

## 2009 PASTORAL MONITORING

# WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF



THIS REPORT CONTAINS THE KEY RESULTS FROM THE MINISTRY OF AGRICULTURE AND FORESTRY'S 2009 PASTORAL MONITORING PROGRAMME.

### KEY POINTS

- › Lambing was back 4 percentage points to 118 percent in 2008/09. This combined with fewer ewes on hand at the start of the year meant that 9 percent fewer lambs were born on the model farm. In 2009/10 the lambing percentage is expected to increase to 125 percent as ewe condition improves and more hoggets are mated.
- › Better prices were achieved in 2008/09 for all stock classes which resulted in net cash income increasing 11 percent to \$210 300. Cash operating surplus is expected to decrease 40 percent to \$54 200 in 2009/10. This is due to increased farm working expenses, restocking activity and a decrease in the cash cropping area providing less revenue to the model farm.
- › Most expenses increased slightly over the 2008/09 year but a 31 percent decrease in fertiliser expenditure to \$14 000 kept the total farm working expenses lower than the previous year. Farm working expenses are budgeted to rise 6 percent in 2009/10 as fertiliser volumes applied are expected to increase.
- › Prices and income from all revenue streams on the model farm are expected to fall in 2009/10 resulting in farm profit before tax more than halving to \$20 900. No increase in land values is expected, and concerns around succession planning in the region remains.

»» TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL

| YEAR ENDED 30 JUNE                              | 2005/06 | 2006/07 | 2007/08 <sup>R</sup> | 2008/09 | 2009/10<br>BUDGET |
|---|---------|---------|----------------------|---------|-------------------|
| Effective area (ha)                             | 208     | 208     | 220                  | 220     | 220               |
| Breeding ewes (head)                            | 1 172   | 1 175   | 1 066                | 1 004   | 969               |
| Replacement ewe hoggets (head)                  | 318     | 316     | 284                  | 255     | 280               |
| Other sheep (head)                              | 242     | 317     | 326                  | 292     | 214               |
| Breeding cows (head)                            | 0       | 0       | 0                    | 0       | 0                 |
| Rising 1-year cattle (head)                     | 98      | 105     | 105                  | 96      | 99                |
| Other cattle (head)                             | 70      | 70      | 76                   | 68      | 82                |
| Opening sheep stock units (ssu)                 | 1 566   | 1 620   | 1 495                | 1 388   | 1 316             |
| Opening cattle stock units                      | 806     | 838     | 961                  | 873     | 961               |
| Opening total stock units (su)                  | 2 372   | 2 457   | 2 456                | 2 261   | 2 277             |
| Stocking rate (stock unit/ha)                   | 11.4    | 11.8    | 11.2                 | 10.3    | 10.3              |
| Ewe lambing (%)                                 | 127     | 122     | 121                  | 118     | 125               |
| Average lamb price (\$/head)                    | 57.19   | 54.88   | 58.04                | 94.69   | 85.60             |
| Average wool price (\$/kg)                      | 2.23    | 2.19    | 2.20                 | 2.20    | 2.03              |
| Total wool produced (kg)                        | 8 521   | 8 231   | 7 750                | 6 558   | 6 876             |
| Wool production (kg/ssu)                        | 5.44    | 5.08    | 5.19                 | 4.72    | 5.23              |
| Average rising 2-year steer (\$/head)           | 749     | 798     | 724                  | 891     | 720               |
| Average cull cow (\$/head)                      | 0       | 0       | 0                    | 0       | 0                 |
| Net cash income (\$)                            | 172 529 | 162 584 | 189 309              | 210 332 | 181 685           |
| Farm working expenses (\$)                      | 110 805 | 110 841 | 122 347              | 119 813 | 127 495           |
| Farm profit before tax (\$)                     | 39 885  | 30 710  | 6 334                | 47 811  | 20 939            |
| Farm surplus for reinvestment (\$) <sup>1</sup> | -10 488 | -12 919 | -8 994               | 21 034  | -29 185           |

#### Note

<sup>1</sup> 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.

