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North Australian REGIONAL OUTLOOK CONFERENCE

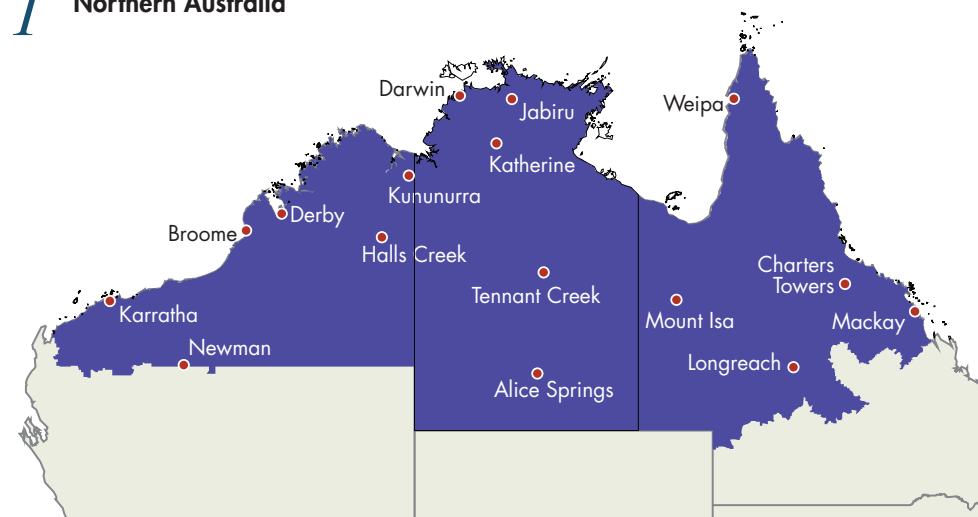


Financial performance of farms in Northern Australia

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Northern Australia is defined in this paper to include the Northern Territory, together with the Kimberley and Northern Pilbara regions of Western Australia and the Far North, North West and Northern regions of Queensland (Map 1). This area conforms with Australian Bureau of Statistics Statistical Divisions that are wholly or substantially above the Tropic of Capricorn. Separate analysis is provided for the Northern Territory.

