

CANTERBURY/MARLBOROUGH HILL COUNTRY 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

- › A good spring and summer over most of the region in 2009/10 lifted lamb survival and lambing percentage as well as boosting cattle sale weights.
- › Improved lambing percentage and good demand for store and prime lambs lifted sheep revenue in 2009/10 and helped increase net cash income to \$375 900.
- › Farm working expenses were held at \$230 800, a 4 percent increase on 2008/09. Feed costs increased, but interest costs fell substantially in 2009/10.
- › Farm profit before tax has increased 52 percent to \$71 200 in 2009/10; this results in a farm surplus for reinvestment of \$42 200.
- › Drought affected parts of both South and North Canterbury in 2009/10. Farmers in these areas had to sell store and capital stock and buy in supplementary feed.

»» TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE CANTERBURY/MARLBOROUGH HILL COUNTRY SHEEP AND BEEF FARM MODEL

YEAR ENDED 30 JUNE	2006/07	2007/08	2008/09	2009/10 ¹	2010/11 BUDGET
Effective area (ha)	1 397	1 397	1 397	1 397	1 397
Breeding ewes (head)	2 597	2 706	2 614	2 600	2 600
Replacement ewe hoggets (head)	783	787	664	650	650
Other sheep (head)	403	414	0	389	290
Breeding cows (head)	220	207	0	192	196
Rising 1-year cattle (head)	136	135	143	140	140
Other cattle (head)	41	42	30	73	68
Opening sheep stock units (ssu)	3 431	3 551	3 318	3 380	3 315
Opening cattle stock units	1 952	1 976	2 048	2 022	2 072
Opening total stock units (su)	5 384	5 614	5 482	5 487	5 462
Stocking rate (stock unit/ha)	3.9	4.0	3.9	3.9	3.9
Ewe lambing (%)	112	112	111	118	114
Average lamb price (\$/head)	44.08	46.02	70.51	70.02	71.77
Average store lamb price (\$/head)	37.51	33.00	58.00	61.50	63.00
Average prime lamb price (\$/head)	52.00	54.64	79.00	74.00	75.00
Average wool price (\$/kg)	3.18	3.25	3.10	3.28	3.15
Total wool produced (kg)	17 190	16 624	15 560	15 730	15 470
Wool production (kg/ssu)	5.01	4.68	4.69	4.65	4.67
Average rising 2-year steer (\$/head)	653	683	1 025	700	750
Average cull cow (\$/head)	554	454	0	643	571
Net cash income (\$)	283 033	295 744	362 009	375 894	343 732
Farm working expenses (\$)	207 394	214 467	222 964	230 784	232 560
Farm profit before tax (\$)	28 950	4 316	46 854	71 179	49 973
Farm surplus for reinvestment (\$) ²	-24 696	-21 247	35 519	42 238	5 269

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.



