



# AGRIFOCUS MUSINGS

July 2021, Newsletter No. 28

We are well over half way through 2021 already. Where has the year gone? We write this newsletter on the Monday following the great farmer protests that occurred throughout the country on Friday 16<sup>th</sup> July, 2021 at 57 venues. The turnout was massive and from everything we have read it was a positive response from around the country in support of the farmers. The only muted response came from Central Government which is very disappointing. There are a lot of issues that Groundswell highlighted, all of which are justified and relevant. However one of the most pressing issues that we are seeing in our client base is the chronic shortage of labour at present. To be fair it is not only the farming sector (mainly dairy), it is fishing, horticulture, rest homes, service industry and hospitality, just to name some. Obviously we only act for the farming sector and have a lot of dairy clients. We have never seen the industry so short staffed. It is now rare to hear of someone that is fully staffed. Obviously the winter period can be a busy time, but no where as near as the busy spring period that is about to hit us.

Farmers are hard workers and always find a way of getting on through, but to me starting out with a labour shortage before you get

busy is a concern. The frustrating thing from our point of view is that the vast majority of farmers pay very fair wages. Compared with people in town, when you include the house accommodation value they are well remunerated. However at present with such a shortage there is many options for employees. This morning there was 153 Southland vacancies on the Farm Source website with 4 new listings by 1.00 pm. In New Zealand overall there were 936 vacancies.

We cannot offer any magic bullets in regards to attracting staff. However your reputation as an employer starts from day 1 when you start employing people. The dairy industry in Southland is a small one and for better or worse talks. The good and bad employers and employees become known quickly. One trend we are seeing at the moment is employees renegotiating contracts very soon into a new job, some as quickly as a couple of weeks in.





Being under pressure as far as labour does create real stress. At a reasonable payout extra remuneration can perhaps be afforded but what happens if the payout comes back? Are there other ways of rewarding people? Thinking outside the square may be one option going forward. Remuneration is only one part of the employment story.

### 2021 Dairy Statistics

Although very early in the year (the season only finished on the 31<sup>st</sup> May, 2021) we have enough clients in the statistical data base for owners, 50/50 sharemilkers and contract milkers to provide useful information.

One trend we are seeing is a lower than expected bottom line surplus per kgms from our dairy owners. Last season (2020) this was around \$0.90 kgms and although early days this is coming in at \$0.95 kgms. This seems to be good news but the average payout for the

12 month period was up \$0.43 kgms while debt servicing was down \$0.13 kgms.

Simplistically we would have expected, based on the above, the surplus to be up by \$0.56 kgms. While we thought the Farm Working Expenses would lift it is a surprise to see it lifting by \$0.38 kgms or 8.8%. The other drop is in production which is back to 1,154 kgms per Hectare, basically adding up to the drop in bottom line surplus.

The big lift in Farm Working Expenses for the 2021 season was in stock feed. This is up by \$0.39 kgms to \$1.28 kgms. Most categories are up but this is the largest lift.

So where to for the **2022 season**? We see continued pressure on Farm Working Expenses especially wages and fertiliser. Interest rates may lift but perhaps not by as much as some economists are predicting. The most prudent thing to concentrate on for this season could well be repaying debt and building a buffer to allow for the potential head winds ahead. We love the industry but showing the bank you can repay debt may help if we need some capital for compliance etc going forward.

For the **2021 season** in our client base we had a breakeven payout at \$6.41 kgms. The 5 and 10 year Fonterra average is as follows:

| <b>Fonterra Average</b> |      |        |      |   |         |
|-------------------------|------|--------|------|---|---------|
|                         |      | Payout |      |   |         |
| 1                       | 2012 | \$     | 6.08 |   |         |
| 2                       | 2013 | \$     | 5.84 |   |         |
| 3                       | 2014 | \$     | 8.40 |   |         |
| 4                       | 2015 | \$     | 4.40 |   |         |
| 5                       | 2016 | \$     | 3.90 |   |         |
| 6                       | 2017 | \$     | 6.12 | 1 | \$ 6.12 |
| 7                       | 2018 | \$     | 6.69 | 2 | \$ 6.69 |
| 8                       | 2019 | \$     | 6.35 | 3 | \$ 6.35 |
| 9                       | 2020 | \$     | 7.14 | 4 | \$ 7.14 |
| 10                      | 2021 | \$     | 7.55 | 5 | \$ 7.55 |
|                         |      | \$     | 6.25 |   | \$ 6.77 |

