

WEST COAST SOUTH ISLAND DAIRY

This commentary describes the collective dairy sector's perspective of dairying on the West Coast of the South Island.

KEY POINTS

- › Income for the 2009/10 season was 2 percent lower than in 2008/09 due to the low final and advanced payout. This put pressure on budgets and reinforced the need for tighter control on expenses.
- › The net cash result increased about 45 percent compared with 2008/09, due to better cost control and reduced fertiliser expenditure, but remains as a cash loss for the second year in a row.
- › A wet and cool start to the 2009/10 season delayed peak production, but favourable summer and autumn conditions resulted in total production for the season increasing 5 percent compared with 2008/09.
- › Initially, farmers were very uncertain about prospects for the 2009/10 season, but following the marked improvement in the first half of 2010, they are expecting a dramatically better 2010/11 season.
- › Dairy cow numbers on the West Coast are expected to increase by 8139 (6 percent) in the 2010/11 season, with total milk from West Coast suppliers budgeted to increase 3 percent.

FINANCIAL PERFORMANCE OF THE WEST COAST SOUTH ISLAND DAIRY FARM IN 2009/10

The 2009/10 season was another low income year for West Coast dairy farmers, the second year in a row. The "within season" payment for 2009/10 was 18 percent down on the corresponding figure for the 2008/09 season. The combination of a low level final payments for the 2008/09 season (38 cents per kilogram of milksolids), combined with the advance payment to June 2010 of \$4.50 per kilogram of milksolids produced a within season payout of \$4.88 per kilogram of milksolids. This compares with a within season payment of \$5.94 per kilogram of milksolids in 2008/09.

PAYOUT INCREASED STEADILY THROUGHOUT SEASON

The projected payout for 2009/10 maintained a steady upward trend throughout the season. From early winter onwards, suppliers were notified that the initial advance payout was to be set at \$3.00 per kilogram of milksolids, with an expectation that the final payout would be in the region of \$4.50 to \$4.90 per kilogram of milksolids. Announcements through the latter part of the season saw a final payout to suppliers in the region of \$6.00 to \$6.10 per kilogram of milksolids. A payment schedule was sent to suppliers at the end of March detailing monthly payments totalling \$5.50 per kilogram of milksolids that would be received in September, with any residual payments being made in October.

PRODUCTION SLUGGISH THROUGHOUT THE SEASON

The 2009/10 season started off on a sluggish note, with early season production lagging about 7 percent behind the previous season. Weather conditions were dominated by cold and wet periods. Alternative milking intervals, such as once daily or 16-hour milkings, were common place as farmers sought to ensure cow condition did not decline in the lead up to the mating period.

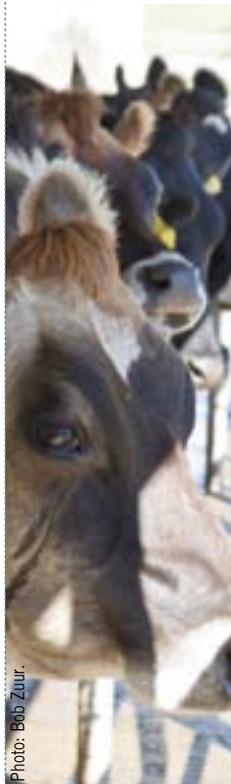


Photo: Bob Zuur.

There was a slow start to the milking season in 2009/10 and pasture growth rates were above average, but dropped to below average levels in December, resulting in paddocks that had been dropped out of the grazing round to make supplementary feed needing to be grazed. It was not until November that dairy company production caught up with the previous season.

Feed surpluses did not develop reliably until January and February 2010, when growing conditions improved. The good growing conditions experienced through the autumn saw feed surpluses continue to develop and silage was harvested as late as April.

Through the second half of the season, monthly production tracked at levels slightly higher than the 2008/09 season, with good growing and farming conditions through the autumn period. As a result, the season ended strongly and milk production for 2009/10 was approximately 5 percent ahead of the 2008/09 season. Good growing conditions through the late lactation period saw the majority of farms dry off with cows in adequate condition and with pasture covers at targeted levels.



COW VALUES LIFT IN RESPONSE TO INCREASED PAYOUT EXPECTATIONS

Cow values continued to lift through the season due to the market outlook becoming a lot brighter. Values per head at the end of the season were at levels last achieved prior to the 2008/09 season.

WEST COAST COW NUMBERS CONTINUE TO INCREASE

Cow numbers increased 3 percent (4258 cows) over the supply area. Average production was 323 kilograms of milksolids per cow and 710 kilograms of milksolids per hectare, which is similar to the 10-year average per head production. Colostrum collections were 31 percent ahead of the 2008/09 season, driven by strong demand in the market.

LOW PAYOUT LED TO CONSERVATIVE SPENDING PATTERN

The 2009/10 season saw a conservative approach to spending because of the lower advance of \$3.00 per kilogram of milksolids, and poor cash flow from the low 2008/09 payout. Early season expenditure was kept to a minimum as farmers tried to keep within their overdraft limits. Spring fertiliser applications were delayed and minimal higher energy feed was purchased.

The steady increase in payout through the season did not alter this spending pattern much. The additional payments totalling \$1.30 to \$1.60 per kilogram of milksolids over the winter months will likely ensure that farms are well set up for the 2010/11 season.

FARMS RECEIVED MAINTENANCE LEVELS OF EXPENDITURE

Despite the lowered payout levels through the 2009/10 season, the majority of farms continued maintenance levels of key expenditure items. Those that did not keep up maintenance levels of expenditure are not expecting a drop in performance as there has been a good history of maintenance expenditure. However, discretionary spending on most farms has fallen, which has impacted on contractors in particular.

