



HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF

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

KEY POINTS

- › The first half of 2010/11 was very trying with a disappointing lambing, feed shortages and stock sold short of potential; but the season ended with an excellent autumn and better prices.
- › Net cash income increased by one third in 2010/11 as prices improved during the year. A further increase in revenue is expected in 2011/12 as a result of increased stock numbers, improved performance and continuing firm prices.
- › Farm working expenditure increased 14 percent in 2010/11 to \$227 000. A similar increase is expected in 2011/12 as inputs such as fertiliser are restored to maintenance levels.
- › The farm surplus for reinvestment increased by \$76 400 to \$67 100 in 2010/11 due to an improved cash operating surplus. A smaller increase to \$84 200 is expected in 2011/12 as increases in drawings and taxation absorb part of the increase in farm profit.
- › Surpluses are being applied to reducing overdrafts, principal repayments and deferred fertiliser, maintenance and capital expenditure.

»» TABLE 1: KEY PARAMETERS, FINANCIAL RESULTS AND BUDGET FOR THE HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF MODEL

YEAR ENDED 30 JUNE	2008/09	2009/10 ¹	2010/11	2011/12 BUDGET
Effective area (ha)	570	570	570	570
Breeding ewes (head)	2 705	2 560	2 595	2 600
Replacement ewe hoggets (head)	660	640	700	675
Other sheep (head)	188	143	160	172
Breeding cows (head)	105	96	102	102
Rising -year cattle (head)	155	133	134	137
Other cattle (head)	116	109	110	109
Opening sheep stock units (ssu)	3 362	3 406	3 242	3 507
Opening cattle stock units	1 809	1 638	1 686	1 691
Opening total stock units (su)	5 170	5 043	4 928	5 198
Stocking rate (stock unit/ha)	9.1	8.8	8.6	9.1
Ewe lambing (%)	114	122	114	125
Average lamb price (\$/head)	78.21	71.42	93.49	100.79
Average store lamb price (\$/head)	68.00	58.00	72.00	83.00
Average prime lamb price (\$/head)	85.00	78.00	100.00	108.00
Average wool price (\$/kg)	2.15	2.25	3.80	4.00
Total wool produced (kg)	16 521	16 007	15 548	17 372
Wool production (kg/ssu)	4.91	4.70	4.80	4.95
Average rising 2-year steer (\$/head)	735	920	980	1 025
Average cull cow (\$/head)	520	660	837	857
Net cash income (\$)	382 415	333 857	440 043	514 388
Farm working expenses (\$)	196 593	199 095	226 979	257 303
Farm profit before tax (\$)	43 083	63 184	128 779	174 498
Farm surplus for reinvestment (\$) ²	61 078	-9 252	67 099	84 214

