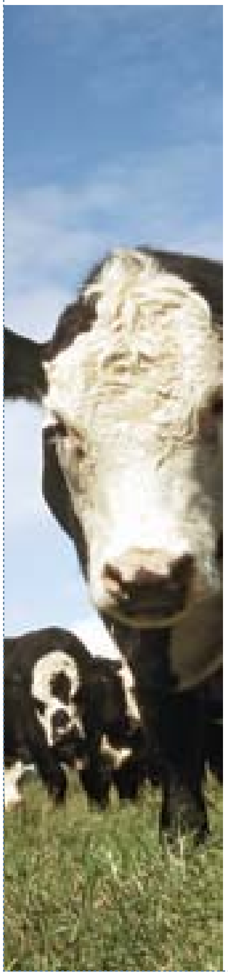


SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF

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

KEY POINTS

- There was a good start to the 2009/10 season with mild weather helping lift the lambing percentage to 142 percent. A cool, moist summer limited pasture and forage crop growth and lamb finishing was challenging.
- The lamb price dropped $12.80 in 2009/10 and more than offset the increased lambing percentage to give a $19 900 decrease in net cash income to $274 800.
- Farm working expenses were reduced 3 percent in 2009/10, while interest expenses fell 14 percent to $36 600.
- 2010/11 is expected to be a better year with farmers predicting a lift in lambing percentage, lamb price, wool price and grazing income. Cash operating surplus is expected to increase 7 percent to $132 900.
- The returns from dairy farming make land use change away from sheep and beef attractive to many, with increased dairy grazing and dairy conversions underway.

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

YEAR ENDED 30 JUNE	2006/07	2007/08	2008/09	2009/10[1]	2010/11 BUDGET
Effective area (ha)	194	194	234	234	234
Breeding ewes (head)	2 165	2 090	2 325	2 214	2 217
Replacement ewe hoggets (head)	530	471	386	542	600
Other sheep (head)	25	25	30	30	30
Breeding cows (head)	0	0	0	0	0
Rising 1-year cattle (head)	30	20	0	0	0
Other cattle (head)	0	0	0	0	0
Opening sheep stock units (ssu)	2 556	2 440	3 098	3 119	3 175
Opening cattle stock units	135	90	108	108	126
Opening total stock units (su)	2 691	2 530	3 206	3 227	3 301
Stocking rate (stock unit/ha)	13.9	13.0	13.7	13.8	14.1
Ewe lambing (%)	136	141	131	142	143
Average lamb price ($/head)	52.00	56.04	90.11	77.31	85.00
Average store lamb price ($/head)	0	0	0	0	0
Average prime lamb price ($/head)	52.00	56.04	90.11	77.31	85.00
Average wool price ($/kg)	2.43	2.31	2.30	2.36	2.47
Total wool produced (kg)	14 440	11 950	13 461	13 250	14 229
Wool production (kg/ssu)	5.65	4.90	5.14	4.25	4.48
Average rising 2-year steer ($/head)	0	769	0	0	0
Average cull cow ($/head)	0	0	0	0	0
Net cash income ($)	197 326	211 385	294 703	274 777	298 071
Farm working expenses ($)	107 868	122 453	156 143	150 791	165 160
Farm profit before tax ($)	47 003	6 075	69 960	72 433	82 211
Farm surplus for reinvestment ($)[2]	9 557	–12 247	18 716	16 138	22 446

Notes

1 The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

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.

Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

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

	2009/10			2010/11 BUDGET		
	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)
REVENUE						
Sheep	232 990	996	74.71	246 922	1 055	77.78
Wool	31 303	134	10.04	35 187	150	11.08
Cattle	0	0	0.00	0	0	0.00
Grazing income (including hay and silage sales)	12 384	53	3.84	14 448	62	4.38
Other farm income	8 380	36	2.60	7 810	33	2.37
LESS:						
Sheep purchases	10 280	44	3.30	6 296	27	1.98
Cattle purchases	0	0	0.00	0	0	0.00
Net cash income	**274 777**	**1 174**	**85.16**	**298 071**	**1 274**	**90.31**
Farm working expenses	**150 791**	**644**	**46.73**	**165 160**	**706**	**50.04**
Cash operating surplus	**123 986**	**530**	**38.42**	**132 911**	**568**	**40.27**
Interest	36 551	156	11.33	34 334	147	10.40
Rent and/or leases	0	0	0.00	0	0	0.00
Stock value adjustment	7 765	33	2.41	5 610	24	1.70
Minus depreciation	22 767	97	7.06	21 976	94	6.66
Farm profit before tax	**72 433**	**310**	**22.45**	**82 211**	**351**	**24.91**
Taxation	16 296	70	5.05	12 831	55	3.89
Farm profit after tax	**56 136**	**240**	**17.40**	**69 380**	**296**	**21.02**
ALLOCATION OF FUNDS						
Add back depreciation	22 767	97	7.06	21 976	94	6.66
Reverse stock value adjustment	−7 765	−33	−2.41	−5 610	−24	−1.70
Income equalisation	0	0	0.00	−8 300	−35	−2.51
Off-farm income	12 530	54	3.88	8 260	35	2.50
Discretionary cash	**83 668**	**358**	**25.93**	**85 706**	**366**	**25.97**
APPLIED TO:						
Net capital purchases	13 900	59	4.31	8 500	36	2.58
Development	1 277	5	0.40	308	1	0.09
Principal repayments	6 890	29	2.14	15 700	67	4.76
Drawings	55 000	235	17.05	55 000	235	16.66
New borrowings	0	0	0.00	0	0	0.00
Introduced funds	0	0	0.00	0	0	0.00
Cash surplus/deficit	**6 601**	**28**	**2.05**	**6 198**	**26**	**1.88**
Farm surplus for reinvestment[2]	**16 138**	**69**	**5.00**	**22 446**	**96**	**6.80**
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	3 510 000	15 000	1,087.79	3 224 600	13 780	976.97
Plant and machinery (opening)	118 447	506	36.71	111 506	477	33.78
Stock valuation (opening)	297 419	1 271	92.17	305 184	1 304	92.46
Other produce on hand (opening)	0	0	0.00	0	0	0.00
Total farm assets (opening)	**3 925 866**	**16 777**	**1 216.67**	**3 641 290**	**15 561**	**1 103.22**
Total assets (opening)	**4 135 380**	**17 673**	**1 281.60**	**3 924 764**	**16 772**	**1 189.11**
Total liabilities (opening)	496 327	2 121	153.82	482 836	2 063	146.29
Total equity (farm assets - liabilities)	**3 429 539**	**14 656**	**1 062.85**	**3 158 454**	**13 498**	**956.93**

Notes

1 Sheep stock units are used in the per stock calculation for sheep and wool income and sheep purchases. Cattle stock units are used for cattle income and purchases. The remainder of the time total stock units are used.

