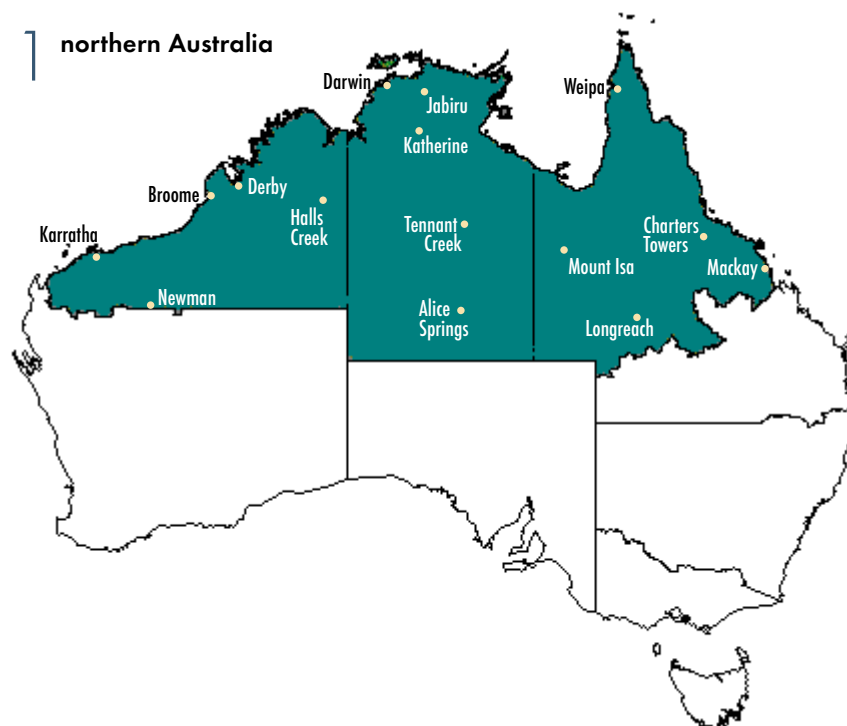


thursday 16 nov 2006



## financial performance of farms in northern Australia

*thuy van mellor, peter martin, vince o'donnell and frank drum*

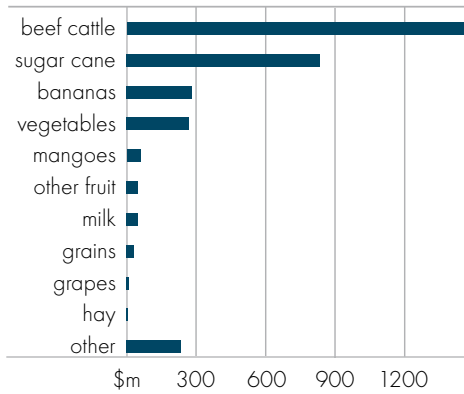


### *regional profile of northern Australia*

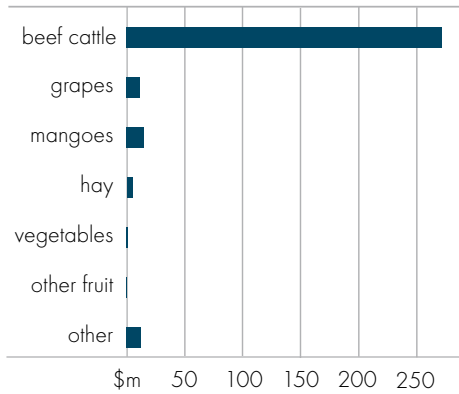
Agricultural production in northern Australia was valued at \$3.7 billion in 2004-05, around 10 per cent of the total value of Australian agricultural production of \$35.9 billion. Northern Australia is defined in this paper to include the Northern Territory, together with the Kimberley and Northern 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.

While Northern Australia is host to a diverse range of agricultural activities, beef cattle is by far the most important activity, accounting for 45 per cent of the gross value of production (figure A). Sugar contributed 25 per cent of the value of production in 2004-05, followed by a range of tropical fruits, particularly bananas, mangoes and table grapes.