#### Symbol

<sup>R</sup> The model parameters have been revised so the data for 2007/08 will not match that published in the *Pastoral Monitoring Report 2008*.



»» TABLE 2: WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL BUDGET

|   | 2008/09               |                        |                            | 2009/10 BUDGET        |                        |                            | CHANGE<br>BETWEEN<br>2008/09 AND<br>2009/10 (%) |
|---|-----------------------|------------------------|----------------------------|-----------------------|------------------------|----------------------------|---|
|   | WHOLE<br>FARM<br>(\$) | PER<br>HECTARE<br>(\$) | PER STOCK<br>UNIT¹<br>(\$) | WHOLE<br>FARM<br>(\$) | PER<br>HECTARE<br>(\$) | PER STOCK<br>UNIT¹<br>(\$) |   |
| REVENUE   |                       |                        |                            |                       |                        |                            |   |
| Sheep   | 150 150               | 683                    | 108.15                     | 144 835               | 658                    | 110.06                     | -4  |
| Wool  | 14 428                | 66                     | 10.39                      | 13 958                | 63                     | 10.61                      | -3  |
| Cattle  | 124 252               | 565                    | 142.33                     | 123 020               | 559                    | 128.08                     | -1  |
| Grazing income (including hay and silage sales) | 8 130                 | 37                     | 3.60                       | 7 188                 | 33                     | 3.16                       | -12   |
| Other farm income                               | 16 900                | 77                     | 7.47                       | 7 100                 | 32                     | 3.12                       | -58   |
| LESS:   |                       |                        |                            |                       |                        |                            |   |
| Sheep purchases                                 | 39 680                | 180                    | 28.58                      | 41 502                | 189                    | 31.54                      | 5   |
| Cattle purchases                                | 63 848                | 290                    | 73.14                      | 72 914                | 331                    | 75.91                      | 14  |
| Net cash income                                 | 210 332               | 956                    | 93.01                      | 181 685               | 826                    | 79.81                      | -14   |
| Farm working expenses                           | 119 813               | 545                    | 52.98                      | 127 495               | 580                    | 56.00                      | 6   |
| Cash operating surplus                          | 90 520                | 411                    | 40.03                      | 54 190                | 246                    | 23.80                      | -40   |
| Interest  | 25 042                | 114                    | 11.07                      | 19 909                | 90                     | 8.75                       | -20   |
| Rent and/or leases                              | 2 800                 | 13                     | 1.24                       | 2 660                 | 12                     | 1.17                       | -5  |
| Stock value adjustment                          | 3 495                 | 16                     | 1.55                       | 6 616                 | 30                     | 2.91                       | 89  |
| Minus depreciation                              | 18 362                | 83                     | 8.12                       | 17 298                | 79                     | 7.60                       | -6  |
| Farm profit before tax                          | 47 811                | 217                    | 21.14                      | 20 939                | 95                     | 9.20                       | -56   |
| Taxation  | -3 756                | -17                    | -1.66                      | 14 406                | 65                     | 6.33                       | -484  |
| Farm profit after tax                           | 51 567                | 234                    | 22.80                      | 6 533                 | 30                     | 2.87                       | -87   |
