

2009 PASTORAL MONITORING

HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF



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

KEY POINTS

- › The Hawkes Bay/Wairarapa region suffered from its third consecutive drought in 2009. It was more widespread than the 2008 drought and resulted in further significant destocking. Stock units on the farm model at 30 June 2009 are down 16 percent on the pre-drought figures of 30 June 2006.
- › Destocking at much improved prices in 2008/09 boosted net cash income by 35 percent to \$370 400. Reduced stock numbers for sale and lower schedule prices result in net cash income dropping 18 percent to \$303 100 in 2009/10.
- › Farm working expenditure was cut by 6 percent in 2008/09 to \$180 400, and an increase of 4 percent is budgeted for 2009/10. A 30 percent reduction of fertiliser expenditure in 2008/09, and a 26 percent increase in 2009/10, explains most of the difference.
- › Farm profit before tax increased to \$51 500 in 2008/09 compared with a loss of \$17 200 in 2007/08. It is budgeted to remain at a similar level (\$50 300) in 2009/10. The cash position reflects changes in stock numbers with a cash surplus of \$59 400 in 2008/09 due to the sale of capital stock and a cash deficit of \$23 000 budgeted in 2009/10 as stock numbers are rebuilt.
- › Land value on the farm model is estimated to have fallen 12 percent during 2008/09 to just under \$6000 per hectare.

►►► TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF MODEL

YEAR ENDED 30 JUNE	2005/06	2006/07	2007/08 ^R	2008/09	2009/10 BUDGET
Effective area (ha)	624	624	624	624	624
Breeding ewes (head)	3 134	3 255	3 140	2 985	2 866
Replacement ewe hoggets (head)	1 148	1 202	1 035	910	905
Other sheep (head)	147	345	305	330	185
Breeding cows (head)	114	112	103	97	90
Rising 1-year cattle (head)	125	140	133	129	101
Other cattle (head)	92	87	83	94	91
Opening sheep stock units (ssu)	4 080	4 343	4 084	3 857	3 633
Opening cattle stock units	1 606	1 635	1 537	1 544	1 369
Opening total stock units (su)	5 686	5 978	5 621	5 401	5 002
Stocking rate (stock unit/ha)	9.1	9.6	9.0	8.7	8.0
Ewe lambing (%)	127	123	112	111	121
Average lamb price (\$/head)	52.57	48.4	47.26	78.87	73.64
Average wool price (\$/kg)	2.32	2.31	2.21	2.15	1.85
Total wool produced (kg)	23 105	23 530	19 923	18 379	17 802
Wool production (kg/ssu)	5.66	5.42	4.88	4.77	4.90
Average rising 2-year steer (\$/head)	752	715	730	735	685
Average cull cow (\$/head)	660	627	580	520	480
Net cash income (\$)	336 371	361 605	275 252	370 398	303 050
Farm working expenses (\$)	212 405	203 956	192 163	180 430	187 912
Farm profit before tax (\$)	65 210	22 521	-17 196	51 451	50 319
Farm surplus for reinvestment (\$)¹	-36 622	-2 046	-39 069	65 564	-17 902

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: HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF MODEL BUDGET

