

Briefing Note

Australian farm survey results 2009-10 to 2011-12

120504

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Introduction

This Briefing Note is a summary of the Australian Department of Agriculture, Fisheries and Forestry (ABARES) "Australian farm survey results 2009-10 to 2011-12" report. It provides an overview of those sections relevant to irrigated agriculture.

This Briefing Note does not seek to independently verify the data contained within it. All data presented is reproduced from the ABARES publication. This Briefing Note does not in any way constitute advice, it is provided solely as a service.

The full ABARES report is available under the following link;

http://adl.brs.gov.au/data/warehouse/afsr_p9aabf002/afsr_p9aabf0022012042700/FarmSurveyResults2012.pdf

Executive Summary

- Winter crop **production** in 2010/11 (NSW) was almost doubled to 2009/10. Well above average rainfall over spring and summer replenished irrigation dams and boosted soil moisture for summer crops - area planted to summer crops increased by 67% in 2010/11 compared to 2009/10.
- Average total **cash receipts** for broadacre farms increased by 20% nationally in 2010/11, with increases in crop, sheep, lamb, wool and beef cattle receipts.
- The **financial performance** of Australian broadacre farms is projected to remain strong (on average) in 2011/12 whilst for the dairy industry, farm financial performance is projected to decline because of lower milk prices.
- The reduction in **land value** in 2009–10 and 2010–11 translated to lower estimated rates of return.
- **Farm equity** is estimated to have fallen slightly in both 2009–10 and 2010–11 mainly as a consequence of reductions in reported land values.
- Growth in average **debt** per farm business in the broadacre and dairy sectors has slowed since 2006–07.
- The proportion of **farm cash income** needed to meet interest payments on farm debt declined in 2010–11 and is projected to further decline in 2011–12.
- **Investment** in non-land capital, including vehicles, plant, machinery and farm improvements, was historically high in 2008–09 and 2009–10 and although declining slightly in 2010-11 is still relatively high in historical terms.

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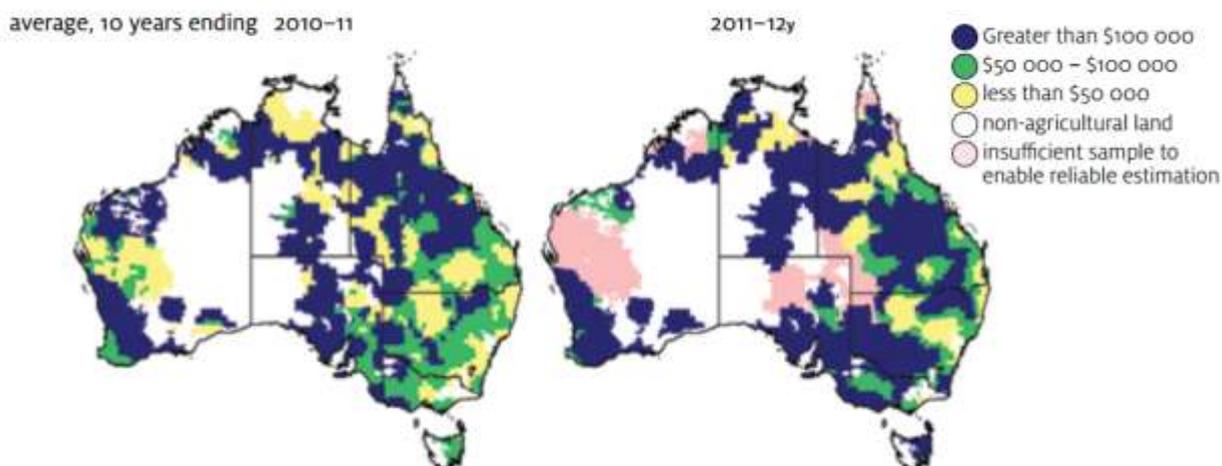
1. NSW Performance

In NSW, overall average farm cash income for 2011–12 is projected to remain similar to that recorded in 2010–11.

