

November 2018

# Pasture Summit

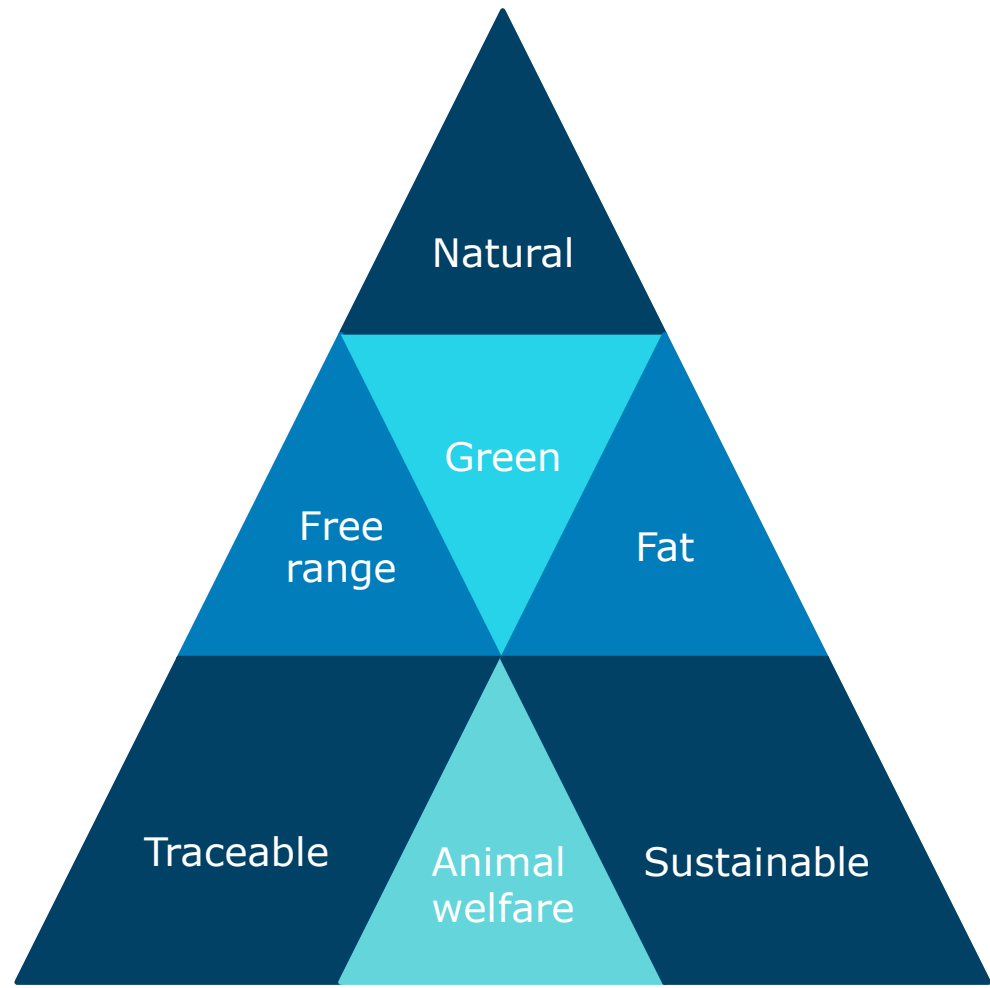
Susan Kilsby, Agriculture Economist  
Mark Grenside, Regional Manager





Bridging the gap – consumers & farmers

## Food trends





## Headwinds for dairy industry

1

**Milk price volatility** will continue – NZ farmers more exposed to downside milk price risk than their global counterparts.

2

Potential for **costs to rise**

- environmentally sustainable
- tight labour market

3

- **Debt burden** limits ability to manage through downturns
- Land values easing – can no longer rely on capital gains

