

2009 PASTORAL MONITORING

CANTERBURY/MARLBOROUGH BREEDING AND FINISHING SHEEP AND BEEF



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

KEY POINTS

- › Farm production in 2008/09 was down on the previous season following a drop in breeding ewe numbers associated with a poor growing season, uncertainty about the future of the sheep meat sector, and expansion of alternative land uses, such as beef, and dairy grazing.
- › Net cash income in 2008/09 increased 5 percent to \$287 900 compared with \$274 600 in 2007/08. Sheep revenue increased 25 percent to \$175 000 due to higher prices. Cattle revenue was static and wool returns dropped 16 percent due to lower prices and 353 fewer sheep stock units.
- › Farm working expenses increased 5 percent to \$185 600 in 2008/09 compared with \$177 100 in 2007/08. This was despite holding expenditure levels as much as possible.
- › Farm profit before tax increased from \$14 700 in 2007/08 to \$29 100 in 2008/09. This was due to better stock prices and close control on expenditure.
- › Returns are expected to drop in 2009/10 because of lower cattle prices and easing in the average lamb prices from \$80.95 to \$76.56. Farm expenses are expected to drop 8 percent mainly due to lower fertiliser, feed and repairs and maintenance costs. Farmers are expected to be very unhappy but feel that there are few options for increasing returns.

»» TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE CANTERBURY/MARLBOROUGH BREEDING AND FINISHING SHEEP AND BEEF MODEL

YEAR ENDED 30 JUNE	2005/06	2006/07	2007/08 ^R	2008/09	2009/10 BUDGET
Effective area (ha)	378	378	365	369	369
Breeding ewes (head)	2 400	2 400	1 919	1 709	1 602
Replacement ewe hoggets (head)	650	650	529	327	420
Other sheep (head)	28	28	89	87	107
Rising 1-year cattle (head)	0	0	105	75	75
Other cattle (head)	140	148	101	122	123
Opening sheep stock units (ssu)	2 900	2 877	2 352	1 999	1 971
Opening cattle stock units	765	808	947	958	963
Opening total stock units (su)	3 665	3 778	3 299	2 957	2 934
Stocking rate (stock unit/ha)	9.7	10.0	9.0	8.0	8.0
Ewe lambing (%)	126	124	124	122	124
Average lamb price (\$/head)	52.60	47.60	50.99	80.95	76.56
Average wool price (\$/kg)	2.69	2.50	2.62	2.58	2.44
Total wool produced (kg)	14 963	15 326	10 973	9 388	9 485
Wool production (kg/ssu)	5.20	5.30	4.67	4.70	4.81
Average rising 3-year steer (\$/head)	851	897	903	980	853
Average cull cow (\$/head)	0	0	700	707	647
Net cash income (\$)	227 945	262 190	274 550	287 885	254 538
Farm working expenses (\$)	147 446	170 598	177 118	185 583	171 412
Farm profit before tax (\$)	40 976	37 432	14 747	29 086	10 373
Farm surplus for reinvestment (\$)¹	-12 516	10 772	-8 778	-1 109	-23 504

