



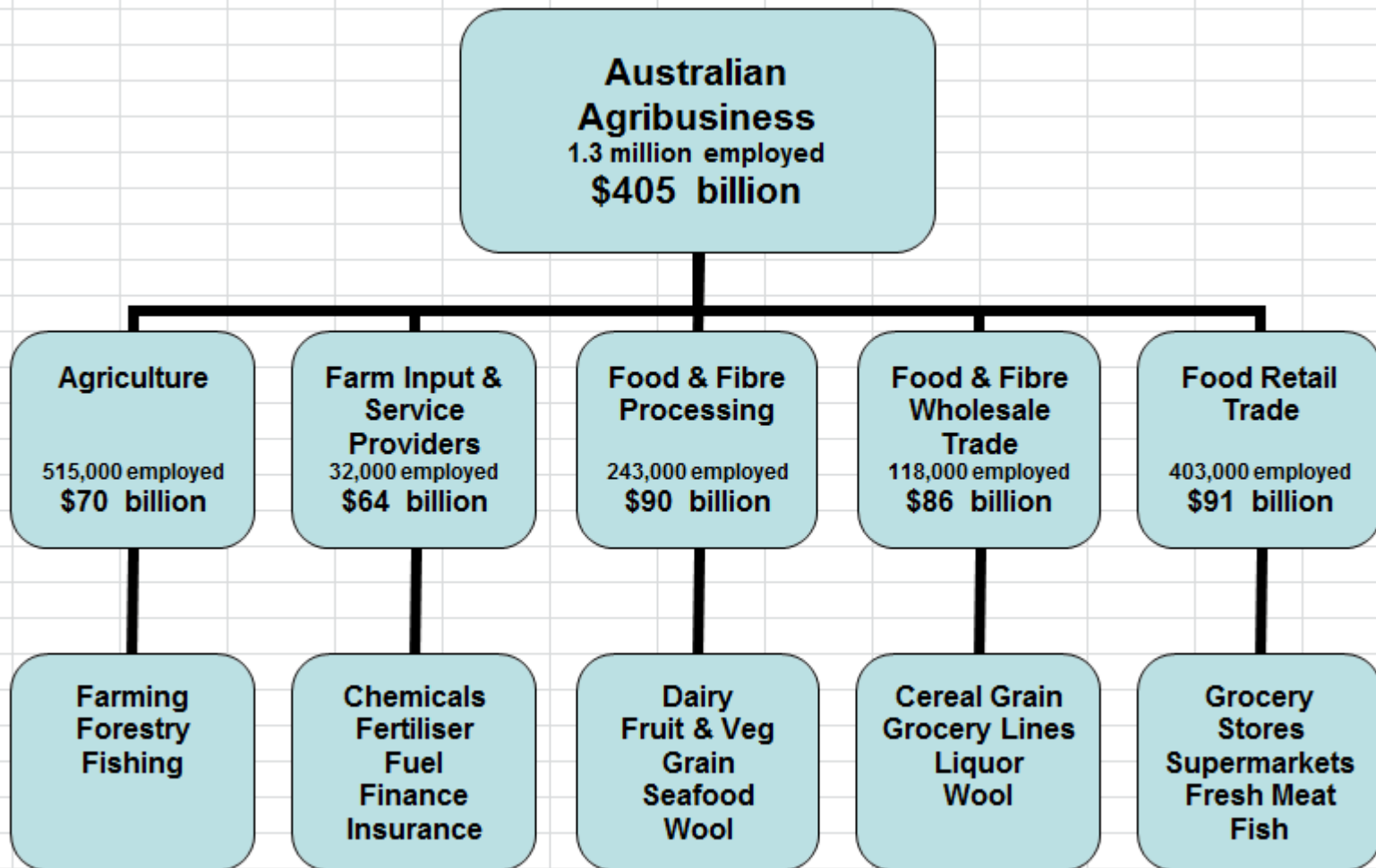
Mixed Farming Forum - Temora – July 2013

## **The Future of Mixed Family Farming**

- 1. Overview**
- 2. Farm Income**
- 3. Farm Costs**
- 4. Demographics**
- 5. Implications**

# 1 Overview - Agribusiness Value Chain >\$400b

By way of introduction it is worth noting that Agribusiness is a huge part of our economy. Every farm gate dollar generates a further \$4.70 along the value chain



