



FARMING NEWS



Inland Revenue have recently announced this year's livestock Herd Scheme Values and we think this is a great opportunity to update you on the latest movements. The Herd Scheme Values are the National Average Market Values as determined by a process involving a review of the livestock market as at 30 April.

DAIRY CATTLE

The values for Dairy this year have seen a strong increase across all types with values being the highest since 2014. Values for R1 heifers have rebounded strongly from last year's drop as the impact of change to the live export rules in 2023 is offset by surging commodity prices and demand for high quality replacements.

A Mixed Age Dairy cow now has a National Average Market Value of \$1,697 compared to \$1,528 last year – a rise of 11%. Rising two-year heifers have increased in value by 14%, as have R1 heifers to \$1,472 and \$809 respectively.

Continued restrictions caused by Covid-19 have not resulted in a drop in demand for dairy products, with most countries ending restrictions part way through the 2022 income year. The farm gate milk price for 2022 is forecast to be a record for Fonterra, early indications for the 2023 are very favourable and could see the 2022 record being broken. Increases in commodity prices have also seen significant increases in inputs, particularly in relation to imported fertiliser. Continued cost increases will put pressure on farming businesses even with record dairy prices. Uncertainty continues in relation to environmental changes with carbon reporting requirements for all farmers remaining unknown, even though all farmers need to 'know their numbers' by the end of 2022.

Availability of labour remains a significant issue for the 2023 season even though borders have reopened. This will put significant pressure on the farmers when the new milking season starts. Total cow numbers have continued to fall, but per cow production continues to increase which is a positive outcome both for labour units required, but also environmentally.

HERD SCHEME VALUES - DAIRY COWS





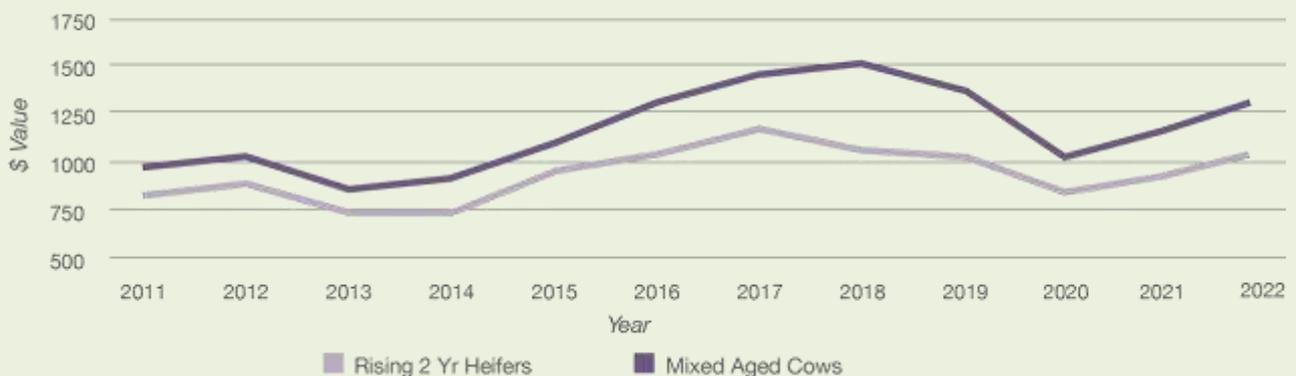
BEEF CATTLE

As with Dairy, Beef values have increased on average 14% and are approaching the highs of 2017 and 2018.

Whilst increased values and demand for Beef products is positive the impact of Covid-19 continues to be felt across the industry as meat works struggle to keep up with the processing demand. Farmers have increasingly found it difficult to have stock slaughtered due to reduced capacity arising from staff shortages. Increasing inflation and cost of living pressures worldwide will have a negative effect on the demand for quality cuts, just as demand following lockdowns was beginning to increase. The conflict in Ukraine will put further pressure on world food supplies, which will help support overall demand for proteins.

Uncertainty continues to play a part in the domestic market as the regulatory requirements around water quality, fencing and carbon continue to come into force in the coming years and alternative proteins continue to increase in popularity and use.

