

The national sheep and beef budget depicted below has been constructed via a weighted average of the MAF sheep and beef farm monitoring models. The weighting is based on the number of farms each model represents. The weightings, on the model basis, are as follows:

Canterbury/Marlborough hill country	4 percent	Canterbury/Marlborough breeding and finishing	14 percent
Hawke's Bay/Wairarapa hill country	18 percent	Central North Island hill country	12 percent
Gisborne hill country	6 percent	Western lower North Island	4 percent
Northland	9 percent	Otago dry hill	4 percent
South Island high country	2 percent	Southland/South Otago intensive	15 percent
Southland/South Otago hill country	7 percent	Waikato/Bay of Plenty intensive	7 percent

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

- Seasonal conditions dominated the financial performance of the sheep and beef sector in 2009/10. Mild lambing conditions resulted in a record lambing percentage but drought in Northland, Central Otago, North Otago, and South Canterbury reduced production and forced the early sale of stock in these regions.
- Despite good demand for lamb the average price fell \$8.43 from 2008/09 and this has more than offset the increase in lambing percentage.
- Cash operating surplus for the national sheep and beef model fell 12 percent in 2009/10, or \$4.11 per stock unit, as a result of decreased income per stock unit and increased farm working expenses. It is predicted to fall a further 1 percent in 2010/11.
- Dairy grazing makes up an increasing proportion of net cash income in both 2009/10 and 2010/11.
- Interest expenses per stock unit have fallen as a result of lower interest rates flowing through to farm mortgages as they are renewed.
- Farmers faced with reduced discretionary cash kept a tight rein on drawings, capital purchases and development but the national model budget still shows very low profitability for sheep and beef farming.
- Sheep and beef farmers are taking a flexible approach to stocking policies as they seek to increase the returns per kilogram of dry matter from the land uses available to them.

▶▶▶ TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE NATIONAL SHEEP AND BEEF FARM MODEL

YEAR ENDED 30 JUNE	2006/07	2007/08 ^R	2008/09	2009/10 ¹	2010/11 BUDGET
Effective area (ha)	708	706	716	771	771
Opening total stock units (su)	4 588	4 404	4 185	4 716	4 747
Stocking rate (su/ha)	6.5	6.2	5.8	6.1	6.2
Ewe lambing (%)	126	116	116	129	128
Average lamb price (\$/head)	50.55	51.51	82	73.65	75.19
Average store lamb price (\$/head)	...	...	...	64.04	64.04
Average prime lamb price (\$/head)	...	...	...	76.47	77.45
Average wool price (\$/kg)	2.48	2.44	2.38	2.52	2.60
Total wool produced (kg)	15 923	14 311	13 263	14 726	15 080
Sheep income (\$)	154 314	141 523	192 214	226 098	224 148
Wool income (\$)	42 461	37 419	33 531	42 090	44 289
Cattle income (\$)	131 256	129 058	135 801	117 907	116 413
Net cash income (NCI) (\$)	293 543	274 973	327 481	362 550	360 686
Farm working expenses (FWE) (\$)	172 783	178 716	179 412	215 082	215 395
Cash operating surplus (\$)	120 760	96 258	148 069	147 468	145 291
Farm profit before tax (\$)	43 849	6 096	62 357	66 587	71 895
Discretionary cash (\$)	79 076	46 741	104 012	84 051	79 577
Farm surplus for reinvestment ² (\$)	3 158	-25 571	30 442	19 251	16 930
EFS ³ /ha (\$)	27	-20	65	66	71
EFS/su (\$)	4.11	-3.13	11.09	10.72	11.59
FWE/NCI (%)	59	65	55	59	62
EFS/Total farm assets (%)	0.5	-0.3	0.9	1.1	1.2

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 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.
- 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.

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*.
... Not available.



