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Financial performance of beef farms, 2005-06 to 2007-08

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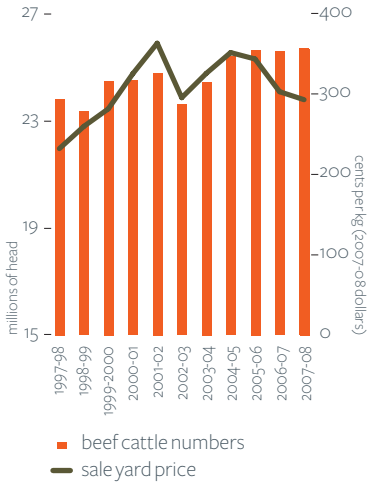
- Farm financial performance of Australia's beef cattle producers is projected to recover in both northern and southern Australia in 2007-08.
- In northern and southern Australia, farm financial performance increases with the scale of producers' beef cattle herd.
- Following recent improvements in capital investments, particularly in land, the Australian beef industry is in a strong position to expand production following the drought.
- While cattle prices are projected to fall, a recovery in the number of cattle numbers and sales is likely to lead to beef cattle producers realising higher incomes and profitability in coming years.

Over the past decade, the Australian beef industry has undergone a period of expansion, with producers responding to higher prices by expanding cattle numbers and production (figure a). However, adverse seasonal conditions in recent years have impeded producers' ability to maintain growth in cattle numbers.

Detailed estimates of production and financial performance are presented in this report to highlight the impact of the past two years' seasonal conditions on beef cattle businesses. In particular, this report focuses on beef cattle producers' financial capacity to recover from recent droughts and to continue to expand production, should seasonal conditions permit.

For the purposes of this report, broadacre farms have been classified as being beef cattle producers if they have more than 100 head of cattle. To investigate the physical and financial performance of beef cattle producers of differing scales, producers surveyed by ABARE have been classified as being in one of four groups — small, medium, large and very large — based on the size of their beef cattle herd (table 1). Beef cattle producers in northern Australia, in general, operate significantly larger farms (in terms of area operated and number of cattle run) than their southern counterparts. To enable a meaningful analysis, northern and southern beef industry producers have been allocated to different size groups in these regions (tables 1 and 2).

a Beef and veal numbers and average saleyard price



1 Beef cattle group definitions, by beef cattle numbers

	northern Australia	southern Australia
Small	100 – 400	100 – 200
Medium	400 – 1 600	200 – 400
Large	1 600 – 5 400	400 – 800
Very large	> 5 400	> 800

2 Distribution of broadacre beef cattle producers, by number of cattle at 30 June Average 2000-01 to 2006-07

	number of farms	share of farms	share of beef cattle	share of value of cattle sales
	no	%	%	%
Northern Australia				
< 100	2 504	22.6	1	2
100 – 400 head	3 581	32.4	6	8
400 – 800 head	1 494	13.5	6	7
800 – 1 600 head	1 602	14.5	15	15
1 600 – 5 400 head	1 471	13.3	31	31
> 5 400 head	405	3.7	40	36
Total	11 058	100	100	100
Southern Australia				
< 100	10 611	33.0	6	6
100 – 400 head	14 659	45.6	33	29
400 – 800 head	4 964	15.4	29	26
800 – 1 600 head	1 446	4.5	17	15
1 600 – 5 400 head	433	1.3	11	10
> 5 400 head	39	0.1	4	14
Total	32 153	100	100	100
Australia				
< 100	13 115	30.4	3	4
100 – 400 head	18 240	42.2	17	19
400 – 800 head	6 458	14.9	16	17
800 – 1 600 head	3 048	7.1	15	15
1 600 – 5 400 head	1 905	4.4	23	20
> 5 400 head	444	1.0	25	25
Total	43 211	100	100	100

Broadacre producers with fewer than 100 head of cattle account for just 3 per cent of Australia's broadacre beef cattle herd and, on average, generate less than 10 per cent of farm cash receipts from the sale of cattle. These producers have therefore been excluded from the analysis.

Impact of the drought on the beef cattle herd

Since the drought in 2002-03 seasonal conditions have differed between northern and southern Australia.

In northern Australia, drought conditions returned in 2005-06, resulting in northern beef cattle producers increasing turnoff rates and reducing cattle numbers (figure b and table 3). Small-scale producers in the high rainfall and cropping belt of southern Queensland were most adversely affected. On average, small producers in northern Australia reduced beef cattle numbers by around 10 per cent per farm in 2005-06.

In 2006-07, improved seasonal conditions in northern Australia boosted pasture growth and enabled producers to commence rebuilding animal numbers. The exception was in southern and central Queensland, where drought conditions persisted into

2006-07. Beef cattle producers in this region continued to reduce livestock numbers.

In 2007-08, average to above average conditions in most parts of northern Australia, except in the southern part of the Northern Territory, boosted calf production and led to continued expansion in cattle numbers. In 2007-08, cattle numbers are projected to increase, on average, by 8.5 per cent (figure b and table 3).

In southern Australia, production was affected by dry conditions in 2004-05 and a drought in 2006-07. Beef cattle producers responded to reduced on-farm feed availability by increasing cattle turnoff rates and reducing livestock numbers. In 2006-07, cattle numbers fell on average by almost 4 per cent per farm.

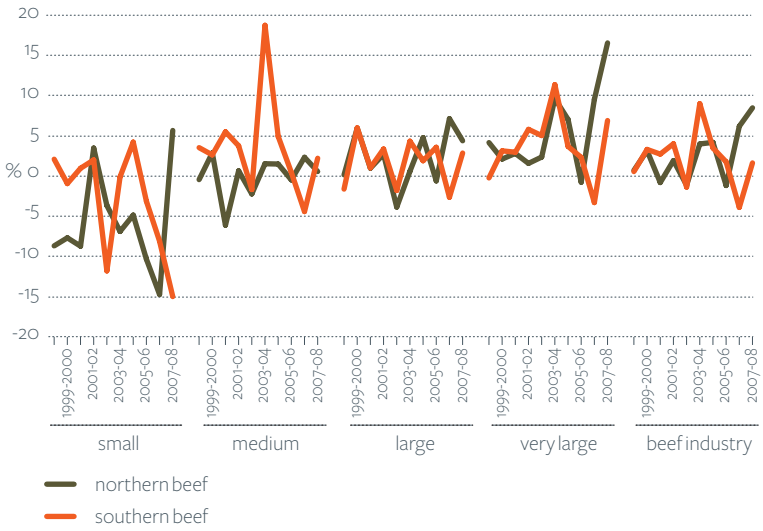
3 Selected physical characteristics, by herd size

