



SOUTHLAND/SOUTH OTAGO HILL COUNTRY SHEEP AND BEEF

KEY RESULTS FROM MAF'S 2011 SHEEP AND BEEF MONITORING PROGRAMME. Please note that several budget parameters have changed between 2009/10 and 2010/11. Caution should be taken when comparing this year's publication to previous years. Refer to the budget table footnotes for more detail.

KEY POINTS

- › Lambing fell 15 percentage points after a severe spring snow storm in 2010. The autumn of 2011 was mild and many farmers are cautiously optimistic of a good lambing for the coming year.
- › Net cash income increased 38 percent to \$713 900 in 2010/11, bolstered by a record lamb prices. Wool and beef incomes improved 41 and 39 percent respectively.
- › Net cash income is expected to increase a further 8 percent to \$772 000 in 2011/12 due to a return to a more typical lambing percentage and fewer store stock purchases.
- › Expenditure increased by 9 percent in 2010/11 to \$332 400 as farmers spent more on fertiliser, weed and pest control and feed. Expenditure is expected to remain at similar levels in 2011/12.
- › Farm surplus for reinvestment more than tripled to \$216 100 in 2010/11 and a further increase of 18 percent is predicted for 2011/12.
- › Farmer morale took a punishing with the prolonged and severe snow storm in spring, but as improved farm gate returns were realised, attitudes lifted to an all time high.

»» TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE SOUTHLAND/SOUTH OTAGO HILL COUNTRY SHEEP AND BEEF MODEL

YEAR ENDED 30 JUNE	2007/08	2008/09	2009/10 ¹	2010/11	2011/12 BUDGET
Effective area (ha)	723	723	723	723	723
Breeding ewes (head)	4 220	3 956	3 977	4 021	4 061
Replacement ewe hoggets (head)	1 096	887	997	1 150	1 181
Other sheep (head)	86	86	76	71	48
Breeding cows (head)	107	106	93	91	93
Rising 2-year cattle (head)	80	87	79	87	70
Other cattle (head)	3	4	26	18	28
Opening sheep stock units (ssu)	5 052	4 642	5 529	5 476	5 962
Opening cattle stock units	930	961	1 010	943	934
Opening total stock units (su)	5 982	5 603	6 538	6 419	6 895
Stocking rate (stock unit/ha)	8.3	7.7	9.0	8.9	9.5
Ewe lambing (%)	131	126	136	121	134
Average lamb price (\$/head)	48.82	82.85	74.08	110.24	104.81
Average store lamb price (\$/head)	38.61	69.64	65.00	100.39	99.72
Average prime lamb price (\$/head)	52.67	85.70	75.47	111.99	105.36
Average wool price (\$/kg)	2.36	2.32	2.42	3.56	4.17
Total wool produced (kg)	26 111	24 262	25 113	24 066	25 430
Wool production (kg/ssu)	5.2	5.2	4.5	4.4	4.3
Average rising 2-year steer (\$/head)	731	856	839	982	994
Average cull cow (\$/head)	526	598	695	866	869
Net cash income (\$)	392 091	488 752	518 819	713 853	771 950
Farm working expenses (\$)	246 975	260 971	305 658	332 396	336 999
Farm profit before tax (\$)	34 482	160 730	146 053	314 323	373 125
Farm surplus for reinvestment (\$) ²	-12 042	105 583	63 309	216 146	255 179

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 is the cash available from the farm business, after meeting living costs, which is available for investment on the farm or for principal repayments. It is calculated as farm profit after tax plus depreciation plus stock adjustments less drawings.



