



australian BEEF 07.2 abare

FINANCIAL PERFORMANCE AND PRODUCTION TO 2006-07

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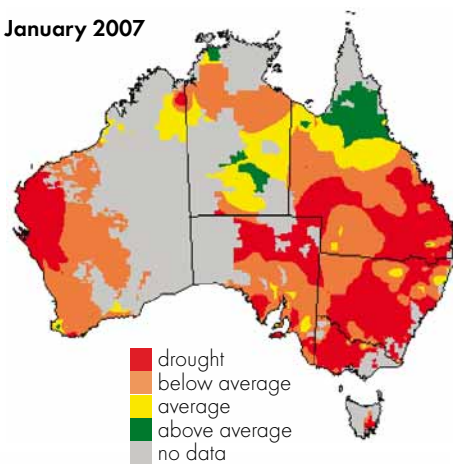
- » *Farm cash incomes are projected to fall by around 56 per cent in the Australian beef industry in 2006-07.*
- » *In southern Australia the factors contributing to the decline in incomes include the poor seasonal conditions, higher fodder costs and lower saleyard prices.*
- » *The drop in average incomes for beef producers in northern Australia mostly reflects lower beef cattle prices, with producers in southern Queensland also affected by drought.*
- » *One of the consequences of the drought has been a reduction in the size of the breeding herd in south eastern Australia. However, most producers appear to be financially well positioned to manage the recovery from drought once seasonal conditions improve.*

impact of 2006-07 drought

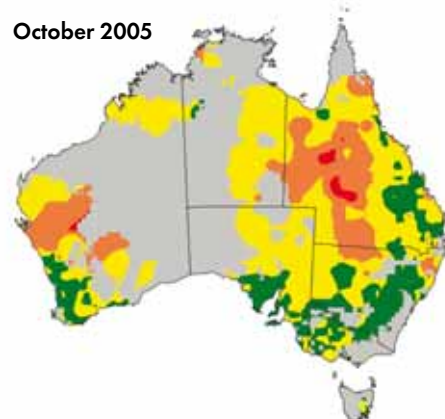
Since the 2002-03 drought, farm incomes in the beef industry generally increased until 2006, as seasonal conditions improved and prices for livestock and grains remained relatively high. However, a return to drought conditions across most of southern and central Australia in 2006 has had a significant impact on beef production. In January 2007, around 60 per cent of Australian broadacre producers reported the existence of drought conditions (map set 1).

seasonal conditions

January 2007



October 2005





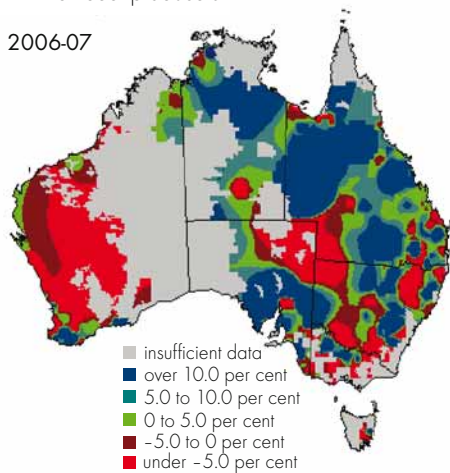
The objective here is to outline the financial performance of Australian beef industry producers. The impact of the 2006-07 drought on the Australian beef industry is particularly highlighted, with northern and southern Australia being considered separately as conditions have been very different in these two parts of the country. Some of the factors that will affect the industry's ability to recover are also reviewed. In the final section of the report, some performance indicators for beef specialists and producers in other broadacre industries are presented to highlight longer term trends in productivity and financial performance in the beef industry.

Data from ABARE's annual Australian agricultural and grazing industries survey are used throughout this report. The survey only includes farms above a minimum size threshold, to exclude noncommercial businesses. This size threshold is based on the estimated value of agricultural operations (EVAO) as calculated by the Australian Bureau of Statistics. Throughout this report, data from 2004-05 onwards are averages for the population of farms with an EVAO greater than \$40 000. For all years prior to 2004-05, the EVAO cutoff is \$22 500.

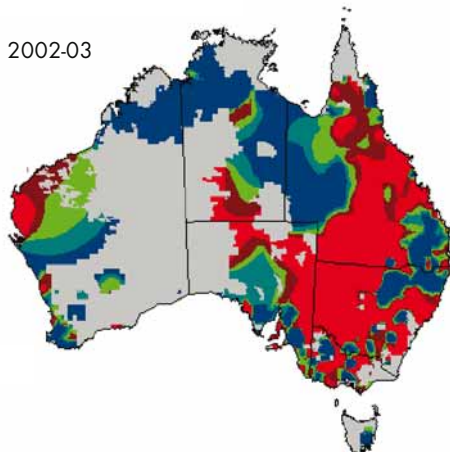
2 change in beef cattle numbers

all beef producers

2006-07



2002-03



The Australian beef industry is defined here to comprise all broadacre farms with more than 50 head of cattle. A farm in the beef industry is classified as a specialist beef producer if it earned more than 50 per cent of total cash receipts from the sale of beef cattle. Using these classifications, around 53 per cent of farms in the broadacre cereal cropping and livestock grazing industries are considered to be in the beef industry. These farms carry around 96 per cent of all beef cattle on broadacre farms. Around 58 per cent of farms in the beef industry are categorised as beef specialists.

impact of the drought on the Australian beef herd

The last major drought in 2002-03 had a widespread impact on the Australian beef industry. Beef producers from southern Victoria all the way to north eastern Queensland were forced to destock (map set 2) and Australian cattle numbers fell by 5 per cent.