	2008/09			2009/10 BUDGET			CHANGE BETWEEN 2008/09 AND 2009/10 (%)
	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT¹ (\$)	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT¹ (\$)	
REVENUE							
Sheep	244 154	391	63.30	221 857	356	61.07	-9
Wool	39 514	63	10.24	32 934	53	9.07	-17
Cattle	113 130	181	73.29	77 080	124	56.30	-32
Grazing income (including hay and silage sales)	1 800	3	0.33	1 800	3	0.36	0
Other farm income	5 300	8	0.98	5 000	8	1.00	-6
LESS:							
Sheep purchases	12 650	20	3.28	12 730	20	3.50	1
Cattle purchases	20 850	33	13.51	22 890	37	16.72	10
Net cash income	370 398	594	68.58	303 050	486	60.59	-18
Farm working expenses	180 430	289	33.41	187 912	301	37.57	4
Cash operating surplus	189 968	304	35.18	115 138	185	23.02	-39
Interest	63 011	101	11.67	57 615	92	11.52	-9
Rent and/or leases	8 000	13	1.48	8 000	13	1.60	0
Stock value adjustment	-47 482	-76	-8.79	21 091	34	4.22	144
Minus depreciation	20 025	32	3.71	20 295	33	4.06	1
Farm profit before tax	51 451	82	9.53	50 319	81	10.06	-2
Taxation	-4 607	-7	-0.85	8 425	14	1.68	283
Farm profit after tax	56 057	90	10.38	41 894	67	8.38	-25
ALLOCATION OF FUNDS							
Add back depreciation	20 025	32	3.71	20 295	33	4.06	1
Reverse stock value adjustment	47 482	76	8.79	-21 091	-34	-4.22	-144
Income equalisation	0	0	0.00	0	0	0.00	...
Off-farm income	10 800	17	2.00	10 900	17	2.18	1
Discretionary cash	134 364	215	24.88	51 998	83	10.40	-61
APPLIED TO:							
Net capital purchases	15 000	24	2.78	14 000	22	2.80	-7
Development	2 000	3	0.37	2 000	3	0.40	0
Principal repayments	0	0	0.00	0	0	0.00	...
Drawings	58 000	93	10.74	59 000	95	11.80	2
New borrowings	0	0	0.00	0	0	0.00	...
Introduced funds	0	0	0.00	0	0	0.00	...
Cash surplus/deficit	59 364	95	10.99	-23 002	-37	-4.60	-139
Farm surplus for reinvestment²	65 564	105	12.14	-17 902	-29	-3.58	-127
ASSETS AND LIABILITIES							
Farm, forest and building (opening)	4 200 000	6 731	777.69	3 700 000	5 929	739.70	-12
Plant and machinery (opening)	78 500	126	14.54	90 800	146	18.15	16
Stock valuation (opening)	637 063	1 021	117.96	589 581	945	117.87	-7
Other produce on hand (opening)	0	0	0.00	0	0	0.00	...
Total farm assets (opening)	4 915 563	7 878	910.19	4 380 381	7 020	875.73	-11
Total assets (opening)	5 065 563	8 118	937.97	4 567 881	7 320	913.21	-10
Total liabilities (opening)	740 000	1 186	137.02	703 100	1 127	140.56	-5
Total equity (farm assets - liabilities)	4 175 563	6 692	773.17	3 677 281	5 893	735.16	-12

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: HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF MODEL EXPENDITURE

