Commodity outlook and financial performance of key agricultural industries in the Gippsland region of Victoria

ABARE paper prepared for Victorian AgFutures, 2009

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This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in Victoria and highlights the performance of beef and dairy farms within the state as well as in the Gippsland region.

The Gippsland region, as defined for this paper includes much of eastern Victoria as outlined in map 1. The major regional centres include Lakes Entrance, Bairnsdale, Sale, Traralgon, Moe and Wonthaggi.

Agricultural sector profile – Gippsland

In dollar value terms, milk is the most significant agricultural product of the Gippsland region, accounting for 47 per cent or almost $604 million of the $1300 million total value of agricultural production for the region in 2006-07 (figure a). This is the most recent year for which Australian Bureau of Statistics data are available on a regional basis.

Cattle and calves accounted for a further 23 per cent ($294 million) of the total value of agricultural production in the region in 2006-07. Vegetables accounted for 11 per cent ($146 million) of the total value of agricultural
production, with potatoes and lettuce accounting for around 28 per cent and 21 per cent of this value, respectively. Pasture, cereal and other crops cut for hay were the fourth largest agricultural product produced, accounting for 6 per cent, or almost $84 million, of the total value of agricultural production in the Gippsland region in 2006-07.

**Number and type of farms**

Australian Bureau of Statistics data indicate that in 2006-07 there were 5579 farms in the Gippsland region, with an estimated value of agricultural operations of more than $5000 a farm (table 1).

![Value of agricultural production, Gippsland region, 2006-07](image)

Source: Australian Bureau of Statistics.

Farms are classified in table 1 according to the activities which generate most of their value of production. In the Gippsland region, around 50 per cent of farms were mainly dependent on beef cattle, compared with 30 per cent for the whole of Victoria. Dairy cattle farms were the second most common farm type, accounting for around 32 per cent of farms, followed by sheep-beef cattle farms accounting for around 4 per cent of all farms in the region.

The majority of farms in the Gippsland region are small in size, with just less than 40 per cent of all farms having an estimated value of agricultural operations of less than $50 000 (figure b). Around 27 per cent of farms had an estimated value of agricultural operations of between $50 000 and $150 000. Only 3 per cent of farms in the region had more than $1 million worth of agricultural operations in 2006-07.
Employment
Australian Bureau of Statistics quarterly data for November 2008 show that around 120 000 people were employed in the Gippsland region. The agriculture, forestry and fishing industries employed the largest number of people, with approximately 14 per cent (17 000 people) of the total labour force (figure c). The retail trade industry accounted for a further 13 per cent (15 000 people) and the healthcare and social assistance industries accounted for 11 per cent (13 000 people). The construction industry was the fourth largest employer with 9 per cent (11 000 people) of the Gippsland labour force for the November quarter in 2008.

Farm financial performance
Each year, ABARE interviews producers from the broadacre and dairy sectors of Australian agriculture as part of its annual survey program. Broadacre industries covered in this survey include the wheat and other crops, mixed livestock-crops, sheep, beef and sheep-beef industries. The information collected provides a basis for analysing the current financial position of farmers in these industries and projected changes in the short term. This paper uses data from ABARE’s Australian Agriculture and Grazing Industries Survey (AAGIS) and Australian Dairy Industry Survey (ADIS) to provide estimates of financial performance indicators (box 1) for farms in Australia, Victoria and the Gippsland region. Financial performance is analysed for the main industries operating in the Gippsland region.

Dairy farm performance
Farm cash income for Australian dairy farms increased by 150 per cent in 2007-08 to average $109 000 a farm, the second highest average farm cash income recorded in the past 20 years and a large increase from $43 110 in the previous year (figure d). This was because of record farm-gate milk prices and was achieved despite a
significant increase in expenditure on major dairy farm inputs. Average total cash costs increased by 47 per cent (table 2) because of increases in fertiliser and fuel prices, combined with higher interest rates. Expenditure on hay and grains also rose as farmers sought to increase production or, in regions affected by drought and low availability of irrigation water, maintain production.

