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STOCK WISE: Smart Decisions for Sheep and Wool Producers in New South Wales

Many livestock producers will face complex and emotive decisions regarding their business, animals and pasture resources over the coming months. For many, maintaining livestock helps diversify income, improve risk management and provide benefits to the cropping phase through weed control, nitrogen and organic matter.

The situation facing farmers this year is different than ever before because of:

- The cost of feed being at record highs
- Low cash reserves
- High currency values keeping sale prices lower.

These factors combined have radically altered all equations regarding the retention and feeding of sheep under adverse seasonal conditions.

Australian Wool Innovation Limited (AWI) and Meat & Livestock Association (MLA) have engaged consultants in each state to develop key messages and tips to support decision making this season.

These key messages are supported by a range of resources which can be accessed through the AWI and MLA Stock Wise websites (www.wool.com/drought or www.mla.com/drought).

Key messages and tips to support decision making this season

Prepared for Sheep and Wool Producers in New South Wales by:



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1. MAKE A PLAN

The projected 2007 income, the cost of continuing until the drought breaks, and the cost of restarting all need to be pulled together to form a view on your likely financial position in 2008 – A plan for your farm business.

To assess your financial position you need to consider your total debt servicing commitments (including interest, leases, hire purchase and capital repayments) from 2008 onwards and how much of your budgeted profits from 2008 onwards these will consume.

The budgeted profits should be based on historical returns rather than any forecast prices that are given (unless of course there is the ability to lock that forecast price in through hedging instruments). An opinion of where markets will be is a dangerous thing to budget on as there would be very few opinions given if those who formed them were held accountable for the times when they were wrong.

Put simply you need to assess whether, under the worst case scenario:

1. You will be going backwards (losing equity) if you embark on this strategy.
2. You will be getting by, but effectively be working for the lenders because most of your anticipated profits will go to debt servicing commitments each year.
3. Whether you will be back on your feet and able to continue farming from 2008 onwards without financial constraints limiting your ability to take opportunities as they arise.

Tip: Look for a level of profit before interest and tax from 2008 onwards that will be twice the debt servicing cost.

All three components of the plans need to be reworked until you are happy with the outcome. The final plan might fall somewhere between selling the farm now and feeding the majority of livestock through the drought. The answer is not a reflection on past management performance as there are a range of things outside the control of management that may lead to this answer. In fact, it is probably going to be the most progressive managers of farms that will feel the drought affects the most.

The drought decision web

To make effective decisions going into drought your aim should be to leave yourself in a position in 12 months that will allow you to operate the business with a suitable level of profit after interest and tax into the future. Drought planning is not about making profits it is about minimising the losses that might occur.

This requires you to consider three things:

1. The impact of the drought on income this year.
2. The costs of continuing on until the drought breaks (feeding costs, overheads, drawings and debt servicing costs).
3. The costs of re starting each enterprise in 2008.

There is a high degree of uncertainty at this time and therefore these decisions are not easy to make. No-one can give you certainty with predictions on what will happen but by looking at a range of scenarios you can make good decisions that will ensure you survive the drought.

Because of the degree of uncertainty you need to look at near worst case scenarios as well as the middle of the road scenarios. Even though there might be only a small chance of the worst case scenario happening it does not mean no chance and therefore you need to know that you will be able to survive that outcome.

2. SEEK ADVICE AND HELP

All of the economics are of no value if the emotional toll of implementation is too high and so all of the above needs to be considered in that context. Things that are useful in this regard are:

1. Seeking help with the decision making process because it brings in ideas, objectivity and a crutch to help make the decisions.
2. The planning process and the initial decision making is the most stressful part of the drought. Procrastination and lack of objective planning just means the agony of making the

decisions goes on for longer. As an example if you hold on because you are hoping for an early autumn break and it doesn't come then the stress levels will be magnified because the costs incurred with the drought will have been magnified many times.

3. You need to consider the time that will need to be committed to a livestock feeding program through the drought. You and your family will need breaks throughout the drought and these need to be planned for. Build in a cost of getting someone else to be able to feed for short periods throughout the drought.

Seek information and support through professional channels including:

1. Drought Hotline;
2. Rural Financial Counsellors;
3. Your farm consultant; or
4. Bank Manager

Contact an advisor who can work through your situation and help you plan for the future.

3. THE IMPORTANCE OF SHEEP IN YOUR BUSINESS

Long term analysis of profits from farm businesses shows that more money is made in the enterprises that you are efficient at managing and for which you have the expertise and interest. In other words drought on its own is not a good reason for wholesale enterprise change. The reasons for having sheep in the farm business are wide and varied and you should think hard before using drought as an excuse to make wholesale changes.