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: CANTERBURY/MARLBOROUGH BREEDING AND FINISHING 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	175 075	474	87.59	156 807	425	79.56	-10
Wool	24 221	66	12.12	23 144	63	11.74	-4
Cattle	155 275	421	162.08	117 662	319	122.20	-24
Grazing income (including hay and silage sales)	23 000	62	7.78	23 601	64	8.04	3
Other farm income	18 400	50	6.22	19 600	53	6.68	7
LESS:							
Sheep purchases	18 855	51	9.43	20 942	57	10.63	11
Cattle purchases	89 230	242	93.14	65 334	177	67.85	-27
Net cash income	287 885	780	97.36	254 538	690	86.76	-12
Farm working expenses	185 583	503	62.76	171 412	465	58.43	-8
Cash operating surplus	102 302	277	34.60	83 126	225	28.33	-19
Interest	42 283	115	14.30	44 088	119	15.03	4
Rent and/or leases	5 800	16	1.96	5 600	15	1.91	-3
Stock value adjustment	-1 133	-3	-0.38	1 885	5	0.64	266
Minus depreciation	24 000	65	8.12	24 949	68	8.50	4
Farm profit before tax	29 086	79	9.84	10 373	28	3.54	-64
Taxation	928	3	0.31	1 642	4	0.56	77
Farm profit after tax	28 158	76	9.52	8 732	24	2.98	-69
ALLOCATION OF FUNDS							
Add back depreciation	24 000	65	8.12	24 949	68	8.50	4
Reverse stock value adjustment	1 133	3	0.38	-1 885	-5	-0.64	-266
Income equalisation	0	0	0.00	0	0	0.00	...
Off-farm income	11 900	32	4.02	12 100	33	4.12	2
Discretionary cash	65 191	177	22.05	43 896	119	14.96	-33
APPLIED TO:							
Net capital purchases	36 300	98	12.28	32 500	88	11.08	-10
Development	7 000	19	2.37	5 000	14	1.70	-29
Principal repayments	0	0	0.00	0	0	0.00	...
Drawings	54 400	147	18.40	55 300	150	18.85	2
New borrowings	19 500	53	6.59	19 400	53	6.61	-1
Introduced funds	0	0	0.00	0	0	0.00	...
Cash surplus/deficit	-13 009	-35	-4.40	-29 504	-80	-10.06	127
Farm surplus for reinvestment²	-1 109	-3	-0.38	-23 504	-64	-8.01	2019
ASSETS AND LIABILITIES							
Farm, forest and building (opening)	4 939 698	13 387	1 670.62	4 639 400	12 573	1 581.37	-6
Plant and machinery (opening)	113 816	308	38.49	120 300	326	41.01	6
Stock valuation (opening)	336 338	911	113.75	335 205	908	114.26	0
Other produce on hand (opening)	2 588	7	0.88	3 628	10	1.24	40
Total farm assets (opening)	5 392 440	14 614	1 823.74	5 098 533	13 817	1 737.87	-5
Total assets (opening)	5 537 640	15 007	1 872.85	5 237 133	14 193	1 785.11	-5
Total liabilities (opening)	463 609	1 256	156.79	496 118	1 344	169.11	7
Total equity (farm assets - liabilities)	4 928 831	13 357	1 666.95	4 602 415	12 473	1 568.76	-7

