

Analysing vegetable growers' financial performance by state



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Introduction

The financial performance of Australian vegetable growers can be affected by a range of supply and demand determinants, such as seasonality, costs of production, consumer behaviour and production processes. These determinants tend to vary considerably for different states due to Australia's large geographic area and diverse range of vegetables, and this can subsequently translate to mixed financial performance from state to state.

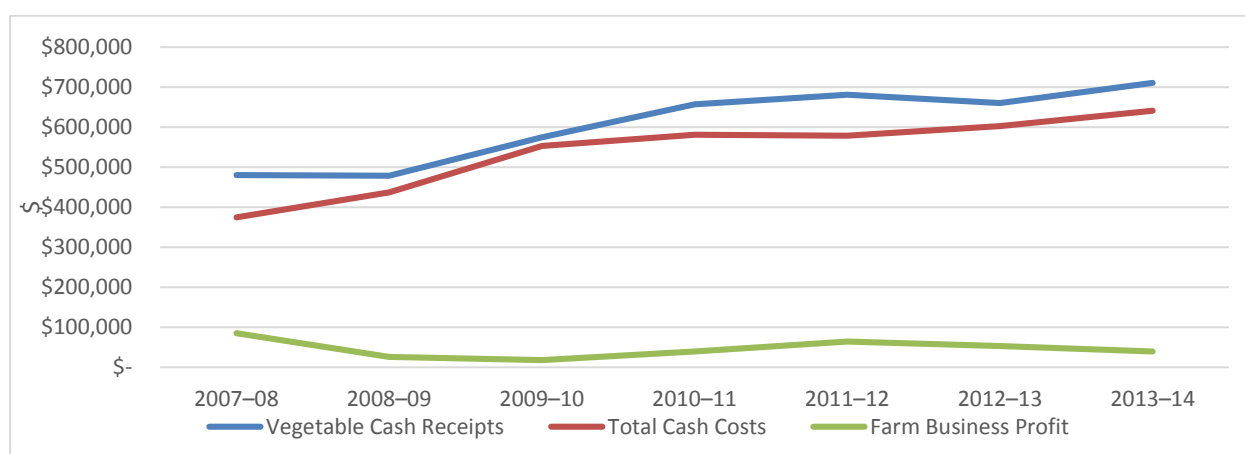
To better understand these dynamics, this paper will analyse the financial performance of growers in Australia's main vegetable-growing states that pay the National Vegetable Levy (NVL), and whose estimated value of agricultural operations are greater than \$40,000 as identified by the Australian Bureau of Agricultural & Resource Economics & Sciences, then compare these results with the national average. This approach will help identify the states which are performing best, and demonstrate some of the nuances in states' performances. It should be noted that the financial performances of all growers including those who do not fall under the NVL, could have quite different performances relative to an analysis solely of NVL growers.

The national averages mentioned in this paper should be used as a guide, and not a true indication of the nation's performance. For example, the national average for farm business profit in 2013-14 was a small profit of \$40,000, which does not mean that every farm in Australia a profit. On a state by state level, financial performance can vary drastically.

Australian vegetable growers' financial performance

Particularly in recent years, Australian vegetable growers have experienced a difficult operating environment, largely due to rising production costs. Since 2007-08, Australian vegetable growers' vegetable cash receipts have increased by 48 per cent; however, this has been disproportionately offset by an increase in vegetable growers' total cash costs of 71 per cent. This increase in cash costs has contributed to a decrease in average farm business profit for vegetable growers by 53 per cent since 2007-08.

Figure 1: Australian vegetable growers' financial performance (average per farm)