The primary goal should be to get back up to full capacity as soon as possible after the drought and therefore you need to not only consider your destocking strategy but also your restocking strategy. This will require you to think about the genetic quality of sheep that might be available and also the disease risks that you might face in a restocking strategy. Both of these factors have economic importance and should be valued in the decision on whether to sell or retain sheep.

Where it does not pay to keep all of your sheep and restocking with sheep is not likely to be a consideration then you will need to consider other possible enterprises in order to fill the capacity gap. Agistment, trading or backgrounding cattle may be one option or some additional crop area where possible may present another option.

4. WHEN IS THE DROUGHT MOST LIKELY TO BREAK?

We cannot know this for sure but we can use historical weather data to estimate when this will happen. In our experience people who have not analysed historical data tend to underestimate how long the drought might go on for.

Nowhere on the western side of the Great Dividing Range in NSW (excluding summer rainfall areas) is there a significant chance of a break before April 2008 if you look at historical rainfall records. The definition of a break is when there is enough pasture growth to stop feeding.

Even in high rainfall areas the chance of a break in April is only 50%. It is not until the end of May in high rainfall areas that the chance of a break is greater than 70%. As you move into lower rainfall areas you can use a rule of thumb of two weeks later per 100mm less rainfall from 700mm to 300mm. This means the cost of maintaining the business through the drought needs to be looked at from now until June and July 2008.

The costs that need to be accounted for include the fixed overhead costs such as rates and rents that have to be paid, drawings and wages, debt servicing costs and feeding costs for livestock where it makes sense to retain them rather than sell them. Go through all of the discretionary expenditure such as repairs and maintenance or capital expenditure that can be delayed and make a decision on whether it can be delayed or not.

5. DECIDE WHICH LIVESTOCK TO KEEP

There are a number of tactical changes you can make to help leave your net income in the best possible situation this year. We have broken these down into cropping decisions and livestock decisions. Both involve weighing up the budgeted income from weight gain or grain harvested against the value of the grass/crop as conserved feed in the form of hay or silage or as a standing haystack for consumption by stock later.

Surplus Livestock Decisions

- a) Get a valuation on all livestock destined for sale (steers/lambs/wethers, surplus heifers/ewe hoggets, dry cows/ewes, CFA cows/ewes) now and work out the net income on farm if they were to be sold over the next few weeks.

Tip: At times like this the prices move quickly so it is best to be conservative.

Tip: Get your price on farm or allow for a substantial drop in estimated price if they go to the open market.

Tip: Consider wool income and whether to shear before sale in your calculation.

- b) Calculate the stocking rate (heads per hectare) that these classes of stock normally destined for sale will occupy over the coming months.
- c) Estimate the likely additional income if the season were to improve and they were kept.
- d) Estimate the likely additional income if the season were to continue to deteriorate and they were kept.

Tip: Be particularly conservative on price if the stock are not at target weight because this will be a forced sale.

- e) Estimate the alternative sources of income from the area that they will occupy if they were sold and seasonal conditions improved. Consider fodder conservation options, the value of pasture area set aside as a standing haystack for grazing later, or the option to take agistment.

Tip: You need to consider wastage in the harvest process whether it be for hay (up to 40%), silage (up to 20%) or building a standing haystack for grazing later (up to 50%).

- f) Estimate the alternative sources of income from the area that they will occupy if they were sold and the seasonal conditions continued to deteriorate.

Tip: Give consideration to what might happen with fodder prices should the season improve or deteriorate.

- g) Weigh the opportunity cost of income not earned if the season improves (the difference between the income from livestock and the alternative income source if they are sold) against the cost of not selling (the difference between the value of the pasture saved and the income earned from livestock) if the season deteriorates.
- h) Consider what chance of a turn around in season is required to justify keeping the livestock now.

As a guide:

- Assume sheep gaining weight will require 2kg of pasture dry matter per day in front of them in order to estimate the pasture consumed whilst they stay or the potential to accumulate pasture if they are sold early.
- Allow 50% wastage of pastures grazed after they have senesced.

Cropping Decisions

- a) When assessing potential grain yield prospects consider soil moisture, plant growth stage, green leaf area, tiller numbers and grain number per head. Consider soil moisture levels and the time between consecutive rainfall events from here on in.
- b) Measure the dry matter in the crop by cutting at forage harvest height and drying.
- c) Consider the costs and income associated with harvesting for grain/fodder or grazing.
- d) Consider seed requirements and the area required for grain harvest to provide adequate seed for next year.

As a guide:

- A cereal hay/silage yield of 1.5 tonnes per hectare needs a grain yield of 0.6 t/ha to provide equivalent returns.
- A canola hay/silage yield of 1.5 tonnes per hectare needs a grain yield of 0.45 t/ha to provide equivalent returns.