Farm cash incomes will be lower for farms predominantly involved in growing grain and oilseeds as crop receipts are reduced by both lower production and lower prices compared with last season. However, an increase in crop receipts and farm cash income is expected for broadacre farms growing cotton or rice as production increases in 2011–12. Farm cash incomes for beef cattle and sheep farms are projected to increase, with higher wool and beef prices as well as an increase in numbers of lambs sold and higher sale weights for livestock.

On average, farm cash income of broadacre farms in NSW is projected to average \$100 000 a farm in 2011–12, which is around 68 per cent above the average farm cash income recorded for the 10 years to 2010–11. On average, around 60 per cent of farm receipts are derived from the sale of beef cattle, sheep, lambs and wool and 75 per cent of broadacre farms generate less than 20 per cent of their receipts from crops.

MAP 1 Farm cash income broadacre and dairy farms



y ABARES provisional estimate.

	New South Wales			
	2009–10	2010–11p		2011–12y
Total cash receipts	\$ 311 730	364 400	(7)	349 000
Total cash costs	\$ 265 890	263 900	(8)	250 000
Farm cash income	\$ 45 840	100 500	(9)	100 000
Farms with negative farm cash income	% 37	28	(12)	31
Farm business profit	\$ -41 250	63 400	(15)	43 000
Farms with negative farm business profit	% 73	51	(7)	57
Profit at full equity				
-excl. cap. appreciation	\$ -420	100 400	(9)	76 000
-incl. cap. appreciation	\$ -74 970	85 400	(44)	na
Farm capital at 30 June a				
Farm capital at 30 June a	\$ 3 503 810	3 328 000	(5)	na
Net capital additions	\$ 32 180	64 900	(81)	na
Farm debt at 30 June b	\$ 511 430	438 600	(12)	388 000
Change in debt – 1 July to 30 June b	% 5	3	(83)	0
Equity at 30 June bc	\$ 2 924 140	2 791 800	(5)	na
Equity ratio bd	% 85	86	(1)	na
Farm liquid assets at 30 June b	\$ 114 390	104 300	(13)	na
Farm management deposits (FMDs)				
at 30 June b	\$ 17 410	24 900	(16)	na
Share of farms with FMDs at 30 June b	% 13	20	(15)	na
Rate of return e				
-excl. cap. appreciation	% 0.0	3.1	(9)	2.4
-incl. cap. appreciation	% -2.1	2.6	(45)	na

2. Farm Production

The total area sown to winter grain, oilseed and pulse crops decreased in 2010–11 compared with the area planted in 2009–10. The area planted to wheat and barley declined; however, there was a small increase in the area sown to oilseeds and pulses.

In the eastern states, the spring was the wettest on record and was followed by widespread heavy rainfall in December 2010 and January 2011, particularly in western New South Wales. Rain delayed the harvest, lowered the quality of grain harvested and resulted in crop losses through flooding and disease. Yields however were near record high in eastern states. Total winter crop production was around 42.5 million tonnes, 20 per cent higher than in 2009–10.

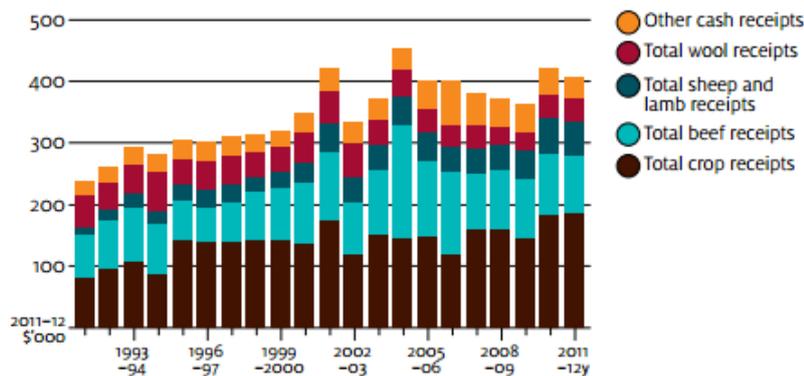
Winter crop production in New South Wales was almost double 2009–10 production. A high proportion of the grain harvested in eastern states was downgraded in quality because of weather damage.

Well above average rainfall over spring and summer replenished irrigation dams and boosted soil moisture for summer crops. The total area planted to summer crops increased by around 67 per cent compared with 2009–10. The area planted to grain sorghum increased by 35 per cent. In addition, the area of cotton harvested increased by 280 per cent despite the effects of flooding in Queensland, and lint production increased by 230 per cent in 2010–11.