»» TABLE 2: SOUTHLAND SOUTH/OTAGO HILL COUNTRY SHEEP AND BEEF MODEL BUDGET

	2010/11			2011/12 BUDGET		
	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT ¹ (\$)	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT ¹ (\$)
REVENUE						
Sheep	562 971	779	102.81	575 498	796	96.54
Wool	85 577	118	15.63	106 067	147	17.79
Cattle	100 273	139	106.31	108 341	150	116.05
Grazing income (including hay and silage sales)	6 000	8	0.93	6 240	9	0.90
Other farm income	9 774	14	1.52	7 767	11	1.13
LESS:						
Sheep purchases	34 349	48	6.27	12 669	18	2.13
Cattle purchases	16 393	23	17.38	19 293	27	20.67
Net cash income	713 853	987	111.21	771 950	1 068	111.96
Farm working expenses	332 396	460	51.78	336 999	466	48.88
Cash operating surplus	381 457	528	59.43	434 951	602	63.08
Interest	45 532	63	7.09	35 722	49	5.18
Rent and/or leases	0	0	0.00	0	0	0.00
Stock value adjustment	9 967	14	1.55	5 314	7	0.77
Minus depreciation	31 570	44	4.92	31 418	43	4.56
Farm profit before tax	314 323	435	48.97	373 125	516	54.11
Income equalisation	0	0	0.00	0	0	0.00
Taxation	52 139	72	8.12	75 565	105	10.96
Farm profit after tax	262 183	363	40.84	297 560	412	43.16
ALLOCATION OF FUNDS						
Add back depreciation	31 570	44	4.92	31 418	43	4.56
Reverse stock value adjustment	-9 967	-14	-1.55	-5 314	-7	-0.77
Drawings	67 640	94	10.54	68 485	95	9.93
Farm surplus for reinvestment²	216 146	299	33.67	255 179	353	37.01
REINVESTMENT						
Net capital purchases	26 394	37	4.11	28 705	40	4.16
Development	10 464	14	1.63	5 007	7	0.73
Principal repayments	110 000	152	17.14	70 000	97	10.15
Farm cash surplus/deficit	69 288	96	10.79	151 466	209	21.97
OTHER CASH SOURCES						
Off-farm income	5 463	8	0.85	5 404	7	0.78
New borrowings	13 650	19	2.13	14 000	19	2.03
Introduced funds	0	0	0.00	0	0	0.00
Net cash position	88 401	122	13.77	170 870	236	24.78
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	4 240 000	5 864	660.53	4 240 000	5 864	614.93
Plant and machinery (opening)	177 130	245	27.59	176 954	245	25.66
Stock valuation (opening)	900 609	1 246	140.30	910 576	1 259	132.06
Other produce on hand (opening)	0	0	0.00	0	0	0.00
Total farm assets (opening)	5 317 739	7 355	828.42	5 327 530	7 369	772.66
Total assets (opening)	5 334 921	7 379	831.10	5 327 530	7 369	772.66
Total liabilities (opening)	573 004	793	89.27	407 366	563	59.08
Total equity (farm assets - liabilities)	4 744 735	6 563	739.16	4 920 164	6 805	713.58

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 is the cash available from the farm business, after meeting living costs, which is available for investment on the farm or for principal repayments. It is calculated as farm profit after tax plus depreciation plus stock adjustments less drawings.

Please note that several budget parameters have changed between 2009/10 and 2010/11. These changes have been made to better reflect the financial position of the farm. New and adjusted definitions include farm surplus for reinvestment, farm cash surplus/deficit and net cash position. Caution should be taken when comparing this year's data to previous years.

