

October 2013



The Rollercoaster ride of milk payouts!

For the farmer it is difficult to predict the current season's production and current season's payout. Final payouts have been announced for the various Dairy Companies as per the following table. Tatua proved to be the leading Dairy Company last season.

Dairy Company Payouts	10/11	11/12	12/13	13/14 Forecast
Westland Dairy Products*	\$7.80 (A)	\$6.04 (A)	\$6.04 (A)	\$7.60-8(F)
Open Country Dairy	\$7.50 (A)	\$6.18 (A)	\$5.75 (A)	\$8.30 (F)
Fonterra*	\$7.90 (A)	\$6.40 (A)	\$6.16 (A)	\$8.62 (F)
Tatua*	\$ 8.10(A)	\$7.50 (A)	\$7.40 (A)	\$7.50 (F)

(A) Actual (F) Forecast

*Payout includes any share related payments

It interesting to note the variances in retentions. Tatua holding back \$1.17 versus Fonterra that only held back \$0.14. Interesting enough Westland Dairy held back \$0.30 which would have given them a total payout higher than Fonterra's for the milk price component.

Going forward in the 2013/14 season Fonterra is leading the pack with an early indication for a milk price of \$8.30. This is being driven by the demand for milk powder and has been highlighted by the regular auctions being significantly higher. When we have a commodity driven market as it is at the moment this is when Fonterra excels. The value added market is not as profitable in comparison which may possibly have an impact on Tatua and the dividend declared to Fonterra shareholders which is expected to remain consistent with 2012/2013 dividend.

For the farmer what does all this mean? The first point is that whether you are a Fonterra or other Dairy Company supplier it is still going to be a very good season in terms of payout. The current advance for Fonterra suppliers has been significant at \$5.50 per milk solid. It has allowed them to position themselves better for the forthcoming season. On top of this the production has been up and feed costs have been down due to the mild winter and spring.

From an accounting and management perspective it has created the need to focus on the profitability and taxation requirements for our clients. Firstly from the tax perspective it is about appreciating the impact it will have on taxation. For those that have a significant increase in profitability we need to look at keeping on top of the potential tax burden. Ensure that communication is kept going with your rural specialist accountant.

Payout is not the only item that will impact you this year, especially if your livestock are on the National Standard Cost scheme. The IRD propose to increase values for the rearing and growing costs which has been highlighted in previous articles or can be found on our website. This will add additional income over the next 3 years.

From a management perspective I believe the farmer should be making the most of this increase in predicted payout. It will mean summer proofing themselves so they can make the most of this season and set themselves up well for next season. Examples are

- Feed - It is a time to be looking at building up the feed on hand which was largely consumed in the drought last season.
- Repairs and maintenance - There will no doubt need to be repairs completed that may have been left due to the last season's drought and shortage of funds.
- Environmental regulations - Keeping up with the environmental regulations may mean evaluating your effluent system and your water requirements. These are potential areas of risk for the Dairy farmer going forward.
- Financial position - Debt reduction is still important especially if there is going to be a rise in interest rates as indicated by the Reserve Bank. There is a lot of discussion out in the market place with regards to the potential rise in interest rates. One of the best ways to mitigate this is by reducing your debt.

Other areas of interest may be in reviewing opportunities to grow by investing in wealth producing assets plus don't forget succession planning either, everyone in business needs to look at this and profitable years can create opportunities for this to start taking place.

There are always challenges with farming and if it isn't the season, environmental issues, health scares it maybe animal health. We are seeing a large increase in reported cases of Theileria which will have an impact on production, reproduction and general animal welfare. Keep an eye out for this and be proactive.

Note for the following season 2014/2015 we expect income levels to be consistent with 2013/2014 as the deferred payments will compensate for any projected decrease in 2014/2015 advance rates.

At CooperAitken we encourage our clients to work with us to achieve the most effective solution for themselves given the above variables mentioned. So work with your rural professional team to give you the best outcome and contact them sooner than later.

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