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: CANTERBURY/MARLBOROUGH BREEDING AND FINISHING 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	17 000	46	5.75	15 600	42	5.32	-8
ACC	772	2	0.26	859	2	0.29	11
Total labour expenses	17 772	48	6.01	16 459	45	5.61	-7
Animal health	11 600	31	3.92	11 500	31	3.92	-1
Breeding	0	0	0.00	0	0	0.00	...
Electricity	1 700	5	0.57	1 900	5	0.65	12
Feed (hay and silage)	12 484	34	4.22	9 756	26	3.33	-22
Feed (feed crops)	1 217	3	0.41	951	3	0.32	-22
Feed (grazing)	2 705	7	0.91	2 114	6	0.72	-22
Feed (other)	1 893	5	0.64	1 480	4	0.50	-22
Fertiliser	31 000	84	10.48	25 345	69	8.64	-18
Lime	1 300	4	0.44	2 100	6	0.72	62
Cash crop expenses	1 900	5	0.64	1 300	4	0.44	-32
Freight (not elsewhere deducted)	4 700	13	1.59	4 200	11	1.43	-11
Regrassing costs	8 400	23	2.84	8 500	23	2.90	1
Shearing expenses	11 400	31	5.70	11 500	31	5.83	1
Weed and pest control	7 500	20	2.54	7 000	19	2.39	-7
Fuel	13 400	36	4.53	12 500	34	4.26	-7
Vehicle costs (excluding fuel)	9 700	26	3.28	9 900	27	3.37	2
Repairs and maintenance	17 500	47	5.92	15 500	42	5.28	-11
Total other working expenses	138 400	375	46.81	125 545	340	42.79	-9
Communication costs (phone and mail)	2 425	7	0.82	2 425	7	0.83	0
Accountancy	3 205	9	1.08	3 205	9	1.09	0
Legal and consultancy	1 833	5	0.62	1 833	5	0.62	0
Other administration	1 936	5	0.65	1 936	5	0.66	0
Water charges (irrigation)	5 000	14	1.69	5 100	14	1.74	2
Rates	7 900	21	2.67	8 100	22	2.76	3
Insurance	4 600	12	1.56	4 700	13	1.60	2
Other expenditure ²	2 512	7	0.85	2 108	6	0.72	-16
Total overhead expenses	29 412	80	9.95	29 408	80	10.02	0
Total farm working expenses	185 583	503	62.76	171 412	465	58.43	-8
Wages of management	75 000	203	25.37	75 000	203	25.56	0
Depreciation	24 000	65	8.12	24 949	68	8.50	4
Total farm operating expenses	284 583	771	96.25	271 361	735	92.50	-5
CALCULATED RATIOS							
Economic farm surplus (EFS ³)	2 169	6	0.73	-14 938	-40	-5.09	
Farm working expenses/NCI ⁴	64%			67%			
EFS/total farm assets	0.0%			-0.3%			
EFS less interest and lease/equity	-0.9%			-1.4%			
Interest+rent+lease/NCI	16.7%			19.5%			
EFS/NCI	0.8%			-5.9%			

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 CANTERBURY/MARLBOROUGH BREEDING AND FINISHING SHEEP AND BEEF MODEL FARM IN 2008/09

The cash operating surplus for the Canterbury/Marlborough breeding and finishing sheep and beef model farm increased 5 percent to \$102 300 in 2008/09 compared with \$97 400 in 2007/08. This was due to improved sheep and cattle prices outweighing the effect of lower sheep numbers.

MAJOR LIFT IN REVENUE

Net cash income increased 5 percent, to \$287 900 in 2008/09, compared with \$274 600 in 2007/08, through better lamb, sheep and cattle prices.

IMPROVED LAMB PRICE BOOSTS SHEEP REVENUE

A 59 percent increase in lamb price from \$50.99 to \$80.99 was the major contributor to the improved sheep returns. Strong demand for store lambs in January saw prices averaging \$67, or \$30 better than in 2007/08. The demand appeared to come mainly from Southland and Otago, with less demand from the North Island, and continued until the end of the season. However, sheep production was reduced because opening sheep numbers were down 353 stock units following the drought of 2007/08 and because of farmer pessimism about the sheep industry at that time. Consequently sheep sales less purchases increased only 13 percent, in 2008/09, to \$156 200 compared with \$138 200 in 2007/08.

CATTLE PRICES ALSO UP

Prices for all classes of cattle were up compared with 2007/08, with increased demand for weaners and finishing cattle. However, cattle sales less purchases in 2008/09 were very similar to the previous year with fewer cattle traded.

DIFFICULT SEASON FOR FARMING

A wet winter followed the 2008 drought, and record high rainfall later in the winter caused severe pugging to soils on many properties. Grazing rotation length was shortened to mitigate damage, but this reduced pasture reserves. Supplements on hand were low due to the previous season's drought and high prices, inflated by demand from the dairy industry.

Early spring was cold and wet, which reduced lamb survival rates. This was followed by hot dry conditions which gave a very short growing season. Farms that had reduced stock numbers were better placed than those who had tried to maintain numbers.

Drought conditions prevailed until Christmas, causing a very tight feed situation; however 75 millimetres of rain temporarily broke the drought. While a good fall in mid February gave some autumn growth, dry conditions continued in the north of the region, through until the start of the winter. Farmers went into winter 2009 with low feed reserves, and low pasture covers.

