

DEER MONITORING REPORT

JULY 2006

»» A SHORT-TERM FINANCIAL AND PHYSICAL FORECAST
REFLECTING FARMER AND INDUSTRY PERCEPTIONS
OF FARMING FIGURES, TRENDS AND ISSUES

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INTRODUCTION

Each year the Ministry of Agriculture and Forestry's policy unit (MAF Policy) monitors the production and financial status of farms and orchards. The unit also monitors trends, issues and sector concerns. It uses this information to create models of specific farm and orchard types: for example, South Island merino farms, Waikato/Bay of Plenty dairy farms, or Bay of Plenty kiwifruit orchards.

Such models are the basis of MAF Policy's *Monitoring Report* series of short-term financial and physical forecasts for agriculture sectors and regions within New Zealand. The reports reflect growers' expectations and intentions, as well as the views of those servicing the sector. These forecasts are not MAF price or production predictions: MAF receives the information for the models from contracted sources. MAF's price and production forecasts are published in *Situation and Outlook for New Zealand Agriculture and Forestry* (available on www.maf.govt.nz).

»» HOW THE MODELS WERE CREATED

The two model farms depicted in this report represent deer farming operations within their specified regions, representing the North and South Islands. Each model is created from information drawn from 20 deer farmers and a wide cross section of agribusiness representatives.

As often pointed out by industry, the majority of deer farms also have sheep or cattle. These models run only deer and therefore represent an important but a minority group (estimated at 15 percent of deer farmers (Deer Industry New Zealand, Producer Survey 2006)) within the deer industry. However, to be able to track the deer industry's progress it is important to compare the industry as a stand-alone deer farm so we can understand the developments occurring in this sector.

The aim of the model is to typify an average family deer farming operation for the region. Budget figures are averaged from the contributing deer farms and adjusted to represent real deer farms. Income figures include off-farm income, new borrowing, and other cash income. Expenditure figures include costs of management, farm production, debt leasing, drawings, and other land development and capital purchases.

Monitoring is continually being improved to meet the needs of the users of the reports. From time to time the models are revisited and changes may be made.

It is important to note a significant change occurred in 2004/05 to the stock unit (su) conversion rates. These rates were changed to more accurately reflect the stock unit rates accepted and applied by the deer industry. Refer to table 1.1 for the stock unit conversion rates used before and after this change.

»» TABLE 1.1: STOCK UNIT CONVERSION RATE

STOCK CLASS	PRE 2004/05 (STOCK UNIT)	2004/05 AND BEYOND (STOCK UNIT)
R1yr hinds	1.2	1.5
R2yr hinds	1.8	2.0
MA hinds	1.9	2.2
R1yr stags	1.4	1.7
R2yr stags	1.8	2.3
R3yr plus stags	2.1	3.0
Breeding stags	2.1	3.5

»» CALCULATIONS USED IN THE MODELS

The economic farm surplus (EFS) depicted in the model budgets is calculated as follows:

gross farm revenue
plus change in livestock value
less working expenses (excluding interest, rent and lease costs)
less depreciation
less wages of management (WOM).

Wages of management are calculated as follows:

\$31,000 allowance for labour input
plus 1% of total capital as managerial reward.

An upper limit for WOM of \$75,000 has been set.

OVERVIEW OF THE DEER SECTOR

»» REVIEW OF 2005/06

Deer farmers experienced another poor year with low prices for venison and velvet even though venison prices began to improve in the latter part of the year. The North Island model experienced a 7 percent increase in gross farm revenue to \$110,632 in 2005/06, which mainly reflected a small increase in venison returns. Revenue for the South Island model dropped a further 1.4 percent this year to \$142,508. Increases in off-farm income, particularly in the South Island model, were an indication of farmers under pressure in both islands.

Venison prices began turning a vital corner in April 2006 with an average schedule lift of 75 cents per kilogram over a six week period through until June. The national published schedule for 60 kilogram average purchase price stags reached \$4.39 per kilogram at the end of June. This is 11 percent higher than the average of the last three years during the same time period. This rise has reportedly been due to the slight slide in the New Zealand dollar against the euro and the lift in the market for quality deer items like Cervena®.

The North Island model experienced an 8 percent increase in venison revenue for 2005/06, while the South Island model increased by almost 2 percent.

The 2005/06 average price received for velvet was static at last year's price for both the North and South Island models. Low returns for velvet mean many farmers continue to view velvet as a deer by-product. Industry has reported a move away from velvet due to increasing compliance costs and poor financial returns. This is emphasised by an estimated reduction in the national velvet herd of 26 000, leaving a velvet production capacity of around 530 tonnes.

Few animal health issues were reported throughout the country but, as usual yersiniosis, Johnes's disease, fusiformis and lungworm were noted in isolated cases. New Zealand deer farms with bovine tuberculosis (Tb) were down from 50 last year to 37. The number of reactor animals has fallen even more dramatically, from 1350 to 457 in just 12 months. Most of the infected herds were in the South Island (84 percent) and were all in recognised infection zones.

Asian and Australian markets have taken 1700 and 1600 tonnes respectively of venison. While this is predominately lower value cuts and manufacturing products, this has helped diversify significant product volumes away from the European Union and particularly Germany, which currently accounts for 40 percent of New Zealand's export volume. This prevented over-burdening the United States and European markets with excess venison.

Industry initiatives have placed considerable effort on expanding overseas consumers' traditional consumption periods and developing new markets. Ensuring overseas markets can differentiate between New Zealand farmed venison and game trade venison has been a particular focus for venison marketing services as it is expected buyers will seek more assurance of both the origin and safety of their venison.

The latest agricultural production statistics (June 2005) showed only a 3 percent decrease in overall deer numbers throughout New Zealand, giving a total New Zealand herd size of 1.705 million. The deer industry remains positive, but stability in pricing is needed before farmers would consider building up their breeding herd numbers.

A slowing down in the number of deer killed has brought hope the industry will become more financially sustainable. A fall in the North Island kill numbers through April/May 2006 allowed venison plants to close for maintenance. This drop in kill numbers is a reflection of the industry exits and of farmers holding on to a diminished supply of finishing animals for spring, when better prices are anticipated. However, the lower South Island took longer to clear, which again highlighted the problems with insufficient killing space for the volumes being committed. Although the bulge in kill numbers has now cleared in the South, killing space seems to be a continuing issue with South Island deer farmers.

Prominent in the North Island have been increasing land values. This in effect, has created a large “carrot” for deer farmers, particularly in the Waikato and South Auckland region, to get out of deer farming or downsize their property to cash in or move towards more off-farm work. A prominent issue in the South, however, has been “muddy deer” (i.e. deer with mud dags on their legs and bellies), which have caused some controversy. Payment for these animals was reduced by \$0.40 per kilogram, and in extreme cases “muddy deer” were refused processing and returned to suppliers. South Island farmers believe the issue lies with processing plants, while processors argue that farmers should present deer in an acceptable condition.