Average per farm

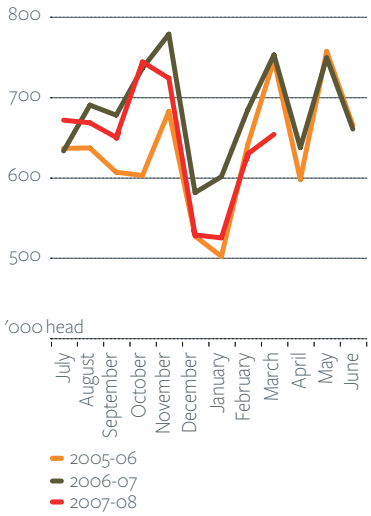
		small			medium			large		
		2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Northern Australia										
Change in beef cattle numbers	%	−10.3	−14.7	5.7	−0.4	2.4	0.6	−0.6	7.2	4.4
Calves branded	no	81	79	88	263	292	293	735	876	911
Beef cattle purchases	no	52	31	11	74	76	39	165	165	54
Beef cattle sales	no	142	135	83	311	343	321	822	772	801
Change in sheep numbers	%	−11.4	−2.6	−8.2	6.9	−17.0	5.6	−3.1	14.0	9.0
Area cropped	ha	126	107	125	129	166	215	101	196	134
Southern Australia										
Change in beef cattle numbers	%	−3.1	−8.1	−15.0	0.5	−4.4	2.3	3.6	−2.6	2.9
Calves branded	no	62	55	75	105	107	114	184	215	230
Beef cattle purchases	no	23	36	13	41	127	39	113	75	62
Beef cattle sales	no	85	98	109	140	235	145	267	291	266
Change in sheep numbers	%	6.4	1.7	2.8	0.9	0.0	3.9	3.8	4.2	-6.7
Area cropped	ha	281	142	162	158	237	105	147	277	112

		very large			all producers		
		2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Northern Australia							
Change in beef cattle numbers	%	−0.7	9.6	16.6	−1.1	6.2	8.5
Calves branded	no	3 563	3 477	3 919	419	547	470
Beef cattle purchases	no	277	565	109	91	111	32
Beef cattle sales	no	2 803	2 378	3 081	446	491	422
Change in sheep numbers	%	−72.9	na	na	−2.2	−6.6	0.1
Area cropped	ha	54	94	17	120	146	155
Southern Australia							
Change in beef cattle numbers	%	2.4	−3.3	7.0	1.8	−3.9	2.1
Calves branded	no	561	610	583	160	177	182
Beef cattle purchases	no	134	213	88	65	91	43
Beef cattle sales	no	630	796	561	208	269	209
Change in sheep numbers	%	3.4	5.1	−1.1	3.8	2.8	0.3
Area cropped	ha	372	537	290	208	249	143

b Change in beef cattle numbers, by herd size



c Number of cattle slaughtered

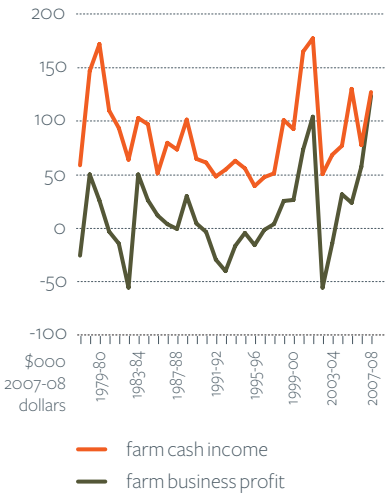


Producers of all scales of beef cattle production reduced cattle numbers, although small producers de-stocked more intensively.

Seasonal conditions early in 2007-08 were dry; however good spring and summer rainfall in many parts of southern Australia boosted pasture growth and increased livestock production. At the time the survey was conducted, in November 2007, many producers indicated they intended to respond to the recovery in on-farm feed production by reducing turnoff rates and rebuilding animal numbers. However, conditions remained dry in Tasmania and parts of South Australia and Victoria, where producers are projected to continue to de-stock in 2007-08. Overall, cattle numbers are projected to rise by 2.1 per cent in southern Australia.

The latest ABS slaughter data indicates producers realised their intentions to reduce turnoff of cattle for slaughter. In March 2008, 652 000 head of cattle were slaughtered, around 13 per cent fewer than in March 2007. In the nine months to March 2008 almost 5.8 million head of cattle were slaughtered in Australia, 6 per cent less than for the same period in 2006-07 (figure c).

d Financial performance, northern Australia,



Farm financial performance in northern Australia

2006-07

In 2006-07, farm financial performance in the northern beef industry is estimated to have recovered following the 2005-06 drought. Reduced turnoff rates for beef cattle resulted in lower incomes in 2006-07; however the increased cattle numbers and values of trading stocks led to farm business profits more than doubling to almost $57 500 a farm in 2006-07 (figure d and table 4).

4 Financial performance, northern beef industry

Average per farm

		small				medium				large			
		2005-06	2006-07		2007-08	2005-06	2006-07		2007-08	2005-06	2006-07		2007-08
Farm cash receipts													
Beef cattle	$	103 423	92 840	(10)	56 100	241 495	235 780	(7)	240 700	745 795	596 530	(6)	611 000
Beef cattle transferred off-farm	$	3 944	120	(109)	na	6 969	1 220	(100)	na	42 842	15 440	(73)	na
Crops	$	41 469	33 380	(59)	87 200	32 230	39 720	(63)	102 700	14 858	41 950	(53)	74 300
Sheep and lambs	$	2 879	2 080	(40)	15 100	3 035	7 420	(44)	12 800	3 088	3 110	(79)	5 600
Wool	$	6 446	9 360	(31)	14 800	5 921	15 600	(56)	23 300	6 782	11 230	(81)	14 500
Total cash receipts	$	185 276	171 350	(13)	192 100	323 311	343 600	(8)	413 300	862 399	765 110	(7)	778 200
Farm cash costs													
Beef cattle purchases	$	27 487	18 320	(24)	7 100	46 660	44 930	(15)	24 300	134 657	114 010	(19)	41 300
Chemicals	$	5 249	3 710	(23)	3 500	7 193	4 790	(37)	8 500	6 951	5 300	(40)	8 900
Contracts	$	9 246	4 540	(25)	na	14 058	11 780	(12)	na	23 078	24 270	(19)	na
Fertilisers	$	3 734	3 340	(25)	11 800	1 080	5 760	(57)	18 700	2 802	2 690	(58)	7 500
Fodder	$	15 907	23 390	(14)	7 400	24 338	31 560	(19)	16 900	69 818	78 990	(12)	50 300
Fuel, oil and grease	$	15 009	13 900	(14)	14 900	22 419	19 560	(11)	23 300	41 218	41 310	(8)	40 200
Handling and marketing	$	1 719	2 950	(75)	6 500	3 399	5 160	(66)	9 800	4 659	3 220	(6)	20 300
Hired labour	$	5 591	5 310	(16)	4 000	6 319	10 720	(22)	11 100	37 729	37 440	(16)	49 500
Interest	$	18 589	22 630	(19)	21 000	24 482	40 740	(13)	57 400	80 914	102 530	(13)	101 400
Repairs and maintenance	$	16 187	15 480	(11)	18 100	27 182	28 550	(10)	34 400	59 172	62 900	(7)	68 200
Total cash costs	$	162 208	156 270	(13)	139 600	238 375	287 020	(9)	294 600	631 448	629 160	(8)	533 600
Farm financial performance													
Farm cash income	$	23 068	15 080	(58)	52 600	84 936	56 570	(29)	118 700	230 951	135 950	(34)	244 600
Farm business profit	$	– 71 343	– 82 620	(8)	– 3 300	– 4 195	– 28 490	(54)	31 400	92 289	163 210	(33)	206 700
Rate of return													
– excl. cap. appreciation	%	–2.4	–2.2	(21)	0.8	0.6	0.4	(87)	1.7	2.1	2.6	(19)	2.5
– incl. cap. appreciation	%	4.7	11.7	(15)	na	9.2	11.4	(20)	na	11.7	15.4	(16)	na