However, the adverse impacts of the most recent drought have been restricted to fewer beef producing regions (map set 2). Consequently, the expected reduction in Australian beef cattle numbers is just 3 per cent, although the impacts are concentrated in south eastern Australia. Producers are also reducing beef cattle numbers in Western Australia; however, this region accounts for a relatively small number of cattle compared with south eastern Australia.



financial performance in 2005-06 and 2006-07

The drought that emerged in early 2006 has been the major factor affecting the financial performance of the Australian beef industry over the past two years. However, during this time the beef cattle market remained relatively strong and this helped minimise the financial impact of the drought for many Australian beef producers. Demand for Australian beef cattle remained strong in Asian export markets in 2005-06 and into 2006-07, which provided support for Australian saleyard prices. In real terms, prices in 2005-06 were close to the best prices of the past two decades (figure A). In 2006-07, Australian beef cattle prices have come under pressure as slaughterings have increased by around 5 per cent. This has been caused mainly by the increased turnoff of cattle in response to the worsening drought conditions, particularly in south eastern Australia. Although prices are expected to weaken slightly in 2006-07, they are still relatively favourable in historical terms.

southern Australia

Average farm cash income for southern beef producers fell in 2005-06 (table 1). Specialist producers took advantage of high saleyard prices by increasing beef cattle sales. This was the major factor behind the slight increase in their receipts. However, cash costs increased by slightly more than receipts, with higher beef cattle purchases accounting for most of the increase, and average farm cash income fell below \$50 000. Fodder costs were also higher as producers sought additional grain and fodder following the onset of dry conditions in early 2006.

In contrast, nonspecialist producers were actively building up cattle numbers in 2005-06 in response to the high prices. Cattle sales were down, purchases were up, and this led to a drop in average farm income of \$34 000 per farm in that year. This was despite crop receipts being slightly higher than in the previous year as yields were above average. Although average farm cash income was lower, the buildup in herd numbers contributed to a better farm business profit outcome for nonspecialists (\$17 000) than for specialists (-\$8600).

In 2006-07 the drought worsened over most of southern Australia. In response to well below average pasture growth in spring 2006, beef producers began to destock. On average, net sales of cattle by specialist and nonspecialist producers in southern Australia are estimated to have increased by 17 per cent and 49 per cent respectively in 2006-07.

Saleyard prices have been slightly lower in 2006-07 than in the previous year – particularly in late 2006 when yardings jumped significantly in southern Australia (figure B). This effectively offset the impact of increased beef cattle sales on cash receipts. Nonspecialist producers were also significantly affected by widespread crop failures, which reduced crop receipts, on average, by \$94 000 per farm.

fig A Australian beef cattle industry

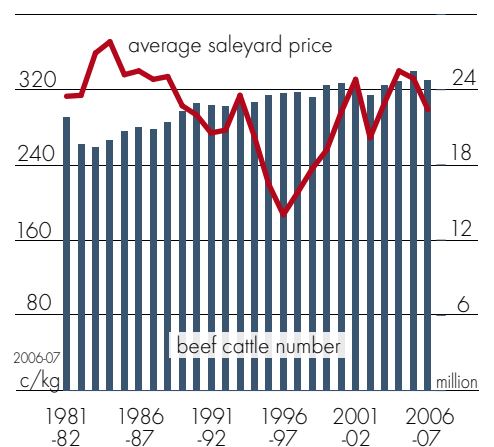
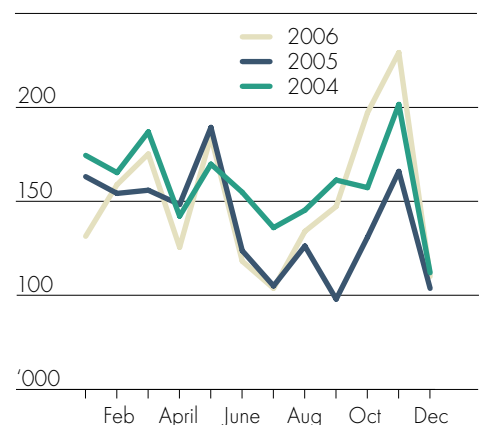
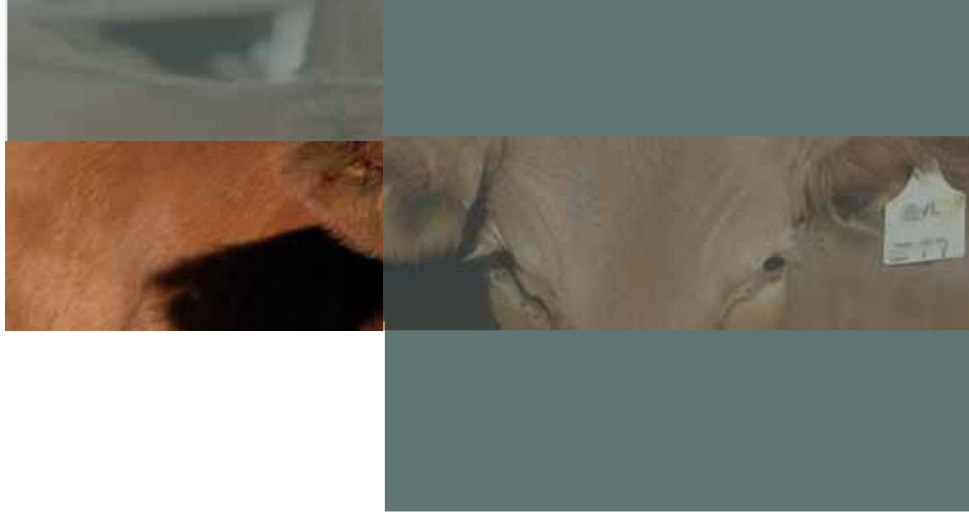


