



Financial Survey 2020

Central North Island Hill Country

Sheep and Beef



This report summarises the results of a financial survey of sheep and beef farms across the central North Island, carried out by AgFirst through June 2020. A description of the model farm is at the back of this report.

KEY POINTS

- The main aspect of the 2019/20 season was a severe drought, which adversely impacted production and profitability on most farms. This was exacerbated by Covid-19, which saw significant delays in getting stock killed.
- Some rain with mild temperatures through May and June has seen pastures recover on easier country, but pasture covers are still short in many steeper less fertile hill country areas. Ewe condition over tupping was less than desirable on many farms, and consequently a lower lambing percentage is expected in the 2020 spring.
- Net cash income on the model farm was up 2% in 2019/20 compared with 2018/19, largely on the back of a reduction in stock numbers, particularly cattle, as a result of the drought. Farm working expenditure was held similar to 2018/19 levels.
- Budgeted income for 2020/21 is well down (22%) as a result of the reduced lambing percentage, lower expected lamb returns, and less cattle income as stock are retained to build numbers up again. The current net result is an expected deficit for the 2020/21 season.
- Overall, the farm is continuing to struggle to generate a surplus to cover other required expenditure, such as development, debt repayment, and expected environmental compliance costs.

Table 1: Key Parameters, Financial Results and Budget for the Central HI Hill Country Sheep and Beef Model

Year ended 30 June	2016/17	2017/18	2018/19	2019/20	2020/21 Budget
Effective area (ha)	571	614	614	614	614
Breeding ewes (head)	2,380	2,355	2,440	2,440	2,448
Replacement ewe hoggets (head)	690	670	675	675	640
Other sheep (head)	35	35	35	35	35
Breeding cows (head)	121	121	120	120	107
Rising 1-year cattle (head)	157	157	149	149	142
Other cattle (head)	113	113	115	115	109
Opening sheep stock units (ssu)	3,129	3,088	3,185	3,185	3,169
Opening cattle stock units	1,894	1,894	1,873	1,873	1,734
Opening total stock units (su)	5,023	4,981	5,058	5,058	4,903
Stocking rate (stock unit/ha)	8.8	8.1	8.2	8.2	8.0
Ewe lambing (%) ¹	128	129	129	128	125
Average lamb price (\$/head)	\$86	\$102	\$121	\$117	\$100
Average store lamb price (\$/head)	\$65	\$84	\$100	\$90	\$80
Average prime lamb price (\$/head)	\$95	\$109	\$130	\$130	\$107
Average wool price (\$/kg)	\$2.53	\$2.25	\$1.94	\$1.60	\$1.33
Total wool produced (kg)	16,001	17,893	17,905	17,249	17,477
Wool production (kg/ssu)	5.11	5.80	5.62	5.42	5.52
Average 2-year+ steer (\$/head)	\$1,595	\$1,755	\$1,650	\$1,571	\$1,575
Average cull cow (\$/head)	\$1,157	\$1,053	\$983	\$990	\$984
Net cash income (\$)	\$459,559	\$508,441	\$549,766	\$559,448	\$434,270
Farm working expenses (\$)	\$248,704	\$280,384	\$332,339	\$329,681	\$311,144
Farm profit before tax (\$)	\$86,845	\$108,089	\$108,184	\$112,244	\$48,443
Farm surplus for reinvestment (\$) ²	\$33,845	\$44,724	\$36,516	\$66,073	-\$28,626

Note:

¹ Lambing percentage is calculated as lambs docked over ewes mated.

² Farm surplus for reinvestment is the cash available from the farm business, after meeting living costs, which is available for principal repayments, capital expenditure, and further farm development.

PHYSICAL FACTORS

The mild winter of 2019 helped farms recover from the dry summer/autumn, although easier country recovered much more quickly than steeper areas. The relatively mild weather continued into the spring, which saw good pasture growth, and some farms go into summer with higher than normal pasture covers.

For most areas the rain stopped in mid-late December, although some southern areas had some good rain into January. The drought then set in, which eventually affected all of the North Island. Farms dried out very quickly, with feed going first, and then on a number of farms the water system, including some reticulated systems, started failing as well.

The drought resulted in a high demand to get stock killed, creating some backlog at the meat works. This was then exacerbated by the Covid-19 lockdown, resulting in many farmers having to hold onto stock for several weeks longer than planned, which compounded the lack of feed issue.