WOOL PRICES REMAIN LOW

Lower wool prices are causing farmers to be less concerned with the quality and preparation of their wool and a number of farmers are changing to cross-bred terminal breeds that produce less wool. The industry is concerned about an increase in black fibres and down types in the wool clip, lower yields, and the lack of preparation. Early season wool prices were up compared with 2007/08 but declined in October and stayed lower for the remainder of the season averaging 4 cents per kilogram less at \$2.58 per kilogram.

OTHER FARM INCOME STATIC

High prices for dairy products early in the 2008/09 season allowed dairy farmers to concentrate on milk production, so that off-farm grazing was keenly sought after for those who had a feed surplus. Dry conditions meant grazing prices

remained high in 2008/09. This was reflected in returns improving 10 percent for both grazing and sales of feed such as silage and hay, despite dry conditions constraining feed production.

Crop income fell slightly. Crop prices rose and fell dramatically during 2008/09 but many did not contract their crop and lock in the high prices. A proportion of cash crop was harvested as silage or fed to stock because of the dry spring conditions; however, the yield of those crops harvested was less than expectations.

SLIGHT INCREASE IN FARM WORKING EXPENSES

Total farm working expenditure of \$185 600 for 2008/09 increased 5 percent compared with \$177 100 in 2007/08. Following the poor returns in 2007/08, farmers started the year in a cautious mood, determined to keep spending under tight rein until indications were apparent that the season was going to improve.

EXPENSES REDUCED WHERE POSSIBLE

A reduction in animal health and shearing costs has generally been the result of lower sheep numbers. There have been changes in some lamb shearing policies, for example delaying shearing until later in the season, so that fewer need to be shorn before sale. Cull ewes were sold earlier so that they could be sold in wool, while some farmers are adopting stock policies that minimise the need to shear.

Fuel costs were up 20 percent on the previous year because of higher prices and increased usage. Most other expenses such as regrassing, weed and pest control and administration costs have been held at similar levels to the previous year despite increases in per unit costs for many items.

FERTILISER SPENDING UNDER CLOSE CONTROL

The total tonnage of fertiliser fell from 68 tonnes to 58 tonnes, but total fertiliser costs rose from \$27 000 in 2007/08 to \$31 000 in 2008/09, due to higher prices. Farmers cut back on high analysis fertilisers such as DAP and urea to concentrate on basic phosphate and sulphur. Nitrogen was only used in crops and not in pasture situations. The high prices were well forecast, and fertiliser companies sought to reduce the impact of the price rises, so that most farmers were able to minimise the increased costs of topdressing by forward planning.

FEED AND GRAZING COSTS RISE

Total feed and grazing costs rose from \$16 300 to \$18 300. This was mainly due to higher contracting costs, as well as building up conserved feed, following the drought. Farmers grazing dairy cows made greater efforts to ensure that there was adequate feed for grazing cattle.

INCREASED BORROWING PUSHES UP INTEREST COSTS

Interest costs have increased 5 percent because of increased borrowing to refinance the cash deficit from 2007/08.

»» TABLE 4: CANTERBURY/MARLBOROUGH BREEDING AND FINISHING 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	150 938	136 934	138 179	156 219	135 865
Cattle sales less purchases	42 120	35 666	66 621	66 045	52 328
Wool	40 243	38 090	28 750	24 221	23 144
Grazing income (including hay and silage sales)	12 396	22 000	21 000	23 000	23 601
Other income	31 727	29 500	20 000	18 400	19 600
Net cash income	227 945	262 190	274 550	287 885	254 538

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*.



However, interest rates have fallen slightly with both overdraft rates falling and some farmers refinancing fixed loans on better terms as they roll over.

