Client newsletter
February 2013

Wairere

From hero to zero

The sky has fallen after last season's bonanza for sheep farmers. Particularly hard hit have been the areas affected by a cold, then dry spring, followed by a hot summer.

It has been tough going, and there will be a lot of red ink around this financial year.

Processors have taken all the blame for pushing the lamb price too high and causing the trough which has followed. It was a case of too much processing capacity chasing too few stock. What might have been a been a very good strategy for an individual processor, to fill up the hooks, simply succeeded in driving up farmgate price. But which company wants to volunteer to reduce capacity? The costs of redundancy and decommissioning are massive. Is New Zealand law at fault for forcing such high costs on struggling businesses ? It is a huge disincentive to change.

Our industry is not alone in bouncing from highs to lows. The chicken industry in the United States had two periods of spectacular losses in the past five years, with a number of producers going broke. Our dairy industry has suffered the same farmgate price volatility as lamb over recent seasons, but was fortunate to have the 2008 drought coincide with peak prices, the polar opposite to us.

The sheep industry – on the horns of a dilemma? Horny, but no horns … Wairere Merino halfbreds will use Gordon Lucas's Poll Merino 17 micron flock as a base.

The big question is:

when will prices get back onto an even keel? Global demand has strengthened for lamb and mutton over recent months as wholesale prices have fallen. Racks and loins are still difficult to sell; when restaurants take these items off the menu, it can take six months or more before they are listed again. Growing markets in Asia are showing demand for an increasing range of cuts. On the supply side, the overhang of frozen inventory has to be worked through. And Australia is set to have its biggest export tonnage ever.

My best guess is that it will take until next spring to restore the supply/demand balance. From that point we might look for an average seasonal price of $6 plus/kg.

And wool? End of year cotton stocks were at record levels, 80 million bales. When cotton price tanked five years ago, there was a dramatic reduction in planted area. Once the stockpile was used up, cotton prices leapt 300%, sparking a planting boom. That carried the wool price with it. At least wool is selling, not accumulating in wool stores around the country.

The future of sheep farming? A low point like this justifies asking some hard questions.

Supply. China is the country with the most sheep; they used to quote 170 million, but that was dropped to 125 million after an extremely harsh winter three years ago… (we didn't hear much about animal welfare there!) unlikely to increase supply much. Australia peaked at 180 million sheep in 1990, dropping to 68 million in 2010. Australia is the country which could increase lamb numbers rapidly. That might happen if crop prices remained low, and seasons were favourable. However, cropping is easier than sheepfarming, and it is likely that tractors will get the nod. In South America sheepfarming has become a marginal enterprise. Flat to rolling terrain, good soils, and the advent of better direct drilling technology, have allowed huge areas of sheep and cattle country to change to arable farming. Looking around the rest of the world, the likelihood of surges in sheep production are low. Conclusion: world sheepmeat, wool and co-product production will be static, or increase/decrease slightly over the next ten years.

Demand. Demand is increasing, but the pattern is changing. New Zealand used to fill its 227,000 tonne EU sheep quota every year. Only 70% of quota was filled in 2011-12. China is now our second biggest market by volume, and moving very quickly up the value chain. We hear so much about China that we tend to underestimate the potential in other markets for sheepmeat, e.g. Indonesia, Middle East. Malaysia, Russia, Brazil. There is a shortage of New Zealanders living in new markets who speak the lingo, and understand the culture and who create demand for our produce. It's much more comfortable to stay at home, and produce. But there is scope to increase demand and price.

Competitors. Australia is New Zealand's biggest competitor in world markets. Anchored by a domestic market which consumes around 55% of lamb produced (compared to 5% in NZ), Australian exporters are able to undercut New Zealand on price. Most other producers are preoccupied feeding their homeland.

Substitutes. Dairy products are less easy to substitute than meat, one of the reasons that milk solids price at the farmgate has risen relative to beef in particular.

The past fifty years has seen huge feed efficiency improvements in pigs, poultry, and fish farming. How much better can they get?

Productivity. How much better can we get? Do we have more room to move than other meat sectors? The biggest hole we have in current systems is lack of high quality feed at key times. Poukawa research station, near Hastings, trialed ad lib feeding of East Friesian Romney ewes one spring. The singles averaged 540g/day to weaning, the twins 460g/day, the triplets 390g/day. I predict that occasional supplementation will be a tool more frequently used, to boost productivity, or maintain it through feed stress periods.

Cost of production. Is there a more cost effective fertiliser regime? Or palatable plants which require less input?

Fencing is a huge cost in our systems. Will technology change this equation?

Labour is another major cost. Some farms are much more efficient than others. Some areas make good use of contractors for all the big jobs; other areas not at all.

Animal health is a big cost centre in some operations. Better feeding may be the cheapest way to curb high costs in this area.

Cost of land is a major hurdle, if you don't already own it. The price of sheep and beef land has been artificially elevated by dairy conversion, and easy access to credit. The rising tide of land value has created paper wealth, and the opportunity to leverage off that. It has also created a debt bubble. High land values do create an incentive to improve productivity and yield though.

