Beef Farms Australia July 2018

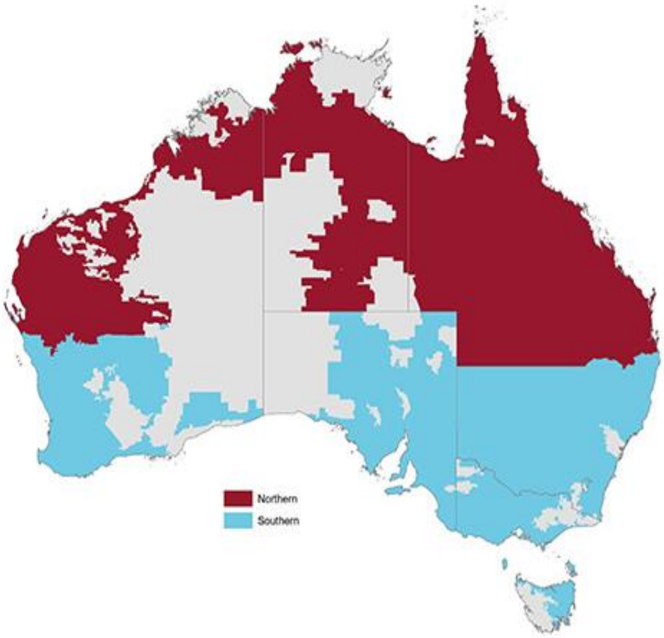
Industry overview

The beef cattle industry makes an important contribution to the Australian economy. In 2015–16 it accounted for around 23 per cent ($13.1 billion) of the total gross value of farm production and around 22 per cent of the total value of farm export income.

Around 57 per cent of all Australian farms carry beef cattle (ABS 2016), making this the most common and widely dispersed agricultural activity in Australia. Beef cattle farms are an important part of the rural economy in almost all regions of Australia. Farms running beef cattle manage more than 75 per cent of the total area of agricultural land in Australia.

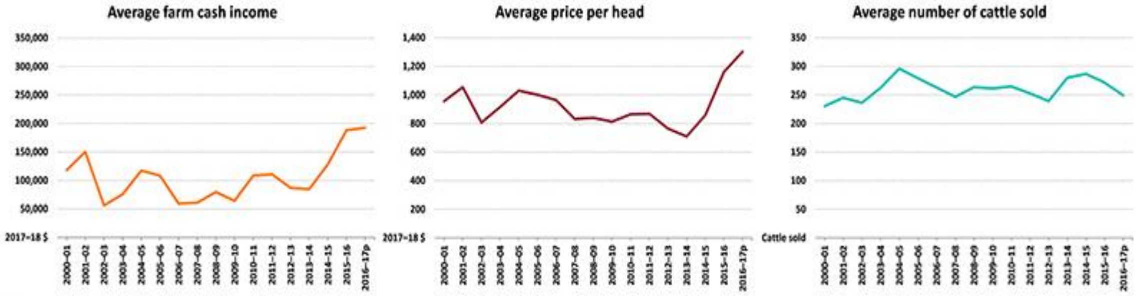
The results below are for farms included in the Australian Agricultural and Grazing Industries (AAGIS) survey that had at least 100 head of beef cattle on hand at 30 June. Farm businesses with fewer than 100 head of cattle represent just 2 per cent of the national beef herd and contribute around 3 per cent to the total value of beef cattle sales.

MLA beef regions



Source: ABARES

Key drivers of farm income



p Preliminary estimate.
Source: ABARES Australian Agricultural and Grazing Industries Survey

Farm financial performance

- In 2016–17 and 2017–18 farm cash incomes of Australian beef-producing farms are estimated to be the highest in over 20 years in real terms.
- Higher beef cattle prices in 2016–17 contributed to strong increases in cash receipts of Australian beef-producing farms.
- Poor seasonal conditions in 2017–18 are expected to result in an increase in turn-off of cattle for slaughter but total cash receipts are projected to decrease as a result of lower beef cattle prices.