		very large				northern Australia			
		2005-06	2006-07		2007-08	2005-06	2006-07		2007-08
Farm cash receipts									
Beef cattle	$	1 910 078	1 862 260	(13)	1 585 600	352 794	366 070	(5)	282 600
Beef cattle transferred off-farm	$	1 141 786	651 400	(32)	na	57 169	47 810	(30)	na
Crops	$	1 975	41 910	(20)	0	30 888	38 040	(34)	86 900
Sheep and lambs	$	5 719	0	(0)	0	3 101	4 160	(32)	12 000
Wool	$	112	0	(0)	0	6 009	11 450	(33)	17 200
Total cash receipts	$	3 143 555	2 680 980	(12)	2 099 700	486 251	523 660	(5)	454 500
Farm cash costs									
Beef cattle purchases	$	212 493	373 960	(29)	134 000	62 686	71 350	(13)	24 700
Chemicals	$	3 453	3 620	(64)	2 600	6 388	4 420	(19)	6 100
Contracts	$	83 758	74 870	(17)	na	16 882	15 940	(10)	na
Fertilisers	$	2 207	1 020	(85)	4 400	2 268	3 970	(33)	13 300
Fodder	$	186 709	190 820	(39)	107 100	36 116	48 770	(13)	22 300
Fuel, oil and grease	$	139 114	124 390	(9)	131 000	28 005	28 930	(5)	27 300
Handling and marketing	$	11 746	8 800	(10)	47 600	3 420	4 240	(36)	11 800
Hired labour	$	237 326	193 190	(10)	181 300	20 759	26 430	(8)	22 000
Interest	$	123 917	198 160	(24)	200 700	36 511	57 100	(8)	55 500
Repairs and maintenance	$	181 769	141 660	(7)	178 200	35 460	38 310	(4)	39 400
Total cash costs	$	2 070 529	2 325 780	(14)	1 618 000	356 065	446 030	(6)	327 300
Farm financial performance									
Farm cash income	$	1 073 026	355 200	(44)	481 700	130 186	77 620	(20)	127 200
Farm business profit	$	809 392	967 370	(15)	1 760 200	23 748	57 490	(28)	123 800
Rate of return									
– excl. capital appreciation	%	4.5	5.2	(11)	8.6	1.4	1.9	(13)	2.9
– incl. capital appreciation	%	12.1	22.0	(19)	na	9.9	15.3	(10)	na

Note – The figures in parenthesis are relative standard errors expressed as a percentage of the estimate.

Total farm cash receipts are estimated to have increased by 8 per cent as a result of higher livestock and cropping receipts. Improved seasonal conditions in 2006-07 led to a recovery in branding rates and increased calf production. While many of these calves were retained to expand cattle numbers, producers also increased cattle sales. Increased sales more than offset the impact of a 6 per cent decline in the average price received for cattle, resulting in beef cattle receipts rising on average by 4 per cent. In addition, improved conditions enabled producers to increase the area sown to grain crops, particularly in Queensland. The resultant increase in grain production and sales caused cropping receipts to rise by 23 per cent to $38 000 per farm.

Farm cash costs are estimated to have increased by 25 per cent in 2006-07, mainly because of increased outlays on cattle purchases, fodder and interest. Improved seasonal conditions and producers' generally high level of confidence concerning the immediate future of the beef industry encouraged many beef cattle producers to accelerate their rate of herd rebuilding by increasing purchases of beef cattle. Rising debt levels and higher interest rates increased interest repayments to $57 000 a farm, making interest payments the second largest cost after cattle purchases. Continued reliance on purchased fodder, in conjunction with record grain and hay prices, resulted in producers spending 35 per cent more on fodder in 2006-07.

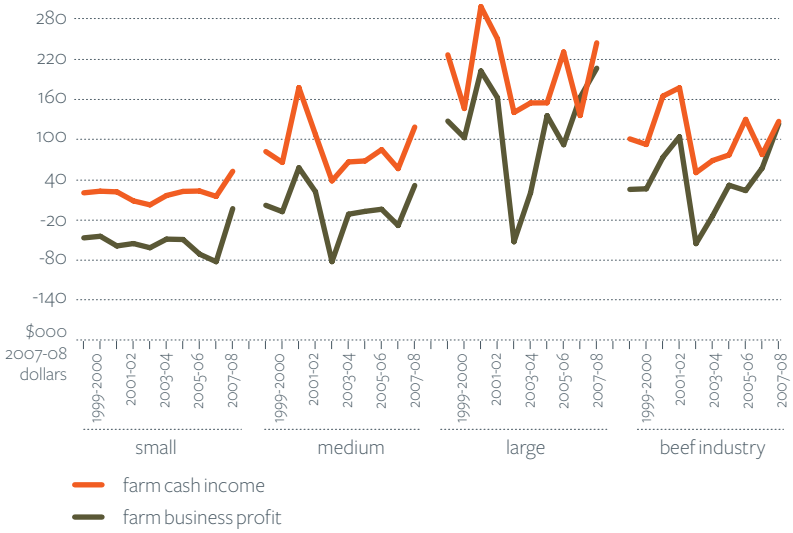
Financial performance by herd size

In 2006-07, large and very large beef cattle producers realised lower farm cash incomes as a result of weaker cattle prices and reduced turnoff as producers expanded livestock numbers. However, a sharp increase in the value of trading stocks resulted in farm business profits rising on average by 77 per cent for large producers, and by 20 per cent for very large producers (figures e1, e2 and table 4).

