

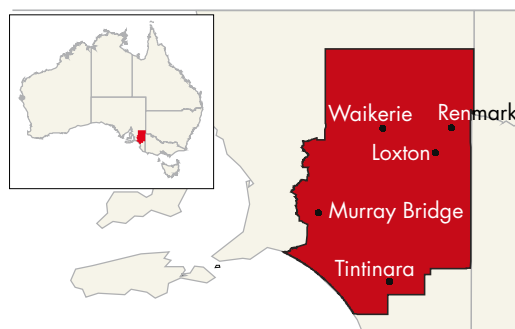


# Financial performance of farms in the Murray Lands region of South Australia

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In this paper, the Murray Lands region of South Australia has been defined to include the Riverland shires of Berri and Barmera, Loxton Waikerie, Mid Murray, Renmark Paringa and Unincorporated Riverland, together with the Murray Mallee shires of Karoonda East Murray, Murray Bridge, Southern Mallee, the Coorong and Unincorporated Murray Mallee (map 1). Regional centres in the area include Renmark, Loxton, Murray Bridge and Waikerie.

## 1 Murray Lands



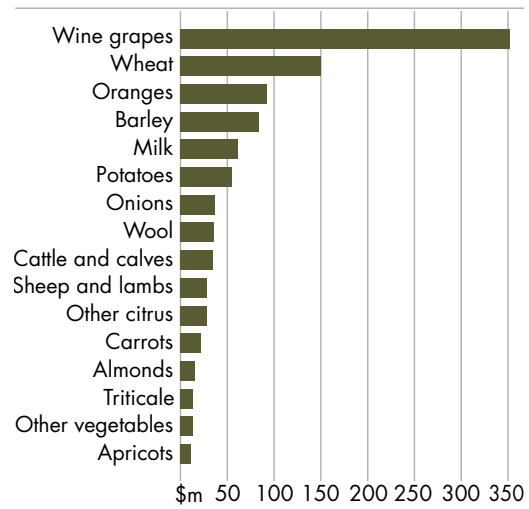
## Murray Lands regional profile

The Murray Lands region hosts a diverse range of agricultural activities. The total value of agricultural production from the region was estimated at \$1.20 billion in 2000-01, with wine grapes by far the most important commodity. In a typical year, such as 2000-01, around 30 per cent of the gross value of agricultural production is contributed by wine grapes (figure A). Wheat is usually the next most important commodity, contributing around 13 per cent of the gross value of agricultural production in 2000-01, then oranges at around 8 per cent, followed by barley, milk and potatoes. A large variety of other horticultural products, including mandarins, other citrus, apricots, other stone fruit, almonds and vegetables, are also produced, along with cattle and sheep. Each contributes a significant but relatively small proportion of the region's gross value of production. The principal agricultural commodities produced in the region are traded internationally, as shown in figure B.

## Employment

The agriculture, fisheries and forestry sector is the largest provider of employment in the Murray Lands region (figure C). According

**A** Value of selected commodities, 2000-01



**B** Export shares of principal regional commodities, by volume, 2004-05



**C** Employment, by sector, 2001



to 2000-01 employment statistics, the agriculture, fisheries and forestry sector employed around 36 per cent of the workforce, or around 8240 people, in the Murray Lands region. The retail sector employed the second largest proportion of people, followed closely by the manufacturing sector.

A large proportion of farms in the Murray Lands region are engaged in horticultural production. Farms mainly involved in growing grapes account for 28 per cent of the region's farms, and fruit growing farms for 13 per cent.

## Broadacre farming

In this section the financial performance of broadacre farms in South Australia is considered and compared with the performance of broadacre farms nationally. The broadacre sector of agriculture is defined to include five industry types: wheat and other crops, mixed livestock-crop, sheep, beef and sheep-beef. In simple terms, broadacre farms are those that run beef cattle or sheep or grow grains, pulses or oilseeds or some combination of those activities.

In total, broadacre farms account for 41 per cent of farms in the Murray Lands, with livestock-crop farms accounting for 17 per cent (table 1). Grain farms account for 16 per cent of the region's farms, with grains industry farms (that is, farms mainly reliant on grain production) being located mainly in the south eastern part of the region.