1 Northern Australia

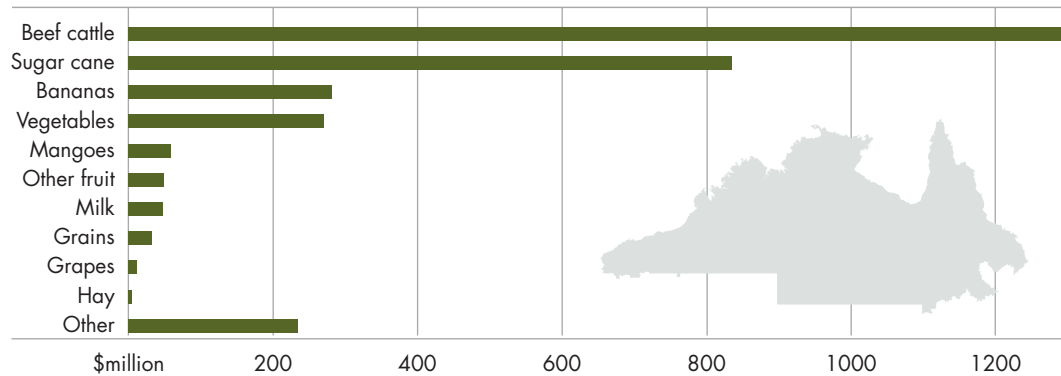


Regional profile of Northern Australia

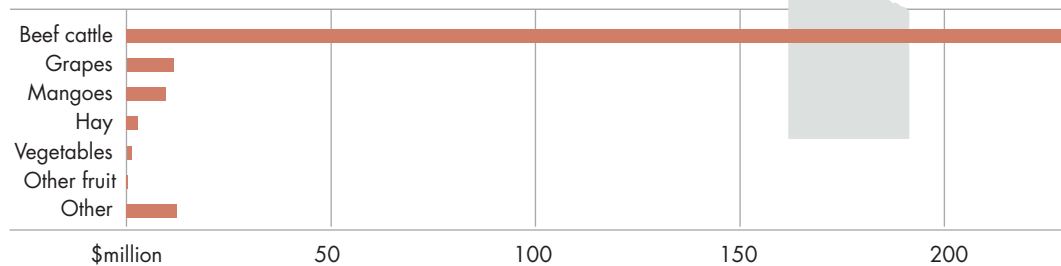
Agricultural production in Northern Australia was valued at \$3.4 billion, in 2003, which was around 11 per cent of the total value of Australian agricultural production of \$32.5 billion. While Northern Australia is host to a diverse range of agricultural activities, beef cattle is by far the most important activity, accounting for 42 per cent of the gross value of production (figure A). Sugar contributed 27 per cent of the value of production in 2003, followed by a range of tropical fruits, particularly bananas, mangoes and table grapes.

In the Northern Territory, beef cattle make an even more important contribution, accounting for 86 per cent of the Northern Territory's gross value of agricultural production of \$267 million in 2003 (figure B).

A Value of selected commodities Northern Australia



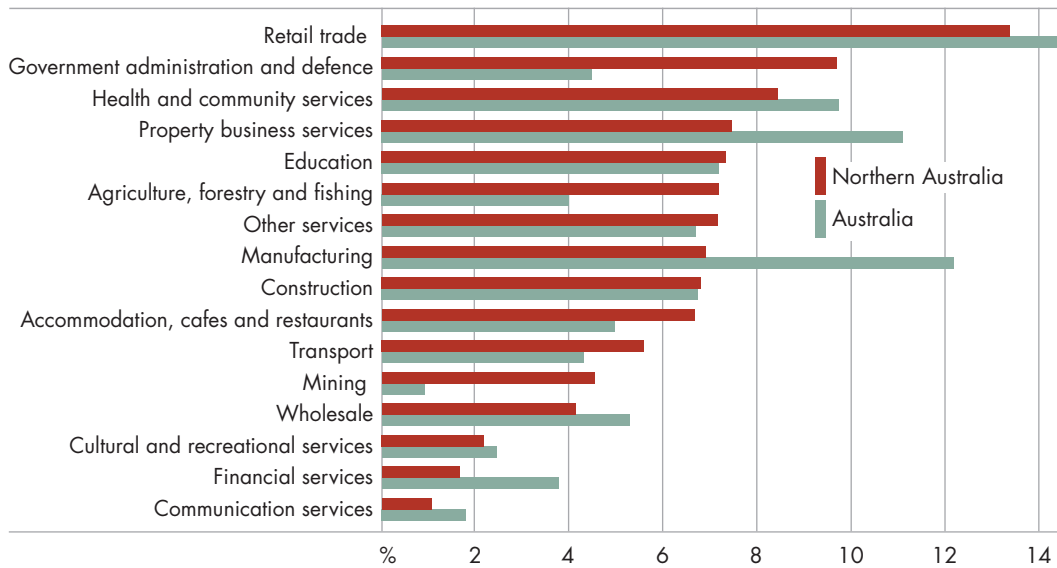
B Value of selected commodities Northern Territory



Employment

The composition of employment in Northern Australia is very different from that for Australia as a whole. While the retail sector was the largest employer in Northern Australia, just as it is elsewhere in Australia, government administration and defence was the second largest employer, according to 2001 employment statistics (figure C). In the Northern Territory, government administration and defence was the largest employer. Compared with Australia as a whole, agriculture fishing and forestry is a more important employer in

C Employment, by sector



Northern Australia, together with mining and accommodation, cafés and restaurants, but manufacturing employs a much smaller proportion of the workforce.