**A value of selected commodities, 2004-05 northern Australia**



**B value of selected commodities, 2004-05 Northern Territory**

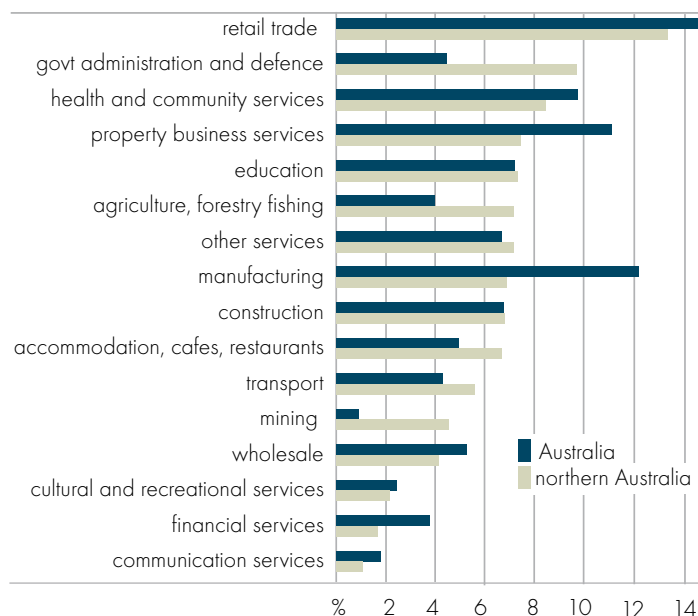


In the Northern Territory, beef cattle make an even more important contribution, accounting for 81 per cent of the Northern Territory's gross value of agricultural production of \$317 million in 2004-05 (figure B). Currently, agriculture is the third ranked industry sector in terms of its contribution to the Northern Territory economy, behind mining and tourism. The value of mineral and energy production totaled \$2.3 billion in 2003-04, with energy minerals (oil, natural gas and uranium) accounting for 41 per cent of the total. Tourism is the territory's second largest revenue earner, contributing over \$1 billion a year to the Northern Territory economy in recent years.

### 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

**C employment, by sector, 2004-05**



the Northern Territory, the government administration and defence sector was the largest employer. Compared with Australia as a whole, the agriculture, fishing and forestry sector is a more important employer in Northern Australia, together with mining and accommodation, cafés and restaurants (tourism), but manufacturing employs a much smaller proportion of the workforce.

### farming industries

According to the Australian Bureau of Statistics Agricultural Survey in 2005, sugar cane farms account for 38 per cent of the total farms in northern Australia, while farms mainly dependent on beef cattle account for 32 per cent of farms (table 1). Farms specialising in tropical fruit production also comprise a significant proportion of the total farms, particularly in the upper Northern Territory.

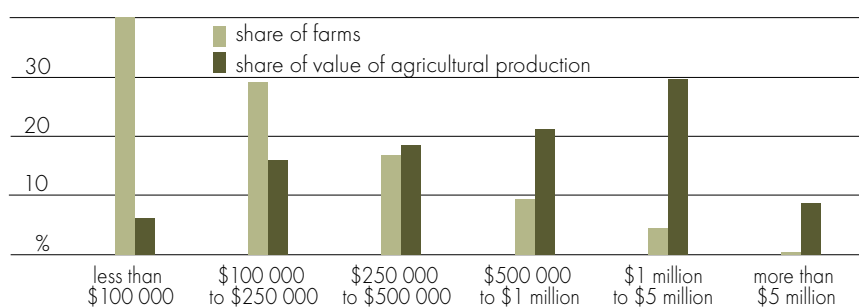
#### number of farms, by industry classification

	Northern Territory		northern Australia		Australia	
	no	%	no	%	no	%
sugar cane growing			3 223	38	4 563	4
beef cattle farming	203	53	2 768	32	35 979	28
fruit growing nec	112	29	810	10	4 764	4
sheep-beef farming			320	4	8 309	6
vegetable growing	15	4	291	3	4 090	3
dairy cattle farming			186	2	9 881	8
other industries	50	13	921	11	62 348	48
all industries	380	100	8 520	100	129 934	100

Source: Australian Bureau of Statistics Agricultural Survey 2005

Just as in other parts of Australia, a high proportion of the total farms in northern Australia are small in terms of their 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

#### D distribution of northern Australian farms, by value of production



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. Beef cattle contribute 45 per cent of the value of production, but farms mainly dependent on beef cattle account for only 32 per cent of properties (table 1), indicating the large scale of beef cattle properties in northern Australia.

### northern beef industry

Northern Australia accounts for a substantial proportion of Australian beef cattle output – 33 per cent of the national beef herd, 18 per cent of beef cattle sold and 20 per cent of the value of beef and veal production in Australia in 2003-04.

