

Market Intelligence

Recent signals about the prospects for Dairy are consistent with the sentiment I have picked up through local and international contact in recent months. It confirms a fundamental change to the dynamics of international food markets and offers some of the best news lower cost dairy producers have had for some years. Its impact on asset values and sustainability needs to be carefully assessed to avoid over reaction and opportunity lost. It signals a real opportunity for consolidation and perhaps an ideal time to look off farm for new investments.

This positive forecast reflects a fundamental shift in the focus of major economies. They are now encouraging production and protection of energy locally - rather than food. Combined with expansion of Asian demand and general wealth across many economies this means a solid foundation for Dairy Markets. There is real strength in the market - at least for the short term.

This all adds up to strong outlook for dairy that should logically flow through to other primary sectors. It demands a re-think where dairy businesses should head and inevitably throws strategic direction and capital structures into the spotlight.

A word of caution however! This is not only a time for optimism - it is a time for prudent decision-making. That includes clear thinking about what are appropriate capital values.

In the past some commentators have been critical of farmers for paying too much for land – especially in New Zealand. I'm sure there are parallels for Australian operations. My view has always been that markets are generally good at anticipating potential for improved returns and capital growth. Rather than dismissing the trends I have encouraged my clients to understand what might be driving them and encouraged them to participate.

The drivers of recent gains in values have been pretty evident. Trade reform, growth in Asian economies, wealth in Western countries and pressures on costs of production for domestic focused dairy nations all suggested reform would occur at some stage. The regular flow of expert opinion that I have had access to has collectively forecast this outcome. The only uncertainty was when it would happen!

The challenge now is to understand how to balance and benefit from this favourable outlook. I'm convinced the land market has been aware that growth in revenues would occur and was prepared to invest at prices that reflected these prospects. For that reason caution is needed to ensure new product prices are not seen as justification for further increases. I see them as better directed to a period of consolidation to deliver the profit needed to justify past prices paid. Given the climatic challenges of recent years, that is no doubt self evident!

Regular assessment of the impact of improved incomes is essential to ensure these long awaited gains remain in farmers' balance sheet rather than the Tax Department's. What looks like a significant spike in farm revenues will require timely tax management.

Farmers whose grey hair as much reflects their past appetite for risk as it does advancing years should concentrate on realising sustainable rewards for all their hard work. That's what prudent in my mind. It's all about market intelligence!

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