NZ farmers  
face greater  
milk price  
volatility

## Farmgate milk price movements 2013 - 2017

**2x**

New Zealand

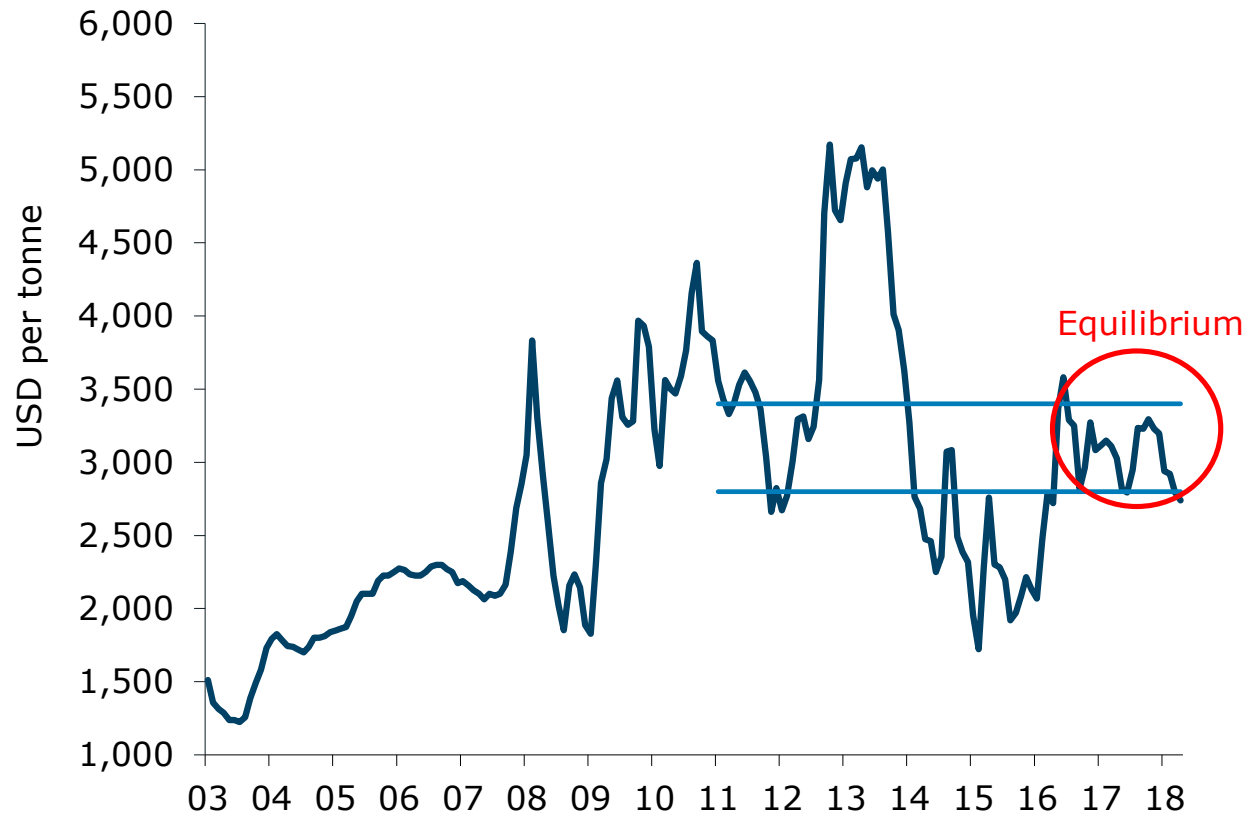
**1.5x  
or less**

Europe  
United States  
Australia

Source: ANZ

Dairy price  
volatility  
here to stay

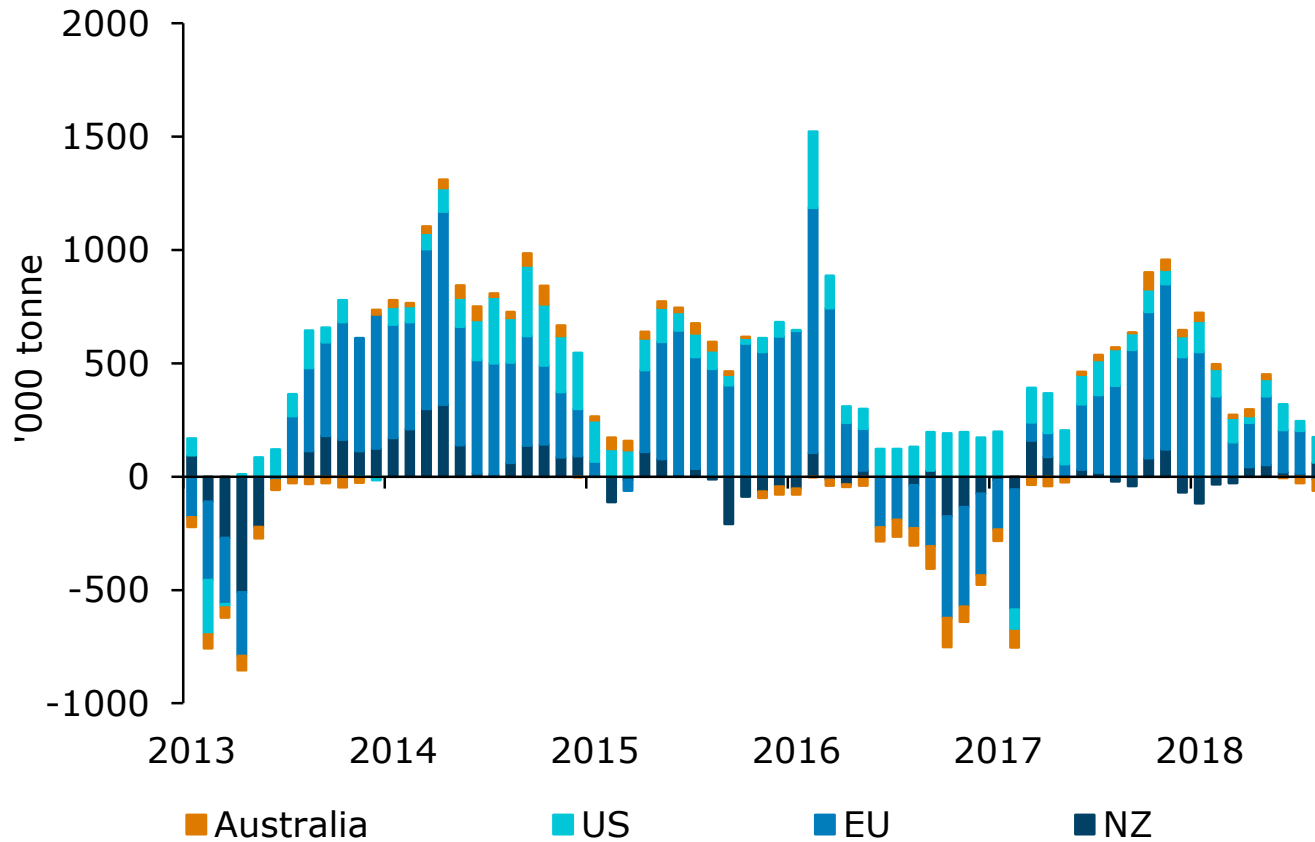
## Dairy commodity market prices



- Prices impacted by global growth in milk
- Opportunity for higher prices limited by supply response
- NZ farmers fell full impact of downside in pricing