Climbing the value chain. Much has been achieved with sheepmeat over the past twenty years. In 1991 New Zealand lamb was fetching $25-30 at the farmgate with our dollar valued at 28 pence. The wholesale price of frozen lamb in the UK had tracked pigmeat price for decades. Shortly after that, the paths diverged, and lamb started to take up a high value niche position. Our produce needs more ambassadors in new markets, more product development.

Sheep farmers invested downstream in the meat industry decades ago, and ended the dominance of large foreign-owned companies. We need to find the right vehicles to nurture value for wool and its co-products. Every bit of value add counts.

Conclusion. Having recently travelled for many hours through the rich farmland of Brazil, I now realise what marginal farming we practise on New Zealand hill country. We have so few options. Too many cattle damage the land. Pine trees are a thirty year crop – we cannot afford to have too many eggs in that basket, which leaves us with sheep.

We have to make sheep work for us.

Control what we can control.

Our circle of influence lies mostly within the farm gate. During our November ram selling we heard many inspirational stories from clients of record lambing percentages in both ewes and hoggets. Improving productivity with a calculated cost benefit approach to expenditure is the best way forward. Here are two great examples:

Tom and Anne Costello, North Canterbury. Tom is one of twelve Canterbury Focus Farms being analysed as part of a three year Beef and Lamb project targeting increased profits. He hosted a field day in November. The property, near Hawarden, is flat, but too cold for Lucerne, and too dry after Christmas. "Drought is the biggest issue. The soils are stony; it's hard to drive posts straight". P levels of 30 are maintained by an annual dressing of 170kg Sulphur super. Lime at 2.5t/ha was applied in 2010, after pH levels dropped to 5.7.


Tom Costello

A block of 80 hectares with irrigation was added in 2000, making a well-balanced unit. Ewes lamb on the light ground, where they thrive. Lambing is 150% or better, and lambs grow fast. In a poor year, lambs average 17.5kg, in a good year 19kg. Lambs left over after the weaning draft, plus ewe lamb replacements are grazed on the heavier and irrigated ground. Friesian bulls make up 25% of stock units, run on a separate block. Tom grows greenfeed for wintering cattle, followed by barley. No hay is harvested or fed, a big saving in cost and time. But home grown barley is fed out for three to four weeks most summers, to maintain or improve ewe condition before mating.

Tom is a great believer in shelter. He started planting windbreaks in 1990, and has rows of trees every 140 metres, protecting the land from the nor'wester.

Mating hoggets went well this year; 620 got in lamb out of 700, and 640 lambs were tailed. The hoggets were 50kg at mating, put on no weight through the winter, but jumped from 50 to 60 between shearing and lambing. Wairere Dominators were used over half the hoggets and some two tooths, with no lambing problems. More Dominators have been purchased this year to check out their performance through Farm IQ.

The standout feature from the analysis of Tom's business is how he achieved this level of productivity from Wairere Romneys at 25% expenditure to gross revenue in 2011 -12. Another property in the Focus Farms trial, using composites, had 44% expenditure to revenue.

David and Sharon Holden, Tikokino, Central Hawkes Bay. "Flock performance was around 120% and below before we started with Waireres in 2003. That year we only weaned 6,091 lambs from our 5,700 ewe flock. The change to Wairere Earlylamb composite and now back to Romney has been a huge success. This season we have lambed at 150% from the ewe flock and 100% from the hoggets.

In 2003 we only had 4,000 lambs to market allowing for replacements. In the 2012/13 year we weaned 10,465 lambs including hogget lambs, meaning that we have doubled the number at over 8,000 lambs to be sold. Weaning weights have also improved and we have sold 4,400 prime at weaning, more than the total sold in 2003."

Wairere is fortunate to belong to the largest farm discussion group in New Zealand. We are always learning from our clients. One who is publicity shy, shared his secret for preserving a 162% lambing from his Romney flock on Manawatu hill country, and 100% from hoggets. "I hate to run out of grass. If I do, I rent grazing. I certainly needed extra grass this spring. But it paid off. Lambs averaged 31kg at 90 days".

David Holden

Market signals.

There is an increasing discount for heavy lamb from world markets. Even in the USA, the home of heavy lamb, there is currently a discount of NZ$1.70/kg for weights over 25kg, with further discounts over 30kg and 35kg. It is difficult for retailers to find the right price points for various cuts from New Zealand lamb above 22kg. Extra cutting is expensive, and the effect of deboning often leaves customers thinking that there is less value for money.

This discount should have the effect of reducing tonnage on world markets, as farmers everywhere react to new price signals.

A window on the world.

