Performance of farms in the North West Slopes and Plains of New South Wales

Vince O’Donnell, Leanne Lawrance, Thuy Van Mellor and Stephen Hooper

Agriculture is the most important employer in northern New South Wales, with cotton being the largest agricultural industry in the North West Slopes and Plains region. Wheat and beef are the next most important contributors to agricultural earnings in the region.

Reflecting the variation in the type of country and the seasonal conditions, the performance of farms across the region varies considerably. Farms in the plains portion of the region are on average nearly three times larger than the state average, cropping nearly five times the area and hence receiving over half of their incomes from cropping. On the slopes, however, the farms are, on average, considerably smaller than in the rest of the state, having smaller crop areas but achieving higher average yields and running a larger number of beef cattle.

Following an expected decline in receipts from cropping and increased farm costs, farm cash incomes for broadacre farms in the North West Slopes region are forecast to fall by around 5 per cent in 2005-06 to just under $60,000. In the Plains region, declines in both cropping and beef cattle receipts are expected to result in average farm cash income in that region being down by nearly 90 per cent to around $23,000.
regional profile

The North West Slopes and Plains region of New South Wales hosts a diverse range of agricultural activities. The region, as defined in this paper, extends from the Queensland border to include Coolah in the south, Brewarrina in the west and Tamworth and Inverell in the east. The North West Slopes and Plains region contributes around 6 per cent to the total value of agricultural production in Australia. A large proportion of this comes from crops, with cotton being the highest value crop, making up around 36 per cent of the region’s total value of production (figure A). The next most important commodities (in value terms) are beef cattle and wheat, each contributing around 16 per cent of the gross value of agricultural production. Other important contributors to the region’s agriculture include coarse grains, wool and poultry.

The agriculture sector is a major provider of employment in northern New South Wales (figure B). According to quarterly employment statistics from the Australian Bureau of Statistics (ABS), the agriculture sector employed the most people in the region — around 18 per cent of the workforce — with the retail and health and community services sectors employing 14 per cent and 10 per cent respectively.

The three main agricultural commodities produced in the North West Slopes and Plains region are cotton, beef and wheat, all of which are traded internationally. As much of the region’s economic prosperity is reliant on the agriculture sector, and because of the export orientation of the principal commodities produced, a direct link exists between world market conditions and the local regional economy.

According to the ABS Agricultural Census conducted in 2001 there were 5507 farms in the North West Slopes and Plains region. Broadacre farms account for over 80 per cent of the farms in the region, of which around a third were dependent mainly on beef (table 1).
Around 55 per cent of the region’s value of agricultural production is produced by 6 per cent of farms. These farms each have an estimated value of agricultural production greater than $1.1 million (table 2).

Each year ABARE surveys a large number of producers in the broadacre and dairy sectors of Australian agriculture through the Australian agricultural and grazing industries survey and the Australian dairy industry survey. These surveys provide detailed financial and physical data on farm businesses and the socio-economic circumstances of their operators.

Information provided by farmers in the surveys in November and December 2005 has been used in combination with preliminary data collected earlier in the year to project financial performance for the 2005-06 financial year. The information collected provides a basis for analysing the current financial position of the broadacre and dairy industries and expected changes in the short term.

In this paper the financial performance of broadacre farms (excluding cotton) in the northern Slopes and Plains region is considered along with the performance of broadacre farms in New South Wales and nationally. The broadacre sector of agriculture is defined to include five industry types: wheat and other crops, mixed livestock–crops, sheep, beef and sheep–beef. In simple terms, broadacre farms are those that run beef cattle or sheep or grow grains, pulses or oilseeds. The survey used to derive these data does not cover the cotton industry and hence farm performance for that sector is not included.

### broadacre farm performance

Broadacre farm cash incomes are forecast to rise in 2005-06 in New South Wales, Victoria, Western Australia and South Australia. Farm cash income is also expected to increase in the Northern Territory but to fall in Queensland and Tasmania.

In 2004-05, reduced grain production as a result of drier conditions combined with lower grain and wool prices are estimated to have led to a fall in average farm cash income for broadacre farms across Australia (figure C).