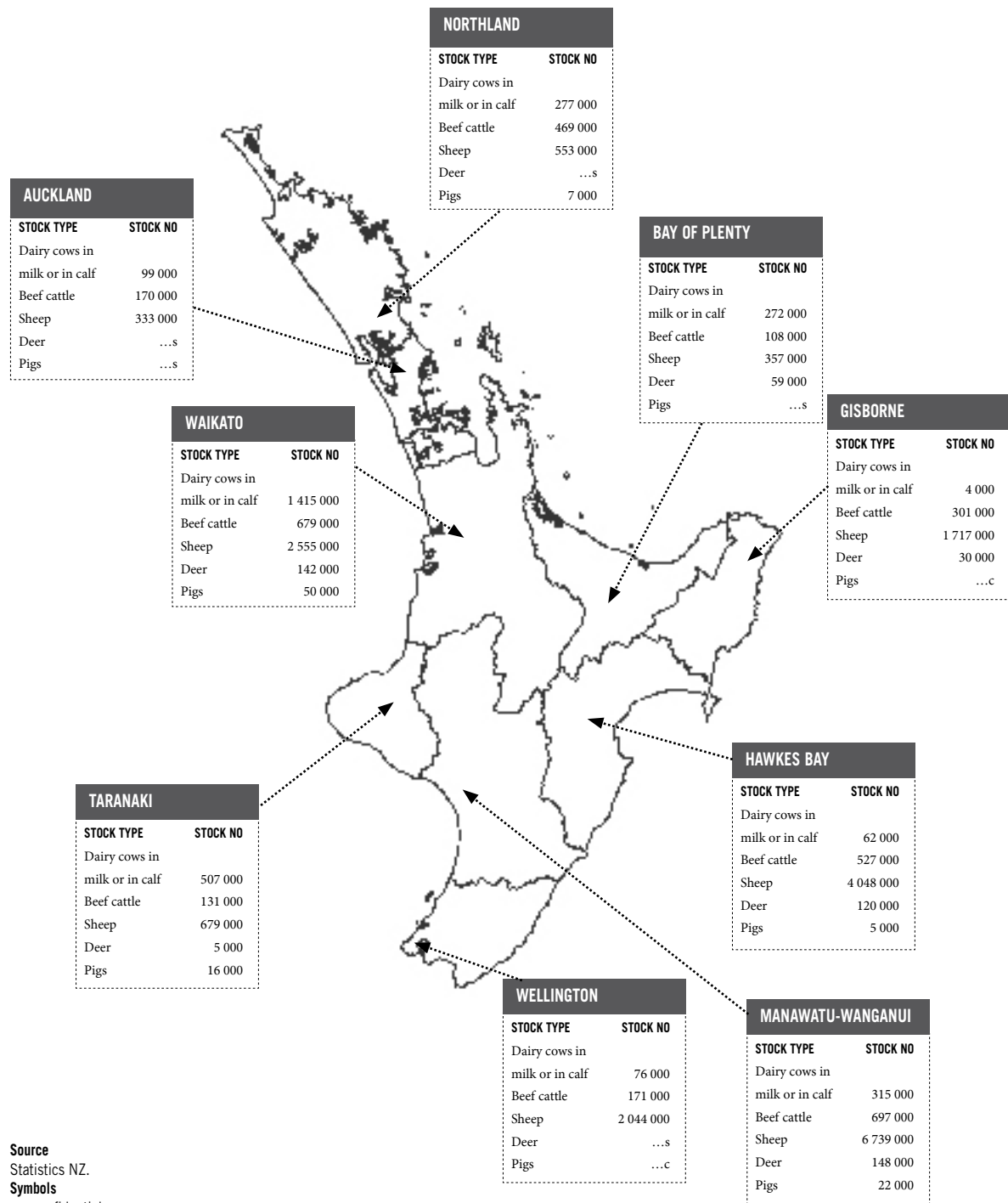
»» OUTLOOK FOR 2006/07

Venison prices are predicted to increase in 2006/07 due to a drop in the supply of better-weight animals, and shifts to improved management and marketing strategies. Some in the industry have commented that deer farmers are beginning to understand the Cervena market and there is optimism farmers will be able to get much higher returns in the future.

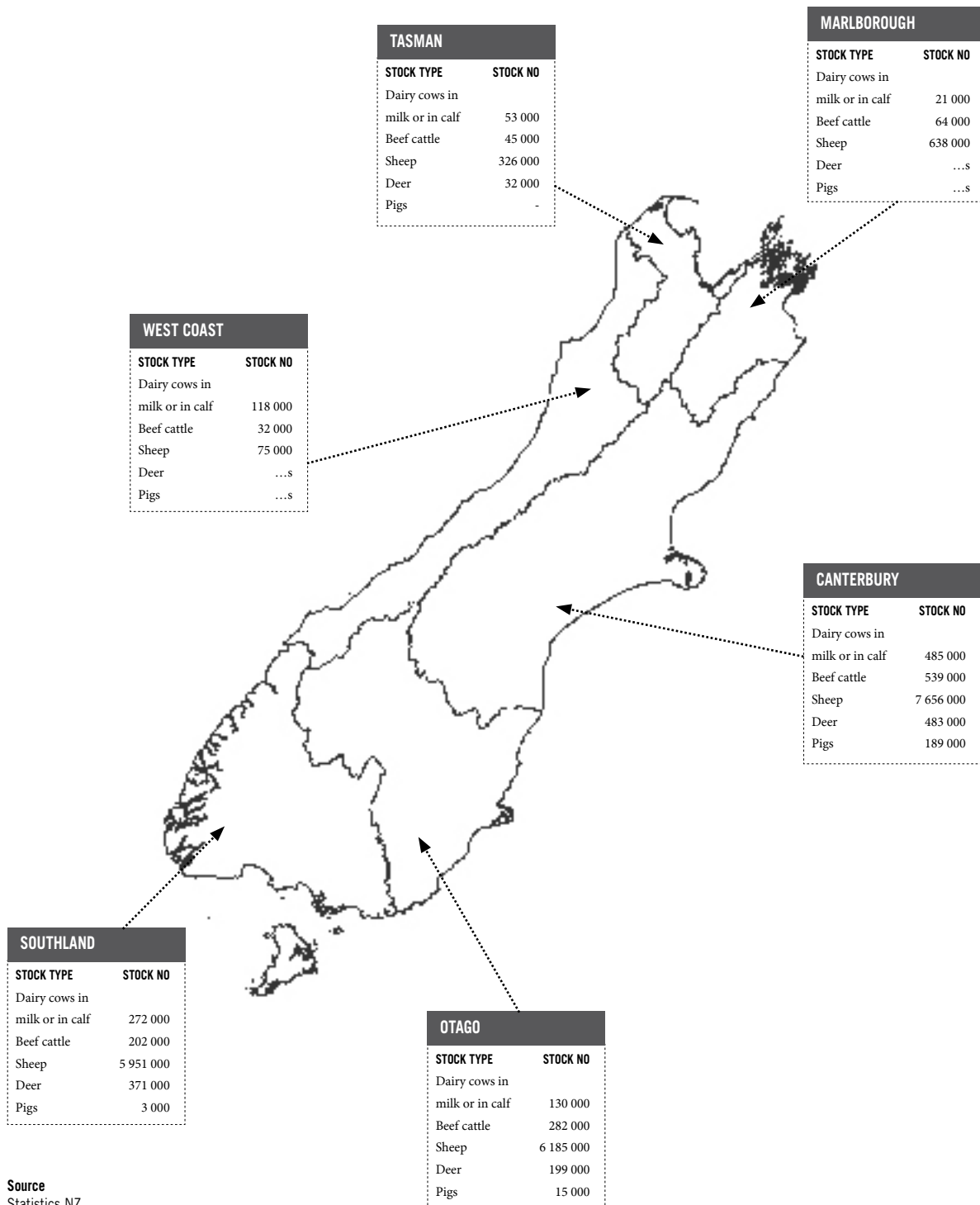
The North Island model expects about a 9 percent increase in venison returns, while the South Island shows greater returns with a 14 percent increase forecast for 2006/07.

The net velvet price is expected to increase to between \$49 to \$50 per kilogram in 2006/07. This is an average increase of approximately 14 percent. Although this provides optimism to the velvet industry, prices will still only be half of what previous years have returned. The proposed new velvet selling organisation, called 0800 VELVET, should aid in a return to better velvet prices. The organisation looks at co-operative velvet selling, with key differences being the length of the sales period and sales timing being more aligned with demand. This could have a significant impact on how velvet is viewed in the industry.