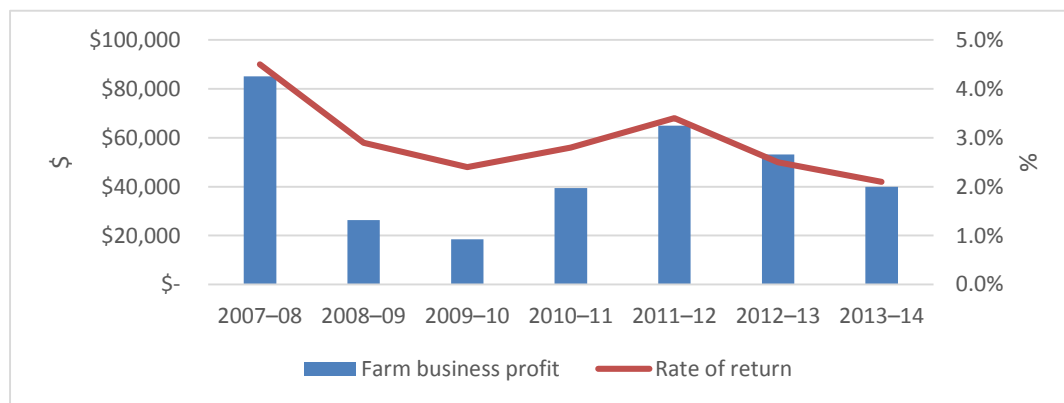


Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

In addition to profit, another key indicator of farms' financial performance is the rate of return to capital (excluding appreciation, such as land value increases), which expresses profit as a percentage of investment on capital. This conveys how well a farm can generate cash flow relative to capital invested in the farm, regardless of farm size. For example, an increase in farm size typically requires increased expenditure on capital items relating to planting and harvesting vegetable crops, such as land, machinery, chemicals and equipment, which can enable the farm to generate more profit relative to smaller farms. This means that while a smaller farm may earn less profit than a large farm, it could have a better rate of return on capital, which means the small farm is utilising its capital more productively.

The rate of return on capital for Australian vegetable growers has fluctuated over the years, declining from 2007-08 to 2009-10, rising in 2011-12 and then declining again in the past two years. It can be seen by Figure 2 that the rate of return on capital is correlated to business profit. Over time, growers are now making less of a return on all capital used by the business, particularly when compared to returns achieved during 2007-08.

Figure 2: Australian vegetable growers' rate of return on capital (average per farm) and profit



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

New South Wales vegetable growers' financial performance

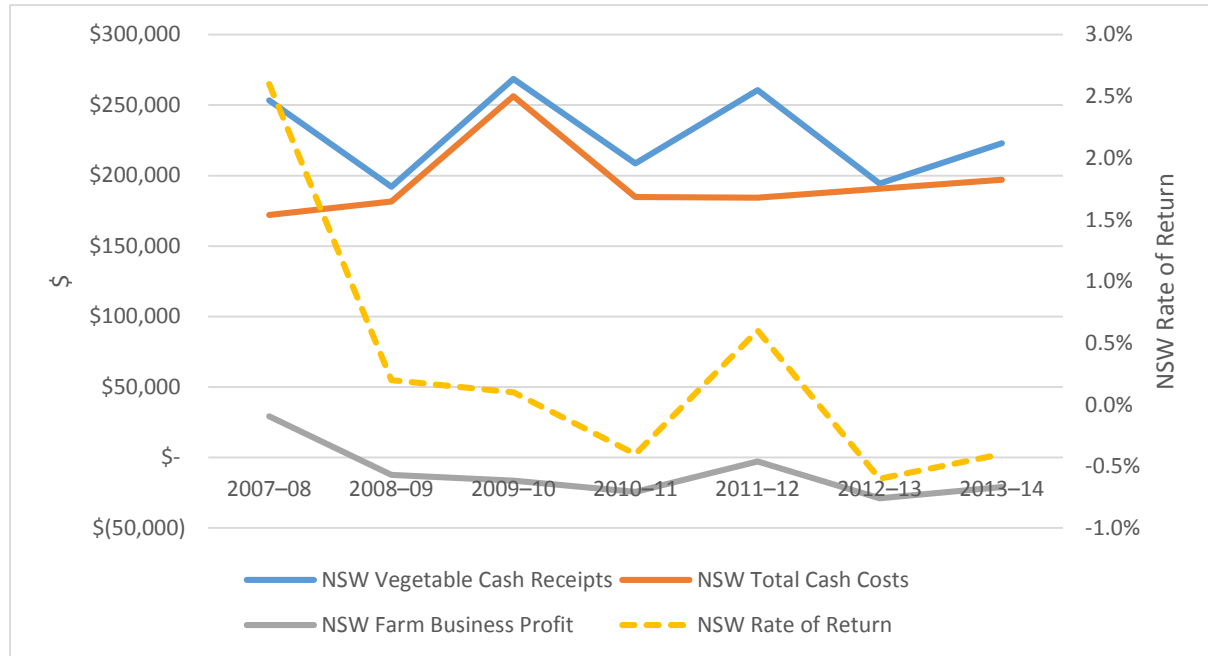
NSW continued its trend of having a poor financial performance relative to the national average. There are approximately 616 NVL vegetable growers in NSW, with this number remaining steady over the last two years and representing the highest number of growers out of all the states.

