2009 PASTORAL MONITORING

EASTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF

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

KEY POINTS

- Dry spring and summer conditions and the third consecutive autumn drought in this region affected the majority of farms.
- Net cash income in 2008/09 was boosted by approximately $46 000, or 13 percent of revenue from the sale of capital and winter trading stock sold early at very good prices. A lower level of opening stock and the partial rebuilding of stock numbers, combined with lower schedule prices, will depress income in 2009/10.
- Tight control of discretionary spending is the order of the day for the farm model. Farm working expenses of $153 100 in 2008/09 were similar to the year before. Fertiliser expenditure remained at similar levels but volume used was reduced in 2008/09 given the record prices. A 19 percent increase in fertiliser expenditure in 2009/10 is expected to account for most of the increase in farm working expenses on the farm model.
- Farm profit before tax increased markedly in 2008/09 to $60 300 as a result of improved prices and holding expenditure. Farm profit before tax is expected to fall by one-quarter in 2009/10 to $44 200, despite reductions in debt servicing costs.
- Despite three consecutive years of difficult farming conditions, farmer confidence in 2008/09 was helped by record lamb prices, some price reductions for fertiliser and falling interest rates. Farmers remain concerned about the compounding production and financial implications of consecutive dry years on their farming systems.

TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE EASTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL

YEAR ENDED 30 JUNE	2005/06	2006/07	2007/08[R]	2008/09	2009/10 BUDGET
Effective area (ha)	347	347	347	347	347
Breeding ewes (head)	1 660	1 730	1 565	1 475	1 440
Replacement ewe hoggets (head)	570	510	380	370	350
Other sheep (head)	475	515	259	365	300
Breeding cows (head)	33	38	0	0	0
Rising 1-year cattle (head)	130	162	110	140	110
Other cattle (head)	115	134	140	150	125
Opening sheep stock units (ssu)	2 394	2 450	2 016	1 992	1 897
Opening cattle stock units	1 354	1 620	1 220	1 410	1 145
Opening total stock units (su)	3 748	4 070	3 236	3 402	3 042
Stocking rate (stock unit/ha)	10.8	11.7	9.3	9.8	8.8
Ewe lambing (%)	131	130	119	116	124
Average lamb price ($/head)	59.43	55.53	60.07	89.58	82.59
Average wool price ($/kg)	2.3	2.29	2.20	2.10	1.82
Total wool produced (kg)	13 173	12 122	9 253	9 945	9 614
Wool production (kg/ssu)	5.50	4.95	4.59	4.99	5.07
Average rising 2-year steer ($/head)	752	725	710	760	700
Net cash income ($)	257 096	357 009	211 951	338 009	259 845
Farm working expenses ($)	166 177	167 814	154 761	153 143	160 171
Farm profit before tax ($)	62 827	42 914	–4 730	60 313	44 191
Farm surplus for reinvestment ($)[1]	–44 568	56 422	–81 186	61 995	–39 831

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*.

Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

TABLE 2: EASTERN LOWER NORTH ISLAND 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	180 989	522	90.88	184 418	531	97.22	2
Wool	20 885	60	10.49	17 497	50	9.22	–16
Cattle	237 450	684	168.40	202 700	584	177.03	–15
Grazing income (including hay and silage sales)	4 600	13	1.35	3 600	10	1.18	–22
Other farm income	23 800	69	7.00	19 300	56	6.34	–19
LESS:							
Sheep purchases	34 725	100	17.44	47 050	136	24.80	35
Cattle purchases	94 990	274	67.37	120 620	348	105.34	27
Net cash income	**338 009**	**974**	**99.37**	**259 845**	**749**	**85.42**	**–23**
Farm working expenses	**153 143**	**441**	**45.02**	**160 171**	**462**	**52.65**	**5**
Cash operating surplus	**184 865**	**533**	**54.35**	**99 675**	**287**	**32.77**	**–46**
Interest	52 657	152	15.48	47 220	136	15.52	–10
Rent and/or leases	9 000	26	2.65	9 000	26	2.96	0
Stock value adjustment	–45 870	–132	–13.49	18 236	53	5.99	140
Minus depreciation	17 025	49	5.01	17 500	50	5.75	3
Farm profit before tax	**60 313**	**174**	**17.73**	**44 191**	**127**	**14.53**	**–27**
Taxation	–8 787	–25	–2.58	10 286	30	3.38	217
Farm profit after tax	**69 100**	**199**	**20.31**	**33 905**	**98**	**11.15**	**–51**
ALLOCATION OF FUNDS							
Add back depreciation	17 025	49	5.01	17 500	50	5.75	3
Reverse stock value adjustment	45 870	132	13.49	–18 236	–53	–5.99	–140
Income equalisation	0	0	0.00	0	0	0.00	…
Off-farm income	23 100	67	6.79	22 100	64	7.26	–4
Discretionary cash	**155 095**	**447**	**45.60**	**55 269**	**159**	**18.17**	**–64**
APPLIED TO:							
Net capital purchases	13 000	37	3.82	15 000	43	4.93	15
Development	2 000	6	0.59	2 000	6	0.66	0
Principal repayments	0	0	0.00	0	0	0.00	…
Drawings	70 000	202	20.58	73 000	210	24.00	4
New borrowings	0	0	0.00	0	0	0.00	…
Introduced funds	0	0	0.00	0	0	0.00	…
Cash surplus/deficit	**70 095**	**202**	**20.61**	**–34 731**	**–100**	**–11.42**	**–150**
Farm surplus for reinvestment[2]	**61 995**	**179**	**18.23**	**–39 831**	**–115**	**–13.09**	**–164**
ASSETS AND LIABILITIES							
Farm, forest and building (opening)	5 120 500	14 756	1 505.37	4 200 000	12 104	1 380.67	–18
Plant and machinery (opening)	66 000	190	19.40	75 000	216	24.65	14
Stock valuation (opening)	410 410	1 183	120.66	364 540	1 051	119.84	–11
Other produce on hand (opening)	0	0	0.00	0	0	0.00	…
Total farm assets (opening)	**5 596 910**	**16 129**	**1 645.42**	**4 639 540**	**13 370**	**1 525.16**	**–17**
Total assets (opening)	**5 804 410**	**16 727**	**1 706.43**	**4 839 540**	**13 947**	**1 590.91**	**–17**
Total liabilities (opening)	700 500	2 019	205.94	670 000	1 931	220.25	-4
Total equity (farm assets - liabilities)	**4 896 410**	**14 111**	**1 439.49**	**3 969 540**	**11 440**	**1 304.91**	**–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: EASTERN LOWER NORTH ISLAND 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	13 000	37	3.82	13 500	39	4.44	4
ACC	328	1	0.10	345	1	0.11	5
Total labour expenses	**13 328**	**38**	**3.92**	**13 845**	**40**	**4.55**	**4**
Animal health	9 500	27	2.79	9 500	27	3.12	0
Breeding	1 500	4	0.44	1 500	4	0.49	0
Electricity	3 300	10	0.97	3 400	10	1.12	3
Feed (hay and silage)	6 600	19	1.94	6 100	18	2.01	–8
Feed (feed crops)	4 200	12	1.23	3 800	11	1.25	–10
Feed (grazing)	1 200	3	0.35	1 100	3	0.36	–8
Feed (other)	0	0	0.00	0	0	0.00	…
Fertiliser	21 000	61	6.17	25 000	72	8.22	19
Lime	3 000	9	0.88	4 000	12	1.31	33
Cash crop expenses	1 300	4	0.38	1 200	3	0.39	–8
Freight (not elsewhere deducted)	6 700	19	1.97	6 700	19	2.20	0
Regrassing costs	10 200	29	3.00	9 000	26	2.96	–12
Shearing expenses	11 900	34	5.98	12 100	35	6.38	2
Weed and pest control	4 800	14	1.41	4 500	13	1.48	–6
Fuel	8 000	23	2.35	7 500	22	2.47	–6
Vehicle costs (excluding fuel)	7 500	22	2.20	8 000	23	2.63	7
Repairs and maintenance	12 000	35	3.53	14 000	40	4.60	17
Total other working expenses	**112 700**	**325**	**33.13**	**117 400**	**338**	**38.59**	**4**
Communication costs (phone and mail)	2 300	7	0.68	2 400	7	0.79	4
Accountancy	4 500	13	1.32	4 700	14	1.55	4
Legal and consultancy	2 100	6	0.62	2 200	6	0.72	5
Other administration	1 900	5	0.56	1 700	5	0.56	–11
Water charges (irrigation)	0	0	0.00	0	0	0.00	…
Rates	10 400	30	3.06	11 200	32	3.68	8
Insurance	3 800	11	1.12	4 000	12	1.31	5
Other expenditure[2]	2 115	6	0.62	2 726	8	0.90	29
Total overhead expenses	**27 115**	**78**	**7.97**	**28 926**	**83**	**9.51**	**7**
Total farm working expenses	**153 143**	**441**	**45.02**	**160 171**	**462**	**52.65**	**5**
Wages of management	75 000	216	22.05	75 000	216	24.65	0
Depreciation	17 025	49	5.01	17 500	50	5.75	3
Total farm operating expenses	**245 168**	**707**	**72.08**	**252 671**	**728**	**83.06**	**3**
CALCULATED RATIOS							
Economic farm surplus (EFS[3])	46 970	135	13.81	25 411	73	8.35	
Farm working expenses/NCI[4]	45%			62%			
EFS/total farm assets	0.8%			0.5%			
EFS less interest and lease/equity	–0.3%			–0.8%			
Interest+rent+lease/NCI	18.2%			21.6%			
EFS/NCI	13.9%			9.8%			