In 2008-09, average farm cash income for Australian dairy industry farms is projected to fall to around $74 000 a farm in response to lower manufacturing milk prices. Average farm-gate milk prices have fallen sharply in regions where milk is predominantly used for manufactured dairy products, because of the decline in prices for dairy products on international markets. Despite increased milk production in most states, average total cash receipts per farm are projected to fall by around 19 per cent in 2008-09.

Partly offsetting this projected reduction in milk receipts, average total cash costs are projected to fall by around 16 per cent at the national level in 2008–09 because of lower hay and feed grain prices, combined with lower interest rates. However, despite increased availability of feed grains, particularly in eastern Australia, and improved on-farm pasture growth in some regions, overall expenditure on fodder by dairy farms is projected to remain relatively high. In particular, water inflows and storage levels remained historically low in northern Victoria and southern New South Wales irrigation regions, and therefore irrigated dairy farms in these regions have been heavily reliant on purchased feed grains and hay in 2008-09.

Victorian farms accounted for 66 per cent of Australia’s milk production in 2007-08 (Dairy Australia 2008). Historically, Victorian dairy farms have driven most of the year to year change in dairy industry income observed at the national level (figure d). In 2007-08, average farm cash income for Victorian dairy farms was less than the national average at $99 300 a farm.

However, in 2008-09 average farm cash income for Victorian dairy farms is projected to fall by more than that expected nationally, to an average of $54 000 a farm. The larger projected reduction in average farm cash income for Victorian farms reflects greater falls in average milk prices in Victoria because of stronger reliance on the market for manufactured milk products, combined with continued high expenditure on fodder because of drought and low availability of irrigation water.

Gippsland accounts for around 18 per cent of total Australian milk production. Historically, average farm cash income for dairy farms in the Gippsland region has been below the average for Victoria (figure d), but in each of the past three years it has exceeded the Victorian average. In part, this is because of the more severe effect of drought and reduced availability of irrigation water in northern Victorian dairying regions in reducing farm cash income.
Farm cash income for dairy farms in the Gippsland region is estimated to have averaged $134,000 a farm in 2007-08, well above the Victorian average, but is projected to fall to an average of $74,000 a farm in 2008-09, mainly because of lower milk prices.

Increases in land value in Gippsland in 2006-07 and 2007-08 led to relatively high rates of return to capital (including capital appreciation) and maintained average farm equity ratio at around 84 per cent, which is above the average for Victorian dairy farms.

**Broadacre performance**

In 2007-08, improved seasonal conditions, combined with high prices for grains and sheep meat, led to a doubling of average farm cash income for Australian broadacre farms from the low recorded in 2006-07 (figure e). Higher farm cash income was achieved despite a substantial increase in total farm cash costs, resulting mainly from a large increase in fertiliser and fuel prices, combined with higher interest rates.

Australian broadacre farm financial performance is projected to improve further in 2008-09, building on the recovery recorded in 2007-08.
Average farm cash income is projected to increase from $62 300 in 2007-08 to $80 000 in 2008-09 because of increased grain production, strong livestock prices and reductions in fodder prices and interest rates. However, the improvement in farm financial performance has mainly been in Western Australia, northern New South Wales and Queensland.

In Victoria, continued dry seasonal conditions are projected to result in average farm cash income for broadacre farms declining from $71 600 in 2007-08 to $50 000 in 2008-09. In 2008-09, dry seasonal conditions reduced crop yields, lowered lambing rates and resulted in fodder purchases remaining high. In addition, prices for grains, wool and beef cattle were lower (although prices for sheep and lambs remained high). With dry conditions continuing throughout most of 2008-09, cattle purchase for herd rebuilding has been reduced and, combined with lower interest rates, has led to a projected reduction in average total cash costs despite continued high expenditure on fodder.
Historically, average farm cash income for Victorian broadacre farms has been lower than the national average (figure e). This is partly because of the smaller average farm size in Victoria. In 2007-08, average farm cash income for Victorian broadacre farms exceeded the national average for the first time in more than 30 years. Grain crop yields increased more in Victoria than in the other states, leading to a relatively large increase in grain receipts in Victoria. In addition, sheep and lambs accounted for a larger share of broadacre farm receipts in Victoria than in the other states. High sheep and lamb prices in recent years have provided a significant additional boost to Victorian broadacre farm incomes.
The high proportion of small beef cattle farms in the Gippsland region means average farm cash income for broadacre farms in that region are generally much lower than for Victoria as a whole.