	2008/09			2009/10 BUDGET			CHANGE BETWEEN 2008/09 AND 2009/10 (%)
	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT¹ (\$)	WHOLE FARM (\$)	PER HECTARE (\$)	PER STOCK UNIT¹ (\$)	
FARM WORKING EXPENSES							
Permanent wages	19 700	32	3.65	20 000	32	4.00	2
Casual wages	0	0	0.00	0	0	0.00	...
ACC	505	1	0.09	522	1	0.10	3
Total labour expenses	20 205	32	3.74	20 522	33	4.10	2
Animal health	14 300	23	2.65	13 500	22	2.70	-6
Breeding	3 240	5	0.60	3 000	5	0.60	-7
Electricity	2 900	5	0.54	3 000	5	0.60	3
Feed (hay and silage)	9 200	15	1.70	8 250	13	1.65	-10
Feed (feed crops)	0	0	0.00	0	0	0.00	...
Feed (grazing)	0	0	0.00	0	0	0.00	...
Feed (other)	0	0	0.00	0	0	0.00	...
Fertiliser	27 000	43	5.00	34 000	54	6.80	26
Lime	4 700	8	0.87	4 000	6	0.80	-15
Cash crop expenses	0	0	0.00	0	0	0.00	...
Freight (not elsewhere deducted)	6 240	10	1.16	6 365	10	1.27	2
Regrassing costs	6 000	10	1.11	6 050	10	1.21	1
Shearing expenses	25 000	40	6.48	24 500	39	6.74	-2
Weed and pest control	2 700	4	0.50	2 800	4	0.56	4
Fuel	8 000	13	1.48	8 100	13	1.62	1
Vehicle costs (excluding fuel)	8 600	14	1.59	8 800	14	1.76	2
Repairs and maintenance	16 000	26	2.96	17 200	28	3.44	8
Total other working expenses	133 880	215	24.79	139 565	224	27.90	4
Communication costs (phone and mail)	2 100	3	0.39	2 150	3	0.43	2
Accountancy	4 900	8	0.91	5 100	8	1.02	4
Legal and consultancy	1 700	3	0.31	1 700	3	0.34	0
Other administration	1 100	2	0.20	1 250	2	0.25	14
Water charges (irrigation)	0	0	0.00	0	0	0.00	...
Rates	10 000	16	1.85	10 800	17	2.16	8
Insurance	4 430	7	0.82	4 500	7	0.90	2
Other expenditure²	2 115	3	0.39	2 326	4	0.46	10
Total overhead expenses	26 345	42	4.88	27 826	45	5.56	6
Total farm working expenses	180 430	289	33.41	187 912	301	37.57	4
Wages of management	75 000	120	13.89	74 804	120	14.95	0
Depreciation	20 025	32	3.71	20 295	33	4.06	1
Total farm operating expenses	275 455	441	51.00	283 011	454	56.58	3
CALCULATED RATIOS							
Economic farm surplus (EFS³)	47 461	76	8.79	41 130	66	8.22	
Farm working expenses/NCI⁴	49%			62%			
EFS/total farm assets	1.0%			0.9%			
EFS less interest and lease/equity	-0.6%			-0.7%			
Interest+rent+lease/NCI	19.2%			21.7%			
EFS/NCI	12.8%			13.6%			

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 HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF FARM MODEL IN 2008/09

Three consecutive droughts have seen stock numbers on the farm model fall each year. Stock units on the farm model at June 2009 are down 16 percent on the pre-drought figures of 30 June 2006.

Stock numbers at the beginning of 2008/09 were down 4 percent compared with 2007/08. This was a result of the second consecutive autumn drought, which particularly affected the southern half of the region. By the end of June 2009, the more widespread third drought had seen a further 7 percent fall in stock units on the farm model.

Winter 2008 began with lower than usual pasture covers and cattle feed was extremely short. Ewes were generally in better condition than a year earlier but breeding cows were light. Spring 2008 weather was generally settled for the bulk of lambing with good pasture growth initially. As spring progressed, some areas experienced extremely dry conditions particularly in the north and east. It was hot and windy in late 2008 and feed levels became marginal in November. The strong store market made it easier for farmers to sell stock and they reduced stock numbers fast enough to maintain condition on remaining animals while feed supplies dwindled.

Pasture growth in summer was well below usual and January 2009 was particularly hot and dry. Rains in mid to late February promised a good autumn, but there was no follow up rain and pasture growth slowed in the warm, windy conditions in late March. By April it was very dry and the East Coast was declared a drought. Variable rainfall benefited some from late April but soils were generally dry until late June.

May and June 2009 were very wet and cold and with low soil temperatures pasture covers disappeared especially cattle feed.

Increased income from destocking and reduced expenditure resulted in a 129 percent increase in the cash operating surplus to nearly \$190 000 in 2008/09; an increase of almost \$107 000 compared with 2007/08.

REVENUE BOLSTERED BY REDUCTIONS IN STOCK NUMBERS

Net cash income on the Hawkes Bay/Wairarapa hill country model increased by approximately \$95 100 or 35 percent compared with 2007/08, to \$370 400. The widespread drought in 2008 led to unusually low store prices for sheep and cattle in 2007/08 relative to the prime prices. In 2008/09, a general shortage of stock resulted in much improved prices for both prime and store stock. This boosted revenue from the sale of capital stock and stock normally carried through winter for finishing in spring.