| ALLOCATION OF FUNDS                             |                       |                        |                            |                       |                        |                            |   |
| Add back depreciation                           | 18 362                | 83                     | 8.12                       | 17 298                | 79                     | 7.60                       | -6  |
| Reverse stock value adjustment                  | -3 495                | -16                    | -1.55                      | -6 616                | -30                    | -2.91                      | 89  |
| Income equalisation                             | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Off-farm income                                 | 7 500                 | 34                     | 3.32                       | 7 500                 | 34                     | 3.29                       | 0   |
| Discretionary cash                              | 73 934                | 336                    | 32.70                      | 24 715                | 112                    | 10.86                      | -67   |
| APPLIED TO:                                     |                       |                        |                            |                       |                        |                            |   |
| Net capital purchases                           | 12 400                | 56                     | 5.48                       | 12 500                | 57                     | 5.49                       | 1   |
| Development                                     | 500                   | 2                      | 0.22                       | 300                   | 1                      | 0.13                       | -40   |
| Principal repayments                            | 14 808                | 67                     | 6.55                       | 0                     | 0                      | 0.00                       | -100  |
| Drawings  | 45 400                | 206                    | 20.08                      | 46 400                | 211                    | 20.38                      | 2   |
| New borrowings                                  | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Introduced funds                                | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Cash surplus/deficit                            | 826                   | 4                      | 0.37                       | -34 485               | -157                   | -15.15                     | -4274   |
| Farm surplus for reinvestment²                  | 21 034                | 96                     | 9.30                       | -29 185               | -133                   | -12.82                     | -239  |
| ASSETS AND LIABILITIES                          |                       |                        |                            |                       |                        |                            |   |
| Farm, forest and building (opening)             | 4 784 901             | 21 750                 | 2 116.00                   | 4 784 901             | 21 750                 | 2 101.87                   | 0   |
| Plant and machinery (opening)                   | 73 946                | 336                    | 32.70                      | 67 854                | 308                    | 29.81                      | -8  |
| Stock valuation (opening)                       | 256 818               | 1 167                  | 113.57                     | 260 313               | 1 183                  | 114.35                     | 1   |
| Other produce on hand (opening)                 | 682                   | 3                      | 0.30                       | 1 485                 | 7                      | 0.65                       | 118   |
| Total farm assets (opening)                     | 5 116 347             | 23 256                 | 2 262.57                   | 5 114 553             | 23 248                 | 2 246.67                   | 0   |
| Total assets (opening)                          | 5 205 700             | 23 662                 | 2 302.08                   | 5 189 966             | 23 591                 | 2 279.80                   | 0   |
| Total liabilities (opening)                     | 338 273               | 1 538                  | 149.59                     | 282 980               | 1 286                  | 124.30                     | -16   |
| Total equity (farm assets - liabilities)        | 4 778 074             | 21 719                 | 2 112.98                   | 4 831 573             | 21 962                 | 2 122.37                   | 1   |