fig B cattle yardings – south eastern Australia





3 farm business profit, beef farms 2006-07

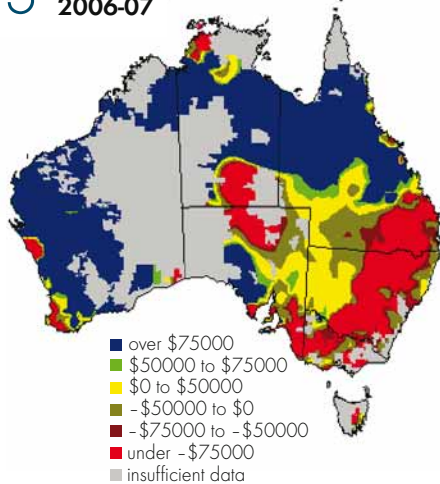


fig C specialist beef producers – southern Australia

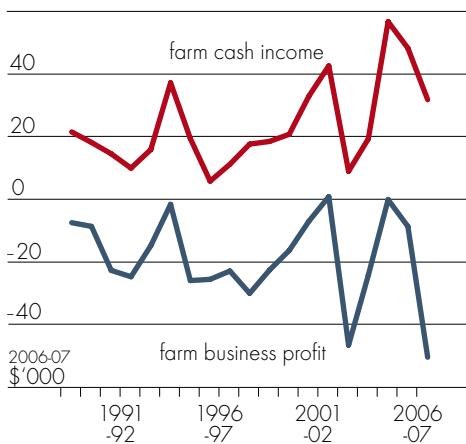
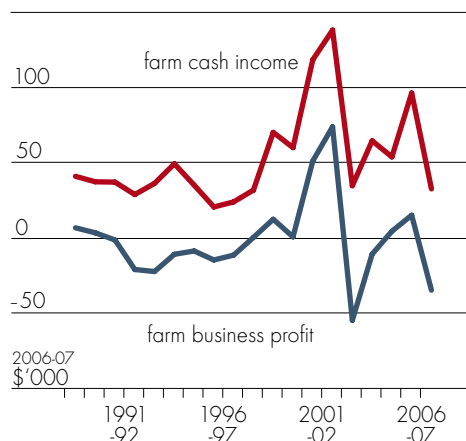


fig D specialist beef producers – northern Australia



Overall, average cash costs are expected to fall in 2006-07, reflecting lower beef cattle purchases and a reduction in expenditure on materials and services. However, fodder costs are expected to be higher.

Consequently, average farm cash income for beef specialists and non specialists in southern Australia is expected to fall significantly in 2006-07. The drop in average farm business profit is expected to be even larger as a result of destocking and the rundown in on-farm stocks of grain, with beef farms in south eastern Australia most affected (figure C; map 3).

northern Australia

Beef producers in northern Australia operate farms that are generally much larger and less diversified than beef producers' farms in southern Australia. Net sales of beef cattle were up slightly in 2005-06 compared with the previous year (table 1). Northern producers also received slightly higher prices in 2005-06. These two factors led to an increase in receipts from beef cattle sales of around 11 per cent for specialist beef producers and 17 per cent for nonspecialists. Despite a modest increase in cash costs, average farm cash income for these two groups of producers in 2005-06 was much higher than in 2004-05.

Seasonal conditions across northern Australia in 2006-07 are in stark contrast to those being experienced in southern Australia. With the exception of south east Queensland, rainfall in northern Australia has been average to above average, with particularly good rainfall received in northern Western Australia and central Northern Territory. However, producers in central and south western Queensland gave a more pessimistic assessment of seasonal conditions when interviewed in January 2007 (map 1) which suggests that pastures in these regions may have not yet fully recovered from the effects of the poor season in 2005-06.

Beef producers in northern Australia have indicated that they are increasing beef cattle numbers in 2006-07. Better branding rates in 2006-07 have enabled producers to do this while slightly increasing cattle sales.

Lower beef cattle prices in 2006-07 have meant that the increase in beef cattle sales is not reflected in higher average receipts. Average farm cash income for beef specialists and nonspecialists is expected to fall significantly in 2006-07 (figure D). However, the buildup in beef cattle numbers is expected to soften the effect of lower cash income on farm business profit.