SHEEP REVENUE UP 56 PERCENT

In 2008/09, sheep revenue (sales less purchases) was up approximately \$83 100 or 56 percent to \$231 500. Although less stock was sold than in 2007/08 (5 percent fewer head), prices were much better.

While the schedule price for prime lambs improved, the more marked improvement was in store lamb and ewe prices. Very poor store prices were achieved in 2007/08, when the store market all but disappeared due to the widespread North Island drought. The prime lamb price rebounded in 2008/09 to a season average on the farm model of \$85 (from \$57) while the average store lamb prices more than doubled to \$68 (from \$30). The overall average lamb price rose 67 percent to \$78.87 compared with \$47.26 in 2007/08.

The third consecutive drought drove closing sheep numbers down a further 6 percent. Fewer trading hoggets (down 50 percent) were taken into winter 2009 while breeding ewe numbers fell by 5 percent.

LAMBING DOWN FOR A SECOND YEAR

There were 5 percent fewer in-lamb ewes on hand in July 2008 compared with the previous year. Poor and declining ewe condition during tupping in autumn 2008 resulted in lower conception rates. The cumulative effects of the two



droughts saw lambing decline by a further percentage point compared with the year earlier, to 111 percent (lambs to opening ewes), despite favourable conditions for most of lambing. This is about 14 percentage points below a typical year.

Although there were 12 percent fewer ewe hoggets on hand, more were mated compared with 2007/08. Lambs from ewe hoggets increased by 50 percent on the farm model in 2008/09.

The numbers of lambs sold in 2008/09 was down 3 percent. Similar to 2007/08, 64 percent were sold prime (compared with 72 percent in 2006/07). Lambs were killed at heavier weights in 2008/09 compared with 2007/08 (when many were killed at light weights rather than being sold store on an extremely weak store market).

WOOL INCOME DECLINES 10 PERCENT

Total wool produced in 2008/09 declined 8 percent compared with 2007/08 to 18 400 kilograms; this is down 22 percent on the pre-drought clip. This decline resulted from a 5 percent decline in sheep numbers at 1 July 2008 and a second year of lower per head production as a result of drought. Most farms dropped winter shearing of ewes and reviewed shearing policies in the face of rising costs. With a further 3 percent decrease in the wool prices in 2008/09, wool revenue declined by approximately \$4500 or 10 percent to \$39 500.

CATTLE INCOME FALLS AS WEIGHTS DECLINE DUE TO DROUGHT IMPACT

The number of cattle on hand on the farm model at 1 July 2008 was marginally higher than the previous year. However, during 2008/09 cattle stock units dropped 11 percent, increasing cattle revenue (sales less purchases) by \$12 500 or 16 percent to \$92 300.

While cattle income declined 5 percent to \$113 100, purchases fell 47 percent compared with 2007/08 to just \$21 000. The lack of cattle feed due to the drought and the higher prices for weaner cattle, meant the farm model did not purchase younger traditional beef cattle to compensate for the 10 percent fewer weaners produced by its slowly declining cow herd. Fewer bull beef animals were also purchased.

The prime beef schedule started the year higher than in 2007/08 but softened towards the end of the season. Cattle were killed at similar weights to the previous year and once again a higher proportion had to be sold store when cattle feed disappeared in late spring and early summer. However, store prices were significantly above the previous year's depressed prices, especially for younger cattle such as traditional beef weaner steers and heifers. The rundown in the breeding cow herd on the East Coast reduced the supply of these animals.

Calving (calves to opening cows) in spring 2008 was down 3 percentage points compared with 2007/08 to 79 percent. This was due to the lighter condition of cows at mating and the shortage of cattle feed over winter and spring which led to higher than usual cow deaths. Calving in an average season would be expected to be around 88 percent. Combined with a 6 percent reduction in breeding cow numbers on the farm model compared with 2007/08, this meant there were 10 percent fewer calves born.