Farming industries

According to the Australian Bureau of Statistics Agricultural Census in 2001, sugar cane farms account for 40 per cent of the total farms in Northern Australia, while farms mainly dependent on beef cattle account for 29 per cent of farms (table 1). Farms specialised in tropical fruit production also comprise a significant proportion of the total farms, particularly in the upper Northern Territory.

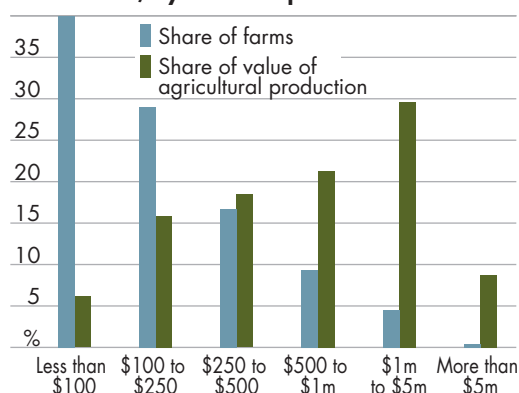
1 Number of farms, by industry classification

	Northern Territory		Northern Australia		Australia	
	no.	%	no.	%	no.	%
Sugar cane growing			3 773	40	5 341	4
Beef cattle farming	233	55	2 742	29	36 297	24
Fruit growing nec	117	28	1 075	11	6 323	4
Sheep–beef farming		0	347	4	9 903	7
Vegetable growing	15	4	337	4	5 208	3
Dairy cattle farming	1	0	248	3	14 515	10
Other industries	57	13	988	10	73 562	49
All industries	423	100	9 510	100	151 149	100

Source: Australian Bureau of Statistics, *Agricultural Census 2001*.

Just as in other parts of Australia, a high proportion of the total farms in Northern Australia are small in terms of the value of production. Almost 40 per cent of farms in Northern Australia had a total value of agricultural output of less than \$100 000 (figure D). These farms make a relatively small contribution to overall agricultural production in Northern Australia and most would rely on off-farm income to support their operators. The majority of production is from large farms, with almost 40 per cent of production being produced on farms with a turnover of greater than \$1 million.

D Distribution of Northern Australian farms, by value of production



Beef cattle contribute 42 per cent of the value of production, but farms mainly dependent on beef cattle account for only 29 per cent of properties, indicating the large scale of beef cattle properties in Northern Australia (table 1).

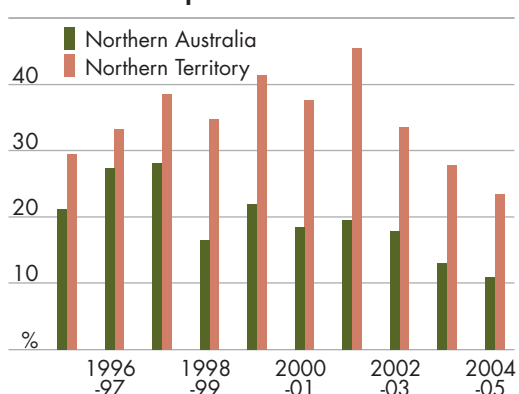
Northern beef industry

Northern Australia accounts for a substantial and, until the last three years, a growing proportion of Australian beef cattle production. The region accounted for 31 per cent of the national beef herd, 17 per cent of beef cattle sold and 20 per cent of the value of beef and veal production in Australia in 2003.

Beef cattle numbers in Northern Australia increased between 1997 and 2001. Between 2001 and 2004, however, dryer seasonal conditions resulted in a decline in beef cattle numbers of around 2 per cent, according to Australian Bureau of Statistics data. The estimated reduction in beef cattle numbers was higher in the Northern Territory between 2001 and 2004 at around 4 per cent. In 2004-05, cattle turnoff from the Alice Springs District and Barkly Tableland increased as the prolonged dry conditions resulted in a further reduction in beef cattle numbers.