Farm cash income for New South Wales broadacre farms in 2005-06 is forecast to rise modestly, with increased winter crop production in all cropping regions leading to a rise in returns from cropping. In addition, receipts from beef cattle and lamb sales are forecast to remain relatively high, with cattle numbers increasing. However, receipts from wool are expected to decline and increases are expected in farm costs associated with crop

### table 1 number of farms, by industry classification

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Number</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadacre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grains-livestock</td>
<td>1,279</td>
<td>23</td>
</tr>
<tr>
<td>Sheep</td>
<td>426</td>
<td>8</td>
</tr>
<tr>
<td>Grain</td>
<td>1,059</td>
<td>19</td>
</tr>
<tr>
<td>Beef</td>
<td>1,307</td>
<td>24</td>
</tr>
<tr>
<td>Sheep–beef</td>
<td>566</td>
<td>10</td>
</tr>
<tr>
<td>Other industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>499</td>
<td>9</td>
</tr>
<tr>
<td>Other industries not elsewhere included</td>
<td>371</td>
<td>7</td>
</tr>
<tr>
<td>All industries</td>
<td>5,507</td>
<td>100</td>
</tr>
</tbody>
</table>


### table 2 distribution of farms, by value of agricultural production

<table>
<thead>
<tr>
<th>Value Range</th>
<th>Share of Population</th>
<th>Share of Value of Agricultural Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$50,000</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>$50,000–150,000</td>
<td>28</td>
<td>7</td>
</tr>
<tr>
<td>$150,000–300,000</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>$300,000–700,000</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>$700,000–1.1 million</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>&gt;$1.1 million</td>
<td>6</td>
<td>55</td>
</tr>
</tbody>
</table>

### figure C farm cash income broadacre farms

[peak of farm cash income for New South Wales broadacre farms in 2005-06]
production, in particular fertiliser, fuel, freight, handling, marketing and chemicals.

The expected increase in livestock numbers is likely to be reflected in farm business profit which is forecast to be positive for the first time in a number of years.

Farm cash incomes on broadacre properties remain highly variable. During the period since 2001-02, farm cash incomes in New South Wales declined dramatically. In 2003-04, farm cash income dropped well below the national average and [in real terms] was the lowest for more than a decade. This situation largely reflects the poor seasonal conditions across the state and increases in costs for fuel, freight and fodder.

**regional farm performance**

Over the past decade, average farm cash income on broadacre farms in the North West Slopes and Plains region have been extremely variable when compared with the average for New South Wales (figure D). This reflects the variable seasonal conditions and the different profile of farms in both the North West Slopes and the Plains region compared with the rest of New South Wales.

On average, farms in the North West Slopes are considerably smaller than those in the rest of the state, having less crop area but achieving higher average yields and running a larger number of beef cattle. Overall, farms in this part of the region earn nearly half of their income from beef cattle and a further third from crop sales, particularly wheat and sorghum (table 3). In 2005-06, cattle numbers in the region are forecast to increase for the second year in a row. The number of beef cattle and lambs sold are also forecast to rise in 2005-06 as producers continue to take advantage of favorable prices.

However, reflecting an expected decline in receipts from cropping and increased costs for fertiliser, fuel, freight, marketing and handling charges, farm cash incomes in the region are forecast to fall by around 5 per cent in 2005-06 to just under $60 000 (figure E).

By comparison, the farms in the Plains part of the region are, on average, nearly three times the state average and have crop areas five times larger than the state average. However, year to year incomes are extremely variable, reflecting the nature of the seasonal conditions in the cropping areas (figure F). Receipts from crops make up around half the total cash receipts, while receipts from sheep and wool account for nearly a third.
### Physical