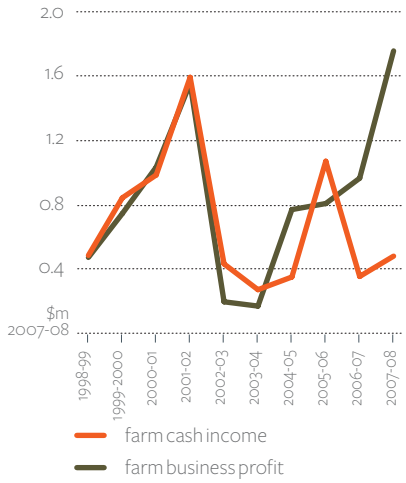
In contrast, farm incomes and profits of small and medium sized producers deteriorated during 2006-07. Small producers are more concentrated in southern and coastal Queensland, where persistent drought conditions resulted in lower grain and calf production. Farm incomes were adversely affected by reduced sales of cattle, lower prices and higher costs. Further reductions in sheep and beef cattle numbers led to a fall in the value of trading stocks. This, combined with lower farm cash incomes, resulted in average farm business losses for small producers increasing from $71 000 per farm in 2005-06 to almost $83 000 per farm in 2006-07.

Medium sized beef cattle producers experienced sufficient improvement in seasonal conditions to start rebuilding cattle numbers and boost sales. However, growth in cattle sales did not offset the impact of lower commodity prices, resulting in farm cash incomes falling in 2006-07. A net rebuilding of livestock

e1 Financial performance, northern Australia



e2 Financial performance, very large farms, northern Australia



numbers during the year boosted the value of trading stocks and resulted in farm business profits falling by less than farm cash incomes.

2007-08

Improved seasonal conditions are projected to result in northern beef producers of all herd sizes realising a strong recovery in farm incomes and profits (figures e1, e2 and table 4). Improved seasonal conditions are projected to result in producers of all scales increasing calf production, enabling most producers to increase cattle numbers and, in the case of large producers, the number of cattle sold. Increased beef cattle numbers are projected to result in more broadacre farms being classified as small and medium sized beef cattle farms.

This influx of smaller farms has implications for the average per farm estimates at the regional level presented in this report. For example, on average, producers of all herd sizes are projected to have increased the number of calves branded in 2007-08 (table 3). However, the estimate for the average number of calves branded in northern Australia fell from 547 a farm in 2006-07 to a projected 470 a farm in 2007-08, reflecting the greater influence of small and medium sized producers (table 3).

On average, farm cash incomes in northern Australia are projected to increase in 2007-08, as receipts rise relative to costs. Among small and medium sized beef cattle producers, increased crop production and record grain prices boosted cropping receipts. Also, these producers indicated they intended to reduce cattle turnoff in order to expand livestock numbers, resulting in fewer cattle sold in 2007-08. Farm cash costs are projected to be similar to 2006-07 levels as reduced spending on livestock purchases

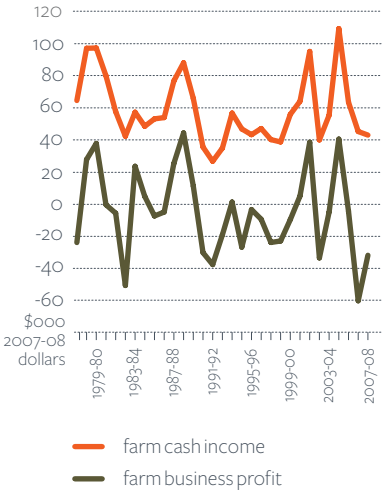
and fodder offset higher cropping expenses (table 4). For very large beef cattle producers, farm cash receipts are expected to fall as weaker cattle prices offset increased sales. However, farm cash costs are also projected to fall because of reduced outlays on purchased cattle and fodder. Higher farm cash incomes and further increases in cattle numbers boosted the value of trading stocks and farm business profitability.

Farm financial performance in southern Australia

2006-07

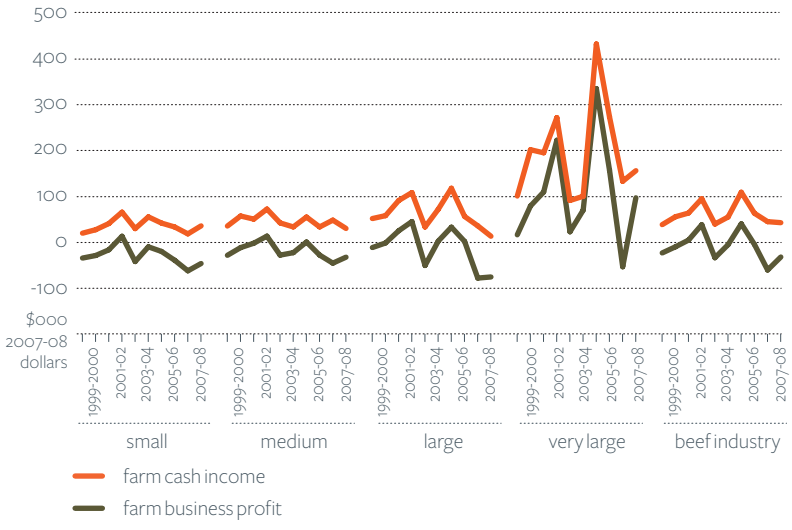
In 2006-07, farm incomes deteriorated in southern Australia as drought increased costs relative to receipts. As a result of lower incomes and a significant run-down in the value of trading stocks, farm business losses increased from almost $4500 a farm in 2005-06 to more than $60 000 a farm in 2006-07 (table 5). This is the largest average farm business loss recorded by the southern beef industry since ABARE started surveying the broadacre industry in 1977-78 (figure f).

f Financial performance, southern Australia



In 2006-07, total farm cash receipts rose by 13 per cent as higher beef cattle, sheep, lamb and wool receipts offset a fall in cropping receipts. Extensive drought conditions in southern Australia constrained on-farm feed availability, forcing many producers to increase turnoff and reduce cattle numbers. On average, the number of cattle sold in southern Australia rose by 29 per cent to 269 head a farm. However, increased sales of young and unfinished livestock resulted in producers receiving lower prices in 2006-07. Consequently, beef cattle receipts rose by just 14 per cent to $179 000 a farm.

