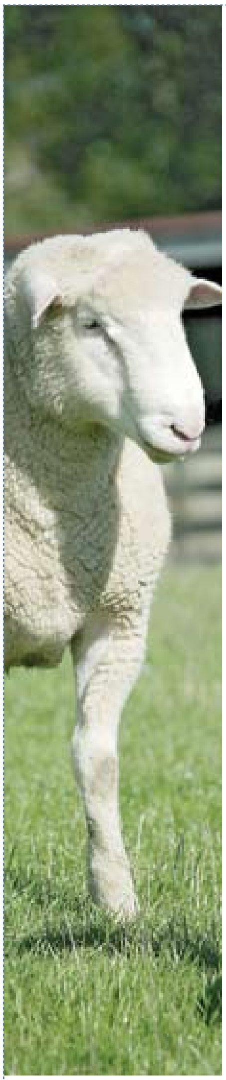
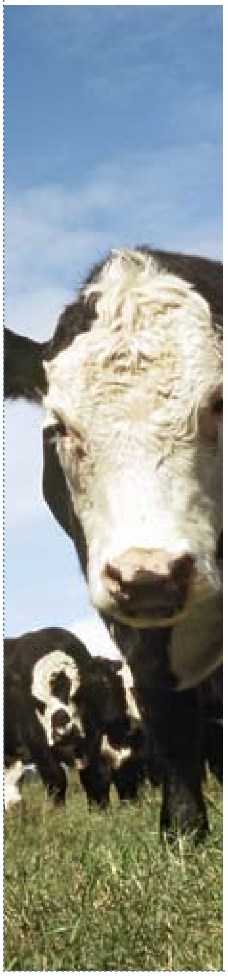




2009 PASTORAL MONITORING

SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF

THIS REPORT CONTAINS THE KEY RESULTS FROM THE MINISTRY OF AGRICULTURE AND FORESTRY'S 2009 PASTORAL MONITORING PROGRAMME.

KEY POINTS

- Increased lamb prices lifted cash operating surplus for 2008/09 to $115 000 up 29 percent compared with 2007/08.
- Lambing percentage for 2008/09 was down 10 percentage points compared with 2007/08 due to drought in the 2007/08 year affecting scanning percentages and wet, cold lambing conditions reducing lamb survival rates.
- Net cash income in 2008/09 increased 16 percent to $244 300 compared with $211 400 in 2007/08 due to average lamb prices increasing $34 to $90 per head.
- Farm working expenses increased 6 percent to $57.23 per stock unit in 2008/09, up $8.82 per stock unit compared with 2007/08.
- Farm profit before tax jumped to $58 100 in 2008/09 from $6075 but is predicted to drop back to $44 000 in 2009/10. A $6600 cash loss in 2008/09 is expected to be followed by a $39 100 deficit in 2009/10 as some of the farm profit is from the value of a 99 stock unit stock increase (valued at $15 200).
- Farmer morale improved as farm gate returns lifted.

TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL

YEAR ENDED 30 JUNE	2005/06	2006/07	2007/08[R]	2008/09	2009/10 BUDGET
Effective area (ha)	194	194	194	194	194
Breeding ewes (head)	2 125	2 165	2 090	1 928	1 836
Replacement ewe hoggets (head)	530	530	471	320	450
Other sheep (head)	25	25	25	25	25
Breeding cows (head)	0	0	0	0	0
Rising 1-year cattle (head)	30	30	20	0	0
Other cattle (head)	0	0	0	0	0
Opening sheep stock units (ssu)	2 516	2 556	2 440	2 172	2 171
Opening cattle stock units	135	135	90	90	90
Opening total stock units (su)	2 651	2 691	2 530	2 262	2 261
Stocking rate (stock unit/ha)	13.7	13.9	13.0	11.7	11.7
Ewe lambing (%)	138	136	141	131	139
Average lamb price ($/head)	51.50	52.00	56.04	90.11	77.26
Average wool price ($/kg)	2.46	2.43	2.31	2.30	2.00
Total wool produced (kg)	14 668	14 440	11 950	11 160	11 180
Wool production (kg/ssu)	6	6	5	5	5
Average rising 1-year steer ($/head)	0	0	769	0	0
Average cull cow ($/head)	0	0	0	0	0
Net cash income ($)	195 686	197 326	211 385	244 345	212 335
Farm working expenses ($)	112 668	107 868	122 453	129 451	129 720
Farm profit before tax ($)	47 256	47 003	6 075	58 083	43 950
Farm surplus for reinvestment ($)[1]	3 605	9 557	–12 247	15 536	–23 790

Note

1 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.