»» FIGURE 2.1: AGRICULTURAL PRODUCTION STATISTICS JUNE 2005 – NORTH ISLAND



»» FIGURE 2.2: AGRICULTURAL PRODUCTION STATISTICS JUNE 2005 – SOUTH ISLAND



Source
Statistics NZ.
Symbols
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3

NORTH ISLAND DEER

»» THE NORTH ISLAND DEER FARM

Deer farms are commonly of two main types – deer units within a mixed livestock system, and stand-alone deer farms. Deer units are generally smaller than stand-alone deer farms. This model farm sits between these two types and can be described as a “small stand-alone deer farm that is big enough to support a family”.

Theoretically situated near Rotorua in the Bay of Plenty, the model farm is 140 effective hectares in size. Opening stock for the 2005/06 season consisted of 440 red mixed-age breeding hinds, 100 rising two-year hinds (first fawners), 454 mixed-sex weaners, and 105 rising two-year stags and mature breeding/velvet stags.

Weaner hinds and stags are all carried over the winter and sold to slaughter. Half of the breeding hinds are mated to a crossbred stag. The stocking rate is now being held at the same level with the feeding programme aiming to get yearling stock to target slaughter weights in late spring when market prices for chilled venison traditionally peak. Each year around 25 selected yearling stags are retained to enter the velvetting herd. This model farm does not run sheep and beef cattle.

»» TABLE 3.1: NORTH ISLAND DEER MODEL SUMMARY, 2005/06

Effective area	140 ha		
Opening stock wintered:		R1yr stags	227 hd
Breeding hinds (mixed-age)	440 hd	R2yr stags	25 hd
R2yr hinds (mated)	100 hd	R3yr stags	70 hd
R2yr hinds (unmated)	0 hd	MA and breeding stags	10 hd
R1yr hinds	227 hd	Total stock units wintered	2 197 su

»» KEY POINTS

- › For the fourth consecutive year the North Island deer farming model made a disposable deficit.
- › Venison revenue increased by 8 percent in 2005/06 and is forecast to increase by 9 percent in 2006/07.
- › Velvet returns remained as forecast at the 2004/05 price of \$44 per kilogram, but are expected to increase to \$50 per kilogram in 2006/07. Industry reports concern with the timing and marketing of high value grades, which were sold at lower prices than some later re-growth velvet.
- › Expenditure is forecast to increase slightly in 2006/07 due to price increases rather than additional inputs; although farmers signalled they will look to cut back where they can. As most deer farms are mixed, expenditure can be supported by other enterprises.
- › The deer industry continues to be divided between those committed to deer farming, who use the lower prices as an opportunity to expand, and others, who change to alternative livestock policies or quit the industry altogether.
- › Urban and lifestyle subdivisions are taking their toll on the industry as many deer blocks, particularly in the greater Waikato/South Auckland area, have permanently removed deer fencing prior to subdivision.

»» TABLE 3.2: KEY PARAMETERS OF THE NORTH ISLAND DEER MODEL

	2002/03	2003/04	2004/05	2005/06	2006/07 ^f
Effective area (ha)	140	140	140	140	140
Opening deer stock units	1 750	1 758	2 184	2 197	2 197
Stocking rate (su/ha)	12.50	12.6	15.6	15.7	15.7
FAWNING¹					
Farm average (%)	84	86	86	86	86
Mixed-age hinds (%)	86	88	88	88	88
2-year-old hinds (%)	75	77	76	76	76
VELVET					
Farm average (includes re-growth but excludes yearling velvet) (kg/stag)	2.7	2.0	2.2	2.3	2.4
Mixed-age (kg/stag)	3.2	3.8	4.0	4.2	4.2
3-year-old (kg/stag)	2.8	3.5	3.5	3.7	3.7
2-year-old (kg/stag)	1.6	1.8	1.8	2.0	2.0
CARCASS WEIGHTS					
Cull 2-year-old hinds (kg)	52	52	52	52	52
3-year-old plus stags (kg)	–	100	100	–	–
2-year-old stags (kg)	69	69	69	69	69
Yearling stags (kg)	55	55	55	55	55
Gross farm revenue (\$)	132 548	90 918	103 363	110 632	121 929
Net trading profit (\$)	30 700	–6 820	3 985	233	9 160
Disposable surplus/deficit (\$)	–29 507	–48 847	–28 350	–33 622	–24 705

Note

¹ Fawning percent is the breeding stock scanned in calf at balance date.

Symbol

f Forecast

»» CLIMATIC FACTORS AFFECTING PRODUCTION

Following a favourable 2005 winter with below average rainfall in June to August and above average soil temperatures, spring started off well. Spring later cooled off in October and November causing pasture growth prior to fawning to be slightly restricted. However, pasture quality was maintained at higher levels than the previous seasons and this has seen fawn weaning weights slightly ahead of previous years. This also meant young stock feeding was maintained and resulted in yearling stag and hind killing weights at target levels at traditional sale times.

Supplementary feed could not be made until the early summer flush because the wet October delayed contractors' schedules. The summer was variable with a dry November followed by a wet period over the New Year and then a dry February. However, overall, the rainfall provided high summer growth and a significant

feed surplus. On most farms other stock were introduced to manage this feed surplus. The following high autumn growth resulted in additional weight on all animals and deer farmers were able to delay the use of crops or hold supplementary feed for later.

Pasture covers entering winter 2006 varied across the region, depending on the amount of autumn rainfall received, but farm covers were reported to be up to target levels.

Animal health challenges reported were again lower than normal, with no facial eczema damage reported and only minor reports of some cases of yersiniosis and Johne's disease affecting herd performance. Farms with reported tuberculosis are also down from last year and death rates were slightly improved due to good stock management.

»» PRODUCTION FIGURES AND FORECASTS

Carcass weights for venison have stayed the same but sales have been earlier due to availability of adequate killing space. The availability of killing space in 2005/06 has allowed farmers to sell surplus hinds and stags without difficulty so farmers could concentrate more on feeding capital stock. Farmers with strong relationships with processors have benefited, receiving higher returns than their spot market counterparts.

Venison sales through 2005/06 ranged, on average, from \$3.15 to \$4.25 per kilogram pre-Christmas, but some reported higher prices due to good sales relationships and well timed sales. Net sales from the survey farms after Christmas were \$1.50 to \$3.40 per kilogram for stags and \$2.70 to \$2.80 per kilogram for hinds.

A shortage of better-weight animals emerged in the North with some finishers being unable to obtain them, despite offers of \$2.50 per kilogram. On the flip side, demand for the 40 kilogram weaners was limited. Weaner sales on average were steady at the low level prices, with average survey sales for mixed sex ranging from \$88 to \$135 per head.

Fawning percentage in the mixed-age hinds has been held at a constant level and is modelled at 88 percent. However, some farmers reported an increased rate of fawn survival due to higher weights last mating and better feed over summer.

Overall, stock was in good condition during 2006 and farmers anticipate fawning results will be pleasing in 2006/07. Weaning weights for 2006 were generally ahead of 2005 and stock were able to be sold as planned.

»» FINANCIAL POSITION OF THE DEER FARM

> REVIEW OF 2005/06

REVENUE

Gross farm revenue increased by 7 percent in 2005/06 to \$110,632, reflecting an increase in venison returns.

Venison

Average slaughter carcass weights in 2005/06 equalled those of 2004/05. However, sales were made earlier and matched the higher value grades offered by processors.

The model farm recorded an 8 percent increase in venison returns compared with the 2004/05 season.

Velvet

The 2005/06 average price received for velvet was static at last year's price of \$44 per kilogram but farmers made slight gains in velvet due to better weights per head.

The model farm experienced a 5.5 percent increase in velvet revenue during 2005/06 resulting from improved weight per head, rather than any real market improvement in prices. Total revenue received from velvet in 2005/06 was \$17,006 compared with \$16,112 in 2004/05.

Other

In order to reflect the number of deer farms that are running ewes or young beef cattle (up to 20 percent of total stock units) to assist in pasture management, it is important to include an estimate of the potential revenue these stock units could contribute. At an average cash farm surplus of \$27.19 per stock unit (taken from the 2005/06 Waikato/Bay of Plenty intensive sheep and beef model budget), the potential net revenue from these 437 stock units is \$11,882.