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 EASTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL FARM IN 2008/09

The cash operating surplus on the eastern lower North Island farm model in 2008/09 was $184 900, $127 700 higher than in 2007/08. The cash position was boosted by $45 900 from the sale of capital stock and winter trading stock sold early due to the drought that affected much of the region for the third autumn in a row.

Approximately 70 percent of monitored farms reduced stock numbers in 2008/09; and on average sheep and beef stock units declined 11 percent (see Table 4). This followed a 5 percent increase the previous year. Stock units on the farm model at 30 June 2009 are 25 percent lower than in June 2006, prior to the three consecutive droughts.

Changes in stock numbers over the past three years within the region have varied depending on the seasonal conditions. In winter 2007, there was a significant drop in numbers region-wide after the first drought. Winter 2008 saw a decrease in stock numbers in the more drought-affected southern half of the region while a rebuild commenced north of central Hawkes Bay. The year to 30 June 2009 brought a reversal of this with reductions on most Hastings and central Hawkes Bay farms hit harder by the third drought, while further south there was some restocking.

With less feed available for winter-finishing, hogget numbers at 30 June 2009 on the farm model decreased 12 percent compared with a year earlier. The decline in breeding ewes was restricted to 2 percent as improved profitability for sheep encouraged farmers to maintain the productive base of their operation. Cattle numbers decreased 19 percent, reflecting the lack of suitable feed as well as flexibility in cattle management policies. After several years of buying feed or grazing stock away, this year some farmers preferred to sell capital stock.

Although farms in the driest areas already carried low stock numbers after two consecutive droughts, they took early action to destock further as feed supplies deteriorated over summer and autumn. A strong demand for store stock from outside regions assisted decisions to sell early. This provided adequate feed to keep remaining livestock in good condition.

MAJOR LIFT IN REVENUE REFLECTS DESTOCKING AT IMPROVED PRICES

Net cash income increased to $338 000 in 2008/09, up $126 000 or 59 percent compared with 2007/08. This figure is inflated by drought-related destocking but also reflects much improved prices for sheep. In 2007/08, income was depressed by low prices, particularly for store stock due to the widespread impact of the 2008 drought. Both years were affected by lower opening stock numbers and poorer stock performance following droughts.

Opening stock units on the farm model were up 5 percent on the previous year as shown in Table 4 due to a partial recovery in cattle numbers.

LAMBING DOWN FOR SECOND YEAR AS A RESULT OF FURTHER DROUGHT

The lambing percentage on the farm model declined by 3 percentage points compared with 2007/08, to 116 percent in 2008/09. This represents a fall of 14 percentage points compared with the 2006/07 “pre-drought” season. Fewer than 1400 lambs were sold on the farm model, one-third less than in 2006/07.

TABLE 4: STOCK UNIT CHANGES FOR THE EASTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL

ANNUAL CHANGE IN STOCK UNITS TO YEAR ENDED 30 JUNE	2006	2007	2008	2009
Change in total stock units (%)	9	–20	5	–11
Change in sheep stock units (%)	2	–18	–1	-5
Change in cattle stock units (%)	20	–25	16	–19

The winter of 2008 was relatively mild with only brief periods of severe weather and conditions were generally very favourable for lambing. Good rainfall at the end of July was followed by a dry spring and early summer with less than 50 percent of normal rainfall in the months from August to January 2009.