3. Farm receipts

Average total cash receipts for broadacre farms increased by 20 per cent nationally in 2010–11, with increases in crop, sheep, lamb, wool and beef cattle receipts.

FIGURE 1 Farm cash receipts, broadacre industries



y ABARES provisional estimate.

In 2010–11, average crop receipts per farm increased by 30 per cent compared with 2009–10. Yields for harvested crops were high and total production of grains, oilseeds and pulses is estimated to have increased as a result. Despite some downgrading of wheat and barley in eastern states, prices remained strong.

Despite a decrease in the number of sheep and lambs sold, higher saleyard prices for sheep and lambs resulted in an increase of around 21 per cent in average sheep and lamb receipts per farm.

Higher wool prices resulted in average wool receipts per farm rising by 29 per cent in 2010–11, despite a small reduction of around 1 per cent in wool sold per farm. Average total cash receipts for dairy farms increased by 13 per cent in 2010–11 as higher prices were paid for milk in southern regions producing mainly manufacturing milk, together with a small increase in milk production.

Average total cash receipts for broadacre farms are projected to remain largely unchanged in 2011–12. In 2011–12, average crop receipts are projected to increase by 3 per cent with increases in total crop production expected to more than offset lower grain and oilseed prices. Receipts from canola increased and rice and cotton receipts are also expected to increase due to higher production.

Higher wool prices together with an increase in wool produced and sold per farm are projected to result in an increase in wool receipts of around 3 per cent. Wool sold per farm is expected to increase as a result of an increase in the number of sheep to be shorn in 2011–12.

Overall, milk receipts for dairy farms are projected to decline by around 2 per cent in 2011-12, despite an increase in milk production in southern states.

4. Farm Costs

For broadacre farms, average total cash costs increased by around 3 per cent in 2010–11, mainly as a result of increased expenditure on livestock purchases, contracts, handling and marketing charges and fertiliser. These increases were partially offset by a reduction in expenditure on fodder.

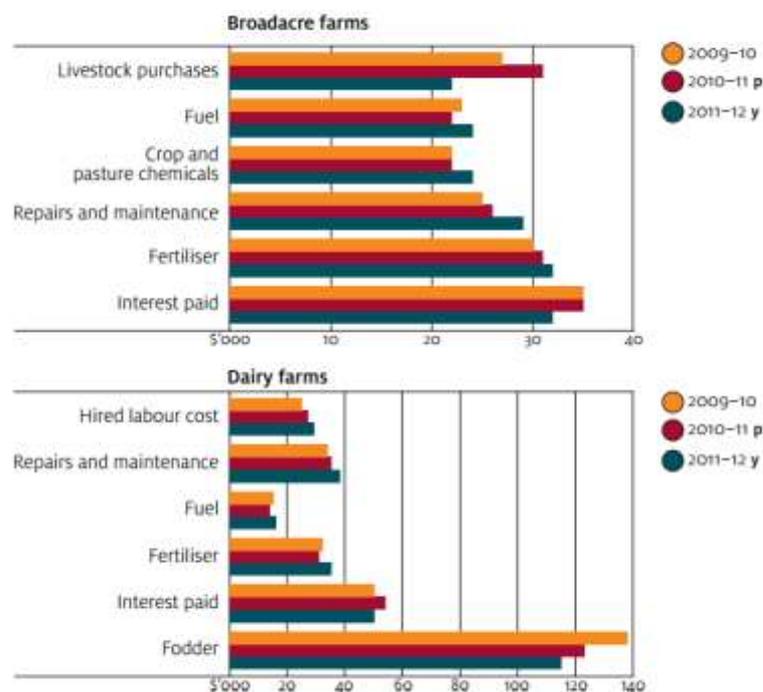
For dairy industry farms in all regions, except Western Australia, fodder costs were lower as less fodder was purchased because of improved seasonal conditions and increased allocations of irrigation water.

In 2011-12, the average national total cash costs per farm are projected to remain similar to that recorded in 2010–11. Purchases of both beef cattle and sheep are expected to slow markedly. Sheep and beef cattle numbers were substantially rebuilt on many eastern state properties in the past two years.