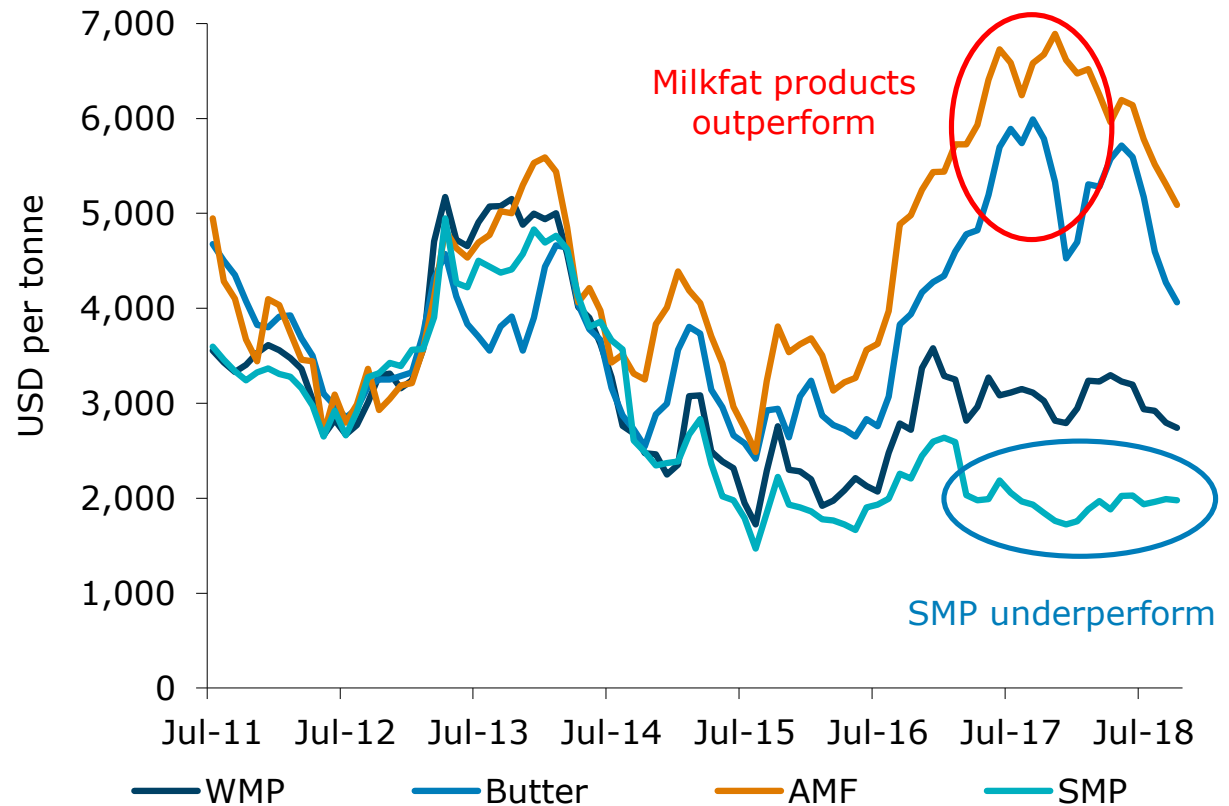
# Global milk production

Year on year change in production – main dairy exporting regions



Fat continues  
to  
outperform  
protein

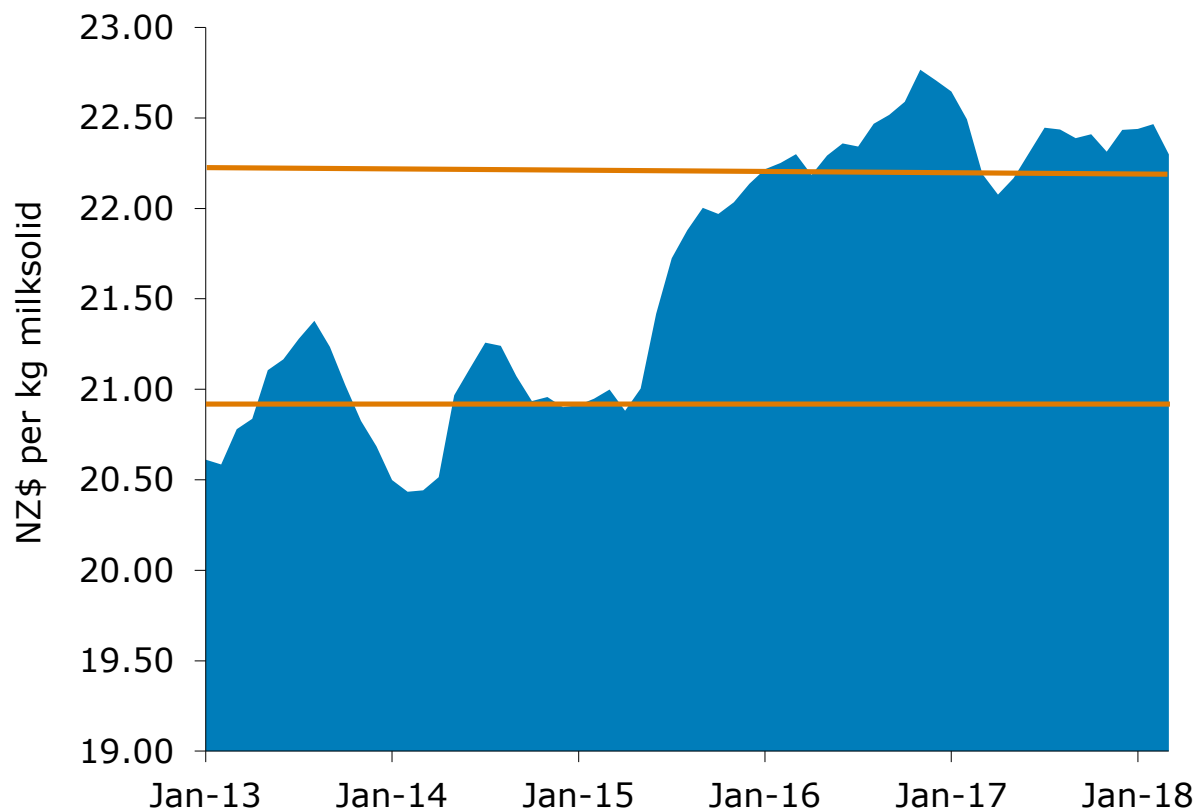
## Dairy commodity market prices



- Milkfat returns still high but now receding
- SMP prices curbed by global stocks
- High milkfat prices encourages substitution