As shown in Figure 3 below, NSW vegetable growers have averaged making losses over the past six years. NSW vegetable growers' profits, on average, peaked in 2007-08 at \$29,230, then declined from then on to register losses each year after. Despite vegetable cash receipts being much greater than cash costs in 2011-12, losses were still made on average in contrast with 2007-08, where a similar discrepancy occurred but profits were made. This could be attributed to 'other' cash receipts in 2007-08 being more than double 'other' cash receipts in 2011-12.

Despite some improvement in the last two financial years, on average, vegetable growing has not proven to be profitable in New South Wales. A possible explanation for this is that vegetable producing enterprises in NSW are smaller in scale than the national average, limiting the cost

advantages derived from economies of scale in larger operations. This is illustrated by their cash receipts being 69% less than the national average in 2013-14.

Figure 3: New South Wales growers' financial performance (average per farm)



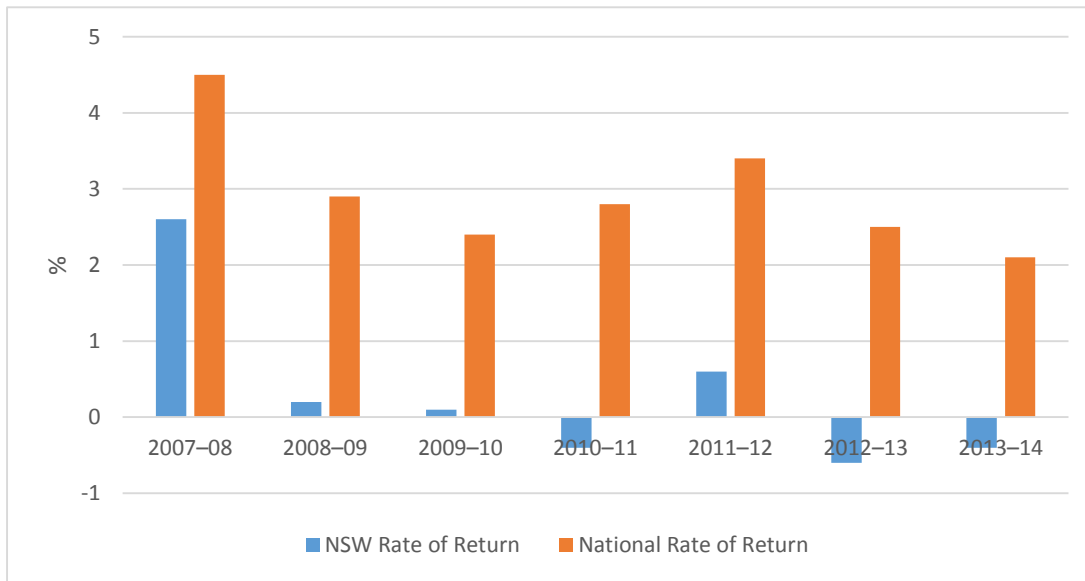
Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

New South Wales vegetable growers' rate of return is consistently less when benchmarked against the Australian average.

Although NSW vegetable growers were able to achieve considerably lower cash costs for each type of cost (such as fertiliser, labour and electricity) when compared to the national average, they were unable to deliver better returns. As mentioned previously, this could be attributed to the smaller scale of operations.

While the data suggests that on average NSW vegetable growers are unprofitable, this does not apply to all enterprises, and there are undoubtedly vegetable growing farms located in parts of NSW which perform better than the NSW average.

