



# Sticking with productive Merinos pays off

**IN early 2006 many Merino sheep farmers were questioning their future in a wool enterprise. Back then consultant Graham Peart was warning about jumping ship to dual purpose breeds. As SALLY EDGAR reports, the subsequent lift in wool prices has confirmed this strategy.**

**P**roducers specialising in wool production can take some comfort in having stuck with the job. During the past few years stagnant wool prices and high sheep meat prices have formed the backdrop to the sheep industry, with many woolgrowers opting to change their enterprise to focus more on meat production to take advantage of that market.

But Dubbo agricultural consultant, Graham Peart, who is a staunch advocate of ongoing profit analysis as a key decision tool, said this year's 25 per cent hike in wool prices had "considerably changed the relativities of wool versus meat".

Peart said despite sheep meat prices

being the same as last year, higher wool prices had raised the profitability of running a wool only 19 micron Merino ewe flock to almost that of a mixed wool and meat sheep enterprise.

"This wool price increase falls right onto the bottom line of the gross margin profit ... [and] ... the balance has tipped in favour of wool," he said.

"Wool prices are making the difference between what sort of sheep enterprise you run."

But the future for wool was not so optimistic last year when Peart addressed ABARE's annual Outlook conference with a paper titled "Wool in the Cross Hairs", introducing it with a number of options to wool, with one being to give up if things didn't improve.

Others included dual purpose wool and meat sheep or wool-shedding sheep such as Dorpers and Damaras.

But in his presentation Peart asked some interesting questions, particularly in light of the 25% wool price rise.

"What advice can we offer investors in wool production and the researchers trying to anticipate their future needs? Should they be investing in new enterprises or in three years time will the wheel have turned and more traditional supply and demand signals reasserted themselves, such that those chasing new enterprises will have

sadly lost out to those with a steady, long term breeding and investment goal who have kept a focus on the future?"

His paper wasn't all doom and gloom. It used a New South Wales Department of Primary Industries (DPI) February 2006 gross margins analysis of sheep enterprises to show when and how producing wool could be profitable.

For example, he used the analysis to demonstrate that even at last year's prices a specialist high performance 21 micron Merino ewe flock, where animals have been selected during the past 20 years or so for increased Clean Fleece Weight, Body Weight and reduced micron, was capable of producing a gross margin higher than any other sheep enterprise with industry average performance.

### **Merino ewe profitability improves**

Running this year's 25% price rise through the analysis, (which is published on <<http://www.agric.nsw.gov.au/reader/livebud>>), profitability of the same flock improves 17%.

Conducting the exercise for a wool only 19 micron Merino ewe operation, which came in as seventh most profitable enterprise in Peart's 2006 ABARE paper (table 1), profitability per hectare, excluding fodder costs, rises 20% from \$242 a hectare to \$292/ha.



The wool price over the past 12 months has brought a 19 micron wool only operation in line with the profitability of a wool/meat enterprise.

For a 21 micron Merino wool operation that joins ewes to maternal meat rams, which ranked second in the table at 2006 prices, profitability increases 10% from \$276/ha to \$306/ha. The difference between running this operation and the 19 micron wool only flock has reduced from \$34/ha to \$14/ha.

While profitability for a 21 micron Merino wool operation that joins 25% of ewes to terminal sires rises 11% from \$253/ha to \$292/ha, which is the same gross margin per hectare figure as for the 19 micron wool only flock.

Peart said the wool price rise had brought the 19 micron wool only operation in line with the mixed wool/meat enterprise (25% of ewes joined to meat rams) and almost in line with the maternal meat ram enterprise.

“The two types of enterprises are almost neck and neck and this gives producers the real choice between running Merino ewes and joining them to a meat ram or breeding fine Merino ewes,” he said.

“You have to have a Merino ewe to benefit from the wool prices and if you have a serious flock of Merinos with rams that are selected on performance measurements, then you ought to stick to pure Merinos. And you ought to feed your wether lambs to make sure they meet the meat market criteria of 22 kilograms dressed before they cut their two teeth.”

Peart believes the industry’s future lies in either a specialist wool (Merino operation) or a Merino wool flock, where a percentage of the ewes, depending on profitability and lambing, are joined to a specific meat breed ram to produce first-cross lambs for slaughter.

He said first-cross lambs, including ewes, were in demand for slaughter because Merinos were now regarded as producing a good, lean carcase and the fact that the cost of first-cross ewes had become prohibitive because of the boom in meat prices.

“I believe the way of the future is for superfine wool in the high rainfall tableland country of Australia and for medium

wools of 19 to 22 micron across the sheep wheat and pastoral zone.

“And in some cases, depending on profitability, a percentage of the ewes, 20 to 40% depending on how good lambing is, may be joined to meat breed rams, such as White Suffolks or Dorsets.

“But a fair percentage of Merino breeders will still remain as a pure Merino specialist and sell their old ewes or cull young ewes onto cross-breeding.”