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

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

	2009/10			2010/11 BUDGET		
	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)	WHOLE FARM ($)	PER HECTARE ($)	PER STOCK UNIT[1] ($)
FARM WORKING EXPENSES						
Permanent wages	0	0	0.00	0	0	0.00
Casual wages	3 408	15	1.06	3 564	15	1.08
ACC	650	3	0.20	1 149	5	0.35
Total labour expenses	**4 058**	**17**	**1.26**	**4 712**	**20**	**1.43**
Animal health	13 172	56	4.08	14 940	64	4.53
Breeding	1 049	4	0.33	1 268	5	0.38
Electricity	2 985	13	0.92	3 290	14	1.00
Feed (hay and silage)	4 689	20	1.45	5 688	24	1.72
Feed (feed crops)	2 323	10	0.72	2 399	10	0.73
Feed (grazing)	817	3	0.25	274	1	0.08
Feed (other)	2 268	10	0.70	2 262	10	0.69
Fertiliser	27 578	118	8.55	33 821	145	10.25
Lime	2 351	10	0.73	3 050	13	0.92
Cash crop expenses[2]	0	0	0.00	0	0	0.00
Freight (not elsewhere deducted)	3 301	14	1.02	3 529	15	1.07
Regrassing costs	3 401	15	1.05	3 564	15	1.08
Shearing expenses	14 596	62	4.68	15 714	67	4.95
Weed and pest control	4 068	17	1.26	4 283	18	1.30
Fuel	11 305	48	3.50	12 301	53	3.73
Vehicle costs (excluding fuel)	6 870	29	2.13	7 710	33	2.34
Repairs and maintenance	16 964	72	5.26	16 550	71	5.01
Total other working expenses	**117 736**	**503**	**36.49**	**130 642**	**558**	**39.58**
Communication costs (phone and mail)	2 101	9	0.65	2 330	10	0.71
Accountancy	2 818	12	0.87	2 741	12	0.83
Legal and consultancy	1 047	4	0.32	1 097	5	0.33
Other administration	1 967	8	0.61	1 713	7	0.52
Water charges (irrigation)	0	0	0.00	0	0	0.00
Rates	8 329	36	2.58	8 860	38	2.68
Insurance	5 340	23	1.65	5 551	24	1.68
ACC employer	4 020	17	1.25	4 875	21	1.48
Other expenditure	3 375	14	1.05	2 638	11	0.80
Total overhead expenses	**28 997**	**124**	**8.99**	**29 805**	**127**	**9.03**
Total farm working expenses	**150 791**	**644**	**46.73**	**165 160**	**706**	**50.04**
CALCULATED RATIOS						
Economic farm surplus (EFS[3])	38 725	165	12.00	49 132	210	14.89
Farm working expenses/NCI[4]	55%			55%		
EFS/total farm assets	1.0%			1.3%		
EFS less interest and lease/equity	0.1%			0.5%		
Interest+rent+lease/NCI	13.3%			11.5%		
EFS/NCI	14.1%			16.5%		
Wages of management	70 259	300	21.77	67 413	288	20.42

Notes

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

2 Includes forestry expenses.

3 EFS is calculated as follows: net cash income plus change in livestock values less farm working expenses less depreciation less wages of management (WOM). WOM is calculated as follows: $31 000 allowance for labour input plus 1 percent of opening total farm assets to a maximum of $75 000.

4 Net cash income.

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

The cash operating surplus for 2009/10 fell $23 700 or 16 percent compared with 2008/09 to $124 000, with lower lamb prices overshadowing the increase in the lambing percentage.

REVENUE DECLINES 7 PERCENT

Net cash income decreased 7 percent or $19 900 compared with 2008/09 to $274 800 in 2009/10. This is mainly because of a $12.80 fall in the lamb price to an average $77.31. The lower lamb price in 2009/10 was attributed to high exchange rates with lamb values reportedly reaching all time highs in some markets.

LAMBING PERCENTAGE UP 11 PERCENT BUT REVENUES STILL DOWN

Ewes were in ideal condition during the 2009 mating season giving excellent scanning results. A cool winter resulted in tight feed conditions prior to lambing. However, very mild weather during lambing resulted in an excellent lambing of 142 percent. Despite the high lambing percentage, sheep revenue for 2009/10 was still low as a result of the fall in lamb prices.

Retaining extra hogget replacements also reduced income. Hogget replacement numbers were 24 percent of ewes mated at the beginning 2009/10 as farmers recognised that recent reductions in flock size were not sustainable. By the end of the year farmers had taken the opportunity to further recover stock numbers and hogget replacements lifted to 27 percent.

WOOL PRICES LIFT TO $2.36 PER KILOGRAM GREASY

Wool returns lifted 1 percent to $31 300 in 2009/10. Wool prices increased to $2.36 per kilogram compared with $2.30 per kilogram in 2008/09. Improved wool prices were attributed to lifting market demand overshadowing exchange rate increases. Many farmers considered this to be a rare occurrence hoping it was a sign of things to come for the future of wool. The decline of wool volumes sold was not enough to offset the increase in wool price.

FARM WORKING EXPENSES DECLINE

Farmers have sought to restrain operating expenses during 2009/10 and overall farm working expenses declined 3 percent to $150 800. Farm working expenses represented only 55 percent of net cash income. Many expenses have increased slightly through cost increases but key items were cut.

MANY EXPENSES INCREASE

Casual wages were cut slightly to $3400, as farmers did more of the work themselves.