Figure 4: Australian and NSW vegetable growers' rate of return (average per farm)



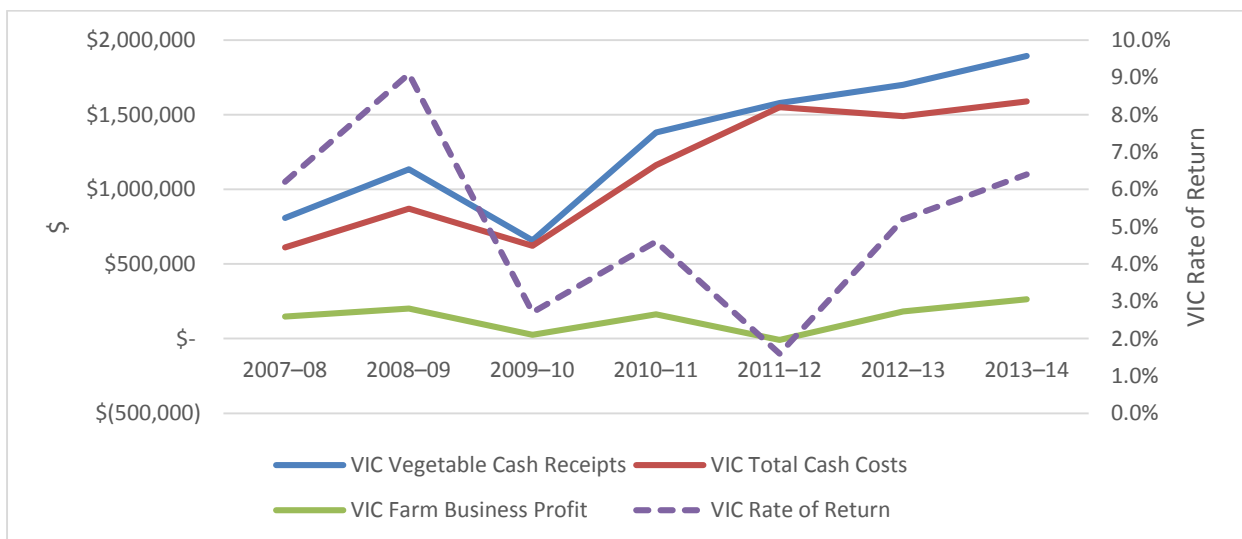
Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Victorian vegetable growers' financial performance

On average, Victorian vegetable growers had one of the best financial performance out of all of the states. The profit received in 2013-14 of \$263,000 was the second largest, and was far greater than the national average profit of \$40,000. There were 217 NVL growers in Victoria.

Since registering a loss of \$7,850 on average in 2011-12, Victorian vegetable growers' profits have increased over the past two years. This is due to average cash receipts increasing at a faster rate relative to average cash costs, as shown in Figure 5.

Figure 5: Victorian growers' financial performance (average per farm)



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Victoria's cash costs are greater than Australia's national average for every single category; in total, this equated to an average difference between Australia and Victoria of \$948,000 per farm. Victoria is the only state to experience higher costs for every cash cost component due to their increased scale of operation, a stark contrast to the situation experienced in New South Wales.

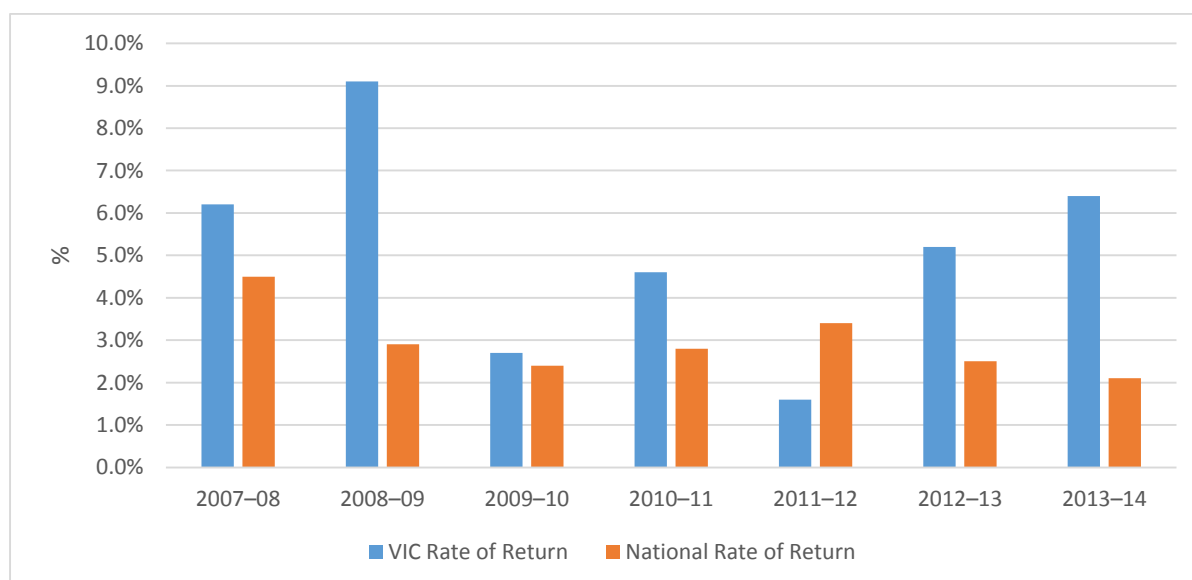
Figure 6: Cash costs of vegetable growers (2013-14)