Debt burden  
hinders  
ability to  
generate  
profit

## Dairy sector debt

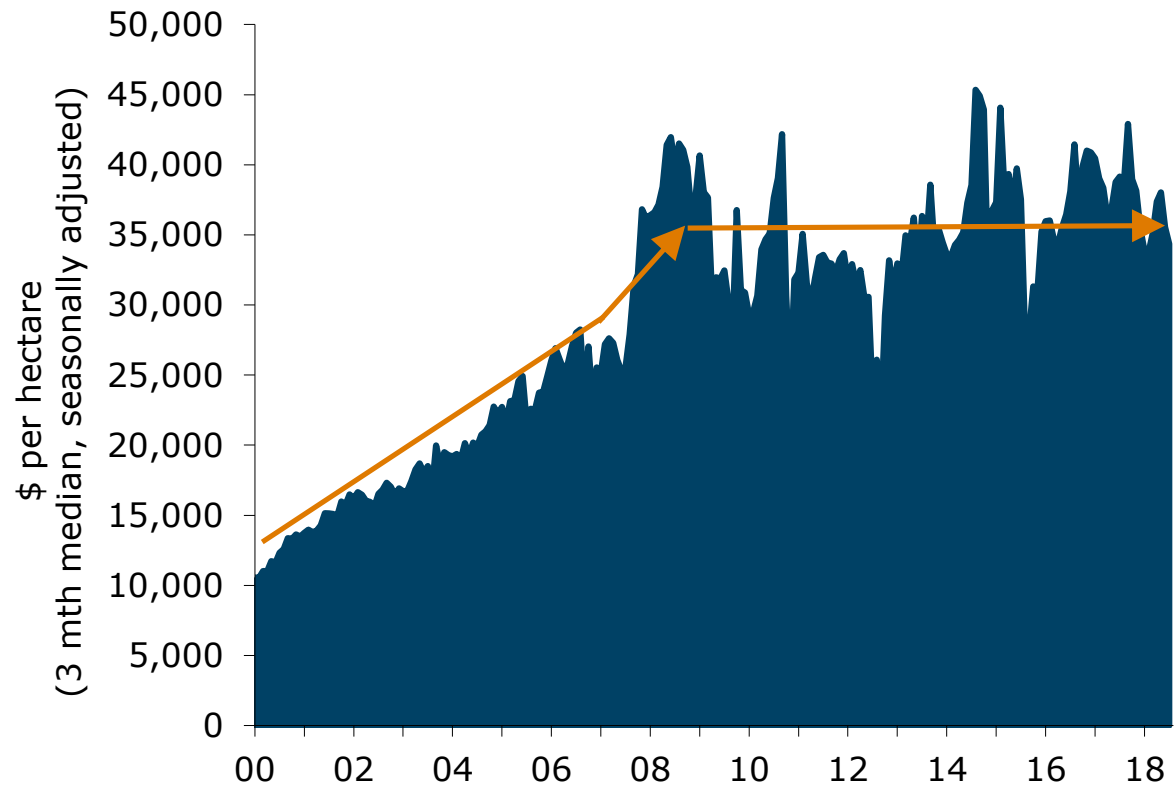


- Debt high
- Unevenly distributed
- \$1.50/kg MS added from 2015 to 2017



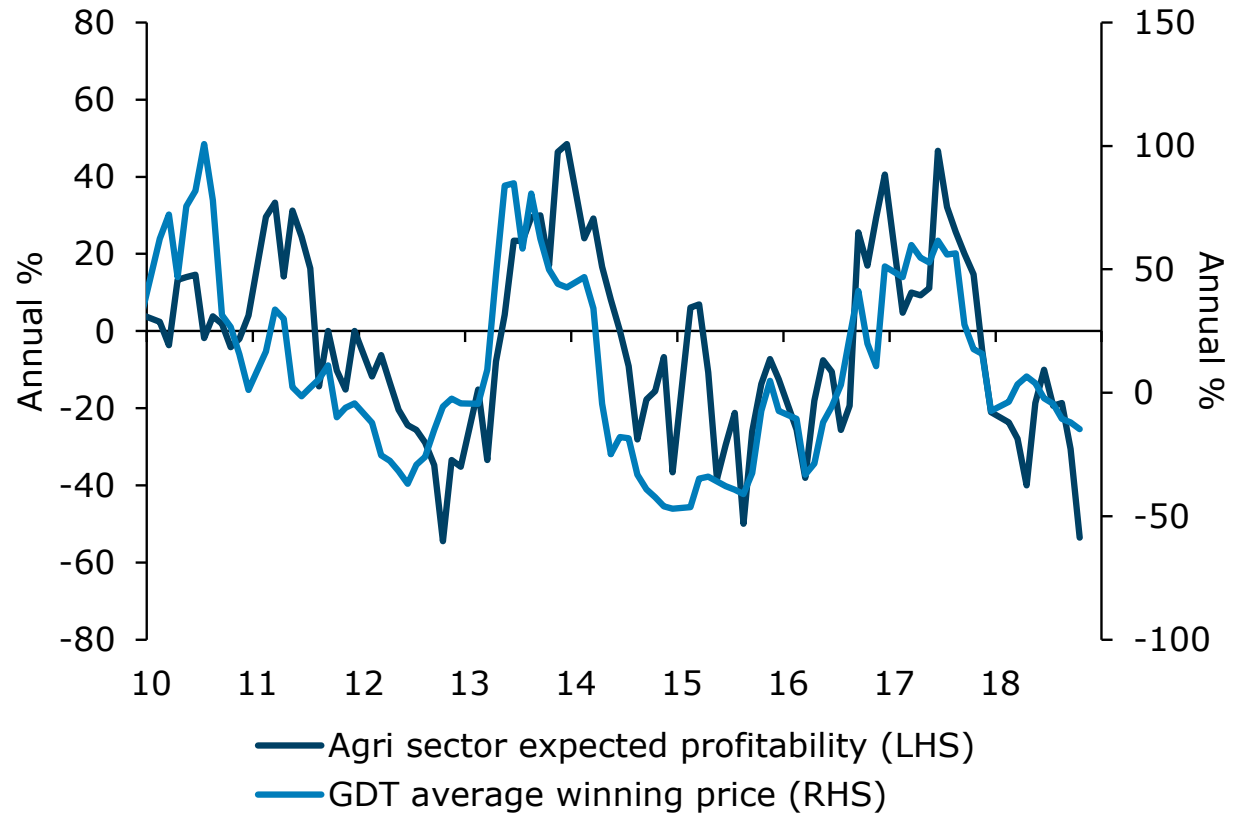
Capital gains  
can't be  
relied on

## Dairy land prices under pressure



Confidence falls as cost risk rises

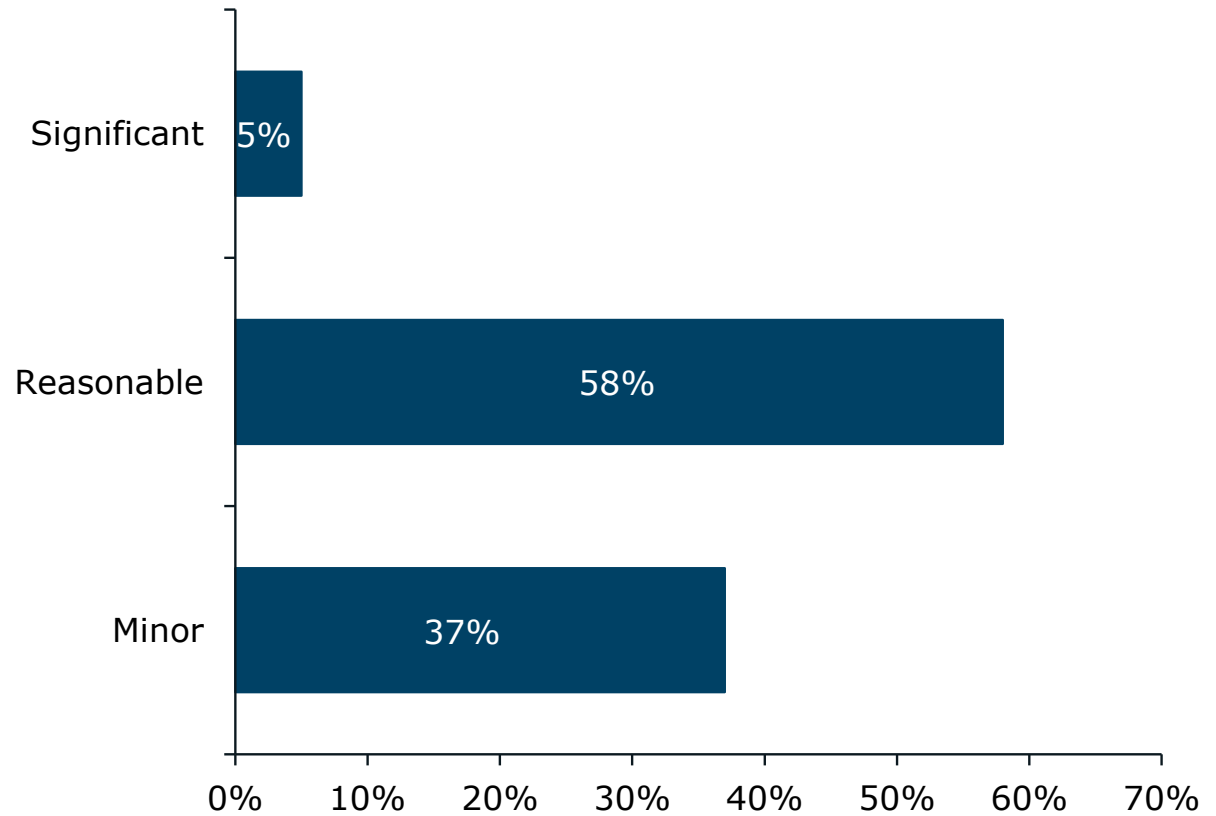