**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.

**Symbol**

... Not applicable.

»»» TABLE 3: WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL EXPENDITURE

|                                      | 2008/09               |                        |                            | 2009/10 BUDGET        |                        |                            | CHANGE<br>BETWEEN<br>2008/09 AND<br>2009/10 (%) |
|--------------------------------------|-----------------------|------------------------|----------------------------|-----------------------|------------------------|----------------------------|---|
|                                      | WHOLE<br>FARM<br>(\$) | PER<br>HECTARE<br>(\$) | PER STOCK<br>UNIT¹<br>(\$) | WHOLE<br>FARM<br>(\$) | PER<br>HECTARE<br>(\$) | PER STOCK<br>UNIT¹<br>(\$) |   |
| FARM WORKING EXPENSES                |                       |                        |                            |                       |                        |                            |   |
| Permanent wages                      | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Casual wages                         | 10 019                | 46                     | 4.43                       | 10 249                | 47                     | 4.50                       | 2   |
| ACC                                  | 235                   | 1                      | 0.10                       | 265                   | 1                      | 0.12                       | 13  |
| Total labour expenses                | 10 254                | 47                     | 4.53                       | 10 514                | 48                     | 4.62                       | 3   |
| Animal health                        | 8 095                 | 37                     | 3.58                       | 8 454                 | 38                     | 3.71                       | 4   |
| Breeding                             | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Electricity                          | 2 041                 | 9                      | 0.90                       | 2 173                 | 10                     | 0.95                       | 6   |
| Feed (hay and silage)                | 10 324                | 47                     | 4.57                       | 10 768                | 49                     | 4.73                       | 4   |
| Feed (feed crops)                    | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Feed (grazing)                       | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Feed (other)                         | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Fertiliser                           | 13 952                | 63                     | 6.17                       | 19 800                | 90                     | 8.70                       | 42  |
| Lime                                 | 861                   | 4                      | 0.38                       | 1 050                 | 5                      | 0.46                       | 22  |
| Cash crop expenses                   | 2 228                 | 10                     | 0.99                       | 2 292                 | 10                     | 1.01                       | 3   |
| Freight (not elsewhere deducted)     | 2 673                 | 12                     | 1.18                       | 2 834                 | 13                     | 1.24                       | 6   |
| Regrassing costs                     | 7 390                 | 34                     | 3.27                       | 6 362                 | 29                     | 2.79                       | -14   |
| Shearing expenses                    | 8 149                 | 37                     | 5.87                       | 8 199                 | 37                     | 6.23                       | 1   |
| Weed and pest control                | 4 213                 | 19                     | 1.86                       | 4 422                 | 20                     | 1.94                       | 5   |
| Fuel                                 | 5 953                 | 27                     | 2.63                       | 5 366                 | 24                     | 2.36                       | -10   |
| Vehicle costs (excluding fuel)       | 8 118                 | 37                     | 3.59                       | 7 955                 | 36                     | 3.49                       | -2  |
| Repairs and maintenance              | 13 365                | 61                     | 5.91                       | 14 034                | 64                     | 6.16                       | 5   |
| Total other working expenses         | 87 362                | 397                    | 38.63                      | 93 709                | 426                    | 41.16                      | 7   |
| Communication costs (phone and mail) | 1 605                 | 7                      | 0.71                       | 1 678                 | 8                      | 0.74                       | 5   |
| Accountancy                          | 2 481                 | 11                     | 1.10                       | 2 593                 | 12                     | 1.14                       | 5   |
| Legal and consultancy                | 1 459                 | 7                      | 0.65                       | 1 525                 | 7                      | 0.67                       | 5   |
| Other administration                 | 1 751                 | 8                      | 0.77                       | 1 831                 | 8                      | 0.80                       | 5   |
| Water charges (irrigation)           | 0                     | 0                      | 0.00                       | 0                     | 0                      | 0.00                       | ...   |
| Rates                                | 9 478                 | 43                     | 4.19                       | 10 045                | 46                     | 4.41                       | 6   |
| Insurance                            | 3 307                 | 15                     | 1.46                       | 3 439                 | 16                     | 1.51                       | 4   |
| Other expenditure²                   | 2 115                 | 10                     | 0.94                       | 2 161                 | 10                     | 0.95                       | 2   |
| Total overhead expenses              | 22 196                | 101                    | 9.82                       | 23 272                | 106                    | 10.22                      | 5   |
| Total farm working expenses          | 119 813               | 545                    | 52.98                      | 127 495               | 580                    | 56.00                      | 6   |
| Wages of management                  | 75 000                | 341                    | 33.17                      | 75 000                | 341                    | 32.95                      | 0   |
| Depreciation                         | 18 362                | 83                     | 8.12                       | 17 298                | 79                     | 7.60                       | -6  |
| Total farm operating expenses        | 213 175               | 969                    | 94.27                      | 219 793               | 999                    | 96.55                      | 3   |
| CALCULATED RATIOS                    |                       |                        |                            |                       |                        |                            |   |
| Economic farm surplus (EFS³)         | 653                   | 3                      | 0.29                       | -31 492               | -143                   | -13.83                     |   |
| Farm working expenses/NCI⁴           | 57%                   |                        |                            | 70%                   |                        |                            |   |
| EFS/total farm assets                | 0.0%                  |                        |                            | -0.6%                 |                        |                            |   |
| EFS less interest and lease/equity   | -0.6%                 |                        |                            | -1.1%                 |                        |                            |   |
| Interest+rent+lease/NCI              | 13.2%                 |                        |                            | 12.4%                 |                        |                            |   |
| EFS/NCI                              | 0.3%                  |                        |                            | -17.3%                |                        |                            |   |

**Notes**

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

2 Includes Accident Compensation Corporation (ACC) employer levy.

3 EFS (or earnings before interest and tax) 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.

**Symbol**

... Not applicable.