	AUS	VIC	Difference
Total Cash Costs	\$641,000	\$1,589,000	\$948,000
Contracts Paid	\$60,000	\$267,000	\$207,000
Hired Labour	\$140,000	\$305,000	\$165,000
Vehicles, Plant & Equipment Maintenance	\$33,000	\$74,000	\$41,000
Packing Charges & Materials	\$53,000	\$120,000	\$67,000
Seed	\$44,000	\$90,000	\$46,000
Freight	\$38,000	\$93,000	\$55,000

Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Despite Victorian growers' production costs being considerably higher than the national average, their rate of return (excluding capital appreciation) has been outperforming the national average for most years (except in 2011-12, where Victorian growers expended the most on contracted work out of any other year).

Figure 7: Australian and Victorian vegetable growers' rate of return (average per farm)



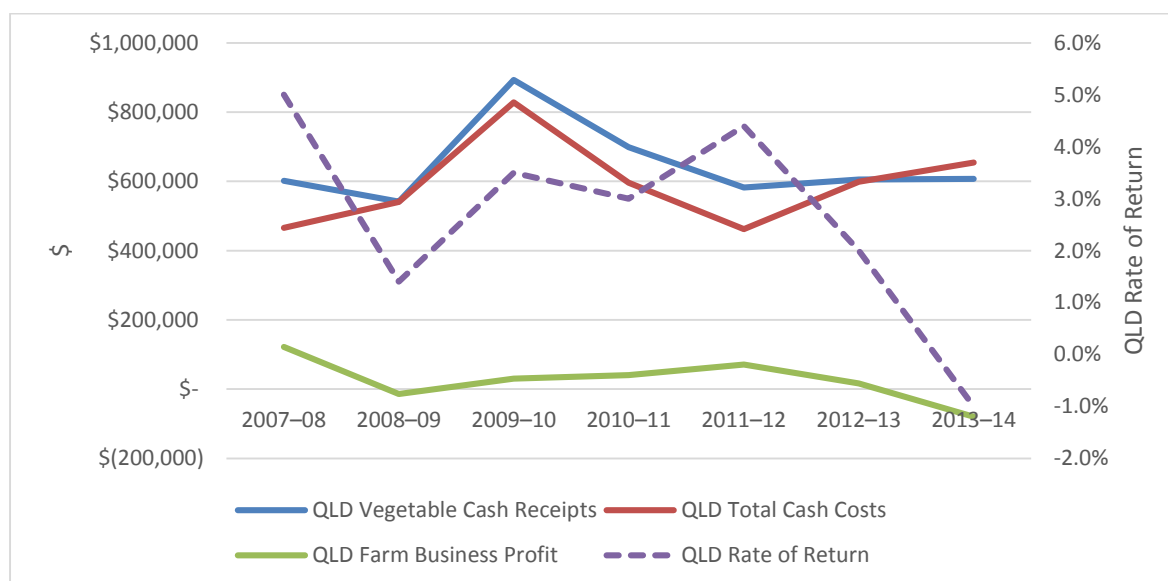
Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Queensland vegetable growers' financial performance

Historically, Queensland has been a major contributor to Australia's vegetable production, with this trend expected to continue into the future. In 2013-14, there were approximately 534 NVL paying enterprises. In 2013-14, farm cash income in Queensland is estimated to have decreased the most out of any state due to lower vegetable prices and an increase in the average area of harvesting and planting crops, which increased cash costs.