A relatively high proportion of farms in the Murray Lands region are small in terms of value of operations. Almost 59 per cent of farms in the region had a total value of agricul-

### 1 Number of farms, by industry classification

	Murray Lands		Australia	
	no.	%	no.	%
<b>Broadacre industries</b>				
Livestock-crop farming	667	17	18 500	12
Grain farming	619	16	17 087	11
Sheep farming	158	4	14 891	10
Beef cattle farming	109	3	36 297	24
Sheep-beef farming	57	1	9 903	7
<b>Other industries</b>				
Grape growing	1 082	28	7 162	5
Fruit growing nec	487	13	6 323	4
Other industries	336	9	18 227	12
Dairy cattle farming	200	5	14 515	10
Vegetable growing	122	3	5 208	3
Crop and plant growing nec	22	1	2 107	1
Livestock farming nec	5	0	929	1
All industries	3 864	100	151 149	100

nec Not elsewhere classified.

Source: Australian Bureau of Statistics Agricultural Census 2001.

tural output of less than \$150 000 (figure D). Most of these small farms would be reliant on off-farm income to support their operators. In total, these farms produce only 15 per cent of the region’s value of agricultural output. In contrast, the largest 2 per cent of farms in the region produce 34 per cent of the region’s value of agricultural output.

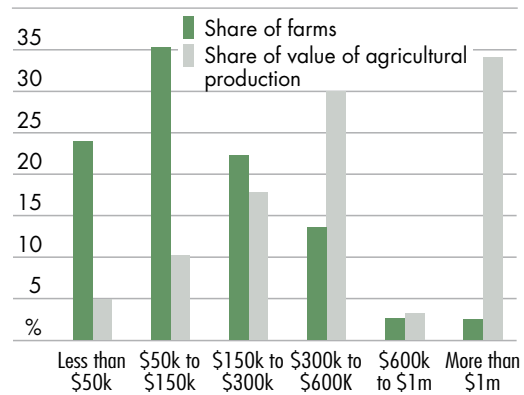
### Broadacre farm performance

The financial performance of Australian broadacre farms improved in 2003-04 and 2004-05 after severe drought affected incomes in 2002-03 (figure E, table 2). Over these years, prices for livestock and grains remained high in historical terms, assisting farmers to manage cash flow at a time of reduced production. High beef cattle prices over the past three years have been particularly important in improving farm incomes because more Australian farms carry beef cattle than are engaged in any other farming enterprise.

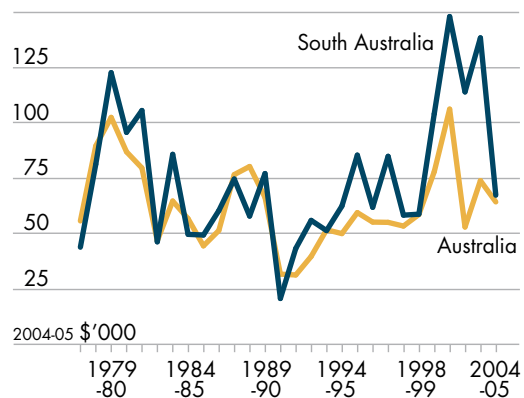
In 2003-04, farm cash income for the broadacre industries as a group increased to slightly above the long term average in real terms. Near record winter crop receipts in a number of states along with high livestock receipts more than offset increases in total cash costs. However, in 2004-05, reduced grain production resulting from drier seasonal conditions, combined with lower grain and wool prices, are estimated to have led to a fall in average farm cash income for broadacre farms of around 15 per cent to just below the long term average, in real terms, and similar to farm cash income in 1999-2000 (figure E).

Farm cash income is a measure of the cash funds available for farm investment and consumption after paying all costs incurred in production, including interest payments, but excluding capital payments and payments to family workers. A longer term measure of profitability that takes account of capital depreciation and changes to inventories of livestock, fodder, grain, wool etc is farm business profit. Farm business profit for broadacre industries is also estimated to have fallen in 2004-05, by a slightly larger amount than the reduction in farm cash income. Overall, no increase is estimated to have occurred in inventories of livestock on farms in 2004-05, and grain and wool stocks are estimated to have fallen.

