of dry matter per hectare above early winter 2009.

The short period of summer rainfall, followed by dry weather resulted in low levels of facial eczema, with minimal impact on sheep health.

### REBUILDING STOCK NUMBERS

Stock numbers increased by 129 cattle stock units and 171 sheep stock units at the end of 2009/10, taking the stocking rate on the farms in this model from 8.7 to 9.1 stock units per effective hectare for the 2010 winter. Rebuilding numbers to near pre-drought levels reduced income as fewer animals were available for sale.

### A DROP IN SHEEP INCOME

Low feed levels in the winter of 2009 proved to be the tipping point for some stock that was still trying to recover from the previous year's drought. This combined with late storms and low scanning results produced a mediocre lambing result of 124 percent.

»» TABLE 4: GISBORNE HILL COUNTRY SHEEP AND BEEF MODEL CASH FARM INCOME

YEAR ENDED 30 JUNE	2006/07 (\$)	2007/08 (\$)	2008/09 (\$)	2009/10 (\$) <sup>1</sup>	2010/11 BUDGET (\$)
Sheep sales less purchases	181 211	145 726	264 265	223 661	244 966
Cattle sales less purchases	197 644	113 427	178 085	165 225	191 740
Wool	41 858	43 551	38 444	37 451	41 294
Grazing income (including hay and silage sales)	0	200	2 500	7 000	5 040
Other income	5 500	7 400	7 500	9 000	9 000
Net cash income	426 213	310 305	490 793	442 337	492 040

#### Note

<sup>1</sup> 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.

Sheep income (sales less purchases) dropped from \$264 300 in 2008/09 to \$223 700 in 2009/10 with fewer sheep for sale.

The average lamb price for the 2009/10 year was \$74, which is significantly up on the price received two years earlier in 2007/08 of just \$51 per head. Prime ewes sold for \$57 in 2009/10, which was up \$5 on the \$52 per head received in 2008/09.

The favourable pasture levels in summer and autumn 2010 saw a recovery in ewe tugging weights. Flocks on many farms have now recovered to pre-drought mating weights.

#### **BEEF INCOME DOWN BUT PRICES INCREASING**

Beef income (sales less purchases) dropped by \$12 900 (down 7 percent) to \$165 200 in 2009/10, compared with \$178 100 in 2008/09 with lower prices for most classes of cattle. Rising three year old steers and heifers were both down about \$70 per head but this was partly offset by increased numbers of two year old bulls which sold at nearly \$60 more.

The beef schedule improved in May and June 2010 due to low numbers of sale stock and favourable export prices. Improved cow nutrition saw a return to average in-calf rates in autumn 2010.

#### **WOOL INCOME DOWN**

It was a difficult year for wool production with wool weights in 2009/10 reaching only 4.4 kilograms per sheep stock unit compared with 4.5 and 5.0 kilograms per sheep stock unit in 2008/09 and 2007/08 respectively. The low wool weights reflect the low sheep live weights through the past few dry seasons. The wool price stabilised at \$2.17 per kilogram in 2009/10, one cent lower than in 2008/09.

#### **FARM COSTS INCREASE SLIGHTLY DESPITE INCOME FALLING**

Farmers tried to hold expenditure where possible in 2009/10 due to the reduced income; however, most costs continued to steadily increase. This especially applies to some of the inflexible costs such as ACC, rates, electricity, and insurance. In 2009/10, farm working expenses totalled \$344 300 (\$415 per hectare).

#### **INCREASED FERTILISER SPEND**

Fertiliser prices peaked in 2008/09, which saw expenditure on fertiliser and lime plummet to \$4.27 per stock unit. The drop in fertiliser prices in 2009/10 saw farmers increase their expenditure on fertiliser to \$6.70 per stock unit. More lime products were used with the average farmer increasing their lime expenditure from \$900 in 2008/09 to \$2500 in 2009/10.

#### **INTEREST IN FORAGE CROPS GROWING**

More farmers are growing forage crops to improve feed quality and to increase their supply of feed in tight times. In some cases forage crops are being grown in an attempt to minimise the impact of the recent droughts. In 2009/10, feed and regrassing expenditure on the model was \$14 200 which was up \$3600 from the 2008/09 year.