## Agriculture confidence versus GDT



- Agriculture business confidence normally led by dairy returns – but current fall in business confidence not justified by GDT prices.

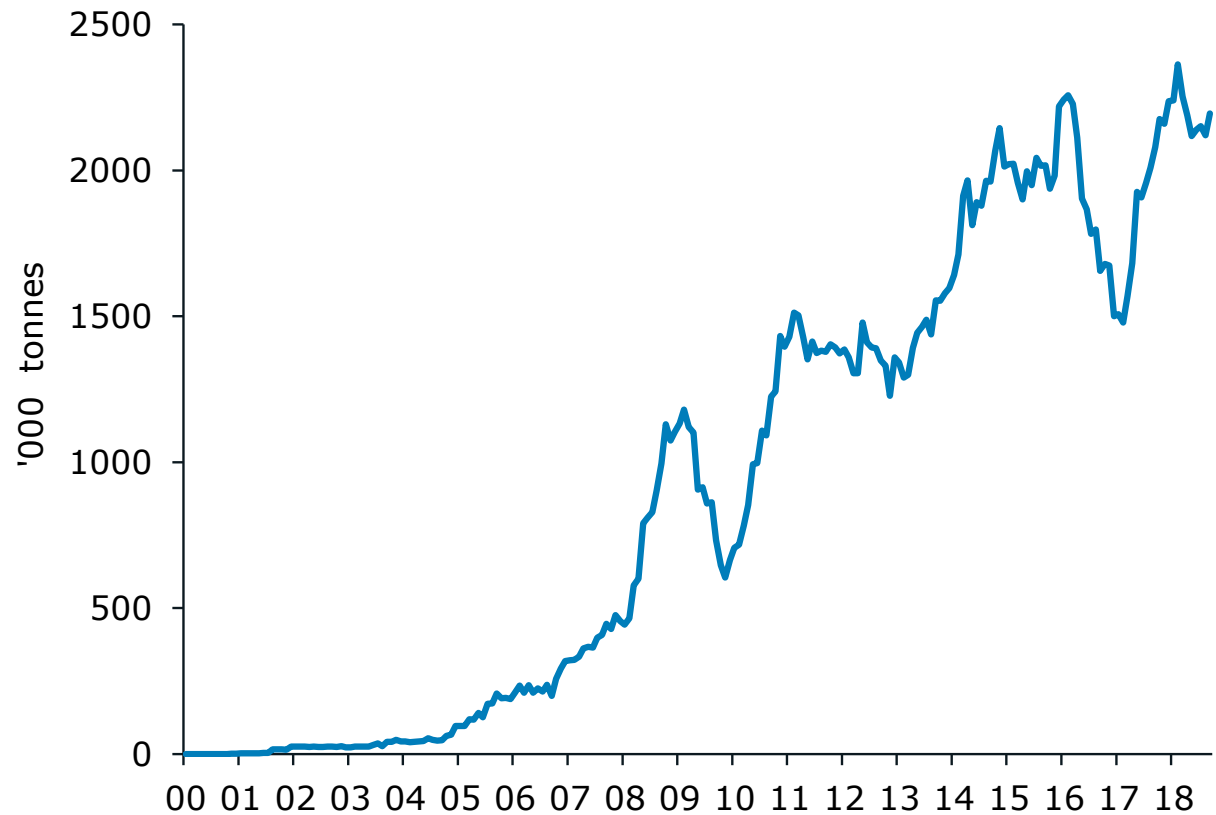
Tighter rules  
expected to  
negatively  
impact farm  
profits

## Impact of tighter environmental rules on farm profits



Addicted to  
PKE?