g Financial performance, southern Australia, by herd size



5 Financial performance, southern beef industry

Average per farm

		small				medium				large			
		2005-06	2006-07		2007-08	2005-06	2006-07		2007-08	2005-06	2006-07		2007-08
Farm cash receipts													
Beef cattle	$	63 009	56 160	(8)	75 200	94 684	159 280	(22)	94 000	215 089	181 960	(6)	173 100
Beef cattle transferred off-farm	$	14	90	(85)	na	176	0	(0)	na	116	200	(93)	na
Crops	$	84 538	35 480	(25)	31 800	41 139	56 920	(13)	25 800	47 549	46 920	(41)	24 100
Sheep and lambs	$	54 340	27 240	(37)	30 400	25 841	42 860	(15)	32 900	34 822	58 900	(16)	46 700
Wool	$	33 151	23 830	(38)	24 800	23 507	42 370	(15)	40 100	18 784	49 170	(21)	41 600
Total cash receipts	$	256 213	170 160	(18)	178 200	207 753	325 930	(11)	213 100	336 460	397 030	(9)	337 700
Farm cash costs													
Beef cattle purchases	$	16 800	16 650	(14)	7 100	22 956	49 120	(29)	19 500	80 158	45 010	(22)	32 900
Chemicals	$	10 480	6 340	(21)	5 700	4 992	11 700	(18)	6 900	6 938	11 320	(32)	6 300
Contracts	$	8 814	6 510	(16)	na	6 493	12 850	(16)	na	12 324	11 110	(26)	na
Fertilisers	$	16 994	11 090	(34)	11 600	11 390	16 430	(13)	13 500	21 523	22 060	(19)	17 800
Fodder	$	5 082	12 140	(22)	6 400	10 649	22 810	(19)	6 800	11 173	41 630	(24)	9 500
Fuel, oil and grease	$	18 338	10 900	(13)	12 000	13 565	16 350	(7)	12 600	16 439	23 870	(14)	22 000
Handling and marketing	$	6 558	950	(21)	3 900	2 913	2 010	(9)	4 300	2 922	2 690	(11)	7 300
Hired labour	$	10 727	2 490	(41)	4 400	5 541	7 650	(20)	6 800	9 010	16 760	(21)	9 900
Interest	$	26 644	20 430	(27)	17 700	15 633	29 130	(17)	30 100	19 429	42 130	(16)	38 400
Repairs and maintenance	$	20 907	15 380	(14)	15 200	16 874	20 210	(11)	17 500	22 060	33 680	(14)	27 800
Total cash costs	$	222 688	151 620	(14)	142 200	174 060	277 430	(10)	182 700	279 911	360 920	(9)	324 300
Farm financial performance													
Farm cash income	$	33 526	18 540	(75)	36 000	33 693	48 510	(31)	30 400	56 549	36 110	(50)	13 400
Farm business profit	$	−39 100	−62 040	(23)	−46 100	−27 733	−45 300	(28)	−32 300	2 158	−77 830	(24)	−75 400
Rate of return													
– excl. capital appreciation	%	−0.2	−1.6	(46)	−0.8	−0.4	−0.2	(143)	0.1	0.8	-0.6	(63)	-0.8
– incl. capital appreciation	%	5.7	9.8	(72)	na	10.0	7.5	(20)	na	5.8	5.6	(30)	na

		very large				southern Australia			
		2005-06	2006-07		2007-08	2005-06	2006-07		2007-08
Farm cash receipts									
Beef cattle	$	491 316	573 970	(16)	470 400	157 742	179 100	(8)	148 800
Beef cattle transferred off-farm	$	2 564	24 980	(183)	na	352	3 310	(179)	na
Crops	$	250 966	141 390	(24)	114 400	75 010	57 370	(12)	36 700
Sheep and lambs	$	57 462	66 240	(16)	78 400	38 903	43 720	(9)	40 500
Wool	$	55 335	77 810	(16)	60 200	27 924	41 520	(10)	38 400
Total cash receipts	$	901 235	971 530	(15)	792 700	323 476	366 980	(6)	296 500
Farm cash costs									
Beef cattle purchases	$	93 504	124 150	(46)	56 200	43 647	45 550	(18)	23 300
Chemicals	$	26 101	29 480	(34)	23 800	9 046	11 880	(14)	8 300
Contracts	$	22 015	21 280	(23)	na	10 202	11 130	(12)	na
Fertilisers	$	60 429	69 430	(14)	53 600	20 426	22 570	(8)	18 400
Fodder	$	35 014	74 060	(36)	19 600	11 719	29 800	(15)	8 700
Fuel, oil and grease	$	46 908	50 980	(15)	45 200	18 885	20 520	(7)	18 300
Handling and marketing	$	10 020	5 450	(11)	18 700	4 579	2 210	(6)	6 500
Hired labour	$	38 625	62 580	(15)	55 500	11 104	14 920	(11)	12 200
Interest	$	50 509	86 360	(11)	80 300	23 000	36 270	(8)	34 100
Repairs and maintenance	$	58 377	71 310	(11)	73 400	23 423	28 130	(6)	25 400
Total cash costs	$	627 783	838 350	(18)	636 300	260 060	321 780	(7)	254 900
Farm financial performance									
Farm cash income	$	273 452	133 180	(25)	156 300	63 416	45 190	(17)	41 600
Farm business profit	$	157 257	−53 170	(72)	97 200	−4 478	−60 270	(14)	−32 300
Rate of return									
– excl. capital appreciation	%	2.7	0.5	(62)	2.4	0.7	−0.4	(49)	0.2
– incl. capital appreciation	%	13.9	9.6	(23)	na	8.8	8.1	(18)	na

Note —The figures in parenthesis are relative standard errors expressed as a percentage of the estimate.

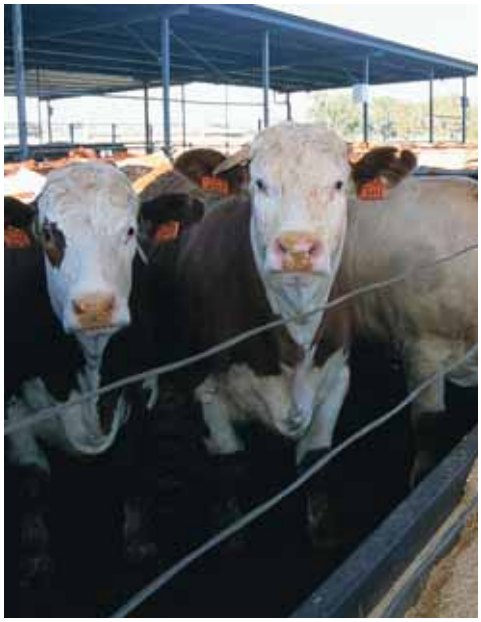
Despite increased plantings of winter grain crops, poor growing conditions resulted in below average yields and reduced grain production. Increased on-farm feed use to supplement pastures further constrained the amount of grain and hay for sale, resulting in crop receipts falling by 24 per cent to $57 000 a farm.

