

SOUTHLAND DAIRY

This report contains the key results from the Ministry of Agriculture and Forestry's 2008 dairy monitoring programme. The full Pastoral Monitoring Report 2008 will be available in December 2008.

KEY POINTS

- › The model's total milksolids production decreased 1 percent in 2007/08 to 195 000 kilograms.
- › Drought affected the northern Southland area causing milksolids production there to fall by up to 7 percent.
- › The record milksolids payout gave the highest net cash income ever recorded in the model.
- › Feed, fertiliser and fuel costs increased significantly with farm working expenses now \$3.31 per kilogram of milksolids.
- › Farm profit before tax increased six-fold in 2007/08. The cash surplus was \$251 000.
- › Around 100 new dairy farms will start milking in the spring of 2008.
- › The increase in land price indicates that dairy farmers' morale is buoyant and business confidence is high.
- › Equity increased by \$3.2 million to over \$7.5 million per farm from July 2007 to July 2008.

Table 1: Key parameters, financial results and forecast for the Southland dairy model

Year ended 30 June	2004/05	2005/06	2006/07	2007/08	2008/09 forecast
Effective area (ha)	162	178	178	178	178
Cows wintered (head)	455	499	518	549	557
Replacement heifers (head)	100	102	127	127	137
Cows milked 15th December (head)	432	478	490	522	528
Stocking rate (cows/ha)	2.7	2.7	2.8	2.9	3.0
Total milksolids (kg)	152 100	185 375	196 000	194 600	205 000
Milksolids per ha (kg/ha)	939	1 042	1 101	1 093	1 152
Milksolids per cow milked (kg/cow)	352	388	400	373	388
MS advance to end June (\$/kg)	3.95	3.60	3.65	6.60	5.38
MS deferred payment (\$)	0.45	0.64	0.50	0.81	1.02
Net cash income (\$)	709 095	816 276	857 495	1 511 277	1 369 635
Farm working expenses (\$)	439 417	490 532	553 052	643 305	765 263
Farm profit before tax(\$)	101 287	164 630	99 516	605 737	329 339
Farm surplus for reinvestment ¹	41 045	67 016	- 6 944	462 700	83 989

Note

¹ 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 discretionary cash less off-farm income and drawings.



TABLE 2: SOUTHLAND DAIRY MODEL BUDGET

	2007/08			2008/09 forecast		
	Whole farm (\$)	Per cow (\$)	Per kg of milksolids (\$)	Whole farm (\$)	Per cow (\$)	Per kg of milksolids (\$)
Revenue						
Milksolids	1 450 120	2 778	7.45	1 301 392	2 465	6.35
Cattle	56 714	109	0.29	64 582	122	0.32
Other farm income	6 743	13	0.03	6 061	11	0.03
Less:						
Cattle purchases	2 300	4	0.01	2 400	5	0.01
Net cash income	1 511 277	2 895	7.77	1 369 635	2 594	6.68
Farm working expenses	643 305	1 232	3.31	765 263	1 449	3.73
Cash operating surplus	867 972	1 663	4.46	604 372	1 145	2.95
Interest	247 200	474	1.27	264 600	501	1.29
Rent and/or leases	0	0	0.00	0	0	0.00
Stock value adjustment	27 276	52	0.14	30 423	58	0.15
Minus depreciation	42 311	81	0.22	40 856	77	0.20
Farm profit before tax	605 737	1 160	3.11	329 339	624	1.61
Taxation	93 962	180	0.48	175 783	333	0.86
Farm profit after tax	511 776	980	2.63	153 556	291	0.75
Add back depreciation	42 311	81	0.22	40 856	77	0.20
Reverse stock value adjustment	- 27 276	- 52	-0.14	- 30 423	- 58	-0.15
Off-farm income	0	0	0.00	0	0	0.00
Discretionary cash	526 811	1 009	2.71	163 989	311	0.80
Applied to:						
Net capital purchases	132 255	253	0.68	57 000	108	0.28
Development	79 016	151	0.41	40 000	76	0.20
Principal repayments	0	0	0.00	0	0	0.00
Drawings	64 111	123	0.33	80 000	152	0.39
New borrowings	0	0	0.00	0	0	0.00
Introduced funds	0	0	0.00	0	0	0.00
Cash surplus/deficit	251 429	482	1.29	- 13 011	- 25	-0.06
Farm surplus for reinvestment¹	462 700	886	2.38	83 989	159	0.41
Assets and Liabilities						
Farm, forest and building (opening)	4 371 000	8 374	22.46	7 870 000	14 905	38.39
Plant and machinery (opening)	183 484	352	0.94	190 550	361	0.93
Stock valuation (opening)	1 281 377	2 455	6.58	1 308 653	2 479	6.38
Dairy company shares	1 330 840	2 550	6.84	1 091 720	2 068	5.33
Other farm related investments	0	0	0.00	0	0	0.00
Total farm assets	7 166 701	13 729	36.8	10 460 923	19 812	51.03
Total liabilities (opening)	2 930 000	5 613	15.06	2 930 000	5 549	14.29
Total equity (assets-liabilities)	4 236 701	8 116	21.77	7 530 923	14 263	36.74

