farm financial performance

australian farm income and drought recovery, 2005-06, 2006-07 and 2007-08

stephen.hooper, dale.ashton, sarah.crooks, daniel.mackinnon, panos.nicols and paul.phillips

- *Financial performance of broadacre and dairy farms is expected to strengthen in 2007-08 following the lowest incomes since 1992-93 in the previous year.*
- *Increased grain and livestock production, combined with higher commodity prices, are projected to boost farm cash incomes in 2007-08.*
- *Incomes in the wool industry are projected to increase threefold to more than $93 000 in 2007-08, the highest income recorded in real terms since 1987-88.*
- *Strong cash flows leading into 2007-08, combined with a recovery in grains receipts, are expected to enable most producers to rebuild livestock numbers and reduce debt.*

The financial performance of Australian farms fell sharply in 2006-07 as severe drought across most of southern Australia led to a significant reduction in farm production and incomes. As seasonal conditions deteriorated throughout the season there were widespread crop failures and many grain producers realised below average yields. Livestock producers turned off animals in response to a reduction in pasture availability and an increase in feed grain and fodder costs. Significant depletions of soil moisture and some of the lowest water storage levels on record resulted in summer crop production falling by more than 50 per cent.

Favourable rainfall in autumn 2007 across the majority of winter cropping areas encouraged many producers to increase their area sown to winter crops. However, with the exception of Queensland, pockets of northern New South Wales and southern Western Australia, seasonal conditions again deteriorated over the critical September–October period. With little rainfall and protracted above average temperatures, crop yields fell significantly and some areas experienced a second year of crop failure. Despite these losses, some producers were able to cut their winter crops for hay, helping them to recoup some planting costs. Overall, winter crop production in 2007-08 was generally higher than production in 2006-07, with the exception of New South Wales.

Livestock were also affected by the deterioration in seasonal conditions, with farmers continuing to reduce stock numbers in the first quarter of 2007-08. Increased yardings of cattle, sheep and lambs during spring 2007 led to lower saleyard prices and, consequently, reduced cash receipts and incomes on properties with livestock. However, improved conditions since spring have enabled many producers to reduce turnoff and commence rebuilding animal numbers.

financial performance of australian farms

Each year abare interviews producers from the broadacre and dairy sectors of Australian agriculture as part of its survey program. The information collected provides a basis for analysing the current financial position of farmers in these industries and expected changes in the short term. Data from abare's Australian agricultural and grazing industries survey and dairy industry survey are used in this analysis to gain insights into the performance of Australian broadacre and dairy farms over the period from 2005-06, including projected farm financial performance in 2007-08 (table 1).

farm production

Good rains during the start of the 2007-08 winter cropping season resulted in increased plantings of winter grains. Subsequent to planting, however, conditions in many parts of Australia's grain belt turned hot and dry during late winter and much of spring. The adverse conditions constrained crop development and resulted in widespread crop failures. Reflecting this, winter grain yields are estimated to have been below average, but still higher

box 1 major financial performance indicators

farm cash income = total cash receipts – total cash costs
total revenues received by the farm business during the financial year
payments made by the farm business for materials and services and for permanent and casual hired labour (excluding owner manager, partner and family labour)

farm business profit = farm cash income + changes in trading stock – depreciation – imputed labour costs

profit at full equity = farm business profit + rent + interest and finance lease payments – depreciation on leased items
(return produced by all the resources used in the farm business)

rate of return = profit at full equity ÷ total opening capital x 100
(return to all capital used)

off-farm income = wages off-farm + other business income + investment + social welfare payments
(owner manager and spouse only)

than in 2006-07. Prospects for the 2007-08 summer crops are favourable, with good summer rains projected to boost both the area sown and yields.

The total quantity of grain and hay sold in 2007-08 is projected to increase by less than production, with many producers — particularly farms with livestock — appearing to be replenishing on-farm stocks of grains and hay. However, changes in the seasonal outlook and market conditions over the remainder of 2007-08 could result in producers selling more grain than indicated at the time of the survey.

Improved seasonal conditions since spring in much of Australia's agricultural zone are also projected to result in a marked increase in the quantity and quality of pasture production in 2007-08. Many producers expect to reduce livestock turnoff in response to the improvement in seasonal conditions. Broadacre producers are projected to increase the numbers of both sheep and cattle in 2007-08, mainly through natural increase rather than purchasing additional animals.

1 financial performance, all broadacre industries

average per farm

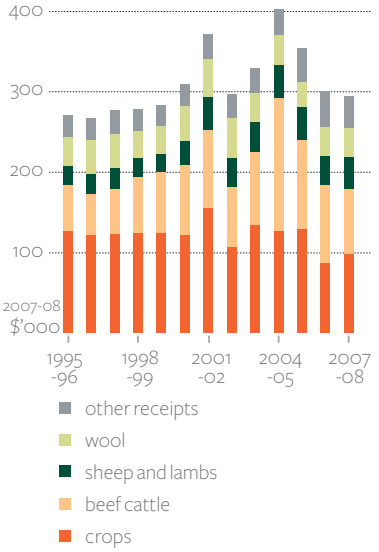
		2005-06	2006-07 p		2007-08 s
total cash receipts	$	336 171	292 080	(4)	295 300
total cash costs	$	265 989	250 900	(3)	217 100
farm cash income	$	70 182	41 180	(13)	78 200
farms with negative farm cash income	%	24	42	(5)	30
farm business profit	$	– 7 745	– 49 610	(12)	11 900
farms with negative farm business profit	%	65	79	(2)	62
profit at full equity					
– excl. capital appreciation	$	23 294	– 12 140	(48)	42 200
– incl. capital appreciation	$	213 463	264 820	(9)	na
farm capital at 30 june a	$	3 277 465	3 612 180	(2)	na
net capital additions	$	33 486	27 460	(66)	na
farm debt at 30 june b	$	340 835	436 520	(5)	na
equity at 30 june b c	$	2 922 604	3 064 940	(3)	na
equity ratio b d	%	90	87	(1)	na
harvest loans at 30 june e	$	11 529	4 620	(27)	na
farm liquid assets at 30 june b	$	128 431	81 110	(7)	na
farm management deposits (fmds) at 30 june b	$	21 682	22 820	(11)	na
share of farms with fmds at 30 june b	%	20	17	(9)	na
rate of return g					
– excl. capital appreciation	%	0.8	–0.4	(49)	1.2
– incl. capital appreciation	%	7.0	7.9	(8)	na
off-farm income of owner manager and spouse b	$	32 133	27 780	(6)	na

a Excludes leased plant and equipment. b Average per responding farm. c Farm capital minus farm debt. d Equity expressed as a percentage of farm capital. e Harvest loans are not included in farm debt. g Rate of return to farm capital at 1 July. p Preliminary estimates. s Provisional estimates. na Not Available.

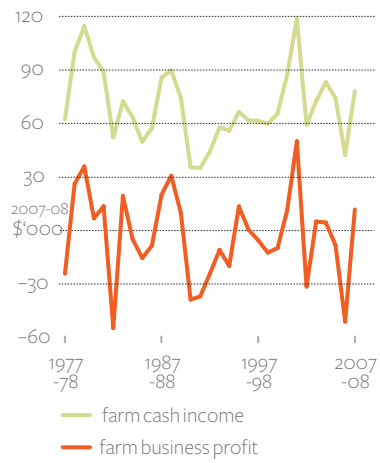
harvest loans

The amount of funds advanced on crops sold into an AWB Limited harvest loan pool or ABB Grain standard loan pool.

a farm cash receipts broadacre industries



b all broadacre industries



farm receipts

In 2007-08, average total cash receipts for broadacre farms are projected to be similar to the previous year, as higher cropping receipts are expected to be offset by lower livestock receipts. The effect on farm receipts of producers retaining grain is projected to be partially offset by further increases in grain and oilseed prices, largely because of strong international demand and tightening global stocks. As a consequence, average total crop receipts are projected to rise by around 16 per cent in 2007-08 (figure a).