SHEEP REVENUE INCREASES BY 50 PERCENT

In 2008/09, sheep revenue (sales less purchases), increased by $47 400 or 48 percent to $146 300. Similar numbers were sold but numbers purchased fell 6 percent. More trading hoggets were purchased in winter/spring 2008, but this was offset by fewer lambs purchased in autumn 2009 for finishing over winter, as drought conditions worsened. Sheep stock units finished 2008/09 down 5 percent compared with one year earlier.

Pasture growth in summer was well below usual until a period of recovery followed rain in February 2009. Fodder crops, although slow to establish, often became the only source of good finishing feed. Pasture covers slipped again during autumn, allowing little time for recovery before cold temperatures in May accompanied improving soil moisture. However, reductions in stock numbers were usually made fast enough to keep stock in good condition. Lambs and adult sheep performed very well, even on short feed covers.

Lamb sales were down 7 percent compared with 2007/08. Ninety percent of lambs were sold prime and prices for these increased markedly on the farm model to a season average of $89.58 in 2008/09, up from $60.07 in 2007/08. Schedule prices were higher and carcass weights up one kilogram on average. Store lambs averaged $77 in 2008/09, up from $34 in 2007/08 when widespread drought resulted in an over-supplied store market and depressed prices. Prices for works ewes increased 70 percent in 2008/09 to $51.

Prime hogget sales numbers were up 61 percent in spring 2008 as farms in areas less-affected by the autumn 2008 drought sought to take advantage of the good margins available for finishing the previous season's lambs. Prices for prime hoggets increased to $84 in spring 2008, compared with $63 in 2007/08.

CATTLE REVENUE INCREASES AS CAPITAL STOCK SOLD

Cattle stock units fell 19 percent during 2008/09, after increasing 16 percent in 2007/08 as farmers, particularly in the north, rebuilt herds. Higher opening numbers followed by this major rundown in capital stock increased cattle revenue (sales less purchases) 113 percent to $142 500 in 2008/09.

The shortage of cattle feed was particularly significant over summer and autumn. Once again, the lack of a spring growth flush, coupled with grazing pressure over several years that removed any accumulated roughage caused problems for many. Properties with a high ratio of sheep to cattle were most affected.

Export beef schedule prices started 2008/09 well ahead of 12 months earlier, but the difference reduced as the season

TABLE 5: EASTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL CASH FARM INCOME

YEAR ENDED 30 JUNE	2005/06 ($)	2006/07 ($)	2007/08[R] ($)	2008/09 ($)	2009/10 BUDGET ($)
Sheep sales less purchases	138 308	149 057	98 849	146 264	137 368
Cattle sales less purchases	70 621	162 793	66 745	142 460	82 080
Wool	30 006	27 759	20 357	20 885	17 497
Grazing income (including hay and silage sales)	3 972	2 000	3 000	4 600	3 600
Other income	18 162	15 400	23 000	23 800	19 300
Net cash income	257 096	357 009	211 951	338 009	259 845

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*.

progressed to be at a similar level during the final quarter. Store cattle prices recovered after being severely depressed the previous year when feed shortages were widespread in the North Island.

EXPENDITURE LEVELS HELD

Total farm working expenses on the eastern lower North Island intensive sheep and beef farm model declined by $1600, or 1 percent in 2008/09, to $153 100. Reduced volumes of discretionary items were used, which balanced widespread price increases. Labour expenditure was cut by 7 percent reflecting the engagement of less casual labour due to lower stock numbers and a greater proportion of cattle. Electricity expenses increased 16 percent.

FERTILISER EXPENDITURE HELD BUT TONNAGE FALLS FOR A SECOND YEAR

Expenditure on fertiliser and lime on the farm model was $24 000 in 2008/09, an increase of just 1 percent compared with 2007/08 (when it had fallen around 10 percent compared with a year earlier). With reduced stock numbers, expenditure still equated to around $7 per stock unit. Total tonnes of fertiliser applied on the farm model in 2008/09 fell by around 40 percent to 34 tonnes, which is less than half maintenance levels for superphosphate on a fully stocked farm model.