#### **MAINTENANCE SPEND UP**

In 2009/10, farmers increased the level of repairs and maintenance spending to \$34 500, up \$9900 on 2008/09. The majority of the extra spending was in the areas of fencing, tracking and building maintenance. However, it is believed that \$34 500 is still not enough to provide full maintenance of all the assets on the property.

#### **MINIMAL CAPITAL EXPENDITURE**

The tight financial position of these farmers means that only minimal amounts are being spent on development and the replacement of plant and machinery. In 2009/10, farmers spent only \$13 000 on plant and development which is down \$4600 on 2008/09.

### SHEARING CONSUMES MOST OF WOOL REVENUE

Shearing expenditure for 2009/10 was \$23 200; this consumes a significant 62 percent of the wool revenue, which for 2009/10 was \$37 500. Many farmers now talk of shearing as another form of animal health rather than a source of revenue.

### INTEREST COSTS DECREASE

The 2009/10 year saw quite a lot of interest rate changes for farmers. Some of the long-term loans that were fixed a few years ago are now coming off high rates and are being fixed at lower levels. In the meantime short-term rates have been increasing. The model shows the average farmer paid \$7.43 per stock unit in interest payments for 2009/10 compared with \$8.37 per stock unit in 2008/09.

### NET RESULT DECREASED SIGNIFICANTLY

The farm profit after tax decreased significantly in 2009/10 to \$28 100. This resulted in a cash deficit of \$32 500 once capital, development, drawings and principal payments have been deducted. This significant cash deficit, combined with low levels of maintenance and reinvestment, is lowering the morale of many farming couples in the region especially those who have above average levels of debt.

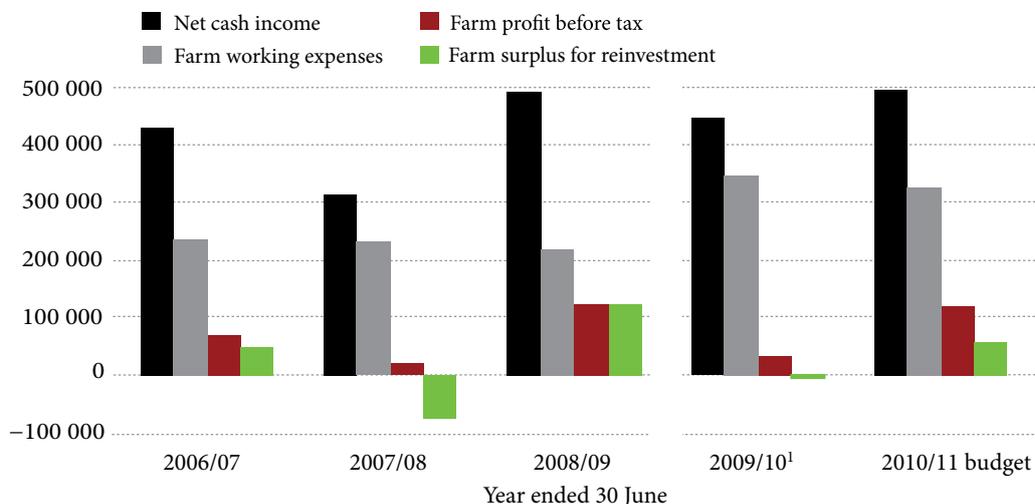
## BUDGET FINANCIAL PERFORMANCE OF THE GISBORNE HILL COUNTRY SHEEP AND BEEF FARM MODEL IN 2010/11

The cash operating surplus on the Gisborne hill country model is anticipated to increase 70 percent (\$68 700) to \$166 900 in 2010/11. This expectation is due to a higher volume of sale stock compared with 2009/10, when production was affected by drought in the previous year. Farmers also plan to try and reduce expenditure levels in a committed effort to improve the bottom line and profitability.

### REVENUE IS EXPECTED TO INCREASE BY 11 PERCENT

The net cash income in 2010/11 is anticipated to increase to \$492 000 compared with \$442 300 in 2009/10. Farmers are expecting the farm gate prices to stay at reasonably high levels due to the current low numbers of sale stock and strong export markets.