Farm debt and equity

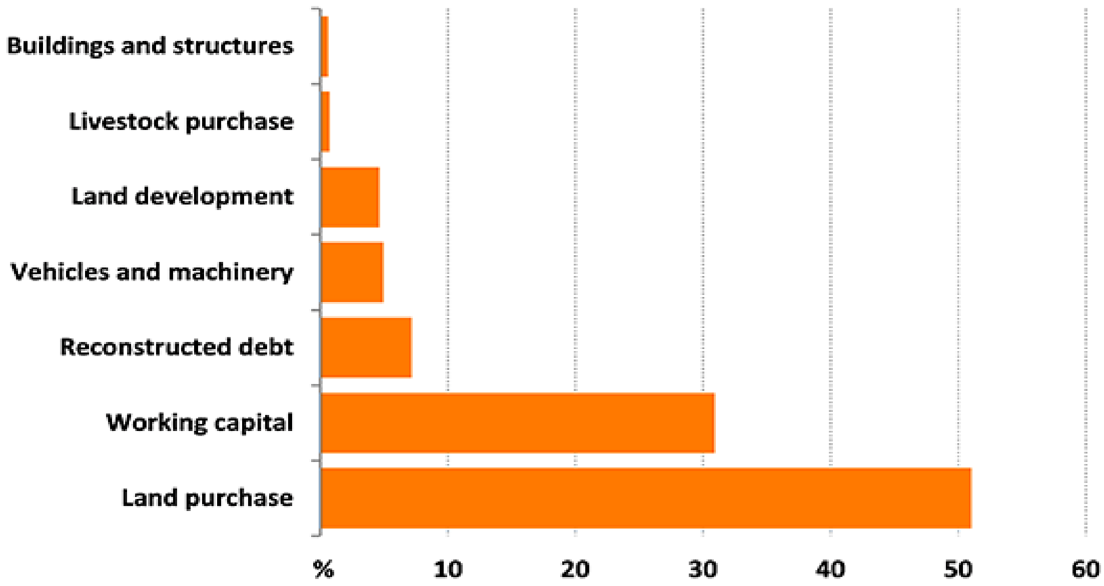
- Average farm debt of Australian beef farms increased by around 13 per cent to $562,800 in 2016–17 (in real terms). Average farm debt for beef farms is projected to increase slightly in 2017–18.
- The average equity ratio of beef farms has remained steady at around 90 per cent from 2000–01 to 2016–17.

Debt and equity, by region

Debt and equity of beef farms varied significantly by region and scale of cattle production. Beef farms in the Northern region had higher average debt and lower farm equity ratios than those in the Southern region, mainly because the Northern region had a higher proportion of large farms. In 2016–17 around 21 per cent of beef farms in the Northern region had more than 1,600 head of cattle, compared with around 3 per cent in the Southern region. Despite differences in average debt per farm, between 2000–01 and 2017–18 trends in farm debt were similar in both regions.

Between 2000–01 and 2016–17 the average equity ratio of beef farms in the Northern region was around 89 per cent and 90 per cent in the Southern region.

Figure 12 Main purpose of farm debt, beef farms, Australia, 2014–15 to 2016–17
average proportion per farm