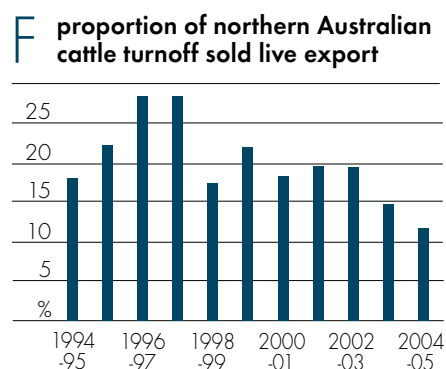
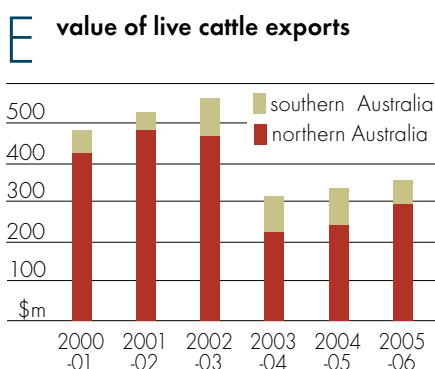
Beef cattle numbers in Northern Australia increased by 13 per cent between 1997 and 2001 and northern Australia’s share of the national herd grew as cattle numbers in southern Australia declined. Cattle numbers in northern Australia were increased as producers responded to higher cattle prices and growth in live cattle export demand together with substantial increases in herd productivity and generally favorable seasonal conditions during the decade to 2002.

However, dryer seasonal conditions since 2002 and increased beef cattle turnoff have resulted in a small reduction in northern cattle numbers. Cattle numbers fell from 8.1 million in 2001 to 8.0 million in 2005. According to Australian Bureau of Statistics’ survey data, most of this reduction occurred in northern Western Australia and north western Queensland. Overall, ABS statistics indicate that cattle numbers in the Northern Territory remained relatively unchanged between 2001 and 2005. But, with drier seasonal conditions experienced mainly in the southern and eastern territory, particularly in 2005 and a generally favorable 2005 wet season in the north, it is likely that cattle numbers decreased in the southern territory and increased in the north.

### northern live cattle export industry

Northern Australia accounts for most of Australia’s exports of live cattle. In value terms, around 80 per cent of Australia’s live cattle exports over the past five years were sourced from northern Australia (figure E). In 2004-05, northern Australian live cattle exports numbered 542 500, valued at \$334 million. An average of 13 per cent of total cattle turnoff from northern Australia in the two years 2003-04 and 2004-05 was for live export, down from an average of 19 per cent for the three years to 2002-03 (figure F).

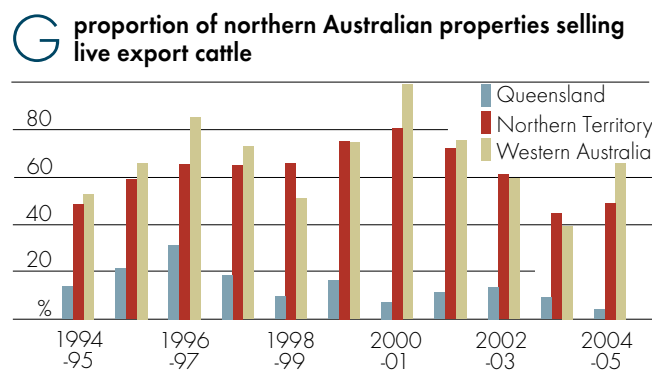
South east Asian and Middle East markets remain the main destinations for Australian live cattle exports. The largest markets have been Indonesia, Malaysia and the Philippines, although exports to the Philippines have



been falling. More than 75 per cent of all live exports between 2003-04 and 2005-06 have been to these three countries.

Since 2002-03, the higher value of the Australian dollar, strong domestic competition for cattle for slaughter, competition from Brazilian and Indian beef and buffalo meat, together with a slowing of economic growth in Indonesia, the Philippines and Egypt have resulted in a reduction in the number of cattle exported. However, stronger domestic and international demand for beef pushed up cattle prices and resulted in the total value of live cattle exports increasing slightly between 2003-04 and 2005-06 (figure E). Nevertheless, the value of live cattle exports in the past three years has remained well below the average for the three years prior to 2002-03.