# 1 Overview - Agriculture's Seismic Shift - 2006 to 2011

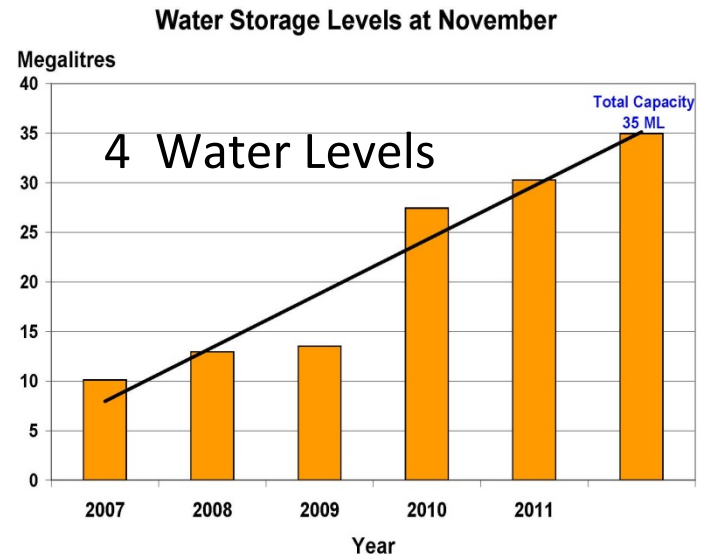
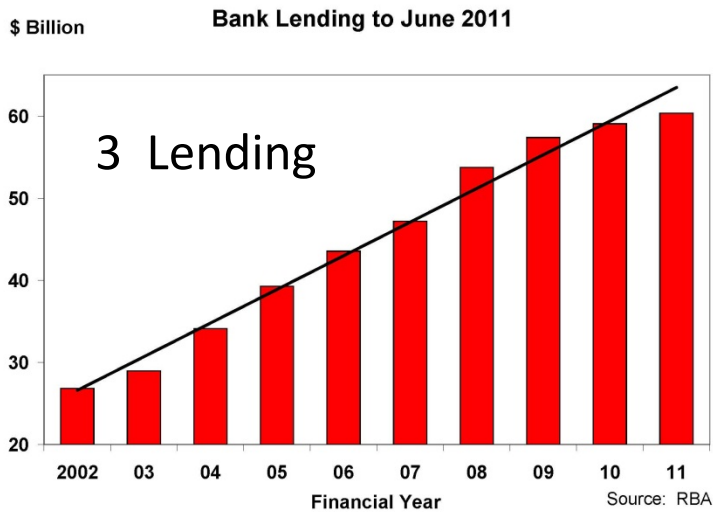
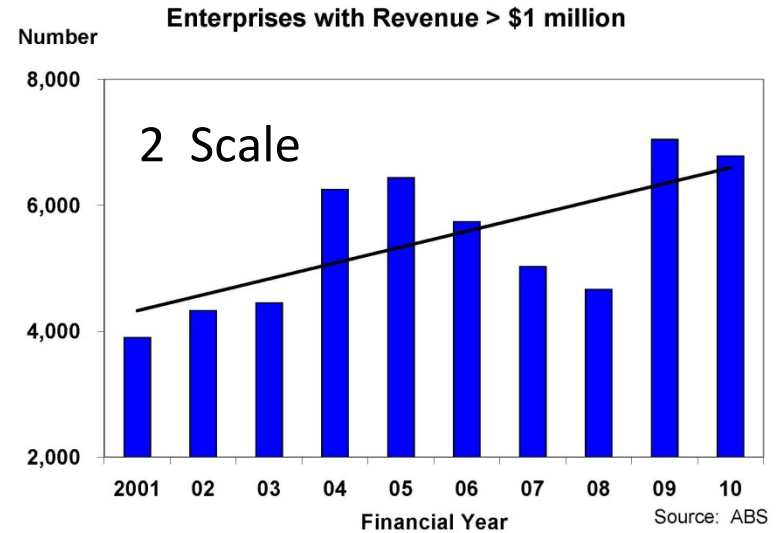
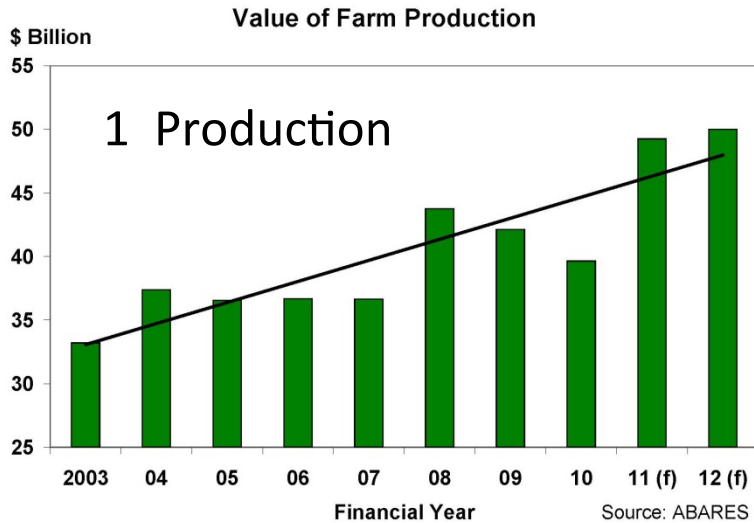
Agriculture has changed over the past five years. Farming has grown by 15% whilst fishing, forestry and services to agriculture have declined, mainly the result of the failure of Managed Investment Schemes. Note that bank lending increased by 28%, most of this was pre GFC.

## Macro Statistics

Item	Unit	2011 Value	2006 to 2011 Growth	Percentage Growth
Consumer Price Index	1990 = 100	176	24	14
Exchange Rate	US\$/A\$	0.99	0.24	24
Farming*	\$ million	56,742	8,461	15
Fishing*	\$ million	2,995	-190	-6
Forestry*	\$ million	3,797	-780	-21
Services to Agriculture*	\$ million	4,802	-1,274	-27
Lending to Agriculture**	\$ million	60,362	16,816	28

Source: \* ABS/ATO, \*\* RBA

# 1 Overview - Strong Growth in Farming



# 1 Overview – Growth in Corporate Sector

In agriculture we have a mixture of family-corporate and corporate-corporate business entities. They are classed as enterprises with incomes greater than \$2 million. They represent 1.9% of the farm population and their numbers have grown by 797 (44%) since 2006. They generate 39% of farm production. Cotton has shown strong growth after good rains in 2010

ANZSIC Groups	Corporate with Income > \$2 million 2011	Percentage Corporate to Total Farms	Difference 2006 to 2011
Horticulture	615	4	96
Cotton	484	57	310
Grains	427	2	63
Beef & Sheep	423	1	49
Pigs & Poultry	391	22	172
Dairy	131	2	95
Other	117	1	11
Sugar	15	0	1
<b>Total</b>	<b>2,603</b>	<b>1.9</b>	<b>797</b>

Source: ABS/NC

# 1 Overview – Implications for Advisors and Input Providers

Large and corporate farms are different and not just because of size. They are typically managed by a different breed of farmer – young, well educated, thirsty for information and more reliant on the internet to research prices and buy farm inputs.