Improved pasture availability and lower feed grain prices are expected to result in a further small reduction in fodder expenditure on broadacre farms. In addition, a small reduction in farm debt together with slightly lower interest rates is projected to result in reduced interest payments. Overall, reductions in these cost items are expected to be mostly offset by increased expenditure on fuel, fertiliser, chemicals, repairs and maintenance.

For dairy industry farms, fodder costs for farms in all states, except Tasmania, are expected to be significantly lower as less fodder is purchased because of improved seasonal conditions combined with lower prices for purchased fodder. Fertiliser costs are expected to increase as dairy farms produce more feed on-farm.

FIGURE 2 Major cash costs



p ABARES preliminary estimate. y ABARES provisional estimate.

5. Farm incomes and profits¹

The financial performance of Australian broadacre farms is projected to remain strong, on average, in 2011–12. Nationally, average farm cash income for broadacre farms increased from \$59 470 in 2009–10 to \$117 300 in 2010–11 and is projected to remain high at \$116 000 in 2011–12.

For the dairy industry, farm financial performance is projected to decline in 2011–12 because of lower milk prices. Nationally, average farm cash income for dairy farms was \$75 110 a farm in 2009–10, increased to \$141 000 a farm in 2010–11 and is projected to decline to \$136 000 in 2011–12.

In 2010–11, large increases occurred in on-farm inventories of grain in eastern states, resulting in higher average farm business profit because of a build-up in the value of trading stocks. For 2011–12, a much smaller increase in grain inventories is expected overall. However, cattle and sheep numbers are expected to increase in all states, which is expected to largely offset reductions in the value of grain stocks.

With a slightly smaller value of farm inventories in 2011–12, combined with a small reduction in projected farm cash incomes in some states, average farm business profit for Australian broadacre farms is expected to decline to around \$48 000 a farm. Farm business profit in 2011–12 is expected to be positive, on average, in all states for the first time since 2001–02.

TABLE 1 Financial performance, all broadacre industries average per farm

	2009–10	2010–11 ^p		2011–12 ^y
Total cash receipts	\$ 342 120	409 200	(4)	407 000
Total cash costs	\$ 282 650	291 900	(5)	291 000
Farm cash income	\$ 59 470	117 300	(5)	116 000
Farms with negative farm cash income	% 30	24	(7)	25
Farm business profit	\$ -16 460	57 500	(10)	48 000
Farms with negative farm business profit	% 69	54	(4)	53
Profit at full equity				
- excl. cap. appreciation	\$ 23 920	98 600	(6)	87 000
- incl. cap. appreciation	\$ -3 550	58 300	(28)	na
Farm capital				
Farm capital at 30 June ^a	\$ 4 015 550	3 923 500	(4)	na
Net capital additions	\$ 55 370	48 500	(47)	na
Farm debt at 30 June ^b	\$ 492 540	460 400	(8)	435 000
Change in debt - 1 July to 30 June ^b	% 8	4	(32)	-1
Equity at 30 June ^{bc}	\$ 3 336 910	3 297 000	(4)	na
Equity ratio ^{bd}	% 87	88	(1)	na
Farm liquid assets at 30 June ^b	\$ 145 380	157 000	(7)	na
Farm management deposits (FMDs)				
at 30 June ^b	\$ 28 620	34 100	(9)	na
Share of farms with FMDs at 30 June ^b	% 20	24	(8)	na
Rate of return ^e				
- excl. cap. appreciation	% 0.6	2.5	(6)	2.3
- incl. cap. appreciation	% -0.1	1.5	(28)	na
Off-farm income of owner manager and spouse ^b				
	\$ 32 270	32 300	(6)	na

¹ Farm cash income is a measure of cash funds generated by the farm business for farm investment and consumption after paying all costs incurred in production, including interest payments but excluding capital payments and payments to family workers. It is a measure of short-term farm performance because it does not take into account depreciation or changes in farm inventories. A measure of longer term profitability is farm business profit, as it takes into account capital depreciation and changes in inventories of livestock, fodder, grain and wool.