NO SIGNIFICANT PROBLEMS ENCOUNTERED WITH STOCK HEALTH

Stock health and condition were good throughout the season, despite the pressure on expenditure. The less than perfect spring conditions did not produce a higher than usual incidence of metabolic problems; and in general submission rates were within normal parameters, as were conception rates.

LOW PAYOUT LED TO NET CASH LOSSES

The second consecutive year of low within season payments means the majority of farms are likely to incur cash losses, although about half the level of the loss which they incurred in 2008/09. Equity levels will likely decrease once again, but the majority of farms are still in a strong financial position.

BUDGET FINANCIAL PERFORMANCE OF THE WEST COAST SOUTH ISLAND DAIRY FARM IN 2010/11

Prospects for the 2010/11 season are a lot brighter than the previous year. Tight milk product supply out of the Oceania region, the poor winter in Europe and reduced United States exports combined with strong demand for dairy products across the globe, especially in China and the Middle East, saw steady price increases during the latter part of the 2009/10 season. Suppliers are being kept regularly informed by Westland Milk Products about the international markets and payout prospects. The company has indicated a final payout for 2010/11 of \$5.80 to \$6.20 per kilogram of milksolids, prior to any retentions.



INITIAL ADVANCE ANNOUNCED

The initial advance payout for the 2010/11 season has been set at \$3.90 per kilogram of milksolids, with the first increase on this figure scheduled for December. The combination of a higher series of winter payments and better initial advance will likely lessen pressure on strained bank accounts through the early part of the new season. With the outlook for dairying firming and a lower NZD to USD exchange rate, the payout forecast could improve as the season progresses, but farmers are wary about high expectations and are expected to carefully manage expenditure until returns are more certain.

WEST COAST HERD SIZE CONTINUES TO INCREASE

The size of the West Coast herd is forecast to increase by 8139 cows for the 2010/11 season. Included in this are 2100 cows from five new suppliers. Over the past five years, the increase in cow numbers has averaged 3 percent per year.

HIGHER WINTER PAYMENTS WILL HELP BOOST EARLY SEASON BUDGETS

Most farms will likely be adequately set up for the start of the 2010/11 season due to better winter payments from the 2009/10 season. Expenditure is likely to increase to full maintenance levels, but discretionary expenditure is expected to be held back until advance payments lift appreciably, or the forecast payout becomes more secure. The memories of the highs and lows of payouts are still recent enough to temper any extravagant intentions. Likewise, capital purchase requirements and principal payments remain on hold until future prospects are clearer. Plant and machinery was either replaced or maintained to a high level during the 2007/08 high payout year, so maintenance costs have been lower in recent years.

NET RESULT FOR 2010/11 SET TO IMPROVE

The typical West Coast dairy farm is budgeting to make a small cash surplus given the current outlook, compared with a significant loss in 2009/10. On-farm income and expenditure are likely to be constantly reviewed to ensure farms are in a good position to take advantage of the predicted upturn in dairy prices. The majority of deferred on-farm expenditure is expected to be caught up on and overdraft extensions repaid. Farmers are hoping for payout levels similar to those received in 2007/08 if the current market outlook comes to pass, but much caution still remains.

INDUSTRY ISSUES AND DEVELOPMENTS

Environmental management, particularly the treatment of dairy effluent, remains a strong focus on the West Coast. A recent penalty imposed on a South Westland farmer was reputedly the second largest in New Zealand dairying history, and media reports indicate other prosecutions may be in the pipeline. A steering group is being formed to develop an environmental code of practice for Westland Milk Products suppliers, which ultimately will become a mandatory code.

Farm sales across the West Coast have been at low levels for the past year. Farm values in the more favoured dairying areas are receiving purchaser interest at values around \$25 000 per hectare and \$30 per kilogram of milksolids. Bank finance is much harder for prospective purchasers to obtain, with security and cash flow requirements difficult to meet.

There has also been a slowdown in the number of conversions, with a net gain of three new farms this season and a further five planned to take place in the 2010/11 season. Approximately 0.5 percent additional milk was processed for Synlait and New Zealand Dairies. This relationship looks set to continue for next season with total milk processed from outside sources expected to increase significantly to more fully utilise processing capacity during low milk flow periods at the start and finish of the season.

The training industry on the West Coast remains relatively buoyant, with trainee numbers increasing by about 5 percent through the latter part of the season. There has been a trend back to dairy farm assistant positions, with fewer herd manager or assistant manager positions available. Part of this is likely to be due to cost control measures, but also due to fewer senior positions available.

A consequence of the cost cutting approach that followed the 2008/09 season was a reduction in the use of dry cow therapy at the end of the season. The flow-on effect of this was a dramatic increase in the number of milk quality grades for high somatic cell count levels. Mastitis also increased through the early lactation period for the same reason, leading to an increase in the use of antibiotics and a significant increase in the number of inhibitory substance grades.

Due to increasing milk quality demands from European markets, Westland Milk Products will introduce a new grade for Bulk Milk Somatic Cell Counts levels that exceed 500 000 cells per millilitre. This will take effect for the 2010/11 season. Further tightening of milk quality standards in coming years has been signalled to suppliers.

Issues around the control of Bovine Tuberculosis and the use of 1080 poison have become very topical recently, with several protest groups set up on the West Coast targeting the annual 1080 aerial drops. It has received national coverage with local emotions on both sides of the argument running high.



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