Suppliers to this market will need to ask themselves these critical questions.

- Do you have the appropriate number of relationship managers?
- Are they focused on the right elements of the relationship?
- Are they in the appropriate locations?
- Does their knowledge match or surpass that of your customers?

## 2 Income – Source of Farm Business Income

ABS report on farming value of production from sales of goods. ATO report on total taxable income which is typically 20% higher. This additional income is important to the sustainability of the family farms. Small farms survive because they have higher non-farm income

### Sources of Income

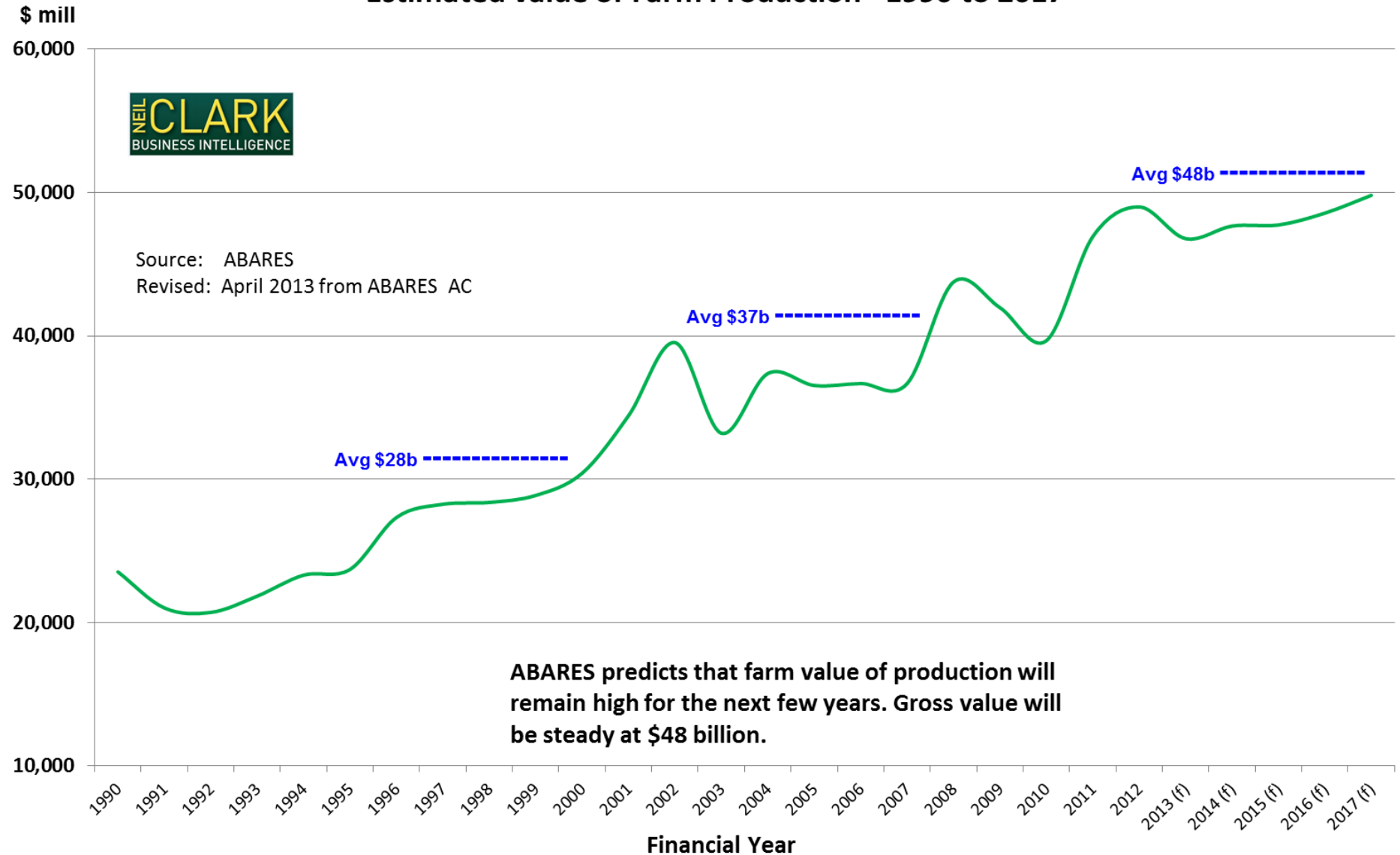
Sales of good
Income from Services
Rent, leasing and hiring income
Funding from government for operational costs
Interest income
Other income

### Income Breakdown (FYE June 2012)

Sale of Farm Goods (ABS)	\$ 49 billion (79%)
Other Income (ATO)	\$ 13 billion (21%)
<b>Total Business Income</b>	<b>\$ 62 billion</b>