Receipts from sheep and lambs increased in 2006-07, as higher commodity prices offset the impact of reduced lamb production. Wool receipts also increased, as producers responded to higher prices by running down on-farm wool stocks to boost sales. Consequently, wool receipts rose on average by 49 per cent to $42 000 a farm in 2006-07.

Total cash costs increased by 24 per cent in 2006-07, because of increased outlays on purchased fodder, interest payments and cropping inputs. Reduced pasture growth and tightening on-farm feed availability resulted in many producers increasing their purchases of grain and hay, despite regional prices rising to record levels. On average, outlays on purchased fodder increased by 154 per cent to almost $30 000, or 10 per cent of total cash costs. Increased crop planting and higher input costs resulted in many producers spending considerably more on crop inputs like fuel, chemicals and fertilisers. However, reduced grain sales resulted in reduced spending on handling and marketing.

Financial performance by herd size

Farm business profits deteriorated for producers of all herd sizes in southern Australia (figure g and table 5). On average, small, large and very large beef cattle farms recorded the largest business loss, in real terms, since ABARE started conducting the broadacre survey in 1977-78. In the case of medium sized farms, 2006-07 showed the largest average farm business loss since 1982-83.



2007-08

In 2007-08, farm financial performance is projected to recover moderately, with farm incomes projected to be similar to 2006-07. Business profits are expected to recover as southern beef producers rebuild animal numbers.

Farm cash receipts are projected to fall on average by 19 per cent because of lower livestock and cropping receipts. Reduced turnoff to rebuild beef cattle numbers is projected to result in the number of cattle sold falling by 22 per cent in 2007-08. Despite higher prices, beef cattle receipts are projected to fall by 17 per cent to average almost $149 000 a farm.

Dry winter and early spring conditions resulted in many beef cattle producers reducing the area sown to winter crops in 2007-08 (table 3). Despite increased rainfall in many parts of southern

Australia in late spring, grain yields are projected to be below average, but still above 2006-07 levels. Despite prices remaining at historically high levels, reduced sales of grain and hay are projected to result in cropping receipts falling on average by 36 per cent in 2007-08.

In 2007-08, farm cash costs are projected to fall on average by 21 per cent as a result of reduced outlays on fodder, crop inputs and livestock purchases. Increased pasture and hay production is projected to reduce reliance on purchased fodder in 2007-08 (a projected 71 per cent fall in fodder purchases). In addition, reduced crop plantings and grain sales are expected to result in purchases of cropping inputs, such as fertilisers, chemicals and fuel, falling in 2007-08, despite significant increases in input prices during the year. At the time of the survey, in November 2007, producers indicated they intended to rebuild cattle numbers by reducing turnoff. Consequently, the value of beef cattle purchases is projected to fall on average by 49 per cent in 2007-08.

The recovery in farm financial performance is projected to be the strongest among very large beef cattle producers in southern Australia. There, business profits are expected to average $97 000 a farm in 2007-08 compared with an average loss of $53 000 in 2006-07. While profitability is projected to strengthen among small, medium and large sized beef cattle producers, these farm businesses are expected to continue to make sizable losses in 2007-08 (figure g and table 5).

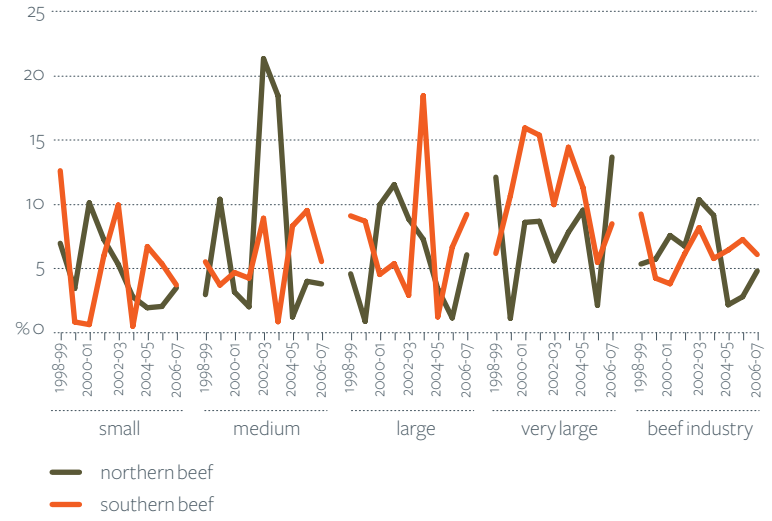
Beef industry's ability to recover from drought

Under the assumption of a return to average seasonal conditions, producers' ability to increase incomes following recent droughts will be influenced by the combined impact of past investments boosting farm size and productivity and producers' access to funds to expand crop and livestock production. Producers' funding options include using farm business cash flows, debt facilities, farm liquid assets and off-farm income sources.

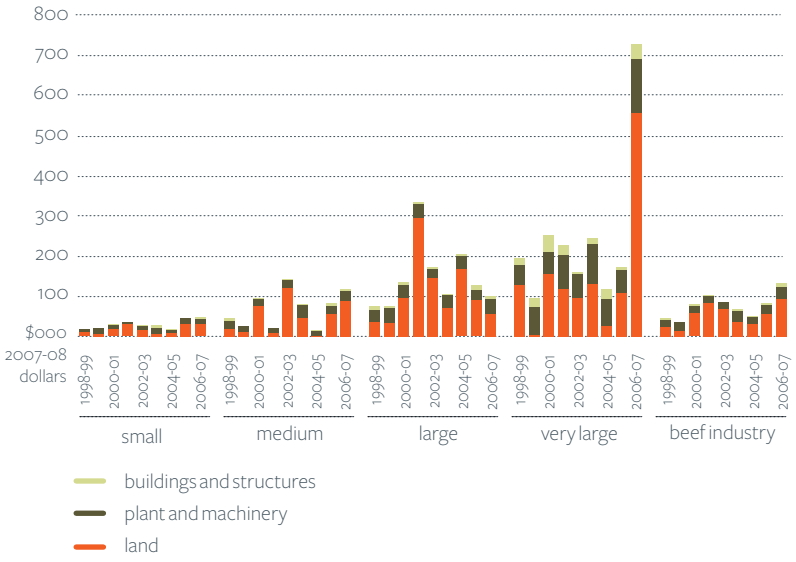
Past investments

New investments are an important means of boosting farm productivity and incomes, with productivity growth providing better prospects for farm business viability in the longer term. From the mid-1990s to 2003-04, an historically large proportion of producers acquired land to expand the scale of their farm operations. However, with the exception of very large producers in northern Australia, lower farm incomes in recent years, because of drought and higher land values, have resulted in a fall in the proportion of farms acquiring land, particularly in northern Australia (figure h).