Total livestock receipts — including sheep, lambs, beef cattle and wool — are projected to fall, on average, by 5 per cent in 2007-08, mainly because of a projected fall in beef cattle receipts (figure a). Receipts from the sale of sheep, lambs and wool are projected to increase as a result of higher commodity prices.

farm costs

In 2007-08, total cash costs are projected to fall by around 13 per cent on average, as improved seasonal conditions result in reduced purchases of livestock, fodder and agistment. Outlays on cropping inputs such as fertilisers and chemicals are also projected to fall in 2007-08. The dry winter and spring conditions are likely to have suppressed weed and insect populations, reducing producers' reliance on chemicals. Also, in some cases the fertilisers intended for application to failed crops during the drought in 2006-07 may not have been used or leached out of the top soils, enabling producers to sow crops with reduced fertiliser application rates in 2007-08. Fertiliser application rates may also have been reduced as a result of suppliers having difficulties importing fertilisers leading up to the sowing of the 2007-08 winter crops, or in response to sharp price increases.

Interest payments are also projected to fall in 2007-08 as increased cash flows resulting from the recovery in grain production are expected to enable many broadacre producers to reduce farm business debt.

farm incomes and profits

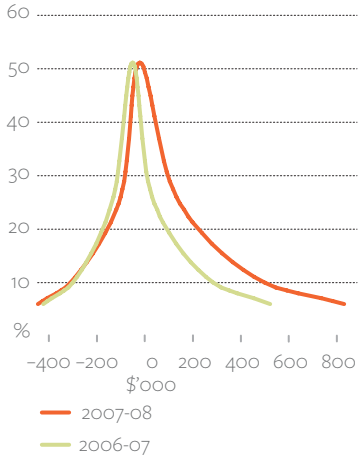
Farm financial performance is projected to strengthen markedly in 2007-08, after broadacre producers recorded their lowest incomes since 1992-93 in the previous year (figure b). In 2006-07, farm incomes were adversely affected by extensive drought that cut farm receipts and increased production costs.

Increased grain and livestock production, combined with favourable commodity prices, are projected to result in farm cash incomes on broadacre farms nearly doubling in 2007-08, to average around $78 200 per farm (figure b, table 1).

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. It is a measure of short term farm performance because it does not take into account depreciation or changes in farm inventories. A measure of longer term profitability that takes into account capital depreciation and changes in inventories of livestock, fodder, grain and wool is farm business profit.

Average farm business profit in the broadacre industries is projected to recover more strongly in 2007-08 than the increase in farm cash income. This largely reflects a buildup in the value of trading stocks as a result of producers increasing livestock numbers and replenishing on-farm inventories of fodder, grain and, to a lesser extent, wool. In 2007-08, fewer broadacre farms are projected to realise a farm business loss, and of those that do, the losses are likely to be smaller than in 2006-07 (figure c). On average, farm businesses are projected to realise a profit of $11 900, compared with a loss of almost $50 000 in 2006-07.

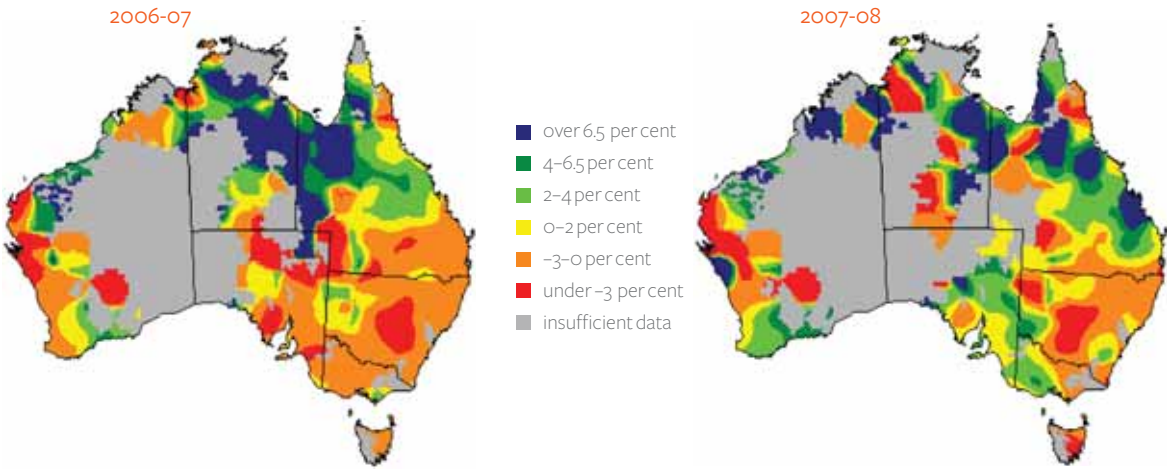
C distribution of farms, by farm business profit
broadacre farms



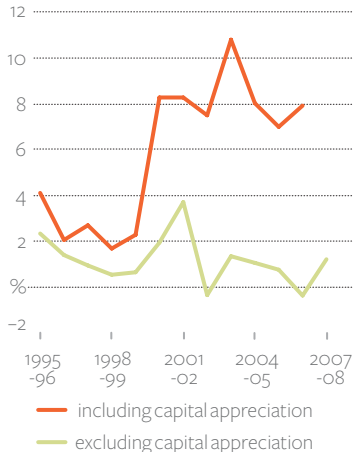
rate of return

Rates of return to total farm capital (including capital appreciation) have been relatively high since 2000-01 (figure d). Strong demand for rural land during this period resulted in a sharp increase in land values in many agricultural regions, raising the total capital value of farms. Rising farm

1 rate of return excluding capital appreciation



d return on capital, broadacre industries



capital values have resulted in high rates of return including capital appreciation. Rates of return excluding capital appreciation have been adversely affected in many regions by a number of poor profit years resulting from below average seasonal conditions. With farm business profit projected to strengthen in most regions in 2007-08 (map 1), rates of return excluding capital appreciation are expected to be the highest since 2003-04 (figure d).

performance, by state

Broadacre farm cash incomes are projected to recover in 2007-08 in all states, except New South Wales, as a result of the combined effects of higher commodity prices and increased production (tables 2 and 3). Adverse seasonal conditions in New South Wales during winter and spring in 2007 are projected to have adversely affected crop production and forced many producers to continue to reduce animal numbers. Consequently, farm cash incomes in New South Wales are projected to deteriorate further to average around $13 000 a farm, 27 per cent lower than in 2006-07.

The largest increase in incomes, in both percentage and absolute terms, is projected to occur in the Northern Territory (table 2). An increase in cattle numbers in 2006-07, combined with improved seasonal conditions is projected to result in increased calf production in 2007-08. The consequent increase in cattle sales is projected to boost farm receipts, on average, by 62 per cent to around $2.5 million. Total cash costs are projected to rise by around 18 per cent to average $1.8 million a farm as increased spending on interest, contracts, freight and fodder are offset by reduced spending on livestock purchases.

Average farm business profits in the Northern Territory are projected to fall by around 27 per cent in 2007-08, as higher incomes are partly offset by a fall in the value of trading stocks and higher depreciation and imputed family labour costs (table 3). This compares with an increase in average farm business profits in 2006-07, up by an estimated 47 per cent, as increases in cattle numbers boosted the value of trading stocks by almost $825 000 per farm in that year.

With the exception of New South Wales and Tasmania, broadacre farm businesses in all states are projected to realise profits on average in 2007-08, after making significant losses in 2006-07. In Tasmania, average business losses are projected to be smaller in 2007-08, as higher commodity prices offset the impact of reduced livestock and grain production as drought conditions intensified during 2007. On average, broadacre producers in New South Wales are projected to record a farm business loss of $86 800 per farm in 2007-08, as a result of lower incomes and reduced trading stocks.