Source: ABARES Australian Agricultural and Grazing Industries Survey

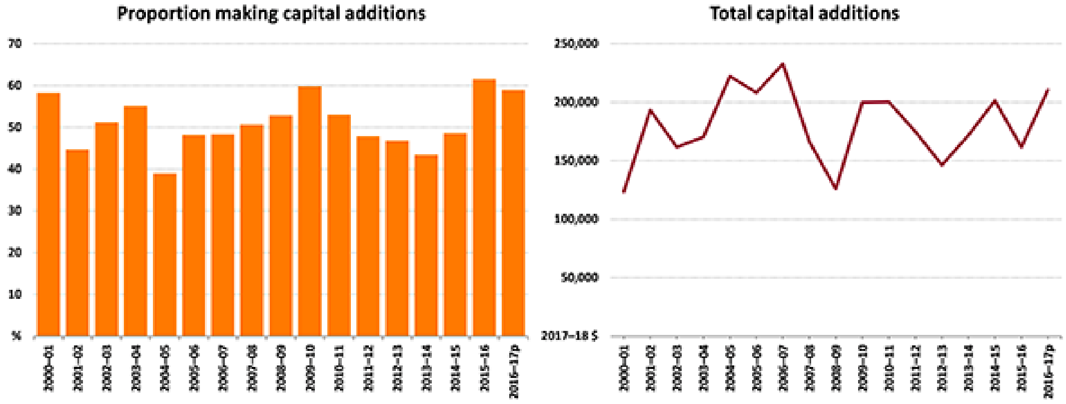
New farm investment

Most farmers make new investments each year to add to the existing capital stock or to replace capital items that have reached the end of their useful life. Farm investments are usually made with longer-term outcomes in mind and based on expected returns over the life of the investment.

On average, 52 per cent of beef farms each year made additions to their total capital over the 10 years to 2016–17 (Figure 19). The average amount invested each year by those making capital additions fluctuated around an average of $176,000, broadly in line with movements in farm cash incomes.

In 2016–17 an estimated 59 per cent of beef farms made capital additions at an average of $210,000 per farm.

Figure 19 Total capital additions, beef farms, Australia, 2000–01 to 2016–17
proportion of farms and average per farm



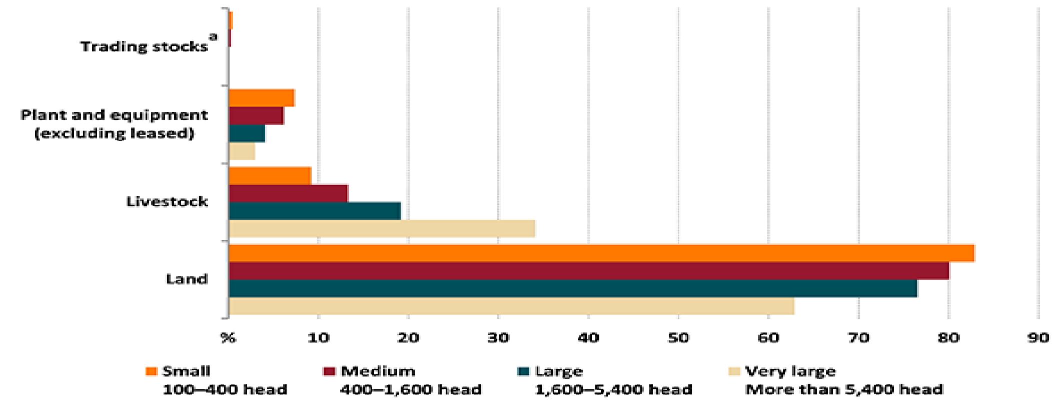
p Preliminary estimate.
Note: Total capital additions is the average of those farms making capital additions.
Source: ABARES Australian Agricultural and Grazing Industries Survey

Capital and investment by farm size

Beef farms in all size groups became more capital intensive between 2000–01 and 2016–17. The average amount of labour used per farm declined over the period, which resulted in an increase in the proportion of non-land capital used per unit of labour.

Small beef farms (100–400 head) owned the largest proportion of national beef farm capital in 2016–17 (34 per cent) and made up 60 per cent of beef farms. From 2000–01 to 2016–17 the aggregate value of small beef farms rose by around 33 per cent despite a 30 per cent decline in the number of small beef farms.

Figure 24 Components of capital, beef farms, by size, 2012–13 to 2016–17
average per farm



p The value of all inventories including stocks of wool and grains held on farm at 30 June.
Source: ABARES Australian Agricultural and Grazing Industries Survey

Medium beef farms (400–1,600 head) owned about 33 per cent of Australian beef farm capital stock in 2016–17 and made up 30 per cent of the number of beef farms. The aggregate value of capital of medium-sized beef farms rose around 55 per cent between 2000–01 and 2016–17, despite the number of farms decreasing by about 19 per cent.