HERD SCHEME VALUES - BEEF COWS



SHEEP

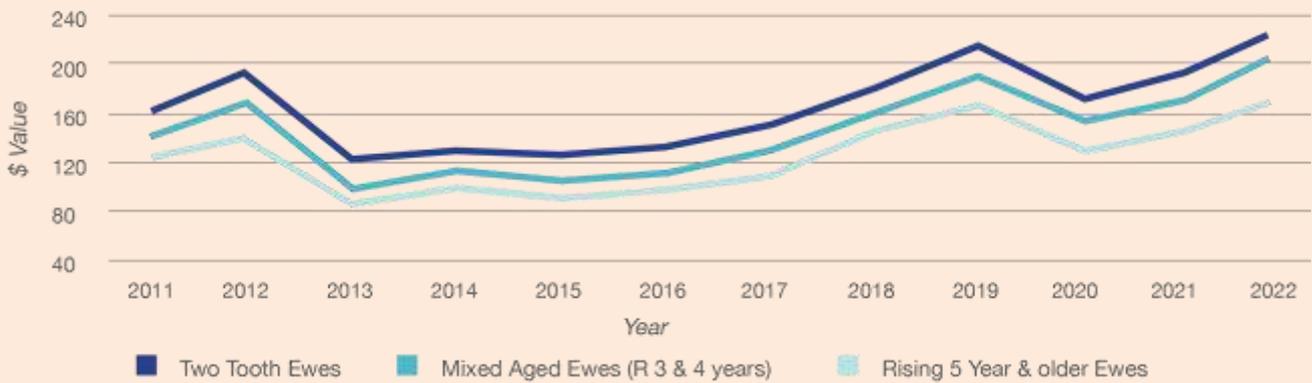
Sheep are at their highest values since the herd scheme commenced in 1987 with an average increase in value of almost 17%. Two tooth ewes increased from \$191 to \$224. For the first time in 25 years ram and wether hoggets have recorded the same value as ewe hoggets on the strength of an \$8.50 schedule and the likelihood of \$10 in the spring meaning male lambs to winter through are being highly sought after.

Drought has continued to be an issue in the 2022 season in some traditional sheep farming areas.

As in prior years sheep numbers continue to fall to less than 26 million, with slightly more than half in the South Island. Whilst wool prices have improved compared to the 2021 season, values are still depressed overall, and the increased cost of shearing means that there is very little profit in strong wool. Covid-19 related issues continue for European manufacturing, but there have been positive signs of increased demand and production.



HERD SCHEME VALUES - EWES



GOATS

Goat values have seen significant increases across all categories except breeding bucks, where values have been flat. Female milking goats however have seen an average drop of almost 27% as demand for goat milk has collapsed with milk solid returns down 22%, a reduction in quota entitlement and penalties for exceeding quota, together with changes to conditions for supply requiring the rearing of 50% surplus kids (Cabrito) to 7-9 weeks at a loss.





DEER

Deer values have seen some recover with an average 11% increase in values for Red Deer, Wapiti, and related breeds. The market for velvet has also contributed to an increase in values.

Other deer breeds have recovered slightly from the large losses of 2021 for female stock. Male breeding stock have increased substantially from 2021 values but remain significantly below the peak of 2018. Values have just started to lift as key European and American markets slowly start to reopen as the rollout of Covid-19 vaccines gains pace.

HERD SCHEME VALUES - HINDS



GENERAL

Consider your livestock election choices carefully. Even though changes were made to the Herd scheme in recent years, there is still flexibility around how to value increases in numbers – if you increase your numbers during the year, you can choose an alternative valuation option to value that increase. Whether you take that option or elect to value the increase using herd values will depend on several factors, such as:

- where we are in the cycle of livestock values (e.g. at the bottom, or at the top)
- if the increase is a permanent or a temporary one
- your longer-term intentions

As the decision is clearly one that should be made on a case-by-case basis, we will naturally discuss your valuation options with you on review of your 2022 Financial Statements and Taxation Returns.

In the meantime, if you would like more detailed information about the Herd and NSC Livestock Valuation methods or about the values themselves, please contact us.

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