Most areas saw the rain return over April/May. As in the previous year, easier country recovered much more quickly than steeper areas, which often need two to three times more rain to wet them up. Heading into the new season therefore, pasture covers are very mixed; western Waikato and northern King Country are reasonable, whereas southern King Country is still quite short. More than normal nitrogen fertiliser was used through April/May as a means to boost pasture growth

Stock condition going into the new season is very mixed. Generally, breeding cow condition is reasonable, being well fed through the spring and into the summer, although many farms are currently short of rough 'cattle tucker' for cows. Breeding ewe condition is generally down, although again mixed, with many farms eventually selling relatively light cull ewes to the works. Many finishing cattle were down 20-30 kg liveweight compared to normal going into winter.

The dry weather saw farmers sell more store lambs, with the store market weakening as the drought continued. For the model, the proportion of lambs sold store for 2019/20 was lifted to 30%. Prices for both store and prime animals were higher earlier in the season, dropped away due to the drought, but have currently increased again.

The drought also impacted on animal numbers on-farm, particularly cattle. The average changes across the monitored farms, which were reflected in the model, were:

Table 2: Changes in closing stock numbers

	2019/20	2020/21
Breeding ewes	1%	0%
Total Sheep*	-2%	1%
Breeding Cows	8%	-6%
Total Cattle	-7%	6%

*Most of the decrease/increase in sheep numbers relates to hoggets being carried

Animal health issues through the season were much on a par with previous years. Some farms had issues with pleurisy and ryegrass staggers. Facial eczema was not particularly present, although a number of farms had subclinical cases showing up in kill sheets.

Increased Californian thistle infestation was a problem following last season's dry and is expected to be worse following this year's drought. Slugs were a problem on many farms in the spring, with most farmers baiting for slugs when regrassing.

FINANCIAL PERFORMANCE 2018/19

Revenue Up

Net cash income for the model farm actually increases slightly, up 2% compared with 2018/19. This is the net result of a range of unders and overs; sheep income is down 2% due mainly to more store lambs sold, at lower prices than in 2018/19, cattle income up 3% due to a sell-down in cattle numbers, wool down 20%, and cattle purchases down 31% due to a lesser number bought in, at a lower price than the previous year.

Expenditure Also Up

Farm working expenditure decreased fractionally, down 1%. Within this, the main changes are:

- Animal health down 13% driven by a combination of less dipping, some less drenching, and lower use of capsules.

- Total feed costs up 11% as more supplement was bought-in due to the drought.
- Fertiliser expenditure up 8% due in part to more nitrogen fertiliser used, although often swapped from phosphatic fertiliser, and higher application costs.
- Weed and pest expenditure down 10% relative to a higher-than-normal expenditure the previous year.
- Fuel and vehicle costs down 8% due in part to lower fuel costs later in the year, and lower vehicle use due to Covid.
- Repairs and maintenance expenditure decreased 5%, although the dry summer/autumn did allow the opportunity to catch up on a lot of work.
- Administration and overhead expenses up 7% and 5% respectively, due to increased expenditure and/or price increases across several items

Debt servicing decreased by 19% due to lower interest costs; currently the model is paying 4% on term debt and 7% on overdraft.

Net Result

Farm profit before tax for 2019/20 is \$112,200, up 4% on 2018/19 due to the combination of net cash income up slightly, farm working expenses down slightly, and debt servicing down more significantly. The flow-on expenditure is:

- Tax liability has increased 7% in line with the improved profitability.
- Personal drawings up slightly (1%).
- Further expenditure on capital items, farm development, and some principal debt reduction. The debt reduction shown in the model budget is 75% of annual payments on a normal 20-year table mortgage.

The end result is essentially a breakeven position for the year, at -\$1,000.