Average farm cash income for Gippsland broadacre farms increased to $33 900 a farm in 2007-08. Total cash receipts rose by 24 per cent, with a large increase in crop receipts combined with higher wool and beef cattle receipts (table 3). Increased receipts were partially offset by an 8 per cent increase in total cash costs, as purchases of beef cattle increased sharply and expenditure rose on fertiliser, fuel and hired labour.
In 2008-09, total cash receipts for Gippsland broadacre farms are projected to fall by around 15 per cent as dry seasonal conditions reduce beef cattle sold. Crop production also fell and prices received for wool were lower, although high prices resulted in projected increased receipts for sheep and lambs. With total cash costs increasing partly because of high expenditure on fodder, average farm cash income is projected to fall for Gippsland broadacre farms to $4000 a farm in 2008-09.
**Beef farm performance**

In 2007-08, the average farm cash income for Australian beef farms almost halved, falling to $25,100 a farm. Beef cattle turn-off was reduced and prices received for beef cattle fell, leading to a fall in average total cash receipts. While average total cash costs were also lower, largely because of reduced expenditure on beef cattle purchases, it was not enough to offset the reduction in cash receipts. Total cash costs remained relatively high because of increases in fuel, fertiliser, chemicals, freight and interest paid.

In 2008-09, average farm cash income is projected to rise by 27 per cent for beef farms nationally because of higher beef cattle prices combined with a projected increase in beef cattle turn-off in northern Australia. The rise in farm cash receipts is projected to be partly offset by a rise in average total cash costs as expenditure on cattle purchase and hired labour increases. Farm cash income for beef farms nationally is projected to average $32,000 a farm in 2008-09.

Average farm cash income for Victorian beef farms fell by relatively more than for other Australian beef farms in 2007-08. This occurred because Victorian farms began to rebuild beef herds in 2007-08, increasing expenditure on beef cattle purchases. Combined with increases in expenditure on fertiliser, interest and fuel, this resulted in cash costs for Victorian beef farms increasing by 25 per cent in 2007-08.

While farm cash incomes are projected to rise for beef industry farms nationally in 2008-09, average farm cash income for Victorian farms is projected to decline further in 2008-09 to be slightly negative (figure f). Receipts from the sale of beef cattle are estimated to have fallen by 20 per cent mainly because of lower prices received. While total cash costs are projected to decline by 19 per cent, this is not sufficient to offset the projected reduction in total cash receipts.

For beef farms in the Gippsland region, farm cash incomes increased to average $31,130 a farm in 2007-08. Higher beef cattle receipts led to total cash receipts increasing by 29 per cent, and more than offset a 17 per cent rise in total cash costs as expenditure on beef cattle purchase, fertiliser, fuel and interest increased. In 2008-09, farm cash income for Gippsland beef farms is projected to follow a similar trend to that for Victoria as a whole. Beef cattle sales are projected to fall by 19 per cent and despite reduced expenditure on interest, repairs and maintenance and fuel, average farm cash income is expected to be slightly negative.
Sheep farm performance

Higher wool prices, combined with increased turn-off of sheep and lambs, resulted in an increase in average farm cash income for Australian sheep farms in 2007-08 (figure g). This increase occurred despite total cash costs increasing by around 5 per cent, on average, mainly because of higher interest rates.