»» TABLE 2: NATIONAL 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	226 098	293	69.69	224 148	291	68.77
Wool	42 090	55	12.97	44 289	57	13.59
Cattle	117 907	153	80.70	116 413	151	78.79
Grazing income (including hay and silage sales)	16 177	21	3.43	18 770	24	3.95
Other farm income	15 757	20	3.34	14 077	18	2.97
LESS:						
Sheep purchases	21 927	28	6.76	22 175	29	6.80
Cattle purchases	33 552	44	22.96	34 835	45	23.58
Net cash income	362 550	470	76.88	360 686	468	75.98
Farm working expenses	215 082	279	45.61	215 395	279	45.37
Cash operating surplus	147 468	191	31.27	145 291	188	30.60
Interest	53 678	70	11.38	53 113	69	11.19
Rent and/or leases	5 313	7	1.13	5 022	7	1.06
Stock value adjustment	2 871	4	0.61	10 278	13	2.16
Minus depreciation	24 761	32	5.25	25 539	33	5.38
Farm profit before tax	66 587	86	14.12	71 895	93	15.14
Taxation	10 520	14	2.23	14 475	19	3.05
Farm profit after tax	56 068	73	11.89	57 419	74	12.10
ALLOCATION OF FUNDS						
Add back depreciation	24 761	32	5.25	25 539	33	5.38
Reverse stock value adjustment	-2 871	-4	-0.61	-10 278	-13	-2.16
Income equalisation	-1 752	-2	-0.37	527	1	0.11
Off-farm income	7 846	10	1.66	6 370	8	1.34
Discretionary cash	84 051	109	17.82	79 577	103	16.76
APPLIED TO:						
Net capital purchases	10 218	13	2.17	10 114	13	2.13
Development	4 978	6	1.06	4 356	6	0.92
Principal repayments	10 217	13	2.17	9 708	13	2.04
Drawings	56 955	74	12.08	56 277	73	11.85
New borrowings	3 757	5	0.80	5 116	7	1.08
Introduced funds	1 443	2	0.31	191	0.25	0.04
Cash surplus/deficit	6 883	9	1.46	4 429	6	0.93
Farm surplus for reinvestment²	19 251	25	4.08	16 930	22	3.57
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	4 077 894	5 288	864.69	3 771 285	4 890	794.40
Plant and machinery (opening)	125 081	162	26.52	121 277	157	25.55
Stock valuation (opening)	521 929	677	110.67	520 677	675	109.68
Other produce on hand (opening)	1 277	2	0.27	1 277	2	0.27
Total farm assets (opening)	4 726 181	6 128	1 002.15	4 414 517	5 724	929.89
Total assets (opening)	4 811 945	6 240	1 020.34	4 487 973	5 820	945.37
Total liabilities (opening)	688 634	893	146.02	682 535	885	143.77
Total equity (farm assets - liabilities)	4 037 547	5 236	856.13	3 731 981	4 839	786.12

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: NATIONAL 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	17 246	22	3.66	17 803	23	3.75
Casual wages	5 996	8	1.27	6 052	8	1.27
ACC	789	1	0.17	1 252	2	0.26
Total labour expenses	24 032	31	5.10	25 107	33	5.29
Animal health	15 415	20	3.27	15 961	21	3.36
Breeding	1 983	3	0.42	2 036	3	0.43
Electricity	4 937	6	1.05	5 517	7	1.16
Feed (hay and silage)	7 754	10	1.64	8 040	10	1.69
Feed (feed crops)	3 560	5	0.75	3 490	5	0.74
Feed (grazing)	1 193	2	0.25	860	1	0.18
Feed (other)	1 955	3	0.41	1 675	2	0.35
Fertiliser	37 403	49	7.93	39 903	52	8.41
Lime	4 910	6	1.04	6 340	8	1.34
Cash crop expenses ²	2 721	4	0.58	2 081	3	0.44
Freight (not elsewhere deducted)	5 034	7	1.07	5 321	7	1.12
Regrassing costs	5 827	8	1.24	5 718	7	1.20
Shearing expenses	18 072	23	5.57	18 695	24	5.74
Weed and pest control	6 686	9	1.42	6 760	9	1.42
Fuel	10 142	13	2.15	10 764	14	2.27
Vehicle costs (excluding fuel)	9 822	13	2.08	9 943	13	2.09
Repairs and maintenance	20 620	27	4.37	18 802	24	3.96
Total other working expenses	158 034	205	33.51	161 904	210	34.10
Communication costs (phone and mail)	2 574	3	0.55	2 887	4	0.61
Accountancy	3 823	5	0.81	3 846	5	0.81
Legal and consultancy	2 269	3	0.48	1 984	3	0.42
Other administration	2 117	3	0.45	2 346	3	0.49
Water charges (irrigation)	317	0	0.07	314	0	0.07
Rates	10 362	13	2.20	10 925	14	2.30
Insurance	5 948	8	1.26	6 188	8	1.30
ACC employer	2 988	4	0.63	4 495	6	0.95
Other expenditure	2 618	3	0.56	2 538	3	0.53
Total overhead expenses	33 016	43	7.00	35 524	46	7.48
Total farm working expenses	215 082	279	45.61	222 535	289	46.88
CALCULATED RATIOS						
Economic farm surplus (EFS ³)	50 578	66	10.72	55 030	71	11.59
Farm working expenses/NCI ⁴	59%			62%		
EFS/total farm assets	1.1%			1.2%		
EFS less interest and lease/equity	-0.2%			-0.1%		
Interest+rent+lease/NCI	16%			16%		
EFS/NCI	14%			15%		
Wages of management	75 000	97	15.90	75 000	97	15.80