2 financial performance , by state, broadacre industries

average per farm

	farm cash income			farm business profit a			rate of return b		
	2005-06	2006-07 p	2007-08 s	2005-06	2006-07 p	2007-08 s	2005-06	2006-07 p	2007-08 s
	$	$	$	$	$	$	%	%	%
new south wales	63 975	17 750	13 000	– 6 669	– 82 220	– 86 800	0.7	–1.5	–1.9
victoria	55 374	39 240	69 000	– 5 755	– 50 920	16 800	0.7	–1.2	1.2
queensland	99 329	44 130	107 600	– 5 910	– 7 030	134 700	0.8	0.9	3.4
western australia	70 911	98 090	169 700	– 24 215	– 25 960	55 900	0.7	0.9	2.4
south australia	58 942	47 380	124 900	– 13 644	– 63 230	39 800	0.5	–1.1	2.3
tasmania	70 856	11 020	21 300	14 783	– 54 920	– 46 400	1.3	–0.9	–0.9
northern territory	537 017	33 620	717 700	480 591	705 910	513 500	4.5	6.1	3.6
australia	70 182	41 180	78 200	– 7 745	– 49 610	11 900	0.8	–0.4	1.2

a Defined as farm cash income plus buildup in trading stocks, less depreciation and the imputed value of operator partner and family labor. b Defined as profit at full equity, excluding capital appreciation, as a percentage of total opening capital. Profit at full equity is defined as farm business profit plus rent, interest and lease payments less depreciation on leased items. p Preliminary. s Provisional estimate.

3 financial performance, by state, all broadacre industries

average per farm

		new south wales				victoria			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	304 871	255 070	(5)	208 900	255 017	199 550	(5)	228 400
total cash costs	$	240 896	237 320	(5)	195 900	199 644	160 310	(5)	159 500
farm cash income	$	63 975	17 750	(42)	13 000	55 374	39 240	(16)	69 000
farms with negative farm cash income	%	22	48	(8)	40	20	35	(14)	21
farm business profit	$	–6 669	–82 220	(10)	–86 800	–5 755	–50 920	(12)	16 800
farms with negative farm business profit	%	70	86	(2)	78	57	83	(3)	54
profit at full equity									
–excl. capital appreciation	$	18 665	–46 570	(17)	–55 100	18 240	–28 250	(21)	33 200
–incl. capital appreciation	$	122 238	108 560	(34)	na	98 896	165 580	(23)	na
farm capital at 30 june a	$	2 745 199	3 122 500	(4)	na	2 619 209	2 558 170	(5)	na
net capital additions	$	25 088	5 720	(342)	na	24 416	–10 490	(141)	na
farm debt at 30 june b	$	278 869	400 380	(8)	na	214 808	220 820	(9)	na
equity at 30 june bc	$	2 454 784	2 747 950	(4)	na	2 392 419	2 268 640	(5)	na
equity ratio bd	%	90	86	(2)	na	92	91	(1)	na
harvest loans at 30 june e	$	3 083	220	(85)	na	4 423	370	(49)	na
farm liquid assets at 30 june b	$	147 657	66 710	(14)	na	72 439	66 690	(12)	na
farm management deposits (fmds) at 30 june b	$	16 508	14 990	(25)	na	19 520	22 320	(18)	na
share of farms with fmds at 30 june b	%	17	12	(21)	na	22	22	(15)	na
rate of return g									
– excl. capital appreciation	%	0.7	–1.5	(18)	–1.9	0.7	–1.2	(20)	1.2
– incl. capital appreciation	%	4.7	3.6	(34)	na	3.9	6.9	(24)	na
off–farm income of owner manager and spouse b	$	32 359	29 010	(25)	na	31 369	35 080	(18)	na

continued...

performance, by industry

Summary information on financial performance in the Australian broadacre and dairy industries for 2005-06 to 2007-08 is given in table 4 and figures e and f, while detailed projections are provided in table 4.

For the purposes of survey design, analysis and data presentation, abare uses the Australian and New Zealand Standard Industry Classification of industry type (ANZSIC). Many Australian broadacre farms are mixed enterprises combining grain growing, sheep or beef cattle. The following discussion of grains, sheep, beef and dairy farms uses information for ANZSIC industry types substantially involved in the production of these commodities (box 2).

3 financial performance, by state, all broadacre industries

average per farm *continued*

		queensland				western australia			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	388 347	332 900	(5)	328 900	472 220	476 630	(7)	521 400
total cash costs	$	289 018	288 780	(6)	221 300	401 309	378 550	(7)	351 700
farm cash income	$	99 329	44 130	(24)	107 600	70 911	98 090	(23)	169 700
farms with negative farm cash income	%	27	43	(11)	34	29	39	(14)	28
farm business profit	$	– 5 910	– 7 030	(165)	134 700	– 24 215	– 25 960	(93)	55 900
farms with negative farm business profit	%	65	73	(3)	56	64	70	(6)	64
profit at full equity									
– excl. capital appreciation	$	32 701	39 010	(32)	171 000	25 326	36 510	(62)	103 400
– incl. capital appreciation	$	384 255	628 750	(11)	na	516 765	463 450	(23)	na
farm capital at 30 june a	$	4 338 442	5 189 920	(5)	na	4 258 681	4 692 810	(8)	na
net capital additions	$	30 552	62 160	(127)	na	48 721	51 390	(87)	na
farm debt at 30 june b	$	467 011	579 230	(9)	na	570 205	777 350	(10)	na
equity at 30 june bc	$	3 853 949	4 266 020	(5)	na	3 662 469	3 739 430	(10)	na
equity ratio bd	%	89	88	(1)	na	87	83	(3)	na
harvest loans at 30 june e	$	1 021	0	()	na	60 800	30 490	(28)	na
farm liquid assets at 30 june b	$	98 008	81 930	(15)	na	208 178	96 550	(22)	na
farm management deposits (fmds) at 30 june b	$	25 419	28 080	(18)	na	26 019	31 190	(32)	na
share of farms with fmds at 30 june b	%	21	16	(14)	na	19	18	(21)	na
rate of return g									
– excl. capital appreciation	%	0.8	0.9	(30)	3.4	0.7	0.9	(61)	2.4
– incl. capital appreciation	%	9.7	13.8	(11)	na	13.9	10.9	(21)	na
off–farm income of owner manager and spouse b	$	26 674	32 230	(25)	na	42 862	14 640	(18)	na

continued...

box 2 broadacre industries

wheat and other crops industry The wheat and other crops industry represents the more specialised producers of cereal grains, coarse grains, pulses and oilseeds. While cropping is the main enterprise undertaken, many producers in the wheat and other crops industry also have some involvement in the livestock industries.

mixed livestock–crops industry – The mixed livestock–crops industry covers farms engaged in the production of sheep and/or beef cattle in conjunction with substantial activity in broadacre crops such as wheat, coarse grains, oilseeds and pulses.

sheep industry The sheep industry represents the more specialised producers of sheep and wool. However, the number of properties classified to the industry, along with the industry's contribution to wool production, has declined substantially since the early 1990s as producers diversified enterprises. Currently, sheep industry farms account for only around a third of Australia's wool production. The majority of both wool and sheep meat production occurs on mixed enterprise farms, particularly on mixed livestock– crops industry farms.

continued...

3 financial performance, by state, all broadacre industries

average per farm *continued*

		south australia				tasmania			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	323 956	276 050	(7)	325 800	266 833	256 840	(19)	191 900
total cash costs	$	265 014	228 670	(7)	200 900	195 977	245 820	(20)	170 700
farm cash income	$	58 942	47 380	(24)	124 900	70 856	11 020	(546)	21 300
farms with negative farm cash income	%	29	41	(12)	15	21	44	(23)	33
farm business profit	$	– 13 644	– 63 230	(19)	39 800	14 783	– 54 920	(27)	– 46 400
farms with negative farm business profit	%	65	73	(5)	40	52	77	(25)	72
profit at full equity									
– excl. capital appreciation	$	14 742	– 33 250	(35)	64 800	37 820	– 29 360	(24)	– 26 600
– incl. capital appreciation	$	68 768	75 560	(52)	na	121 145	184 780	(13)	na
farm capital at 1 july a	$	3 091 224	3 093 820	(5)	na	2 998 912	3 417 540	(13)	na
net capital additions	$	70 984	62 310	(46)	na	– 20 957	126 800	(44)	na
farm debt at 30 june b	$	305 929	330 790	(10)	na	274 392	376 450	(30)	na
equity at 30 june bc	$	2 777 566	2 695 600	(6)	na	2 721 440	2 891 010	(13)	na
equity ratio bd	%	90	89	(1)	na	91	89	(3)	na
harvest loans at 30 june e	$	11 697	2 820	(39)	na	0	0	()	na
farm liquid assets at 30 june b	$	136 391	124 180	(16)	na	120 320	104 970	(69)	na
farm management deposits (fmds) at 30 june b	$	29 804	27 610	(29)	na	19 686	27 990	(91)	na
share of farms with fmds at 30 june b	%	23	22	(30)	na	22	22	(91)	na
rate of return g									
– excl. capital appreciation	%	0.5	–1.1	(37)	2.3	1.3	–0.9	(22)	–0.9
– incl. capital appreciation	%	2.3	2.5	(52)	na	4.1	6.0	(19)	na
off–farm income of owner manager and spouse b	$	30 116	19 630	(25)	na	28 214	23 640	(18)	na

continued...