During the 1990s, exports of live cattle increased from Northern Australia to south east Asia and the Middle East. In each year between 1995-96 and 2002-03, more than 15 per cent of properties in Northern Australia and more than 60 per cent of properties in the Northern Territory sold cattle for live export, including almost all properties in the upper Northern Territory (figure E). However, since 2001-02, appreciation of the Australian dollar, strong competition from cheaper priced substitute meats in live export markets and strong demand for

E Proportion of beef cattle turnoff sold for live export



slaughter cattle and for restocking in southern Australia have resulted in a fall in live cattle exports.

Farm financial performance

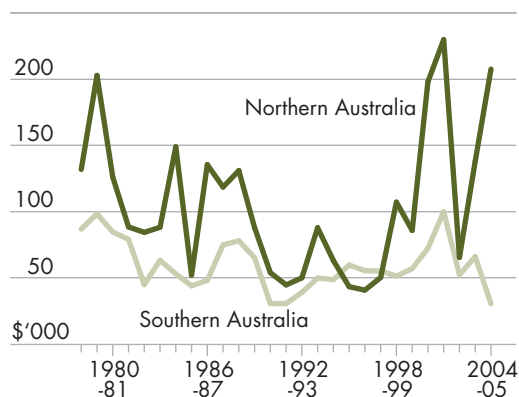
Northern Australia

In the following section, information from ABARE's Australian agricultural and grazing industries survey has been used to analyse the financial performance of broadacre farms in Northern Australia. The broadacre category of farms in Northern Australia is dominated by farms mainly dependent on beef cattle (beef industry farms).

Historically, average farm cash incomes for broadacre farms in Northern Australia have been higher than those in southern Australia. In part, this is a consequence of the larger scale of farms in Northern Australia compared with those in the south.

The financial performance of Northern Australian broadacre farms strengthened in 2003-04 and 2004-05 after the drought affected incomes in 2002-03. High beef cattle prices over the past two years have been particularly important in boosting farm incomes in Northern Australia. In 2004-05, despite a fall in beef cattle turnoff, higher saleyard prices for cattle resulted in farm cash income rising (table 2).

F Farm cash income
Broadacre farms



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 in inventories of livestock, fodder, grain, wool etc is farm business profit. Farm business profit for the broadacre industries is also estimated to have increased in 2004-05 and by a larger amount than the increase in farm cash income, because of an increase in the number of beef cattle on farms.

Strong demand for rural land in 2002-03 and 2003-04 resulted in rising capital values offsetting the impact of increases in farm debt on farm equity, and historically low interest rates assisted debt servicing. Rising farm capital values in recent years have resulted in reduced rates of return excluding capital appreciation, but have led to historically high rates of return including capital appreciation.

