

outlook and financial performance of farms in the Mildura-Wentworth region

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In this paper, the Mildura-Wentworth region has been defined to include the Victorian Mallee shires of Mildura, Buloke, Gannawarra and Swan Hill together, with the south western New South Wales shire of Wentworth (map 1).

regional profile

Mildura-Wentworth is one of Australia's largest and most diverse agricultural regions with both irrigation based horticultural industries and dryland broadacre industries. The region produces around 21 per cent of Australia's wine grapes and citrus, together with 10 per cent of barley, 7 per cent of wheat, 5 per cent of vegetables and almost all of Australia's dried vine fruit production, plus a wide variety of other agricultural products.

In terms of value of production, Mildura-Wentworth agriculture is dominated by grains and grapes. In 2003-04, around 24 per cent of the regions total value of agricultural production of over \$1.5 billion was accounted for by wheat and barley. In aggregate, grapes also accounted for around 24 per cent of the gross value of production with wine grapes accounting for around 15 per cent of the total value of production, table grapes 5 per cent and dried vine fruit the remainder. Milk accounted for around 9 per cent of the total value of production, with the dairy industry being particularly important in the Gannawarra shire. Oranges, carrots, beef cattle, sheep, lambs, wool, stone fruit and almonds all made a significant contribution to the total value of production (figure A).

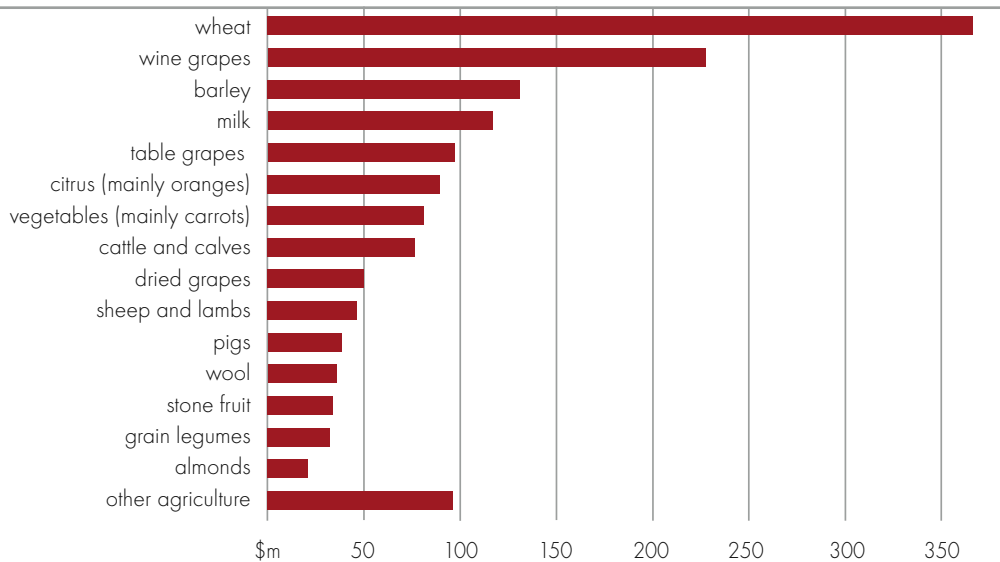
employment

The agriculture, fisheries and forestry sector is the largest provider of employment in the Mildura-Wentworth region (figure B). According to 2000-01 employment statistics, the sector employed around 32 per cent of the workforce, or around 9800 people, in the region. The retail sector employed the second largest proportion of people, followed closely by the health and community services sector, and the manufacturing sector.