Notes

1 The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

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



»» TABLE 2: HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF MODEL BUDGET

	2010/11			2011/12 BUDGET		
	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT ¹ (\$)	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT ¹ (\$)
REVENUE						
Sheep	285 638	501	88.10	338 050	593	96.40
Wool	59 081	104	18.22	69 486	122	19.82
Cattle	154 229	271	91.47	174 612	306	103.27
Grazing income (including hay and silage sales)	5 500	10	1.12	5 000	9	0.96
Other farm income	8 700	15	1.77	7 000	12	1.35
LESS:						
Sheep purchases	31 900	56	9.84	25 780	45	7.35
Cattle purchases	41 205	72	24.44	53 980	95	31.92
Net cash income	440 043	772	89.29	514 388	902	98.97
Farm working expenses	226 979	398	46.06	257 303	451	49.50
Cash operating surplus	213 063	374	43.23	257 085	451	49.46
Interest	63 644	112	12.91	61 724	108	11.88
Rent and/or leases	0	0	0.00	0	0	0.00
Stock value adjustment	1 514	3	0.31	591	1	0.11
Minus depreciation	22 154	39	4.50	21 454	38	4.13
Farm profit before tax	128 779	226	26.13	174 498	306	33.57
Income equalisation	0	0	0.00	0	0	0.00
Taxation	15 321	27	3.11	39 147	69	7.53
Farm profit after tax	113 458	199	23.02	135 351	237	26.04
ALLOCATION OF FUNDS						
Add back depreciation	22 154	39	4.50	21 454	38	4.13
Reverse stock value adjustment	-1 514	-3	-0.31	-591	-1	-0.11
Drawings	67 000	118	13.59	72 000	126	13.85
Farm surplus for reinvestment²	67 099	118	13.61	84 214	148	16.20
REINVESTMENT						
Net capital purchases	12 000	21	2.43	20 000	35	3.85
Development	2 500	4	0.51	4 000	7	0.77
Principal repayments	10 000	18	2.03	20 000	35	3.85
Farm cash surplus/deficit	42 599	75	8.64	40 214	71	7.74
OTHER CASH SOURCES						
Off-farm income	2 500	4	0.51	2 500	4	0.48
New borrowings	0	0	0.00	0	0	0.00
Introduced funds	0	0	0.00	0	0	0.00
Net cash position	45 099	79	9.15	42 714	75	8.22
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	3 300 000	5 789	669.60	3 300 000	5 789	634.91
Plant and machinery (opening)	103 820	182	21.07	100 247	176	19.29
Stock valuation (opening)	763 066	1 339	154.83	764 580	1 341	147.10
Other produce on hand (opening)	0	0	0.00	0	0	0.00
Total farm assets (opening)	4 166 886	7 310	845.50	4 164 827	7 307	801.29
Total assets (opening)	4 194 116	7 358	851.03	4 192 057	7 354	806.53
Total liabilities (opening)	878 000	1 540	178.15	838 000	1 470	161.23
Total equity (farm assets - liabilities)	3 288 886	5 770	667.35	3 326 827	5 837	640.07

Notes

1 Sheep stock units are used in the per stock calculation for sheep and wool income and sheep purchases. Cattle stock units are used for cattle income and purchases. The remainder of the time total stock units are used.

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

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

»» TABLE 3: HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF MODEL EXPENDITURE

	2010/11			2011/12 BUDGET		
	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT (\$)	WHOLE FARM (\$)	PER HA (\$)	PER STOCK UNIT (\$)
FARM WORKING EXPENSES						
Permanent wages	24 300	43	4.93	26 300	46	5.06
Casual wages	6 500	11	1.32	6 675	12	1.28
ACC	1 019	2	0.21	1 081	2	0.21
Total labour expenses	31 819	56	6.46	34 056	60	6.55
Animal health	18 600	33	3.77	20 791	36	4.00
Breeding	1 260	2	0.26	2 000	4	0.38
Electricity	4 415	8	0.90	5 100	9	0.98
Feed (hay and silage)	2 513	4	0.51	2 495	4	0.48
Feed (feed crops)	4 780	8	0.97	5 198	9	1.00
Feed (grazing)	986	2	0.20	260	0	0.05
Feed (other)	1 774	3	0.36	780	1	0.15
Fertiliser	41 405	73	8.40	51 555	90	9.92
Lime	6 270	11	1.27	7 410	13	1.43
Cash crop expenses ¹	600	1	0.12	600	1	0.12
Freight (not elsewhere deducted)	6 100	11	1.24	6 710	12	1.29
Regrassing costs	4 025	7	0.82	4 025	7	0.77
Shearing expenses ²	22 500	39	6.94	25 500	45	7.27
Weed and pest control	3 500	6	0.71	4 000	7	0.77
Fuel	9 000	16	1.83	10 500	18	2.02
Vehicle costs (excluding fuel)	8 700	15	1.77	9 000	16	1.73
Repairs and maintenance	20 550	36	4.17	23 600	41	4.54
Total other working expenses	156 979	275	31.85	179 523	315	34.54
Communication costs (phone and mail)	2 200	4	0.45	2 500	4	0.48
Accountancy	3 700	6	0.75	3 700	6	0.71
Legal and consultancy	1 600	3	0.32	1 200	2	0.23
Other administration	4 700	8	0.95	4 800	8	0.92
Water charges (irrigation)	115	0	0.02	115	0	0.02
Rates	12 000	21	2.43	12 600	22	2.42
Insurance	7 300	13	1.48	8 700	15	1.67
ACC employer	3 366	6	0.68	6 810	12	1.31
Other expenditure	3 200	6	0.65	3 300	6	0.63
Total overhead expenses	38 181	67	7.75	43 725	77	8.41
Total farm working expenses	226 979	398	46.06	257 303	451	49.50
CALCULATED RATIOS						
Economic farm surplus (EFS ³)	119 754	210	24.30	163 574	287	31.47
Farm working expenses/NCI ⁴	52%			50%		
EFS/total farm assets	2.9%			3.9%		
EFS less interest and lease/equity	1.7%			3.1%		
Interest+rent+lease/NCI	14.5%			12.0%		
EFS/NCI	27.2%			31.8%		
Wages of management	72 669	127	14.75	72 648	127	13.98