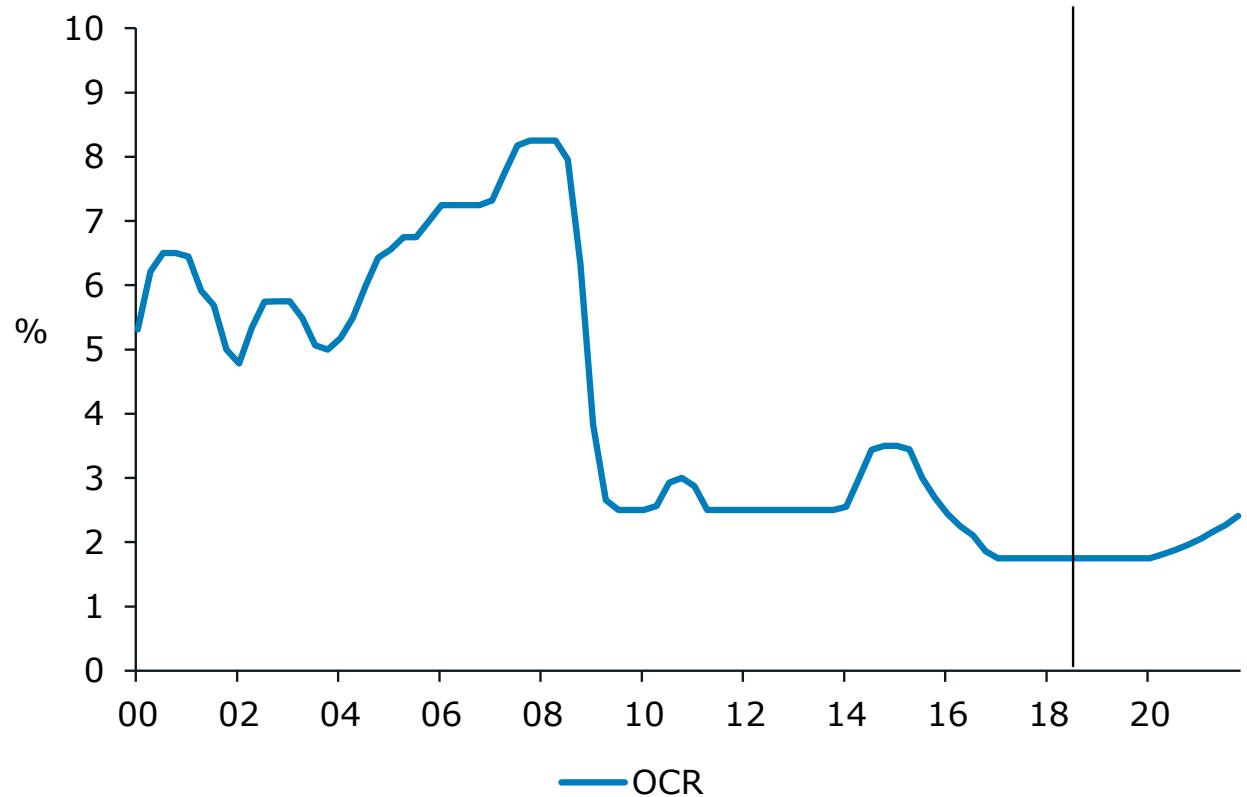
## PKE import volumes rolling 12 month average



- Lift in imports correspond with droughts periods
- Majority of extra milk is from supplements
- Pasture harvest flat

Reserve  
Bank on  
hold

## Reserve Bank interest rate forecasts (November Monetary Policy Statement)



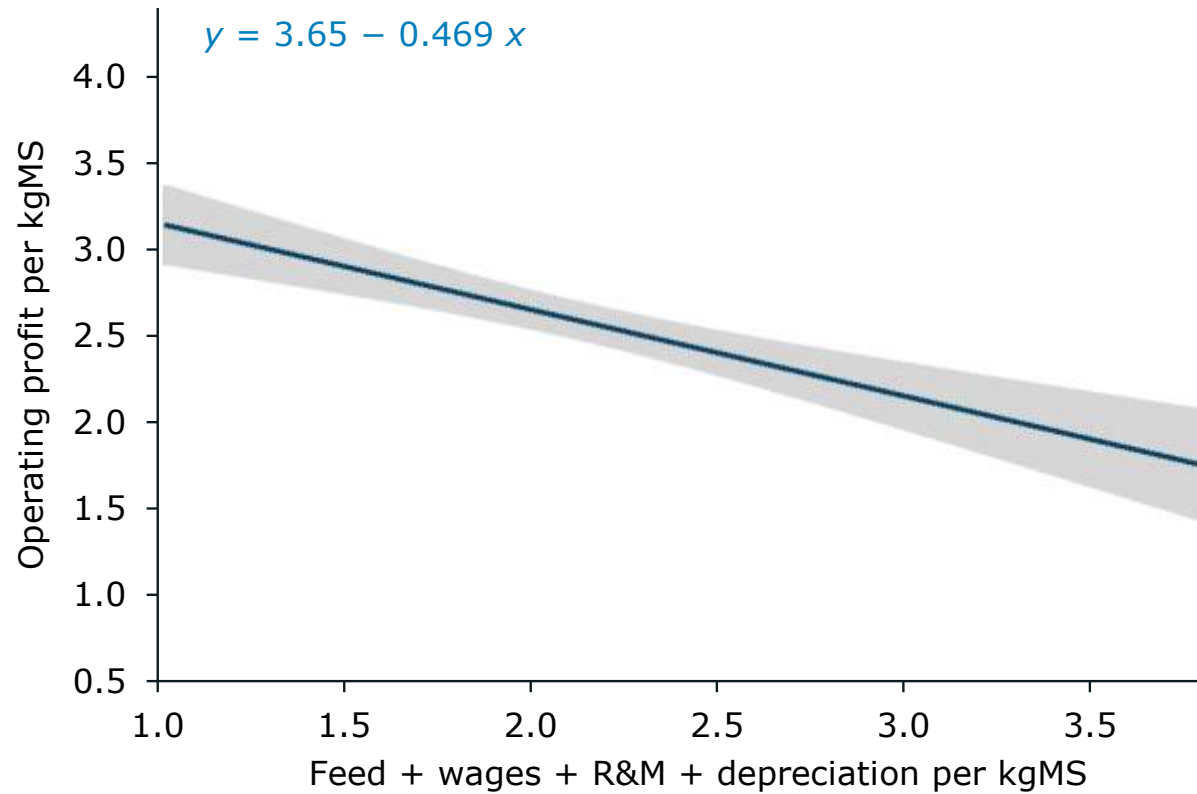
- RBNZ not expecting to lift the official cash rate until 2020....but eventually we will see higher interest rates
- Interest rates now trending up globally