»» TABLE 2: CANTERBURY/MARLBOROUGH HILL COUNTRY 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	209 229	150	61.90	194 680	139	58.73
Wool	51 594	37	15.26	48 706	35	14.69
Cattle	109 331	78	54.07	96 066	69	46.36
Grazing income (including hay and silage sales)	5 040	4	59.29	7 280	5	97.07
Other farm income	10 700	8	1.95	7 500	5	1.37
LESS:						
Sheep purchases	6 500	5	1.92	6 500	5	1.96
Cattle purchases	3 500	3	1.73	4 000	3	1.93
Net cash income	375 894	269	68.51	343 732	246	62.93
Farm working expenses	230 784	165	42.06	232 560	166	42.58
Cash operating surplus	145 110	104	26.45	111 171	80	20.35
Interest	37 660	27	6.86	37 660	27	6.89
Rent and/or leases	5 000	4	0.91	4 000	3	0.73
Stock value adjustment	-12 035	-9	-2.19	0	0	0.00
Minus depreciation	19 237	14	3.51	19 539	14	3.58
Farm profit before tax	71 179	51	12.97	49 973	36	9.15
Taxation	7 292	5	1.33	9 735	7	1.78
Farm profit after tax	63 887	46	11.64	40 238	29	7.37
ALLOCATION OF FUNDS						
Add back depreciation	19 237	14	3.51	19 539	14	3.58
Reverse stock value adjustment	12 035	9	2.19	0	0	0.00
Income equalisation	0	0	0.00	0	0	0.00
Off-farm income	15 000	11	2.73	8 000	6	1.46
Discretionary cash	110 158	79	20.08	67 776	49	12.41
APPLIED TO:						
Net capital purchases	15 000	11	2.73	10 000	7	1.83
Development	16 622	12	3.03	6 000	4	1.10
Principal repayments	11 000	8	2.00	6 000	4	1.10
Drawings	52 921	38	9.64	54 507	39	9.98
New borrowings	6 000	4	1.09	6 000	4	1.10
Introduced funds	0	0	0.00	0	0	0.00
Cash surplus/deficit	20 616	15	3.76	-2 731	-2	-0.50
Farm surplus for reinvestment²	42 238	30	7.70	5 269	4	0.96
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	4 675 000	3 346	852.03	4 675 000	3 346	855.92
Plant and machinery (opening)	78 245	56	14.26	81 508	58	14.92
Stock valuation (opening)	680 844	487	124.09	668 809	479	122.45
Other produce on hand (opening)	0	0	0.00	0	0	0.00
Total farm assets (opening)	5 434 089	3 890	990.38	5 425 317	3 884	993.29
Total assets (opening)	5 674 089	4 062	1 034.12	5 425 317	3 884	993.29
Total liabilities (opening)	556 500	398	101.42	556 500	398	101.89
Total equity (farm assets - liabilities)	4 877 589	3 491	888.95	4 868 817	3 485	891.41

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: CANTERBURY/MARLBOROUGH HILL COUNTRY 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	23 936	17	4.36	25 585	18	4.68
Casual wages	9 863	7	1.80	8 065	6	1.48
ACC	1 266	1	0.23	1 433	1	0.26
Total labour expenses	35 065	25	6.39	35 083	25	6.42
Animal health	17 453	12	3.18	17 798	13	3.26
Breeding	1 043	1	0.19	1 112	1	0.20
Electricity	6 760	5	1.23	6 952	5	1.27
Feed (hay and silage)	15 680	11	2.86	14 461	10	2.65
Feed (feed crops)	6 968	5	1.27	5 562	4	1.02
Feed (grazing)	1 939	1	0.35	1 947	1	0.36
Feed (other)	2 272	2	0.41	3 337	2	0.61
Fertiliser	29 016	21	5.29	26 826	19	4.91
Lime	2 400	2	0.44	4 000	3	0.73
Cash crop expenses ²	1 000	1	0.18	800	1	0.15
Freight (not elsewhere deducted)	166	0	0.03	167	0	0.03
Regrassing costs	8 145	6	1.48	8 065	6	1.48
Shearing expenses	18 590	13	5.50	18 231	13	5.50
Weed and pest control	8 644	6	1.58	8 176	6	1.50
Fuel	12 744	9	2.32	13 349	10	2.44
Vehicle costs (excluding fuel)	10 250	7	1.87	10 290	7	1.88
Repairs and maintenance	19 393	14	3.53	19 467	14	3.56
Total other working expenses	162 463	116	29.61	160 539	115	29.39
Communication costs (phone and mail)	2 050	1	0.37	2 058	1	0.38
Accountancy	4 156	3	0.76	4 171	3	0.76
Legal and consultancy	2 216	2	0.40	2 225	2	0.41
Other administration	3 879	3	0.71	3 893	3	0.71
Water charges (irrigation)	1 108	1	0.20	1 669	1	0.31
Rates	10 527	8	1.92	10 901	8	2.00
Insurance	4 987	4	0.91	5 006	4	0.92
ACC employer	2 118	2	0.39	4 790	3	0.88
Other expenditure	2 216	2	0.40	2 225	2	0.41
Total overhead expenses	33 257	24	6.06	36 938	26	6.76
Total farm working expenses	230 784	165	42.06	232 560	166	42.58
CALCULATED RATIOS						
Economic farm surplus (EFS ³)	38 839	28	7.08	16 633	12	3.05
Farm working expenses/NCI ⁴	61%			68%		
EFS/total farm assets	0.7%			0.3%		
EFS less interest and lease/equity	-0.1%			-0.5%		
Interest+rent+lease/NCI	11.3%			12.1%		
EFS/NCI	10.3%			4.8%		
Wages of management	75 000	54	13.67	75 000	54	13.73

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 CANTERBURY/MARLBOROUGH HILL COUNTRY SHEEP AND BEEF FARM MODEL IN 2009/10

The cash operating surplus in 2009/10 was very similar to the previous year increasing only slightly to \$145 100, with a slightly improved net cash income almost offset by an increase in farm working expenses.