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

YEAR ENDED 30 JUNE	2006/07 ($)	2007/08 ($)	2008/09 ($)	2009/10 ($)[1]	2010/11 BUDGET ($)
Sheep sales less purchases	144 216	164 417	249 388	222 710	240 626
Cattle sales less purchases	13 020	15 380	0	0	0
Wool	35 090	27 605	30 960	31 303	35 187
Grazing income (including hay and silage sales)	3 400	2 384	11 942	12 384	14 448
Other income	1 600	1 600	2 412	8 380	7 810
Net cash income	197 326	211 385	294 703	274 777	298 071

Note
1 The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

Feed expenses were similar to 2008/09. Cool weather during January and for most of autumn combined with a high number of lambs on farm reduced feed available for conserving and therefore reduced expenditure on this item. The cost of feed crops and other feed expenses increased in 2009/10. Brassica yields suffered with weeds, insects and a lack of good growing conditions reducing yields.

Regrassing costs fell 48 percent in 2009/10 to $3400, compared with $6600 in 2008/09, as farmers renewed less pasture.

FERTILISER AND LIME EXPENDITURE DECLINES

Fertiliser expenditure was cut 10 percent in 2009/10, to $27 600, even though farmers increased fertiliser applications. Lower fertiliser prices encouraged farmers to apply closer to maintenance levels of fertiliser. Spending on lime was also reduced.

REPAIRS AND MAINTENANCE INCREASE BY 60 PERCENT

Farmers on these properties have deferred maintenance for several years. In 2009/10, monitored farms spent an additional $6400 on repairs and maintenance compared with 2008/09. Whilst the returns allowed for this in the 2008/09 year, many farmers waited for a second year of good returns before lifting spending in this area.

MOST OVERHEAD EXPENSES INCREASE

Farmers have managed to hold administration expenditure but rates, insurance and ACC levies have increased.

INTEREST RATES DECLINE

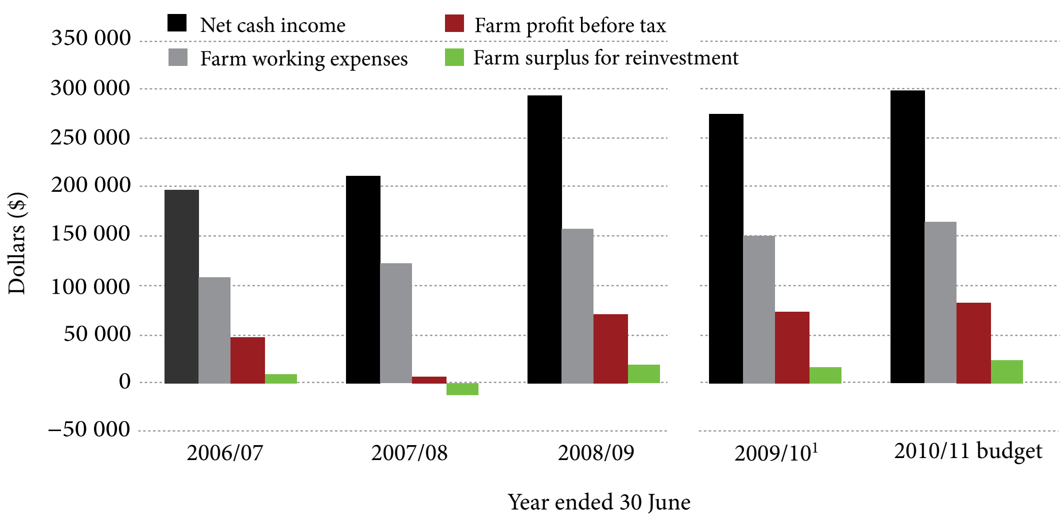
Interest expenses fell 14 percent to $36 600 in 2009/10, compared with $42 400 in 2008/09, as interest rates fell 1.43 percentage points on average. Interest is 13 percent of net cash income, indicating the strong financial position of this class of farm.

NET RESULT IMPROVES

Farm profit before tax fell 19 percent to $72 400 in 2009/10 compared with $88 900 in 2008/09. Tax payments increased to $16 300 as farmers had to pay terminal tax on the previous year's profit. Farmers that had not made a substantial provisional payment in the 2008/09 year were challenged with a significant increase in terminal tax in the 2009/10 year.