FEED EXPENDITURE DOWN 17 PERCENT

Feed expenditure was up around 30 percent on an "average" pre-drought year, but down $2400 or 17 percent compared with expenditure in 2007/08. On a per stock unit basis, feed expenditure in 2008/09 was $3.53, compared with $4.45 in 2007/08 and $4.00 in 2006/07. In the non-drought 2005/06 year, grazing was around $2.50 per stock unit.

Supplementary feed prices and grazing charges were more moderate in 2008/09 compared with the 2007/08 season when prices were inflated by demand from the dairy industry.

The absence of the usual spring flush and the very dry conditions in November and December 2008 meant there was little surplus grass available for conservation. There was a surplus of maize available to purchase in 2008/09 both as silage and grain.

REPAIRS AND MAINTENANCE WORK IS DEFERRED AGAIN

Repairs and maintenance expenditure was cut by a further 8 percent in 2008/09, down to $12 000 on the farm model. Repairs and maintenance expenditure on monitored farms in 2008/09 is only 45 percent of the average repairs and maintenance expenditure in 2005/06. Farmers are exercising tight restraint and deferring any non-essential work.

Weed and pest control expenditure increased 20 percent compared with 2007/08 to $4800 in 2008/09, reflecting the impact of successive droughts and the need to restore expenditure after earlier cuts. Regrassing and cash crop expenses increased 5 percent to $11 500 reflecting the slightly larger area under cash crops.

NET RESULT IMPROVES MARKEDLY

Farm profit before tax for the farm model increased to $60 300 in 2008/09, up $65 000 from the loss of $4700 in 2007/08. This reflects improved cash revenue as a result of reducing stock numbers, slightly higher opening stock numbers, better sale prices countering poorer production and successful efforts to hold farm working expenditure. The cash generated by reducing capital stock provided more than half the cash surplus of $70 100 in 2008/09. The improved cash position enabled a 35 percent increase in capital expenditure to $13 000 in 2008/09, including some hire purchase repayments. This represents a recovery from very low levels in 2007/08.

Debt servicing remained relatively static at $52 700 in 2008/09, with the fall in term debt interest rates (down 0.6 percentage points) slightly offsetting the impact of increased term debt and higher overdrafts. Drawings of $70 000 were unchanged and are down 3 percent on 2006/07.

BUDGET FINANCIAL PERFORMANCE OF THE EASTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF FARM MODEL IN 2009/10

The cash operating surplus is expected to fall by almost half to just under $100 000 in 2009/10 as a result of a projected reduction in schedule prices, lower opening stock numbers, fewer stock for sale as tentative rebuilding of flocks and herds starts and a 5 percent increase in expenses.

REVENUE EXPECTED TO FALL BY ONE QUARTER

Net cash income on the farm model is budgeted to decrease 23 percent compared with 2008/09, to almost $260 000 in 2009/10. This is due to lower opening stock numbers (down 11 percent on July 2008) and an expected 10 percent fall in schedule prices for prime lambs and cattle. Total stock numbers are expected to increase 5 percent during the year to around 78 percent of pre-drought figures, with a slightly higher proportion of cattle.

After promising rain in late February, pasture recovered quickly in early March but a lack of follow up autumn rain and an early start to winter with a wet, cold May lowered pasture covers going into winter. Pastures have been short during winter, with low pasture growth rates despite lower stock numbers.

SHEEP REVENUE DOWN 6 PERCENT

In 2009/10, sheep revenue (sales less purchases), is expected to fall $8900 or 6 percent to $137 400 due to expected lower schedule prices, reduced trading margins, and increased purchases to rebuild sheep numbers. Opening sheep numbers on the farm model were down 5 percent on a year earlier. Breeding ewes were 3 percent down, but hogget numbers were down 19 percent, and it is expected that 20 percent fewer will be purchased for the spring trade in 2009. During 2009/10, sheep numbers are expected to increase 4 percent with the greater increase being in trading lambs.

Gross income from sheep sales is expected to increase $3400 or 2 percent to $184 400 in 2009/10. Sheep purchases are budgeted to rise by $12 300 or 35 percent. A shortage of sheep, and increased demand due to competition from farms rebuilding flocks following the drought, means that prices for replacement breeding ewes are anticipated to be higher in 2009/10 (up 8 percent) as are hogget purchase prices for the spring trade (up 50 percent) and the prime hogget price (up 38 percent).