Note

¹ Farm surplus for reinvestment is calculated as discretionary cash less off-farm income and drawings.

TABLE 3: SOUTHLAND DAIRY MODEL EXPENDITURE

	2007/08			2008/09 forecast		
	Whole farm (\$)	Per cow (\$)	Per kg of milksolids (\$)	Whole farm (\$)	Per cow (\$)	Per kg of milksolids (\$)
Farm working expenses						
Permanent wages	108 054	207	0.56	102 849	195	0.50
Casual wages	15 138	29	0.08	12 262	23	0.06
ACC	2 476	5	0.01	2 932	6	0.01
Total labour expenses	125 668	241	0.65	118 043	224	0.58
Animal health	31 466	60	0.16	33 000	63	0.16
Breeding	19 345	37	0.10	18 300	35	0.09
Dairy shed expenses	11 484	22	0.06	12 000	23	0.06
Electricity	18 792	36	0.10	20 064	38	0.10
Feed (hay and silage)	43 896	84	0.23	52 800	100	0.26
Feed (feed crops)	14 951	29	0.08	20 000	38	0.10
Feed (grazing)	102 933	197	0.53	152 064	288	0.74
Feed (other)	56 471	108	0.29	71 808	136	0.35
Fertiliser	66 460	127	0.34	108 765	206	0.53
Lime	1 495	3	0.01	1 273	2	0.01
Freight (not elsewhere deducted)	9 161	18	0.05	9 610	18	0.05
Regrassing costs	7 830	15	0.04	8 330	16	0.04
Weed and pest control	6 442	12	0.03	6 440	12	0.03
Fuel	17 981	34	0.09	23 760	45	0.12
Vehicle costs (excluding fuel)	17 572	34	0.09	18 500	35	0.09
Repairs and maintenance	40 716	78	0.21	29 040	55	0.14
Total other working expenses	466 996	895	2.40	585 754	1 109	2.86
Communication costs (phone & mail)	5 199	10	0.03	5 300	10	0.03
Accountancy	6 100	12	0.03	6 200	12	0.03
Legal and consultancy	3 070	6	0.02	3 400	6	0.02
Other administration	5 552	11	0.03	5 912	11	0.03
Water charges (irrigation)	0	0	0.00	0	0	0.00
Rates	11 484	22	0.06	12 184	23	0.06
Insurance	6 888	13	0.04	6 648	13	0.03
Other expenditure ¹	12 349	24	0.06	21 823	41	0.11
Total overhead expenses	50 642	97	0.26	61 467	116	0.30
Total farm working expenses	643 305	1 232	3.31	765 263	1 449	3.73
Wages of management	85 000	163	0.44	85 000	161	0.41
Depreciation	42 311	81	0.22	40 856	77	0.20
Total farm operating expenses	770 616	1 476	3.96	891 119	1 688	4.35
Calculated Ratios						
Economic farm surplus (EFS ²)	767 937	1 471	3.95	508 939	964	2.48
Farm working expenses/NCI ³	43%			56%		
EFS/total farm assets	10.7%			4.9%		
EFS less interest and lease/equity	12.3%			3.2%		
Interest + rent + lease/NCI	16.4%			19.3%		
EFS/NCI	50.8%			37.2%		