Notes

1 Includes forestry expenses.

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

3 EFS is calculated as follows: net cash income plus change in livestock values less farm working expenses less depreciation less wages of management (WOM).

WOM is calculated as follows: \$31 000 allowance for labour input plus 1 percent of opening total farm assets to a maximum of \$75 000.

4 Net cash income.

FINANCIAL PERFORMANCE OF THE HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF FARM MODEL IN 2010/11

The cash operating surplus for the Hawke's Bay/Wairarapa farm model in 2010/11 was \$213 100, up \$78 300 or 58 percent compared with 2009/10 largely due to better prices later in the season.

INCOME RISES 32 PERCENT

Net cash income for the Hawke's Bay/Wairarapa model in 2010/11 increased to \$440 000; up 32 percent or \$106 200 compared with 2009/10. Strong worldwide commodity prices resulted in improved prices in the model including a 31 percent increase in the average lamb price, a 69 percent increase in the wool price and an 11 percent improvement in the average cattle sale price.

SHEEP REVENUE UP 32 PERCENT AS LAMB PRICES IMPROVE

The average lamb price on the model rose from \$71.42 in 2009/10 to around \$93.50 in 2010/11. This improvement in the price offset a 5 percent reduction in the number of lambs sold in 2010/11. A 44 percent increase in the average ewe price, combined with an increase in ewes sold, also contributed to an overall increase in sheep revenue (sales less purchases) of 32 percent to \$253 700.

DISAPPOINTING LAMBING MEANS 5 PERCENT FEWER LAMBS FOR SALE

Lambing fell 7 percentage points to 114 percent as a result of the difficult season. Very wet winter and early spring conditions, which depressed pasture production and utilisation, coupled with poor ewe condition and high worm burdens, dashed hopes of an improved lambing percentage, particularly in Wairarapa. Heavy and persistent rain in the first weeks of lambing in the Tararua district and a later snow storm contributed to the lamb losses, with lambing on many Tararua farms falling 30 to 40 percentage points. Farms in the northern half generally fared better than those in the south of the region.

Despite slightly more ewes on hand at the start of the year, the model had 5 percent fewer lambs born in 2010 compared with 2009. Another contributing factor to this disappointing outcome was lower quality feed and significant porina damage in the southern districts that showed up in late August.

Stock numbers in the model were unchanged during 2010/11 whereas they had increased 3 percent in 2009/10. Although farmers expected to increase stock numbers slightly in 2010/11, some farmers opted to sell stock before winter at the prevailing high prices and reduce their winter feed demand. Farmers are tending to have lower stocking rates and lower input systems than in the past to manage risk and are focusing more on per head performance. They are also using trading stock, and some dairy grazing if they have suitable country, to manage seasonal risks.