Symbol

R The model parameters have been revised so the data for 2007/08 will not match that published in the *Pastoral Monitoring Report 2008*.

TABLE 2: SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL BUDGET

	2008/09			2009/10 BUDGET			CHANGE
	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)	BETWEEN 2008/09 AND 2009/10 (%)
REVENUE							
Sheep	209 475	1 080	96.44	181 231	934	83.48	−13
Wool	25 668	132	11.82	22 360	115	10.30	−13
Cattle	0	0	0.00	0	0	0.00	…
Grazing income (including hay and silage sales)	9 952	51	4.40	9 704	50	4.29	−2
Other farm income	2 000	10	0.88	1 840	9	0.81	−8
LESS:							
Sheep purchases	2 750	14	1.27	2 800	14	1.29	2
Cattle purchases	0	0	0.00	0	0	0.00	…
Net cash income	**244 345**	**1 260**	**108.02**	**212 335**	**1 095**	**93.91**	**−13**
Farm working expenses	**129 451**	**667**	**57.23**	**129 720**	**669**	**57.37**	**0**
Cash operating surplus	**114 894**	**592**	**50.79**	**82 614**	**426**	**36.54**	**−28**
Interest	43 309	223	19.15	39 732	205	17.57	−8
Rent and/or leases	0	0	0.00	0	0	0.00	…
Stock value adjustment	778	4	0.34	15 164	78	6.71	1849
Minus depreciation	14 280	74	6.31	14 096	73	6.23	−1
Farm profit before tax	**58 083**	**299**	**25.68**	**43 950**	**227**	**19.44**	**−24**
Taxation	−572	−3	−0.25	9 117	47	4.03	−1695
Farm profit after tax	**58 654**	**302**	**25.93**	**34 833**	**180**	**15.41**	**−41**
ALLOCATION OF FUNDS							
Add back depreciation	14 280	74	6.31	14 096	73	6.23	−1
Reverse stock value adjustment	−778	−4	−0.34	−15 164	−78	−6.71	1849
Income equalisation	0	0	0.00	0	0	0.00	…
Off-farm income	6 800	35	3.01	6 800	35	3.01	0
Discretionary cash	**78 956**	**407**	**34.91**	**40 565**	**209**	**17.94**	**−49**
APPLIED TO:							
Net capital purchases	17 280	89	7.64	12 600	65	5.57	-27
Development	9 200	47	4.07	6 700	35	2.96	-27
Principal repayments	2 492	13	1.10	2 802	14	1.24	12
Drawings	56 620	292	25.03	57 555	297	25.46	2
New borrowings	0	0	0.00	0	0	0.00	…
Introduced funds	0	0	0.00	0	0	0.00	…
Cash surplus/deficit	**−6 636**	**−34**	**−2.93**	**−39 092**	**−202**	**−17.29**	**489**
Farm surplus for reinvestment[2]	**15 536**	**80**	**6.87**	**−23 790**	**−123**	**−10.52**	**−253**
ASSETS AND LIABILITIES							
Farm, forest and building (opening)	3 600 000	18 557	1 591.51	2 910 000	15 000	1 287.04	−19
Plant and machinery (opening)	95 200	491	42.09	93 974	484	41.56	−1
Stock valuation (opening)	222 498	1 147	98.36	223 276	1 151	98.75	0
Other produce on hand (opening)	0	0	0.00	0	0	0.00	…
Total farm assets (opening)	**3 917 698**	**20 194**	**1 731.96**	**3 227 250**	**16 635**	**1 427.36**	**−18**
Total assets (opening)	**4 089 398**	**21 079**	**1 807.87**	**3 400 550**	**17 529**	**1 504**	**−17**
Total liabilities (opening)	399 771	2 061	176.73	390 607	2 013	172.76	−2
Total equity (farm assets - liabilities)	**3 517 927**	**18 134**	**1 555.23**	**2 836 643**	**14 622**	**1 254.60**	**−19**

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.