Not all beef producers in northern Australia are equally affected by the current drought. Map 3 clearly shows how average farm business profit is lowest for producers in southern, and particularly south eastern, Queensland where seasonal conditions have been well below average for the past two years.



Average farm cash incomes and business profits are much higher across the top of northern Australia.

recovery from drought

An issue of interest to many stakeholders within the Australian beef industry is how quickly the industry, particularly beef producers in south eastern Australia, will be able to recover from the drought in terms of herd numbers and beef production once seasonal conditions return to normal.

A key factor affecting the speed of recovery is the extent to which the breeding herd has been reduced as a result of destocking. Destocking began as the seriousness of the drought became evident in late winter and spring 2006. Reflecting this, there was a significant increase in cattle yardings in south eastern Australia in the second half of 2006 compared with the same period in 2005 (figure B). In turn, cattle slaughter was also much higher (figure E), with opportunistic buying being limited by the low levels of pasture availability throughout most of south eastern Australia.

There was also a large increase in the number of female cattle slaughtered in the second half of 2006 compared with the same time in the previous year (figure F). The number of females slaughtered in south eastern Australia from July to December 2006 was 19 per cent higher than in the same period in the previous year. This suggests that the dry seasonal conditions forced producers in south eastern Australia to abort the herd rebuilding strategy they were following in late 2005 and early 2006. The large number of females slaughtered will have implications for the length of time that it will take the industry to fully recover from the drought.

Once seasonal conditions improve, the incentives to build up beef cattle numbers are likely to be even greater than at the end of the 2002-03 drought. The average beef cattle saleyard price in 2007-08 is forecast to be higher in real terms than it was in 2003-04. Furthermore, prices have increased relative to prices for all major broadacre cropping and livestock activities, with the exception of barley and wool. However, prices of most broadacre commodities are projected to fall in real terms after 2007-08.

Consequently, current ABARE projections are for a 5 per cent increase in beef cattle numbers over the next three years and much of this can be expected to occur in southern Australia, provided there is a return to average seasonal conditions.

Coming out of the drought, individual producers will choose their own preferred balance between rebuilding their breeding herd to provide for long term profits and higher beef cattle sales in the short term to provide more immediate cash flow. One of the factors that will influence this choice is

fig E total cattle slaughter – south eastern Australia

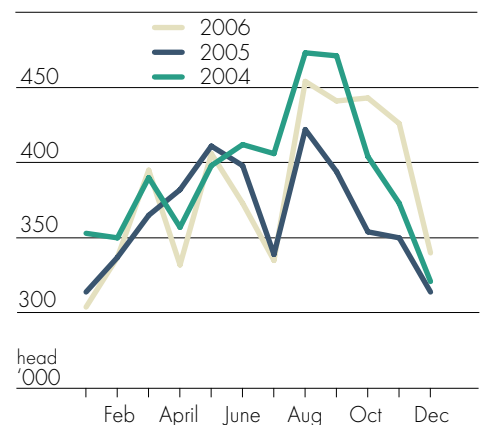


fig F total female cattle slaughter – south eastern Australia

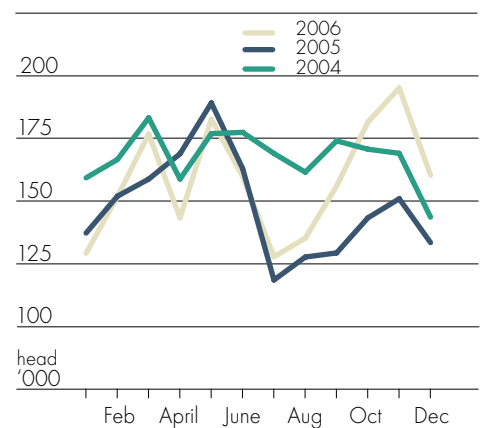
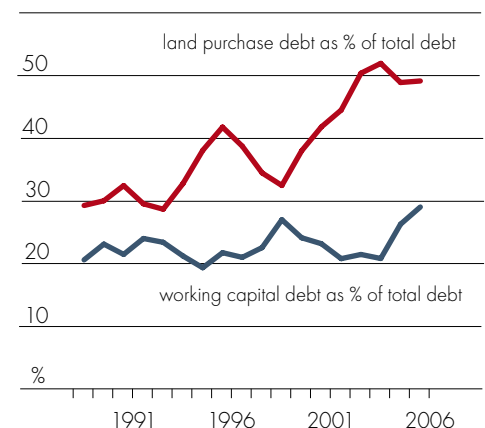