<table>
<thead>
<tr>
<th></th>
<th>North West Slopes</th>
<th>Plains</th>
<th>New South Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area operated at 30 June (ha)</td>
<td>1,331</td>
<td>1,032</td>
<td>1,039</td>
</tr>
<tr>
<td>Total area sown to crops (ha)</td>
<td>299</td>
<td>221</td>
<td>129</td>
</tr>
<tr>
<td>- Wheat area sown (ha)</td>
<td>102</td>
<td>88</td>
<td>43</td>
</tr>
<tr>
<td>- Sorghum area sown (ha)</td>
<td>45</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Wheat yield (t/ha)</td>
<td>2.4</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Wheat yield (t/ha)</td>
<td>4.1</td>
<td>4.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Sheep numbers at 30 June (no.)</td>
<td>603</td>
<td>677</td>
<td>894</td>
</tr>
<tr>
<td>Beef numbers at 30 June (no.)</td>
<td>297</td>
<td>335</td>
<td>383</td>
</tr>
<tr>
<td>Beef cattle sold (no.)</td>
<td>134</td>
<td>135</td>
<td>179</td>
</tr>
<tr>
<td>Sheep and lamb sales (no.)</td>
<td>612</td>
<td>708</td>
<td>644</td>
</tr>
<tr>
<td>Sheep and lambs sold (no.)</td>
<td>603</td>
<td>677</td>
<td>894</td>
</tr>
<tr>
<td>Wool production (kg)</td>
<td>2,758</td>
<td>2,904</td>
<td>2,560</td>
</tr>
</tbody>
</table>

### Financial performance

**Cash receipts**

- Beef cattle sales $104,382, 119,413, 156,418, 100,711, 231,510, 84,382, 64,023, 70,968, 68,113
- Total crop sales $117,900, 103,245, 77,308, 311,918, 511,857, 261,463, 94,080, 79,503, 88,039
- Wheat area sown $54,837, 43,040, 19,198, 220,657, 391,830, 191,400, 52,832, 49,100, 49,445
- Sorghum area sown $28,794, 7,921, 11,298, 15,392, 4,794, 2,477, 4,806, 3,331, 4,182
- Sheep and lamb sales $9,855, 10,029, 12,887, 73,904, 75,433, 66,215, 31,626, 37,525, 41,812
- Wool sales $12,675, 19,290, 13,712, 62,188, 44,800, 50,357, 32,963, 32,937, 30,066
- Total cash receipts $259,847, 277,746, 281,541, 634,284, 548,948, 240,805, 246,052, 253,219

**Cash costs**

- Beef cattle purchases $33,455, 38,922, 30,507, 58,233, 97,067, 53,336, 18,100, 16,458, 13,652
- Fodder $7,011, 12,698, 10,563, 15,229, 8,714, 9,039, 8,667, 7,914, 5,714
- Agistment $1,258, 2,396, 1,978, 15,700, 6,174, 1,502, 1,507, 1,860, 850
- Freight, handling and marketing expenses $4,154, 6,335, 7,351, 6,268, 45,033, 24,294, 6,188, 8,981, 10,298
- Fertilizer $19,117, 11,178, 15,724, 17,318, 13,950, 10,933, 17,356, 13,416, 16,388
- Fuel, oil and grease $14,420, 14,143, 15,104, 35,935, 52,249, 47,614, 14,071, 15,155, 17,441
- Crop and pasture chemicals $20,700, 9,359, 9,419, 72,012, 63,968, 44,168, 11,066, 9,311, 10,782
- Interest $21,894, 20,410, 21,381, 79,337, 87,396, 54,578, 26,554, 17,835, 16,990
- Total cash costs $223,660, 215,622, 222,784, 594,674, 711,658, 525,749, 208,075, 195,581, 199,565

**Financial performance**

- Farm cash income $36,187, 62,124, 58,758, 39,610, 258,650, 23,200, 22,730, 50,471, 53,854
- Farm business profit $16,787, 19,393, 25,978, 7,159, 147,212, 3,859, 27,282, 4,471, 4,487
- Change in trading stocks $21,491, 26,708, 36,942, 106,213, 7,528, 94,875, 12,025, 8,136, 20,765
- Rate of return - excl capital appreciation % 0.5, 1.9, 2.4, 1.7, 4.7, 1.5, 0.1, 0.4, 1.1
- Incl capital appreciation % 14.1, 8.8, na, 10.0, 6.8, na, 8.3, 5.4, na
- Total closing capital $m 2,3, 2.2, 2.2, 5.5, 5.2, 4.6, 2.4, 2.5, 2.4