sheep–beef industry The sheep–beef industry covers properties engaged in running sheep and beef cattle. As for the sheep and beef industries, this industry also contains a large number of small farms.

beef industry The beef industry covers properties engaged mainly in running beef cattle and accounts for around 60 per cent of Australia's beef production. The beef industry contains a large number of small farms.

abare's annual Australian Agricultural and Grazing Industry Survey and Australian Dairy Industry Survey only include farms above a minimum size threshold to exclude non-commercial businesses. This size threshold is based on the *estimated value of agricultural operations* (EVAO) as calculated by the Australian Bureau of Statistics.

abare has periodically changed the EVAO cutoff over the life of the AAGIS and ADIS. In the 2005-06 collection abare raised the EVAO cutoff from $22 500 to $40 000. Prior to this change, the last time the EVAO cutoff was changed was for the collection of data for 1991-92 when it was lifted from $20 000 to $22 500. It was kept at that level in nominal terms until the 2005-06 collection.

3 financial performance, by state, all broadacre industries

average per farm *continued*

		northern territory				australia			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	1 635 182	1 545 350	(7)	2 497 500	336 171	292 080	(7)	295 300
total cash costs	$	1 098 165	1 511 740	(7)	1 779 900	265 989	250 900	(7)	217 100
farm cash income	$	537 017	33 620	(24)	717 700	70 182	41 180	(24)	78 200
farms with negative farm cash income	%	40	46	(12)	27	24	42	(12)	30
farm business profit	$	480 591	705 910	(19)	513 500	– 7 745	– 49 610	(19)	11 900
farms with negative farm business profit	%	48	28	(5)	42	65	79	(5)	62
profit at full equity									
– excl. capital appreciation	$	548 758	788 870	(35)	597 000	23 294	– 12 140	(35)	42 200
– incl. capital appreciation	$	1 583 479	2 499 260	(52)	na	213 463	264 820	(52)	na
farm capital at 30 june a	$	13 331 162	15 443 050	(5)	na	3 277 465	3 612 180	(5)	na
net capital additions	$	– 48 232	87 010	(46)	na	33 486	27 460	(46)	na
farm debt at 30 june b	$	559 078	960 800	(10)	na	340 835	436 520	(10)	na
equity at 30 june bc	$	12 746 581	9 405 040	(6)	na	2 922 604	3 064 940	(6)	na
equity ratio bd	%	96	91	(1)	na	90	87	(1)	na
harvest loans at 30 june e	$	0	0	(39)	na	11 529	4 620	(39)	na
farm liquid assets at 30 june b	$	143 153	148 950	(16)	na	128 431	81 110	(16)	na
farm management deposits (fmds) at 30 june b	$	22 622	19 150	(29)	na	21 682	22 820	(29)	na
share of farms with fmds at 30 june b	%	10	5	(30)	na	20	17	(30)	na
rate of return g									
– excl. capital appreciation	%	4.5	6.1	(37)	3.6	0.8	–0.4	(37)	1.2
– incl. capital appreciation	%	12.9	19.4	(52)	na	7.0	7.9	(52)	na
off–farm income of owner manager and spouse b	$	25 731	7 499	(25)	na	25 731	27 780	(18)	na

a Excludes leased plant and equipment. b Average per responding farm. c Farm capital minus farm debt. d Equity expressed as a percentage of farm capital. e Harvest loans are not included in farm debt. f Dairy structural adjustment program and supplementary dairy assistance scheme. g Rate of return to farm capital at 1 july. p Preliminary estimates. s Provisional estimates. na Not available.

wheat and other crops farms

In 2006-07, farm cash incomes in the wheat and other crops industry fell by around 28 per cent as adverse seasonal conditions in much of the grain belt restricted winter crop plantings and production (figure e). In addition, poor pasture growth restricted feed availability and resulted in many producers using on-farm stocks of grain and hay, reducing income from sales of grain and hay. The impact of reduced sales volumes on incomes was partially offset by a sharp increase in farm gate prices as a result of reduced supplies, stronger domestic feed demand and higher international prices.

The recovery in grain production in 2007-08 is projected to have a particularly strong impact on incomes for producers in the wheat and other crops industry. Incomes in the grains industry are projected to rise on average by around 31 per cent as improved seasonal conditions in many regions will boost grain production (figure e). However, total farm cash receipts are projected to remain similar to 2006-07 as increases in receipts from crops are expected to be offset by lower livestock receipts. Livestock receipts are expected to fall as a result of reduced wool and beef cattle sales on wheat and other crops farms. In 2007-08, farm cash costs are projected to fall, on average, by 8 per cent as a result of reduced outlays on livestock purchases, fodder and interest payments.

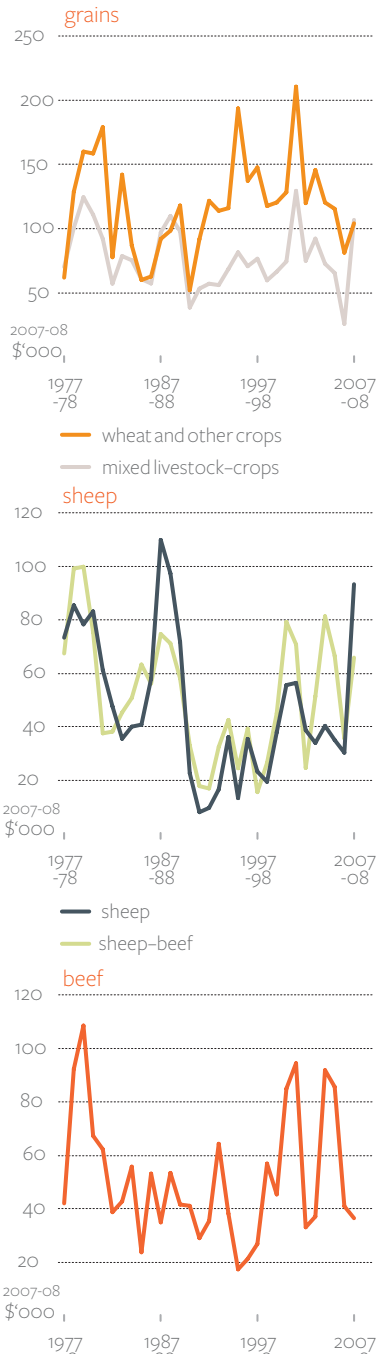
sheep farms

Farm cash incomes in the sheep industry fell by around 11 per cent on average in 2006-07, as higher cash costs more than outweighed a small increase in cash receipts (figure e). Production costs are estimated to have risen as many producers increased purchases of fodder and agistment in the face of tightening on-farm stocks of feed grains and fodder. Also, interest payments rose significantly as producers increased debt levels in response to tightening cash flows and interest rates were increased. Total cash receipts rose slightly as increased wool sales and prices more than offset the impact of reduced crop production.

In 2007-08, farm cash incomes in the sheep industry are projected to increase threefold to more than $93 000 per farm, the highest income recorded in real terms since 1987-88 (figure e). Total cash receipts are projected to rise, on average, by around 22 per cent as improved seasonal conditions boost cropping and livestock production. In addition, improved pasture production is expected to contribute to improved product quality, enabling producers to target higher value markets and achieve higher average prices. Wool receipts are also projected to rise as a result of higher wool prices.