fig G beef producer debt – southern Australia





financial performance of beef producers

average per farm

		southern Australia						
		nonspecialist beef properties			specialist beef properties			
		2004-05	2005-06 ^p	2006-07 ^s	2004-05	2005-06 ^p	2006-07 ^s	
area operated at 30 June	ha	3 097	4 538 (13)	4 609	5 791	5 149 (20)	3 966	
beef cattle at 1 July	no.	265	261 (12)	285	540	529 (13)	527	
- at 30 June	no.	269	283 (11)	279	547	530 (13)	494	
- purchased	no.	25	34 (19)	18	93	110 (39)	95	
- sold	no.	124	110 (12)	131	264	293 (17)	310	
cattle branding rate ^a	%	86	85 (2)	86	82	80 (2)	83	
beef cattle price	\$/h	717	703 (4)	601	790	752 (5)	669	
cash receipts								
beef cattle sales	\$	89 091	77 161 (13)	78 674	208 258	220 119 (19)	207 313	
crop sales	\$	143 508	155 507 (21)	61 469	6 911	4 741 (33)	317	
other livestock sales	\$	137 229	122 963 (9)	104 547	11 787	12 268 (24)	11 865	
total cash receipts	\$	400 656	398 461 (10)	288 036	238 575	249 538 (17)	230 606	
cash costs								
beef cattle purchases	\$	14 916	21 582 (17)	9 411	56 273	71 845 (41)	53 997	
fodder	\$	10 584	9 903 (14)	16 090	8 865	12 975 (25)	25 263	
materials and services	\$	203 620	214 700 (7)	194 240	102 964	103 026 (9)	121 252	
interest	\$	24 774	30 387 (9)	32 785	9 747	10 725 (14)	12 107	
total cash costs	\$	288 297	320 185 (7)	272 148	181 879	201 287 (19)	198 574	
financial performance								
farm cash income	\$	112 359	78 277 (28)	15 888	56 696	48 251 (18)	32 032	
farm business profit	\$	36 450	17 046 (100)	-78 868	- 95	-8 641 (92)	-50 134	
rate of return								
- excl. capital appreciation	%	1.9	1.5 (31)	-1.0	0.5	0.2 (116)	-1.2	
- incl. capital appreciation	%	6.3	5.3 (20)	na	10.8	5.2 (24)	na	
farm capital and debt								
total farm capital at 30 June	\$m	3.6	3.9 (7)	na	2.7	3.0 (7)	na	
farm debt at 30 June ^b	\$	322 490	409 184 (9)	460 525	144 479	149 463 (13)	165 789	
equity ratio at 30 June ^b	%	91	90 (1)	na	95	95 (1)	na	
other								
farm management deposits (FMDs) held at 30 June	\$	26 335	21 703 (20)	na	12 567	11 151 (46)	na	
proportion of farms with FMDs	%	26	19 (18)	na	18	15 (27)	na	
liquid assets (including FMDs) at 30 June	\$	110 001	102 758 (16)	na	106 642	185 527 (57)	na	
off-farm income	\$	22 137	27 765 (10)	na	28 132	36 402 (18)	na	

^a Excludes any farms with no marked calves. ^b Debt responding farms only. ^p Preliminary estimate. ^s Provisional estimate. ^{na} Not available.

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



northern Australia						Australia				
nonspecialist beef properties			specialist beef properties			all beef properties				
2004-05	2005-06 _p	2006-07 _s	2004-05	2005-06 _p	2006-07 _s	2004-05	2005-06 _p	2006-07 _s		
22 895	29 827 (11)	28 813	19 953	19 521 (10)	22 197	10 210	10 879 (6)	11 146		
539	697 (7)	480	1 288	1 336 (6)	1 408	649	662 (5)	671		
595	673 (7)	533	1 324	1 327 (6)	1 434	667	665 (5)	670		
38	29 (29)	22	103	92 (22)	98	68	73 (21)	64		
127	145 (10)	155	441	443 (7)	479	253	258 (7)	281		
78	67 (5)	81	72	70 (2)	72	77	75 (1)	77		
640	660 (6)	574	715	791 (6)	721	736	757 (3)	677		
81 521	95 629 (13)	89 098	315 031	350 205 (10)	345 372	185 702	195 054 (9)	190 265		
179 941	175 703 (19)	152 832	7 795	9 223 (29)	5 034	68 541	70 838 (15)	35 364		
124 578	137 827 (20)	153 098	4 490	2 035 (37)	4 706	62 146	57 364 (8)	53 036		
466 438	579 891 (10)	450 622	355 480	406 735 (9)	386 053	345 014	368 547 (6)	309 409		
20 628	19 730 (28)	8 936	55 300	61 332 (22)	52 199	38 892	47 968 (21)	34 947		
10 482	13 863 (9)	10 119	28 439	35 692 (15)	55 439	14 882	17 828 (10)	28 658		
267 550	259 274 (11)	232 362	173 681	181 707 (9)	217 385	170 580	173 868 (4)	179 831		
48 223	48 394 (33)	40 207	26 278	35 512 (13)	49 204	22 676	26 914 (8)	30 928		
396 061	430 706 (13)	332 759	301 573	310 379 (10)	353 181	269 040	288 964 (6)	274 499		
70 377	149 185 (12)	117 863	53 907	96 356 (13)	32 872	75 974	79 583 (11)	34 910		
18 268	8 211 (277)	13 201	4 472	15 126 (81)	-34 432	15 114	7 334 (98)	-49 582		
1.7	1.3 (30)	1.3	0.9	1.3 (22)	0.4	1.3	1.1 (18)	-0.3		
10.6	7.8 (20)	na	7.5	15.2 (21)	na	8.1	8.6 (13)	na		
4.4	5.1 (12)	na	4.3	5.1 (7)	na	3.6	4.0 (4)	na		
704 729	653 269 (29)	581 982	406 791	518 527 (13)	682 967	326 163	374 463 (7)	429 850		
84	87 (3)	na	90	90 (1)	na	91	91 (1)	na		
32 362	26 270 (22)	na	31 185	23 920 (16)	na	24 164	19 233 (13)	na		
21	19 (16)	na	22	19 (16)	na	22	18 (11)	na		
88 222	96 639 (19)	na	113 996	110 850 (14)	na	108 343	131 346 (27)	na		
36 894	23 052 (16)	na	33 159	35 583 (15)	na	28 204	32 145 (8)	na		



the financial situation of the farm business. Farmers' financial position will also influence the extent to which they may be willing to purchase additional breeding stock to supplement herd rebuilding through natural increase.