The importance of the live cattle export trade varies across northern Australian regions. In the Northern Territory an average of 52 per cent of properties sold cattle for live export in the three years from 2002-03 to 2004-05, with participation of properties in the Alice Springs district in the territory's south, being substantially lower. Around 55 percent of properties in the Kimberley and Northern Pilbara sold live export cattle in this period and only around 9 per cent of northern Queensland properties. The proportion of properties selling live export cattle was lower in this period than in the three years to 2002-03. For example an estimated 83 per cent of northern Western Australian properties sold live export cattle in the three years to 2002-03 (figure G).



### Alice Springs district

Relative to other Northern Territory regions, the Alice Springs district is more arid and rainfall more unreliable. Alice Springs district properties mainly produce for the domestic market. Cattle that meet domestic slaughter specifications are sold direct to abattoirs, but the bulk of cattle are sold to feedlots or as store cattle. However, some producers in the Alice Springs region are able to produce cattle for the live export market and there has been an increase in the proportion of *Bos indicus* type cattle in the region in the past decade.

## farm financial performance

### northern Australia

In this 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.

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 overall financial performance of northern Australian broadacre farms strengthened in 2004-05 and 2005-06. High beef cattle prices over the past two years were particularly important in boosting farm incomes in northern Australia. In 2005-06, higher beef cattle turnoff and sustained high saleyard prices for cattle resulted in average farm cash income rising from \$144 000 to an estimated \$229 000 (table 2). Part of this increase in farm cash income came as a result of some reduction in cattle numbers.

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

## 2 financial performance – all broadacre industries

average per farm

	southern Northern Territory			Northern Territory		
	2003-04	2004-05		2003-04	2004-05	
total cash receipts	\$	956 266	905 310 (23)	1 443 073	1 574 332 (13)	
total cash costs	\$	475 779	648 902 (26)	804 397	1 302 622 (16)	
farm cash income	\$	480 486	256 408 (37)	638 676	271 711 (49)	
farm business profit	\$	- 141 952	85 594 (115)	151 656	140 437 (117)	
farm capital at 30 june <b>a</b>	\$m	6.4	6.8 (14)	8.7	11.0 (12)	
farm debt at 30 june <b>b c</b>	\$	326 923	608 120 (46)	463 200	554 460 (29)	
equity ratio <b>b d</b>	%	95	91 (4)	93	92 (2)	
rate of return <b>e</b>						
- excl. cap. appreciation	%	1.0	0.9 (31)	1.4	0.6 (25)	
- incl. cap. appreciation	%	6.8	11.9 (22)	10.7	7.1 (6)	
	northern Australia			Australia		
	2003-04	2004-05	2005-06 <b>p</b>	2003-04	2004-05	
total cash receipts	\$	606 625	670 717 (7)	768 609	310 649	299 530 (3)
total cash costs	\$	489 052	526 531 (9)	539 799	242 213	240 205 (3)
farm cash income	\$	117 574	144 186 (23)	228 810	64 991	57 710 (7)
farm business profit	\$	9185	32 430 (74)	67 793	4530	-8007 (48)
farm capital at 30 june <b>a</b>	\$m	5.5	6.6 (10)	na	2.5	2.7 (2)
farm debt at 30 june <b>b c</b>	\$	470 873	691 785 (23)	na	238 123	279 739 (5)
equity ratio <b>b d</b>	%	89	88 (2)	na	90	89 (1)
rate of return <b>e</b>						
- excl. cap. appreciation	%	1.0	1.3 (28)	1.7	1.4	0.6 (24)
- incl. cap. appreciation	%	8.1	5.1 (22)	na	10.8	7.1 (6)

**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 using farm business profit adjusted to full equity. **p** Preliminary estimates. **na** Not available. Note: Figures in parentheses are relative standard errors expressed as percentages of the estimates.

family workers. A longer term measure of profitability that takes account of capital depreciation and changes in inventories of livestock and fodder is farm business profit. Farm business profit for the northern Australian broadacre industries is estimated to have more than doubled in 2005-06 to around \$68 000 per farm.

Strong demand for rural land in 2003-04 and 2004-05 resulted in rising capital values mostly offsetting the impact of increases in farm debt on farm equity. Although rates of return excluding capital appreciation in northern Australia have been relatively low in recent years, increased land values mean rates of return including capital appreciation have been high.

In real terms, land values for broadacre farms increased by more in the past ten 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. The increase continued in 2003-04 and 2004-05, despite the impact of drought and the downturn in the live cattle export trade. The increase in prices of land in northern pastoral areas appears to have resulted from a number of factors, including higher farm incomes and demand for additional grazing area from drought affected producers in Queensland with substantial profits earned in recent high income years.