1 Mildura-Wentworth region



A value of selected commodities
Mildura-Wentworth

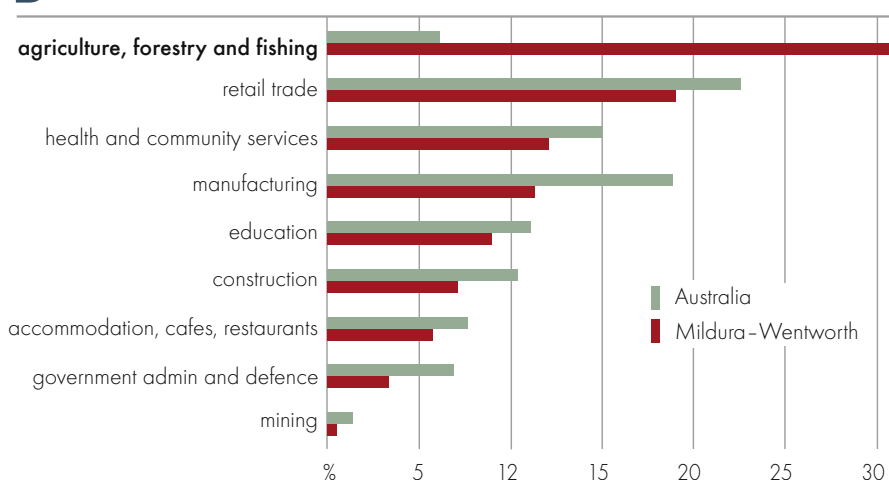


farms

Many farms in the Mildura-Wentworth region are small, with around 61 per cent of farms having a total value of agricultural output of less than \$150 000 (figure C) in 2000-01. In total, farms with a value of agricultural output of less than \$150 000 produced less than 20 per cent of Mildura-Wentworth’s value of agricultural output. In contrast, the largest 2 per cent of farms produced 21 per cent of Mildura-Wentworth’s value of agricultural output. Many small farms and, particularly the estimated 26 per cent of farms with a total value of agricultural output of less than \$50 000, would be mainly reliant on off-farm income to support their operators.

A large proportion of farms in the Mildura-Wentworth region are engaged in horticultural production. Farms involved mainly in growing grapes account for 38 per cent of the region’s farms, citrus farms around 2 per cent, vegetables 2 per cent and stone fruits 2 per cent (table 1).

B employment, by sector



Broadacre enterprises also account for 38 per cent of farms in the region, and almost two-thirds of these farms are mainly engaged in grain growing. Broadacre farms are those that run beef cattle or sheep or grow grains, pulses or oilseeds or some combination of these activities. Dairy farms account for a further 9 per cent of farms in the Mildura–Wentworth region.

broadacre farm performance

In this section the financial performance of broadacre farms in the Mildura–Wentworth region is considered and compared with the performance of broadacre farms in Victoria and nationally (table 2).

The financial performance of Australian farms was better in the three years to 2005-06 than during the drought that was most severe and widespread in 2002-03. Over this period, prices for livestock remained high in historical terms, assisting farms to manage cash flow during a time of reduced production. High beef cattle prices over the past three years, in large part a consequence of increased sales to the Japanese market, have been particularly important in maintaining farm incomes as more Australian farms engage in beef cattle production than in any other enterprise.

On the back of record winter crop receipts in Western Australia and South Australia and high livestock receipts, farm cash income for the broadacre industries as a group increased in 2003-04 from the severely drought reduced income in 2002-03 to be slightly above the long term average in real terms. However, in 2004-05, grain production was again reduced by drought and in combination with lower grain and wool prices led to a fall in average farm cash income for broadacre farms (figure D).