In 2008-09, average farm cash income for Australian sheep farms is projected to improve further, despite a fall in wool receipts resulting from lower wool prices and production. Lower wool receipts are projected to be more than offset by increases in receipts on average from sheep, lambs and crops. In addition, total cash costs are projected to fall by around 6 per cent on average, mainly because of lower interest rates together with a reduction in fodder expenditure. Farm cash income is projected to increase to average $47 500 a farm.

Sheep farms in Victoria had a higher average farm cash income than for Australian sheep farms as a whole in 2007-08. This partly reflects a greater reliance on lamb production by Victorian sheep farms in recent years.

In contrast to the improvement in incomes for sheep farms nationally, average farm cash income for Victorian sheep farms is projected to fall slightly in 2008-09. Cash receipts are projected to be affected by lower lamb and sheep turn-off, in combination with lower wool prices and reduced wool production. At the same time, total cash costs are projected to remain similar to 2007-08, with lower interest payments being offset by an increase in fodder expenditure.
Outlook for selected commodities

ABARE’s assessment of the outlook for world economic growth is provided in its quarterly publication, *Australian commodities*, which also includes market forecasts and detailed discussions of major Australian agricultural, mineral and energy commodities. The forecast summaries presented here for a number of the commodities important in this region are based on information in the June 2009 issue of *Australian commodities*.

Dairy outlook

World dairy product prices declined sharply in 2008-09 following the global economic downturn, with demand for dairy products falling in many regions. In 2009-10 relatively large supplies of dairy products in the major exporting countries combined with continuing subdued demand for dairy products, particularly in emerging economies, are expected to keep downward pressure on world dairy product prices.

World prices for whole milk powder and skim milk powder are forecast to be around 15 per cent lower in 2009-10 than the average prices for 2008-09. In 2009-10, world prices for butter and cheese are forecast to decline by around 25 per cent and 20 per cent, respectively.

The contraction in world demand for dairy products in 2008-09, in response to the slowdown in global economic activity, has reduced the export demand in major dairy producing countries. This has resulted in increased supplies to the domestic markets of major producing regions, particularly the European Union, the United States and New Zealand, putting additional downward pressure on their domestic prices.

From early 2009, the European Union and the United States commenced purchasing dairy products to support domestic prices. The buildup of government stocks, together with the re-introduction of EU and US export subsidies, is expected to place downward pressure on world dairy product prices through 2009-10.

In 2009-10, lower farm-gate prices and relatively high feed costs are likely to constrain any growth in EU milk production, while US milk production is forecast to contract in 2010. New Zealand milk production in 2009-10 is expected to be close to the record output of 2008-09.

World dairy demand is expected to be under continued downward pressure because of weak world economic activity in 2009-10. In particular, weak economic activity in emerging economies, particularly in the Russian Federation and those in Asia, is expected to affect import demand for dairy products, especially in the second half of 2009.

Australian milk production is estimated to rise by 1.7 per cent to 9.38 billion litres in 2008-09. However, production in 2009-10 is forecast to decline by 0.9 per cent to 9.3 billion litres as farmers respond to significantly lower farm-gate prices. Australian milk production in 2009-10 will also be significantly influenced by seasonal conditions, water allocations for irrigation and the cost of supplementary feeds.

The adjustments producers are able to make to accommodate lower milk prices, particularly those producers in the irrigation areas of the Murray-Darling Basin, will be critical in determining Australian milk production in 2009-10. Without sustained, above average rainfall in the main catchment areas, water allocations in 2009-10 are unlikely to return to the relatively high levels of previous years.

With world dairy product prices forecast to remain relatively low in 2009-10, the Australian farm-gate milk price is forecast to decline by 17.5 per cent, to average 33 cents a litre in 2009-10.
Beef outlook

The Australian weighted average saleyard price of cattle is forecast to be largely unchanged in 2009-10 at an average of 296 cents a kilogram. This forecast is contingent on the assumption of an improvement in seasonal conditions.