Improved seasonal conditions are also expected to enable some sheep industry producers to increase plantings of winter crops such as wheat, barley and oats. Increased production and higher prices are projected to

e farm cash income



boost cropping receipts on sheep industry farms by around 47 per cent. Crop receipts are projected to account for nearly 21 per cent of the sheep industry receipts in 2007-08, compared with 17 per cent in 2006-07.

In 2007-08, farm cash costs are projected to fall by around 8 per cent as improved seasonal conditions contribute to reduced purchases of fodder and livestock. Interest payments are also projected to fall as producers use the strong increase in cash flows to reduce debt levels. However, outlays on cropping inputs such as fertilisers and chemicals are projected to rise as a result of increased plantings of grain.

beef farms

In 2006-07, farm cash incomes in the beef industry deteriorated markedly as drought conditions reduced both farm production and receipts and

4 financial performance of broadacre farms, by industry

	2005-06	2006-07	2007-08 s
	$	$	$
farm cash income			
wheat and other crops	109 260	79 200	104 000
mixed livestock crops	62 020	25 300	107 000
beef industry	80 980	39 900	37 000
sheep	33 210	29 600	93 000
sheep beef	62 940	34 800	66 000
all broadacre industries	70 180	41 200	78 000
dairy	85 440	33 600	137 000
farm business profit p			
wheat and other crops	7710	– 73 700	– 17 000
mixed livestock crops	-16 320	– 83 500	5 000
beef industry	4 980	– 5 800	30 000
sheep	-25 540	– 49 500	28 000
sheep beef	-15 950	– 49 700	– 300
all broadacre industries	-7 750	– 49 600	12 000
dairy	18 970	– 39 500	49 000
	%	%	%
rate of return a			
wheat and other crops	1.8	-0.5	0.8
mixed livestock crops	0.5	-1.6	1.2
beef industry	0.9	0.7	1.3
sheep	-0.1	-0.7	2.0
sheep beef	0.2	-0.6	0.5
all broadacre industries	0.8	-0.4	1.2
dairy	2.3	0	2.7

a Defined as profit at full equity, excluding capital appreciation, as a percentage of total opening capital. Profit at full equity is defined as farm business profit plus rent, interest and lease payments

contributed to increased production costs (figure e). Total cash receipts fell, on average, by around 11 per cent in 2006-07 as a result of reduced calf production and lower numbers of cattle being sold. The impact of reduced sales on receipts was exacerbated by lower prices, which was caused by the combined affected of increased drought related turnoff and many producers turning off more unfinished or younger animals.

Farm cash costs rose, on average, by around 2 per cent as many producers increased purchases of fodder in response to reduced on farm feed availability. In addition, interest payments increased significantly as a result of increased debt levels and higher interest rates.

5 financial performance, by industry, broadacre and dairy industries

average per farm

		wheat and other crops industry				mixed livestock-crops industry			
		2005-06	2006-07 p		2007-08 s	2005-06	2006-07 p		2007-08 s
total cash receipts	$	555 192	414 900	(6)	413 400	317 106	262 350	(6)	332 900
total cash costs	$	445 930	335 680	(6)	309 100	255 087	237 020	(6)	226 000
farm cash income	$	109 263	79 210	(22)	104 300	62 020	25 330	(13)	106 900
farms with negative farm cash income	%	26	42	(10)	38	20	48	(18)	32
farm business profit	$	7 708	– 73 690	(27)	– 16 700	– 16 316	– 83 500	(45)	4 500
farms with negative farm business profit	%	54	76	(4)	59	67	87	(6)	65
profit at full equity									
– excl. capital appreciation	$	61 029	– 18 320	(100)	28 200	12 303	– 45 150	(60)	36 000
– incl. capital appreciation	$	133 899	212 370	(22)	na	142 958	90 390	(16)	na
farm capital at 30 june a	$	3 509 033	3 722 580	(5)	na	2 841 601	2 986 520	(4)	na
net capital additions	$	91 573	39 360	(90)	na	17 993	23 900	(113)	na
farm debt at 30 june b	$	587 564	630 070	(10)	na	327 904	420 770	(9)	na
equity at 30 june bc	$	2 896 668	3 048 660	(6)	na	2 496 148	2 518 640	(4)	na
equity ratio bd	%	83	82	(2)	na	88	85	(1)	na
harvest loans at 30 june e	$	49 628	14 710	(30)	na	11 239	7 290	(26)	na
farm liquid assets at 30 june b	$	176 266	119 700	(16)	na	110 784	74 110	(14)	na
farm management deposits (fmds) at 30 june b	$	40 083	41 380	(24)	na	20 226	17 840	(17)	na
share of farms with fmds at 30 june b	%	25	26	(23)	na	19	16	(16)	na
annual payment from DSAP and SDAS f	$	na	na	(23)	na	na	na	(16)	na
rate of return g									
– excl. capital appreciation	%	1.8	-0.5	(101)	0.8	0.5	-1.6	(59)	1.2
– incl. capital appreciation	%	4.0	6.0	(22)	na	5.3	3.1	(16)	na
off-farm income of owner manager and spouse b	$	27 160	20 920	(11)	na	33 066	27 100	(11)	na

continued...

Improved seasonal conditions in 2007-08 are projected to result in a reduction in cattle turn-off as farmers retain livestock in order to rebuild cattle numbers. As a result of reduced cattle sales, farm cash receipts are projected to fall by 17 per cent to average around $237 000 per farm.

Reduced outlays on fodder and livestock purchases are projected to result in total cash costs falling by around 19 per cent. As a consequence, average farm cash income in the beef industry is projected to fall by around 8 per cent to almost $37 000 (figure e). However, a significant increase in the value of trading stocks, because of a buildup in livestock numbers, is projected to boost farm business profits to almost $30 000 a farm in 2007-08, following an average business loss in 2006-07.

5 financial performance, by industry, broadacre and dairy industries

average per farm *continued*

		sheep industry				beef industry			
		2005-06	2006-07 p		2007-08 s	2005-06	2006-07 p		2007-08 s
total cash receipts	$	209 200	217 160	(9)	265 300	324 308	287 120	(8)	237 300
total cash costs	$	175 991	187 580	(9)	171 900	243 326	247 170	(9)	200 700
farm cash income	$	33 209	29 580	(29)	93 400	80 981	39 940	(11)	36 600
farms with negative farm cash income	%	29	33	(12)	13	24	42	(15)	36
farm business profit	$	– 25 542	– 49 530	(16)	27 900	4 975	– 5 820	(139)	29 900
farms with negative farm business profit	%	67	83	(3)	61	65	74	(6)	67
profit at full equity									
– excl. capital appreciation	$	– 1 515	– 19 730	(38)	56 500	31 677	27 420	(25)	56 700
– incl. capital appreciation	$	90 288	134 690	(29)	na	384 432	497 580	(21)	na
farm capital at 30 june a	$	2 435 523	2 852 740	(7)	na	3 871 804	4 332 830	(5)	na
net capital additions	$	– 9 255	39 700	(101)	na	54 574	20 010	(47)	na
farm debt at 30 june b	$	241 597	354 320	(13)	na	288 043	396 100	(10)	na
equity at 30 june bc	$	2 186 960	2 523 970	(7)	na	3 572 155	3 595 960	(5)	na
equity ratio bd	%	90	88	(2)	na	93	90	(1)	na
harvest loans at 30 june e	$	830	40	(79)	na	277	0	(131)	na
farm liquid assets at 30 june b	$	102 030	59 820	(16)	na	136 430	68 820	(35)	na
farm management deposits (fmds) at 30 june b	$	13 945	13 570	(36)	na	17 909	18 410	(20)	na
share of farms with fmds at 30 june b	%	18	13	(26)	na	18	13	(17)	na
annual payment from DSAP and SDAS f	$	na	na	(26)	na	na	na	(17)	na
rate of return g									
– excl. capital appreciation	%	-0.1	-0.7	(40)	2.0	0.9	0.7	(24)	1.3
– incl. capital appreciation	%	3.9	5.0	(29)	na	11.1	12.9	(19)	na
off-farm income of owner manager and spouse b	$	29 338	26 670	(14)	na	37 889	33 750	(20)	na

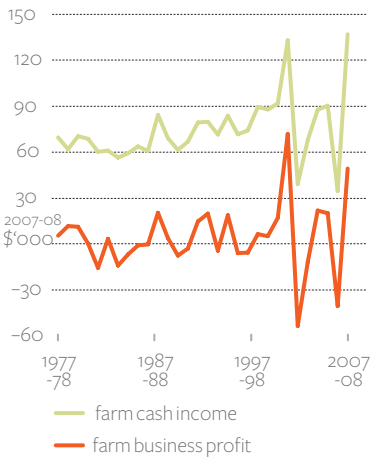
continued...

dairy industry

Relatively high farm gate milk prices are projected to have resulted in a strong recovery in dairy farm incomes in 2007-08 (figure f). Nevertheless, incomes in some dairy regions have continued to be affected by drought, low or zero water allocations and high feed prices.