number of farms, by industry classification

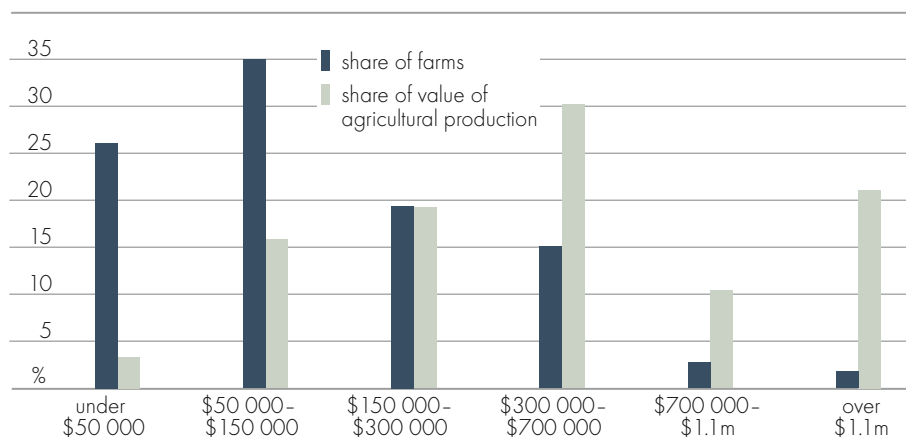
number of establishments/share of total

	Mildura–Wentworth		Australia	
	no.	%	no.	%
Broadacre industries				
Grain farming	1 305	24	17 087	11
Grain–livestock farming	399	7	18 500	12
Sheep farming	178	3	14 891	10
Beef cattle farming	176	3	36 297	24
Sheep–beef farming	40	1	9 903	7
Other industries				
Grape growing	2 072	38	7 162	5
Dairy cattle farming	475	9	14 515	10
Fruit growing nec	325	6	6 323	4
Livestock farming nec	109	2	929	1
Vegetable growing	109	2	5 208	3
Stone fruit growing	111	2	1 244	1
Other industries	113	2	18 227	12
Crop and plant growing nec	44	1	2 107	1
Pig farming	41	1	870	1
All industries	5 388	100	151 149	100

nec Not elsewhere classified.

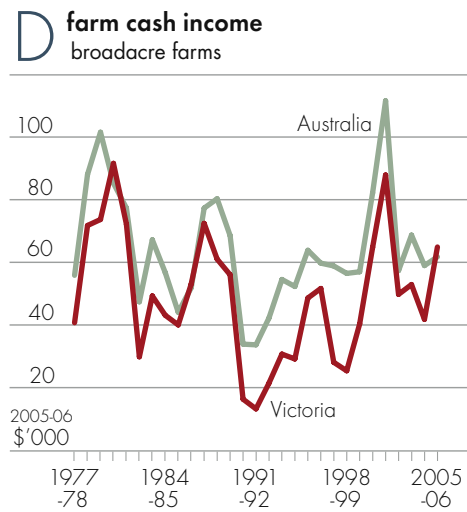
Source: Australian Bureau of Statistics, Agricultural Census, 2001.

C distribution of Mildura–Wentworth farms, by value of production



Increased winter rainfall across most of Australia's grain producing regions in 2005 led to a recovery in winter grain production and an increase in farm cash income in 2005-06 in southern mainland states. Although cash receipts rose nationally in 2005-06, average farm cash income fell as farm costs rose more significantly, mainly from higher oil prices, in combination with lower wool prices and, in some states, reduced beef cattle turnoff.

The pattern of change in farm cash income for Victorian broadacre farms has been broadly similar to that nationally over the five years to 2005-06. In 2005-06, however, farm cash incomes for Victorian broadacre farms are estimated to have increased to average \$60 000 per farm, above the national average of \$55 000. The difference mainly reflected a larger increase in winter crop production in Victoria than the national average, together with a larger increase in farm cash income for Victorian beef industry 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 to inventories of livestock, fodder, grain, wool etc is farm business profit. Farm business profit for broadacre industries is also estimated to have improved in 2005-06 and by a slightly larger amount than the increase in farm cash income due to an increase in inventories of livestock and grain on farms.

Strong demand for rural land over the past four years has increased the value of farms' capital base and this has underpinned strong farm equity positions. Rising land values have, so far, largely offset the impact of higher farm debt on farm equity, as producers borrow both for working capital to meet reduced cash flow during the drought and for farm expansion and investment. Higher farm capital values have also resulted in reduced rates of return excluding capital appreciation, but have led to historically high rates of return including capital appreciation.

2 financial performance, by state average per farm all broadacre industries

	Victoria			Australia		
	2003-04	2004-05 ^p	2005-06 ^s	2003-04	2004-05 ^p	2005-06 ^s
Total cash receipts	\$ 213 141	213 572 (8)	233 774	311 145	298 338 (3)	305 909
Total cash costs	\$ 160 235	171 786 (9)	173 585	242 453	239 322 (3)	251 115
Farm cash income	\$ 52 906	41 786 (14)	60 189	68 692	59 016 (7)	54 794
Farm business profit	\$ 4 890	-13 386 (41)	6 099	4 882	-8 382 (46)	-581
Farm capital at 30 June ^a	\$ 1 995 069	2 128 174 (5)	1 994 699	2 660 199	2 810 439 (2)	2 774 367
Farm debt at 30 June ^{bc}	\$ 144 111	159 420 (11)	131 822	250 883	286 465 (5)	267 866
Equity ratio ^{bd}	% 93	92 (1)	na	90	89 (1)	na
Rate of return ^e						
- excl. cap. appreciation	% 1.0	0.2 (175)	1.3	1.2	0.6 (24)	1.0
- incl. cap. appreciation	% 10.8	7.2 (17)	na	9.7	6.6 (6)	na