**What’s the future for dual purpose?**

During the past few years, as a result of fluctuating wool prices, there’s been much hype about new dual purpose wool and

Table 1: Sheep enterprise gross margins January 2006 analysis (source: NSW DPI).

Enterprise	GM/DSE	GM/HA	Percentage profit	DSE Rating (per ewe or wether)
<b>Merino wethers</b>				
1 19 micron	\$20.94	\$209.45	88%	0.9
2 21 micron	\$14.06	\$140.63	54%	1.0
3 23 micron	\$10.50	\$63.01	47%	1.1
<b>Merino ewes</b>				
4 19 micron – Merino rams	\$24.26	\$242.65	108%	1.9
5 21 micron – Merino rams	\$22.81	\$228.14	100%**	2.1
6 21 micron – Merino rams, wether lambs sold as trade lambs	\$26.05	\$260.50	115%	2.4
7 21 micron, high performance – Merino rams*	\$28.37	\$283.70	132%	2.5
8 23 micron – Merino rams	\$20.01	\$120.08	92%	2.3
9 21 micron – maternal meat rams	\$27.65	\$276.53	126%	2.4
10 21 micron – 75% to Merino rams, 25% to terminal meat rams	\$25.35	\$253.47	115%	2.4
11 21 micron – terminal meat rams	\$26.14	\$261.41	116%	2.3
12 <b>1st cross ewes</b> – terminal meat rams	\$26.67	\$267.72	119%	2.7
13 <b>Dorper ewes</b> – Dorper rams	\$30.05	\$180.32	97%	3.0

## WOOL, MEAT, OR BOTH



Graham Peart contends that in the pastoral zone a Dorper meat enterprise can be competitive with Merinos because of their ease of management and their potential to produce organic lamb which commands a premium price.

meat breeds or even shedding sheep saving the day for woolgrowers.

But Peart's 2006 paper presented research results from a 2005 farm-level profit assessment that showed the Australian Merino gave profits per hectare 3.9% better than the recently introduced dual purpose wool and meat Merino breeds from South Africa, the Dohne Merino and the South African Meat Merino or SAMM.

"Given both new breeds are selected on performance and probably only the best semen and embryos were imported by their owners then the superior profits from largely traditionally selected Merinos is even more noteworthy," the paper added.

And the gap between the breeds only grows thanks to the recent wool price rise.

His paper also suggested that there needed to be a 25% increase in profit per hectare in another enterprise before farmers would consider swapping land use.

Peart said while the cattle, poultry and pig industries used to have dual purpose breeds they were now product specific and this was the same process the sheep industry is currently working through.

"Fads and constantly changing market signals have dogged the Australian sheep industry leading to the introduction of various practices and breeds that have not stood the test of time," his 2006 paper says.

Peart is currently mid-way through conducting a comparison of all sheep breeds being run across Australia's pastoral zone for Australian Wool Innovation,

including Merinos, Dohnes, SAMMs, Dorpers and Damaras and the results so far have the Merino out in front.

"The other breeds are less competitive because they have a big ewe which eats a lot and this reduces their profitability per hectare."

### Dorpers encouraging

But one new breed "worth watching" was the wool-shedding South African Dorper, because Peart said it had good meat quality without the management problems associated with running some of the other newer meat only breeds such as the hairy fat tailed Damara.

But the recent rise in wool prices on top of the large capital cost required to change from wool to meat meant there was little point considering running a meat only operation based on Dorpers, unless you were specialising in producing organic lamb in the pastoral zone.

The 2006 gross margin analysis showed Dorpers gave returns 19% below 21 micron ewes selling wether lambs for meat and 12% below a straight 19 micron wool operation, and these gaps have widened dramatically with the rise in wool prices.

But Peart said there was potential for Dorpers in the pastoral zone where costs are less because pest, disease and weed control chemicals or fertilisers are not used.

"There is currently a 40% premium for organic lamb, which raises the Dorper's profitability up to a good Merino flock. But it wouldn't be profitable in the wheat/sheep zone where chemicals are required to con-

trol weeds, pests and diseases and organic status is less likely."

Nevertheless Peart's paper makes the same warning that other agricultural consultants have made in that producers needed to be wary of the enthusiasts marketing niche industries such as dual purpose sheep breeds.

"As with all new breeds there is vigorous competition for market share from early seed stock sellers and extravagant claims have been made in relation to productivity," his paper says.

"Australian commercial performance data is just starting to emerge and comparative advantage will ultimately depend on the realised productivity of these breeds. Vocal early adopters often lead to quiet early defections."

### Need for research

In his presentation, Peart talks about the importance of profit scrutiny for any enterprise and how sheep research needs to focus on outcomes that increase enterprise profits and are accessible to the majority.

"Per hectare profit is the surviving farmer's focus and therefore it must also be the focus of research directors and the managers of the industry funding bodies. Otherwise, the money will be spent on good science that is never adopted."

### Find out more:

**Graham Peart**

phone (02) 6884 5544

email <gpeart@rmsaccountants.com.au>