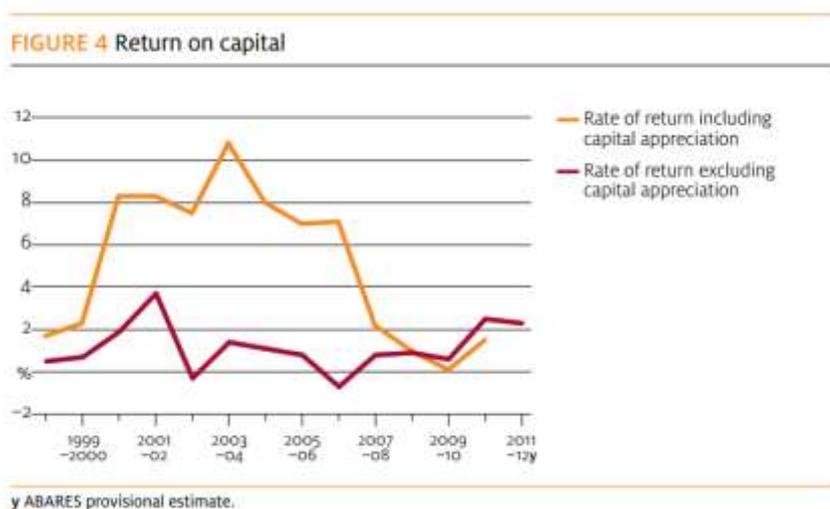
6. Rates of return

The average rate of return to total farm capital including capital appreciation for broadacre farms was relatively high between 2000–01 and 2006–07 but declined after 2007–08. Strong demand for rural land during most of the 2000s resulted in a sharp increase in land values in most agricultural regions, which raised the total capital value of farms.

Rapidly rising farm capital values resulted in high rates of return when including capital appreciation. However, from 2007–08 increases in land values have been much smaller and reported values declined in some pastoral and high-rainfall regions in 2009–10 and 2010–11. The reduction in land values in 2009–10 and 2010–11 resulted in lower estimates of average rate of return to total farm capital including capital appreciation for broadacre farms.

Rises in total farm capital values as a consequence of increases in land values during the 2000s have also acted to reduce rates of return excluding capital appreciation. Rates of return excluding capital appreciation are expected to fall slightly from 2.5 per cent in 2010–11 to 2.3 per cent in 2011–12.

Among the surveyed industries, the projected average rate of return excluding capital appreciation for the wheat and other crops industry is highest at 3.5 per cent with the sheep industry ranked second at 3.1 per cent.



7. Farm equity

The average equity ratio for broadacre farms, at 30 June 2011, was estimated to be 88 per cent, and the average equity ratio for dairy farms 81 per cent.

In some regions, farm equity is estimated to have fallen slightly in both 2009–10 and 2010–11 mainly as a consequence of reductions in reported land values.

The proportion of broadacre and dairy farms estimated to have a farm business equity ratio of greater than 70 per cent declined from 91 per cent in 2008–09 to 89 per cent in

both 2009–10 and 2010–11. Meanwhile, the proportion of farms recording negative farm cash incomes declined slightly from 30 per cent in 2009–10 to 22 per cent in 2010–11.

The proportion of broadacre farms in New South Wales recording negative farm cash incomes is projected to rise. The proportion of dairy industry farms recording negative farm cash income is projected to increase slightly from 11 per cent in 2009–10 to 12 per cent in 2010–11.

8. Farm debt

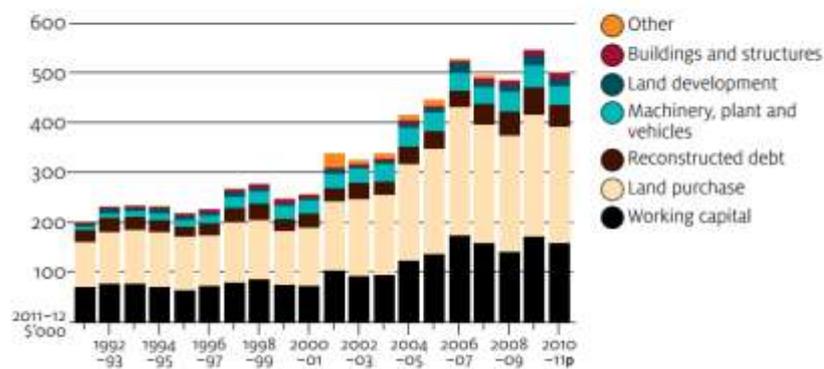
Growth in average debt per farm business in the broadacre and dairy sectors has slowed in the period since 2006–07.