Symbol

… Not applicable.

TABLE 3: SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL EXPENDITURE

	2008/09			2009/10 BUDGET			CHANGE
	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)	BETWEEN 2008/09 AND 2009/10 (%)
FARM WORKING EXPENSES							
Permanent wages	0	0	0.00	0	0	0.00	…
Casual wages	3 550	18	1.57	3 610	19	1.60	2
ACC	504	3	0.22	540	3	0.24	7
Total labour expenses	**4 054**	**21**	**1.79**	**4 150**	**21**	**1.84**	**2**
Animal health	9 750	50	4.31	9 750	50	4.31	0
Breeding	950	5	0.42	950	5	0.42	0
Electricity	3 885	20	1.72	4 015	21	1.78	3
Feed (hay and silage)	4 460	23	1.97	4 015	21	1.78	−10
Feed (feed crops)	0	0	0.00	0	0	0.00	…
Feed (grazing)	2 390	12	1.06	2 150	11	0.95	−10
Feed (other)	720	4	0.32	650	3	0.29	−10
Fertiliser	25 340	131	11.20	25 695	132	11.36	1
Lime	2 230	11	0.99	2 020	10	0.89	−9
Cash crop expenses	0	0	0.00	0	0	0.00	…
Freight (not elsewhere deducted)	2 287	12	1.01	2 470	13	1.09	8
Regrassing costs	10 165	52	4.49	9 565	49	4.23	−6
Shearing expenses	10 930	56	4.83	11 410	59	5.05	4
Weed and pest control	2 155	11	0.95	2 070	11	0.92	−4
Fuel	11 885	61	5.25	11 290	58	4.99	−5
Vehicle costs (excluding fuel)	7 445	38	3.29	7 625	39	3.37	2
Repairs and maintenance	7 950	41	3.51	7 790	40	3.45	−2
Total other working expenses	**102 542**	**529**	**45.33**	**101 465**	**523**	**44.88**	**−1**
Communication costs (phone and mail)	1 825	9	0.81	1 895	10	0.84	4
Accountancy	2 413	12	1.07	2 505	13	1.11	4
Legal and consultancy	1 380	7	0.61	1 432	7	0.63	4
Other administration	1 457	8	0.64	1 513	8	0.67	4
Water charges (irrigation)	0	0	0.00	0	0	0.00	…
Rates	6 515	34	2.88	6 775	35	3.00	4
Insurance	4 150	21	1.83	4 360	22	1.93	5
Other expenditure[2]	5 115	26	2.26	5 625	29	2.49	10
Total overhead expenses	**22 855**	**118**	**10.10**	**24 105**	**124**	**10.66**	**5**
Total farm working expenses	**129 451**	**667**	**57.23**	**129 720**	**669**	**57.37**	**0**
Wages of management	70 177	362	31.02	63 273	326	27.98	−10
Depreciation	14 280	74	6.31	14 096	73	6.23	−1
Total farm operating expenses	**213 908**	**1103**	**94.57**	**207 089**	**1 067**	**91.59**	**−3**
CALCULATED RATIOS							
Economic farm surplus (EFS[3])	31 215	161	13.80	20 410	105	9.03	
Farm working expenses/NCI[4]	53%			61%			
EFS/total farm assets	0.8%			0.6%			
EFS less interest and lease/equity	−0.3%			−0.7%			
Interest+rent+lease/NCI	17.7%			18.7%			
EFS/NCI	12.8%			9.6%			

Notes

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

2 Includes Accident Compensation Corporation (ACC) employer levy.

3 EFS (or earnings before interest and tax) 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.

Symbol

… Not applicable.