Based on the above we would not want a return to the 2015 and 2016 seasons. If the last 5 years average payout is the new normal it is fine but it still pays to be prudent in assessing your business.

We do not want to appear to be negative. The future for the industry is very good but strengthening your business is, we believe a reasonable option.

Land values appear to have firmed considerably in the last 12 months. A prime dairy farm in January 2020 sold for \$38,000 a Hectare. In March 2021 a prime dairy farm sold for \$45,000. Both these farms were around 160 Hectares with good improvements in Central Southland. That was a lift of 18%. We have seen some wintering blocks sell very well. For example, a smaller specialist block sold for close to \$33,000 an effective Hectare. This is great for the balance sheet and bank security margins but does not help for the creep in Farm Working Expenses's.

### **2021 Red Meat Statistics**

It is too early to get a decent gauge on the Red Meat Sector 2021 numbers yet as the majority are a 30 June Balance Date. In saying that, some early indications are that operating surpluses are well back on the 2020 year.

Over the past 18 years, from 2004 to 2021, our Deer farming clients have averaged \$113/Stock Unit of income from their Deer. Early days but 2021 looks to be \$93/Stock Unit, in comparison, the two peak years in 2018 and 2019 were \$228/ Stock Unit and \$198 respectively. There are not a lot of businesses left with Deer as the only source of income, but the ones that are, are certainly hurting at the moment.



Lambing % was also back on average with the weather we experienced last spring, which has affected incomes, but in general the price has still been quite good. There is some very high minimum price contracts for the Winter/Spring period and things are looking optimistic for the upcoming season at this stage, which is something to look forward to.

We will provide another update once we have enough numbers in the system to get a good gauge on it.



### **PAY SAUCE**

Employers please be aware your employees using PaySauce can use PayNow to receive an advance on their wages which is an initiative so employees don't go to loan companies and pay high interest rates. We have had an employee taking numerous PayNow deductions in a fortnight only giving the employee around \$150.00 in their hand on pay day.

Recently we have had a final pay where the employee had taken numerous PayNow deductions leaving the employer out of pocket and not able to deduct for damages or cleaning of the employee's house.

PayNow is automatically turned on but the employer can turn PayNow off on their phone by logging in the Settings – PayNow – Drag Red Dot on the right of PayNow to the left so it is no longer red.

## June/ July 2021 GST Filing

With this being the first GST period for several of our new contract milking & start up business clients, our team will be very busy this month helping with their returns. If we do your GST could you please get it in early as possible this month so we have as much time possible to help everyone out. We appreciate your help with this as we know you will be starting to get very busy on farm.

## May balance date clients – annual account information

Just a reminder to our May Balance Date clients, if you have not already done so, please either send or drop in your 2021 Annual Account information as soon as possible. The 2021 letter of engagement and checklist was emailed to clients early June but a copy is attached to this newsletter should you need it. In addition we require your invoices (1 June 2020 to 31 May 2021), a copy of your end of year bank statement to confirm your closing balance as at 31 May 2021 and your loan balances as at 31 May 2021. And if you complete your own GST on BankLink please remember to send your file back to Bev after you have coded the month's transaction following your balance date (31 May 2021).



## Facebook

If you have not already done so, like AgriFocus on Facebook. We will be posting important reminders during the year to assist you, such as GST due dates and provisional tax payment due dates. Also, keep an eye out for our upcoming staff profiles. If there is anything else you would like us to feature on our Facebook page please let us know.

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