Lambs sold are budgeted to be up 13 percent in 2009/10, with 90 percent of lambs being sold prime. Lamb revenue is expected to increase $6000 to $130 000 despite the average lamb price falling by $7. Improved feed supplies should see more lambs purchased for finishing, however, the farm model still expects to sell 490 fewer prime lambs than in a typical pre-drought year (reducing the 'bottom line' by over $40 000). The average prime lamb price on the farm model is budgeted to be $84 (down from $91 in 2008/09), with prime ewes fetching $46 (down from $51).

LAMBING IMPROVES TO 124 PERCENT

Two percent fewer ewes were put to the ram in 2009 on the farm model. Rain in February arrived in time to freshen feed for flushing, allowing ewes to maintain weight during tupping. Scanning percentages were up around 10 to 20 percent on 2008/09. The lambing percentage on the farm model (lambs to opening ewes) is expected to increase by 8 percentage points, to 124 percent. Hogget lambing is expected to increase 10 percent, with this policy reinstated on some farms.

WOOL REVENUE DECLINES BY 16 PERCENT

Wool revenue is expected to fall 16 percent to $17 500 in 2009/10 due to a 13 percent reduction in price and a 3 percent fall in production to 9600 kilograms. Reduced opening sheep numbers offset the 2 percent increase in wool clipped per head.

CATTLE REVENUE DOWN 42 PERCENT

Cattle stock units on hand at 1 July 2009 on the farm model were 19 percent lower than a year earlier. With fewer cattle available for sale and increased cattle purchases, cattle income (sales less purchases) is expected to decrease 42 percent to $82 100 in 2009/10. Cattle stock units are predicted to increase 8 percent on the farm model during 2009/10, with most of the increase expected to be in weaners.

The prime beef schedule is expected to fall in 2009/10; however, store prices are expected to increase, especially for younger cattle, due to a shortage as the East Coast recovers from the drought. The large drop in the number of bull beef reared in 2008 is expected to hold up the prices of older bulls and traders are budgeted to receive a reduced margin in 2009/10.

OTHER INCOME FALLS

A drop in demand for dairy grazing is expected to reduce grazing income by 22 percent to $3600. Uncertain prospects for cash crops are expected to reduce the area sown by non-specialist farmers. The crop area on the farm model is expected to fall from 9 hectares in 2008/09, to 7 hectares in 2009/10, reducing other farm revenue by 19 percent to $19 300.

SLIGHT INCREASE IN FARM WORKING EXPENSES

Total farm working expenses are expected to increase 5 percent, or $7000, in 2009/10, to around $160 200. Labour costs are anticipated to increase slightly (up 4 percent) to $13 800. Expected expenditure on feed falls 8 percent to $11 000, however, it remains higher than in pre-drought years due to the continued winter feed shortage.

Overhead costs are budgeted to increase 7 percent to almost $29 000 in 2009/10. This reflects the expected 29 percent increase in owners' ACC to $2700 in 2009/10 due to the previous year's improved taxable income, an 8 percent increase in rates to $11 200 and smaller increases in insurance, communication and professional services costs.

FERTILISER USE AND COST INCREASES

Some farmers will return to using fertiliser after missing one or more seasons, while others intend to increase the quantity applied. Fertiliser expenditure on the farm model is expected to increase 19 percent to $25 000. A 19 percent fall in the average applied price is expected to result in the tonnage applied increasing nearly 50 percent to 50 tonnes; this represents about two-thirds of pre-drought volumes.

A 30 percent increase in lime tonnage applied is also expected as some farmers substitute lime for fertiliser. On the farm model, the budgeted expenditure on lime increases by one third to $4000 in 2009/10.

DISCRETIONARY EXPENDITURE HELD WHERE POSSIBLE

After several years of tightly constrained expenditure, repairs and maintenance expenditure increases 17 percent from its low level in 2008/09, to $14 000 in 2009/10, partly reflecting higher costs for materials. Other discretionary items such as weed and pest control are expected to decrease (down 6 percent), with cash crop and regrassing expenditure (down 11 percent) reflecting decreased cropping activity. Fuel price movements result in a 6 percent saving in that expense item but this is offset by higher vehicle costs for maintenance.