Livestock to be Retained: Calculating the Cost of Feeding

The cost of feeding livestock that will be retained should not be viewed as a fixed cost. It may be sensible to sell now, save the money on feed and buy back into the livestock or replace with an alternative enterprise when the drought breaks (Which Sheep Should I Keep www.wool.com/drought). Importantly you do need to consider what you will do when the drought breaks because historical analysis has shown those who do not replace quickly in the interim between droughts lose more in opportunity cost than they lost in the drought itself.

You will have to make this decision on each class of livestock, and then also the varying grades within each class of livestock (i.e. age or quality grades).

As a guide:

- 1) For most of the sheep/wheat belt which is now severely affected by drought the budgeted cost of supplementary feeding a dry sheep through until next year (6 months) is at least \$40 per head. Allowing for wool income and expenses this is a net feed cost over that period of \$18 per DSE. Further west in the pastoral areas the cost of feeding ewes is more likely to be up to \$85 per head (up to 9 months feeding) and therefore a net feed cost of \$65 per DSE.
- 2) Under the same conditions in the sheep/wheat belt the cost of supplementary feeding a cow/calf unit is going to be up to \$800 per cow and calf. Allowing for no income from the cow and calf and just \$20 in animal health costs the net feed cost is \$50 per DSE. Further west in the pastoral areas the cost is more likely to be up to \$950 or a net feed cost of \$62 per DSE.

Tip: Agistment options may be more appealing this year but be sure to get a good handle on what it will take to make that work well.

Tip: The cost of roughage in the form of hay or silage may be a cheaper source of the required energy for feeding livestock this year as opposed to grain at current prices.

Use the following table to quickly calculate the weekly cost of maintaining various classes of sheep under droughtlot conditions using wheat as the supplement (13.1 MJ/kg @ 90% moisture). In arriving at a full cost remember to allow for additives, roughage and labour. The costs will vary

according to livestock class, feed type and cost, condition score to be maintained and whether you are feeding in a droughtlot or paddock situation.

Weekly feed costs for a range of livestock classes and grain prices (droughtlotting)

Class of stock	Condition Score	Energy Required MJ/day	Feed Required Kg/week	\$300/t	\$350/t	\$400/t	\$450/t	\$500/t
Dry 50 kg Ewe/wether	3	6.7	4.0	1.19	1.39	1.59	1.79	1.99
Dry 60 kg Ewe/wether	3	7.8	4.6	1.39	1.62	1.85	2.08	2.32
Crossbred ewe	3	9.4	5.6	1.67	1.95	2.23	2.51	2.79
Dry 50 kg Ewe/wether	2	6.0	3.6	1.07	1.25	1.42	1.60	1.78
Dry 60 kg Ewe/wether	2	6.8	4.0	1.21	1.41	1.61	1.82	2.02
Crossbred ewe	2	8.2	4.9	1.46	1.70	1.95	2.19	2.43
Weaner lamb (allowing for growth)	3	10.0	5.9	1.78	2.08	2.37	2.67	2.97

A unique situation exists this year where good quality roughage is cheaper per unit of energy than grains and therefore where logistics allow you might consider using more roughage in the ration than normal. Be careful to check that the roughage quality is sufficient to allow livestock to maintain their condition.

More detailed costs of feeding can be obtained from programs such as Stockplan (www.wool.com/drought) and Lifetime Wool Feed Budget Tables for Dry Times (www.lifetimewool.com.au).

6. DROUGHTLOT/CONFINEMENT FEEDING

At some point in your calculations it will pay to feed the remaining sheep through the drought, because the more sheep you sell now the cheaper it is likely to be to feed the remainder as they will start on feed rations later and are likely finish a little earlier.

In addition, ram breeding flocks, sheep of high genetic merit that have been carefully selected over many years, or ewes that you estimate will be difficult to source post drought may have an intrinsic value higher than meat values.

Under severe conditions, droughtlotting can be recommended for many reasons:

- Care of the property with less land degradation(wind and water erosion)
- Quicker pasture recovery with rain
- Greater control of feeding and water supplies
- More simple and regular checking of the results of feeding and livestock condition.

The AWI publication, *Managing sheep in droughtlots* (www.wool.com/drought), has been written to highlight the purpose, benefits and experiences of wool growers managing sheep in confined areas during drought.

7. KEEP UP SOCIAL CONTACT WITH FRIENDS, COMMUNITY AND RELATIVES

Sustained drought has a significant impact on individuals and families. Health professionals recommend that during drought farming families recognise and acknowledge what can be a very emotional period.

Positive ways of coping with drought include:

- Taking time to be with family and friends.
- Trying to keep the rest of your life as normal as possible.
- Openly discussing issues relating to drought and its impact on family income.
- Looking after yourself (eating properly, exercising).
- Expressing your emotions and letting your family talk about their emotions.
- Taking more care when driving or working around the farm.
- Remembering your sense of humour and laughing.
- Taking breaks and holidays away from the farm whenever possible.