The number of cows and heifers slaughtered is expected to fall as producers begin to rebuild herds. However, this is likely to be offset by an increase in steer slaughter. Beef production is forecast to remain slightly less than 2.2 million tonnes in 2009-10, with the total number of cattle slaughtered forecast to remain around 8.8 million head.

Total Australian beef exports are forecast to fall by 2 per cent in 2009-10 to 940 000 tonnes. While exports to the United States are forecast to rise, lower export volumes are expected for Japan, the Republic of Korea and emerging markets, particularly the Russian Federation. Exports of Australian beef to the Republic of Korea are forecast to fall by 5 per cent in 2009-10, as competition from US beef increases. However, export volumes are forecast to remain above pre-2003 volumes (prior to the US beef ban), at around 105 000 tonnes.

Australian beef exports to Japan are also forecast to fall in 2009-10, by around 3 per cent, to 350 000 tonnes. The principal reasons for the decline are increased competition from US beef in the Japanese market and dampened demand for beef arising from the economic slowdown in Japan.

Australian beef exports to the United States are forecast to increase by 7 per cent in 2009-10 to around 300 000 tonnes. US imports of Australian beef began to increase from September 2008, as the US dollar appreciated and the demand for cheaper beef cuts strengthened as a result of the economic downturn. The demand for cheaper meat, such as ground beef, is expected to remain strong throughout 2009-10.

Sheep meat outlook

Throughout 2008-09 lamb supplies have been tight, while demand has remained strong. As a result, prices during 2008-09 have been high. In 2009-10, lamb slaughter is forecast to increase slightly, as farmers are expected to respond to the high prices of the previous season by breeding more lambs for slaughter in 2009-10. This higher slaughter is expected to translate into higher lamb production for 2009-10. As a result, the Australian weighted average price of lambs is expected to fall by 1.7 per cent to 415 cents a kilogram in 2009-10.

The average slaughter weight of lambs is forecast to increase by 1.5 per cent in 2009-10 compared with 2008-09. This reflects expected lower feed costs, an increased proportion of crossbred lambs slaughtered relative to merino lambs, and an assumed improvement in seasonal conditions. As a result of increased lamb slaughter and heavier slaughter weights, lamb production is forecast to increase by 2 per cent in 2009-10, to 422 000 tonnes.

The weighted average saleyard price of sheep is forecast to increase by 2.6 per cent in 2009-10, to average 200 cents a kilogram. This forecast increase mainly reflects continued strong demand for mutton and live sheep in export markets, combined with expected lower production of mutton. Mutton production is forecast to fall by around 3 per cent in 2009-10, to 235 000 tonnes, reflecting the decreasing national flock and the retention of breeding animals in response to high lamb prices. This production decline is smaller than the fall in sheep slaughter and reflects higher expected average slaughter weights as a result of assumed greater pasture availability.
The price forecasts for lamb and sheep are dependent on the assumption of a sustained improvement in seasonal conditions throughout 2009-10. Recent rains have increased re-stocker demand for lambs and sheep, which has contributed to higher prices. If seasonal conditions deteriorate, producers will turn-off more animals which will put downward pressure on saleyard prices.

The volume of lamb exports from July 2008 to April 2009 fell relative to the same period in 2007-08. This decline is expected to continue to the end of 2008-09 given the decline in lamb production. Lamb exports in 2008-09 are estimated to total 151 000 tonnes, a decline of 7 per cent from the previous year.

In 2009-10, lamb exports are forecast to increase by around 5 per cent to 158 000 tonnes, reflecting the expected increase in lamb production. Growth in world demand for Australian lamb in 2009-10 is expected to be weaker than in the past few years because of the effects of the economic slowdown in some export markets.

As a result of lower sheep slaughter, mutton exports in 2008-09 are estimated to fall by 7 per cent, to 147 000 tonnes. In 2009-10, mutton exports are forecast to fall by a further 3 per cent to 143 000 tonnes, reflecting lower domestic mutton production and the effect of weaker income growth in a number of key export markets.