EXPENDITURE

Cash farm expenditure increased by 14 percent to \$619 per hectare in 2005/06, despite North Island deer farmers attempting to tighten spending to compensate for the continued low returns for both venison and velvet. At \$619 per hectare, expenditure uses 78 percent of gross farm revenue. At this level, farmers without support from other activities (such as off-farm income, investments, or other livestock) are being increasingly squeezed to modify their existing policies or quit the deer farming industry. Deer industry representatives state there has been a 30 percent decrease in small, stand-alone deer farms from last year's figures and this may be a reflection of the imbalance between revenue and expenditure.

Key increases in expenditure occurred in casual wages (43 percent), communication (33 percent), fuel (20 percent), fertiliser (19 percent), vehicle costs excluding fuel (8 percent), electricity (7 percent), and rates (6 percent).

Communication costs increased as a result of additional technology like new cellphones and broadband connections being added to the farm budget.

Farmers continue to carry out planned fertiliser applications. Fertiliser expenditure increased in 2005/06 as a direct result of higher pricing rather than additional applications. Deer farmers have indicated that although farm expenditure needs to be tightened, fertiliser expenditure is being maintained as an essential part of the farming system.

Re-grassing is still prevalent in the deer system to maintain quality feed. However, there is increased reliance on brassica cropping both to break the pest cycle when re-grassing and to provide a cheap quality supplement more suited to deer than any other stock type. While budgets show re-grassing is still occurring in deer farms, last year's forecast 60-plus percent rise in re-grassing expenditure did not eventuate, as some started to reduce their re-grassing programme due to cost or because of the completion of development plans.

Animal health expenditure increased by 10 percent in 2005/06 due to higher input prices. Industry representatives report deer work has shrunk for vets as returns are still too low to validate the cost of using a vet. Breeding expenses are up 8 percent due to inflationary costs but overall they continue to remain low due to farmers' lack of pregnancy scanning.

Farmers have significantly decreased the cost of bought-in feed by changing both the type of feed and the amount used. Feed (other costs) remained in this year's budget as farmers continued to source feed alternatives such as kiwifruit substituting for maize grain.

Repairs and maintenance expenditure, although up slightly, did not reach the same level as the 2003/04 year, as farmers deferred any major repairs and maintenance after carrying out planned expenditure in previous years.

Personal drawings remained the same as last year's \$35,000 and development costs remained at \$2,500 as most established deer farmers completed planned development.

Capital purchases remained at \$2,500 as machinery replacement continued despite low cash income.

NET RESULT

Net trading profit before tax for the model decreased from \$3,985 to \$233 in 2005/06. This was mainly due to revenue increases being less than increases in expenses for 2005/06.

Off-farm income increased 25 percent in 2005/06 to \$25,000 as many farmers sought full-time work off-farm to supplement income. Although contributing positively to the overall net cash change for the farm, the increased level of off-farm income means many farmers are neglecting work on their own properties in favour

of earning money elsewhere. The net cash change for the model farm for 2005/06 remains negative at -\$8,622, slightly down on 2004/05.

Land values continue to increase throughout the North Island, with many deer farmers seeing the prospective capital appreciation as a saving grace in the face of low returns. The model farm, based near Rotorua, experienced a 10 percent increase in value to \$16,500 per hectare, but some farms in the North Island have experienced up to an 18 percent increase in value as competition from alternative land uses puts pressure on the land market.

› FORECASTS FOR 2006/07

REVENUE

Gross farm revenue is expected to increase by 10 percent to \$121,929 in 2006/07 as a result of higher venison returns.

Venison

Venison sales revenue for 2006/07 is expected to rise by almost 9 percent to \$109,849. Expectations for venison are generally optimistic, with most farmers forecasting at least a \$20 per head increase in venison returns, with the schedule following closely between \$4.50 and \$5.50 per kilogram with a forecast peak chilled return, subject to currency and fuel costs expected at close to \$6.00 per kilogram for the prime 50–60 kilogram carcasses.

Velvet

The model budget velvet revenue is forecast to change in 2006/07, with farmers again budgeting for increased velvet returns of \$50 per kilogram. This increase is expected due to improved marketing and the recent export agreement with China.

EXPENDITURE

Total cash farm expenditure is forecast to increase 3 percent in 2006/07.

Key areas of expenditure forecast to increase are: fuel (17 percent), insurance (10 percent), rates (8 percent), and weed and pest control (7 percent).

Other feed purchased remains in the forecast budget at a low level, but farmers will look to cut this cost if margins are tight next year.

Development and capital purchase costs remain in the forecast as farmers are optimistic that the deer industry is on its way up.

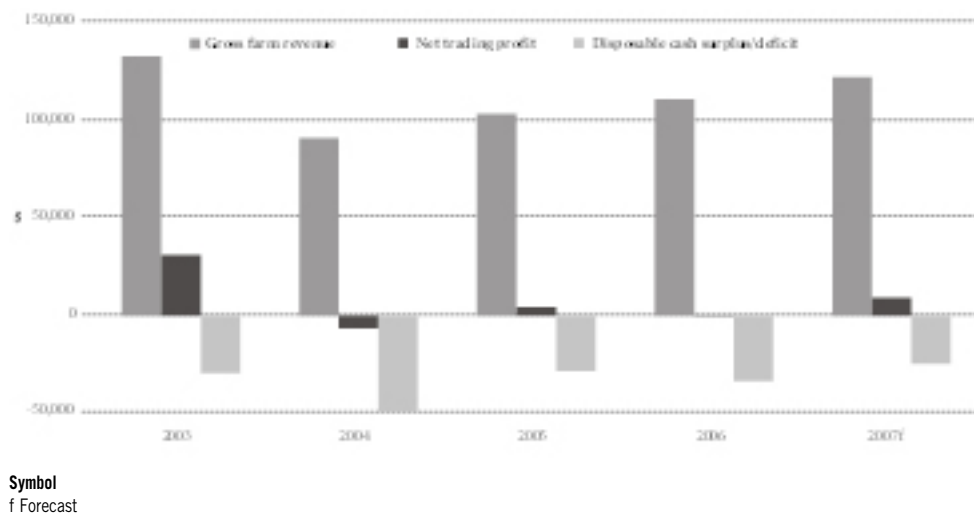
NET RESULT

Net trading profit before tax is forecast to \$9,160 in 2006/07 as a result of expected improved returns and careful budgeting. Farmers are expecting a 0.3 percent increase in interest rates in 2006/07, lifting the rate to 8.3 percent.

With the forecast improved prices for venison and velvet, and the sustained level of personal drawings and off-farm income, the net cash change is forecast to return to positive figures for the first time in years, at \$295.

Farmers anticipate land values to settle in 2006/07.

»» FIGURE 3.1: NORTH ISLAND DEER FARMING PROFITABILITY TRENDS

**»» ISSUES AND TRENDS**

Although the deer industry is still experiencing low prices, lower sheep returns have made deer farming look more attractive. In general, deer farmers are still passionate about the future of deer and its products. Some are using the current low market to their advantage by increasing deer fenced areas and purchasing extra deer, often of high genetics, at lower entry prices. The comment has also been made that some farmers are beginning to better understand the Cervena market and are optimistic they will get higher returns in the future. Loyal deer farmers are increasingly focusing on deer breeding and genetics to improve production and reduce disease within populations.

Farmers are aware of the necessity of animal welfare, employment and occupational health and safety regulations but are concerned with the continual increasing cost of compliance. This cost is harder to bear with the ever-decreasing returns for deer.