## FINANCIAL PERFORMANCE OF THE WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL FARM IN 2008/09

The cash operating surplus for the western lower North Island intensive sheep and beef model farm increased 35 percent to \$90 500 in 2008/09 compared with \$67 000 in 2007/08. This increase was almost solely driven by improved sheep returns.

### FARM REVENUE INCREASES SLIGHTLY

Net cash income increased 11 percent in 2008/09 to \$210 300 compared with \$189 300 in 2007/08. This increase was driven by sheep revenue increasing 49 percent to \$150 200 as better prices were achieved for all stock classes after the previous year's drought.

### LAMBING

Although spring was generally mild in the region with good pasture growth, lambing percentages were back, with the model dropping 4 percentage points to 118 percent. This continues a steady decline in lambing percentages for the model, down from 127 percent in 2005/06. Hogget mating was minimal and as a result 9 percent fewer lambs were born on the model farm in 2008/09 compared with 2007/08.

### SHEEP REVENUE

Sheep revenue (sales less purchases) increased 35 percent to \$110 500 compared with \$81 700 in 2007/08 as sheep prices increased across the board. Unusually high sheep prices were experienced between November 2008 and January 2009, which pushed up the average lamb price for the model to \$95, a 63 percent improvement compared with 2007/08.

Farms in the region retained as many ewe hoggets as possible to begin rebuilding their flocks, but the need for cash flow and the promise of good returns drove wether and ram hogget sales with numbers decreasing 27 percent through 2008/09.

Ewe numbers declined around 2 percent as a balance developed between selling on a rising store market and the need to retain breeding stock. Both store and prime prices rose in response to a perceived shortage of supply.

Total sheep revenue increased 49 percent to \$150 200 in 2008/09 compared with \$101 000 in 2007/08. Purchases on the model returned to more traditional levels after the low purchasing activity during the drought in 2007/08.

### WOOL REVENUE DECREASES

Wool revenue decreased 15 percent to \$14 400 in 2008/09 compared with \$17 000 in 2007/08. Total wool production was down 15 percent to 6558 kilograms. This result was a combination of 7 percent fewer opening sheep stock units and on average half a kilo less wool per sheep stock unit shorn. The average wool price remained unchanged from the previous year at \$2.20 per kilogram.

The amount of wool carried over is about 730 kilograms on the model farm, compared with 310 kilograms in 2007/08. Farmers were not prepared to sell their wool at the low prices on offer and instead chose to store it, hoping for better prices in the year ahead.

### CATTLE REVENUE

The number of cattle stock units on hand at 1 July 2008 was down 9 percent compared with 1 July 2007. Cattle stock units increased 10 percent over the 2008/09 season as farmers rebuilt their herds with more purchases and slightly fewer sales compared with 2007/08. The higher prices achieved for cattle meant that cattle sales revenue increased 6 percent to \$124 300 in 2008/09 compared with \$117 300 in 2007/08, despite the decreased number of sales. Total cattle revenue (sales less purchases) decreased 16 percent to \$60 400.

»» TABLE 4: WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL CASH FARM INCOME

| YEAR ENDED 30 JUNE                              | 2005/06<br>(\$) | 2006/07<br>(\$) | 2007/08 <sup>R</sup><br>(\$) | 2008/09<br>(\$) | 2009/10<br>BUDGET (\$) |
|---|-----------------|-----------------|------------------------------|-----------------|------------------------|
| Sheep sales less purchases                      | 86 837          | 81 197          | 81 744                       | 110 470         | 103 333                |
| Cattle sales less purchases                     | 49 903          | 44 962          | 72 337                       | 60 404          | 50 106                 |
| Wool  | 19 005          | 18 025          | 17 048                       | 14 428          | 13 958                 |
| Grazing income (including hay and silage sales) | 2 313           | 3 700           | 9 180                        | 8 130           | 7 188                  |
| Other income                                    | 16 784          | 14 700          | 9 000                        | 16 900          | 7 100                  |
| Net cash income                                 | 172 529         | 162 584         | 189 309                      | 210 332         | 181 685                |

**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*.

### STOCK UNITS

The stock unit calculations used in this model are based on standard stock unit calculations. If performance based stock unit calculations were used, stocking rates for the five-year modelled period would be as per Table 5.