Average debt per farm business more than doubled between 2000–01 and 2006–07, from an average of \$255 000 per farm in 2000–01 to \$526 000 per farm in 2006–07 for broadacre and dairy farms. A number of factors contributed to the growth in debt over this period, including the effects of lower interest rates, increases in farm size, changes in commodities produced and reduced farm incomes in the 2000s as a consequence of widespread and extended drought.

Throughout much of the 2000s, interest rates were historically low, reducing the cost of servicing debt and encouraging borrowing for farm investment. Provision of interest rate subsidies as part of drought assistance programs to many farms also supported borrowing.

The largest contribution to increases in farm debt on broadacre and dairy farms has been borrowing to fund new investment, particularly borrowing to fund purchase of land, machinery and vehicles and to develop land and farm improvements. Debt to fund purchase of land accounts for the largest share of debt on broadacre and dairy farms, around 47 per cent in 2010–11.

FIGURE 8 Composition of farm debt, broadacre and dairy industry



p ABARES preliminary estimate.

Debt to fund land purchases increased by 250 per cent in real terms between 1990–91 and 2010–11. However, borrowing to finance purchase of machinery, plant and vehicles increased most over the past 20 years, rising 500 per cent since 1990–91, in real terms.

Over the same period, borrowing to finance farm buildings and structures increased by 450 per cent and borrowing to fund land development by 200 per cent. During most of this period there was also a significant movement of resources away from less input-intensive wool production to more intensive cropping and prime lamb activities, requiring substantial new investment in machinery and borrowing to purchase inputs. Expansion of cropping activities and increased use of inputs such as herbicides and fertiliser contributed to the increase in farm debt as producers borrowed to purchase annual inputs. In addition, deregulation of grain markets led to increased investment in on-farm grain storage.

During the 2000s, adverse seasonal conditions depressed farm cash incomes in many regions and led to increased borrowing to meet working capital requirements. Working capital debt increased by 230 per cent between 1990–91 and 2010–11, accelerating rapidly after widespread drought began in 2002–03. In 2010–11, working capital debt accounted for 32 per cent of average farm debt, second only to land purchase debt.

Around 18 per cent of farms increased borrowing to fund on-farm investment each year for the 10 years ending 2010–11. This included borrowing to purchase land, vehicles and machinery, plant and farm improvements. Increases in land purchase debt were confined to a relatively small proportion of farms each year, less than 6 per cent, but on average these farms borrowed large amounts. A much higher proportion of farms, around 27 per cent, increased borrowing to fund working capital in each of the 10 years ending 2010–11 and the average amount borrowed was smaller than that borrowed for investment.

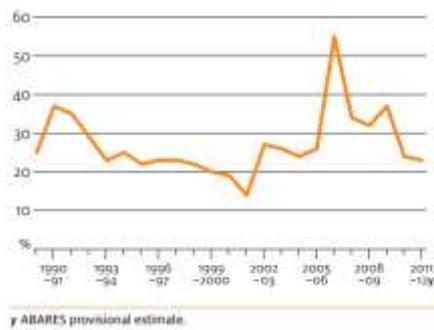
In the period since 2006–07 there appears to have been more restricted access to credit from lending institutions and a diminished appetite for further increases in farm debt by farm business. The proportion of farms increasing debt declined significantly in 2010–11 to be closer to the historical lows recorded in 2000–01 and 2001–02. In addition, average debt for broadacre farms is projected to decline by a further 1 per cent in 2011–12.

9. Debt servicing

The proportion of farm cash income (before interest payment) needed to meet interest payments on farm debt (debt servicing ratio) declined in 2010–11 and is projected to further decline in 2011–12.