^a Excludes leased plant and equipment. ^b Average per responding farm. ^c Harvest loans are not included in farm debt. ^d Equity expressed as a percentage of farm capital. ^e Rate of return to farm capital at 1 July. Rate of return is calculated by farm business profit adjusted to full equity. ^p Preliminary estimates. ^s Provisional estimates. ^{na} Not available.

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

grains industry farm performance

Generally, good rainfall was experienced during the second half of 2005 in most Victorian grain producing areas, despite the late start to the winter crop season that resulted in many crops being dry sown. As a result, 2005-06 winter grain production increased by around 40 per cent compared with 2004-05. On the back of this relatively large increase in winter grain production, together with slightly higher wheat and beef cattle prices, farm cash incomes increased to an estimated average of \$165 000 per farm, well above the national average of \$116 000 per farm (figure E) despite an increase in farm costs.

broadacre farm incomes in the Mildura-Wentworth region

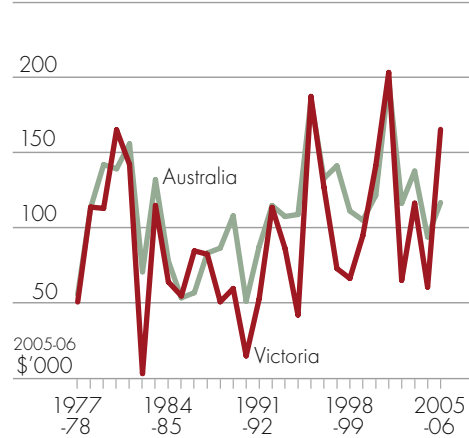
Historically the incomes of farms in this region have been very sensitive to climate variability. Crop yields and pasture growth in this region fluctuates with low and uncertain rainfall and soils that provide relatively little stored soil moisture to sustain crop growth when in-crop rainfall is low. Analysis of farm income data for the Victorian Mallee, which constitutes the majority of the Mildura-Wentworth region, indicates that this region is among the most variable income regions in Australia. Fluctuations in average farm cash income for the Mildura-Wentworth region relative to the average broadacre income for Australia are evident in figure F.

Farm cash income for broadacre farms in the Mildura-Wentworth region has broadly followed that for the whole of Australia over the past three decades, but the year to year fluctuations in income have been very large.

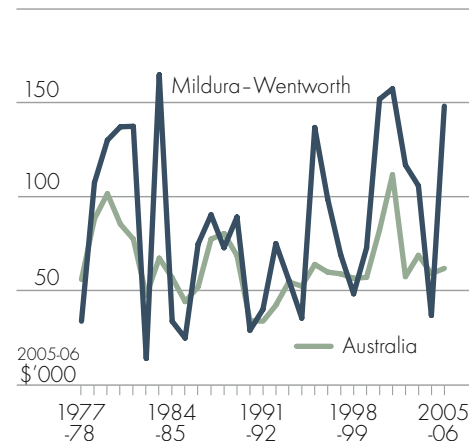
investment and land values

Despite modest improvements in farm financial performance during the mid-1990s, the average real value of farm land in the Victorian wheat-sheep zone remained relatively unchanged from 1990 until 1996 (figure G). However, a substantial increase in the number of producers acquiring additional land to expand their enterprises between 1996-97 and 2001-02 led to a steady rise in land values from 1997-98. 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.