FINANCIAL PERFORMANCE OF THE SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL FARM IN 2008/09

The cash operating surplus for 2008/09 lifted $26 000 or 29 percent from 2007/08 to $115 000. Ewe hogget replacements numbers increased by the end of the year to normal replacement levels as farmers responded to the improved lamb prices. The drought from early 2008 carried into the 2008/09 season as scanning percentages and lambing percentages were reduced.

REVENUE INCREASES 16 PERCENT

The net cash income increased by $33 000 or 16 percent to $244 300 in 2008/09 compared with 2007/08. Sheep and lamb sales increased $42 700 or 26 percent in 2008/09. Reduced lamb numbers due to lower lambing percentage and stocking rates, lowered the market supply driving up the price paid for lamb products. In addition to this effect, currency exchange rates declined improving the value returned for New Zealand exports.

LAMBING PERCENTAGE DOWN 10 PERCENT BUT LAMB PRICES UP 61 PERCENT

The lambing percentage declined 10 percentage points to 131 percent in 2008/09 following poor mating in 2008 and a cold wet spring. The reduction in lamb numbers was more than offset by an increase in lamb price to $90.11 per head, a 61 percent lift compared with $56.04 per head in 2007/08.

STOCKING RATES LOW AND NOT IMPROVING WITH HOGGET REPLACEMENT RATES AT 25 PERCENT

Sheep stock numbers remain lower than average on these farms as hogget replacement rates sit at 450 (25 percent of mixed age ewe numbers) for the year end. Opening stocking rates were nearly 300 stock units or 11 percent down on the 2007/08 year. This significantly reduced output and profits in the 2008/09 season.

WOOL CLIP DECLINES

Wool revenue dropped by $1900 or 7 percent to $25 700 compared with $27 600 as ewe numbers declined by 8 percent and the wool production decreased. Wool price was largely unchanged at $2.30 per kilogram.

EXPENDITURE INCREASES BY 6 PERCENT

Farm working expenses increased 6 percent to $129 500 in 2008/09 compared with $122 500 in 2007/08. This is almost wholly a result of increased fertiliser and lime spending. Shearing expenses and animal health expenses reduced as a result of lower sheep numbers and changed shearing and animal health practices as farmers continued to constrain costs.

››› TABLE 4: SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL CASH FARM INCOME

YEAR ENDED 30 JUNE	2005/06 ($)	2006/07 ($)	2007/08R ($)	2008/09 ($)	2009/10 BUDGET ($)
Sheep sales less purchases	142 095	144 216	164 417	206 725	178 431
Cattle sales less purchases	12 507	13 020	15 380	0	0
Wool	36 084	35 090	27 605	25 668	22 360
Grazing income (including hay and silage sales)	3 200	3 400	2 384	9 952	9 704
Other income	1 800	1 600	1 600	2 000	1 840
Net cash income	195 686	197 326	211 385	244 345	212 335

Symbol
R The model parameters have been revised so the data for 2007/08 will not match that published in the *Pastoral Monitoring Report 2008*.

FERTILISER EXPENDITURE RISES BY 33 PERCENT

Increased fertiliser prices lifted fertiliser expenditure by 33 percent to $25 300 or $11.20 per stock unit in 2008/09 compared with $19 100 in 2007/08. This was despite a 13 percent decline in fertiliser tonnage applied. Lime expenditure lifted by 75 percent to $2200 in 2008/09 compared with $1300 in 2007/08 which was a result of farmers catching up on deferred maintenance lime.

FUEL EXPENDITURE LIFTS 7 PERCENT AND VEHICLE EXPENSES LIFT BY 9 PERCENT

Fuel expenditure increased $800 to $11 900 in 2008/09 compared with $11 100 in 2007/08 as fuel prices increased and then fell. Vehicle expenses increased 9 percent to $7400 compared with $6800 in 2007/08 as farmers caught up on some deferred maintenance on vehicles.