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 NATIONAL SHEEP AND BEEF FARM MODEL IN 2009/10



The outlook for sheep and beef farming, as shown by the actual budget for 2009/10 and the prediction for 2010/11, is not bright. Despite the national model budget in 2009/10 reflecting structural soundness, profitability is still low. Farm working expenses and debt servicing are 59 percent and 16 percent of net cash income respectively. Both ratios are around industry best practice levels.

Farmers have shown spending restraint in 2009/10 to achieve small cash surpluses despite falling incomes. The cash surplus for the national farm model is \$6900, a 69 percent decrease compared with 2008/09. Return on capital is very low, at 1 percent, even though land prices per stock unit have been reduced 20 percent or \$209. Many farmers have higher debt servicing and operating costs than shown in this model and some are struggling to achieve profitability.

FALLING INCOME MAIN CONCERN

The profitability problem is simply a lack of income and this explains farmers' frustration with their product marketers and industry bodies. Wool represents around one eighth of income in 2009/10 and many feel that if this could be lifted to a quarter or a third then the sheep industry's prospects would be improved. Farmers felt that lamb prices achieved in 2008/09 provided some profitability and were looking forward to further lifts at the time. The \$8.43 drop in average lamb price in 2009/10, to \$73.65 compared with \$82.08 in 2008/09, has disappointed farmers even if most of the reduction can be explained by movements in the exchange rate. They are also disappointed that the outlook for 2010/11 is no better. In fact industry commentators consider that farmers' expectation of prices similar to 2009/10 are optimistic so farmers may be further disappointed. This disappointment is exacerbated when they compare their situation with the performance of the dairy industry.

The cash operating surplus per stock unit for the national sheep and beef model fell 12 percent or \$4.11 to \$31.27 per stock unit in 2009/10 as a result of decreased income per stock unit and increased farm working expenses.

RECORD LAMBING PERCENTAGE

Mild lambing conditions over the whole of the country gave a record lambing percentage on the national model of 129 percent; however, this was not enough to overcome the drop in lamb price in 2009/10. Sheep revenue (sales less purchases) per sheep stock unit fell 5 percent to \$62.93 per sheep stock unit in 2009/10.

Lower lamb schedule prices, generally attributed to the higher exchange rate for the New Zealand dollar, caused the average lamb price to fall \$8.43 compared with 2008/09. Most regions had slow lamb growth over spring and summer because of a cool late spring inhibiting pasture growth. However, most parts of the country were able to finish lambs to typical weights or even above average weights because of good summer rains. In Southland, the cool moist season delayed lamb finishing while in Northland, South Canterbury, North Otago and Central Otago drought from late October until May reduced lamb growth and increased the number of lambs sold store.