»» TABLE 3: SOUTHLAND SOUTH/OTAGO HILL COUNTRY SHEEP AND BEEF MODEL EXPENDITURE

	2010/11			2011/12 BUDGET		
	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT (\$)	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT (\$)
FARM WORKING EXPENSES						
Permanent wages	26 829	37	4.18	29 180	40	4.23
Casual wages	6 446	9	1.00	8 072	11	1.17
ACC	2 722	4	0.42	2 731	4	0.40
Total labour expenses	35 997	50	5.61	39 982	55	5.80
Animal health	20 531	28	3.20	21 569	30	3.13
Breeding	4 832	7	0.75	5 034	7	0.73
Electricity	3 960	5	0.62	4 361	6	0.63
Feed (hay and silage)	10 514	15	1.64	9 647	13	1.40
Feed (feed crops)	4 512	6	0.70	3 960	5	0.57
Feed (grazing)	9 630	13	1.50	8 848	12	1.28
Feed (other)	2 086	3	0.32	1 855	3	0.27
Fertiliser	67 593	93	10.53	68 695	95	9.96
Lime	13 417	19	2.09	18 306	25	2.65
Cash crop expenses ¹	0	0	0.00	0	0	0.00
Freight (not elsewhere deducted)	6 740	9	1.05	6 978	10	1.01
Regrassing costs	8 816	12	1.37	8 816	12	1.28
Shearing expenses ²	25 916	36	4.73	27 136	38	4.55
Weed and pest control	11 557	16	1.80	9 925	14	1.44
Fuel	15 071	21	2.35	16 817	23	2.44
Vehicle costs (excluding fuel)	14 642	20	2.28	14 679	20	2.13
Repairs and maintenance	35 118	49	5.47	23 529	33	3.41
Total other working expenses	254 934	353	39.71	250 155	346	36.28
Communication costs (phone and mail)	3 384	5	0.53	3 338	5	0.48
Accountancy	4 387	6	0.68	4 570	6	0.66
Legal and consultancy	1 749	2	0.27	1 198	2	0.17
Other administration	1 556	2	0.24	1 695	2	0.25
Water charges (irrigation)	0	0	0.00	0	0	0.00
Rates	9 902	14	1.54	10 543	15	1.53
Insurance	7 558	10	1.18	8 714	12	1.26
ACC employer	7 782	11	1.21	11 636	16	1.69
Other expenditure	5 148	7	0.80	5 170	7	0.75
Total overhead expenses	41 465	57	6.46	46 862	65	6.80
Total farm working expenses	332 396	460	51.78	336 999	466	48.88
CALCULATED RATIOS						
Economic farm surplus (EFS ³)	284 855	394	44.38	333 847	462	48.42
Farm working expenses/NCI ⁴	47%			44%		
EFS/total farm assets	5.4%			6.3%		
EFS less interest and lease/equity	5.0%			6.1%		
Interest+rent+lease/NCI	6.4%			4.6%		
EFS/NCI	39.9%			43.2%		
Wages of management	75 000	104	11.68	75 000	104	10.88

Notes

1 Includes forestry expenses.

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

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 HILL COUNTRY SHEEP AND BEEF MODEL FARM IN 2010/11

Improved lamb, wool and beef prices in 2010/11 lifted the cash operating surplus by 79 percent compared with 2009/10 to \$381 500. Lamb achieved record prices and the wool price improved significantly.

MAJOR LIFT IN REVENUE WITH ALL INCOME STREAMS IMPROVING IN VALUE

Net cash income increased \$195 000 to \$713 900 with lamb, mutton and wool prices increasing steadily right through to winter 2011.

SPRING SNOW STORM BRINGS CONCERN BUT IMPROVED LAMB PRICE RELIEVES FARMERS

A snow storm in spring reduced the lambing result 15 percentage points and caused serious concern for many farmers, although late lambing properties were hardly affected. As prime lamb prices improved to an average \$112.00 per head, the additional income more than offset the lamb losses.. Farm incomes lifted this year as the late schedule increases rewarded those farmers who typically receive poor prices later in the selling year.

MORE STORE LAMBS BOUGHT AND SOLD

Farmers doubled the number of store lamb purchases, compared with 2009/10, to replace lambs lost in the storm at an average price of \$87.00 per head. As the season progressed it became harder to finish lambs and, as prices continued to climb, farmers were encouraged to sell tail end lambs on to the store market for an average return of \$99.72 per head.

WOOL PRICES LIFT INCOME

Wool prices lifted throughout the 2010/11 season to an average \$3.56 per kilogram greasy and increased wool income 41 percent to \$85 600. Wool price and income varied according to the timing of shearing, with those farmers who sold early in the season missing out on high prices later in the year.

CATTLE REVENUE INCREASES

Cattle income increased 39 percent to \$100 300 in 2010/11 with rising two year steers averaging \$982 per head. Beef prices improved in line with other farm products, although prices were not consistent with price falls in spring and autumn.

FARM WORKING EXPENDITURE RISES

The snow storm reduced lamb numbers and potential income and farmers sought to restrain expenditure early in the season. As product prices and returns increased during the year, farmers also increased their total farm working expenditure 9 percent to \$332 400. The late expenditure went into items such as fertiliser, repairs and maintenance, feed and weed and pest control.