- Which country is the biggest food producer? China, around 2.5 times bigger than number two, India. USA is a close third.
- Chris and I were in Malaysia in September, for a reunion of Victoria University students, organised by Malaysians who had studied in Wellington with Colombo Plan assistance, or privately. Since independence in 1963, the Malaysian economy has been on a fast track. Agriculture there has been through a gold rush of replacing jungle with oil palms. The palm plantations earn around US$3,000/ha, and palm oil exports eclipse the value of all New Zealand's agricultural experts combined. The ex-student network was good for facilitating a direct supply of lamb to a family restaurant and processing business. It demonstrated the importance of goodwill fostered so many years ago.
- Several years ago there was a research program in the USA into euthanasia on pigs. Farmers were losing money on every pig. The main reason was overproduction: a cure had been found to Aujesky's disease, which used to kill around ten per cent of piglets. Supply and demand is a delicate balance.
- A new technology has recently been developed to make paper from stone, at a similar price to paper from wood pulp. Disruptive technologies like this example support the statement: "There is no absolute to productivity, only relativity to competitors and substitutes". It also demonstrates the risk of a thirty year crop.
- In 2008 McDonalds had restaurants in 118 countries servicing 53 million people per day, and $US55 billion sales. In 2012 McDonalds was still in 118 countries, but servicing 68 million people per day, and $US85 million turnover. This has been achieved during the Global Financial Crisis. It demonstrates the power of a brand, and McDonalds listening better to their customers.
- Recent estimate: 70% of future meat consumption growth will come from Asia.
- In beef and lamb we still need better product consistency- that extra tender, tasty steak creates customer loyalty to brand or retailer or restaurant. Who is doing the research on a "tenderometer" after slaughter?
- I ordered lamb at a restaurant in Australia last year. The cutlets were huge, but the taste was bland……..so much for grain feeding.
- Our Wairere farm field day in Chile in September had fifty four invited guests sit down to a three course lunch

A touch of class, Wairere field day in Chile

with lamb and wine (the sheep were looking good too). Among the guest list were four international chefs. One of them, an Italian, had worked in several continents. He told me that, in the United States, he had much preferred New Zealand lamb to Australian – better taste and texture.

Wool you?

It seems strange that supporters of WPI, who fronted with $38million just two years ago, have given only token support to the Wools of New Zealand share offer. The proposal is much improved, with no need to pay $15million up front to buy out PGGW's wool stores. Wools of New Zealand's offer has been extended to 25th February, and will get over the line ($5m, with $4.1m in by mid-December) but the lack of support is puzzling. As a cousin, involved in horticulture and potatoes, wrote to me:

"It makes me so frustrated to see how the sheep industry behaves … You continue to get industry reports written (regularly) but it's hopeless if the meat companies lose money (big time); what sort of market development can they afford to do? It seems to me, from what I can read, only a little around the edges.

As you well know, we wouldn't have a dairy industry of the size and scale it is, if we didn't have Fonterra and its forbears. It's the same for the kiwifruit industry; we are able to battle our way through PSA (hopefully) because of the industry structure. I look at the apple industry and it has gone nowhere over the last ten years since deregulation. In that time Zespri Gold has gone from nowhere to the same size (before PSA) in export earnings. It works, and makes money for the growers, and there is a coherent strategic plan that everybody in the industry can buy into."

The kiwifruit industry spends 8% of gross revenue each year on market development. What do you think that we should spend on supporting our products?

Cork tree growers were undermined by the switch to screw tops for wine bottles. The two thousand strong grower co-operative in Portugal found a new end use: in aircraft fuselages. Is there a lesson there for wool growers?

Call to action: Merino New Zealand has leveraged $35m of PGP funding, just one example of the benefits that can accrue from farmers supporting their own products.

Murray Johnston, Merchandise General Manager of Progressive Enterprises spoke at the Meat Industry conference in Queenstown last June. "We're proud of the Angus story. We started with twenty cattle per week in 2007, and now it's 10,000. We are targeting 20,000. This branding has worked very well, considering that 60% of New Zealanders buy simply on price".

Many of New Zealand's sheep are now run on hill country, which has limited alternative land use. The effective leverage on land value of a hike in wool price is ultimately the biggest payoff for supporting Wools of New Zealand's capital raise.

To access an application form: **www.ourwool.co.nz**

The 25th February is the deadline.

Your answers

Thank you for your responses to our questionnaire on the August ram booking form, which were almost 100% support for current policy:

"Don't drench ewes, run a high stocking rate and don't grow hoggets to 50kg". I do question the last one – better feeding and management will extract higher performance from young stock, and enhance lifetime production.

I predict that our industry will get better at filling feed deficits rather than expecting stock to take it on the chin.

The year ahead

The Japanese have a great word, "Kaizen", or "continual improvement". With so many more people in the world wanting "the good life", we have to up our act on an ongoing basis, or get left behind.

Coming up

Ram sires are available from February 15th: Romneys, Multipliers, TefRoms, Tufguys, Challengers (FE resilient) and Dominators.

Contact Andrew or Lynette for any assistance you require with sale or purchase of stock.

The road to recovery begins today.

Here's wishing us all a brighter future.

Warm Regards Derek *and the Wairere Team*

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