As seasonal conditions deteriorated in 2006-07, average milk yields per cow declined by around 5 per cent. Consequently average milk receipts per farm, and hence total cash receipts, are estimated to have fallen by around 7 per cent in 2006-07. With significant increases in the prices and quantity of purchased fodder and feed grains, total cash costs rose by more than 7 per cent in 2006-07. As a result of lower cash receipts and higher cash costs,

f dairy industry



5 financial performance, by industry, broadacre and dairy industries average per farm *continued*

		sheep–beef industry				dairy industry			
		2005-06	2006-07 p		2007-08 s	2005-06	2006-07 p		2007-08 s
total cash receipts	$	285 482	271 440	(7)	235 900	416 899	394 450	(3)	498 900
total cash costs	$	222 538	236 680	(7)	169 900	331 458	360 810	(4)	361 800
farm cash income	$	62 944	34 750	(30)	66 000	85 440	33 640	(22)	137 100
farms with negative farm cash income	%	21	42	(13)	26	15	36	(15)	15
farm business profit	$	– 15 946	– 49 690	(21)	– 300	18 970	– 39 510	(17)	49 300
farms with negative farm business profit	%	71	75	(4)	51	49	76	(4)	44
profit at full equity									
– excl. capital appreciation	$	8 552	– 22 330	(48)	18 400	60 602	150	(4954)	80 600
– incl. capital appreciation	$	261 259	296 960	(28)	na	186 122	286 090	(17)	na
farm capital at 30 june a	$	3 782 789	3 934 860	(6)	na	2 835 420	3 206 040	(5)	na
net capital additions	$	– 5 794	20 740	(86)	na	47 823	33 990	(81)	na
farm debt at 30 june b	$	290 832	368 990	(14)	na	442 927	493 760	(8)	na
equity at 30 june bc	$	3 483 571	3 666 300	(7)	na	2 383 910	2 654 010	(6)	na
equity ratio bd	%	92	91	(1)	na	84	84	(2)	na
harvest loans at 30 june e	$	0	0	()	na	0	0	()	na
farm liquid assets at 30 june b	$	115 482	97 400	(17)	na	78 778	46 510	(19)	na
farm management deposits (fmds) at 30 june b	$	19 174	29 050	(24)	na	11 857	12 320	(22)	na
share of farms with fmds at 30 june b	%	20	19	(18)	na	14	16	(23)	na
annual payment from DSAP and SDAS f	$	na	na	(18)	na	15 634	15 321	(80)	na
rate of return g									
– excl. capital appreciation	%	0.2	-0.6	(48)	0.5	2.3	0.0	(4953)	2.7
– incl. capital appreciation	%	7.4	8.2	(28)	na	7.0	9.9	(17)	na
off-farm income of owner manager and spouse b	$	27 930	25 880	(17)	na	21 923	16 850	(18)	na

a Excludes leased plant and equipment. b Average per responding farm. c Farm capital minus farm debt. d Equity expressed as a percentage of farm capital. e Harvest loans are not included in farm debt. f Dairy Structural Adjustment Program and Supplementary Dairy Assistance Scheme. g Rate of return to farm capital at 1 July. p Preliminary estimates. s Provisional estimates. na Not Available.

farm cash income for Australian dairy farmers is estimated to have declined by 61 per cent to $34 600 in 2006-07.

The continuation of poor seasonal conditions in some dairy regions is projected to reduce the average Australian dairy herd by around 20 head per farm in 2007-08, with milk production per farm projected to decline by around 6 per cent. However, total milk receipts and average milk yield per cow are projected to increase by around 34 per cent and 4 per cent respectively, leading to a projected increase in total cash receipts of around 26 per cent. With fodder expenditure remaining high in historical terms, average cash costs are projected to fall only slightly in 2007-08.

6 financial performance, by state, dairy industry
average per farm

		new south wales				victoria			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	471 535	435 340	(5)	579 800	400 954	372 660	(5)	469 600
total cash costs	$	401 909	395 580	(7)	431 900	309 843	346 700	(5)	342 300
farm cash income	$	69 627	39 770	(35)	147 900	91 111	25 960	(38)	127 400
farms with negative farm cash income	%	22	25	(24)	8	13	39	(20)	18
farm business profit	$	5 155	– 39 870	(45)	19 000	22 673	– 45 570	(20)	44 100
farms with negative farm business profit	%	60	77	(5)	63	49	81	(5)	45
profit at full equity									
– excl. capital appreciation	$	42 856	870	(1919)	54 000	65 423	– 8 400	(115)	72 800
– incl. capital appreciation	$	110 684	356 730	(23)	na	109 242	257 790	(19)	na
farm capital at 30 june a	$	3 759 146	4 069 660	(15)	na	2 500 314	2 751 090	(6)	na
net capital additions	$	44 866	76 420	(83)	na	47 204	27 710	(136)	na
farm debt at 30 june b	$	380 722	465 910	(15)	na	437 307	473 200	(11)	na
equity at 30 june bc	$	3 363 714	3 614 510	(18)	na	2 055 788	2 254 220	(8)	na
equity ratio bd	%	90	89	(2)	na	83	83	(3)	na
farm liquid assets at 30 june b	$	123 694	47 770	(21)	na	71 970	40 450	(28)	na
farm management deposits (fmds) at 30 june b	$	19 148	15 700	(39)	na	10 570	11 710	(31)	na
share of farms with fmds at 30 june b	%	15	8	(32)	na	14	19	(28)	na
annual payment from DSAP and SDAS f	$	22 986	21 377	(32)	na	11 266	12 393	(28)	na
rate of return g									
– excl. capital appreciation	%	1.2	0.0	(1918)	1.3	2.7	–0.3	(115)	3.0
– incl. capital appreciation	%	3.0	9.9	(28)	na	4.6	10.5	(19)	na
off-farm income of owner manager and spouse b	$	24 819	22 470	(39)	na	23 143	18 530	(31)	na

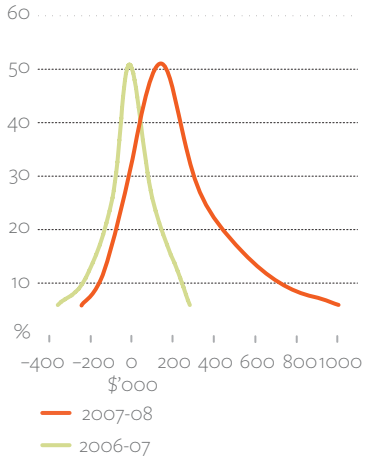
continued...