2 Financial performance of broadacre farms

Average per farm

	Northern Australia			Southern Australia			
	2002-03	2003-04 p	2004-05 s	2002-03	2003-04 p	2004-05 s	
Physical							
Area of land operated 30 June	ha	48 387	47 169 (8)	40 994	4 167	4 528 (8)	4 184
Other crops sown	ha	108	165 (34)	56	314	340 (5)	303
Beef cattle numbers at 30 June	no.	2 619	2 614 (11)	2 673	216	225 (6)	223
Beef cattle purchases	no.	107	88 (28)	96	24	34 (26)	28
Beef cattle sold	no.	650	665 (12)	600	99	102 (10)	95
Sheep numbers at 30 June	no.	1 630	1 228 (65)	895	1 418	1 450 (4)	1 456
Receipts							
Crops	\$	21 701	19 894 (38)	21 673	99 638	119 862 (13)	99 352
Sheep and lamb sales	\$	6 178	11 524 (54)	3 378	34 755	34 900 (5)	41 134
Wool sales	\$	41 005	29 615 (67)	7 271	45 211	33 750 (5)	32 471
Beef cattle sales	\$	352 877	385 955 (15)	429 019	58 214	68 906 (9)	75 353
Other cash receipts	\$	86 460	144 465 (10)	162 360	25 424	22 453 (3)	21 630
Total cash receipts	\$	508 221	591 453 (10)	623 700	263 242	279 872 (3)	269 940
Costs							
Beef cattle purchases	\$	45 475	48 722 (23)	60 378	11 111	18 730 (24)	17 322
Fodder	\$	46 492	47 484 (25)	47 587	16 603	7 115 (15)	6 132
Fertiliser	\$	2 749	3 837 (26)	3 566	20 792	23 727 (4)	24 685
Fuel, oil and lubricants	\$	27 337	27 109 (8)	28 344	14 418	14 603 (4)	16 406
Hired labor	\$	32 644	37 818 (10)	27 803	8 998	8 191 (8)	8 011
Other cash costs	\$	286 180	284 939 (14)	2 193 295	137 457	139 685 (4)	136 597
Total cash costs	\$	440 877	449 909 (11)	460 974	209 377	212 051 (4)	209 152
Financial performance							
Total cash receipts	\$	508 221	591 453 (10)	623 700	263 242	279 872 (3)	269 940
less total cash costs	\$	440 877	449 909 (11)	460 974	209 377	212 051 (4)	209 152
Farm cash income	\$	67 344	141 544 (20)	162 727	53 865	67 822 (6)	60 788
plus buildup in trading stocks	\$	4 250	-43 198 (62)	35 719	-13 114	12 001 (16)	9 281
less depreciation	\$	39 124	35 953 (9)	32 641	27 095	27 620 (3)	27 110
less operator/manager and family labor	\$	51 552	48 236 (11)	46 805	42 797	44 142 (2)	46 507
Farm business profit	\$	-19 082	14 157 (116)	119 000	-29 141	8 060 (48)	-3 548
Profit at full equity	\$	22 085	58 524 (30)	163 434	-8 004	28 687 (14)	20 125
plus total imputed capital apprec.	\$	407 819	388 863 (19)	na	148 594	199 138 (6)	na
Profit at full equity incl. cap. apprec.	\$	429 904	447 388 (18)	na	140 590	227 825 (5)	na
Rate of return							
- excluding capital appreciation	%	0.5	1.2 (28)	3.2	-0.4	1.4 (13)	0.8
- including capital appreciation	%	10	9 (15)	na	7.7	11.2 (6)	na
Farm capital and debt							
Total capital value	\$	4 335 397	4 416 488 (14)	na	2 012 732	2 277 795 (3)	na
Farm debt	\$	410 615	441 335 (34)	494 295	228 792	220 159 (5)	264 190
Equity ratio at 30 June	%	91	90 (3)	na	89	90 (1)	na
Other							
Liquid assets	\$	131 575	116 050 (37)	na	129 915	123 252 (7)	na
Off-farm income	\$	24 234	24 682 (33)	na	27 451	27 030 (10)	na

continued...