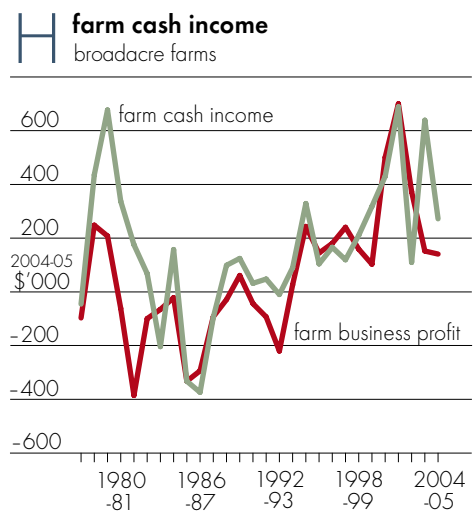
On-farm productivity improvements have played an important role in lifting farm cash incomes of northern Australian broadacre farms over the past decade. Productivity growth is a measure of the gains from technological change and the adoption of better farming methods to improve on-farm efficiency. The key measure of improvement is total factor productivity, which is calculated by dividing an index of total outputs by an index of the total inputs. Productivity growth for northern pastoral properties was 3.6 per cent a year in the period 1998-99 to 2001-02. Strong productivity growth coincided with major developments in the northern beef industry including the growth of the live cattle export trade, which enabled smaller and younger animals to be sold, together with higher branding and turnoff rates and a decline in the cattle death rates.

Increased branding and turnoff rates in northern Australia in the period 1998-99 to 2001-02 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 herd nutrition; improvements to herd management and farm infrastructure, including increased fencing and improved mustering techniques; and improved transport of livestock and fodder.

## Northern Territory

The financial performance of beef industry properties in real terms (net of inflation) in the Northern Territory has been improving over most of the period since the late 1980s (figure H).

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) experienced drier than average conditions. Largely because of the poorer seasonal conditions in the southern half of the Northern Territory, average farm cash income is estimated to have fallen for the territory, as a whole in 2004-05 (figure H and table 2). However, an overall increase in beef cattle numbers means the reduction to farm business profit was minor.



In the upper portion of the Northern Territory, average receipts from beef cattle increased slightly in 2004-05 with higher beef cattle prices and sustained high cattle turnoff. However, increased purchases of beef cattle and transfers of beef cattle onto corporate properties boosted farm costs and in combination with increased fodder, fuel and freight costs, resulted in lower farm cash income.

In the southern Northern Territory, including the Alice Springs district and part of the Barkly Tableland, dry conditions in 2003-04 resulted in high cattle turnoff and relatively high farm cash income. The lower herd numbers and hence reduced turnoff and farm receipts in 2004-05, together with higher farm costs, particularly fuel and freight, resulted in substantially reduced farm cash incomes. Average farm cash incomes in the southern part of the territory are estimated to have been around \$256 000 in 2004-05, compared with \$480 000 in the previous year.

## *commodity forecasts*

### **beef**

In 2006-07, the Australian weighted saleyard price of beef cattle is forecast to fall by 10 per cent to average 280 cents a kilogram (dressed weight) reflecting lower export demand and forecast higher Australian beef production. The resumption of exports from the United States, to Japan and the Republic of Korea in 2006-07 is expected to result in the displacement of some Australian beef from the Japanese and Korean markets. As a result, Australian exports to other markets such as Canada, as well as markets in south east Asia are likely to become more important.

As a result of limited feed and water supplies, and the poor seasonal outlook in many parts of eastern Australia, cattle slaughterings are forecast to increase by 7 per cent in 2006-07 to 9 million. This in turn will constrain future herd expansion activity and increases in beef production.

In 2006-07, low pasture availability and high feed costs are also forecast to lead to a decline in average slaughter weights. However, increased cattle turnoff is expected to offset the effect of this on output, with beef production in 2006-07 forecast to increase 4 per cent to 2.1 million tonnes.

Live cattle exports declined slightly in 2005-06, reflecting higher Australian beef prices and increased competition in south east Asian export markets. However, above average rainfall in northern Australia over the past six months is expected to lead to increased turnoff of stock for the live cattle trade in 2006-07. Reduced beef prices will make live exports more attractive to producers and to potential importers, and are forecast to result in shipments increasing to 580 000 this financial year.