It appears that beef producers in southern Australia are likely to reach the end of 2006-07 with a relatively high average level of equity in their property. This is despite a recent increase in total debt, and working capital in particular, in recent years (figure G). High equity will provide

2 financial performance of various producer types in the beef industry

	farm cash income			farm business profit		
	2004-05	2005-06 ^p	2006-07 ^s	2004-05	2005-06 ^p	2006-07 ^s
	\$	\$	\$	\$	\$	\$
southern Australia						
- bottom 25% of specialist producers ^a	5 309	-7 347 (142)	-14 428	-87 734	-80 216 (21)	-100 508
- top 25% of specialist producers ^a	118 157	110 933 (20)	98 423	79 881	82 759 (31)	6 638
northern Australia						
- bottom 25% of specialist producers ^a	13 994	-31 774 (66)	-75 308	-129 068	-130 133 (18)	-151 648
- top 25% of specialist producers ^a	109 110	296 330 (65)	135 897	217 765	244 927 (30)	82 778
herd size						
50-300 beef cattle	41 954	34 070 (21)	15 427	-21 259	-30 234 (28)	-60 983
300-600 beef cattle	67 320	43 054 (19)	11 287	-1 614	-17 576 (45)	-92 624
600-1200 beef cattle	154 748	146 698 (6)	65 332	85 991	64 589 (14)	-24 523
more than 1200 beef cattle	153 743	315 715 (10)	152 716	138 544	185 747 (15)	80 814
reliance on family labour						
- predominantly family labour ^b	56 365	59 158 (8)	26 817	-2 301	-8 279 (57)	-48 228
- other farms	174 482	183 921 (11)	74 170	102 605	87 093 (28)	-56 502
	rate of return - excl. capital appreciation			rate of return - incl. capital appreciation		
	2004-05	2005-06 ^p	2006-07 ^s	2004-05	2005-06 ^p	
	%	%	%	%	%	
southern Australia						
- bottom 25% of specialist producers ^a	-5.1	-5.0 (15)	-5.4	9.2	4.0 (133)	
- top 25% of specialist producers ^a	3.2	2.6 (18)	0.7	12.7	7.1 (21)	
northern Australia						
- bottom 25% of specialist producers ^a	-6.4	-6.3 (13)	-4.8	7.6	23.9 (24)	
- top 25% of specialist producers ^a	4.8	4.3 (25)	2.1	7.3	16.5 (70)	
herd size						
50-300 beef cattle	-2.0	-3.0 (103)	-1.8	6.3	6.7 (29)	
300-600 beef cattle	0.6	0.2 (141)	-1.6	8.9	5.7 (16)	
600-1200 beef cattle	3.1	2.3 (8)	0.4	10.9	6.9 (13)	
more than 1200 beef cattle	2.2	2.7 (8)	1.7	7.7	14 (11)	
reliance on family labour						
- predominantly family labour ^b	0.7	0.6 (23)	-5.0	8.0	8.7 (11)	
- other farms	2.6	2.3 (15)	0.2	8.5	8.3 (15)	

^a Ranked by farm's rate of return excluding capital appreciation in 2005-06. ^b Family labour represents 66 per cent or more of total labour. ^p Preliminary estimate. ^s Provisional estimate. Note: Figures in parentheses are standard errors expressed as percentages of the estimates.



producers with the option of using debt financing to pay for additional breeding stock if they choose to pursue this rebuilding strategy.

However, average equity ratios can sometimes give a misleading impression as there can be considerable variation around the average, as evidenced by the large difference in average rates of return for the top and bottom 25 per cent of producers (table 2). To illustrate this, estimates of the proportion of southern beef producers who fall into each of four categories based on a combination of their income and equity ratio are presented in figure H. The estimated proportion of southern beef producers with an equity ratio of less than 70 per cent at the end of 2006-07 is relatively low at just 5 per cent. This is despite the low incomes and an increase in average farm debt in the beef industry of more than \$50 000 in 2006-07. By comparison, the proportion is only around half the equivalent proportion at the end of the drought year 2002-03. Even if rural property values were to fall by up to 10 per cent as a result of the drought or a change in long run expectations for industry profitability, the proportion of beef producers with an equity ratio of less than 70 per cent would still be relatively low, at just 6 per cent (figure H).