Source: RBNZ, ANZ Research

# **ANZ Insights – Waikato**

Higher costs  
lowers  
profits

## Profit vs costs – Waikato data



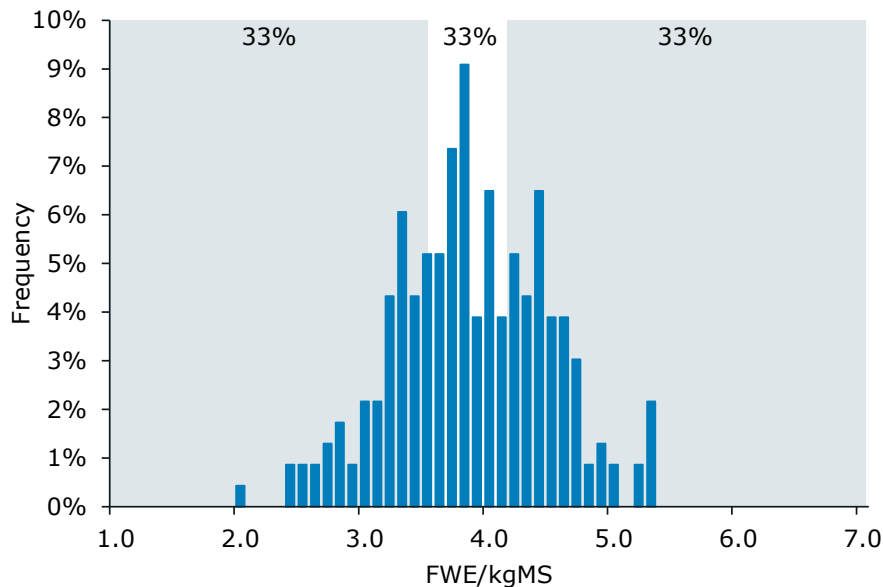
- Waikato – every extra \$1 spent lowered profits by 50c

# High cost vs low cost – sample selection

The region has been broken into high cost versus low cost systems. This is based upon whether the customer sits in the top 1/3 or bottom 1/3 for their average FWE/kgMS from 2013-17”.

## Waikato Sample

### Expenses/kgMS distribution



### Average feed cost

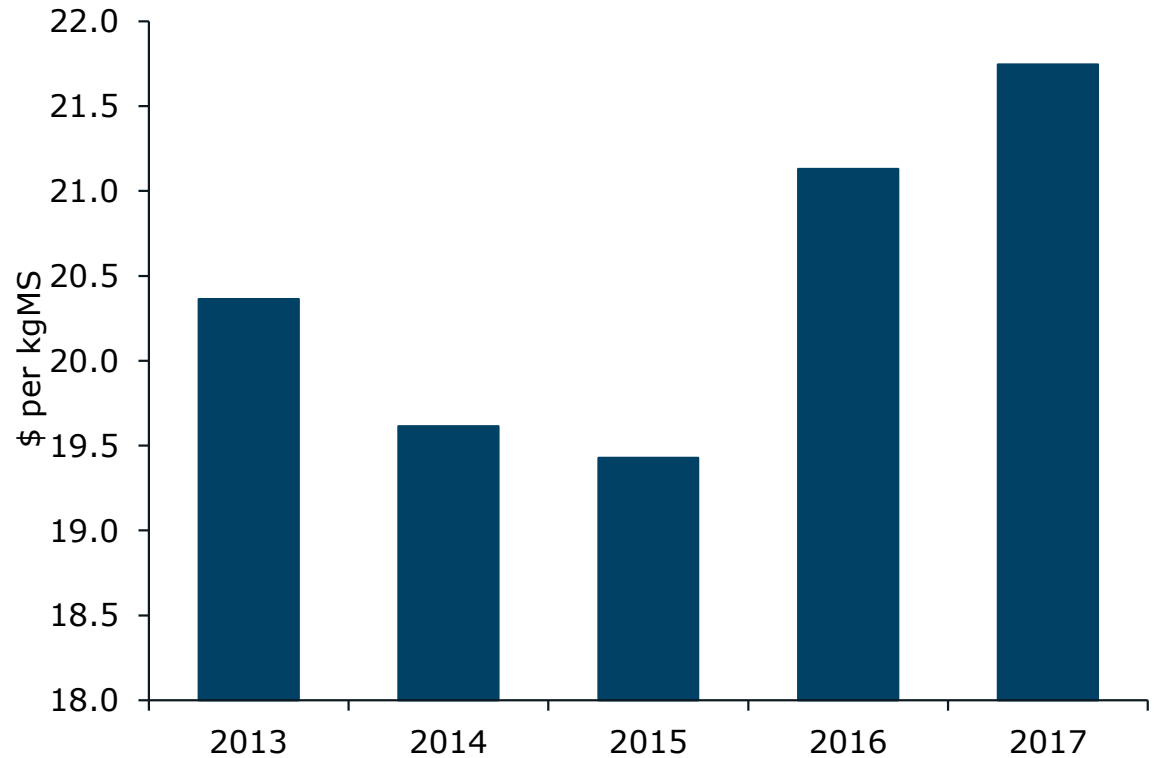
Feed/kgMS	Low cost FWE<3.55	High cost FWE>4.20
Quartile 25%	0.46	0.88
Median	0.68	1.17
Quartile 75%	0.88	1.55