NET RESULT BETTER THAN EXPECTED

Farm profit before tax increased significantly from \$14 700 in 2007/08 to \$29 100 in 2008/09 from better stock prices and a close control on expenditure. Farmers reduced capital spending and development by \$6700 but drawings increased slightly. After further new borrowing of \$19 500, a cash deficit of \$13 000 for the 2008/09 season was recorded.

BUDGET FINANCIAL PERFORMANCE OF THE CANTERBURY/ MARLBOROUGH BREEDING AND FINISHING SHEEP AND BEEF MODEL FARM IN 2009/10

The cash operating surplus is expected to fall 19 percent to \$83 100 in 2009/10 as prices for sheep, beef and wool fall. However, this will depend on whether farm working expenses can be trimmed back 8 percent as budgeted to \$171 400 in 2009/10.

LOWER PRICES DROP NET CASH INCOME

Lower product prices are expected to decrease net cash income 12 percent to \$254 500 in 2009/10 compared with \$287 900 in 2008/09.

LOWER LAMB PRICES PREDICTED FOR 2009/10

Average lamb prices are predicted to drop 5 percent on average from \$80.95 in 2008/09 to \$76.56 in 2009/10. The demand for lambs is expected to remain strong due to lower numbers, but the higher exchange rate is predicted to cause a fall in farm gate sale prices. Numbers are likely to remain low as farmers represented by this model are not expected to increase ewe numbers in the short term, instead preferring flexible trading options. The lambing percentage is estimated to be about the long term average of 124 percent.

WOOL PRICES REMAIN LOW

The world economic recession has had a major effect on the demand for wool and prices on this model are expected to drop 5 percent from \$2.58 per kilogram in 2008/09 to \$2.44 per kilogram to 2009/10. Wool production is expected to be static after dropping 14 percent in 2008/09 reflecting the change in sheep numbers.

CATTLE PRICES ALSO DOWN


The strength of the New Zealand dollar against the United States dollar is expected to lower prices for all classes of cattle, and while margins can be maintained, more finishing cattle is expected to be run rather than weaners. Finishing cattle numbers may be increased if dairy farmers further reduce their purchases of dairy grazing.

OTHER FARM INCOME BUDGETED TO INCREASE SLIGHTLY

Income from other sources such as cash crop, dairy grazing, feed sales, and contracting are expected to increase 4 percent but this will depend on the season and on demand from the dairy industry. Off farm income is not likely to change significantly.

FARMERS EXPECTED TO CUT EXPENDITURE

In order to remain competitive, and to satisfy financiers' requirements, farmers are expected to cut all non-productive expenditure in 2009/10. Options for reducing expenditure are limited, as either it affects future



production, or the costs are outside the control of the farmers. The farm working expenses to net cash income ratio is estimated to be 67 percent.

FERTILISER COSTS TO BE MINIMISED

Farmers are committed to maintaining the fertility of their properties, so essential topdressing will be maintained. There is expected to be a further reduction in high analysis fertilisers, and superphosphate will likely remain the main fertiliser. The tonnage is expected to increase slightly to 62 tonnes but the expenditure is likely to drop 18 percent to \$25 300 in 2009/10 compared with \$31 000 in 2008/09 as a result of lower prices.

POTENTIAL FOR BLOW OUT IN FEED COSTS

Feed costs (hay and silage, feed crops, and grazing) are expected to be trimmed; however, with a lower stocking rate there may be potential to build up stock condition following a number of difficult seasons. Farmers are likely to make silage at the expense of balage, to store for their own use and to attempt to reduce conservation costs.

FUEL COSTS LIKELY TO INCREASE, BUT VEHICLE COSTS DOWN.

Fuel costs are expected to fall 7 percent in 2009/10 to \$12 500 as farmers reduce vehicle operations. However, associated vehicle costs are expected to be up slightly as a result of inflation in costs. Most of the vehicle fleet is moderately up to date, and minimal replacement is expected to be required.