STORE LAMB PRICES ABOVE USUAL LEVELS

The store lamb price was well above usual levels at \$64.00 in 2009/10 and on average only \$12.43 below the prime lamb price compared with a traditional margin of around \$20.00. This was due to a shortage of stock at the processing plants and strong demand for stock in areas with good rainfall.

DROUGHT AFFECTED AREAS REDUCE STOCK NUMBERS

The drought-affected models of Northland, Otago dry hill and to a lesser extent Canterbury/Marlborough hill country all reduced stock numbers over 2009/10. Those areas recovering from previous droughts such as Hawke's Bay/Wairarapa, Gisborne, Waikato/Bay of Plenty and to a lesser extent central North Island all increased stock over 2009/10.

WOOL INCOME INCREASES

Wool income on the national model increased to \$42 100 in 2009/10 due to the average wool price increasing slightly from \$2.38 in 2008/09 to \$2.52 in 2009/10. In some regions this has given farmers hope for the wool industry but most still lack confidence in the industry. On average, shearing expenses were 43 percent of wool income in 2009/10. Many farmers held wool over from previous years in the hope of improved prices but these farmers have sold much of these reserves during the year. Wool stores report substantially less wool in stock than a year ago.

DROUGHT DECREASES CATTLE INCOME

Drought has also affected cattle income with drought-affected areas selling cattle earlier and at lighter weights. Some areas had inflated income from drought sales while others were rebuilding herds or opened with fewer animals and had fewer to sell. In 2009/10, cattle income decreased 13 percent to \$117 900 compared with \$135 800 in 2008/09. Farmers have adopted flexible cattle policies in order to optimise profits. On average the rising two year cattle price has increased 5 percent or \$36.00.

Grazing income has increased 85 percent compared with 2008/09 to \$16 200, as sheep and beef farmers increased their sales of hay and silage to dairy farmers and took on more dairy grazers. Industry commentators feel that the relationship between dairy farmers and sheep and beef farmers has matured somewhat. Along with the improved dairy payout, this has given sheep and beef farmers the confidence to increase their reliance on dairy grazing.

FARM WORKING EXPENSES INCREASE 6 PERCENT

Farm working expenses per stock unit have increased 6 percent or \$2.74 per stock unit to \$45.61. In general, costs increased in most models except for drought-affected farmers who had to severely constrain spending to offset reduced income.

COSTS INCREASING

Comparisons of individual expense items with the 2008/09 year are difficult with the change in farmers monitored. Feed costs increased in 2009/10 as farmers who had a good season took the opportunity to refill hay barns and spent more on feed conservation and those affected by drought bought in more feed.

Fertiliser spending also increased as farmers took advantage of lower fertiliser prices to increase applications to near to maintenance fertiliser levels. The trend for some farmers to use lime as a substitute for fertiliser has continued. Farmers have increased spending on repairs and maintenance in many models with repairs and maintenance on the national model increasing 5 percent or 19 cents per stock unit compared with 2008/09. Most other costs increased slightly, mainly through inflation.

Overall farm working expenses represent 59 percent of net cash income compared with 55 percent in 2008/09.

INTEREST RATES FALL SLIGHTLY

Farmers report lower interest expenditure with loans being refinanced at lower rates as they come up for renewal. While the official cash rate has started to rise, most loans renewed during the year have achieved reduced interest rates with average rates reducing by 0.8 percentage points (10 percent). The effect is masked slightly by the change in farms monitored as interest expenses per stock unit have fallen only 2 percent but debt per stock unit has increased 8 percent. Interest and lease costs represent 16 percent of net cash income, the same as 2008/09 with the drop in interest expenditure in proportion to the drop in income.

DECREASE IN CASH SURPLUS IN 2009/10

Cash disposal appears to have been restrained during the 2009/10 year with spending on drawings and capital purchases reduced and development held at the same level. Despite this the farm surplus for reinvestment and the cash surplus have both fallen to \$19 300 and \$6900 respectively. Tax has increased substantially with low provisional tax paid in 2008/09 causing higher terminal tax payments in 2009/10 along with higher provisional tax. However, tax for sheep and beef farmers is still relatively low.