### DECREASE IN OTHER INCOME

Grazing income decreased 11 percent to \$8100 in 2008/09 compared with \$9200 in 2007/08 as the number of dairy grazers dropped off slightly. Hay and silage sales held steady at \$1500. The cash crop area doubled in size from 6 hectares to 12 hectares as the barley, wheat and maize silage cropping area on the model farm increased significantly to capitalise on the good arable prices that were budgeted at that time. The prices for these crops did not hold up and as a result there is currently a large amount of grain on hand in the region. The increased crop area combined with good yields, meant the model's "other income" increased 88 percent to \$16 900, compared with \$9000 in 2007/08.

### SLIGHT DECREASE IN EXPENDITURE

Total farm working expenditure decreased 2 percent in 2008/09 to \$119 800, which is \$2500 lower than in 2007/08. Most expenses increased slightly over the 2008/09 year but a 31 percent decrease in fertiliser expenditure to \$14 000 kept the total farm working expenses lower than in 2007/08. On a per stock unit basis farm working expenses increased 5 percent to \$52.98 in 2008/09, due to the reduced opening stock numbers on the model farm. Farm working expenditure on the monitored farms in 2007/08 ranged from \$21.09 to \$95.99 per stock unit.

### FERTILISER EXPENSES DECREASE WHILE LIME EXPENSES INCREASE

Fertiliser expenses decreased in 2008/09 as farmers applied about a third less volume than usual in response to high fertiliser prices, and as they sought to hold costs. The use of lime increased to \$4 per hectare during the 2008/09 season compared with \$3 per hectare in 2007/08. This is a direct result of the increase in fertiliser prices with some farmers seeking to use lime to get the most out of their soil nutrient levels rather than paying the very high fertiliser prices.

»» TABLE 5: PERFORMANCE BASED STOCK UNITS FOR THE WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL

| YEAR                                    | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10<br>BUDGET |
|---|---------|---------|---------|---------|-------------------|
| Opening sheep stock units               | 1854    | 1916    | 1767    | 1642    | 1558              |
| Opening cattle stock units              | 806     | 838     | 961     | 873     | 961               |
| Opening total stock units               | 2660    | 2754    | 2729    | 2515    | 2519              |
| Stocking rate (stock units per hectare) | 12.8    | 13.2    | 12.4    | 11.4    | 11.4              |



**FEED EXPENSES DECREASE**

Total feed expenses decreased 7 percent to \$10 300 in 2008/09 compared with \$11 100 in 2007/08. Large amounts of supplements were made on farm in January and an increase in the amount of forage crops was noted. Much of this was kale and rape varieties as farmers sought to reduce costs by using a crop that may be used in summer and autumn and then shut up for winter. There was little use of palm kernel in the region, a change from the previous season when drought prevailed.

**INCREASE IN OTHER EXPENSE ITEMS**

Regrassing expenditure increased 22 percent to \$7400 compared with \$6000 in 2007/08 as farmers worked to repair drought-damaged pastures. Interest payments increased 7 percent to \$25 000 due to higher debt levels incurred from the previous year with the benefit of lower interest rates yet to take effect.

**NET RESULT POSITIVE**

Farm profit before tax increased nearly eight-fold in 2008/09 to \$47 800 compared with \$6300 in 2007/08. Drawings, principal repayment, capital purchase and development expenditure remained at similar low levels to 2007/08. Despite the improved net cash income for the farm, a modest cash surplus of only \$800 was generated in 2008/09 compared with \$6600 in 2007/08.

Increased livestock and land values pushed the opening value of the model farm's assets up by 7 percent to open at \$5 116 300, an increase of about \$1429 per hectare compared with 2007/08.