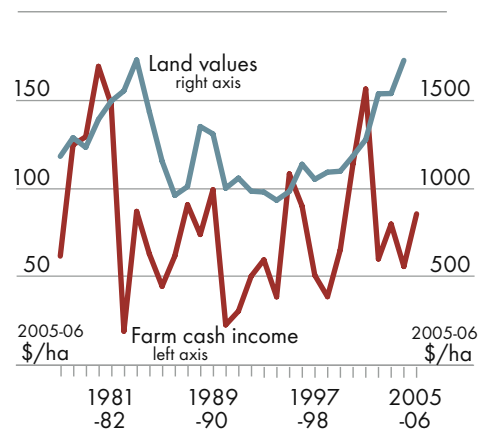
E farm cash income
grains farms



F farm cash income
broadacre farms



G farm income and land values
Victoria



Following drought in 2002-03 and a reduction in profitability, significantly fewer producers have since acquired additional land (figure H). Broadacre producers acquiring additional land in recent years have, on average, been younger and operate properties that generated 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 June 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

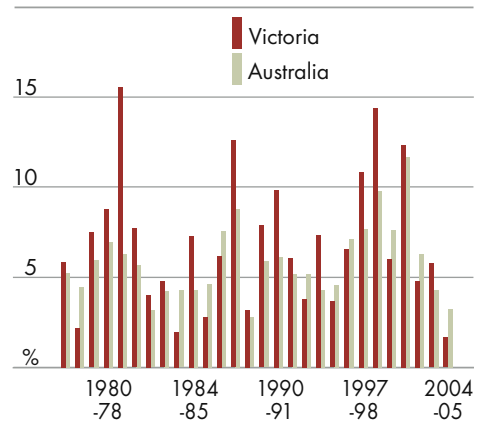
Australian wine grape production is estimated to have reached around 1.9 million tonnes in 2005-06. While this is approximately 1 per cent below that achieved in 2004-05, it is still around 10 per cent more than the average yearly production in the five years ended 2005-06. Bearing area of wine grapes is estimated to be 157 000 hectares in 2005-06, an increase of 3 per cent. This is projected to increase by 2 per cent to 160 000 hectares in 2006-07 and further to 162 000 hectares in 2007-08. While wine grape bearing area is projected to increase, grape production is projected to remain around 1.9 million tonnes in 2006-07.

In 2006-07 production of white wine grapes, particularly chardonnay, is forecast to increase. Production of red wine grapes is forecast to decline, with the largest declines in production of cabernet sauvignon and merlot. Production of nonpremium red and nonpremium white wine grapes is also forecast to decline.

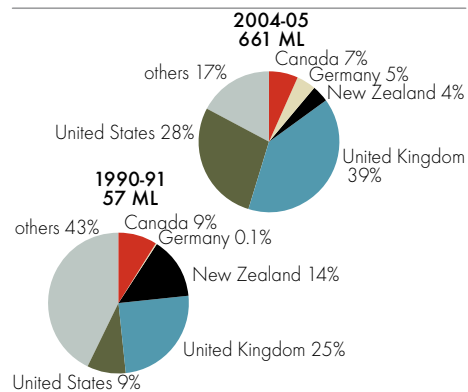
Australian wine sales reached just over 1091 million litres in 2004-05. Sixty-one per cent of total sales were exported, primarily to the United States and the United Kingdom (figure I). Australian wine exports are estimated to have increased by 13 per cent to 749 million litres in 2005-06, with a value of nearly \$3 billion. Wine exports are projected to increase by a further 15 per cent in 2006-07 to 859 million litres. Domestic wine sales are projected to increase by around 5 per cent in the same year.

With a growing focus on export wine sales, prices for Australian wine grapes are projected to decline in response to increasing competition from other wine producing countries as growth in supply outstrips growth in demand. ABARE estimates that the Australian weighted average price for white wine grapes is forecast to fall by around 4 per cent in 2006-07 and that for red wine grapes to decline slightly (figure J).