»» TABLE 4: HAWKES BAY/WAIRARAPA HILL COUNTRY 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	193 750	203 473	148 418	231 504	209 127
Cattle sales less purchases	85 307	101 302	79 805	92 280	54 190
Wool	54 814	54 330	44 029	39 514	32 934
Grazing income (including hay and silage sales)	0	0	1 000	1 800	1 800
Other income	2 500	2 500	2 000	5 300	5 000
Net cash income	336 371	361 605	275 252	370 398	303 050

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*.

FARM COSTS CUT AS THIRD DROUGHT BITES

Total farm working expenses decreased 6 percent to \$180 400 in 2008/09. Farmers held costs where possible to mitigate the inevitable financial impact of the droughts. Lower stock numbers also allowed reduced inputs. However, volume reductions in discretionary items were often balanced by widespread price increases.

FERTILISER EXPENDITURE CUT BY AROUND 30 PERCENT

Fertiliser was the biggest decrease of all farm working expenses in 2008/09. Fertiliser expenditure on the farm model declined by \$11 000 or 29 percent compared with 2007/08, however, the tonnage applied dropped by 60 percent.

From March 2008, the price of superphosphate increased significantly from \$260 to \$560 per tonne on 1 September 2008 (up 215 percent). Higher fuel prices and road user charges also increased spreading and cartage costs, and cash flow problems on some farms after cash deficits in 2007/08 further restricted fertiliser use.

Expenditure on lime increased 161 percent to \$4700 on the farm model, reflecting the trend for farmers to substitute lime for superphosphate.

ANIMAL HEALTH, SHEARING EXPENDITURE FALLS SLIGHTLY

Animal health costs were down slightly compared with 2007/08 as a result of:

- › fewer livestock on hand offsetting higher prices;
- › increased product use in drought areas to help combat stock condition issues, especially with more ewe drenching and the use of drench boluses; and
- › less ewe scanning, with many farmers only scanning a sample of ewes.

Shearing costs on the farm model fell 4 percent in 2008/09 to \$25 000. Higher prices were offset by policy changes and lower opening sheep numbers. Some farmers changed from full contract to open shed agreements and some were shearing and dagging their sheep themselves, while others reduced the frequency of shearing.

OTHER COST SAVINGS ACHIEVED

A small reduction in wages on the farm model, down 8 percent to \$20 200 is a reflection of less casual labour being employed. This work will be covered by the owner and family. The volume reduction is slightly offset by increased wages as a result of increased holiday pay provisions.

The amount of repairs and maintenance undertaken continued to fall as it is the major item of discretionary spending. Expenditure declined 3 percent to less than \$3 per stock unit. Volume reductions were offset to some extent by rising prices (for example, for wire, steel etc).

HIGHER PRICES IMPROVE CASH POSITION AND FARM PROFIT

The 2008/09 cash position was boosted by a reduction in stock numbers, improved stock prices and efforts to minimise farm working expenses. Discretionary cash on the farm model increased by around \$106 000 to \$134 400 in 2008/09.

Farm profit before tax on the Hawkes Bay/Wairarapa hill country farm model increased to \$51 500 in 2008/09 compared with a loss of \$17 200 in 2007/08. The improvement reflects a bigger fall in stock numbers as a result of the more widespread drought in 2009. However, compared with 2007/08 farms were able to sell down stock on a much stronger store market.

Debt servicing increased by just 2 percent compared with 2007/08. Term debt increased 17 percent to \$645 000 in 2008/09, due to accumulated deficits. However, this impact was partly offset by reduced interest rates. The average term interest rate was 8.5 percent compared with 9.1 percent in 2007/08.

Capital expenditure has been deferred, particularly on farms with higher levels of debt. However, the farm model shows an increase of 25 percent to just \$15 000 in 2008/09, after a reduction of 40 percent in 2007/08, reflecting the unavoidable need to replace some farm equipment.