FINANCIAL PERFORMANCE 2020/21

Revenue Down Significantly

The budgeted net cash income for the model decreases by 22% compared with 2019/20. This is driven by several factors, creating something of a perfect storm:

- Sheep returns are down 20% driven by a combination of:
 - A lower lambing percent. While many of the monitored farmers were budgeting on a similar percentage to 2019/20, early scanning has shown (a) a similar level of dry ewes, but (b) 10-20% reduction in multiples. Consequently, the budgeted lambing percentage has been reduced to 125%, a reduction of 3% compared with last year.
 - Lower expectation for lamb returns, both for prime and store lamb, driven by expectations of lower market returns due to Covid-19.
- Wool income is budgeted down 16%. This is due to current very low prices being received, exacerbated by the Covid-19 crisis.
- Net cattle income is down 27%. While farmers are confident of schedule returns in the low \$5/kg range, the drop is due to a lower number for sale as a flow on from reductions due to the drought, plus stock being retained and more being bought-in, in order to rebuild to pre-drought levels.

Expenditure Reduced Accordingly

Farm working expenses are currently budgeted down 6%. Much of this is directly in response to the reduction in income, with the main changes being:

- Regrassing down 10%.
- Weed and pest down 44%.
- Fuel and vehicle expenditure down 5%, mainly in expectation of lower fuel costs.
- Repairs and maintenance reduced 29%.

Most other expenditure, including fertiliser, is being held at similar to 2019/20 expenditure levels, to be reviewed as the season progresses.

Debt servicing remains the same as for 2019/20; while interest rates have been held, the expectation is for a much higher overdraft level, offsetting the reduction in debt in 2019/20.

Net Result

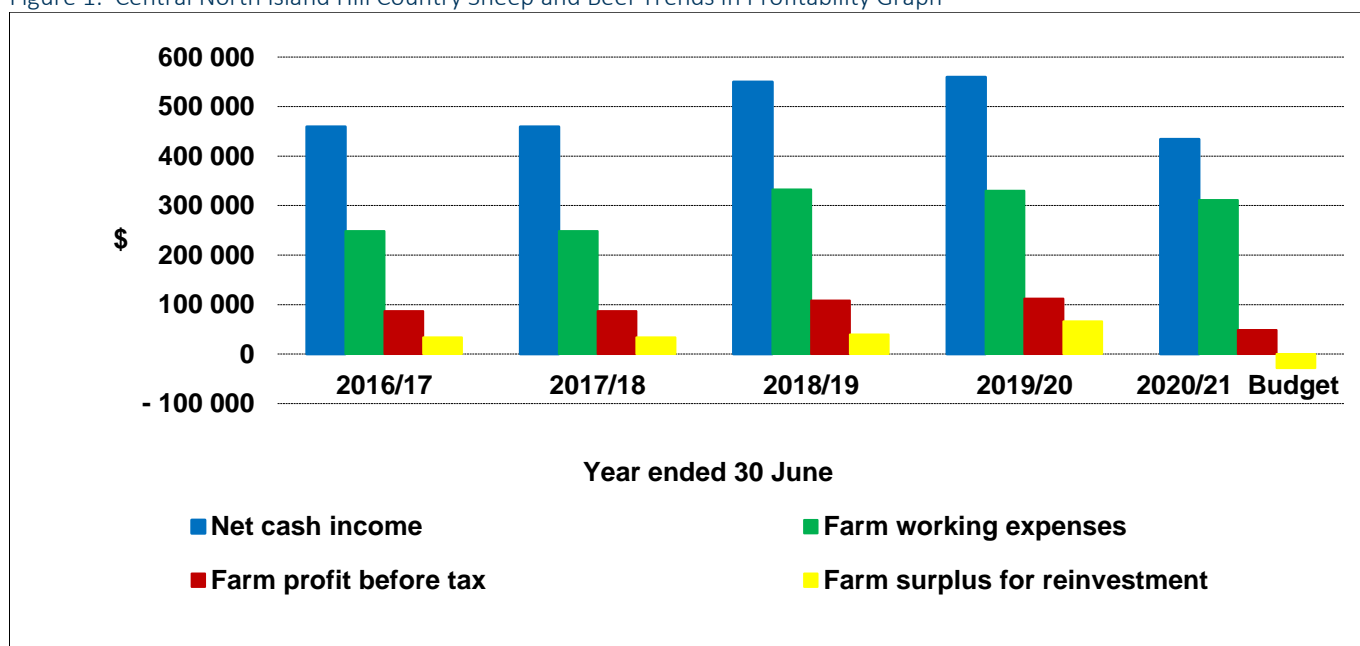
As a result of the drop in net cash income, the budgeted farm profit before tax is \$48,400, down 57% on 2019/20. Allowing for some tax (down 67%), and drawings (up 2%), the result is a deficit of \$28,600.