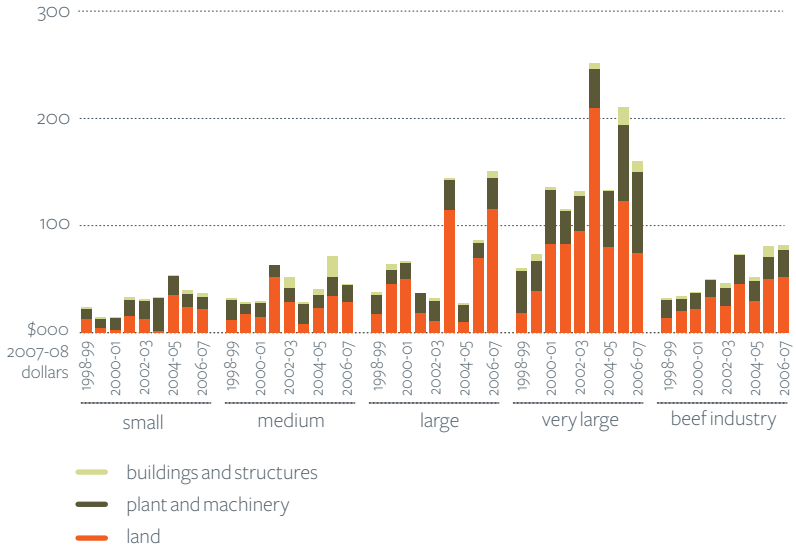
h Proportion of farms expanding, by herd size



i Capital purchases, northern Australia, by herd size



j Capital purchases, southern Australia, by herd size

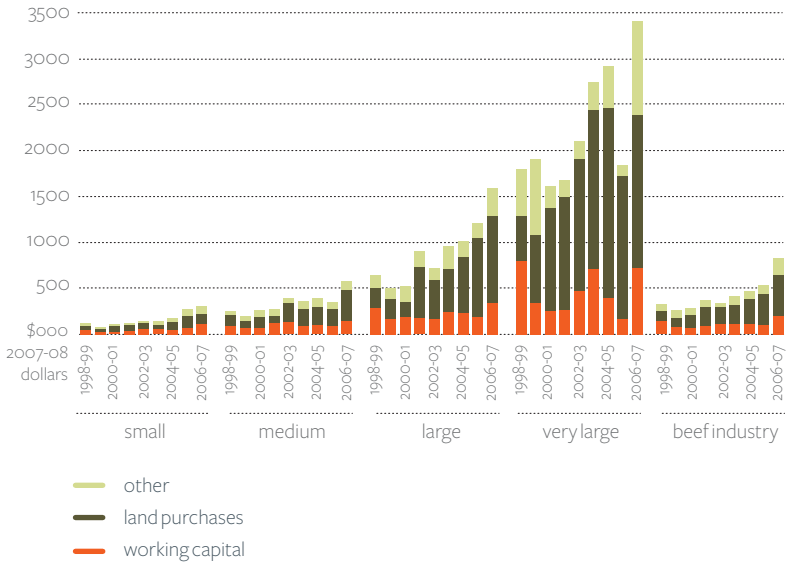


During the 2000s, beef cattle producers of all scales of production in northern and southern Australia have undertaken considerable investments in new capital. Although the proportion of producers acquiring land has declined in recent years, average per farm outlays on land purchases has increased, reflecting higher land prices (figures i and j).

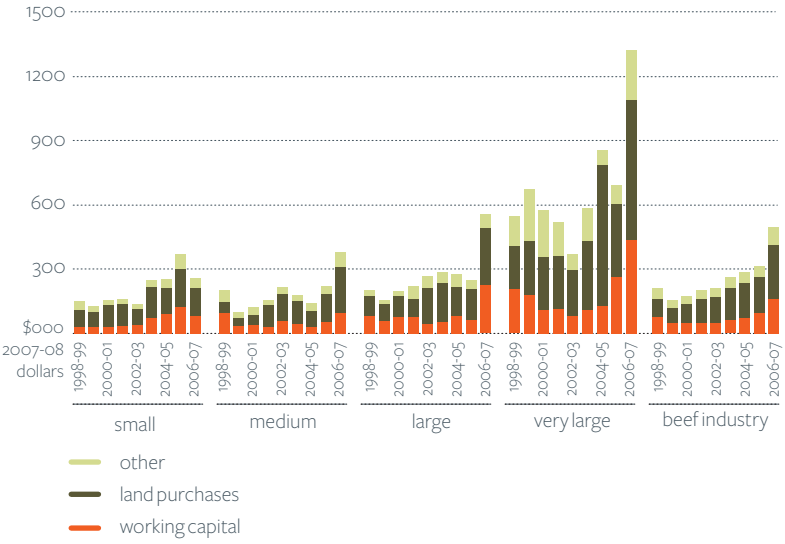
Use of farm debt

Historically high capital investment in the beef industry has been associated with a steady increase in farm business debt in northern and southern Australia (figures k and l). Since 2000-01, average farm business debt has almost tripled to average $827 000 a farm in northern Australia and $496 000 a farm in southern Australia in 2006-07. In the early to mid-2000s, debt for land and machinery

k Farm business debt, northern Australia, by herd size



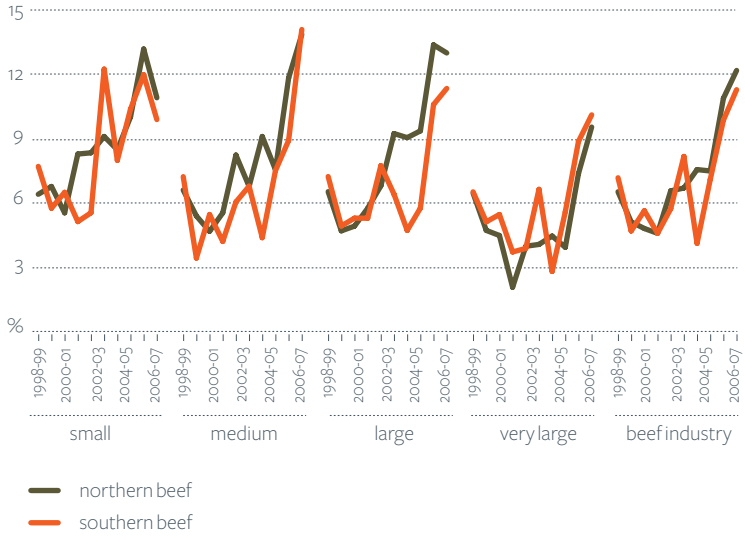
l Farm business debt, southern Australia, by herd size



increased steadily as producers acquired more land, structures and machinery. However, in recent years, producers have increasingly had to borrow working capital because of drought.