FARM PROFIT DOWN BY A QUARTER

A decrease of $16 100 in the farm profit before tax for 2009/10, to $44 200, results in the farm model having a $39 800 deficit in funds from the farming business needed to reinvest in capital, development expenditure or principal repayments. The farm profit before tax includes a write-up of $18 200 relating to the increased value of stock on hand at 30 June 2010.

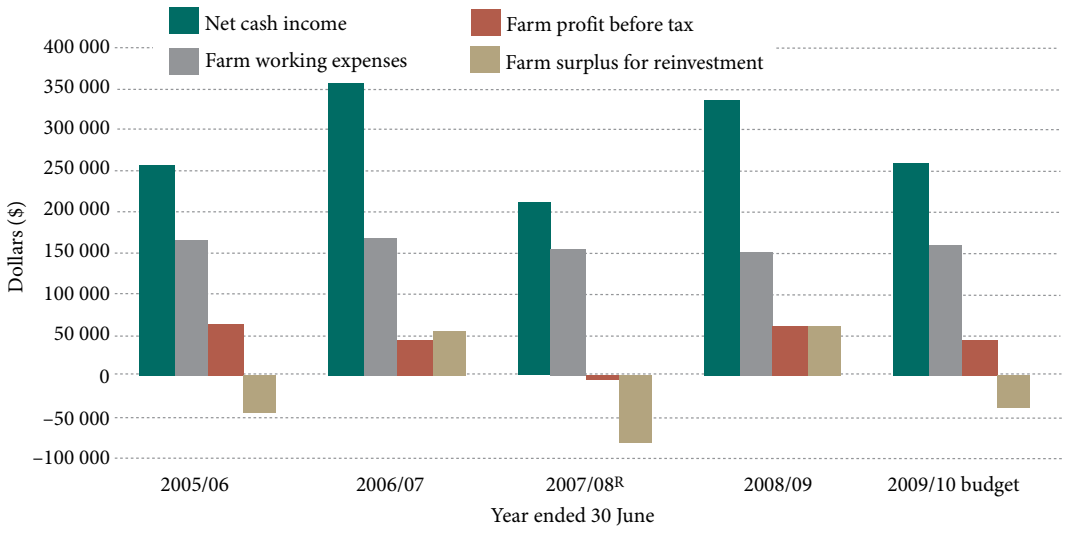
Discretionary cash is budgeted to fall 64 percent to $55 300 in 2009/10, from $155 100 in 2008/09. Taxation is expected to increase to $10 300 after a refund in 2008/09. The taxation impact is reduced by using the adverse events income

equalisation provisions to spread the tax liability from the forced sale of capital livestock due to drought. A terminal tax liability of $6900 is budgeted to be transferred to 2010/11.

Debt servicing in 2009/10 is expected to decrease by $5400 or 10 percent to $47 200 following falling interest rates and a $30 000 reduction in the opening overdraft as a result of the cash surplus from the sale of capital stock in 2008/09. The average term debt interest rate is budgeted to fall by 0.5 percentage points to 8 percent in 2009/10 and the overdraft interest rate to fall to 9.5 percent.

Although there have been few sales of farms to provide strong evidence, the value of the farm model's land and buildings is estimated to have fallen by 18 percent during the 2008/09 year to $4.2 million as interest from competing land uses such as dairying and dairy support fell away. The land value at 1 July 2009 is 3 percent below the value three years earlier.

FIGURE 1: EASTERN LOWER NORTH ISLAND 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

The model represents 840 intensive finishing farms from Hastings district south on the east coast. The farms have an average effective area of 349 hectares and run 9 to 14 stock units per effective hectare in non-drought years. Sheep account for 60 percent of the total stock units. A high proportion of stock is sold to slaughter with cattle and additional lambs bought in.

The stocking rate in the model is calculated on the basis of 1 ewe equals 1 stock unit (SU). If performance-based stock units (based on 1 ewe equals 1.2 SU) are used then the stocking rate in the 2006/07 pre-drought year would be 12 stock units per hectare. Stocking rates per hectare for the three recent years would be:

- 2007/08 10.4
- 2008/09 10.9
- 2009/10 9.8

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Web: www.maf.govt.nz

ISBN 978-0-478-35199-6 (Online)

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

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