»» FIGURE 1: GISBORNE HILL COUNTRY SHEEP AND BEEF MODEL PROFITABILITY TRENDS



**Note**

<sup>1</sup> 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.

### **CONTINUED POST-DROUGHT RECOVERY**

Farmers continue to rebuild stock numbers, with an increase in the model budget of 207 sheep stock units and 82 cattle stock units to a total of 7803 stock units for the 2011 winter.

Most capital stock are currently at good weights and condition scores as they enter the 2010/11 year. It is anticipated that this will have a flow-on effect of improved breeding percentages.

### **LAMBING UP 9 PERCENT**

The lambing percentage for 2010/11 is expected to be 133 percent, up 9 percent on 2009/10. Many early scanning results are showing a significant increase over last year due to better ewe condition at tugging.

Farmers also plan to continue the policy of finishing as many lambs as possible, with only 20 percent of lambs sold store in 2010/11 compared with 29 percent in 2009/10.

Sheep revenue (sales less purchases) in 2010/11 is expected to increase by 10 percent to \$245 000. The average lamb price for 2010/11 is anticipated to remain similar to 2009/10 year at \$75 per head.

### **WOOL REVENUE INCREASES 10 PERCENT**

In 2010/11, farmers anticipate that their wool weight per sheep stock unit will increase to 4.6 kilograms from the 4.4 kilograms in 2009/10. A small increase in the average wool price is also anticipated, to \$2.24 per kilogram for the 2010/11 year. This is expected to result in a 10 percent increase in wool revenue to \$41 300, compared with \$37 500 in 2009/10.

### **CATTLE INCOME INCREASING**

In 2010/11, the model opens with cow numbers back to the pre-drought levels of 277 cows wintered. During 2010/11 the model also reflects a move by farmers into more finishing mobs of steers to act as buffers that can be destocked in the case of a drought. Cattle revenue (sales less purchases) in 2010/11 are expected to increase by 16 percent to \$191 700.

### **PLANNING ON LESS EXPENDITURE**

Many farmers are determined to lower their spending to protect their equity from trading at a loss. In 2010/11, total farm working expenses are anticipated to be \$325 100, down \$19 200 on 2009/10. Agribusiness advisers are not confident farmers will be able to make the necessary changes to their spending to achieve the predicted reduction.

### **FERTILISER SPEND UNDER PRESSURE**

Monitored farmers plan to reduce fertiliser expenditure. Consequently, the model has expenditure on fertiliser and lime reducing from \$50 900 in 2009/10 to \$41 300 in 2010/11. There is a continuing trend to a greater usage of lime-based products.

### **WAGES UNCHANGED**

Wages are the largest expense item on the farm model accounting for 29 percent of total farm working expenses. Farmers are not anticipating an increase in total wage expenditure in 2010/11; any salary increase will be balanced by a decrease in casual wages.

### **REPAIRS AND MAINTENANCE CUT**

Monitored farmers are budgeting to cut 25 percent off their repairs and maintenance expenditure, with just \$26 000 budgeted on the farm model to be spent on repairs and maintenance in 2010/11 compared with \$34 500 in 2009/10.

### **NET RESULT IMPROVES SIGNIFICANTLY**

Farm profit before tax is expected to improve significantly from \$32 600 in 2009/10 to \$120 300 in 2010/11; however, this is dependent on farmers making the anticipated cuts in expenditure. This profit includes \$34 300 in additional stock on hand at the end of the 2010/11 year. A cash surplus of \$25 700 is expected in 2010/11 once drawings, principal repayments and capital purchases are paid.

## INFORMATION ABOUT THE MODEL

The Gisborne hill country sheep and beef model represents about 600 farms on steep hill country and easier hill country on mudstone soils with some pumice overlay in the Gisborne and Wairoa districts. The model's stock policy is based on breeding ewes and cows with replacement stock retained, surplus stock sold prime or store and some trading stock for finishing or margin trading.

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ISBN 978-0-478-36376-0 (Online)

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