Another aspect of their financial position that producers are likely to consider is the size of debt servicing commitments. Despite an increase in average farm debt in the southern beef industry over recent years, debt servicing commitments, measured as interest payments as a proportion of average receipts over the previous five years, is only slightly above the long term average (figure I). Hence, most producers would be in a reasonable position to service a further increase in debt if they needed to finance the purchase of additional breeding stock. Following a rundown in farm liquid assets in the two years following the 2002-03 drought, specialist beef producers built up their savings held as liquid assets in 2005-06 which, if needed, could also be used to meet the farm households' short term financial needs or to pay for the purchase of additional breeding stock. At the end of 2005-06, specialist and nonspecialist beef producers in southern Australia had liquid assets of \$185 000 and \$103 000 respectively.

Consequently, it appears that by the end of June 2007 the short term need for cash flow is unlikely to prevent most beef producers in southern Australia from responding to market signals and pursuing a herd rebuilding strategy if seasonal conditions have improved. However, there is likely to be a small group of producers with low levels of equity in the property who may not be in position to rebuild cattle numbers as quickly as others.

fig H **distribution of farms by equity ratio and farm cash income – southern beef producers**

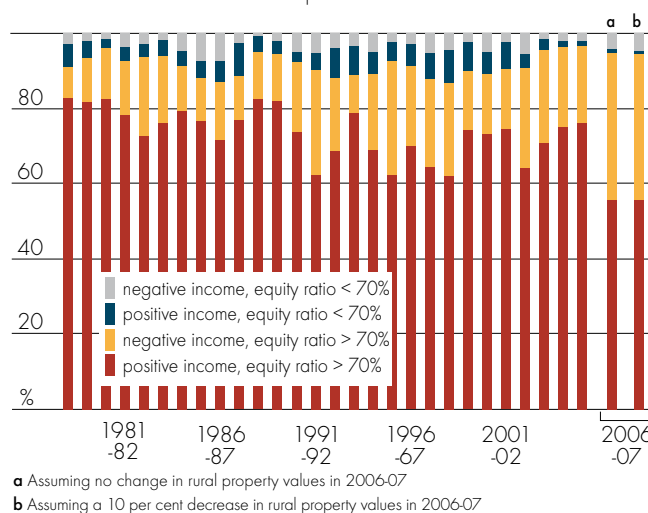
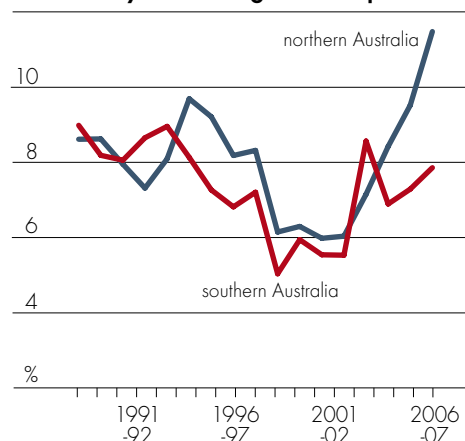


fig I **interest as a percentage of the five year average of receipts**





3 performance benchmarks by industry, top 25 per cent of specialist producers average per farm

	2004-05	2005-06 ^p	2006-07 ^s	
	beef			
farm cash income	\$ 129 290	185 385 (11)	122 217	(34)
farm business profit	\$ 111 505	122 960 (19)	66 879	(61)
rate of return				
- excl. capital appreciation	% 3.0	2.9 (11)	2.0	(22)
- incl. capital appreciation	% 8.8	11.3 (15)	na	
farm equity ratio	% 89	90 (2)	na	
interest paid to receipts ratio	% 6.3	7.4 (18)	10.3	(23)
receipts per \$1000 of capital	\$ 112	101 (10)	87	(16)
receipts to costs ratio	% 1.28	1.41 (4)	1.24	(12)
labour to cash costs ratio	% 9.6	10.7 (9)	na	
receipts per week of labour	\$ 4 681	4 873 (11)	na	
	lambs			
farm cash income	\$ 110 859	111 812 (11)	87 338	(18)
farm business profit	\$ 73 526	76 720 (18)	10 319	(169)
rate of return				
- excl. capital appreciation	% 3.0	3.1 (12)	1.2	(38)
- incl. capital appreciation	% 7.5	11.3 (9)	na	
farm equity ratio	% 90	89 (2)	na	
interest paid to receipts ratio	% 5.6	5.9 (12)	8.3	(14)
receipts per \$1000 of capital	\$ 125	117 (6)	92	(7)
receipts to costs ratio	% 1.35	1.37 (3)	1.34	(3)
labour to cash costs ratio	% 9.8	10.0 (7)	na	
receipts per week of labour	\$ 4 074	4 090 (6)	na	
	crops			
farm cash income	\$ 382 694	377 687 (5)	54 107	(45)
farm business profit	\$ 258 072	270 227 (7)	-120 894	(21)
rate of return				
- excl. capital appreciation	% 7.7	7.6 (5)	-0.8	(60)
- incl. capital appreciation	% 13.4	9.9 (8)	na	
farm equity ratio	% 83	84 (2)	na	
interest paid to receipts ratio	% 5.0	5.4 (10)	10.2	(12)
receipts per \$1000 of capital	\$ 228	220 (3)	125	(5)
receipts to costs ratio	% 1.65	1.62 (2)	1.10	(4)
labour to cash costs ratio	% 9.4	8.7 (4)	na	
receipts per week of labour	\$ 6 767	6 764 (4)	na	

^p Preliminary estimate. ^s Provisional estimate. **na** Not available.