Cash disposal was restrained during 2009/10 with capital purchases, development and drawings all reduced from the previous year. The cash surplus at $6600 is less than half the previous year.

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



Note
1 The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

BUDGET FINANCIAL PERFORMANCE OF THE SOUTHLAND/SOUTH OTAGO INTENSIVE SHEEP AND BEEF FARM MODEL IN 2010/11

The cash operating surplus for 2010/11 is expected to increase 7 percent to $132 900 compared with $124 000 in 2009/10. This lift is due to an anticipated lift in sheep, wool and grazing income.

LAMB PRICES EXPECTED TO LIFT TO $85

Sheep income is expected to increase 6 percent to $246 900, as a result of a $7.69 increase in lamb price with farmers expecting $85 per lamb. Lamb continues to be in short supply in overseas markets with industry commentators suggesting that this shortfall will continue into 2010/11. Several media reports have quoted suggestions that lamb would have been over $110 in the 2009/10 year if exchange rates were closer to the long-term average.

Farmers expect a 1 percentage point increase in lambing to 143 percent in 2010/11 following good mating conditions in autumn 2010. This result will depend on weather conditions at lambing time.

HEIFER GRAZING INCOME UP

More heifer grazing is expected in 2010/11 with a budgeted 17 percent lift in heifers grazed on the farm model. Many farmers have recognised the benefits of heifers including; diversification, spread of seasonal income, and good returns. Increased demand for this stock is putting supply under some pressure making it difficult for new entrants to this type of enterprise to find stock.

STOCK NUMBERS UP

Stock numbers wintered in 2010 are budgeted to increase 2 percent to 3301 stock units. The major component to this increase is hogget numbers retained, as farmers look to recover flock numbers. A further 2 percent increase is planned for 2010/11.

EXPENDITURE EXPECTED TO INCREASE 10 PERCENT

Many farmers expect the cost of inputs to increase and consider the Emissions Trading Scheme (ETS) to be a significant factor in this. The forecast improvement in dairy payout is also expected to increase the demand for resources used on these properties and increase costs.

Farmers anticipate a 23 percent increase in fertiliser expenditure to $33 800 in 2010/11. While an increase in the amount applied is anticipated from 18 kilograms of phosphate per hectare in 2009/10 to 20 kilograms of phosphate per hectare in 2010/11, these levels are under the considered maintenance level for these farms. The lift in application only accounts for 10 percent of the expenditure increase with the remaining due to expected fertiliser cost increases.

Feed expenditure is expected to increase 5 percent to $10 600 in 2010/11. Farmers expect a return to normal pasture growth in 2010/11 following three years of below average production. This will enable them to increase the hay and silage conserved and require less bought in grazing.

Repairs and maintenance is expected to be held at similar levels to the 2009/10 year.

Wages, animal health, electricity, fertiliser, lime, freight, shearing, fuel and vehicle costs are all expected to increase partly due to the ETS impacting farm gate prices. Overhead expenses are not budgeted to increase in 2010/11 but there may be some movement in individual cost items.

Interest expenses are budgeted to fall a further 6 percent to $34 300 in 2010/11 as the effective interest rate falls a further 0.25 percentage points. Lowered interest rates combined with a lift in income results in debt servicing expected to fall to be only 12 percent of net cash income in 2010/11.

NET RESULT IMPROVES

Farm profit before tax is expected to lift 13 percent to $82 200 in 2010/11 compared with $72 400 in 2009/10. A fall in predicted tax sees the farm profit after tax improve 24 percent to $69 400 in 2010/11. Cash disposal is predicted to be further restrained in the coming year with drawings held and capital and development reduced. Overall a farm surplus for reinvestment of $22 400 is expected to be achieved in 2010/11.

INFORMATION ABOUT THE MODEL

This model represents about 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. This type of farm is on the plains and downlands and typically has good seasonal rainfall. Historically, land use and stock numbers on this class of farm have been challenged by the expanding dairy industry and the opportunities it offers for heifer grazing and sale of surplus feed.

A new stocking rate calculation has been used for the 2009/10 model onward. The stocking rate calculation more closely relates to production stock units within the Lincoln farm technical manual. In the current model breeding ewes are equivalent to 1.2 traditional stock units.

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