BETTER LAMBING LIFTS REVENUE

Net cash income increased due to a lift in lambing percentage. Lamb survival rates were very good over most of the lambing season due to the mild weather conditions. Feed conditions throughout most of the region were very good over spring and summer, thus allowing hill country farmers to finish more lambs, selling two-thirds of lambs as prime, compared with 55 percent in 2008/09. The strong demand for lambs kept store prices at good levels right through the season, with a margin of only \$12.50 between the price for prime and store lamb.

The average lamb price at \$70.02 was virtually the same as 2008/09, with better store prices and a bigger proportion sold prime, offsetting the \$5.00 drop in prime price.

DROUGHT AFFECTS PART OF THE REGION

Parts of south Canterbury and north Canterbury suffered from drought during the 2009/10 season. The Mackenzie and Waimate districts were declared a drought area in April 2010 following a very dry summer and autumn, in which they had to sell stock store, destock capital stock and buy in supplementary feed. While north Canterbury had a reasonable summer, a very dry autumn led to a drought declaration in May. Farmers in this area had to sell some capital stock and buy in supplementary feed.

GOOD FEED CONDITIONS BOOST CATTLE WEIGHTS AND PRICES

Good feed conditions over most of the region gave good carcass weights on finishing cattle, and weaner calf weights were 15 to 25 kilograms heavier than normal. Prices lifted further as farmers took advantage of good demand for weaner cattle both locally and from the North Island. They sold their best steer and heifer calves and retained the lighter weaners to rear themselves. Drought-affected farmers destocked breeding cows, but over the rest of the region cows were in the fattest condition seen for many years. Cattle revenue was down slightly from 2008/09 to \$109 300 mostly because there were fewer older cattle sold.

WOOL RETURNS LIFT A LITTLE

Wool prices lifted 6 percent providing some encouragement for farmers but wool still contributes only 14 percent of revenue.

FARMERS KEEP SPENDING UNDER CONTROL

Farm working expenses in 2009/10 were \$230 800, a 4 percent increase on 2008/09. Overall farm working expenses are 61 percent of net cash income. However, farm accountants report that the farm working expenses to net cash income ratio is over 70 percent for many farmers.

MOST EXPENSES INCREASED SLIGHTLY

Most farm working expenses increased slightly either as a result of inflation, or through slightly higher usage. Animal health, electricity, regrassing, fuel, administration, rates and insurance all increased slightly in 2009/10. Animal health costs have increased partly through new formulations of internal parasite control being more expensive, rather than increased number of treatments.

FEED EXPENSES UP

Feed expenses increased in 2009/10. Farmers not affected by drought conserved nearly double the normal amount of hay and silage in 2009/10, while many of those affected by drought had lower conservation costs, but had to buy in some supplementary feed.

FERTILISER SPENDING HELD

Fertiliser use has increased slightly in 2009/10, as lower fertiliser prices and a slight increase in spending to \$29 000 allowed farmers to increase the area topdressed. Hill country farmers have maintained fertiliser on their paddock area, but have typically topdressed only one third to half of their hill country. Some farmers have not used fertiliser on their hill country for several years, while others are maintaining applications to maintain or improve production.

Spending on lime continues to increase as some farmers use lime as a substitute for fertiliser.

INTEREST COSTS FALL

Interest costs have fallen as low floating interest rates have flowed through to farm mortgages. Historically, most farm loans have been on fixed rates for two to five years. As loans have come up for renewal farmers have moved to floating rate loans. This is thought to have reduced the typical interest rate by 1.5 to 2.0 percent.

Interest and rent is only 11 percent of net cash income.