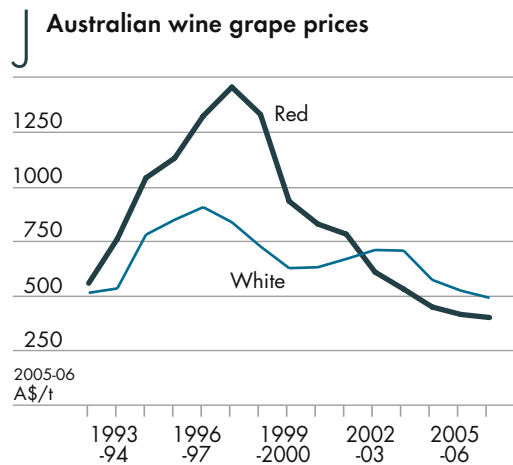
H farms expanding
proportion of producers acquiring extra land



wine exports, by destination



The growth in bulk red wine exports in 2004-05 was stronger (18 per cent) than was that for cask and bottled red (14 per cent overall). Exports of bulk white wine grew by 24 per cent, well above the 9 per cent increase across the other two white categories. The unit value of all red wine exports fell by 6 per cent and that for white by 5 per cent. Unit values are forecast to fall across all Australia's major markets, with average unit value down around 3 per cent in 2006-07.



grains

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 June 2006, the world wheat price was around US\$205 a tonne, US\$55 a tonne higher than in June 2005. Reflecting movements in world wheat prices, the APW 10 pool return for Australian growers is forecast to rise by 19 per cent to \$223 a tonne in 2006-07.

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 oilseed supplies. As a result, barley and canola prices in Australia are forecast to average around 8 per cent and 4 per cent higher respectively.

In Victoria, relatively dry conditions over the past three months have resulted in the area sown to winter crops decreasing by over 2 per cent to around 2.7 million hectares. The area sown to wheat and barley is estimated to have decreased by around 2 per cent and 3 per cent respectively. Assuming average yields, winter crop production in Victoria is forecast to be around 5.3 million tonnes, down 5 per cent from 2005-06.

beef

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 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 beef prices are forecast to fall 10 per cent to average 290 cents a kilogram in 2006-07.

In forecasting export prices and volumes of Australian beef exports, assumptions about the resumption of trade between Japan and the United States are critical. In preparing the June forecasts it was assumed the trade in beef between the US and Japan would resume by September 2006.

However, given that Australian producers and exporters are focusing a significant amount of resources on 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 3 per cent to 915 000 tonnes in 2006-07.

With the continued retention of cows and heifers from slaughter over the past year, the Australian cattle herd is estimated to have increased 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 to increase. Cattle numbers are forecast to be 29.2 million by next June.

sheep meat and wool

Reflecting strong competition from alternative fibres, and little growth in wool demand, the eastern market indicator price is forecast to fall by 3 per cent in 2006-07, to average around 680 cents a kilogram.

The Australian sheep flock is forecast to grow slightly in 2006-07 to 104 million by June 2007. This is because relatively high prices for both lamb and mutton in 2005-06 have provided an incentive for producers to increase supply of sheep meat in 2006-07.

In 2006-07, the Australian saleyard price for lamb is forecast to average 8 per cent lower at around 320 cents a kilogram dressed weight, reflecting lower domestic demand for lamb as a result of strong price competition from other meats, especially beef, and increased lamb production.

Assisted by lower prices, exports of Australian Lamb are expected to rise by about 14 per cent to 165 000 tonnes shipped weight in 2006-07. Live sheep exports are also expected to rise – by about 13 per cent to 4.5 million in 2006-07 as shipments to Saudi Arabia and the Middle East continue to return to the high levels experienced in 2002-03

dairy

International prices for dairy products are forecast to fall in 2006-07 due to an increase in dairy product supplies from major exporting countries such as Australia and New Zealand, and new emerging exporters such as Argentina. Reflecting lower world export prices for dairy products in 2006-07, the Australian farm gate price for milk is forecast to fall by around 4 per cent to around 31 cents a litre.

The price fall for butter should be the most pronounced, with the world price forecast to fall by 13 per cent to average around US\$1740 a tonne in 2006-07. This compares with forecast price declines of 7 per cent for cheese, 9 per cent for whole milk powder and 10 per cent for skim milk powder. Despite the fall, the forecast prices for 2006-07 will remain higher than those received in the early part of this decade.

The total value of Australian dairy exports is forecast to fall in 2006-07 to around \$2.5 billion, with lower prices for manufactured product expected to offset increased export volumes.