Consequently, nothing is currently budgeted for capital expenditure or development, and principal debt repayment is also suspended. Assuming this deficit eventuates, the likelihood is that farmers will look to reduce farm working expenditure more, in order to achieve a breakeven position.

While this is a less than desirable position, there is some optimism for 2021/22, in expectation of stock numbers being back up to normal, and the world recovering from Covid-19.

On the capital front, farms appear to be selling well, with land values continuing to firm. Many of the sales are farmer to farmer, with continuing interest in carbon farming also driving prices.

Figure 1: Central North Island Hill Country Sheep and Beef Trends in Profitability Graph



ISSUES

- The model continues to struggle financially. Notwithstanding the expected deficit for 2020/21, which is largely drought related carryover effects, the model is only operating at what could be considered a maintenance level. Further funds need to be generated to cover a reasonable level of drawings, plus required ongoing investment in the farm, capital expenditure, development, and debt reduction. This is very much so with the expected increased cost of environmental compliance rapidly approaching. At the very least, productivity levels need to continue to improve.
- Wool remains a bane of contention on farms. It was very difficult to derive an average price for the 2020/21 season, given that many farms are holding wool on-farm, some farmers couldn't find a buyer at any price, and many were receiving sub \$1/kg offers. In 2019/20 shearing costs were 15% higher than wool returns, while for 2020/21, the budgeted shearing cost is 32% higher than expected wool returns.
- There is still a high level of confusion, or lack of knowledge altogether, on the implications of the Waikato Plan Change 1 and/or the Governments *Action for Healthy Waterways* programme, and what it will actually mean on-farm. For PC1, this confusion is likely to continue until after the Environment Court findings. The situation is similar with greenhouse gas issues, with most farmers now waiting to see what the *He Waka Eke Noa* programme finally decides. There is still wide concern at the potential implication for farming carbon, and the loss of farmland this might entail.
- The most immediate impact of the Covid-19 lockdown was difficulty in getting stock killed. Longer term, there is concern around issues of obtaining immigrant or returning labour for things like shearing and operating contracting

equipment. Problems still remain with obtaining skilled/willing labour on-farm, although some farmers have noted that the increased spread of good telecoms/connectivity to the internet has definitely helped, as this allows both better connection with regard to ordering goods online, and allowing partners to work from home.

- The other main concern around Covid-19 is the impact on overseas markets, and implications of this for prices received.
- While farmers are still aware of M. Bovis and biosecurity issues, the situation has gone quiet. An outbreak of TB on a few dairy farms in the Waikato has raised concern and reinforced that this disease is not yet beaten.
- Overall, farmer sentiment is generally positive, despite the various issues. Amongst other things, there is some quiet pride in seeing agriculture being recognised as an important component of the economy in the current Covid-19 environment.