Over time, Queensland vegetable growers' financial performance has varied considerably, with average losses of \$80,000 being made in 2013-14, the first average loss since 2008-09. As shown on Figure 8, profits were at the highest point in 2007-08 with cash receipts being much higher than cash costs. In 2013-14, it can be seen that cash costs increased above cash receipts for the first time, leading to a large decline in farm business profit.

Figure 8: Queensland growers' financial performance (average per farm)



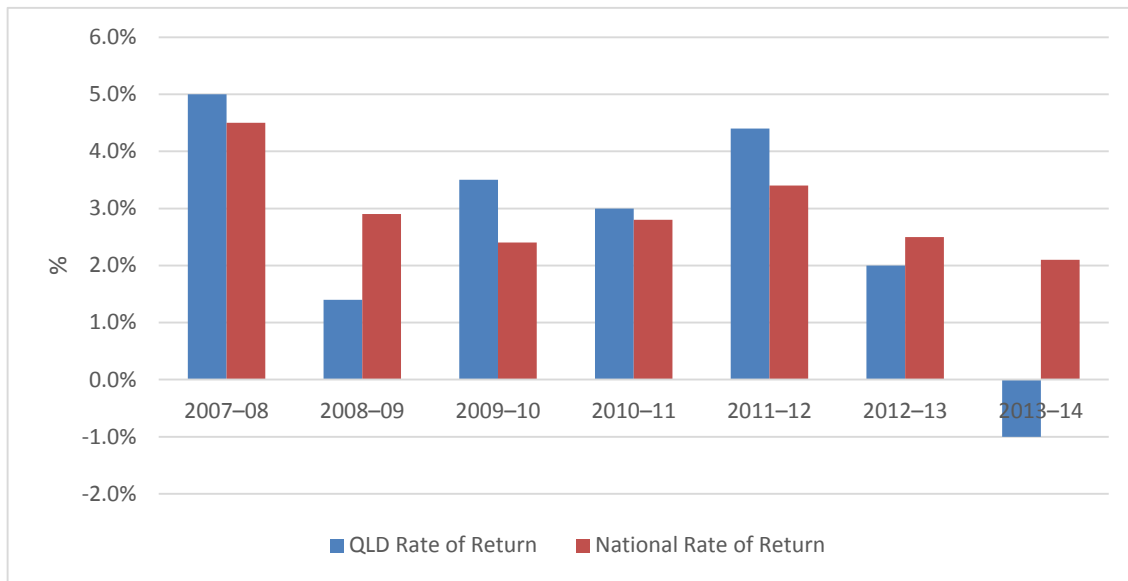
Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

The increase in cash costs which surpassed cash receipts for the first time could be attributed to labour costs increasing drastically relative to previous years, due to planting and harvesting larger vegetable crops. Queensland had the highest increase in area sown for vegetables at 8 per cent.

In 2011-12 average hired labour costs amounted to \$123,490 and then \$142,500 in 2012-13. However, labour costs then jumped 40% in 2013-14 to \$199,000, with all other cash costs remaining steady from the previous year. Hired labour comprised 30 per cent of total cash costs in 2013-14, the highest proportion it had been over the last six years.

Queensland growers experienced the largest percentage increase in the quantity of vegetables produced in 2013-14 relative to the other states with a 20 per cent increase on the previous year, despite the average quantity produced of the main vegetables produced in Queensland declining, particularly green beans and potatoes. In addition, Queensland growers had lower average prices for their vegetables, which also contributed to a sharp decline in their rate of return on capital as shown in Figure 9. Green beans have proven to be an important vegetable for Queensland, with prices much higher in 2012-13.