»» TABLE 3.3: NORTH ISLAND DEER BUDGET

	WHOLE FARM (\$)	2005/06 PER HA (\$)	PER SU (\$)	WHOLE FARM (\$)	2006/07 ^f PER HA (\$)	PER SU (\$)
REVENUE						
Deer sales	101 126	722	46.03	109 849	785	50.00
Velvet ¹	17 006	121	24.88	19 580	140	28.65
Other farm income	0	0	0.00	0	0	0.00
Less						
Deer purchases	7 500	54	3.41	7 500	54	3.41
Gross farm revenue	110 632	790	50.36	121 929	871	55.50
Cash farm expenditure	86 661	619	39.45	89 216	637	40.61
Interest	16 000	114	7.28	16 600	119	7.35
Rent and/or leases	0	0	0.00	0	0	0.00
Cash farm surplus	7 971	57	3.63	16 113	115	7.33
Stock value adjustment	0	0	0.00	0	0	0.00
Minus depreciation	7 738	55	3.52	6 953	50	3.16
Net trading profit	233	2	0.11	9 160	65	4.17
Taxation	1 593	11	0.73	818	6	0.37
Net trading profit after tax	-1 360	-10	-0.62	8 342	60	3.80
ALLOCATION OF FUNDS						
Add back depreciation	7 738	55	3.52	6 953	50	3.16
Reverse stock value adjustment	0	0	0.00	0	0	0.00
Drawings	35 000	250	15.93	35 000	250	15.93
Principal repayments	0	0	0.00	0	0	0.00
Development	2 500	18	1.14	2 500	18	1.14
Capital purchases	2 500	18	1.14	2 500	18	1.14
Disposable surplus/deficit	-33 622	-240	-15.30	-24 705	-176	-11.25
OTHER CASH SOURCES						
New borrowing	0	0	0.00	0	0	0.00
Off-farm income	25 000	179	11.38	25 000	179	11.38
Other cash income	0	0	0.00	0	0	0.00
Net cash change	-8 622	-62	-3.92	295	2	0.13
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	2 310 000	16 500	1 051.48	2 310 000	16 500	1 051.48
Plant and machinery (opening)	51 588	368	23.48	46 350	331	21.10
Stock valuation (opening)	172 084	1 229	78.33	172 084	1 229	78.33
Total farm capital	2 533 672	18 098	1 153.29	2 528 434	18 060	1 150.91
Total debt opening	200 000	1 429	91.04	200 000	1 429	91.04
Equity	2 333 672	16 669	1 062.26	2 328 434	16 632	1 059.87

Note¹ Per stag su.**Symbol**

f Forecast

»» TABLE 3.4: NORTH ISLAND DEER EXPENDITURE

	WHOLE FARM (\$)	2005/06 PER HA (\$)	PER SU (\$)	WHOLE FARM (\$)	2006/07 ^f PER HA (\$)	PER SU (\$)
FARM WORKING EXPENSES						
Permanent wages	0	0	0.00	0	0	0.00
Casual wages	5 000	36	2.28	5 000	36	2.28
ACC	279	2	0.13	159	1	0.07
Animal health	5 500	39	2.50	5 500	39	2.50
Breeding	650	5	0.30	650	5	0.30
Electricity	2 600	19	1.18	2 700	19	1.23
Feed (hay and silage)	6 600	47	3.00	6 600	47	3.00
Feed (feed crops)	3 300	24	1.50	3 300	24	1.50
Feed (grazing)	0	0	0.00	0	0	0.00
Feed (other)	1 300	9	0.59	1 400	10	0.64
Fertiliser	22 501	161	10.24	22 761	163	10.36
Lime	1 584	11	0.72	1 584	11	0.72
Freight (not elsewhere deducted)	600	4	0.27	600	6	0.36
Re-grassing costs	1 848	13	0.84	1 862	13	0.85
Weed and pest control	1 500	11	0.68	1 600	11	0.73
Fuel	6 000	43	2.73	7 000	50	3.19
Vehicle costs (excluding fuel)	4 200	30	1.91	4 500	32	2.05
Repairs and maintenance	7 500	54	3.41	7 500	54	3.41
Communication costs (phone and mail)	2 400	17	1.09	2 400	17	1.09
Accountancy	2 300	16	1.05	2 400	17	1.09
Legal and consultancy	1 000	7	0.46	1 000	7	0.46
Other administration	0	0	0.00	0	0	0.00
Rates	5 200	37	2.37	5 600	40	2.55
Insurance	3 000	21	1.37	3 300	24	1.50
Water charges (irrigation)	0	0	0.00	0	0	0.00
Other expenditure	1 800	13	0.82	1 800	13	0.82
Cash farm expenditure	86 661	619	39	89 216	637	41
CALCULATED RATIOS						
Economic farm surplus (EFS ¹)	-40 104	-286	-18.25	-30 524	-218	-13.89
Cash farm expenditure/GFR ² (%)	78			73		
EFS/total farm capital (%)	-1.6			-1.2		
EFS less interest and lease/equity (%)	-2.4			-2.0		
Interest + rent + lease/GFR (%)	14.5			13.6		
EFS/GFR (%)	-36.2			-25.0		

Notes

¹ EFS (or Earnings before interest and tax) is calculated as follows: gross farm revenue plus change in livestock values less working expenses less depreciation less wages of management (WOM). Wages of management are calculated as follows: \$31,000 allowance for labour input plus 1 percent of total capital as managerial reward. An upper limit for WOM of \$75,000 has been set.

² Gross farm revenue.

Symbol

f Forecast

While some farmers remain committed to deer, others are choosing to quit the industry. Several factors have influenced the exodus, such as farmers' increasing age, stage of life, and poor financial returns. Many are taking advantage of the increase in land values, and are selling for subdivision or alternative land uses. This is particularly noticeable in the Waikato area, with deer fences being removed and land subdivided for popular rural residential sites.

Farmers have also abandoned principal repayments as they use the increasing land values to enhance their equity in their properties.

Latest statistics from the 2005 Agricultural Production Census (June 2005 numbers) indicate a drop of 10 percent in total deer numbers in the North Island compared with last year's figures. Of the national herd residing in the North Island the distribution through the main areas are as follows: 26 percent Waikato, 22 percent Hawkes Bay, 27 percent Manawatu/Wanganui, and 11 percent each in the Bay of Plenty and Gisborne regions.

Environmental matters are well recognised and continue to be a focus of deer farming with ongoing work being undertaken to minimise the physical impacts of deer on fence-line erosion. Interest remains in deer for a future alternative stock type in the Taupo region, where farmers are planning to reduce nitrogen loadings.

The problem of sourcing and retaining suitable labour continues to impact on the industry. Many farmers struggle to find people who are willing to deal with the physical aspects of farming stags and who are capable of managing or leasing deer farms. In general, if farmers can find people with the skills necessary to manage deer, they are willing to invest in training, such as velvet removal accreditation, in order to retain quality staff. Larger farming corporates, such as Landcorp and some Maori farms continue to invest in appropriate training for deer staff.

SOUTH ISLAND DEER

4

»» THE SOUTH ISLAND DEER FARM

This model represents the deer farms of Southland and South Otago. It is based on a farm running deer only. Opening stock numbers for the 2005/06 season were 540 mixed-age (MA) breeding hinds, 163 rising two-year (R2yr) hinds, 552 mixed-sex weaners, and 170 rising two-year and mature breeding/velvet stags. The 2005/06 stocking rate was 15.9 stock units per hectare.

Progeny from the breeding hinds which are not required as replacements in the breeding or velvet herds are sold for slaughter at 10 to 18 months, with final culling of replacements at the two-year-old stage.

The model is based on running predominantly red hinds in the breeding herd, with hybrids used as terminal sires. The hind herd is characterised by a blending of red deer from the United Kingdom and Eastern Europe.

Note: Stock unit (su) conversion rates were changed in 2004/05 to more accurately reflect the stock unit rates accepted and applied by the deer industry. Refer to table 1.1 for stock unit conversion rates used before and after this change.