BUDGET FINANCIAL PERFORMANCE OF THE NATIONAL SHEEP AND BEEF FARM MODEL IN 2010/11

Cash operating surplus in 2010/11 is predicted to be very similar to 2009/10 with farmers expecting incomes to fall 1 percent while they hold farm working expenses down to the same amount as 2009/10.

SHEEP REVENUE EXPECTED TO FALL, WOOL INCOME UP

Sheep revenue (sales less purchases) is expected to fall 1 percent in 2010/11 to \$202 000. Farmers expect the lambing percentage to be similar to 2009/10 (the best year on record for the national model) at 128 percent. Areas affected by autumn drought are predicting a drop in lambing percentage while those that recovered from previous droughts in 2009/10 are predicting a lift in lambing. Across the country farmers were more optimistic about lambing than industry commentators with it appearing that most farmers are expecting similar lamb survival in 2010 as in spring 2009, one of the best ever. Farmers also expect both prime and store lamb prices to be similar to 2009/10. Again industry commentators think this is optimistic, particularly for store lambs.

Wool income is expected to rise 5 percent to \$44 300 due to an expected lift in wool weights and wool price.

CATTLE INCOME EXPECTED TO FALL, GRAZING INCOME UP

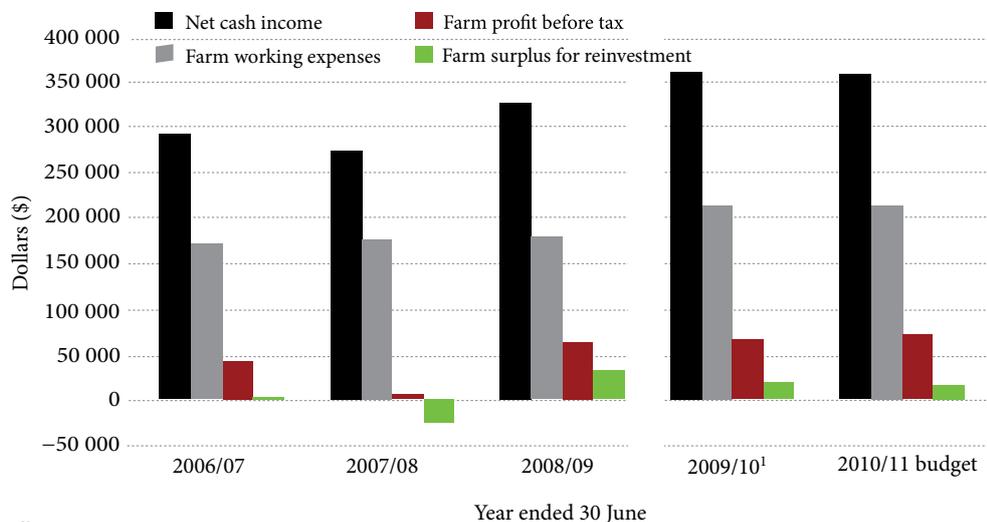
Cattle revenue (sales less purchases) is expected to fall 3 percent to \$81 600 compared with \$84 400 in 2009/10. Prices per head are expected to improve but following destocking for drought and implementation of more flexible purchase policies farmers have younger, lighter stock on hand in July 2010 compared with July 2009 so the average sale price is expected to be lower. Numbers sold are also down slightly as farmers plan to retain more stock by June 2011.

Grazing income is expected to increase a further 16 percent in 2010/11 to \$18 800 compared with \$16 200 in 2009/10. Other farm income is expected to fall slightly to \$14 100 compared with \$15 800 in 2009/10.

FARM WORKING EXPENSES INCREASE SLIGHTLY

Farmers plan to restrict farm working expenses and cash disposal in 2010/11 but expect that many expenses will increase with inflation. Total farm working expenses on the national model are expected to increase slightly to \$215 400. Electricity and fuel costs are predicted to increase as a result of implementation of the Emissions Trading Scheme (ETS). Other costs such as freight and contracting are also expected to rise because of the ETS.