LAMB PRICES SOAR LATER IN SEASON

Low pasture covers and a cool spring affected early lamb growth rates. Some farmers were forced to sell stock short of their potential in early summer due to a lack of rain in November and December. Those who were able to keep their lambs through until autumn were able to take them to heavier weights and benefited from much higher prices later in the season. Store lamb prices also rose dramatically later in the season as processing companies sought to ensure later supply for their plants.

DRAMATIC TURNAROUND FOR WOOL PRICES

Total wool income increased 64 percent to \$59 100 as prices increased significantly during the year. The average wool price in the model rose 69 percent to \$3.80 per kilogram. Wool production fell slightly, down 3 percent to 15 500 kilograms due to the lower lambing percentage and the previous autumn drought.

CATTLE REVENUE UP 25 PERCENT

Cattle revenue (sales less purchases) rose \$22 700 to \$113 000 in 2010/11, a reversal of the previous year. The combination of higher opening numbers, slightly more cattle purchased and keeping similar numbers at year end meant that 10 percent more animals were available for sale compared with 2009/10. Cattle were four to six weeks behind target liveweight over spring. Some were sold at lighter weights (carcase weights down 5 to 10 percent) or sold store in early summer but still achieved reasonable prices.

Margins improved as average prime beef prices rose significantly from January while the store market remained comparatively subdued. Store prices remained low in autumn relative to schedule prices due to shortages of cattle feed in the south, a lack of confidence in the longer term beef schedule and for some a lack of funds to buy stock. In



the model, the bull purchase price rose 9 percent while the sale price rose 13 percent, the margin increasing 22 percent from \$352 in 2009/10 to \$430 in 2010/11. The better than usual margin was accentuated for bulls in autumn, although there was a similar but smaller improvement in steer margins.

In-calf cow numbers were static but farmers took advantage of dramatically improved cull cow prices to cull poor performers and replace dry cows with heifers; so that 2010/11 ended with a larger proportion of in-calf heifers in the herd.

EXPENDITURE INCREASES 14 PERCENT

Total farm working expenses on the Hawke's Bay/Wairarapa farm model increased by \$27 900 in 2010/11 to \$227 000 as farmers took advantage of improving returns to increase fertiliser and repairs and maintenance expenditure (both up 28 percent). Animal health (up 25 percent) and feed costs (up 10 percent) increased largely due to the difficult winter and spring, as well as increasing prices. Less hay and silage was made due to the poor spring but feed crops and grazing costs increased.

FERTILISER EXPENDITURE INCREASES 28 PERCENT

Fertiliser expenditure on the farm model increased by \$9200 in 2010/11 to \$41 400. There was a slight increase in nitrogen use in an attempt to fill spring feed deficits but only 25 percent of the monitored properties applied significant amounts. On average about 80 percent of the maintenance phosphate requirement was applied. Although more lime was expected to be applied, this seems to have either been substituted with phosphatic fertiliser, or been delayed as contractors prioritise fertiliser application.

OTHER COSTS INCREASING

Items such as electricity (up 19 percent), fuel, insurance and ACC continue to increase. Shearing expenditure increased (up 25 percent), reversing a trend in recent years as farmers returned to more frequent shearing for its management advantages in light of improved wool returns in 2011. The improvement in wool income meant that shearing was only 38 percent of wool revenue in 2010/11, compared with 50 percent in 2009/10. Labour costs also increased 8 percent to \$31 800.

DEBT SERVICING FALLS

Debt servicing fell 3 percent in 2010/11 to \$63 600 due to lower interest rates. The average term debt interest rate in the model fell 0.5 percentage points to 7.0 percent. Higher customer margins affected the reduction in interest rates. Most farmers are moving to lower floating rates as fixed rate loans mature. Debt on this farm model is equivalent to 21 percent of total farm assets with debt servicing around 14 percent of net cash income. Modest principal repayments were made on this farm model while farms with higher debt levels will be under pressure to do more.

FARM PROFIT BEFORE TAX DOUBLES

Farm profit before tax for the model increased to \$128 800 in 2010/11, from \$63 200 in 2009/10. Taxation increased 12 percent to \$15 300 in 2010/11. A terminal tax liability of \$13 200 is transferred to 2011/12.