## 2 Income – Positive Trends in Farm Production

Estimated Value of Farm Production - 1990 to 2017





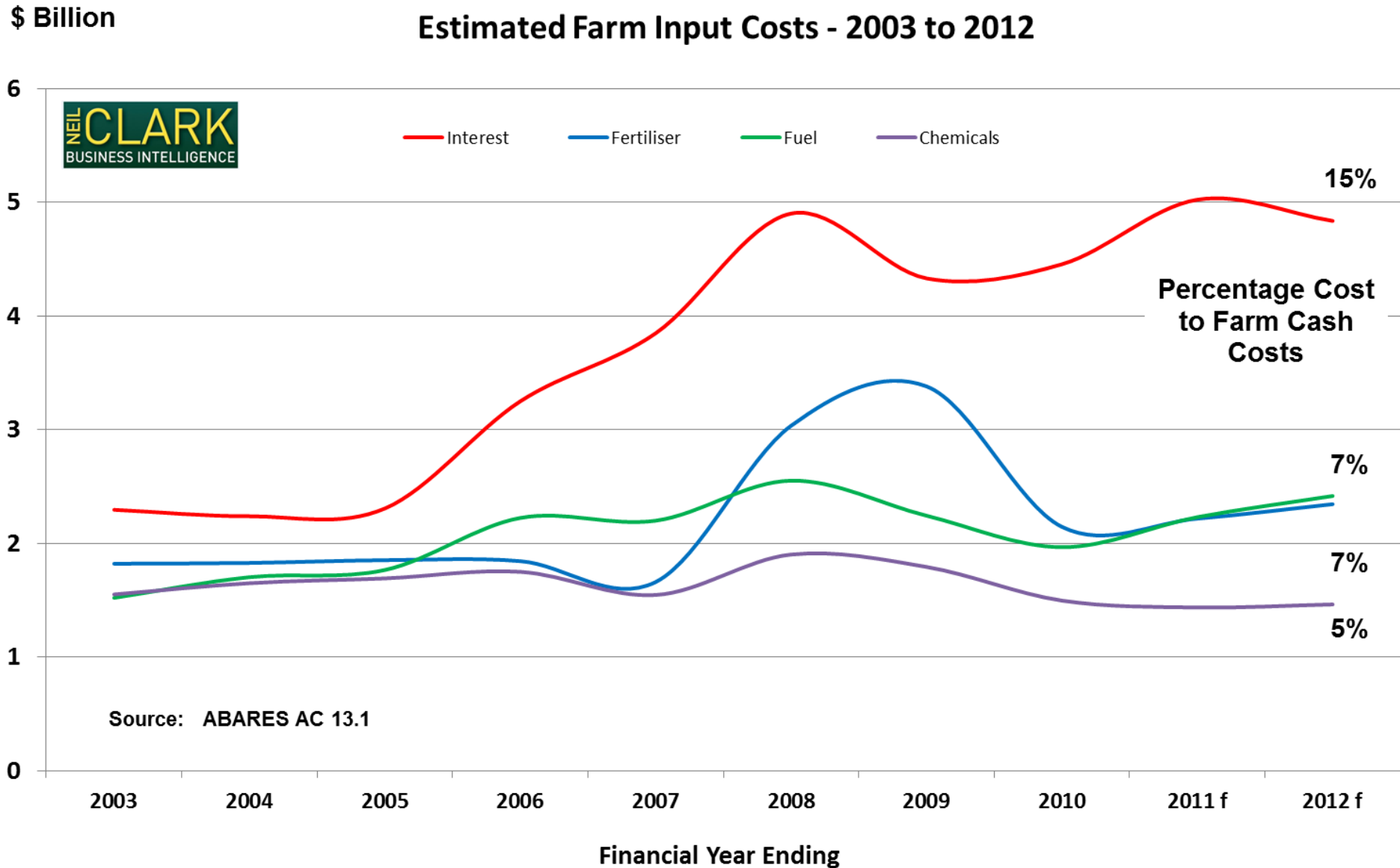
### 3 Costs - Summary of Farm Inputs in Australia

The growth in farm costs has been greatest in interest paid, repairs and insurance. The decline of 23% in crop protection has been driven by an increasing demand for generic brands. Total cost to production has declined by 6%. Cost control will be the focus for farmers in the future.

Farm Inputs			Ranked by Growth	
Commodity	Unit	2011 Value	2006 to 2011 Growth	Percentage Growth
Interest	\$m	5,023	1,774	35
Repairs & maintainance	\$m	3,801	1,199	32
Insurance	\$m	770	151	20
Fertiliser	\$m	2,245	402	18
Fuel	\$m	2,258	35	2
Animal health	\$m	250	-22	-9
Crop Protection	\$m	1,204	-273	-23
<b>Total Cash Costs</b>	<b>\$m</b>	<b>31,849</b>	<b>4,828</b>	<b>15</b>
<b>Cost to Production Ratio</b>	<b>%</b>	<b>66</b>	<b>-4</b>	<b>-6</b>