»» FIGURE 1: NATIONAL 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.

Feed costs are expected to reduce a little. Initially farmers thought they would have good carryover of supplementary feed into the 2010/11 year but farmers have already fed out more than expected through the dry autumn and cold first half of the winter. Feed conservation is therefore likely to be similar to 2009/10.

Fertiliser prices are expected to increase but farmers plan to apply similar amounts of fertiliser to 2009/10. This will result in an expected 7 percent or \$2500 increase in fertiliser expenditure to \$39 900 compared with \$37 400 in 2009/10.

Repairs and maintenance is likely to be reduced 9 percent or \$1800 in 2010/11 as a way of holding costs overall.

INTEREST COSTS EXPECTED TO DECREASE

Interest costs are expected to fall a further 1 percent to \$53 100 in 2010/11 as lower interest rates flow through into farm mortgages. This enables interest costs to remain at 16 percent of net cash income despite the fall in income.

CASH SURPLUS FALLS SLIGHTLY

Cash disposal is expected to be further reduced with drawings budgeted to be reduced 1 percent and capital purchases and development to be further cut. The final outcome is that the cash surplus and farm surplus for reinvestment are slightly down on the levels in 2009/10.

INDUSTRY ISSUES AND DEVELOPMENTS

Sheep and beef farmers are under pressure from four different forces: low and static product prices, extreme weather events, tightly restricted finance from banks and steadily rising farm expenses. They are responding to these forces as best they can by changing to more profitable livestock policies, improving farm performance, changing land use, rigorously cutting costs wherever they can and developing other sources of income. While these changes will enable most to survive and many to make a modest profit they are no substitute for pursuing a sound and viable industry strategy.

INCOME

Farm gate prices for lamb, wool and sheep have been static with farmers in some regions experiencing a lift in income following a favourable season and farmers in others suffering a drop in income (often a year after the event), because of adverse weather usually either drought or floods. In fact the net cash income at nearly \$80 per stock unit in 2008/09 was no more than that achieved in 2001/02 in nominal terms. In 2009/10 net cash income on the national model was around \$77 per stock unit.

With the decline in income from wool, farm incomes have been much more reliant on lamb and beef income. Drought has occurred over a number of regions in each of the last four years reducing stock numbers for sale, forcing farmers to sell lambs and cattle at lower prices and reducing lambing percentage in the subsequent year. While these effects are masked somewhat in the national model by regions unaffected by drought, at the regional and individual level they have a big impact on farm incomes.

DEBT LEVELS

Historically, when farm incomes have been down farmers have borrowed against their equity as they were confident that rising land prices were insulating them. Despite this, debt levels in the industry are low with 83 percent equity in the national model budget. Over the last year many farmers have found it hard to borrow additional money. During the international credit crisis and subsequent recession banks have tightened their lending criteria and will not lend more money to farms that cannot show a reasonable profit. In addition, lending margins have increased. Some farmers have cut costs and pursued stock policies with a lower capital requirement. Selling grazing to dairy farms or taking on beef grazing earns a reasonable return but does not require overdraft finance to fund the purchase of stock and this partly explains the increase in grazing income in the national budget.

The decline in land values has also reduced banks preparedness to lend further funds to sheep and beef farmers. While there have been very few sales, the general view of the industry is that sheep and beef farm prices have probably moved downward about \$200 per stock unit over the last two years.

As a result of lower average interest rates and less additional borrowing, interest costs on farms have fallen slightly from \$11.63 per stock unit in 2008/09 to a predicted \$11.19 in 2010/11.

FARM WORKING EXPENSES

Beef and Lamb New Zealand (previously Meat and Wool New Zealand) report¹ that farm input prices actually fell 3.5 percent from March 2009 to March 2010. Fertiliser prices and interest rates showed the biggest fall and drove most of the overall reduction with 12 of the 16 expense categories actually showing increased prices. Over the longer term farm working expenses in the national model have increased 43 percent from \$31.79 per stock unit in 2000/01 to \$45.61 per stock unit in 2009/10. This long term trend is putting pressure on farmers.