»» TABLE 4.1: SOUTH ISLAND DEER MODEL SUMMARY, 2005/06

Effective area	180 ha		
Opening stock wintered:		R1yr stags	276 hd
Breeding hinds (mixed-age)	540 hd	R2yr stags	65 hd
R2yr hinds (mated)	130 hd	R3yr stags	95 hd
R2yr hinds (unmated)	33 hd	MA and breeding stags	10 hd
R1yr hinds	276 hd	Total stock units wintered	2 860 su

»» KEY POINTS

- › Venison prices fell to new lows (average purchase price stag was \$3.40 per kilogram in January) due to the continued large volume of venison to sell and the high New Zealand dollar.
- › Velvet markets showed no improvement over the \$42 per kilogram average 2004/05 price until it was too late for most farmers to benefit in 2005/06.
- › Due to below average spending cash farm surplus rose to \$14.91 per stock unit in 2005/06.
- › Profitability is forecast to improve in 2006/07 as prices for venison and velvet rise, due to the lower New Zealand dollar and the reduced number of stock available for processing.

»» CLIMATIC FACTORS AFFECTING PRODUCTION

Southern deer farmers enjoyed another mild winter in 2005. High stocks of supplementary feed and better than average pasture growth saw livestock emerge from the winter in ideal condition. Farmers used a variety of wintering systems that contained older hinds and stags off pasture for around 100 days in the winter period.

»» TABLE 4.2: KEY PARAMETERS OF THE SOUTH ISLAND DEER MODEL

	2002/03	2003/04	2004/05	2005/06	2006/07 ^f
Effective area (ha)	180	180	180	180	180
Opening deer stock units	2 325	2 325	2 832	2 860	2 752
Stocking rate (su/ha)	12.9	12.9	15.7	15.9	15.3
FAWNING¹					
Farm average (%)	84	85	84	84	84
Mixed-age hinds (%)	87	88	86	87	88
2-year-old hinds (%)	74	72	74	72	74
VELVET					
Farm average (includes re-growth but excludes yearling velvet) (kg/stag)	301	301	3.0	3.2	3.6
Mixed-age (kg/stag)	4.0	4.0	4.0	4.3	4.2
3-year-old (kg/stag)	3.0	3.0	3.0	2.9	3.0
2-year-old (kg/stag)	1.8	1.8	1.8	1.8	1.8
CARCASS WEIGHTS					
Cull 2-year-old hinds (kg)	52	52	52	52	52
2-year-old stags (kg)	65	65	65	65	65
Yearling stags (kg)	57	57	56	56	55
Gross farm revenue (\$)	202 600	151 851	143 681	142 508	168 948
Net trading profit (\$)	83 600	39 710	7 834	12 500	40 198
Disposable surplus/deficit (\$)	-15 345	-22 789	-30 863	623	12 054

Note¹ Fawning percent is the breeding stock scanned in calf at balance date.**Symbol**

f Forecast

This allowed weaners on rotations to utilise pasture. While weaner growth rates still struggle to exceed 80 to 100 grams per day over June to August, this system provided good pasture covers (1800 plus kilograms dry matter per hectare) in the spring, allowing rapid liveweight gains.

Pasture growth remained ahead of normal until hinds were set-stocked for fawning in October, allowing adequate supplement to be made for the 2006 winter. In mid-October, cooler weather caused pasture growth in Southern areas to drop by 50 percent, putting pressure on feed covers in fawning blocks. Pasture growth did not recover until December. While some first fawning rising two-year hinds struggled, mixed-age (MA) hinds were able to handle the situation by mobilizing body fat. No effect on fawning percentage was noted. Mixed-aged hinds remained static at 87 percent fawns weaned to hinds mated, and rising two-year hinds weaning 72 percent fawns to stag.

An advantage of lower than normal pasture covers through early-summer was improved pasture quality. This resulted in improved fawn weaning weight of one to two kilograms on 2004/05.

Farmers reported relatively few animal health issues in deer this year. As normal there were isolated losses due to yersiniosis, fusiformis and lungworm. Internal parasites in deer are of increasing concern to some, given the recent publicity about drench resistance on sheep and beef farms. There are large gaps in the knowledge about parasite management of deer.

Over May 2006 killing space in the South Island became available allowing most farmers to kill any backlog of deer on hand. Whether this signifies the end of the capital stock kill remains unclear.

Given the good feed reserves, many have chosen to carry additional deer through the 2006 winter to kill at higher spring prices. This is likely to make killing space very tight again right through until Christmas.

»» PRODUCTION FIGURES AND FORECASTS

Finishers reported no problems getting yearling stags to target slaughter weights by October/November. Carcass weights for yearlings averaged between 52 kilogram and 56 kilograms on surveyed farms. Very tight killing space allocations continued to affect farmers. Many killable deer were held on farms longer than desirable due to a lack of space, while the venison schedule fell away rapidly. Average purchase price for stags (55 to 65 kilograms) peaked at \$5.60 per kilogram in late-September, dropping under \$4.00 per kilogram in December and bottoming out at \$3.40 in January/February. Holding these deer did not affect feeding levels of other stock classes, due to the favourable spring.

Some farmers were further penalised in spring for supplying deer for processing with mud dags on their legs and bellies. Deer wallow heavily in the spring to remove their winter coats. Mud dags formed during wallowing can cause bacterial contamination during processing at deer slaughter premises, resulting in chilled venison packs exploding during passage to Europe. To eliminate this risk, one processor freezes product from all muddy deer which is then consigned to lower value markets. Payment for these animals was reduced by \$0.40 per kilogram, and in extreme cases muddy deer were refused processing and returned to suppliers. To prevent this some farmers installed on-farm washing systems, while others resorted to crutching deer. However, most methods proved largely ineffective, and stressful on both farmer and deer.

»» FINANCIAL POSITION OF THE DEER FARM

> REVIEW OF 2005/06

REVENUE

For the fourth consecutive year gross farm revenue dropped on deer farms. At \$142,508 or \$49 per stock unit in 2005/06, gross farm revenue was down slightly on the 2004/05 financial year. Revenues continue to reach new lows on deer farms, with the result being only half the gross farm revenue recorded in 2002/03, the last profitable year for deer farmers.

Farmers were cautious but had predicted a partial recovery in venison and velvet price over the 2005/06 year to lift gross farm revenue by 17 percent on 2004/05. However, low confidence levels and a need to improve profitability saw the capital stock cull continue. Combined with the strength of the New Zealand dollar against European markets, this cull saw a further decline in venison prices. Confidence in South Island deer farming remains low. Increases in other on-farm income are expected to counter the current poor financial returns.

Venison

Farmers were warned to expect a peak spring schedule for the average purchase price of stags of \$5.60 per kilogram. This level was reached, but only for a period of a few weeks in late-September. The inevitable slide in the schedule price pre-Christmas began in October, with prices reduced to \$3.40 per kilogram (a new record low) by late January. By the end of May positive currency movements had returned the venison schedule to \$4.00 per kilogram, but this remained 22 percent down on the 10-year average for May. Part of this schedule message reflected the extraordinarily high production numbers being offered and was a clear signal that further stock was not required at this time, somewhat in tune with the message from industry leaders. However, the meat processing companies did commit to processing the very high numbers being offered, peaking at more than 760 000 in the year ended March 2006, in order to meet the demand from clients downsizing or changing their farming practices on the back of sustained low returns.

Due to killing space restrictions, only 10 to 15 percent of weaners were processed before November, making the average schedule price over the season more important than the peak. In 2005/06 the average rising one-year stag netted \$199 per head on farm, after deductions (levies, killing charges and cartage) of an average \$20 per head. For a 56-kilogram stag carcass the average net price received was \$3.55 per kilogram compared to \$3.82 per kilogram in 2004/05 (down 7 percent).

Velvet

With killing space remaining tight, the much talked about velvet stag cull was restricted, meaning velvet weights and grades remained fairly constant over 2005/06. Prices improved late in the season; however, most farmers' cash situations meant they did not have the luxury of holding velvet to take advantage of this lift. The 2005/06 average price on surveyed farms remained at the 2004/05 level of \$42 per kilogram, compared with the reported pools' average of \$47 per kilogram for the season. Overall velvet contributed \$24,518 (18 percent) to gross farm revenue.