CASH DISPOSAL MODEST

Farmers continued to spend modest amounts on development and capital purchases in the 2009/10 season. There were some principal repayments; however, industry commentators consider that this is most likely repayment of hire purchase, and that there was very little repayment of term loan principal. Some new borrowings were associated with the capital purchases.

FARM PROFIT IMPROVES

Farm profit before tax lifted to \$71 200, an increase of \$24 300 in 2009/10. However, this was influenced partly by decreases in stock on hand. Farm surplus for reinvestment increased by \$6700 to \$42 200 in 2009/10, the highest level for some years.

The value of land and buildings was revised downwards to around \$850 per stock unit, based on the view of farmers monitored and industry commentators. There were very few farm sales to determine farm values but continued strength in the dairy industry has underpinned these hill country farmers' expectations.

»»» TABLE 4: CANTERBURY/MARLBOROUGH HILL COUNTRY 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	112 318	132 606	183 066	202 729	188 180
Cattle sales less purchases	99 650	83 410	106 507	105 831	92 066
Wool	54 666	54 028	48 236	51 594	48 706
Grazing income (including hay and silage sales)	2 800	9 500	10 500	5 040	7 280
Other income	13 600	16 200	13 700	10 700	7 500
Net cash income	283 033	295 744	362 009	375 894	343 732

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 CANTERBURY/ MARLBOROUGH HILL COUNTRY SHEEP AND BEEF FARM MODEL IN 2010/11

The cash operating surplus for 2010/11 is expected to fall due to a lower lambing percentage, reduced cattle sales and slightly increased farm working expenses.

REVENUE DOWN 10 PERCENT

Net cash income is expected to fall 10 percent in 2010/11 to \$343 700 compared with \$375 900 in 2009/10. Most classes of income are expected to decline with the exception of grazing which is expected to increase 44 percent to \$7300.

LAMBING PREDICTED TO FALL

Following the dry autumn in 2010, ewes were losing condition, as they were put to the ram. Monitored farmers are still expecting a reasonable lambing season, but industry commentators feel that ewes were lighter going to the ram than farmers originally thought, subsequently lowering performance in 2010/11. The 2009/10 season had very good weather during lambing. A return to more typical lambing conditions and poorer survival rates would also indicate a drop in lambing percentage for the 2010/11 season.

Farmers have budgeted a small rise in both the prime and store lamb price, partly because they expect there to be a shortage of lambs for the 2010/11 season.

Gross sheep revenue is expected to fall 7 percent to \$194 700 (resulting from a lower expected lambing percentage). However, bad weather at lambing or a dry summer could cause revenue to fall even further in 2010/11.

CATTLE REVENUE DOWN

Gross cattle revenue is expected to fall 12 percent in 2010/11 to \$96 000, because of expected lower prices for all classes of cattle. This result will be very weather dependent, with a good season giving better sale weights for stock and stronger demand for store and prime markets.

OTHER REVENUE ALSO DOWN

Wool prices are predicted to be 4 percent lower in 2010/11, resulting in lower wool income. Grazing income is expected to continue to rise, with an increase in demand from dairy farmers but other income from deer is expected to fall.

NO INCREASE IN EXPENDITURE

Farmers expect farm working expenses to be very similar to the 2009/10 year, with only a slight increase to \$232 600 compared with \$230 800 in 2009/10.

2010/11 BUDGETS TIGHT

Monitored farmers have indicated that they intend to keep a tight rein on expenses in 2010/11 with only slight increases in some spending categories, and expected cut backs in other areas. Animal health, electricity and fuel are expected to increase slightly through inflation and the impact of the Emissions Trading Scheme.

Feed costs are expected to reduce with less feed being bought in, and less hay and silage being made. This will be dependent on the weather, and already in the early part of the 2010 winter, feed usage has been higher than planned for many farmers.

Fertiliser expenditure is expected to be cut in 2010/11 with fertiliser on crops and paddocks maintained, but less fertiliser applied on the hill. This will be reviewed by farmers in the autumn, when the returns for lamb

and wool are better known. Lime spending is predicted to increase in 2010/11 to \$4000 as farmers move to correct pH levels in soils.