BUDGET FINANCIAL PERFORMANCE OF THE HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF FARM MODEL IN 2009/10

The farm model's opening stock numbers are down 7 percent compared with July 2008. Dry weather during April, followed by very cold and wet weather during May and June meant that pasture growth rates fell sharply and surplus trading stock was off-loaded as feed disappeared.

The farm model is expected to slowly start rebuilding stock numbers in 2009/10 to 86 percent of the pre-drought levels. This reduces the numbers of stock available for sale. Even with reasonable growing conditions and fertiliser application, it is likely that pastures that have suffered from three consecutive droughts will not recover well. Farmers may be inclined to carry any feed surplus that develops through as cattle feed rather than increasing numbers.

The budget cash operating surplus falls 39 percent, compared with 2008/09, to around \$115 000.

REVENUE DROPS AS PRODUCT PRICES FALL AND FEWER STOCK ARE SOLD

Net cash income on the farm model is expected to fall 18 percent compared with 2008/09, to \$303 100. This result follows expected reductions of 32 percent in cattle numbers sold and 7 percent in sheep numbers sold, compared with 2008/09, as the farm model rebuilds total stock units by 3.3 percent.

SHEEP REVENUE TO DECLINE 10 PERCENT

Sheep revenue (sales less purchases) is expected to decline 10 percent to \$209 000 in 2009/10. After three years of drought, opening sheep numbers are lower and there are fewer ewes to sell and fewer trading hoggets were carried over winter. The farm model is budgeting on a 3 percent increase in sheep stock units at 30 June 2010. Farmers are expected to increase the numbers of trading lambs rather than ewes to provide greater flexibility in their farming system. On the farm model closing lamb/hogget numbers increase 11 percent with a 3.5 percent increase in two-tooth ewes.

The ewe flock is declining in quality as result of three droughts with older ewes having poor mouths and younger ewes coming from a pool of poorly grown replacements. Farmers are expected to concentrate on improving the quality of the ewe flock rather than its size. Depending on cashflow they may carry extra ewe hoggets through to two-tooth ewes but high prices for prime hoggets in spring 2009 could tempt them to sell.

LAMB PRICES EXPECTED TO DECLINE BUT MORE FOR SALE

The model budget shows a 3 percent increase in lambs sold compared with 2008/09 (to 2400), which is on a par with 2007/08 but 20 percent down on pre-drought numbers. More lambs are expected to be sold prime in 2009/10 (up 6 percentage points to 70 percent). Farmers are expected to finish lambs to heavier weights, season permitting, given that there is less stock on farms. More farms are planting fodder crops to enable them to finish lambs usually sold store.

The prime lamb price is expected to fall 8 percent on the back of a strengthening exchange rate, to a 2009/10 season average of \$78 (from \$85). Store prices are likely to remain strong with reduced supply and a better medium-term outlook. The average store lamb price is expected to fall 6 percent to \$63.50 (from \$68). Lower margins for finishing lambs reflect the potential interplay of a national shortage of lambs for finishing and for rebuilding flocks and a similar shortage of cattle.

LAMBING PERCENTAGE RECOVERS

Lambing on the farm model is expected to increase by ten percentage points to 121 percent (lambs to opening ewes). Timely rain in February and subsequent pasture growth, along with ewes in good body condition at tupping, resulted in improved conception rates compared with 2008. The expected improvement in lambing percentage will offset some of the impact of reduced prices.

While there were 4 percent fewer in-lamb ewes on hand in July 2009, a slight increase in hogget lambing results in the number of lambs born being expected to increase 5 percent. The increase in hogget mating was less than anticipated, reflecting the deteriorating feed situation in April and May.

WOOL INCOME FALLS 17 PERCENT AS PRICES CONTINUE TO FALL

An expected 14 percent decrease in the average wool price to \$1.85 per kilogram combined with a fall in production due to fewer sheep shorn means wool revenue is expected to decline by approximately \$6600 or 17 percent to just under \$33 000.