**D** Distribution of Murray Lands farms, by value of production, 2000-01



**E** Farm cash income Broadacre farms



## 2 Physical and financial performance of broadacre farms

Average per farm

		Murray Lands			South Australia		
		2002-03	2003-04 p	2004-05 s	2002-03	2003-04 p	2004-05 s
Area of land operated at 30 June	ha	1 865	3 003	2 910	5 491	6 058	5 538
Area planted to crops	ha	677	793	763	475	457	464
Sheep at 30 June	no.	1 352	2 117	2 198	1 744	1 789	1 767
Beef cattle at 30 June	no.	32	42	44	158	156	167
Crop receipts	\$	142 012	196 623	138 116	175 465	181 778	135 313
Sheep and lamb sales	\$	39 979	43 425	61 367	47 327	48 363	53 533
Wool sales	\$	41 498	46 818	43 470	51 613	40 807	39 938
Beef cattle sales	\$	12 063	69 663	70 538	40 819	55 652	52 970
Total cash receipts	\$	252 662	392 870	328 135	350 336	354 917	305 224
less total cash costs	\$	191 263	266 446	268 972	232 835	227 656	234 212
<b>Farm cash income</b>	\$	61 399	126 424	59 163	117 502	127 261	71 013
Farm business profit	\$	- 29 247	63 140	- 14 826	29 752	55 069	- 1 967
Rate of return							
- excl. capital apprec.	%	-0.9	4.9	0.6	2.6	3.3	0.9
- incl. capital apprec.	%	9.4	13.7	na	11.8	12.8	na
Total capital value	\$	1 762 479	2 267 432	na	2 354 226	2 804 152	na
Equity ratio at 30 June	%	85	85	na	79	90	na

p Preliminary estimate. s Estimates based mainly on November telephone survey. na Not available.

### South Australian broadacre farm performance

Farm cash incomes for South Australian broadacre farms have increased steadily since the early 1990s when incomes fell sharply following the collapse in wool prices in 1990-91 (figure E).

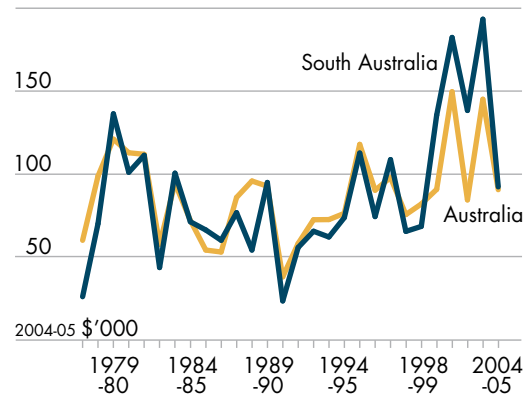
However, estimated incomes fell sharply in South Australia in 2004-05 mainly because of the lower winter crop production in combination with lower grain prices (figure E). Below average rainfall and above average temperatures were experienced across the major cropping districts of South Australia in 2004-05. Increased sheep, lamb and beef cattle turnoff, partly a consequence of dry seasonal conditions in 2005, combined with higher beef cattle prices and strong sheep and lamb prices, boosted livestock receipts despite lower wool prices in 2004-05. However, this was insufficient to offset lower crop receipts and average farm cash receipts fell.

In recent years there has been increased land trading activity in South Australia and competition for land has resulted in a substantial increase in land values. Average broadacre land values as recorded in the ABARE annual surveys of broadacre farms increased by 60 per cent between 30 June 2000 and 30 June 2004.

## Grains industry farm performance

Following the moderately drought affected crop in 2002-03, farm incomes rebounded strongly in South Australia in 2003-04. However, crop production remained below average in some areas of South Australia. Nevertheless, farm cash incomes for South Australia grains industry farms remained historically high and well above the national average in 2003-04 (figure F). Yield increases, on average, were larger in other states, resulting in a slightly larger increase in average farm cash income for Australia as a whole.

**F Farm cash income**  
Grains industry farms



In 2004-05, dry seasonal conditions through the second half of the winter crop growing season resulted in below average crop yields and, in combination with lower grain prices, resulted in a sharp decline in farm cash income.

The impact of reduced winter grain production on farm receipts was slightly cushioned in South Australia by payments from the 2003-04 harvest carried forward into 2004-05.

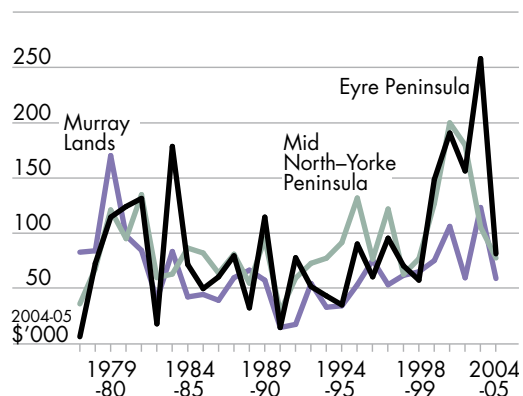
## Murray Lands broadacre farm performance

Farm cash income for broadacre farms in the Murray Lands region has broadly followed that for the whole of South Australia over the past four years, but the year to year fluctuations have been large. Winter crop production in the region in 2002-03 was more severely reduced than elsewhere in South Australia, although the recovery in farm cash income in 2003-04 was relatively strong (table 2). In 2004-05, farm cash income again fell sharply (figure G). The fall in farm cash income was driven mainly by a reduction in crop receipts despite the increase in sheep and lamb sales in part triggered by dry seasonal conditions.