Source: Source: ABARES AC/NCA

### 3 Costs – Interest Paid is at record levels



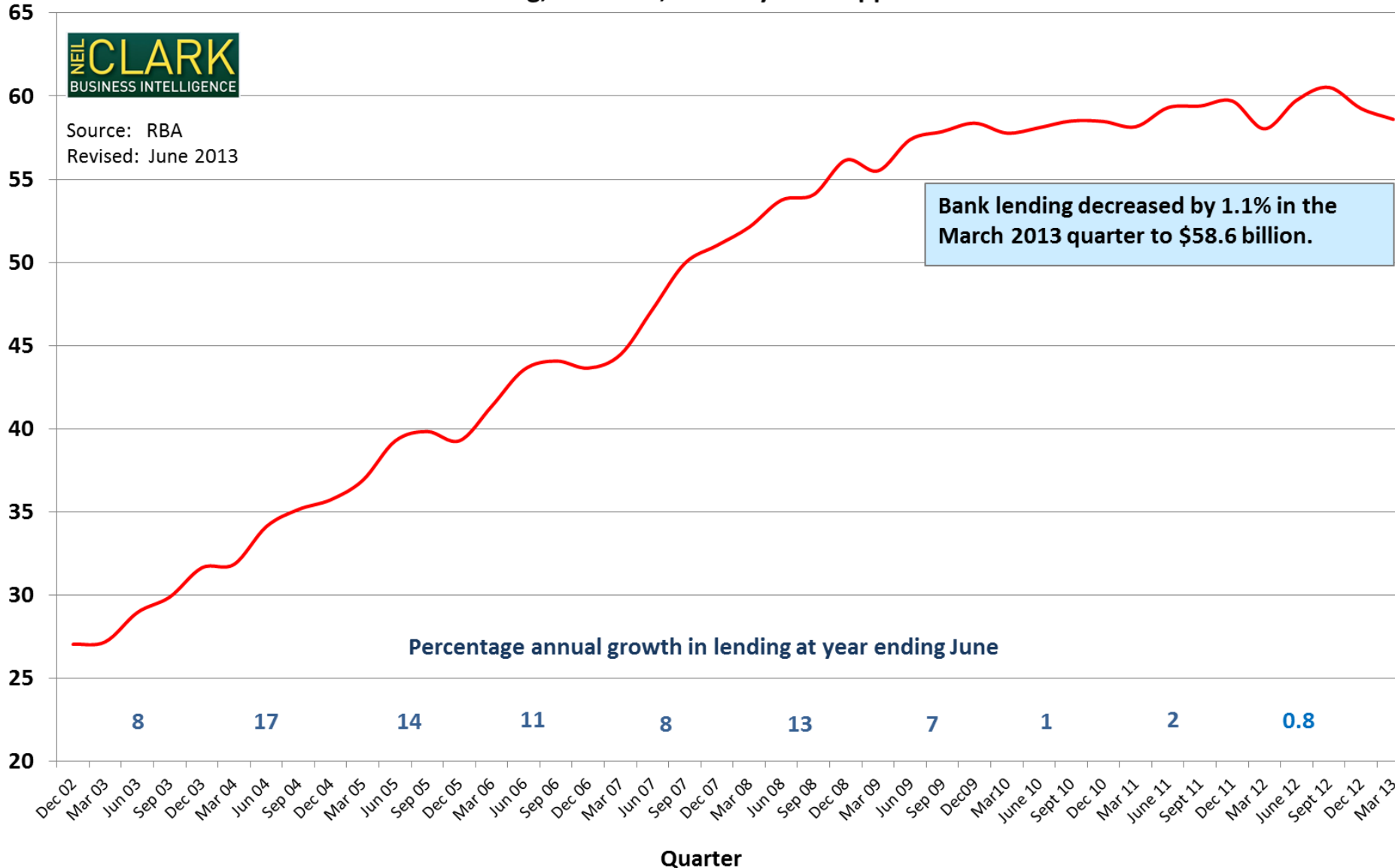
# 3 Costs - Bank Lending is starting to decline

RBA Bank Lending - Division A (Agriculture) - 10 years by Quarter to March 2013  
 Total for Farming, Fisheries, Forestry and Support Services