The farm surplus for reinvestment improved to \$67 100 from a deficit in 2009/10, allowing farmers to undertake some deferred development and capital expenditure. Most of the remaining cash surplus has been used to reduce overdrafts.

The value of the average farm has become difficult to assess given the low number of sales and the varied attributes of properties in terms of topography, location and fertiliser history. The value of well-located farms with higher

»» TABLE 4: HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF MODEL CASH FARM INCOME

YEAR ENDED 30 JUNE	2008/09 (\$)	2009/10 ¹ (\$)	2010/11 (\$)	2011/12 BUDGET (\$)
Sheep sales less purchases	221 149	192 848	253 738	312 270
Cattle sales less purchases	113 745	90 294	113 024	120 632
Wool	35 521	36 015	59 081	69 486
Grazing income (including hay and silage sales)	3 000	5 000	5 500	5 000
Other income	9 000	9 700	8 700	7 000
Net cash income	382 415	333 857	440 043	514 388

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.

proportions of finishing land have fallen less than remote, harder country. A lack of maintenance was also showing up in valuations. The consensus from industry representatives was that there was little justification for revising the property value of the model as at 1 July 2011. The farm model's land and buildings value has dropped 14 percent since 1 July 2008 to \$5790 per hectare in July 2011.

Although some farmers are interested in buying more land, they are often hampered by their borrowing decisions made three or four years ago.

BUDGET FINANCIAL PERFORMANCE OF THE HAWKE'S BAY/ WAIRARAPA SHEEP AND BEEF FARM MODEL IN 2011/12

The cash operating surplus in the model for 2011/12 is expected to increase 21 percent to \$257 100. Farmers anticipate improved lambing and a continuation of good lamb and wool prices. The stocking rate is expected to be unchanged at 30 June 2012.

Warm weather in May and June 2011, and higher than average soil temperatures, ensured good levels of good quality pasture going into winter 2011. Cattle feed is a more limited in Wairarapa. Some forage crops are struggling with insect damage due to mild temperatures. Hay inventories are well down.

On 26 to 28 April 2011 an isolated storm event on the central Hawke's Bay coast, possibly exacerbated by recent local earthquakes, caused significant landslip and flood damage to around 50 coastal farms. Although this has led to some destocking of affected properties the impact on the total region is unlikely to be significant.

REVENUE EXPECTED TO LIFT BY 17 PERCENT

Net cash income is expected to increase by \$74 300 to \$514 400 in 2011/12. Sheep revenue (sales less purchases) is expected to increase 23 percent to \$312 300, cattle revenue is budgeted to increase 7 percent to \$120 600 and wool revenue is expected to increase 18 percent.

MORE LAMBS AND PRICES SLIGHTLY BETTER

The lambing percentage for 2011/12 is expected to increase to 125 percent, due to the younger age and better quality of the ewe flock and the improved condition of ewes. There is likely to be a wide range in performance with higher lambing percentages in Hawke's Bay where conditions at tupping were more favourable; compared with Wairarapa where pasture covers and ewe liveweights were lower leading up to tupping. There is some downside risk to the predicted lambing results with possible impacts of facial eczema showing up in reduced early scanning results and the risks from ewes gaining condition over tupping and early winter, which could lead to more bearing ewe losses.

Stock numbers are similar to a year earlier and animals are in good condition. Wairarapa numbers were down to winter levels early. More stock might have been carried at 1 July 2011 on the model for sale in spring but instead were sold pre-winter due to good prices. With a slight increase in the number of hoggets mated and the increase in the lambing percentage, total docked lambs on the farm model are predicted to increase 10 percent to 3340.

Lamb prices and lamb weights are expected to be slightly better than 2010/11. Despite fewer trading lambs bought, an extra 186 lambs will be available for sale on the model in 2011/12. The average prime lamb price of \$108 reflects a 17 kilogram lamb carcass at \$6.35 per kilogram. Farmers are optimistic that the lamb schedule price will be around \$7 per kilogram but they are not budgeting at that level.

