BEFORE THE COMMISSIONERS APPOINTED ON BEHALF OF THE OTAGO REGIONAL COUNCIL

Under	The Resource Management Act 1991 (**Act/RMA**)
In the Matter	of a submissions on the Proposed Otago Regional Policy Statement 2021 (non-freshwater parts) (**PRPS**)
On behalf of	**OTAGO WATER RESOURCE USER GROUP (OWRUG)**
	Submitter OS00235 and FS00235
	FEDERATED FARMERS OF NEW ZEALAND
	Submitter OS00239 and FS00239
	DAIRYNZ LIMITED
	Submitter FS00601

SUPPLEMENTARY EVIDENCE OF JENNIFER ANNE MCGIMPSEY TO PROVIDE UP TO DATE EVIDENCE ON SHEEP AND BEEF SECTOR IN OTAGO

DATED 1 MAY 2023

GALLAWAY COOK ALLAN LAWYERS
Phil Page/Gus Griffin
Phil.Page@gallawaycookallan.co.nz
Gus.Griffin@gallawaycookallan.co.nz

PO Box 143
Dunedin 9054
Ph: +64 (3) 477 7312
Fax: (03) 477 5564

Introduction

1. My name is Jennifer Anne McGimpsey.

2. My qualifications and experience are set out in 2 – 6 of my brief of evidence dated 23 November 2022 (Brief of Evidence), and my role with Beef and Lamb New Zealand is set out in paragraphs 9 – 18 of my Brief of Evidence.

3. I have read and agree to comply with the Code of Conduct for Expert Witnesses in the Environment Court Practice Note 2014. This evidence is within my area of expertise, except where I state that I am relying upon material produced by another person. I have not omitted to consider material facts known to me that might alter or detract from the opinions that I express. I am providing evidence in response to the Proposed Otago Regional Policy Statement 2021.

Scope of updated evidence

4. I have been asked to provide updated evidence in relation to the Mid-Season Update (MSU) published by Beef + Lamb New Zealand and the characteristics of the last farming season to ensure the panel has the most up to date information.

5. Sheep and beef farming produces the inputs for a key manufacturing sector of the Otago and New Zealand economy – food production. While sheep and beef farmers can control many aspects of their businesses some of the factors they cannot control but which are important influences on their businesses are the highly variable climatic and financial conditions that can change rapidly from one season to the next, or even within a season. In the past three years, la Niña climatic conditions have resulted in prolonged dry periods over summer and autumn through much of Otago typically in the summer and autumn months, affecting pasture growth and therefore, livestock sales policies on sheep and beef farms. Many livestock that would normally have been finished were sold as stores, for less financial return.

6. In 2022-23, as well as managing a dry summer, sheep and beef farmers have also been faced with high inflation, increased interest rates and reduced prices for finished livestock. These factors have all had a severe impact on profitability.

7. Beef + Lamb New Zealand's Economic Service carries out forecasting work twice per season, which culminate with the New Season Outlook (NSO) and Mid-Season Update (MSU) reports that are published in late winter and late summer respectively. Forecasting is conducted for each of four Farm Classes across the combined Otago-Southland region. We do not forecast for the Otago region alone, although final data can be produced for that region when the entire annual Sheep and Beef Farm Survey has been completed and the results are available.

8. The MSU provides the opportunity to review forecast data first presented in spring. We have the benefit of actual information from the passage of the season. For example, actual lambing results are included in MSU, compared to an estimate in NSO. The impact of seasonal conditions and market drivers are also considered. This season's MSU included large adjustments to both forecast revenue and expenditure items compared to NSO for all four farm classes.

9. The average annual price for prime lamb was adjusted down $10-13/head (-7-9%), mutton prices decreased $23-28/head (-17-19%) and prime cattle prices were adjusted down by $60-220/head (-8-14%) across the four Otago farm classes.

10. Weighted across all commercial sheep and beef farms in Otago-Southland, Gross Farm Revenue for 2022-23 season was forecast to be $603,000 per farm at MSU, down from $655,000 per farm forecast at NSO (-8%). For comparison, provisional Gross Farm Revenue for 2021-22 was $691,000 per farm.

11. In 2022-23 Total Farm Expenditure was estimated at $478,000 per farm at MSU, with little change from NSO. Prices for inputs particularly fertiliser, fuel, shearing expenses, and wages, but practically every other farm input had increased in price and interest expense had also

increased. Farmers respond to increased prices and shrinking profitability by reducing the volume of inputs, for example, by applying less fertiliser and deferring repairs and maintenance expenditure.

12. Farm Profit before Tax for 2022-23 season was forecast to be $125,000 per farm at MSU. This is well down on the $177,000 per farm forecast at NSO (-29%). This compares to a provisional Farm Profit before Tax of $214,000 per farm for the 2021-22 season, which was a record in nominal terms and the highest in inflation-adjusted terms since 2011-12. Thus, Farm Profit Before Tax is forecast to be 42% lower in Otago this season compared to the previous season.

13. To be clear, Farm Profit before Tax is the funds available for paying tax, supporting the farming family (drawings), re-investing in the farming business (capital expenditure – including investments into new fencing, stock water schemes, replacing items of machinery, new stock handling facilities, buildings etc) and paying back capital borrowed from lending institutions.

14. A note about statistics. The data described above are mean data (averages). The reality is that there is very wide variance of actual experience by individual sheep and beef farming businesses. This reflects the unique matrix of economic, social, and physical factors that each farm business operates in.

15. The Sheep and Beef Farm Survey sample, which represents the population of commercial sheep and beef farming businesses, shows some businesses make more profit per farm (often businesses with larger farms) than average and some make less, with a few making a loss, i.e. their Total Gross Revenue does not cover their Total Farm Expenses. As mean profitability decreases, the proportion of farms making a loss increases.

16. A major factor affecting farms unequally is the recent abrupt increases in interest rates. Some farm businesses, often with younger farming families, have comparatively high levels of debt. As interest rates increase, interest expenditure also increases, disproportionately affecting those businesses with the highest levels of borrowings.

Together with reduced revenue, some farm businesses can move from a profitable position to making a loss very rapidly.

17. Interest expense takes precedence in expenditure because of the contractual nature of borrowing – it is a fixed cost and not discretionary. Therefore, expenditure on other inputs is also cut back, such as employing less labour and fewer contractors and spending less on services. Cutting back inputs has flow-on effects on the wider community with contractors and providers of other goods and services consequently facing reduced income.

Jenny McGimpsey

1 May 2023