\$ Billion



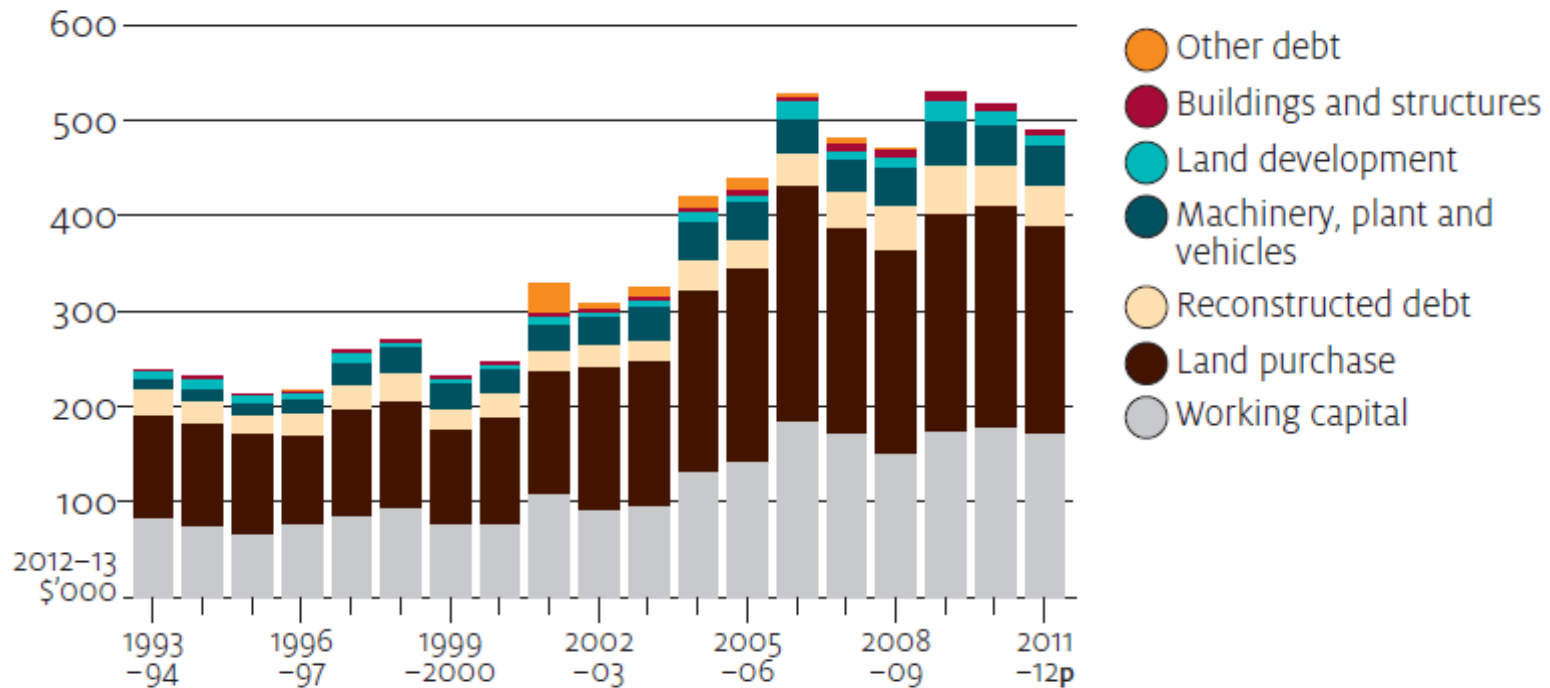
Source: RBA  
 Revised: June 2013



### 3 Costs - Debt Composition on Broadacre Farms

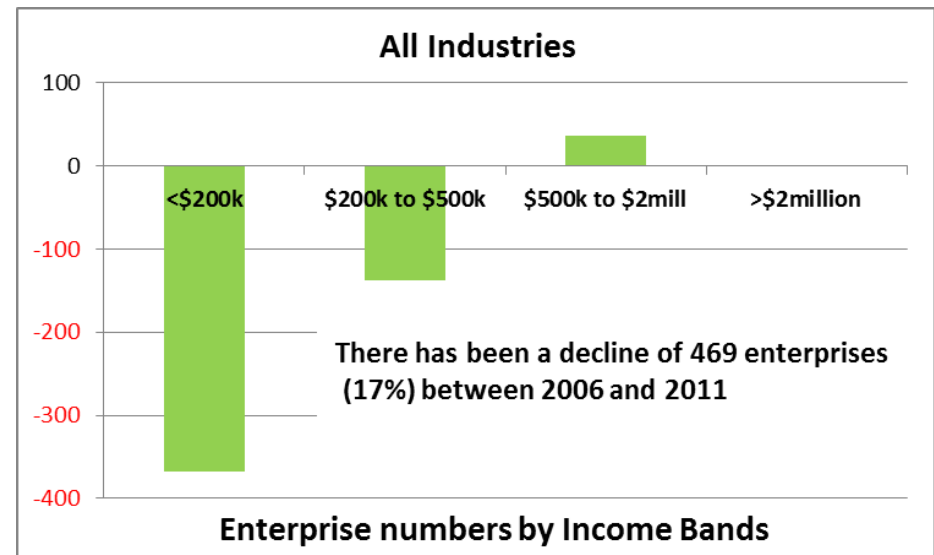
Since the GFC land sales have been flat so most lending has been directed towards machinery, reconstructed debt and working capital.

Composition of farm business debt, broadacre farms



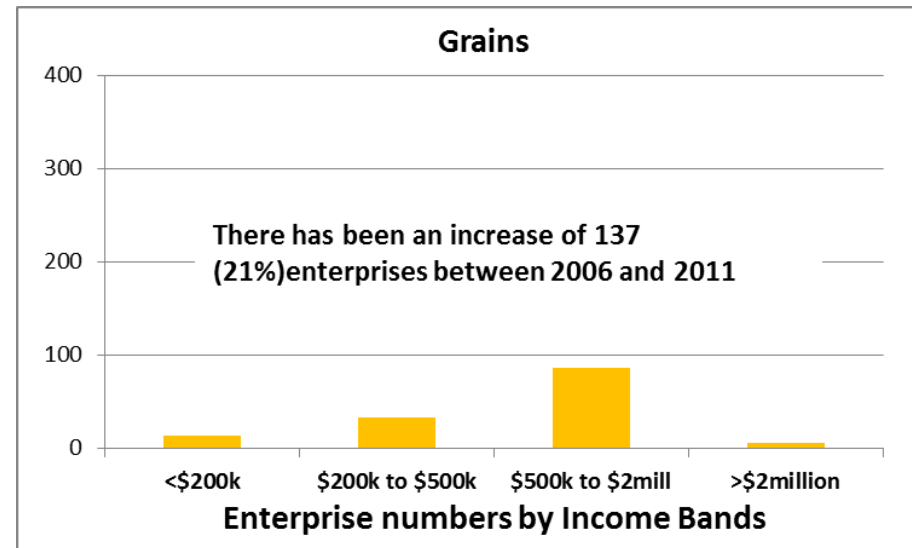
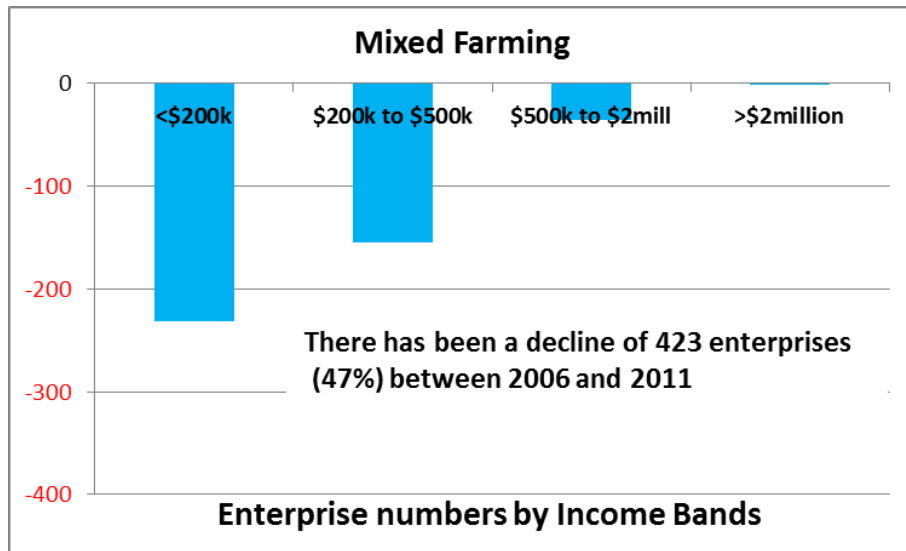
## 4 Demographics – Changes in farm scale – 2006 to 2011

Over the five year period small farmers have exited the industry. This has allowed farm numbers with revenue greater than \$500,000 to grow. This “big shift” in farm size means there are fewer but bigger farming enterprises.