Debt servicing ratio trended upward from 2001–02 to 2009–10. Interest rates rose throughout the period 2001–02 to 2007–08, and farm cash incomes were highly variable. They were particularly low in 2002–03 and 2006–07, when the debt servicing ratio rose sharply. Increases in interest rate subsidies paid to farm businesses through drought assistance partially offset the increase in interest paid between 2001–02 and 2007–08. However, most of the increase in the debt servicing ratio between 2001–02 and 2009–10 was due to increases in farm debt, rather than increases in interest rates.

FIGURE 10 Debt servicing ratio, broadacre and dairy industry



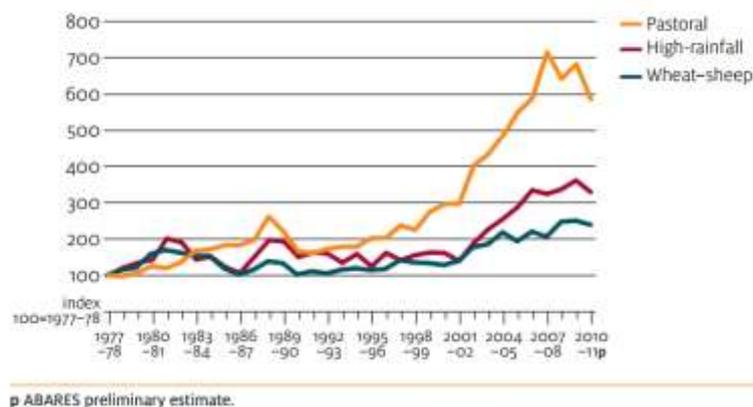
10. Land Values

The proportion of broadacre and dairy farms acquiring land decreased slightly to 4 per cent in 2010–11, which is below the average for the previous 10 years of 6 per cent.

Reported land values declined in the pastoral zone in 2009–10, and in all three zones—pastoral, high-rainfall and wheat–sheep—in 2010–11. Reported land values in 2010–11 were up to 20 per cent below those reported in 2008–09 in some pastoral regions of northern Australia where very large increases were recorded over the previous decade. Much smaller reductions in reported land values occurred in many regions in the high-rainfall and wheat–sheep zone.

Average land prices for broadacre farms increased sharply relative to the cash receipts per hectare generated by farming activity between 2001–02 and 2006–07, then remained relatively flat to 2009–10.

FIGURE 12 Land prices for broadacre farms, by zone



The ratio of average land price per hectare to total cash receipts per hectare more than doubled from around 4:1 before 2001–02 to around 10:1 in 2009–10 for broadacre farms.

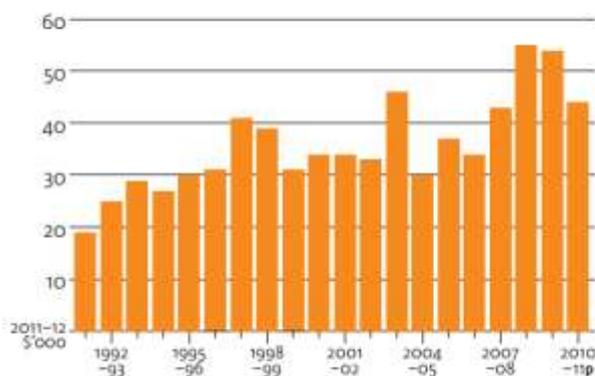
11. Farm investment

Investment in non-land capital, including vehicles, plant, machinery and farm improvements, was historically high in 2008–09 and 2009–10 and although declining slightly in 2010–11 is still relatively high in historical terms.

The investment allowance offered to businesses between December 2008 and December 2009 as part of the Australian Government's support for economic activity in the face of the global financial crisis is likely to have contributed to an increase in investment in plant, machinery and farm improvements in 2008–09 and 2009–10.

ABARES surveys indicate that the largest category of new capital expenditure on broadacre farms in 2008–09 and 2009–10 was crop harvesting and handling machinery, reflecting record grain crops in many regions in the past two years. Tractors and motor vehicles were other major items of expenditure for both broadacre and dairy farms. Expenditure on farm buildings was high in recent years, but generally declined since cessation of the investment allowance in December 2009.

FIGURE 14 Additions of non-land capital, broadacre and dairy industries



p ABARES preliminary estimate.