Consequently, average farm cash income and farm business profit are projected to improve substantially in all states in 2007-08 from the lows recorded in 2006-07. Reflecting these changes, the proportion of dairy farms recording negative farm business profit is projected to decline from an estimated 76 per cent in 2006-07 to around 43 per cent in 2007-08 (figure g).

recovering from drought

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 through to 2001-02 there was a general increase in the proportion of broadacre and

g distribution of farms, by farm business profit dairy farms



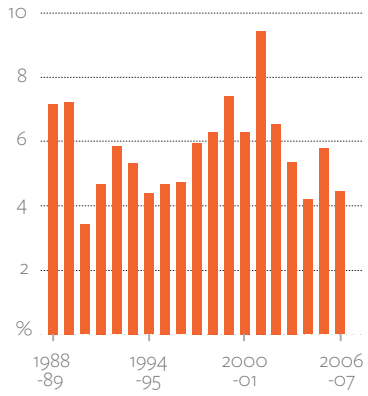
6 financial performance, by state dairy industry

average per farm *continued*

		queensland				western australia			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	340 737	325 660	(8)	390 400	502 381	468 810	(7)	590 700
total cash costs	$	271 591	270 260	(7)	248 900	387 482	370 600	(6)	366 900
farm cash income	$	69 145	55 400	(28)	141 500	114 899	98 200	(24)	223 800
farms with negative farm cash income	%	18	45	(29)	3	11	9	(48)	6
farm business profit	$	15 966	− 22 750	(72)	55 700	48 683	38 110	(86)	121 400
farms with negative farm business profit	%	37	65	(16)	36	26	34	(43)	33
profit at full equity									
– excl. capital appreciation	$	41 490	2 100	(821)	71 600	97 853	76 940	(42)	131 200
– incl. capital appreciation	$	156 828	176 260	(36)	na	1 489 940	1 984 380	(28)	na
farm capital at 30 june a	$	2 658 039	3 159 370	(20)	na	6 427 605	9 585 940	(18)	na
net capital additions	$	40 755	− 32 120	(131)	na	56 879	76 620	(157)	na
farm debt at 30 june b	$	375 899	331 720	(24)	na	561 275	491 290	(16)	na
equity at 30 june bc	$	2 269 451	2 778 820	(22)	na	5 855 474	7 365 170	(8)	na
equity ratio bd	%	86	89	(3)	na	91	94	(1)	na
farm liquid assets at 30 june b	$	70 996	29 360	(25)	na	130 644	216 410	(69)	na
farm management deposits (fmds) at 30 june b	$	11 603	7 640	(58)	na	24 905	26 920	(71)	na
share of farms with fmds at 30 june b	%	12	12	(68)	na	15	16	(64)	na
annual payment from DSAP and SDAS f	$	22 880	24 253	(68)	na	32 721	31 412	(64)	na
rate of return g									
– excl. capital appreciation	%	1.7	0.1	(817)	2.4	2.0	1.0	(45)	1.5
– incl. capital appreciation	%	6.3	5.9	(28)	na	30.0	26.3	(18)	na
off–farm income of owner manager and spouse b	$	23 491	11 470	(39)	na	13 695	6 670	(31)	na

continued...

h proportion of broadacre and dairy farms expanding



dairy farms acquiring land and expanding the scale of their farm operations because of high farm incomes (figure h). Since the drought in 2002-03, there has been greater variability in the proportion of farms expanding.

New investment in plant, machinery, vehicles and improvements has been sustained at historically high levels during the 2000s, despite droughts in 2002-03 and 2006-07 reducing incomes. Average net investment per farm in 2006-07 was around 13 per cent lower than in 2005-06, but still more than 50 per cent above the average annual investment undertaken during the 1990s (figure i).

Provided these investments are well directed and contribute to further productivity growth and income generating capacity in the future, this level

6 financial performance, by state dairy industry

average per farm *continued*

		south australia				tasmania			
		2005–06	2006–07 p		2007–08 s	2005–06	2006–07 p		2007–08 s
total cash receipts	$	564 577	583 950	(6)	634 000	451 060	487 250	(3)	698 900
total cash costs	$	508 129	569 450	(5)	535 500	365 475	425 110	(4)	486 600
farm cash income	$	56 448	14 490	(210)	98 500	85 584	62 140	(22)	212 400
farms with negative farm cash income	%	24	46	(26)	38	16	12	(15)	3
farm business profit	$	– 27 484	– 90 220	(46)	21 100	31 218	9 130	(17)	145 800
farms with negative farm business profit	%	60	62	(19)	45	56	63	(4)	16
profit at full equity									
– excl. capital appreciation	$	24 938	– 22 800	(165)	79 800	80 613	76 820	(4954)	213 500
– incl. capital appreciation	$	120 795	232 820	(41)	na	663 963	– 170 120	(17)	na
farm capital at 1 july a	$	2 912 605	3 643 920	(8)	na	3 300 185	3 388 090	(5)	na
net capital additions	$	63 111	14 730	(574)	na	54 877	121 550	(81)	na
farm debt at 30 june b	$	581 469	779 790	(11)	na	563 046	775 750	(8)	na
equity at 30 june bc	$	2 324 166	2 879 950	(10)	na	2 731 152	2 580 980	(6)	na
equity ratio bd	%	80	79	(3)	na	83	77	(2)	na
farm liquid assets at 30 june b	$	110 546	68 120	(45)	na	28 930	40 010	(19)	na
farm management deposits (fmds) at 30 june b	$	7 601	19 260	(60)	na	9 746	8 260	(22)	na
share of farms with fmds at 30 june b	%	15	11	(80)	na	11	6	(23)	na
annual payment from DSAP and SDAS f	$	21 116	20 483	(80)	na	13 664	14 074	(23)	na
rate of return g									
– excl. capital appreciation	%	0.9	–0.7	(168)	2.3	3.1	2.2	(4953)	5.8
– incl. capital appreciation	%	4.4	6.9	(39)	na	25.2	–4.9	(17)	na
off–farm income of owner manager and spouse b	$	11 409	6 490	(39)	na	12 413	7 830	(31)	na

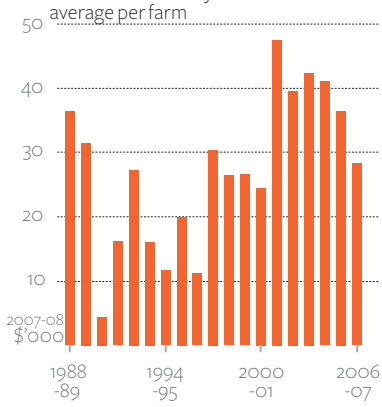
continued...

of investment in the broadacre and dairy industries should be positive for overall farm viability once seasonal conditions improve.

financing farm expansion and capital investment

The rising proportion of farms purchasing additional land during the late-1990s and early 2000s was accompanied by a steady increase in average farm debt. The major part of these increases in debt was to fund new farm investments. However, rising land prices and lower incomes as a result of drought, has reduced investment in land purchases. Since 2002-03, there has been an increase in working capital debt as farms have dealt with the impacts of several droughts (figure j).