## 4 Demographics – Changes in farm scale – 2006 to 2011

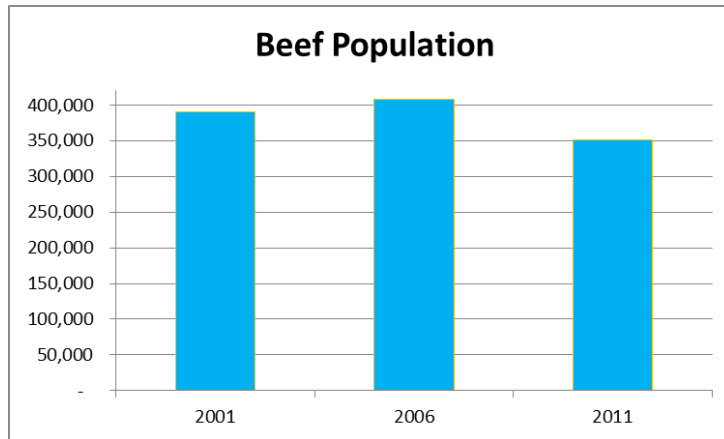
Over the five year period there has been a major shift away from Mixed Farming to the Grains Industry as well as an increase in the number of farms with incomes > \$500,000.



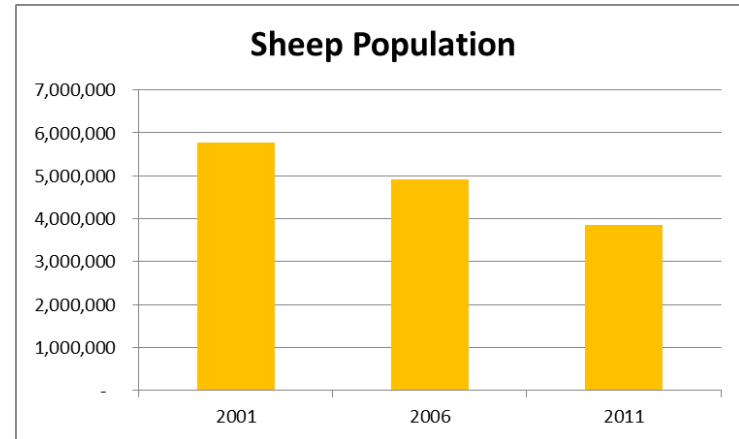
# 4 Demographics – Changing Land Use

There has been considerable change in land use in the Temora area.