**Total farm debt (excluding harvest loan)** $289,815, 263,268, 238,375, 1071, 867, 1103, 850, 708, 749, 229,653, 247,079, 218,291

**Equity ratio %** 87, 86, na, 80, 78, na, 90, 90, na

**Off-farm income** $18,873, 32,395, na, 24,885, 21,022, na, 27,738, 28,559, na

**Total farm liquid assets** $106,108, 49,141, na, 232,761, 103,857, na, 150,430, 100,834, na

**Farm management deposits** $8,106, 10,019, na, 32,555, 30,609, na, 17,504, 12,399, na
In 2005-06 a dramatic decline in crop production and the number of beef cattle sold is forecast to result in farm cash incomes declining to around $23 000, dramatically lower than in 2004-05 (table 3).

**investment and land values**

During the late 1990s, improving farm financial performance resulted in a sharp increase in the number of producers in New South Wales acquiring additional land to expand their enterprises. This peaked in 2001-02, when the proportion of producers acquiring extra land in New South Wales reached 8 per cent, the highest since the commencement of the current survey (figure G). Since this peak, the percentage of farms acquiring land has declined significantly; however, despite historically low farm cash incomes, more than 5 per cent of New South Wales producers acquired land in 2002-03. Broadacre producers acquiring additional land, on average, have been younger and operate properties that generate better than average rates of return in the period prior to land acquisition.

In real terms, land values in the northern slopes and plains remained relatively flat throughout the 1990s and early 2000s. However, land values rose sharply in 2003-04 and 2004-05 and are expected to remain high in 2005-06 (figure H). The strong demand for rural land has resulted in rising capital values, offsetting the impact of increases in working capital debt, with on-farm equity and historically low interest rates assisting debt servicing.

While rising farm capital values in recent years have resulted in reduced rates of return excluding capital appreciation, they have led to historically high rates of return when capital appreciation is included. In the northern Slopes and Plains region, despite the rate of return excluding capital appreciation being relatively low, the rate of return including capital appreciation was around 14 per cent in 2003-04 and 9 per cent in 2004-05.

**commodity forecasts**

ABARE’s assessment of the outlook for world economic growth is provided in *Australian Commodities*, ABARE’s quarterly commodity forecasting journal. Also included in *Australian Commodities* are market forecasts and detailed discussions for major Australian agricultural, minerals and energy commodities. A copy of the March quarter issue of *Australian Commodities* is included in delegate satchels. Below are forecast summaries for a number of the commodities important to the northern Slopes and Plains region.
seasonal update

The Australian Bureau of Meteorology in its latest seasonal rainfall outlook (25 May 2006) for the winter period (June–August) indicates that there is a 40–45 per cent chance of average rainfall across parts of eastern Australia (map 2). For the rest of the country the chance of accumulating at least average rainfall during the period is close to 50 per cent.

The latest temperature outlook (25 May 2006) indicates that there is an above average chance of exceeding the maximum temperature for winter across most of southern Australia.

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With world raw cotton supplies forecast to exceed consumption in 2006-07, the world cotton price (Cotlook 'A' index) is forecast to fall by 4c/lb to average US$53c/lb. Import demand in China will be a dominant factor affecting world raw cotton prices in 2006-07. With cotton production in China expected to increase, a forecast 12 per cent decline in imports is expected to place downward pressure on world prices.

In Australia the area planted to cotton in 2005-06 increased by 4 per cent to around 335 000 hectares. However, following record yields in 2004-05, yields are estimated to decline by 14 per cent in 2005-06 to around 76 bales per hectare. Thus, despite an increase in the area planted to cotton, Australian cotton production is forecast to fall by 10 per cent in 2005-06 to 578 000 tonnes.
With Australian exports to Japan, the Republic of Korea and the United States set to come under increasing pressure, exports to other markets, such as Canada, as well as to markets in south east Asia are likely to become more important. However, as this switch in export demand away from the high valued Japanese and Korean markets is set to occur as both domestic and US beef supplies increase, Australian saleyard prices are forecast to weaken. Saleyard prices of beef are forecast to fall, averaging 295 cents a kilogram in 2006-07.