Sheep and beef farmers have shown their resilience in the face of these pressures by adapting their management. They have become more flexible in their stocking policies carrying fewer breeding ewes and cattle to give increased flexibility in the case of adverse weather and also giving flexibility to trade stock when it is profitable. For instance farmers have moved to trading more cattle, and where possible, to trading store lambs. They are constantly reviewing the performance of their stock with some movement back to traditional breeds because they are easier to sell and cope better with adversity. Meat companies are another source of grazing income as they have become more involved in stock ownership as a way of securing stock for their plants, buying store stock and paying finishing farmers a grazing fee to finish them to their target weight.

Many farmers have partially changed land use by switching from beef finishing to dairy grazing. In the national model, grazing income has increased over the last two years.

In 2009/10, a drop in fertiliser prices allowed farmers to increase the amount of fertiliser applied and get back to near maintenance application levels. However, lack of fertiliser over a number of years, particularly in areas where spending has been cut during drought, is showing its effects on pastures. Farmers are concerned that pastures have not persisted over dry autumns and also that they may have trouble finishing stock because of the deterioration in pastures. Fertiliser is treated as a discretionary spending item and most farmers plan to increase spending a little in 2010/11 to hold fertiliser inputs despite expected price increases. As always this decision will not be implemented until the autumn when income levels are known.

In fact, farmers are reducing spending wherever they can as they are under pressure from their banks to stay within their previously approved overdraft limits. The budget for 2010/11 shows reductions in spending on feed, regrassing and repairs and maintenance. However, cost increases are expected in most categories of spending because of inflation. Administration expenditure is expected to increase as are rates and insurance, animal health and shearing. There is a real concern about the flow-on costs of the ETS with increases in fuel and electricity costs allowed for but flow on increases in freight and contracting costs also expected.

EMISSIONS TRADING SCHEME

Agribusiness professionals noted that they have been fielding many questions from farmers regarding their obligations under the ETS and how they can mitigate emissions through forestry. On hill country farms there is some temptation to move into afforestation to tap into carbon trading opportunities. While this is gathering momentum, farmers are well aware that this would be a permanent change in land use based on a non-physical market and are nervous about this prospect.

¹ Meat and Wool New Zealand (2010) *Movements in Sheep and Beef Farm Input Prices 2009 to 2010*. Meat and Wool New Zealand Economic Service: Paper No.P10025; Wellington.

DEVELOPING OTHER INCOME SOURCES

Farmers are pursuing opportunities for development or other sources of income where they have them. For instance, in the high country they are setting up tourism ventures as part of their farming business. The most common activity is remote accommodation, either lakeside, or back-country huts and cottages. Farmers in Southland and South Otago are taking advantage of selling kale crops for winter grazing of dairy cows as a way of funding their pasture development.

THE FUTURE OF MEAT

MAF's recent report *Meat: the Future. Opportunities and challenges for the New Zealand sheep meat and beef sector over the next 10-15 years*², evaluated four scenarios for the future:

- › Slippery slope.
- › A new market orientation.
- › Shrink-to-fit.
- › The knowledge industry.

Farmers fear that in the absence of a better alternative to the common saying “you can't shrink to success” the current sheep and beef sector approach seems to be falling somewhere between the “slippery slope” and “shrink-to-fit”. Most farmers believe passionately in their industry and are frustrated with the lack of progress toward a more sound industry strategy. Those with options are changing their policies to improve performance and often this means moving away from sheep. Industry commentators are concerned that as this occurs the loss of innovative farmers with investment capital to other industries will further limit the ability of the sheep and beef sector to recover its strength.

FURTHER INFORMATION

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

² Ministry of Agriculture and Forestry (2009) *Meat: the Future. Opportunities and challenges for the New Zealand sheep meat and beef sector over the next 10-15 years*. <http://www.maf.govt.nz/mafnet/publications/meat-the-future/index.htm>

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 978-0-478-37065-2 (Print)

ISBN 978-0-478-36385-2 (Online)

This report can be downloaded from www.maf.govt.nz.

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