EXPENDITURE

Farmers expected deer farming to remain a tough proposition in 2005/06 and aimed to reduce spending to below 2004/05 levels. In spite of price rises in most farm inputs, cash farm expenditure was reduced by \$17,671. Cash farm expenditure totalled \$78,230, accounting for 56 percent of gross farm revenue in 2006.

A few deviations between years occurred in most cash farm expenditure categories. However, re-grassing (\$0.83 per stock unit), fertiliser (\$5.00 per stock unit) and lime (\$0.31 per stock unit) expenditure was further cut back, bringing into question to what extent are assets on these farms being maintained? After fertiliser, feed costs (\$4.09 per stock unit), fuel (\$3.10 per stock unit) and animal health (\$2.88 per stock unit) remain the largest cash farm expenses.

NET RESULT

Due to farmers controlling spending well, the 2005/06 cash farm surplus was \$42,653 (\$14.91 per stock unit). This was sufficient to meet tax and modest drawings, but little was left for normal plant and machinery replacement or development.

Net trading profit was \$12,500 in 2005/06.

The disposable surplus was \$623, an increase of \$31,486 from 2004/05 due to a reduction in maintenance expenditure rather than increased income.

In a repeat of last year's trend, farmers again actively sought off-farm employment to buffer farm returns. Net income of \$22,000 was earned off-farm in 2005/06, up \$8,500 on 2004/05. This allowed farmers to improve their cash position by \$22,623 over the year.

Overall, the hatches are battened down. Realising little income is coming in, farmers are spending very little, and topping up off-farm income in a variety of ways. No major development or plant replacement is taking place, nor will it until product prices improve substantially. The holding pattern continues as farmers attempt to "hang in" with the industry.

> FORECASTS FOR 2006/07

REVENUE

Signs are emerging that the deer industry may be turning the corner. On the back of late-season improvements in venison and velvet prices, and freeing up of killing space in autumn, farmers are more optimistic than they have been in months. This is reflected in their forecast gross farm revenue for 2006/07, which rises to \$168,948 (\$61.38 per stock unit), representing a 19 percent improvement on 2005/06.

Venison

Most of the increase in forecast gross farm revenue can be attributed to a lift in the venison schedule. Farmers expect that the current improvement in venison prices over the same period 12 months ago will flow on to better average seasonal prices in 2006/07, and this will improve the value of yearling stags by \$30 per head. A 56 kilogram carcass weight animal would then return \$229 per head after deductions, from a gross schedule price of \$4.45 per kilogram. This is well within the realms of possibility.

Velvet

Farmers are less optimistic that the velvet markets will improve, but do expect some relief over the year through a lower New Zealand dollar. Velvet weights and grades are expected to remain fairly static, although culling of some poorer performing stags may result in limited improvements. The average net velvet price is budgeted at \$49 per kilogram in 2006/07. This is a 17 percent increase on 2005/06. But regardless, velvet prices remain very low when considering that in previous years prices regularly exceeded \$100 per kilogram. Velvet will contribute \$31,769 (20 percent) to gross farm revenue in 2006/07.

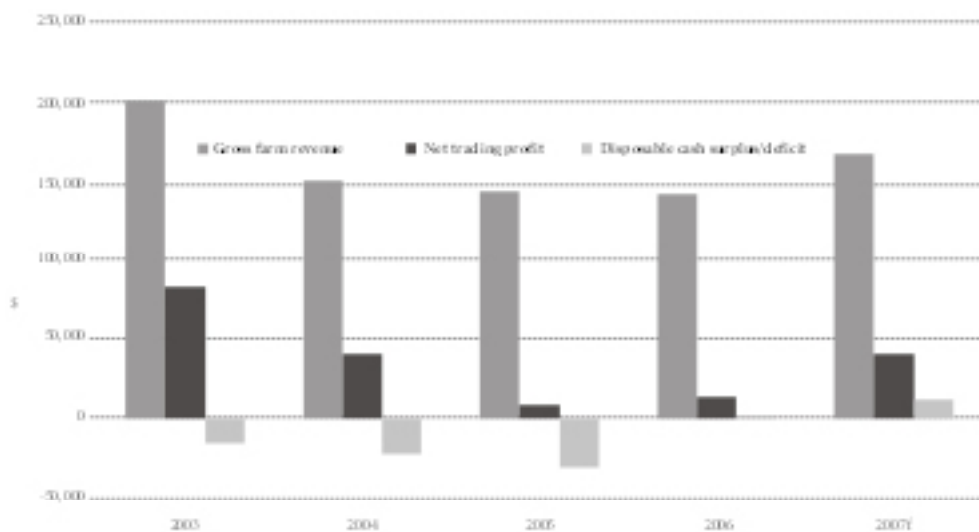
EXPENDITURE

While a gross farm revenue increase in 2006/07 is predicted, farmers will aim to hold their inputs at 2005/06 levels until this is realised. They acknowledge that expenses such as fuel, freight and contracting charges will continue to increase, and have made some allowance for this by lifting cash farm expenditure from \$27 per stock unit in 2006 to \$29 per stock unit in 2006/07. Whether this will go far enough is yet to be seen.

Animal health is the only expense category where farmers believe they can make further savings (down 22 percent), with all the other expenses forecast to increase. Limiting spending on animal health to \$2.24 per stock unit may put production under pressure if feed conditions become tight, but this will be reviewed if necessary.

Fertiliser and lime spending remains below maintenance levels at \$5.77 per stock unit. However, phosphate reserves on deer farms remain sufficient to hold production.

»» FIGURE 4.1: SOUTH ISLAND DEER FARMING PROFITABILITY TRENDS



Symbol
f Forecast

Capital purchases will increase to \$11,000 after a tight year in 2005/06. Development will remain minimal at \$2,900. Drawings are also not forecast to increase beyond \$34,000 as in 2005/06.

NET RESULT

Cash farm surplus is budgeted to improve to \$65,292 in 2006/07 (\$23.72 per stock unit), which, if achieved, represents a 53 percent improvement on 2005/06. This depends on increased sales of grass/grazing etc., but is realistic based on current venison market signals, providing spending can be contained.

Disposable surplus should be in positive territory at \$12,054. Off-farm income is forecast to increase to a new high of \$23,667, which, when added to the disposable surplus, gives net cash change of \$35,721.

»» ISSUES AND TRENDS

Unsustainable product prices (mainly venison) remain the major issue for South Island deer farmers. After four years of poor financial performances attributed to low prices, many mixed sheep/beef and deer farmers are now leaving the deer industry. This has continued the supply of capital stock to deer slaughter premises, which in turn has kept the venison market low.

Signs are emerging that the venison oversupply is nearing an end. Processors reported all venison being absorbed by markets last year, which included unsold frozen stocks from the previous season. The annual kill estimated at 760 000 is unsustainable based on Deer Industry New Zealand's survey results released in 2006. Farmers believe that as kill numbers drop, product will be directed out of lower value venison markets, and that this will positively impact on the average farm gate price.

Killing space also freed up to a degree in late 2006. A lack of space to kill deer has frustrated many farmers over the last three years. Most farmers have been able to kill the backlog of works deer held on-farm recently. However, some have chosen to hold these animals over to obtain better prices in the spring. There is some risk in this policy as the availability of space in spring is in no way guaranteed. It is expected deer slaughter premises will be near full capacity until Christmas, before any reduction in capital stock kill takes effect.

Compounding the issues of low prices and killing space in the last spring were deductions associated with presenting muddy deer for slaughter. Farmers firmly believe this is a processor issue and should be dealt with by reconfiguring plants to minimise contamination. Processors initially put responsibility back onto farmers to supply deer to an acceptable standard of presentation, but of late have started backing down on this issue. Deer slaughter premises have recently been converted across to hind leg hanging ("inverted dressing") which is known to reduce the contamination problem. Some farmers believe that once the shortage of deer hits and a possible procurement war begins, muddy deer will no longer be an issue.