Notes: Figures in parentheses are standard errors expressed as percentages of the estimates. Farms ranked by average rate of return excluding capital appreciation.

industry benchmarks

There is considerable interest in productivity and profitability trends in agriculture. However, there is usually a wide range of financial performance in most industries and there can also be considerable year to year variability. In this section, top performing farms from the major broadacre industries are compared with each other (table 3), and some longer term trends in key benchmark variables within the beef industry are discussed. Taken together, these benchmarks provide an insight into the profitability of the Australian beef industry and some of the factors affecting the rural property market.

For the purposes of these comparisons, a specialist cropping farm is defined to be any broadacre farm that sowed more than 100 hectares to grain crops and, on average, received more than 50 per cent of receipts from the sale of crops in all the years in which the farm was surveyed by ABARE. A specialist slaughter lamb producer is a producer with more than 400 sheep who sold more than 100 lambs for slaughter and who earned, on average, more than 20 per cent of total farm cash receipts from the sale of lambs for slaughter in the years surveyed.

Over the past two decades, top performing grains specialists have generally recorded a higher average rate of return, excluding capital appreciation, than their beef and slaughter lamb counterparts (figure J). However, when the total return on capital, including capital appreciation, is considered, the returns recorded by the top 25 per cent of producers in each of the three industries have been fairly similar for most of the past decade (figure K).

A feature of the data in figure J is the higher than average rates of return earned in 2000-01 and 2001-02. These two above average years would have fuelled the increase in rural property values that had begun in the late 1990s.



Another indicator of the strengthening performance of the beef industry is the upward trend in the level of receipts per hectare since the mid-1990s (figure L). This may reflect the gradual intensification of beef production in Australia as the proportion of grain finished cattle has increased steadily. The opposite trend is apparent for top performers in the slaughter lamb industry, which may be explained by the recent expansion of the slaughter lamb industry into lower rainfall regions.

The data in figure M also highlight the steadily improving labour use efficiency of the top performers in the beef industry. Receipts per week of labour in 2005-06 were about 50 per cent above the level in the mid-1990s in real terms. A contributing factor may have been the steadily increasing real value of net additions of plant, machinery, vehicles and improvements in the Australian broadacre agriculture sector.

fig J rate of return, excluding capital appreciation – top 25% of farms

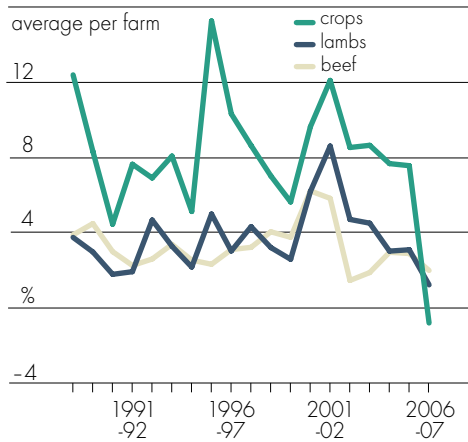


fig K rate of return, including capital appreciation – top 25% of farms

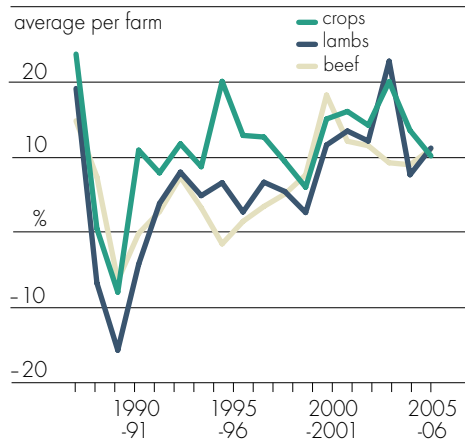


fig L index of receipts per hectare operated – top 25% of farms

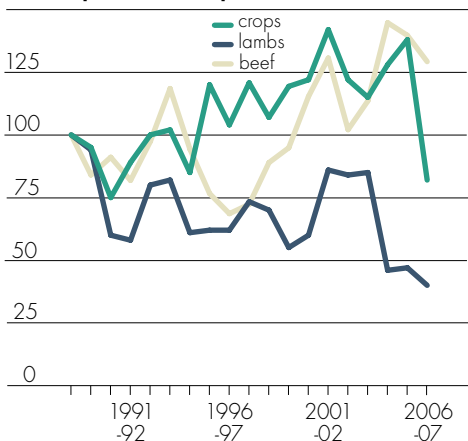
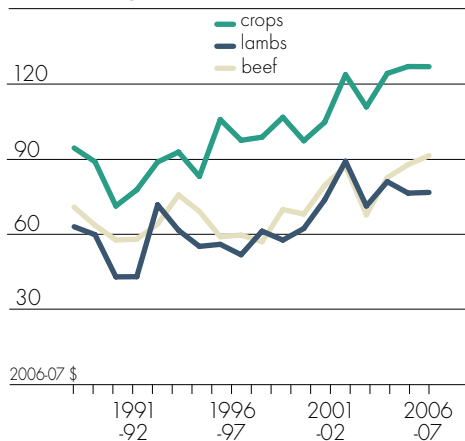


fig M receipts per week of labour – top 25% of farms



beef



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