2 Financial performance of broadacre farms *continued*

Average per farm

		Northern Territory		
		2002-03	2003-04 p	2004-05 s
Physical				
Area of land operated 30 June	ha	329 425	257 357 (10)	210 198
Other crops sown	ha	20	19 (65)	0
Beef cattle numbers at 30 June	no.	8 349	7 614 (19)	6 653
Beef cattle purchases	no.	259	47 (50)	27
Beef cattle sold	no.	1 510	1 892 (21)	1 972
Sheep numbers at 30 June	no.	0	0 .	0
Receipts				
Crops	\$	2 923	580 (92)	1 070
Sheep and lamb sales	\$	0	0 –	0
Wool sales	\$	0	0 –	0
Beef cattle sales	\$	727 493	908 023 (22)	918 874
Other cash receipts	\$	423 284	404 579 (14)	211 110
Total cash receipts	\$	1 153 701	1 313 182 (14)	1 131 054
Costs				
Beef cattle purchases	\$	127 030	41 277 (32)	29 942
Fodder	\$	39 205	48 595 (26)	71 356
Fertiliser	\$	2 949	4 187 (39)	8 687
Fuel, oil and lubricants	\$	75 820	65 962 (15)	73 805
Hired labor	\$	167 643	105 429 (14)	102 510
Other cash costs	\$	634 629	472 968 (24)	662 927
Total cash costs	\$	1 047 275	738 418 (16)	949 227
Financial performance				
Total cash receipts	\$	1 153 701	1 313 182 (14)	1 156 859
less total cash costs	\$	1 047 275	738 418 (16)	949 227
Farm cash income	\$	106 425	574 764 (16)	207 632
<i>plus</i> buildup in trading stocks	\$	397 379	–260 042 (36)	–60 042
<i>less</i> depreciation	\$	92 720	73 406 (9)	60 459
<i>less</i> operator/manager and family labor	\$	48 264	47 435 (9)	56 442
Farm business profit	\$	362 819	193 882 (40)	30 690
Profit at full equity	\$	428 234	241 813 (32)	87 690
<i>plus</i> total imputed capital appreciation	\$	155 519	450 821 (26)	na
Profit at full equity incl. capital appreciation	\$	583 754	692 634 (23)	na
Rate of return				
– excluding capital appreciation	%	5.6	3.0 (29)	1.4
– including capital appreciation	%	7.7	8.6 (21)	na
Farm capital and debt				
Total capital value	\$	5 627 998	6 314 925 (20)	na
Farm debt	\$	633 116	566 171 (39)	687 397
Equity ratio at 30 June	%	89	91 (2)	na
Other				
Liquid assets	\$	88 620	81 215 (39)	na
Off-farm income	\$	28 804	28 804 (59)	na

p Preliminary estimates. s ABARE estimates. na Not available.

Note: Figure in parentheses are relative standard errors, expressed as percentages of the estimates.

Northern Territory

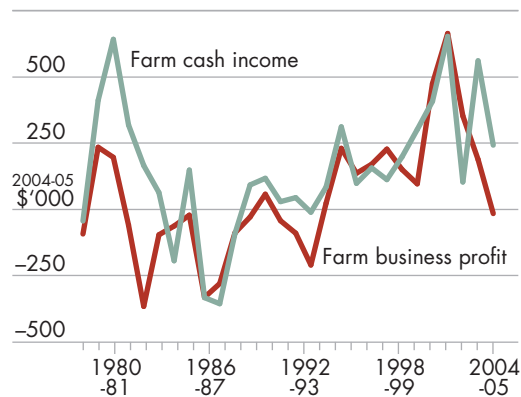
The financial performance of beef industry properties in the Northern Territory has followed a rising trend over most of the period since the late 1980s, according to ABARE survey data (figure G).

While seasonal conditions in the upper Northern Territory have generally been favorable in the past three years, the southern half of the Northern Territory (Alice Springs District and Barkly Tableland), like much of eastern and central Australia, experienced drier than average conditions. This prolonged dry period has had a significant impact on cattle numbers. Mortality rates have increased, calving rates have been relatively low and most properties have offloaded cattle to reduce their stocking rate.

Largely because of the poorer seasonal conditions in the southern half of the Northern Territory, farm cash incomes are estimated to have fallen for the territory in 2004-05 (figure G, table 2). Overall cattle turnoff increased and, despite higher beef cattle prices, the sale of unfinished cattle from the southern part of the Northern Territory resulted in a relatively small increase in total cash receipts, while farm cash costs increased because of increased fodder, fuel and freight costs.

Farm business profit fell by relatively more than farm cash income as cattle numbers in the southern part of the Northern Territory were reduced.