Total wool produced in 2009/10 is expected to be 17 800 kilograms compared with 18 400 kilograms in 2008/09, due to 6 percent fewer sheep at 1 July 2009 compared with a year earlier, offsetting a slight improvement expected in wool production per head.

CATTLE REVENUE FALLS 41 PERCENT

Cattle revenue (sales less purchases) is expected to decrease 41 percent, to \$54 200 in 2009/10. The number of cattle on hand at 1 July 2009 on the farm model is 11 percent lower than a year earlier, with weaner cattle down around 20 percent and cows and older animals down around 6 percent.

Cattle numbers on the farm model are expected to increase nearly 4 percent over 2009/10. Cow numbers are not expected to increase due to fewer cows getting back in calf. Some industry commentators suggested cow numbers may even fall further. Shortage of store stock and consequently higher prices is expected to constrain herd rebuilding even though farmers might prefer to increase cattle at the expense of sheep as a means to ease labour requirements. Lower recent fertiliser inputs may also limit the rebuilding of stock numbers, along with the cost of financing the stock purchases.

Cattle sales income on the farm model is budgeted to fall 32 percent to around \$77 100 in 2009/10 reflecting the reduced number of cattle available to sell. Schedule prices are expected to fall although more cattle are expected to be finished. Prices for store stock are expected to be similar to 2008/09, and higher relative to prime beef prices, due to the pressure on farms to replace cattle numbers. Purchases on the farm model are anticipated to increase 10 percent to around \$23 000 as the herd is partially rebuilt at higher prices reflecting a shortage of stock especially weaner steers and bull beef.

Calving is expected to increase 2 percentage points to 81 percent (calves to opening cows). The shortage of cattle feed in spring 2008 meant many cows were in light condition at mating. With slightly fewer cows on hand the number of calves born is budgeted to fall a further 5 percent compared with 2008/09.

FARM COSTS BUDGETED TO INCREASE 4 PERCENT

Total farm working expenses are budgeted to increase 4 percent to around \$187 900 in 2009/10, mainly due to increased fertiliser expenditure. Wages are budgeted to increase only marginally as farmers continue to economise and reduce intensity with lower stocking rates. A small reduction in animal health expenditure is expected, primarily driven by fewer stock offsetting increased prices. More emphasis on targeted spending and improved animal health from more typical climatic conditions is expected to assist in reducing budgeted costs. Feed costs are expected to fall provided average weather patterns return. Although a lot of grain was fed over winter 2009, it was much cheaper than in 2008.

FERTILISER EXPENDITURE EXPECTED TO INCREASE FROM VERY LOW LEVELS

Fertiliser expenditure on the farm model is budgeted to increase 26 percent to \$34 000 in 2009/10, this will see a substantial increase in total tonnage applied. However, this will still only represent around two-thirds of that used in pre-drought years.

Farmers who have withheld applying fertiliser for a number of years are expected to look to restore carrying capacity and will likely apply fertiliser more strategically where it will give the best response. However, often this will only be at maintenance levels due to the price of superphosphate still being restrictive, especially for spreading on hill country. Lime expenditure is expected to decline slightly as a result.

REPAIRS AND MAINTENANCE AND RATES BOTH INCREASE 8 PERCENT

Repairs and maintenance expenditure is expected to be up slightly as material prices increase. Farmers will look to catch up on deferred maintenance with forecast improved returns. Local government rates are expected to range from a reduction of 13 percent to an increase of 18 percent, with most districts increasing rural rates by between 3 and 11 percent.

FARM PROFIT FALLS ONLY SLIGHTLY BUT CASH DEFICIT RESULTS

The cash operating surplus is expected to fall by nearly \$75 000 to around \$115 100 in 2009/10. However, when the impact of destocking in 2008/09 and a partial rebuild of numbers in 2009/10 is taken into account, farm profit before tax is expected to fall just 2 percent to \$50 300. This includes a write-up of \$21 100 relating to the increased value of stock on hand at 30 June 2010.