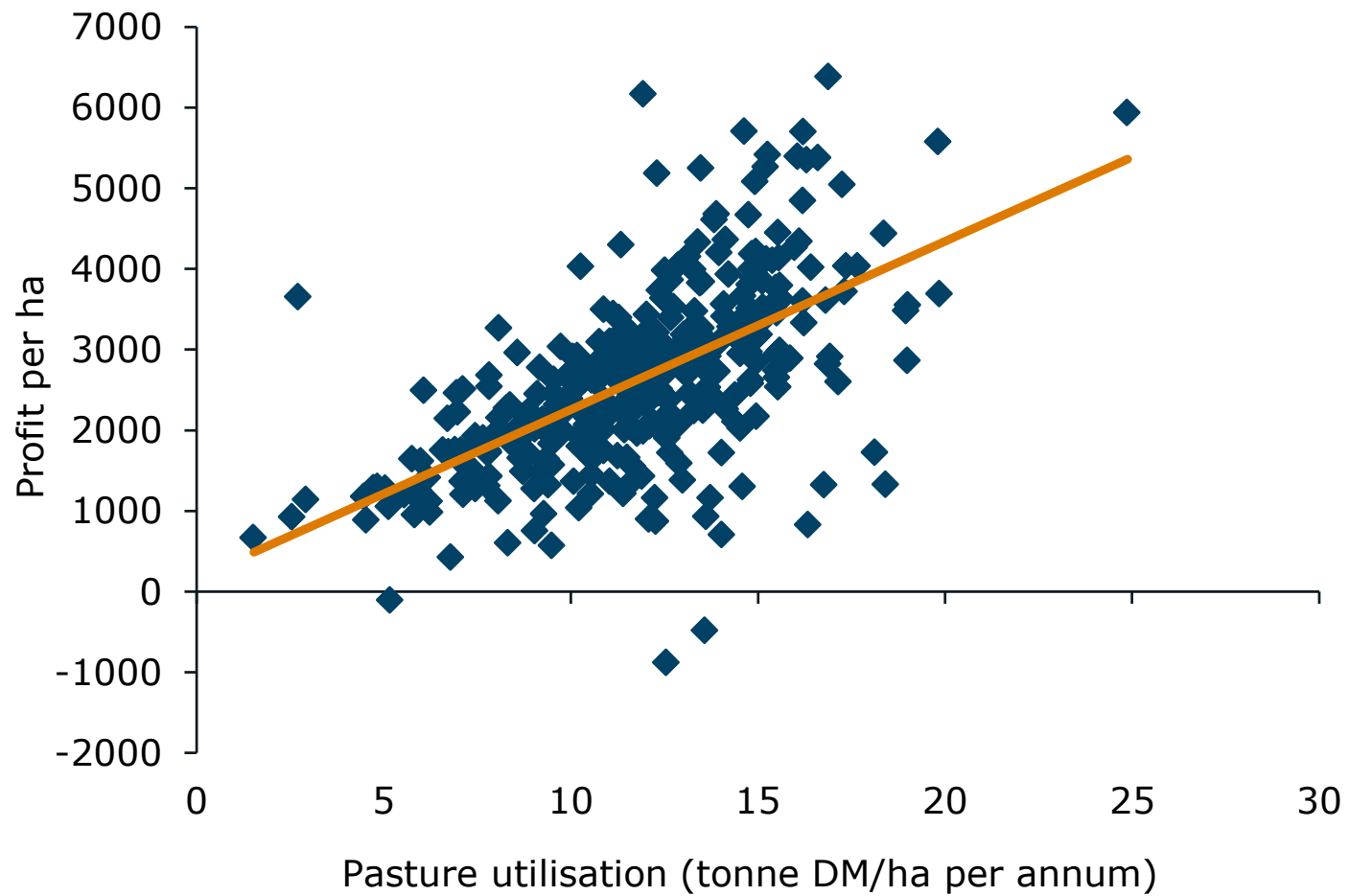
Debt  
increased by  
\$220,000


## Debt levels – Waikato

Change in debt	2013 to 2015	2015 to 2017
Increase	32%	69%
Decrease	68%	31%



# Pasture utilisation vs profit





Interest rate  
hikes pose  
risk to high  
cost farms

## Impact of a 2% increase in interest costs on profits – Waikato

Profit after interest & tax (\$/kgMS)	Current return	2% interest rate lift
Low cost group	1.25	0.91
High cost group	0.76	0.43

- A 2% increase in interest rates would add \$80,000 in interest costs for the average farm
- Combine this with a milk price below \$5.50/kg MS and only the low cost farms will breakeven.

# Resilience key to managing risk

**1** Milk price volatility to continue with limited upside.

Upward pressure on farm operating costs

**2**

- Sustainability
- Labour
- Debt

**3**

Low cost operating systems tend to be more resilient

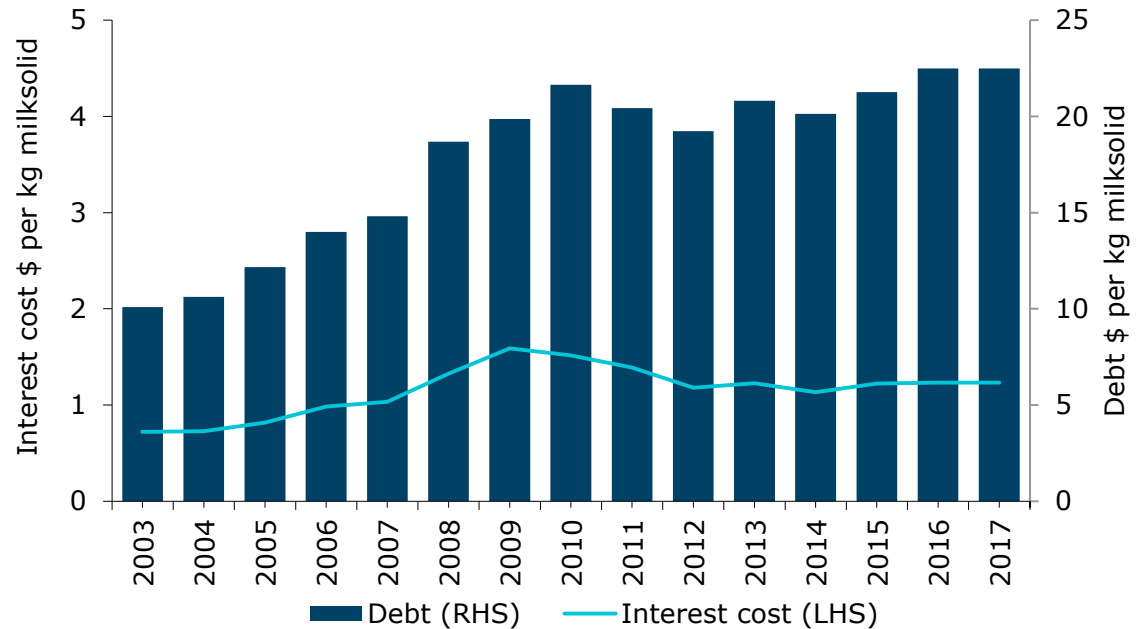
**4**

High pasture utilisation equates to higher profits

# BRINGING IT HOME

What have we achieved?

## Dairy debt doubles - debt servicing stable



- Low interest rate has offset additional borrowing
  - Debt levels doubled
  - Interest rates halved

**Resilient farming  
profit**



**The bucket test...**  
... fix the bottom hole first

Business attributes

Future ready

Financial stability

System execution

People

# THANK YOU

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Presented by Susan Kilsby & Mark Grenside





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