FEED EXPENSES DECLINE BY 10 PERCENT AS PRICES RETURN TO TYPICAL LEVELS

Feed expenses declined by 10 percent to $7600 in 2008/09 on the back of more typical pasture growth and a reduced dairy payout. The 2007/08 drought saw demand for feed increase significantly and consequently feed costs sky-rocketed with baleage rising above $100 per bale. Many farmers in typically drought-safe areas were confronted with feed shortages and had little choice but to pay for expensive feeds to maintain animal performance. As the seasonal patterns have returned to normal and dairy farmers have reduced their demand for feed, prices have reduced.

FREIGHT EXPENDITURE REDUCED BY 12 PERCENT

Freight expenses declined 12 percent to $2300 in 2008/09 compared with $2600 in 2007/08 due to lower stock numbers and a reduced requirement for grazing and purchasing feed as seasonal weather returned to usual.

Interest costs were unchanged from 2007/08 with lower interest rates offset by the slightly increased debt levels.

NET RESULT MUCH IMPROVED

Despite the 6 percent lift in expenditure, the cash operating surplus increased to $115 000 in 2008/09, a 29 percent improvement compared with 2007/08. The farm profit before tax increased significantly to $58 100 in 2008/09 compared with $6100 in 2007/08 and farm surplus for reinvestment increased to $15 500 compared with a deficit of $12 200 in 2007/08. Farmers used their improved profits to increase capital and development spending to $17 300 and $9200 respectively. The overall cash position is a small deficit of $6600.

BUDGET FINANCIAL PERFORMANCE OF THE SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL FARM IN 2009/10

A cash operating surplus of $82 600 is expected for 2009/10, down 28 percent on 2008/09 as a result of predicted reductions in lamb and wool prices.

REVENUE EXPECTED TO DECLINE 13 PERCENT

Net cash income is expected to decrease 13 percent to $212 300 in 2009/10, compared with $244 300 in 2008/09. This is mainly through an expected 14 percent decline in the average lamb price to $77.26.

Offsetting the reduced lamb price is a budgeted 8 percentage point increase in lambing percentage to 139 percent. Keeping a higher number of ewe hogget replacements (500 expected in 2010) is expected to reduce the impact the improved lambing percentage has on revenue. Farmers are optimistic about the coming year's lambing percentage with scanning percentages back to average or above.

Wool income is expected to decrease 13 percent to $22 400 compared with $25 700 in 2008/09. This is largely due to a predicted 13 percent reduction in the wool price to only $2.00 per kilogram.

TOTAL FARM WORKING EXPENDITURE IS NOT EXPECTED TO CHANGE SIGNIFICANTLY

Farm working expenditure is expected to remain unchanged at $130 000 for the 2009/10 season. Improvements in farmer morale have encouraged many farmers to look at opportunities to lift performance rather than cut costs.

FUEL EXPENSES EXPECTED TO REDUCE 5 PERCENT

Fuel expenses are expected to reduce 5 percent to $11 300 in 2009/10, compared with $11 900 in 2007/08, after a reduction in global fuel prices.

FEED EXPENSES ARE EXPECTED TO FALL 10 PERCENT

Feed expenditure is expected to decline by 10 percent to $6800, compared with $7600 in 2008/09. This is due to expected fuel savings, feed surpluses carried over from the 2008/09 year and typical seasonal rainfall.

FERTILISER NOT EXPECTED TO CHANGE BUT A 9 PERCENT REDUCTION IN LIME APPLICATION IS BUDGETED

Industry commentators have told farmers not to expect further reductions in fertiliser prices. Many farmers have deferred fertiliser over several years and restricting fertiliser applications any further would be detrimental to production. Therefore, many farmers are budgeting to lift applications back to around maintenance levels. This increase in fertiliser volumes applied is expected to cancel out the recent reductions in fertiliser prices.

Capital lime was applied in 2008/09 to catch up on previously deferred maintenance. Lime applications in the 2009/10 season are expected to reduce by 9 percent to $2000 as application rates return to usual levels.

OVERHEAD EXPENSES ARE EXPECTED TO INCREASE BY 5 PERCENT

Overhead expenses such as accountancy, legal expenses, consultancy, rates, and communication are expected to increase 5 percent on average. Much of this increase comes from the increase in farmers ACC payments following last year's good profits. In addition to inflation many farmers are likely to be confronted with a terminal tax bill from the previous year and farmers are expected to use their professionals to help them deal with this situation.