Farm cash incomes for Murray Lands broadacre farms mainly reflect the smaller scale of farms in this region, relative to regions such as the Eyre Peninsula, and the greater reliance of the region on cropping income. The eastern portion of the region, in particular, is also characterised by relatively high variability in crop yields leading to large variability in farm incomes across years.

The pattern of farm incomes in other grain growing regions of South Australia differs somewhat from that in the Murray Lands. In the Eyre Peninsula region, farm cash income

**G Farm cash income**  
Broadacre farms

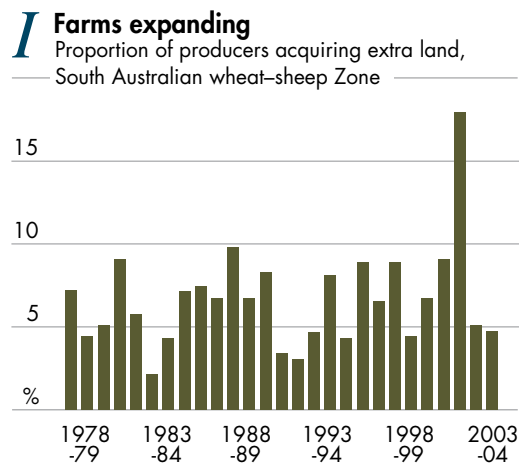
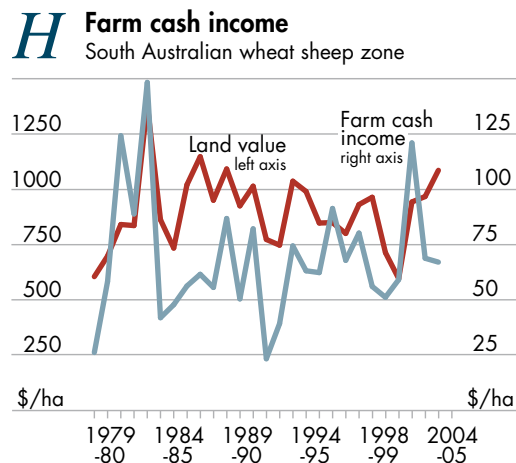


fell sharply in 2004-05, following very high incomes in 2003-04, driven by relatively high crop yields. In 2004-05, drier weather conditions affected the region, as did bushfires in 2005, which increase farm costs. However, in historical terms, farm cash income for the Eyre Peninsula in 2004-05 was close to the long term average for the period since 1977-78 (figure G).

Farm performance for the Mid-North and Yorke Peninsula is estimated to have further declined in 2004-05 (figure G) after also falling in 2003-04, reflecting a combination of lower grain prices and drought that affected the upper Mid-North region.

### Investment and land values

Despite modest improvements in farm financial performance during the 1990s, the average real value of farm land in the South Australian wheat–sheep zone trended downwards from 1980 until 2001 (figure H). However, a steady increase in the number of producers acquiring additional land to expand their enterprises after 1997-98 and peaking in 2001-02 led to a relatively sharp rise in land values from 2000-01. Increases in land value have stemmed



from a number of factors, including higher farm incomes and lower interest rates as well as the general increase in property prices in Australia since 1997. Following drought in 2002-03 and a reduction in profitability, significantly fewer producers acquired additional land (figure I). Broadacre producers acquiring additional land in recent years have, on average, been younger and operate properties that generate better than average rates of return in the period prior to land acquisition.

### Commodity forecasts

ABARE’s assessment of the outlook for world economic growth is provided in *Australian Commodities*, ABARE’s quarterly commodity forecasts and issues journal. Also included in *Australian Commodities* are market forecasts and detailed discussions for major Australian agricultural, minerals and energy commodities. A copy of the September quarter issue

of *Australian Commodities* is included in delegate satchels. Below are commodity forecast summaries for a number of the commodities important to this region.

## Wine grapes

Wine grape prices in the Riverland exhibited trends similar to those experienced by other vineyard regions across Australia. Of the major varieties, on average, prices paid for chardonnay fell by 23 per cent to around \$690 a tonne in 2004-05. Average prices for shiraz and cabernet sauvignon also declined, albeit by smaller amounts. Reflecting the decline in average prices, the estimated value of the crush in 2005 in the Riverland fell by around 1 per cent to around \$230 million.