Higher debt and rising interest rates have led to a steady increase in producers' debt servicing commitments. In 2006-07, the average beef producer in northern and southern Australia used between 11 and 12 per cent of farm cash receipts to service farm debt obligations. In general, very large sized producers have lower debt servicing commitments than smaller counterparts (figure m).

m Debt servicing, by herd size
as measured by the ratio of interest paid to total cash receipts

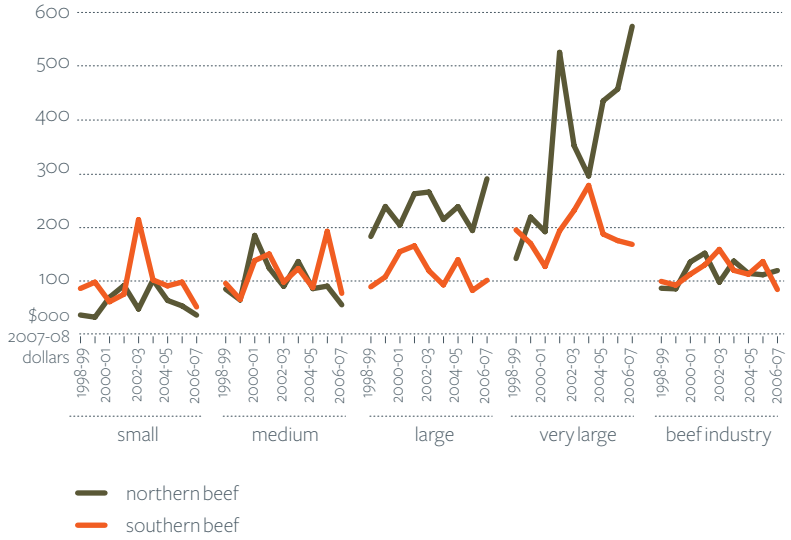


Use of liquid assets

Over the past decade, producers' holdings of liquid assets (including farm management deposits) have shown volatility as assets have been liquidated during droughts and rapidly rebuilt in subsequent years (figure n). With the exception of large and very large producers in northern Australia, beef producers have, on average, run down their liquid assets since 2002-03 in order to reduce their dependence on debt to fund capital investments and working capital needs.

Large beef producers in northern Australia ran down their liquid assets between 2002-03 and 2005-06, but in 2006-07 many producers used their higher cash flows to rebuild liquid assets. Very large producers also relied heavily on liquid asset reserves in 2002-03 and 2003-04, but since then, improved financial performance has enabled many of these producers to rebuild liquid assets. In 2006-07, very large beef cattle producers in northern Australia held on average $575 000 a farm in liquid assets, 9 per cent more than the average holdings in 2001-02.

n Farm liquid assets, by herd size



Overall, liquid assets fell by 39 per cent in southern Australia to average $88 000 a farm in 2006-07 and rose by 7 per cent in northern Australia to average $119 000 a farm.

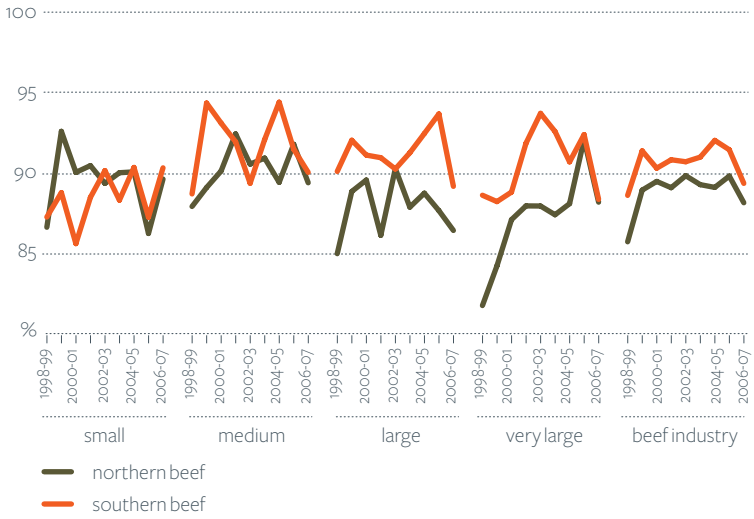
Capacity to expand production

The Australian beef industry is in a strong position to expand production and incomes. The industry's recent history of capital investments, particularly to acquire more land, will enable producers to expand cattle numbers beyond the levels held prior to the 2002-03 drought once seasonal conditions permit.

A return to average seasonal conditions and rising cow numbers is expected to result in a recovery in branding rates and an expansion in calf production. This will enable producers to expand cattle numbers and, at the same time, slowly increase cattle sales in coming years. Despite projections for lower cattle prices, growth in sales is likely to result in producers realising higher incomes and profits.

However, in the short term, reduced turnoff of cattle to expand herd numbers is likely to result in lower farm incomes. High capital investments, reduced incomes because of drought, and herd rebuilding have resulted in most beef cattle producers building debt and running down liquid assets in recent years. While this has increased debt servicing commitments, strong growth in land values has maintained producers' equity levels at around 90 per cent (figure 0). This suggests that, while land values remain high, most beef cattle producers have the capacity to supplement farms' cash flows with some additional working capital debt during the current expansion phase. While this is likely to further increase debt servicing commitments in the short term, the resultant growth in cattle sales and incomes in the longer term should facilitate reducing debt and rebuilding liquid assets.

O Farm equity ratio, by herd size



Productivity in the beef industry

Total factor productivity growth in Australia's broadacre and dairy industries is highly variable on a year-to-year basis. Between 1977-78 and 2005-06 broadacre producers' productivity growth averaged 1.5 per cent a year, with cropping and mixed livestock-cropping farms recording the highest annual growth in productivity (table 6).

Productivity growth can be driven by producers generating the same output with fewer inputs, increasing output with the same inputs, or increasing output at faster rate than inputs. Over the past three decades, cropping farms in Australia realised an annual productivity growth rate of 2.3 per cent. This was the result of producers increasing output by 3.7 per cent but increasing inputs by only 1.4 per cent. In contrast, specialist beef cattle farms (farms generating the majority of farm income from producing beef cattle) achieved an annual productivity growth rate of 1.4 per cent, which was obtained mainly from growth in outputs.

6 Average annual input, output and TFP growth in broadacre and dairy industries 1977-78 to 2005-06

	input growth	output growth	TFP growth
	%	%	%
Total Broadacre	−0.5	1	1.5
Cropping	1.4	3.7	2.3
Mixed crop-livestock	−1.3	0.3	1.7
Beef	0	1.4	1.4
Sheep	−1.6	−1.3	0.3
Dairy a	4	5.1	1.2

a Dairy industry estimates are for the period 1988-89 to 2005-06 as data are not available for earlier years.

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