G Financial performance
Northern Territory

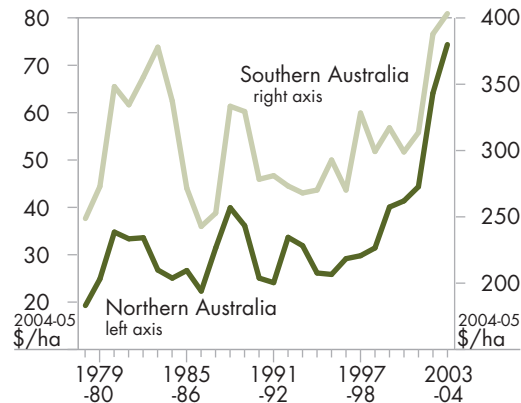


Investment and land values

Improved farm financial performance in Northern Australia during the late 1990s resulted in an increase in the number of producers acquiring additional land to expand their enterprises. Despite drought in 2002-03, the proportion of producers acquiring additional land remained historically high in northern pastoral areas. Low farm cash incomes in 2002-03 and 2003-04 had little impact on the demand for land, with more than 10 per cent of Queensland pastoral properties acquiring additional land in 2002-03 and 2003-04, compared with less than 6 per cent of farms nationally.

In real terms, land values for broadacre farms have increased by more in the past ten

H Land values
Broadacre farms



years in northern Australia than they have in southern Australia. Increases in land prices in northern Australia after 2002 followed a prolonged period of high farm cash income (figure H). The increase continued in 2003-04 despite the impact of drought and the downturn in the live cattle export trade. The increase in prices for land in northern pastoral areas in 2002-03 and in 2003-04 appear to have resulted from a number of factors, including higher farm incomes, expansion of large family owned properties, the breakup of some large corporately owned land holdings and demand for additional grazing area from drought affected producers in Queensland with substantial profits earned in recent high income years.

Productivity

Increases in farm incomes of northern beef properties over the past decade have resulted from a number of factors, including higher prices received for beef cattle, increases in average herd size and increased on-farm productivity.

Productivity growth is a measure of the gains from technological change and the adoption of better farming methods to improve on-farm efficiency. The key measure of improvement in the productivity of the beef industry is total factor productivity, which is calculated by dividing an index of the volume of total outputs by an index of the volume of total

3 Beef specialist farms annual growth rates, 1977-78 to 2001-02

	Northern Australia	Southern Australia	Australia
	%	%	%
Total factor productivity			
Outputs	2.5	1.0	1.8
Inputs	0.3	-0.2	-0.1
Productivity	2.2	1.3	1.8
Partial productivity			
Labor	3.1	1.6	2.4
Capital	3.9	2.0	3.1
Purchased inputs	0.9	0.7	0.8
Land	1.6	2.7	1.6
Input use			
Labor	-0.6	-0.5	-0.6
Capital	-1.4	-1.0	-1.4
Purchased inputs	1.6	0.3	0.9
Land	0.9	-1.6	0.2
Prices			
Prices received	3.3	3.2	3.3
Prices paid	4.7	4.7	4.8
Terms of trade	-1.4	-1.5	-1.4
Changing total factor productivity growth over time			
1977-78 to 1989-90	1.1	2.9	1.4
1988-89 to 2001-02	3.3	-0.5	2.1
1977-78 to 2001-02	2.2	1.3	1.8

inputs. The adoption of new technology and farm management practices may lead to appreciable gains in labor productivity and increases in beef cattle turnoff rates and slaughter weights.

At the national level, productivity growth on specialist beef properties is estimated to have grown on average, by 1.8 per cent between 1977-78 and 2001-02 (table 3), growing faster in northern Australia (2.2 per cent) than in southern Australia (1.3 per cent).

