DAIRY FARMERS STILL FIGHTING DEBT

By Richard Rennie - Farmers Weekly August 7, 2017

"The upside this year is a sense of quiet confidence in the dairy sector," AgFirst consultant Phil Journeaux says.

Waikato and Bay of Plenty dairy farmers face a "back to the future" slog into 2020 to get back to their 2015-16 season when dairy prices took a tumble.

The latest AgFirst financial survey for Waikato-Bay of Plenty dairy farmers was released last week.

Survey compiler Phil Journeaux said the model farm used in the budget incurred an additional $126,560 of term debt, or almost $1/kg of milk solids in 2015-16 to cover the hit the farm took when the pay-out slumped to $3.90/kg MS that season.

"This loan amount was almost an extra $1/kg milk solids and some debt repayment was made in 2016-17 and is budgeted again for 2017-18.

"Assuming a similar level of annual debt repayment and everything else remaining the same, it will take until 2019-20 season to clear this debt and get back to their 2015-16 debt position."

For many farmers that extra debt load came at least in part through the Fonterra loan offered to shareholders in 2015.

Taken up by about 80% of suppliers, that loan had to be repaid once the pay out exceeded $6/kg MS, which would fall in October as the advance pay out rose.

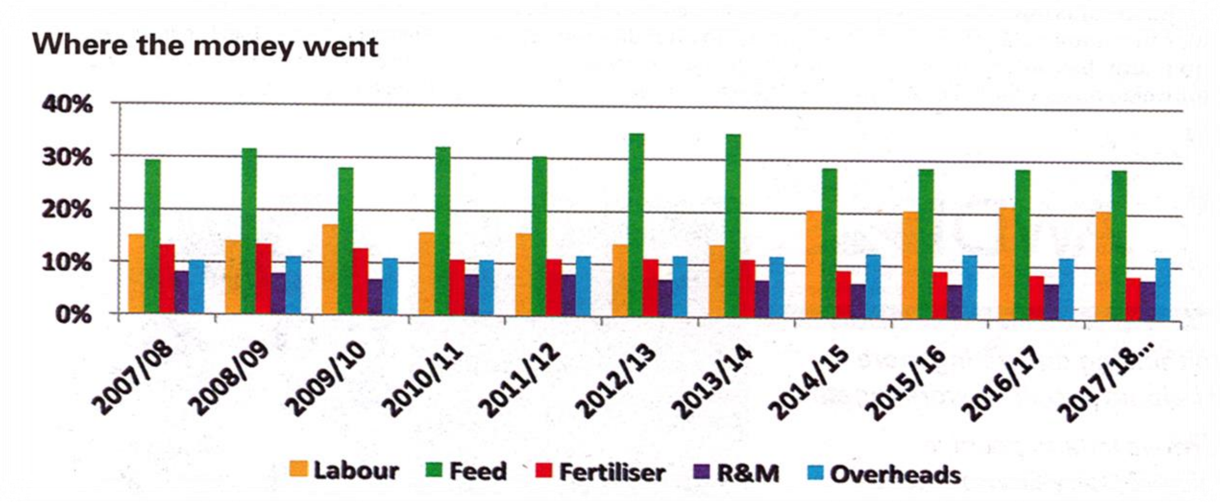
The model farm used by AgFirst had a Fonterra loan of $31,500 with $18,000 budgeted to be repaid this year and the rest in the 2018-19 season.

The total borrowed equated to 15c/kg MS in the AgFirst budget.

The Fonterra loan was part of the extra $126,000 debt incurred to tide the farm over the pay out slump.

The impact of such compulsory loan repayments and heavy capital expenditure to meet compliance demands played heavily on farm budgets for this and next season.

“We have about $50,000 in the budget for capital expenditure but of that about $30,000 will be committed to installing snap chilling equipment to meet the new milk cooling regulations that come in this year.”



Farmers had also on average incurred about $8000-$10,000 on capital expenditure in installing compulsory bobby calf holding pens, with that requirement kicking in on August 1.

“So that means we only have about $10,000 spare for other capital expenditure. It is not a lot given the low levels we have also had in the past couple of seasons.”

Journeaux agreed dairy farms were facing some mounting bills for deferred repairs and maintenance that was pushing equipment and facilities to their limits.

“What we are seeing is the expenditure on new equipment and machinery is below the depreciation rate, with little spare to fill in.”

Many farmers also faced the prospect of ongoing environmental compliance that would make further capital investment demands.

Last year Journeaux expressed his concern over the sustainability of the lowered farm working expenses.

For 2016-17 they were $3.81/kg MS and for 2017-18 were estimated at a similar level, $3.77/kg MS.

Given the wear and tear dairy operations put on equipment, his concern remained over the sustainability of that cost level. He estimated a sustainable farm working expense figure was probably $4/kg MS.

"On our model farm we are only working on about 80% of the ideal fertiliser application going on and many farms are still operating at sub-maintenance spending in areas like repairs and maintenance."

The upside of the increase in debt to tide farms over the slump had been a drop in total debt-servicing costs as interest rates continued to remain low and competitive.

The survey also noted some shifts around farms' key cost centres.

Over the 2016-17 season casual wages surged by 27% and re-grassing costs were up 40% as many farmers were forced to undersow pastures damaged by appalling weather over spring.

A notable cost shift over the past four seasons had been the drop in feed costs as a proportion of farm working expenses, from 35% in 2013-14 to 28% for 2016-17.

Total farm working expenses were going to be a more manageable 57% of total farm income this season, compared to 65% last season and a massive 95% in 2015-16.

For this season the survey expected casual wages to fall back to more normal levels while total feed expenditure was estimated to rise by 5% given wet conditions and low feed levels heading into winter.

An appreciable lowering of farm overdrafts should also see debt servicing drop by 4%.

Journeaux said the upside was a sense of quiet confidence held by farmers about pay out prospects, reinforced by the July 28 announcement that pushed Fonterra's pay out to $6.75/kg MS.

"So people are starting to see some light there and a pathway to a better position."

However, Journeaux also cautioned farmers' expenditure decisions on bigger ticket items or debt repayment were likely to be delayed until autumn when they had a clearer signal on Fonterra's dividend payment.

Rural optimism grows

DAIRY farmers might be preoccupied with catching up on the past three low income years but that has not dulled overall farmer confidence, which appears to be at a three-year high.

The Federated Farmers' Farm Confidence Survey that interviewed 800 farmers nationally indicated dairy and arable farmers were feeling more optimistic than in the January survey.

It found the number of farms making a profit had doubled to 55% on a year ago. That reflected continuing strong red meat prices, solid sheep returns and the continuing lift in dairy payout prospects as recently as late July when Fonterra's payout prediction rose 25c/kg milksolids to $6.75/kg MS.

There had been a significant drop in the number of farmers expecting a loss this farming year, with that figure only 9.6%, compared to a massive 42.5% a year ago.

Predictably, that applied particularly to dairy farmers and farms in Auckland-Northland and Otago-Southland.

On the back of improved returns a third expected farm production to increase this year.

As total agricultural debt crept up in excess of $40 billion, with the Reserve Bank having already signalled its concern over that level, a third of farmers were also intending to retire some debt in the coming year.

However, the survey also highlighted farmers' concerns over growing compliance and regulation costs, now put at number the one concern ahead of farmgate and commodity prices.

Public perception of farming was third on the list of concerns, followed by environmental concerns.

Federated Farmers economics and trade spokesman Andrew Hoggard said the survey showed farmers were putting regulation and compliance costs as their highest priority, with economy and business environment second.