Discretionary cash is expected to fall 61 percent to \$52 000 in 2009/10, from \$134 400 in 2008/09. Taxation is expected to increase to \$8400 after a refund in 2008/09. The taxation impact of income from the forced sale of capital stock due to drought in 2008/09 is reduced by using the adverse events income equalisation provisions to spread the tax liability. A terminal tax liability of \$8900 is transferred to 2010/11.

Debt servicing is expected to reduce 9 percent in 2009/10 to \$57 600. This is due to lower interest rates and a reduction in the opening overdraft by \$37 000 arising from the sale of capital stock in 2008/09. This overdraft is budgeted to increase again as farms look to restock after the drought. The average term debt interest rate is expected to fall 0.5 percentage points to 8 percent while the overdraft interest rate falls 1.2 percentage points to 9.5 percent. Debt on this farm model is equivalent to 16 percent of total farm assets. Non-essential capital expenditure is again expected to be deferred.

Although there have been few sales of farms to provide strong evidence, land prices for this type of farm are expected to have fallen around 12 percent as at July 2009 compared with a year earlier. This is equivalent to around \$600 per stock unit based on the pre-drought carrying capacity.

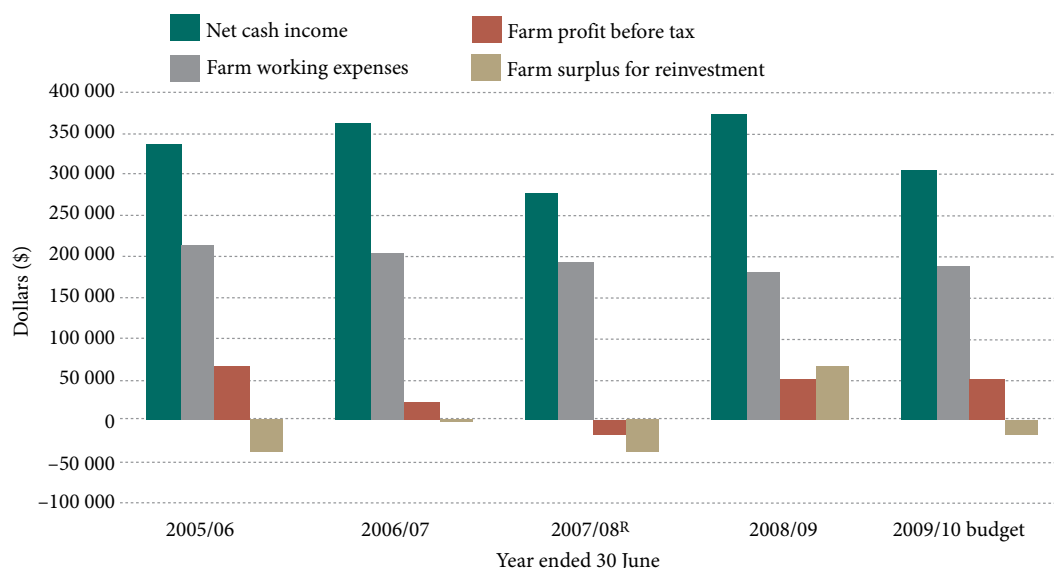
INFORMATION ABOUT THE MODEL

The Hawkes Bay/Wairarapa hill country sheep and beef model represents 1160 hard hill and hill country farms from the Hastings district to south Wairarapa. Farms represented by this model generally have a reasonable proportion of easier hill country and higher fertility soils, and mostly carry between eight and twelve stock units per hectare. These properties generally operate a sheep breeding policy with a significant proportion of lambs finished, depending on quality of country and season. Cattle policies range from breeding cows through to intensive finishing.

For more information on this model contact: Gillian.Mangin@maf.govt.nz



»» FIGURE 1: HAWKES BAY/WAIRARAPA HILL COUNTRY SHEEP AND BEEF MODEL FARM 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*.

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