4 Herd performance measures for beef specialist farms: average annual changes 1977-78 to 2001-02

	Northern Australia	Southern Australia	Australia
	%	%	%
Branding rate	1.1	0.3	0.9
Turnoff rate	1.4	-0.9	0.7
Death rate	-4.9	-2.6	-4.5
Total factor productivity	2.2	1.3	1.8

Growth in total factor productivity for northern beef specialists accelerated to a rate of 3.3 per cent a year in the period 1998-99 to 2001-02, from the much lower rate of 1.1 per cent a year in the period 1977-78 to 1989-90 (table 3). Productivity growth for northern pastoral properties was 3.6 per cent a year in the period 1998-99 to 2001-02. Stronger growth in the more recent period coincided with major developments in the northern beef industry, including the emergence of the live cattle export trade, which enabled smaller and younger animals to be turned off. In contrast, productivity growth in southern Australia slowed in the past decade. Growth in partial rates for labor and capital productivity were both more than 90 per cent higher in the north than in the south.

Northern beef farms achieved higher annual growth in branding and turnoff rates than southern farms in the period 1977-78 to 2001-02 (table 4). They also achieved a greater rate of decline in the death rate. Increased branding and turnoff rates in northern Australia are likely to have been driven by a range of factors, including an increase in the proportion of *Bos indicus* type cattle more suited to the tropics; the targeting of the live export market, leading to turnoff of younger cattle; improvements to pastures; and improvements to herd management and capital, including increased fencing and improved mustering techniques.

The time series used in the analysis of productivity presented here includes the major drought years of 1982-83 and 1994-95, but not the drought from 2002-03. The current drought will have serious negative impacts on productivity growth, with the impact to be felt for several more years as producers rebuild herds. Some developments in the beef industry over the past two decades are likely to have reduced the impact of drought and to have contributed substantially to productivity growth. These developments include the large increase in grain feeding to finish store cattle, the growth of the live cattle trade and the improvement in road transport to facilitate movement of livestock and fodder.

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.

Beef and veal

In 2005-06 the Australian weighted average saleyard price for beef cattle 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, Australian 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 28.2 million by June 2006.

Production of beef and veal is estimated to have increased by around 6 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.

Australia exported around 550 000 live cattle in 2004-05, a decline of nearly 5 per cent compared with the previous year. This decline was largely attributable to an appreciation of the Australian dollar, strong domestic demand for cattle, increased demand for beef in export markets and strong competition from cheaper priced substitute meats. However, despite reduced export numbers, higher saleyard prices resulted in an increase in the value of live cattle exports of nearly 7 per cent.

Despite an assumed easing in economic growth in key importing nations, particularly in south east Asia, in 2005-06, lower saleyard prices are forecast to stimulate an increase in live cattle exports. Overall, live cattle exports are forecast to increase by around 4 per cent to 570 000.

Sugar

The world indicator price for raw sugar is forecast to average US9.9c/lb in 2005-06, nearly 6 per cent lower than in the previous year. The forecast decline is smaller than previously expected, reflecting higher than anticipated world oil prices and expectations that Brazil will divert a higher proportion of its sugar cane crop to ethanol production in 2005-06.

World sugar production is forecast to rise by over 4 per cent to 151 million tonnes in 2005-06. In Brazil, a forecast record sugar cane crop is expected to result in increased production of both sugar and ethanol. Growth in sugar exports from Brazil is forecast to be around 3 per cent, well below the growth rates in 2003-04 and 2004-05.

World sugar consumption is forecast to increase by around 2 per cent to almost 151 million tonnes in 2005-06, reflecting higher economic growth, particularly in developing countries such as China and India. In China, domestic consumption is again forecast to exceed domestic production, with imports forecast to remain similar to 2004-05 at around 1.5 million tonnes. In India, domestic consumption is also expected to exceed domestic production for a third consecutive year. As stocks have been drawn down heavily in recent years, India is expected to remain a net importer of sugar in 2005-06.

Total sugar production in Australia in 2005-06 is forecast to be around 5.0 million tonnes, down by more than 3 per cent from the previous year. Australian sugar exports are forecast to decline by around 4 per cent to total around 4 million tonnes.