Despite a 10 per cent decline in the Australian adult sheep flock during 2008-09, live sheep exports in 2008-09 are estimated to fall by 2 per cent to around 4 million head and remain similar in 2009-10. The relatively small decline in live sheep exports reflects a significant increase in live sheep export prices, which averaged around 20 per cent higher between July 2008 and March 2009 than for the same period in 2007-08. The value of live exports in 2008-09 is estimated to increase by 16 per cent relative to 2007-08, to $334 million. The value of live sheep exports is forecast to further increase in 2009-10, by 0.5 percent to $336 million.

**Wool outlook**

The eastern market indicator (EMI) price for wool is forecast to average 795 cents a kilogram in 2008-09, which is 16 per cent lower than in 2007-08. This is the result of the significant decline in demand brought about by the global economic downturn and fast-falling consumer confidence in major wool apparel consuming economies, including the United States, the European Union and Japan. In 2009-10 the EMI is forecast to increase 3 per cent, to 820 cents a kilogram clean. This is an upward revision to the price forecast presented in the March issue of Australian commodities and can be attributed to expected strong growth in Chinese domestic retail sales combined with a downward revision of Australian shorn wool production.

The number of sheep shorn is forecast to decline to 78 million in 2009-10, which is a fall of 7 per cent from the 2008-09 season and is a result of the ongoing decline in the size of the Australian flock. In light of the shrinking flock size and the changing focus of enterprises away from wool toward the production of sheep meat, shorn wool production is forecast to fall by 7 per cent to 330 000 tonnes in 2009-10.

Weak retail activity in the United States and European Union in 2009 is expected to continue to affect 2009-10 orders for semi-durables such as yarn and apparel. This will put downward pressure on demand for Australian raw wool by China as it is the world’s largest wool processor and exporter. However, mitigating the downward pressure on wool demand in 2009 is the forecast of strong domestic retail sales growth for China, the largest global consumer of apparel wool. Australian wool exports in 2009-10 (including greasy wool, semi-processed wool and skins) are estimated to fall by 8 per cent, to 405 000 tonnes greasy wool equivalent. Coupled with lower prices, export earnings are forecast to fall by around 7 per cent, to $2.12 billion.
Methodology

ABARE surveys are designed and samples selected on the basis of a framework drawn from the Business Register maintained by the Australian Bureau of Statistics (ABS). The framework includes agricultural establishments in each statistical local area classified by size and major industry.

Data provided in this paper have been collected via on-farm interviews and incorporate detailed farm financial accounting information.

The estimates presented have been calculated by appropriately weighting the data collected from each sample farm. Sample weights are calculated so that sample estimates of numbers of farms, areas of crops and numbers of livestock in various geographic regions and industries correspond as closely as possible to the most recently available ABS data as collected in its Agricultural Censuses and updated annually with data collected in Agricultural Commodity Surveys.

The 2008-09 projections are based on data collected via on-farm interviews and telephone interviews in the period 1 October to 9 December 2008. The estimates include crop and livestock production, receipts and expenditure. Modifications have been made to expected receipts and expenditure for the remainder of 2008-09 where significant price changes have occurred post interview.

Reliability of estimates

The reliability of the estimates of population characteristics presented in this paper depends on the design of the sample and the accuracy of the measurement of characteristics for the individual sample businesses.

Only a proportion of businesses in a state are surveyed. The data collected from each sample business are weighted to calculate population estimates. Estimates derived from these businesses are likely to be different from those that would have been obtained if information had been collected from a census of all businesses. Any such differences are called ‘sampling errors’.

The size of the sampling error is most influenced by the survey design and the estimation procedures, as well as the sample size and the variability of businesses in the population. The larger the sample size, the lower the sampling error is likely to be. Therefore, state estimates are likely to have greater sampling errors than national estimates.

To give a guide to the reliability of the survey estimates, sampling errors have been calculated for the estimates. These estimated errors, expressed as percentages of the survey estimates and termed ‘relative standard errors’ are given next to each estimate in parentheses and italics.

References