On-farm productivity remains fairly stagnant, despite the poor prices. Fawning percentages and growth rates show no real signs of improvement. Consultants believe that once those farmers wishing to quit the industry

»» TABLE 4.3: SOUTH ISLAND DEER BUDGET

	WHOLE FARM (\$)	2005/06 PER HA (\$)	PER SU (\$)	WHOLE FARM (\$)	2006/07 ^f PER HA (\$)	PER SU (\$)
REVENUE						
Deer sales	116 395	647	40.70	132 892	738	48.28
Velvet ¹	24 518	136	26.26	31 769	176	33.93
Other farm income	4 000	22	1.40	7 254	40	2.64
Less						
Deer purchases	2 405	13	0.84	2 967	16	1.08
Gross farm revenue	142 508	792	49.83	168 948	939	61.38
Cash farm expenditure	78 230	435	27.35	80 831	449	29.37
Interest	21 625	120	7.56	22 680	126	8.24
Rent and/or leases	0	0	0.00	0	0	0.00
Cash farm surplus	42 653	237	14.91	65 292	363	23.72
Stock value adjustment	-10 896	-61	-3.81	-8 147	-45	-2.96
Minus depreciation	19 258	107	6.73	16 948	94	6.16
Net trading profit	12 500	69	4.37	40 198	223	23.72
Taxation	1 692	9	0.59	4 998	28	1.82
Net trading profit after tax	10 808	60	3.78	34 419	191	12.51
ALLOCATION OF FUNDS						
Add back depreciation	19 258	107	6.73	16 948	94	6.16
Reverse stock value adjustment	10 896	61	3.81	8 147	45	2.96
Drawings	34 066	189	11.91	33 560	186	12.19
Principal repayments	0	0	0.00	0	0	0.00
Development	2 416	13	0.84	2 900	16	1.05
Capital purchases	3 857	21	1.35	11 000	61	4.00
Disposable surplus/deficit	623	3	0.22	12 054	67	4.38
OTHER CASH SOURCES						
New borrowing	0	0	0.00	0	0	0.00
Off-farm income	22 000	122	7.69	23 667	131	8.60
Other cash income	0	0	0.00	0	0	0.00
Net cash change	22623	126	7.91	35 721	198	12.98
ASSETS AND LIABILITIES						
Farm, forest and building (opening)	2 021 000	11 228	706.62	2 000 000	11 111	726.64
Plant and machinery (opening)	128 384	713	44.89	112 983	628	41.05
Stock valuation (opening)	223 988	1 244	78.31	213 092	1 184	77.42
Total farm capital	2 373 372	13 185	829.82	2 326 075	12 923	845.11
Total debt opening	255 000	1 417	89.16	255 000	1 417	92.65
Equity	2 118 372	11 769	740.66	2 071 075	11506	752.46

Note¹ Per stag su.**Symbol**

f Forecast

»» TABLE 4.4: SOUTH ISLAND DEER EXPENDITURE

	WHOLE FARM (\$)	2005/06 PER HA (\$)	PER SU (\$)	WHOLE FARM (\$)	2006/07 ^f PER HA (\$)	PER SU (\$)
FARM WORKING EXPENSES						
Permanent wages	0	0	0.00	0	0	0.00
Casual wages	1 206	7	0.42	1 220	7	0.44
ACC	244	1	0.09	345	2	0.13
Animal health	8 237	46	2.88	6 156	34	2.24
Breeding	1 340	7	0.47	1 340	7	0.49
Electricity	2 730	15	0.95	2 800	16	1.02
Feed (hay and silage)	7 531	42	2.63	8 000	44	2.91
Feed (feed crops)	200	1	0.07	200	1	0.07
Feed (grazing)	0	0	0.00	0	0	0.00
Feed (other)	3 975	22	1.39	4 407	24	1.60
Fertiliser	14 296	79	5.00	14 580	81	5.30
Lime	880	5	0.31	1 280	7	0.47
Freight (not elsewhere deducted)	547	3	0.19	600	3	0.22
Re-grassing costs	2 360	13	0.83	2 800	16	1.02
Weed and pest control	1 380	8	0.48	1 968	11	0.72
Fuel	8 864	49	3.10	9 400	52	3.42
Vehicle costs (excluding fuel)	4 330	24	1.51	4 300	24	1.56
Repairs and maintenance	4 614	26	1.61	5 250	29	1.91
Communication costs (phone and mail)	2 036	11	0.71	2 123	12	0.77
Accountancy	2 259	13	0.79	2 300	13	0.84
Legal and consultancy	295	2	0.10	300	2	0.11
Other administration	840	5	0.29	705	4	0.26
Rates	4 097	23	1.43	4 145	23	1.51
Insurance	2 989	17	1.05	3 033	17	1.10
Water charges (irrigation)	0	0	0.00	0	0	0.00
Other expenditure	2 980	17	1.04	3 579	20	1.30
Cash farm expenditure	78 230	435	27	80 831	449	29
CALCULATED RATIOS						
Economic farm surplus (EFS ¹)	-24 609	-137	-8.60	1 508	8	0.55
Cash farm expenditure/GFR ²	56%			50%		
EFS/total farm capital	-1.0%			0.1%		
EFS less interest and lease/equity	-2.2%			-1.0%		
Interest + rent + lease/GFR	15.6%			14.0%		
EFS/GFR	-17.8%			0.9%		

Notes¹ EFS (see Table 3.4 for calculation formula).² Gross farm revenue.**Symbol**

f Forecast

are gone, the remaining farmers will lift the industry's average production statistics. Farmers have taken the opportunity to improve their herds' genetics over the last few years by purchasing capital stock while prices have been low.

A major velvet development in 2006 was the merger of PGG and Wrightson velvet pools. The two pools under PGG Wrightson mean one company now handles approximately 70 percent of the nation's velvet. This company has shown co-operation with the industry, responding to the New Zealand Deer Farmers' Association's (NZDFA) call in 2006 to hold lower grades off the market until later in the season, in an attempt to improve the prices for premium grades. PGG Wrightson are also set to introduce a farmer reserve pricing system for quantities of SA, A and B velvet in excess of 500 kilograms, to reduce the chance of weak selling under the pools. Separately, an industry working group (0800 VELVET) has just been formed to develop a new velvet marketing concept to give farmers more responsibility and control.

In 2006, farmers further diversified income on and off-farm through sheep and cattle trading, supplementary feed sales, dairy grazing, contracting, and further off-farm employment. In some cases these moves met with only limited success, with timing coinciding with a strong spring grass market for cattle, and an unforeseen fall in lamb prices.

Progress continues to be made on both the Johne's and tuberculosis fronts by the deer industry. The Johne's Research Group (JRG) has been active in educating farmers on managing Johne's, and are now setting up a national database through deer slaughter premises for a future eradication programme.

A proposed change in how tuberculosis testing is charged for in special testing areas (annual herd testing areas) was carried by the New Zealand Deer Farmers' Association. Animal Health Board levies will now be used to compensate farmers in special testing areas to the value of \$2 per deer for every second herd test. This was met with some opposition from farmers outside special testing areas.

Confidence in the industry appears to be turning. As at June 2006, hind and weaner prices have risen in line with an improving schedule. To quote a venison marketing manager at a recent Deer Focus farm field day, "There will be a day of reckoning and it's getting closer." Farmers expect to see this in the second half of 2007.

APPENDIX A

DEER MONITORING TEAM

SECTOR CONTROLLER

Deborah Hackell, MAF Policy, Hamilton

MODEL CONTROLLERS

Model	Model Controller	Telephone
North Island	Deborah Hackell	(07) 856 1821
South Island	Trish Burborough	(03) 477 8134