## **BUDGET FINANCIAL PERFORMANCE OF THE WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL FARM IN 2009/10**

The cash operating surplus in 2009/10 is expected to decrease 40 percent to \$54 200, compared with \$90 500 in 2008/09. This is a result of increased farm working expenses, restocking activity and a decrease in the cash cropping area, providing less revenue.

**REVENUE FROM ALL SOURCES EXPECTED TO DECREASE**

Revenue from all sources is expected to decrease as farmers seek to rebuild their stock numbers with a move to slightly higher cattle to sheep ratios across the region, compared with previous years. Net cash income is expected to decrease 14 percent to \$181 700 compared with \$210 300 in 2008/09.

**SHEEP REVENUE BUDGETED TO DROP 4 PERCENT AS FARMERS REBUILD FLOCKS**

Pasture growth throughout the region over the previous year was much improved and enabled some building of stock condition particularly in ewes. As a result ewe condition at tupping was excellent and bodes well for the year ahead with lambing expected to be 125 percent, or 7 percentage points higher than in 2008/09. Favourable weather conditions over the previous year means that 30 percent of hoggets on the model farm are expected to be mated with a 60 percent lambing rate. This is expected to result in lambs born on the model farm increasing 5 percent compared with 2008/09.

After the unprecedented rise in sheep prices in 2008/09, prices in 2009/10 are expected to reduce, although farmers are budgeting on supply remaining tight. Prices are expected to be back by about 10 percent compared with 2008/09 and the average lamb price for the model is budgeted to be \$86.

The number of ewes and ewe hoggets on the model farm is expected to increase as farmers work to rebuild breeding stock. As a result, 9 percent fewer lambs budgeted to be sold in 2009/10 compared with 2008/09. Sheep stock units are expected to increase 5 percent over the 2009/10 season and as a result sheep revenue (sales less purchases) is budgeted to drop 6 percent to \$103 300 compared with \$110 500 in 2008/09.



The wool price is budgeted to drop 17 cents per kilogram to \$2.03. Although the kilograms of wool shorn per stock unit is expected to increase half a kilogram, the lower opening stock units, combined with the lower price means that wool revenue is expected to decrease 3 percent to \$14 000, despite selling down the wool carried over from the 2008/09 season.

#### **CATTLE PURCHASES EXPECTED TO INCREASE 24 PERCENT**

Cattle revenue (sales less purchases) is expected to decrease by \$10 300 to \$50 100 in 2009/10 as farmers in the region seek to rebuild their cattle numbers, with a move to higher cattle to sheep ratios. The model farm is expected to increase cattle purchases by 14 percent to \$72 900, while sales fall \$1200 to \$123 000.

Cattle prices are expected to reduce from the previous year, although some farmers commented that they expect a shortage of prime beef to emerge, which may buoy prices during the year.

#### **OTHER REVENUE DECREASES**

After an expanded crop area was planted in the region in 2008/09, the model farm's crop area is expected to return to more traditional levels, with 6 hectares of cash crops planned for 2009/10. This sees other income decrease 58 percent to \$7100 compared with \$16 900 in 2008/09. Due to decreasing demand from the dairy industry, grazing income is budgeted to reduce by 12 percent to \$7200 in 2009/10 compared with \$8100 in 2008/09. Revenue from hay and silage sales decreases by a third to \$1000 and although the farm carries the same number of dairy grazers, a reduced weekly price also contributes to the fall in grazing income.

#### **FARM WORKING EXPENSES BUDGETED TO INCREASE AS MORE FERTILISER APPLIED**

Farm working expenses are expected to increase 6 percent to \$127 500 in 2009/10 compared with \$119 800 in 2008/09. The main driver is an increase in fertiliser expenditure with small increases in most other expenditure items.