Figure 2: Disbursement of Surplus Funds

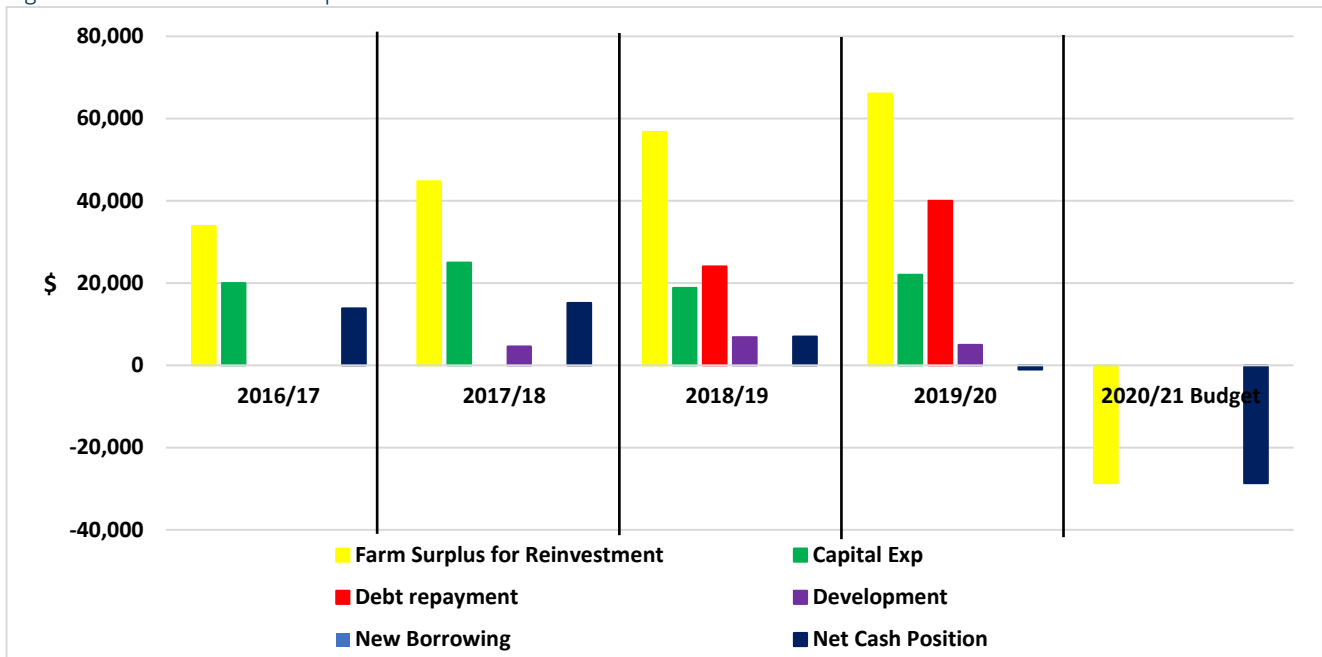


Table 3: Central North Island Hill Country Sheep and Beef Model Budget

	2019/20			2020/21 budget		
	Whole farm (\$)	Per ha (\$)	Per stock unit ¹ (\$)	Whole farm (\$)	Per ha (\$)	Per stock unit ¹ (\$)
Revenue						
Sheep	353 916	576	111.14	283 431	462	89.44
Wool	27 598	45	8.67	23 245	38	7.34
Cattle	229 284	373	122.42	191 144	311	110.23
Grazing income (including hay and silage sales)	0	0	0.00	0	0	0.00
Other farm income	5 700	9	1.13	5 200	8	1.06
Less:						
Sheep purchases	12 000	20	3.77	12 000	20	3.79
Cattle purchases	45 050	73	24.05	56 750	92	32.73
Net cash income	559 449	911	110.62	434 270	707	88.58
Farm working expenses	329 681	537	65.19	311 144	507	63.46
Cash operating surplus	229 768	374	45.43	123 126	201	25.11
Interest	68 460	111	13.54	68 484	112	13.97
Rent and/or leases	0	0	0.00	0	0	0.00
Stock value adjustment	- 24 740	- 40	-4.89	18 113	30	3.69
Minus depreciation	24 324	40	4.81	24 312	40	4.96
Farm profit before tax	112 244	183	22.19	48 443	79	9.88
Income equalisation	0	0	0.00	0	0	0.00
Taxation	19 713	32	3.90	6 517	11	1.33
Farm profit after tax	92 531	151	18.30	41 925	68	8.55
Allocation of funds						
Add back depreciation	24 324	40	4.81	24 312	40	4.96
Reverse stock value adjustment	24 740	40	4.89	- 18 113	- 30	-3.69
Drawings	75 522	123	14.93	76 750	125	15.65
Farm surplus for reinvestment²	66 073	108	13.06	- 28 626	- 47	-5.84
Reinvestment						
Net capital purchases	22 000	36	4.35	0	0	0.00
Development	5 000	8	0.99	0	0	0.00
Principal repayments	40 021	65	7.91	0	0	0.00
Farm cash surplus/deficit	- 948	- 2	-0.19	- 28 626	- 47	-5.84
Other cash sources						
Off-farm income	0	0	0.00	0	0	0.00
New borrowings	0	0	0.00	0	0	0.00
Introduced funds	0	0	0.00	0	0	0.00
Net cash position	- 948	- 2	-0.19	- 28 626	- 47	-5.84
Assets and liabilities						
Farm, forest and building (opening)	4 800 000	7 818	949.09	5 037 676	8 205	1,027.51
Plant and machinery (opening)	146 662	239	29.00	146 662	239	29.91
Stock valuation (opening)	824 244	1 342	162.97	799 504	1 302	163.07
Other produce on hand (opening)	0	0	0.00	0	0	0.00
Total farm assets (opening)	5 770 906	9 399	1,141.06	5 983 842	9 746	1,220.49
Total assets (opening)	5 770 906	9 399	1,141.06	5 983 842	9 746	1,220.49
Total liabilities (opening)	1 659 000	2 702	328.03	1 638 979	2 669	334.29
Total equity (farm assets - liabilities)	4 111 906	6 697	813.03	4 344 863	7 076	886.20

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.