INTEREST COSTS LIKELY TO REMAIN ABOUT THE SAME

Slightly higher overdraft and term debt will more than offset slightly lower interest rates, with interest costs expected to increase 4 percent to \$44 100 in 2009/10. Combined with the lower net cash income this increases the debt servicing to net cash income ratio to 20 percent. Farmers in this class of farm are likely to have term debt set for a fixed period and when the mortgage comes up for renewal, the interest rates pertaining at the time will generally be locked in for a further fixed term.

NET RESULT DETERIORATES

The farm profit before tax is expected to decrease to \$10 400 in 2009/10 (including \$1900 increase in stock on hand) compared with \$29 100 in 2008/09. Drawings are expected to creep up another 2 percent to \$55 300 compared with \$54 400 in 2008/09. Industry commentators observe that the cost of living in rural communities, particularly with young families, continues to increase. Capital purchases and development are also expected to be trimmed but kept at reasonable levels to maintain improvements. Some farmers are continuing to upgrade their irrigation systems. After further new borrowing of \$19 400 a cash deficit of \$29 500 is predicted.

About one-third of farmers surveyed have significant other funds such as term deposits and investments which they are budgeted to draw on to offset the cash loss for the year.

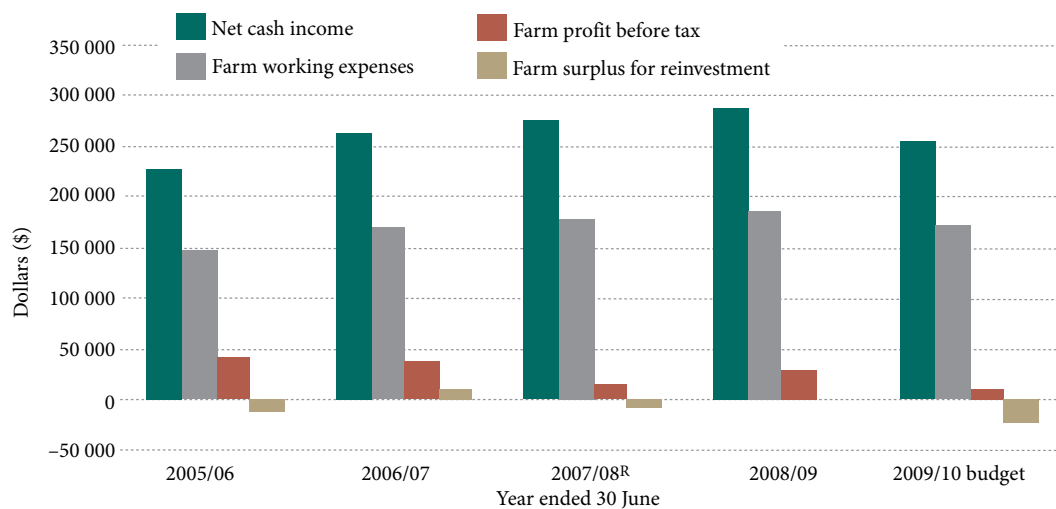
INFORMATION ABOUT THE MODEL

This model represents 1555 finishing breeding farms in coastal Marlborough and Canterbury. Farms are located on the dry downs and plains, in irrigated areas, and in the higher rainfall upper plains. There is a wide range of farm sizes, stocking rates, stock classes, and performance in this region. The farms in the model have an average effective area of 369 hectares and normally run 9–10 stock units per effective hectare.

Breeding ewe flocks with lamb finishing predominate, with cattle finishing and/or graziers on many properties. Some farmers also derive income from some cash cropping, deer, beef breeding cows, lamb finishing, farm forestry, and off-farm sources. Cattle returns are calculated on a beef finishing policy.

For more information on this model contact: John.Greer@maf.govt.nz

»» FIGURE 1: CANTERBURY/MARLBOROUGH BREEDING AND FINISHING 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*.

PUBLISHER

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Email: policy.publications@maf.govt.nz
Web: www.maf.govt.nz

ISBN 978-0-478-35703-5 (Online)

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