NO CHANGE IN INTEREST COSTS

Interest costs are expected to remain unchanged for the coming year. Some farmers still have fixed loans which will come onto lower floating rates and provide downward pressure on interest costs, while those who are on floating rates expect only a slight increase over the coming year. At present, farmers are reluctant to fix loans when the floating interest rate is so much lower than the longer term fixed rate.

With the drop in income in 2010/11, interest and rent are budgeted to represent 12 percent of net cash income.

NET RESULT PREDICTED TO DETERIORATE

The drop in cash operating surplus is expected to reduce farm profit before tax in 2010/11 and is less than the 2008/09 year at about \$50 000. This flows into the farm surplus for reinvestment and the cash surplus, both of which indicate a low level of profitability for the 2010/11 season. When the optimism farmers have shown regarding lambing percent and lamb price is taken into account, some farmers could have a very difficult 2010/11.

CASH DISPOSAL RESTRAINED

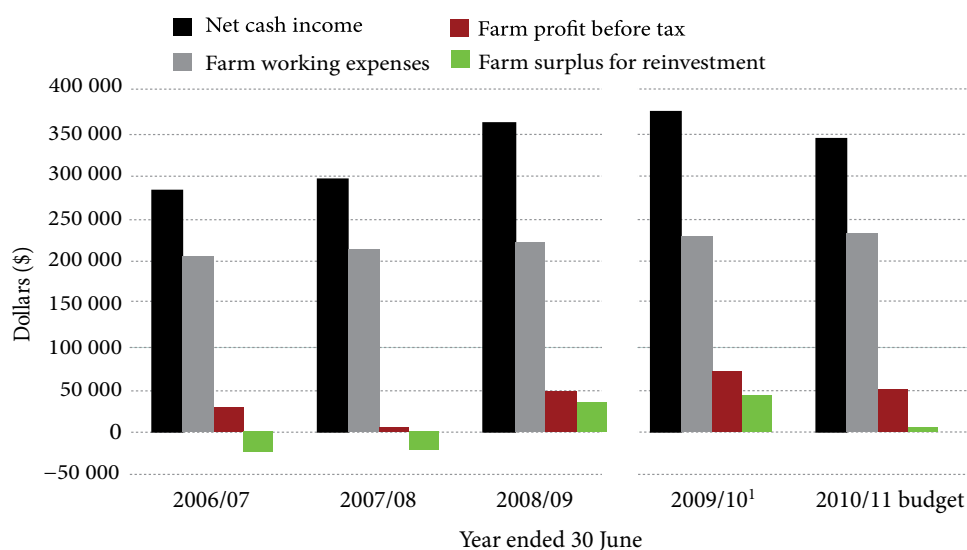
Farmers expect to restrain cash disposal in 2010/11, with only modest levels of development and capital spending planned. Drawings are expected to increase slightly, due to the flow on effects of increased GST.

INFORMATION ABOUT THE MODEL

This model represents 425 hill country farms in Canterbury and Marlborough. Farms have a proportion of land that is in tussock, or too steep to be cultivated by two wheeled tractors. They run fine wool, mid-micron or crossbred sheep according to the class of country and farmer preference. They run breeding flocks and herds and produce a proportion of store stock.

For more information on this model contact: john.greer@maf.govt.nz

»» FIGURE 1: CANTERBURY/MARLBOROUGH HILL COUNTRY SHEEP AND BEEF MODEL PROFITABILITY TRENDS



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.

PUBLISHER

Ministry of Agriculture and Forestry
PO Box 2526, Wellington 6140, New Zealand
Tel +64 4 894 0100 or Freephone 0800 008 333
Email: policy.publications@maf.govt.nz
Web: www.maf.govt.nz
ISBN 978-0-478-36380-7 (Online)
© Crown copyright – Ministry of Agriculture and Forestry 2010

**DISCLAIMER**

The information in this report by the Ministry of Agriculture and Forestry is based on the best information available to the the Ministry at the time it was drawn up and all due care was exercised in its preparation. As it is not possible to foresee all uses of this information or to predict all future developments and trends, any subsequent action that relies on the accuracy of the information in this report is the sole commercial decision of the user and is taken at his/her own risk. Accordingly, the Ministry of Agriculture and Forestry disclaims any liability whatsoever for any losses or damages arising out of the use of this information, or in respect of any actions taken.

New Zealand Government