With another estimated record harvest across all wine regions of Australia and lower estimated unit export values in 2004-05, wine grape prices are expected to remain under pressure. On average, real unit export returns declined by an estimated 5 per cent to around \$4.16 a litre in 2004-05. While export sales to the United Kingdom grew strongly, growth in wine sales to the United States eased from 21 per cent in 2003-04 to just under 9 per cent in 2004-05. This reflects a combination of factors, including an easing of economic growth in the United States and an appreciation of the Australian dollar against the US dollar in 2004-05.

A record harvest of around 482 000 tonnes is estimated for the Riverland region in 2004-05, an increase of around 10 per cent from the previous vintage. Bearing areas are estimated to have increased by just under 5 per cent to around 23 700 hectares. This increase in bearing area is comparable to that for the Australian industry as a whole.

Shiraz and chardonnay continue to dominate production in the Riverland, making up around 24 per cent and 22 per cent respectively. In 2003-04, net plantings remained positive for these two varieties, while areas of cabernet sauvignon declined. Growers' planting intentions continue to favor both chardonnay and shiraz in 2005.

## Wheat

World wheat prices are forecast to increase by almost 3 per cent in 2005-06 because of lower world supplies, but steady demand. The world indicator price for wheat (US hard red winter, fob Gulf) is forecast to average US\$158 a tonne in 2005-06, compared with an average price of US\$154 a tonnes in 2004-05. In line with movements in world grain prices, the pool price for Australian premium white (APW) wheat in 2005-06 is forecast to increase by 4 per cent to average A\$205 a tonne.

Widespread above average rainfall was received in mid-late June 2005 across much of the grains belt in eastern Australia and South Australia, improving the outlook for wheat production. The June rainfall helped to alleviate the dry conditions and provided an opportunity for late plantings of wheat in these regions following the dry and warm summer and autumn. Australia's total winter crop production is forecast to be 31.5 million tonnes in 2005-06, with wheat forecast to be 19.7 million tonnes, around 3 per cent lower than production in the previous year. South Australia is forecast to contribute 5 million tonnes to

winter crop production in 2005-06, much the same as the previous season. This will include 2.5 million tonnes of wheat, 1.8 million tonnes of barley and 170 000 tonnes of canola.

## Wool

Wool prices are forecast to average lower in 2005-06 as the demand for wool continues to follow a well established longer term trend decline. The eastern market indicator price is forecast to average 718 cents a kilogram (clean) in 2005-06, down almost 4 per cent from 2004-05.

Australian shorn wool production is forecast to fall in 2005-06 by around 5000 tonnes to 470 000 tonnes (greasy) and reflects the generally poor seasonal conditions experienced prior to June 2005. The number of sheep shorn is expected to be lower in all states, but especially in New South Wales, Queensland and Tasmania. Wool production in South Australia is forecast to fall by 5 per cent in 2005-06.

## Beef and veal

In 2005-06 the Australian weighted average saleyard price is forecast to decline, primarily reflecting reduced demand and prices from key export markets, particularly in Japan. The expected resumption of beef trade between the United States and Japan is a major factor in these forecasts. However, with some improvement in seasonal conditions, the retention of cattle for herd rebuilding is expected to provide some support for saleyard prices. Overall, saleyard prices are forecast to decline by 4 per cent to around 307 cents a kilogram.

For 2005-06, cattle numbers are forecast to increase, reflecting the lagged effect of efforts to increase numbers in response to high prices and the improved seasonal outlook. As a result, the cattle herd is forecast to increase further to 28.3 million by June 2006.

Production is estimated to have increased by around 5 per cent to 2.16 million tonnes in 2004-05 because of increased numbers of cattle on feed and higher slaughter weights. In 2005-06, total slaughterings are forecast to decline by under 1 per cent to 8.8 million and production is forecast to decline by 3 per cent to 2.1 million tonnes.

## Sheep meat

Australian lamb saleyard prices are forecast to remain buoyant for the remainder of 2005 as they follow typical seasonal supply related patterns and export demand remains firm. Forecast lower beef prices in early 2006 are expected to feed through to lower lamb prices at that time. However, for 2005-06 as a whole, relatively tight lamb supplies are forecast to be reflected in a rise in prices of around 2 per cent to average 350 cents a kilogram.

Firm demand for ewes to rebuild flocks is also expected to provide positive support to prices. Saleyard mutton prices are forecast to increase by 11 per cent in 2005-06 to average 180 cents a kilogram.