The aggregate value of capital of large beef farms (1,600–5,400 head) represented 21 per cent of Australian beef farm capital in 2016–17 and these farms made up 8 per cent of Australian beef farms. The aggregate value of capital rose by about 127 per cent from 2000–01 to 2016–17, and the number of farms increased by 12 per cent.

Very large beef farms (more than 5,400 head) owned around 11 per cent of Australian beef farm capital in 2016–17 and made up 2 per cent of the total number of beef farms. The aggregate value of very large beef farm capital rose by 108 per cent from 2000–01 to 2016–17, although the number of farms fell by around 4 per cent.

Very large beef farms are generally pastorally focused and have a greater quantity of less fertile land with a lower average value per hectare than other size groups. Combined with the greater number of cattle on hand, this results in very large farms having a significantly lower proportion of total capital held in land and a greater proportion embodied in the cattle stock (Figure 24).

Cost of production

- Over the three years to 2016–17 the total on-farm cost of beef production averaged 199 cents per kilogram live weight in northern Australia and 212 cents in southern Australia.
- There is estimated to have been a small decrease in the cost of beef production in both northern Australia and southern Australia between 2015–16 and 2016–17.
- Higher beef cattle prices in 2015–16 resulted in a large increase in operating margins. An additional small increase in operating margin was recorded in 2016–17 in both northern and southern Australia mainly as a result of further increase in prices received for beef cattle.
- Total on-farm production costs per kilogram declined in both southern and northern Australia as herd size increased.
- Small beef farms (with less than 400 beef cattle) generally covered their cash operating costs. However, most did not cover the value of unpaid owner–manager, partner and family labour and only part of the depreciation cost, over the three years to 2016–17.

Box 1 Calculation of the per kilogram live weight cost of beef production

The Australian Agricultural and Grazing Industries Survey of Australian broadacre farms collects detailed financial, physical and production data. ABARES included additional questions in 2007–08, 2008–09 and 2012–13 to 2016–17 surveys so it could calculate the per kilogram live weight cost of beef cattle and sheep production. These additional questions covered the live weight of cattle, calves, sheep and lambs sold or transferred off-farm and the proportion of key variable costs attributable to beef, sheep and cropping enterprises on mixed enterprise farms. Key variable costs included crop and pasture chemicals, fertiliser, fodder, fuel, repairs and maintenance, contracts paid, veterinary and livestock materials, and hired and family labour.

Fixed (overhead) costs such as accountancy, telephone, insurance and capital depreciation were attributed to enterprises on the basis of their share of total farm cash receipts.

ABARES calculated total live weight of beef production as the total live weight sold and transferred off-farm, adjusting for changes in total live weight of the herd at the beginning and end of each financial year. Total live weight of the herd at the beginning and end of each financial year was calculated by applying average live weights to the categories of cattle on hand (calves, heifers, cows, bulls and steers) at the beginning and end of each financial year.

Per kilogram live weight costs of production were calculated by dividing the beef enterprise share of costs by the total live weight of beef produced.

The on-farm costs of beef production vary across farm businesses depending on herd size, the farm's location, the quality of farm management and climatic and other production conditions during the year.

In the short term, to continue operating an enterprise, farm businesses need to generate only sufficient receipts to cover cash operating costs. This enables them to avoid drawing on receipts from other enterprises or borrowing or using financial assets to cover cash shortfalls.

Over a longer period, farm businesses need to replace farm capital (such as vehicles, machinery, plant, sheds and fencing) to maintain productivity as capital wears out. This cost is mostly captured in capital depreciation, but repairs and maintenance included in cash costs also include replacement and upgrade of some farm capital. Farms often vary their expenditure on capital items depending on need, available cashflow and access to finance. In some years, farms invest more than the calculated depreciation and in other years much less. A farm business that continually invests less than the calculated depreciation will lose production capacity over the medium to long term.