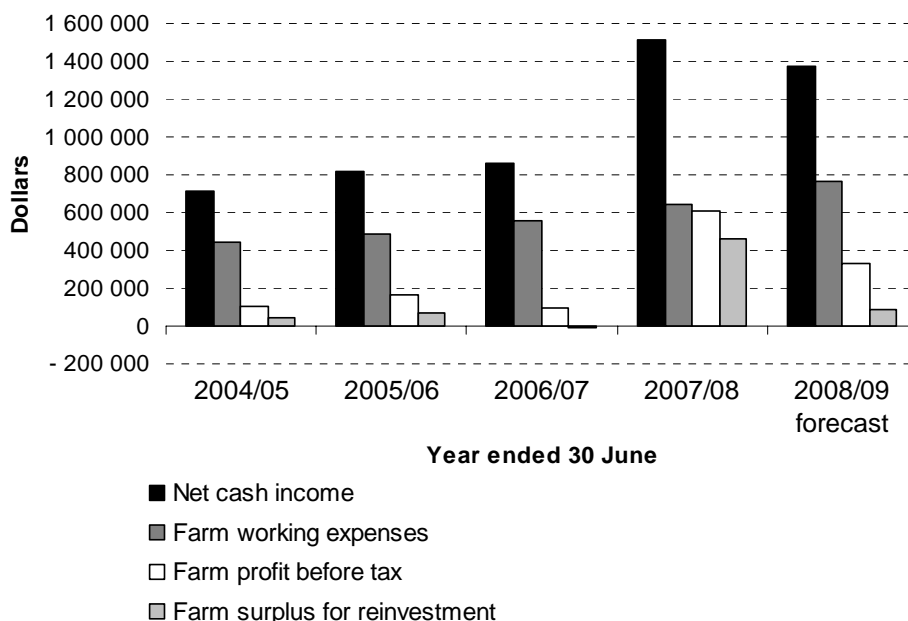
Notes

1 Includes Dairy NZ levy and employers ACC.

2 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: \$38 000 allowance for labour input plus 1% of opening total farm assets to a maximum of \$85 000.

3 Net cash income

FIGURE 1: SOUTHLAND DAIRY MODEL FARM PROFITABILITY TRENDS



INFORMATION ABOUT THE MODEL

The Southland dairy model represents about 660 dairy farms in Southland that supply milk to the Fonterra factory at Edendale. This model has increased significantly in size, stocking rate and production over several years. In 1995, the average farm size was 130 hectares. In 2000/01, it was 182 hectares, made up of 152 hectares milking platform and a 30 hectares leased run-off. The model size was increased in the 2001/02 season to 162 hectares milking platform and a purchased 30 hectares run-off. From 2005/06 the model is 178 hectares plus a 30 hectare runoff. Many farms in the model have been producing milk for less than six years. The size and production from these farms is still increasing. An increase of up to 100 extra dairy units in the 2008/09 year will also affect the average size and production.

The model is created from information drawn from 30 dairy farms and a wide cross section of agribusiness representatives. The aim of the model is to typify an average dairy farm for Southland. Budget figures are averaged from the contributing properties and adjusted to represent a real dairy farm. Income figures include off-farm income, new borrowing, and other cash income.

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