Combined fertiliser and lime application increased and expenditure rose 15 percent to \$81 000, although some shortages occurred causing some farmers to miss out on applying maintenance.

Hay and silage feed costs increased 17 percent to \$10 500, as farmers sought to harvest feed surplus caused by lamb losses.



Repairs and maintenance increased 22 percent, while weed and pest expenditure increased 34 percent. Improved product returns encouraged farmers to spend money, previously deferred, repairing equipment and managing weeds.

Debt servicing fell 10 percent with lower interest rates on term loans and lower overdraft levels. Interest and rent expenses were low on these farms at only 6 percent of net cash income.

NET RESULT IMPROVES

Farm profit before tax more than doubled to \$262 200 in 2010/11 and tax payments increased \$52 100 as terminal tax from 2009/10 is paid. Tax management is becoming an important issue for these farmers and some may carry forward losses or purchased fertiliser to offset their taxable profit.

The farm surplus for reinvestment is \$216 100, an increase of \$152 800. Farmers used this surplus to reduce term debt rather than buying new capital. Principal repayments increased significantly to \$110 000 while capital purchases increased \$4000 to \$26 400.

BUDGET FINANCIAL PERFORMANCE OF THE SOUTHLAND SOUTH/OTAGO HILL COUNTRY SHEEP AND BEEF MODEL FARM IN 2011/12

The cash operating surplus for 2011/12 is expected to increase 14 percent to \$435 000 as the lambing percentage improves and fewer store lambs are likely to be purchased. Wool returns are expected to be higher, as farmers expect wool price gains to carry over to the 2011/12 year.

IMPROVED LAMBING PERCENTAGE TO OFFSET A FALL IN LAMB PRICE

Farmers expect lambing to return to 2009/10 levels at around 134 percent. Ewes were mated in good condition in 2011, with mild autumn conditions and good pasture growth. The extra lambs on the farm are expected to more than offset an anticipated 5 percent decrease in the lamb price to \$104.81 per head. Sheep sales less purchases are expected to increase 6 percent to \$562 800.

WOOL EXPECTED TO BECOME A SIGNIFICANT PROPORTION OF INCOME

Wool income is expected to rise to \$106 100 in the 2011/12 season, a 24 percent increase. Farmers expect prices to hold in the short-term with an average of \$4.16 per kilogram greasy anticipated. However, many are sceptical that higher wool prices will hold for long.

»» TABLE 4: SOUTHLAND/SOUTH OTAGO HILL COUNTRY SHEEP AND BEEF MODEL CASH FARM INCOME

YEAR ENDED 30 JUNE	2007/08 (\$)	2008/09 (\$)	2009/10 ¹ (\$)	2010/11 (\$)	2011/12 BUDGET (\$)
Sheep sales less purchases	271 690	370 660	370 429	528 622	562 829
Cattle sales less purchases	52 692	55 703	63 928	83 880	89 047
Wool	61 621	56 289	60 692	85 577	106 067
Grazing income (including hay and silage sales)	6 088	6 100	10 290	6 000	6 240
Other income	0	0	13 480	9 774	7 767
Net cash income	392 091	488 752	518 819	713 853	771 950

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.

BEEF VALUES EXPECTED TO RISE FURTHER

Farmers anticipate the beef price to be slightly higher in 2011/12 with some of the 2010/11 price gain occurring late in the season and expected to carry over to next year.

FARM EXPENDITURE EXPECTED BE STATIC

Farm expenditure is only expected to rise 1 percent to \$337 000 in 2011/12, as farmers expect the reductions in inputs made in 2010/11 to offset the increased cost of inputs in 2011/12.

Farmers are anticipating employing more casual labour in the budget year as higher lamb prices encourage production gains that require more stock management. Many farmers are happy to pay more for their lambing shepherds to stay on the farm. Employer ACC levies are expected to rise 50 percent to \$11 600 in 2011/12 as net trading profits improve.