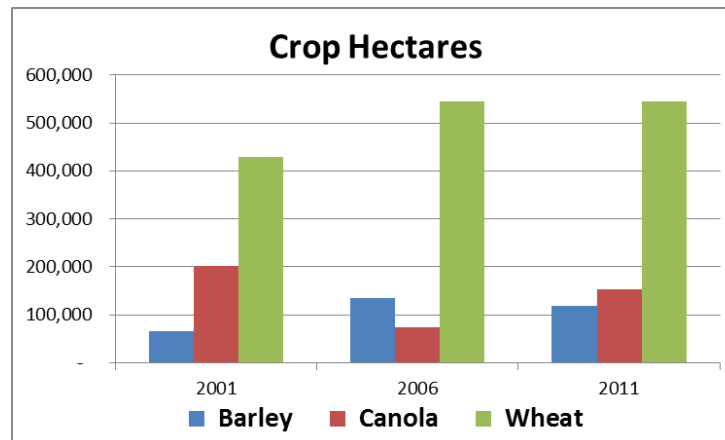
## Beef Population down 10% to 351K



## Sheep Population down 33% to 3.9m



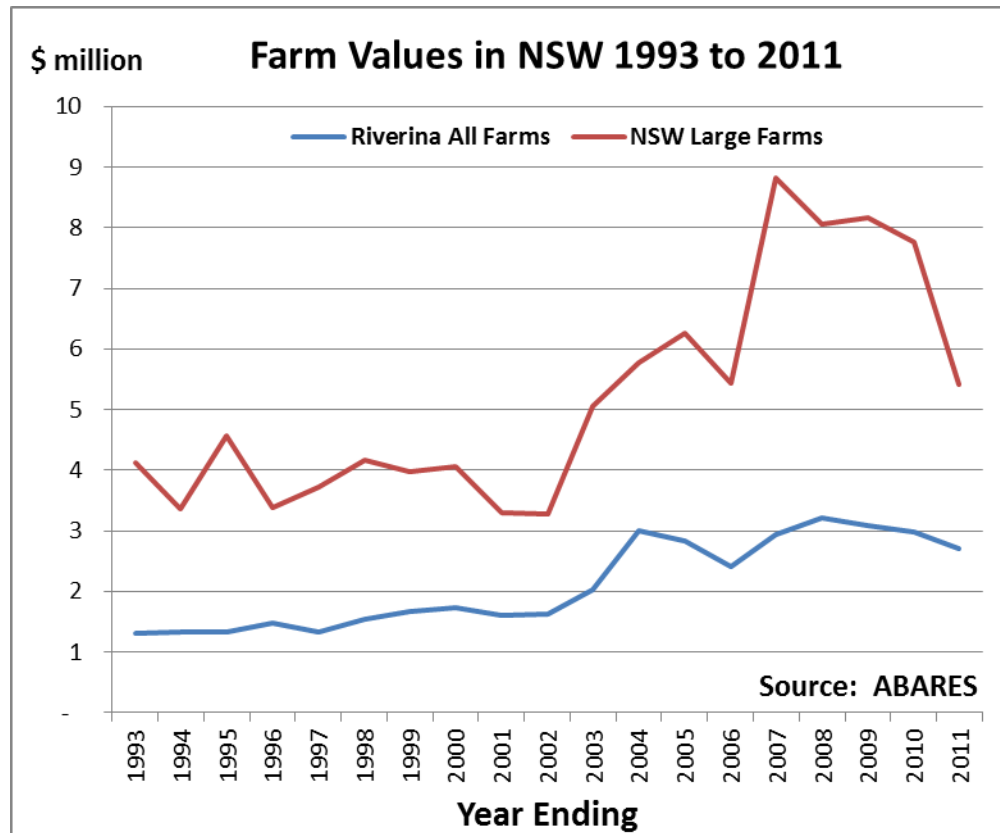
## Crop Hectares up 17% to 818k



## 5 Implications – Who Owns the Farm?

The family farm remains the backbone of Australian agriculture. Foreign investors come and go, corporate farmers come and go, in the final analysis the family business entity is the only business that can survive climate and price fluctuations.

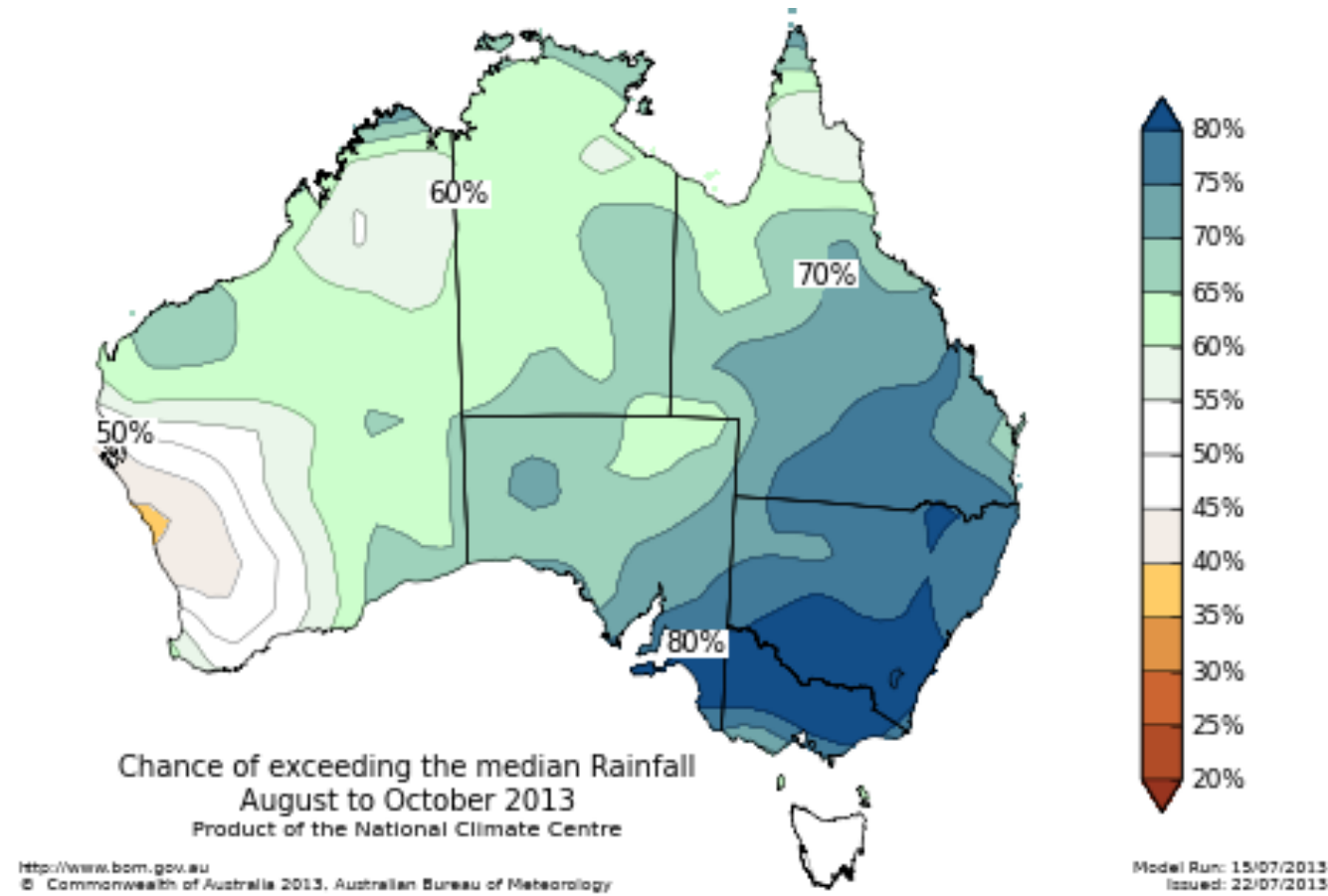
They are also very skilled at knowing when to grow their business!





## 5 Implications – it is going to rain!

BOM are confident that the chances of exceeding median rainfall in the August to October quarter are very positive – this is good news!!!



## 5 Implications – Where to from here?

1. Seismic shift in farm scale and land use – more larger farms, new challenges.
2. Large farms support positive succession planning programs with positive intergenerational change.
3. Managers are now younger, well educated, have good networks and are technically savvy.
4. Overcoming the yield gap is now a major challenge, where to next?
5. Future gains will need to come from cost control and improved marketing.
6. Are you ready?