In forecasting export prices and volumes of Australian beef exports, assumptions about the resumption of trade between Japan, Korea and the United States are critical. Korean officials at the Ministry of Agriculture and Forestry have confirmed that trade between the United States and Korea will resume in mid-June 2006. However, trade between the United States and Japan is not expected to recommence for a number of months. Despite reaching an in principle agreement on conditions for the resumption of trade, the re-entry of US beef into Japan will be contingent on two key developments. First, the final agreement on the conditions of re-entry that are expected to be reached in mid-June and, second, the successful inspection by Japanese officials of the 35 US meat establishments authorised to export to Japan.

However, given that Australian producers and exporters are focusing a significant amount of resources toward the Japanese market (including advertising and branding campaigns by Meat and Livestock Australia), it is expected to take a number of years for the United States to regain the market position it held in 2003. Australia’s total beef exports are forecast to increase by 4 per cent to 925 000 tonnes in 2006-07.

The Australian cattle herd at June 2005 is estimated to have been approximately 27.7 million. With the continued retention of cows and heifers from slaughter since then, the Australian cattle herd is forecast to continue to increase to 28.5 million by June 2006. However, with prices forecast to ease in late 2006 and into 2007, the impetus for continued herd rebuilding is expected to ease and slaughter rates increase. Cattle numbers are forecast to be 29.3 million in 2006-07, while cattle slaughter is forecast to increase to 8.7 million.

A forecast reduction in world wheat supplies, particularly in the United States as a result of poor seasonal conditions, is forecast to result in increased wheat prices in 2006-07. In late May 2006, the world wheat price was around US$210 a tonne, more than US$50 a tonne higher than in May 2005. Reflecting movements in world wheat prices, APW pool returns for Australian growers are also forecast to increase in 2006-07. Similarly world corn and soybean prices are forecast to be higher in 2006-07, reflecting strong global demand for these products, reduced global corn production and largely unchanged supplies of oilseeds. As a result, both barley and canola prices are forecast to rise in Australia.

The 2005-06 summer crop that has just been harvested produced a crop bigger than the previous year. While a hot dry summer limited some of the early season potential, total Australian summer crop production is still estimated to be higher than the 2004-05 crop.

The timing of season breaking rainfall will be critical for winter cropping decisions in 2006-07. If favorable rainfall is received the total area sown to grains and oilseeds is expected to remain largely unchanged in 2006-07, at around 22 million hectares. While the total area sown to grains is likely to remain roughly the same, the cropping mix is expected to change. In 2006-07, the area sown to canola is expected to rise, with the areas sown to pulses and wheat also forecast to increase. The area sown to barley is forecast to fall by 2 per cent in 2006-07.
sheep meat and wool

Reflecting higher wool supplies and weaker wool demand, the eastern market indicator price is forecast to be fall in 2006-07, to average around 670 cents a kilogram. After increasing to average 746 cents a kilogram in March 2006, the eastern market indicator price had fallen to 729 cents a kilogram in late May 2006.

The Australian sheep flock is forecast to expand slightly next year, rising from 105 million in 2005-06 to 107 million by 2006-07, reflecting a positive outlook for sheep meat. Latest information from the Australian Wool Production Forecasting Committee indicates that shorn wool production is forecast to rise by 2 per cent in 2006-07 from 456 000 tonnes in 2005-06.

In 2006-07, Australian saleyard prices for lambs and sheep are forecast to ease to around 345 cents a kilogram and 165 cents a kilogram respectively. Throughout 2005-06 lamb prices were supported by strong export demand, particularly from the United States. Sheep prices have been underpinned by strong domestic restocker demand as sheep producers have sought to rebuild their flocks.