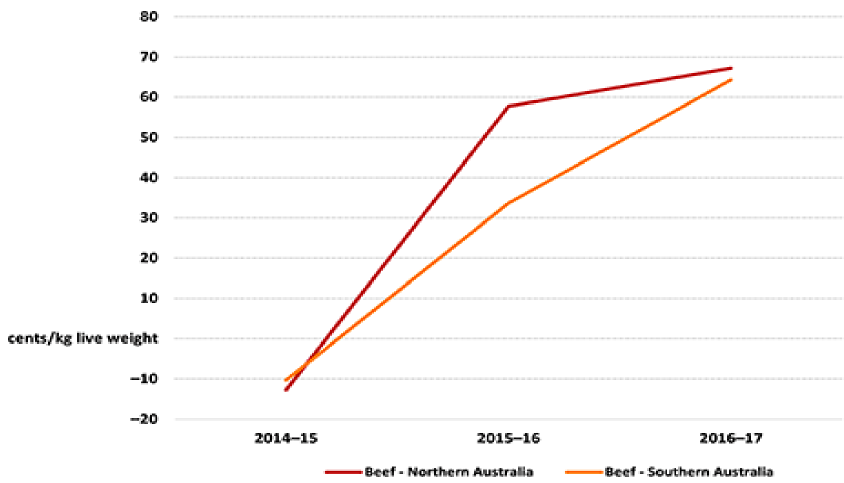
ABARES includes the value of unpaid labour in its measurement of farm financial performance. In 2016–17 more than 95 per cent of Australian beef cattle–producing farms were family operated. Family-operated farms use a large amount of owner–manager, partner and family labour. These farms generally do not pay wages or salaries to family and partners who provide labour for the farm's operation. Valuation of this labour input enables ABARES to compare the performance of all farm businesses equally regardless of the (paid or unpaid) labour arrangements in place. Valuation of unpaid labour also captures the requirement for the farm's operators to receive a fair return for their labour input. ABARES values unpaid labour inputs at standard industry award wage rates.

Operating margins

Operating margins (receipts per kilogram less costs of production) increased in 2014–15, 2015–16 and again in 2016–17 from the very low margins recorded in 2013–14. Prices for beef cattle declined between 2008–09 and 2013–14. In response, producers tried to maintain operating margins by reducing expenditure on beef inputs to below the longer term cost of production resulted in a run-down in farm productive capital and declines in herd size (Martin 2015).

In 2014–15 and 2015–16 average prices for beef cattle increased significantly, resulting in increased operating margins (Figure 34). This was despite an increase in farm expenditure. In 2015–16 the operating margin for northern Australia averaged 58 cents per kilogram live weight produced, and in southern Australia 34 cents per kilogram. Further increase in prices received for beef cattle in 2016–17 resulted in these margins increasing to 67 and 64 cents per kilogram live weight for northern and southern Australia respectively.

Figure 34 Operating margins, for beef cattle producers, 2014–15 to 2016–17



Note: Operating margins after accounting for cash, finance, depreciation and unpaid labour costs.
Source: ABARES Australian Agricultural and Grazing Industries Survey

On average, over the three years to 2016–17 producers in all herd size categories in northern and southern Australia covered cash costs of production. However, producers in both southern and northern Australia with fewer than 400 head of cattle did not fully cover all costs including the value of unpaid labour. The value of unpaid labour substantially adds to estimated total beef production costs, particularly for small herd size producers. The total cost per kilogram live weight produced for farms with fewer than 400 head of beef cattle in both southern and northern Australia is estimated over the three years to 2016–17 to have been above the price received per kilogram of beef live weight sold. In addition, some small herd size farms in northern Australia did not cover all depreciation costs.

Many small herd size farms use income from other farm enterprises and off-farm sources to help meet operator living expenses. Small herd size producers, particularly small specialist beef producers (farms deriving more than 50 per cent of their farm receipts from sales of beef cattle) with no other farm enterprise, have high per kilogram production costs. Unpaid labour costs are particularly high for these farms. The costs of farm vehicles, plant and machinery, shire rates, maintenance and insurance of farm buildings, improvements and any included household expenditure are spread over relatively little output.

References

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Martin, P 2015, Australian beef: financial performance of beef cattle producing farms, 2012–13 to 2014–15, ABARES research report prepared for Meat & Livestock Australia, Canberra, August.