Sheep numbers are expected to remain fairly static in 2011/12 but with slightly fewer ewes and more ewe hoggets retained.

WOOL INCOME EXPECTED TO IMPROVE 18 PERCENT

Wool production per head is expected to increase in 2011/12 due to the better condition of ewes and farmers reverting to more frequent shearing as result of the greatly improved prices. An expected 20 cent rise in the wool price to \$4.00 per kilogram results in an 18 percent increase in wool revenue. Some consider this wool price to be conservative.

CATTLE REVENUE INCREASES SLIGHTLY

Farmers expect the shortage of cattle to underpin schedule prices, and are budgeting for slightly better weights and prime beef prices at around \$4 per kilogram. Cattle income is expected to increase 13 percent to \$174 600 in 2011/12. However, an increase in purchases of cattle for finishing and a slightly lower average margin results in a 7 percent increase in cattle revenue (sales less purchases).



EXPENDITURE EXPECTED TO INCREASE 13 PERCENT GIVEN IMPROVING OUTLOOK

Total farm working expenses on the Hawke's Bay/Wairarapa farm model are expected to increase by \$30 300 in 20011/12 to \$257 300, just half the net cash income. Much of this expenditure will occur in 2012 when farmers are more confident about their income level.

After holding expenditure for several years, farmers are expected to increase fertiliser back to maintenance levels and undertake more repairs and maintenance. Expenditure on tracks and fencing will increase in particular, as a result of storm damage. Weed and pest control expenditure is expected to rise as farmers tackle the porina problem in the south.

Other costs such as electricity (up 16 percent), fuel (up 17 percent) and insurance (up 19 percent) are also budgeted to increase. Likewise, animal health product costs are expected to rise and tagging young cattle in voluntary compliance with NAIT (National Animal Identification and Tracing) is budgeted to increase breeding expenditure. Farmers are expected to spend more on animal health as livestock values improve. Feed costs are expected to fall to more normal levels based on a return to an average season's pasture production.

More shearing of more stock and an increase in charges is reflected in a 13 percent increase in this expenditure. Farm labour costs are expected to increase 7 percent. A significant increase in ACC is likely to encourage farmers to switch to using a nominated lost earnings approach (cover plus extra) or to revise their cover.

FERTILISER AND LIME APPLICATIONS LIKELY TO RISE

Expenditure on fertiliser is expected to increase 25 percent in 2011/12 to \$90 per hectare, with a trend to more sulphur in the mix. An increase in lime applications is also expected with an additional 18 percent expenditure budgeted. Restoring fertiliser is the highest priority for expenditure after debt repayment. Nitrogen use is also expected to increase slightly.