i capital investment
broadacre and dairy farms
average per farm

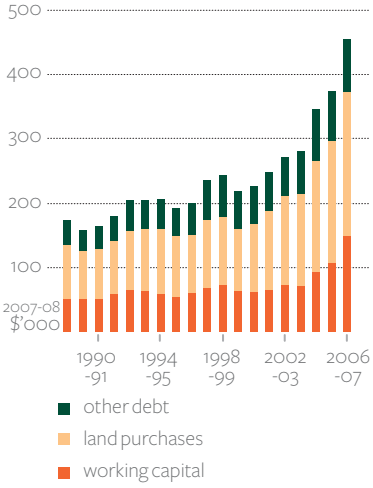


6 financial performance, by state dairy industry
average per farm *continued*

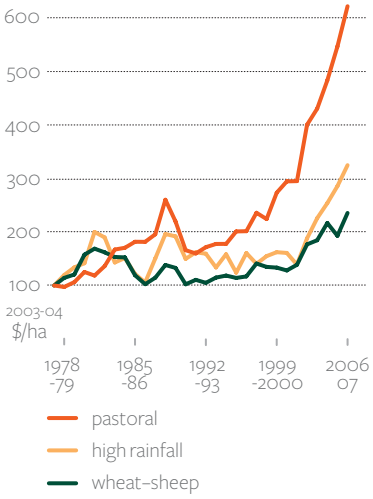
		australia			
		2005–06	2006–07 p		2007–08 s
total cash receipts	$	416 899	394 450	(6)	498 900
total cash costs	$	331 458	360 810	(5)	361 800
farm cash income	$	85 440	33 640	(210)	137 100
farms with negative farm cash income	%	15	36	(26)	15
farm business profit	$	18 970	– 39 510	(46)	49 300
farms with negative farm business profit	%	49	76	(19)	44
profit at full equity					
– excl. capital appreciation	$	60 602	150	(165)	80 600
– incl. capital appreciation	$	186 122	286 090	(41)	na
farm capital at 30 june a	$	2 835 420	3 206 040	(8)	na
net capital additions	$	47 823	33 990	(574)	na
farm debt at 30 june b	$	442 927	493 760	(11)	na
equity at 30 june bc	$	2 383 910	2 654 010	(10)	na
equity ratio bd	%	84	84	(3)	na
farm liquid assets at 30 june b	$	78 778	46 510	(45)	na
farm management deposits (fmds) at 30 june b	$	11 857	12 320	(60)	na
share of farms with fmds at 30 june b	%	14	16	(80)	na
annual payment from DSAP and SDAS f	$	15 634	15 321	(80)	na
rate of return g					
– excl. capital appreciation	%	2.3	0.0	(168)	2.7
– incl. capital appreciation	%	7.0	9.9	(39)	na
off-farm income of owner manager and spouse b	$	21 923	16 850	(39)	na

a Excludes leased plant and equipment. b Average per responding farm. c Farm capital minus farm debt. d Equity expressed as a percentage of farm capital. e Harvest loans are not included in farm debt. f Dairy Structural Adjustment Program and Supplementary Dairy Assistance Scheme. g Rate of return to farm capital at 1 July. p Preliminary estimates. s Provisional estimates. na Not Available.

j composition of farm debt
broadacre industries



k land prices for broadacre farms



Although average farm debt has increased in real terms since the mid-1990s, broadacre and dairy farmers have been able to maintain their equity in the farm business at around 85 per cent because of increasing land values (figure k). Rising land values in recent years have not only supported high equity levels, but have also led to very high average rates of return to total farm capital in most regions when capital appreciation is included.

Recent increases in land values have been driven by strong demand for land in general rather than sustained improvement in farm returns. Some of the key factors affecting changes in demand for agricultural land in various regions include changes in population growth, urban and peri-urban developments, and strong economic growth in those regions that are heavily influenced by mining developments.

financing the recovery from drought

With an improvement in seasonal conditions in 2007-08, many broadacre producers began using a variety of funding sources to finance increases in production. The major sources of such funding include the business' cash flow, debt facilities, liquid assets and off-farm incomes. The following sections explore how producers intend to use some of these funding alternatives in order to manage their continued recovery from drought.

use of liquid assets

Farm management deposits have become an important liquid asset available to primary producers over the past decade. The Farm Management Deposit (FMD) scheme established in 1999 is a tax linked, financial risk management tool, aimed at helping primary producers deal more effectively with fluctuations in cash flow caused by climatic variations and changes in market prices.

By placing funds in an FMD account, farmers are taking out an option to later find a tax deduction to offset quarantined income (Levantis and Martin 2007). In recent years there has been a distinct seasonality in the pattern of deposits, with a significant net inflow of funds in the June quarter and a corresponding large outflow in the September quarter of each year

farm business debt

Farm business debt estimates have been provided exclusive of debt that is underwritten, including harvest loan and dairy structural adjustment advances. Inclusion of harvest loans in estimates of farm business debt can result in falls in farm debt for grain producing farms in drought years as crop production is reduced, masking the increases in working capital debt that often occur at these times. Conversely, debt increases in years of high crop production when cash flow is also high. Harvest loans and dairy structural adjustment payments are reported separately in the tables.

(figure l). This suggests that some producers are using their FMD accounts as a tax minimisation tool rather than as the risk and financial management tool intended by the Australian Government.

use of debt

In order to better understand the influence of the 2006-07 drought on producer debt servicing capacity and the financial position they entered in 2007-08, a classification based on the combination of equity and cash flow has been developed to reflect the average equity position of farms. Farms are separated into one of four groups according to whether their equity ratio is above or below 70 per cent, and whether their farm cash income is positive or negative. The results are presented in figure m.

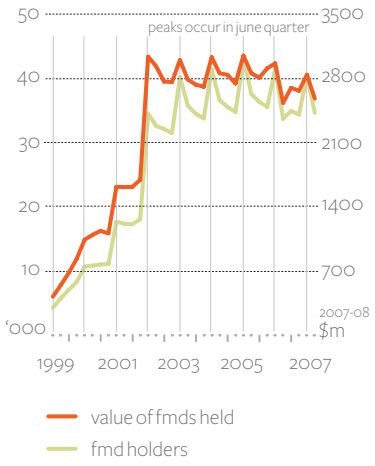
Figure m shows that the average equity position of Australian broadacre farms as they entered the 2006-07 drought was good, with the proportion of farms with equity ratios in excess of 70 per cent at its highest level in three decades. This has largely been driven by a significant increase in land prices in most regions over the last decade. In 2006-07, the proportion of broadacre and dairy producers with low equity increased to around 15 per cent. Of these producers, about a third, or just 5 per cent of all broadacre and dairy producers, had low equity and negative cash flows in 2006-07.

In 2007-08, abare's projections survey indicates that, on average, farm debt in the Australian broadacre and dairy industries is expected to decrease. However, producers with low equity or negative incomes may have more difficulty accessing working capital debt facilities, forcing them to rely heavily on their businesses ability to generate surplus cash flows in order to finance their recovery in 2007-08. In order to gain insights into this, the 2006-07 ranking of farms according to their equity/income positions was applied to those farms participating in abare's 2007-08 projections survey (table 7).

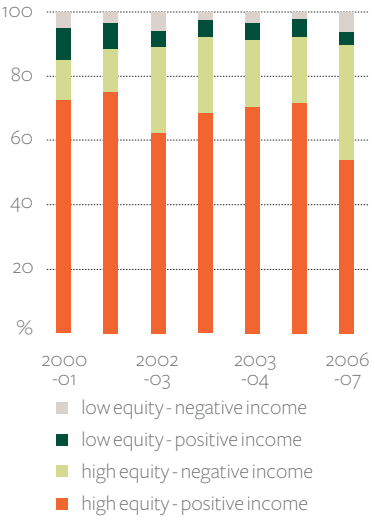
7 recovery from drought, by equity ratio and farm cash income in 2006-07 average per farm

		high equity/ positive income	high equity/ negative income	low equity/ positive income	low equity/ negative income
farm cash income 2006-07	$	109 107	−56 072	113 308	−107 202
farm cash income 2007-08	$	88 365	45 489	65 689	1 267
change during 2007-08 in					
– sheep numbers	%	3	−4	3	−13
– beef cattle numbers	%	2	12	15	−12
– debt	%	5	−10	−12	−5

l farm management deposits and number of account holders
quarterly, ended september 2007



m distribution of farms, by equity and farm cash income
broadacre and dairy industries



During 2007-08, producers with low equity and negative incomes in 2006-07 achieved a significant improvement in farm cash flows. While some of this recovery was generated by an improvement in grain production, it was also the result of continued high rates of livestock turnoff. While the improved cash flows are projected to enable these producers to reduce debt levels, it has been achieved via a significant reduction in animal numbers and reduced livestock production potential in 2008-09. Without access to debt facilities, these producers may struggle to improve their farms' viability in coming years.

However, for the majority of broadacre and dairy producers, who either have high equity or strong cash flows, 2007-08 is projected to be a year of recovery. Strong cash flows leading into 2007-08, combined with the recovery in grains sales, is expected to enable most producers to rebuild livestock numbers and reduce debt levels. If seasonal conditions permit, the majority of Australia's broadacre and dairy producers are in a strong position to expand production and enhance profitability in 2008-09.

references

Levantis, C., Martin, P., 2007, *Farm Management Deposits: Use and Interaction with Exceptional Circumstances Assistance*, abare report to client.