INTEREST RATES DECREASE

Interest costs are expected to decrease by 8 percent with farmers enjoying the benefits of interest rates reducing. The full benefit of the interest decline is not likely to be received in 2009/10 with many farmers having a proportion of their mortgages fixed and interest rates coming off their low levels.

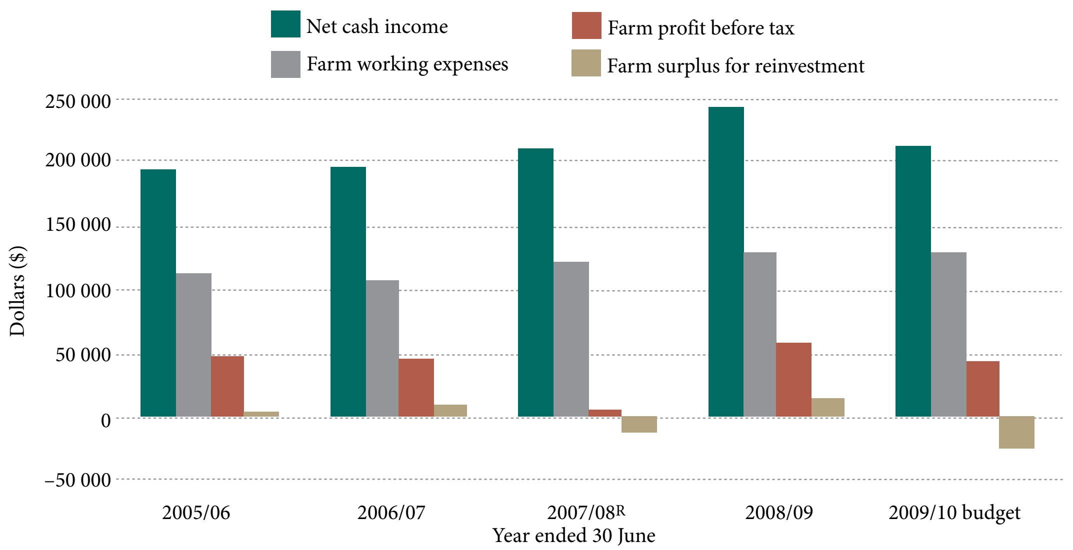
NET RESULT DETERIORATES

Farm profit before tax is expected to decrease 24 percent to $44 000 in 2009/10 compared with $58 100 in 2008/09. A $9100 tax bill (result of the previous year's surplus) is budgeted to reduce the farm profit after tax to $34 800. The expected farm surplus for investment is a loss of $23 800 and after reduced capital and development spending the cash deficit is budgeted to be a loss of $39 100, which will be financed through an increased overdraft.

FARMERS REMAIN UNCERTAIN ABOUT THE FUTURE

It is openly recognised that the improved lamb returns of 2008/09 occurred on the back of a declining sheep industry and decreasing currency exchange rates rather than any structural changes in supply chain efficiencies. As exchange rates rise, sheep farmers remain uncertain about the future of the industry. Many have moved their thoughts and efforts from concern about the industry structure to improving their on-farm performance and leveraging returns from higher than average farm gate returns. Consequently many farmers believe that nothing exists to prevent poor financial conditions from returning.

FIGURE 1: SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF MODEL PROFITABILITY TRENDS



Symbol
R The model parameters have been revised so the data for 2007/08 will not match that published in the *Pastoral Monitoring Report 2008*.

INFORMATION ABOUT THE MODEL

This model represents 1600 intensive sheep and beef farms in Southland and South Otago. They are farms that finish lambs rather than sell store and sell dairy grazing rather than finish beef. These farms are on the plains and downlands and typically have good seasonal rainfalls. Historically, this class has been challenged by the expanding dairy industry making heifer grazing and sale of surplus feed options readily available.

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Email: policy.publications@maf.govt.nz

Web: www.maf.govt.nz

ISBN 978-0-478-35706-6 (Online)

This report can be downloaded from www.maf.govt.nz

New Zealand Government