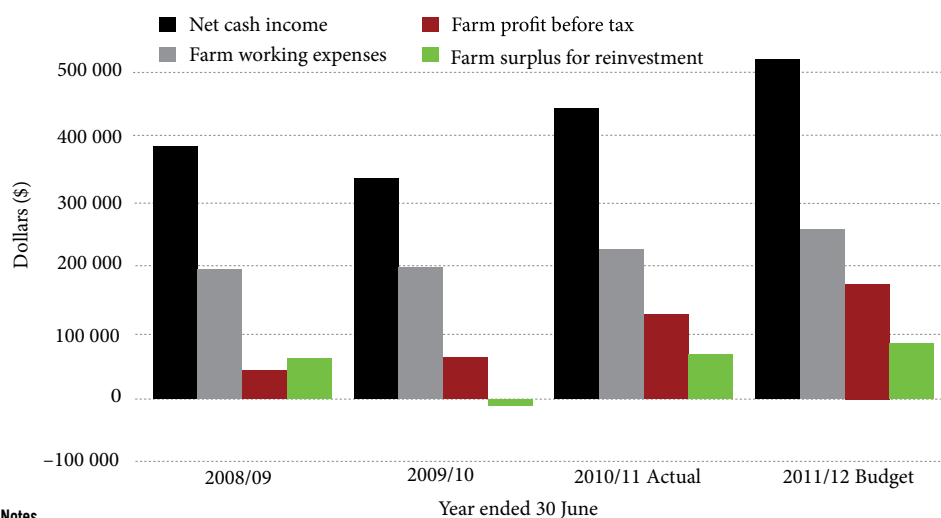
DEBT SERVICING CONTINUES TO FALL

Debt servicing costs are expected to fall only slightly in 2011/12. Although some loans are still coming off high fixed rates onto lower floating rates, some farmers are starting to hedge their risk by fixing part of their debt for longer terms at higher rates, anticipating rising interest rates later in the year. Risk premiums are widening the cost of debt. The average term debt interest rate in the model is expected to rise 0.25 percentage points to 7.25 percent.

FARM PROFIT EXPECTED TO INCREASE BY A THIRD

Farm profit before tax is budgeted to increase by \$45 700 to \$174 500 in 2011/12. Farmers are expected to increase expenditure on capital items as this has been held at low levels in recent years. Taxation is expected to increase by \$23 800 to \$39 100. Drawings are budgeted to rise 7 percent to cover cost of living increases and a loss of family tax credits.

»» FIGURE 1: HAWKE'S BAY/WAIRARAPA SHEEP AND BEEF FARM MODEL PROFITABILITY TRENDS



Notes

The sample of farms used to compile this model changed between 2008/09 and 2009/10. Caution is advised if comparing data between these two years.

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

The farm surplus for reinvestment on the Hawke's Bay/Wairarapa farm model is expected to increase 26 percent to \$84 200 in 2011/12. Just over half of this is expected to be applied to capital and development expenditure and making further principal repayments.

For a majority of farmers in Hawke's Bay/Wairarapa, returns are now sufficient to cover maintenance levels of expenditure and adequate investment in farm infrastructure. For a significant group, difficulties continue with lower performance due to the effects of earlier droughts and higher debt levels impacting on their ability to apply fertiliser in recent years.

The return on total farm assets looks likely to improve from 2.9 percent in 2010/11 to 3.9 percent in 2011/12. Although somewhat better than the past few years this level of return is still several percentage points below the most recent best year of 2001/02.

INFORMATION ABOUT THE MODEL

This model represents around 2000 farms south of the Napier-Taupo highway in the Hawke's Bay, Tararua and Wairarapa regions.

The new model comprises mainly sheep and cattle breeding and finishing farms, with most of the cropping done for grazing livestock. Of the twenty farms monitored none had a cash crop, but growing barley, squash and maize is not uncommon in some of the more fertile lower-lying land in the region.

The farm model is 570 effective hectares and covers a range of environments: from the hill country in the western foothills of the main central mountain range, the dry central belt, to the coastal hills in the east. As a result, average rainfall ranges from 2000mm per annum to 500mm per annum. Soils are predominately yellow-grey earths with some yellow-brown loams. The terrain is easy to medium hill, but most properties have some "flats", typically used for more intensive farming practises, and some steeper country that is potentially erosion-prone.

Stocking rates vary but averaged 8.8 based on opening stock numbers in July 2009. The total stock units of 5040 were made up of 67 percent sheep and 33 percent cattle. Note that sheep stock units are calculated on a performance basis, based on lambing percentage and this partly explains the decline in stock units as at July 2010 for the 2010/11 year.

The sheep system is a breeding ewe flock, breeding its own ewe replacements with, depending on the season, two-thirds of the lamb progeny being finished to slaughter weights and the rest sold store. Most of these store lambs stay within the region.

The model represents a range of cattle policies from breeding cow herds through to intensive bull finishing. The model has a 102 head mixed-age cow herd. Heifers are mated as rising two-year olds. The model finishes both steers and bull beef, mostly buying in weaner bulls with a small proportion of older bulls bought to finish.

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