Fertiliser volumes are budgeted to increase towards more traditional levels as prices stabilise, although it is expected that applications will still be at below maintenance levels. Farmers are expected to spread their fertiliser applications over the year more than occurred in 2008/09. As a result fertiliser expenditure is budgeted to increase by \$5800 to \$19 800 in 2009/10. Lime volume applied is also expected to increase as farmers seek to maximise soil nutrients, in lieu of applying fertiliser, resulting in another year on year increase of \$1 per hectare in lime expenses to total \$1050.

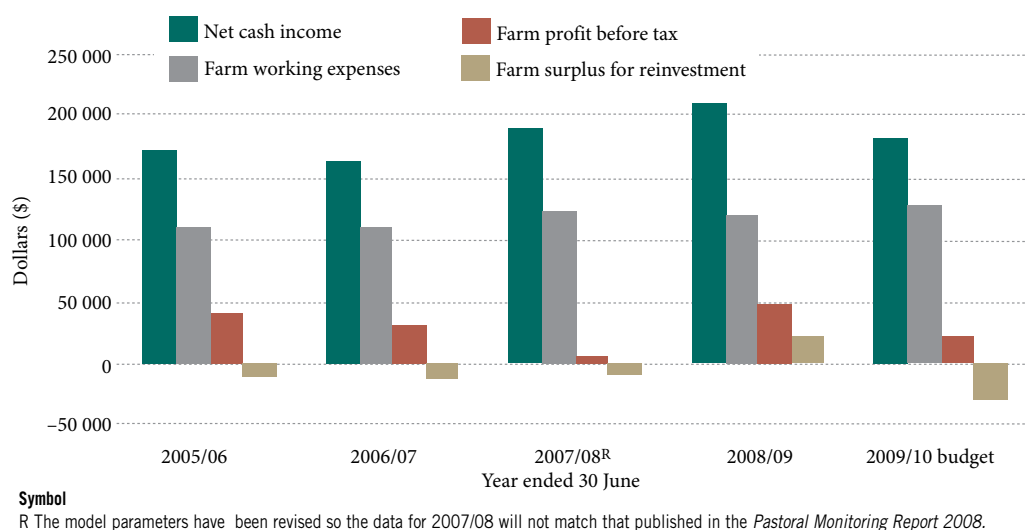
As a result of the model's decreased crop area, fuel expenditure is budgeted to drop \$600 to \$5400 in 2009/10. Regrassing expenditure is also expected to return to more usual levels at \$29 per hectare, a 14 percent decrease compared with 2008/09.

#### **FARM PROFIT BEFORE TAX BUDGETED TO HALVE**

Farm profit before tax is expected to more than halve in 2009/10 to \$20 900 driven mostly by a \$28 600 decrease in net cash income. Possibly the best indicator of farm profitability is the farm surplus for reinvestment calculation which shows the farm's cash position and the surplus available for reinvestment via capital spending, development or principal repayments. The model budget shows a budgeted return to negative farm surplus for reinvestment with a deficit of \$29 200. This means that in the past five years, only one year has had positive farm surplus for reinvestment.

In the past, the total equity of the model farm has been buoyed by increasing land values, but this year is the first over the five year period where land prices are expected to remain flat.

FIGURE 1: WESTERN LOWER NORTH ISLAND INTENSIVE SHEEP AND BEEF MODEL PROFITABILITY TRENDS



## INFORMATION ABOUT THE MODEL

The western lower North Island model represents 385 intensive finishing farms from New Plymouth south on the west coast of the North Island. Most farms in this region are smaller units averaging approximately 220 hectares and are ideally suited to intensive finishing, cropping or dairy support. Their farm management and stock policies are very flexible between seasons and there is a large variation between farms in this region.

The model farm has a sheep breeding livestock policy and also buys in lambs, equal to approximately one-third born on farm, for finishing as hoggets. The farm has a cattle trading policy (half in bull beef) and sells baleage and silage.

This model has been revised to take into account changes in the monitored farms in the region so caution should be taken when comparing figures in this report with figures in previously published monitoring reports. Note that the 2007/08 figures have been revised so will not match those published in the *Pastoral Monitoring Report 2008*.

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