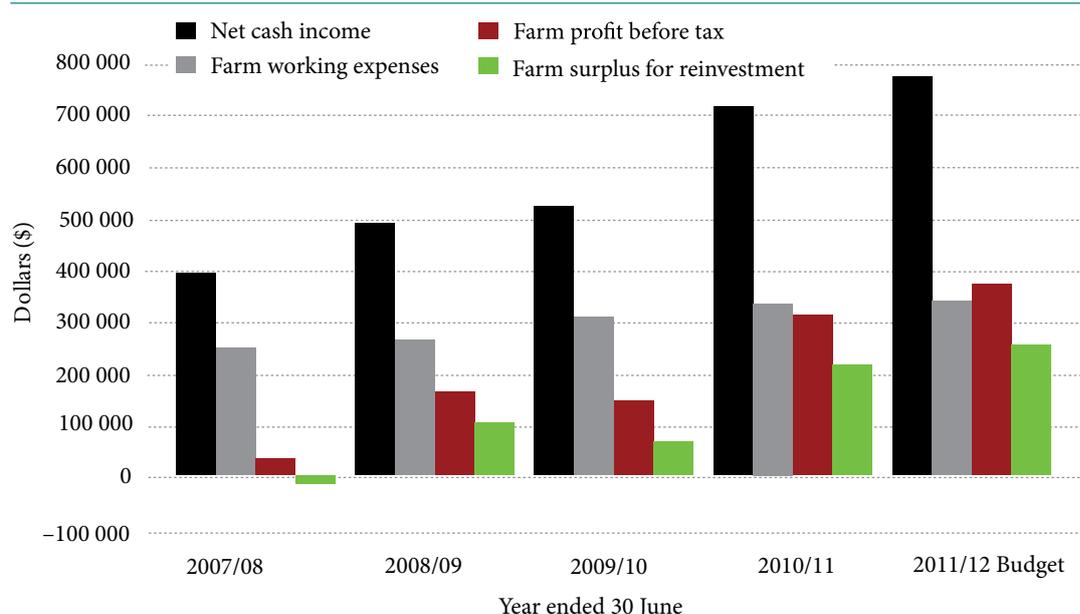
Spending on lime is expected to increase for the second year running to \$18 300. Lime is a discretionary item on these farms, where the pH is often below optimum. With the expected improvement in income, farmers anticipate spending more money on lime in 2011/12.

Items such as weed and pest control, repairs and maintenance and feed are all expected to decline next year as expenditure on these items returns to typical levels.

Farmers anticipate energy prices will increase, with fuel expected to increase 12 percent and electricity 10 percent. Farmers have seen fuel prices lift over the 2010/11 season and expect the trend to continue into 2011/12. Farmers are very aware of pressures on insurance companies and they expect some of this financial pressure to flow into their farm costs. The budgeted increase in insurance is 15 percent to \$8700.

Debt servicing is expected to fall a further 22 percent to \$35 700, at just 5 percent of net cash income.

»» FIGURE 1: SOUTHLAND/SOUTH OTAGO HILL COUNTRY SHEEP AND BEEF MODEL PROFITABILITY TRENDS



Notes

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.

Farm surplus for reinvestment is the cash available from the farm business, after meeting living costs, which is available for investment on the farm or for principal repayments. It is calculated as farm profit after tax plus depreciation plus stock adjustments less drawings.



NET RESULT IMPROVES

Farm profit before tax is expected to increase 19 percent to \$373 100 in 2011/12. Taxation is likely to be a major obstacle at \$75 600 and tax management is anticipated to be essential for this highly profitable system. Farmers expect to use their surplus conservatively, reducing principal repayments 36 percent to \$70 000 and increasing net capital purchases 9 percent to \$28 700.

INFORMATION ABOUT THE MODEL

This model represents 720 farms in the moderately rolling clay downlands to steeper hill country in South Otago and Southland. These farms tend to have mostly cultivated pastures with the balance in improved but steeper hill land tussock blocks.

Stock systems tend to be made up of breeding ewes with some lambing hoggets. The majority of lambs are finished. There is a herd of breeding cows with their best calves finished. Dairy cow grazing is included in this model but continues to diminish.

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.

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