Table 4: Central North Island Hill Country Sheep and Beef Model Expenditure

	2019/20			2020/21 budget		
	Whole farm (\$)	Per ha (\$)	Per stock unit ¹ (\$)	Whole farm (\$)	Per ha (\$)	Per stock unit ¹ (\$)
Farm working expenses						
Permanent wages	0	0	0.00	0	0	0.00
Casual wages	20 028	33	3.96	20 837	34	4.25
ACC	703	1	0.14	646	1	0.13
Total labour expenses	20 731	34	4.10	21 483	35	4.38
Animal health	30 345	49	6.00	30 643	50	6.25
Breeding	0	0	0.00	0	0	0.00
Electricity	7 991	13	1.58	8 237	13	1.68
Feed (hay and silage)	6 069	10	1.20	5 883	10	1.20
Feed (feed crops)	0	0	0.00	0	0	0.00
Feed (grazing)	0	0	0.00	0	0	0.00
Feed (other)	5 513	9	1.09	5 589	9	1.14
Fertiliser	68 550	112	13.55	67 740	110	13.82
Lime	0	0	0.00	0	0	0.00
Cash crop and forestry expenses	0	0	0.00	0	0	0.00
Freight (not elsewhere deducted)	7 368	12	1.46	7 354	12	1.50
Regrassing costs	3 540	6	0.70	3 187	5	0.65
Shearing expense	31 928	52	10.03	30 731	50	9.70
Weed and pest control	10 520	17	2.08	5 883	10	1.20
Fuel	9 761	16	1.93	8 972	15	1.83
Vehicle costs (excluding fuel)	14 515	24	2.87	14 218	23	2.90
Repairs and maintenance	42 989	70	8.50	30 700	50	6.26
Total other working expenses	239 088	389	47.27	219 137	357	44.70
Administration	18 420	30	3.64	18 631	30	3.80
Rates	24 560	40	4.86	25 174	41	5.13
Insurance	14 667	24	2.90	14 736	24	3.01
ACC employer	4 629	8	0.92	4 629	8	0.94
Other expenditure	7 586	12	1.50	7 354	12	1.50
Total overhead expenses	69 862	114	13.81	70 524	115	14.38
Total farm working expenses	329 681	537	65.19	311 144	507	63.46
Calculated ratios						
Economic farm surplus (EFS ²)	105 704	172	20.90	41 927	68	8.55
Farm working expenses/NCI ³	59%			72%		
EFS/total farm assets	1.8%			0.7%		
EFS less interest and lease/equity	0.9%			-0.6%		
Interest+rent+lease/NCI	12.2%			15.8%		
EFS/NCI	18.9%			9.7%		

Notes

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

² 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.

³ Net cash income.

INFORMATION ABOUT THE MODEL

The Central North Island Hill Country Sheep and Beef Model represents approximately 1,600 farms across the central North Island. The farms monitored cover the Waikato, Otorohanga, Waitomo, Stratford, Ruapehu, Taupo, Whanganui, and Rangitikei districts.

The model is a hill country farm based on an average property of 684 hectares total, 614 hectares effective, running around 2,400 breeding ewes and replacements, selling 75% of lambs prime, 25% store. The farm also runs 121 breeding cows, with heifers calved as 2-year olds, and all stock finished; heifers to around 18 months, and steers taken through to around 300 kg carcass weight at 20 - 26 months. 50 - 60 weaner steers are also purchased in each year to finish at 20 - 26 months.

The model is created from information drawn from 20 surveyed sheep and beef farms and a cross section of agribusiness representatives. The aim of the model is to typify an average hill country sheep and beef farm for the central North Island region. The income and expenditure shown is on a cash-in/cash-out basis.

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