Figure 9: Australian and Queensland vegetable growers' rate of return (average per farm)

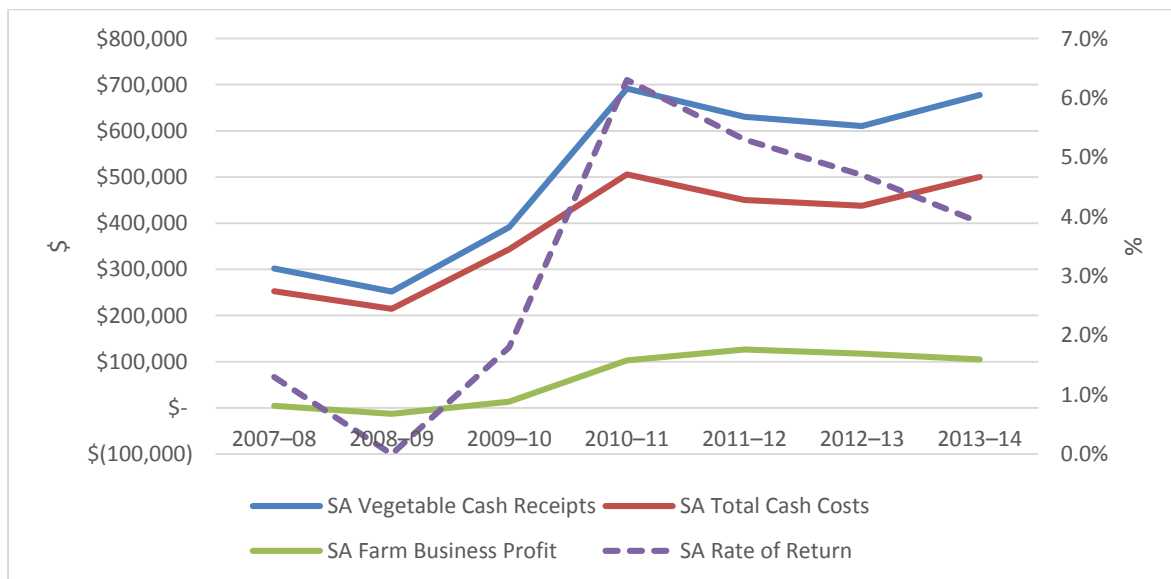


Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

South Australian vegetable growers' financial performance

South Australia has 177 NVL paying growers, which is the second lowest amount in Australia. However, South Australian vegetable growers have on average sustained modest business profits since 2008-09 as shown in Figure 10 below.

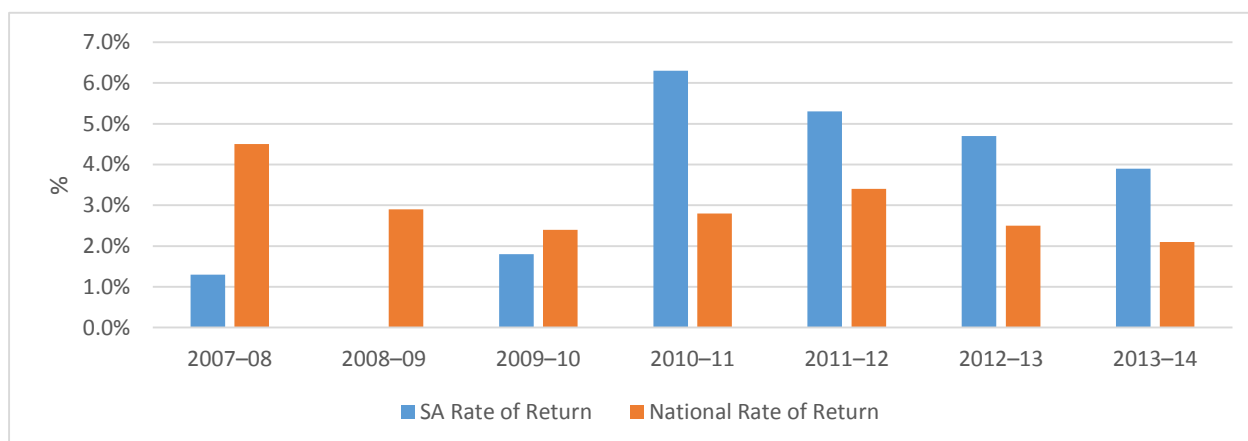
Figure 10: South Australian growers' financial performance (average per farm)



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

As shown by Figure 10, South Australian growers' profits peaked in 2011-12, coinciding with the largest discrepancy between vegetable cash receipts and cash costs. Since then, vegetable cash receipts have increased but cash costs have increased at a similar rate, leading to stable profit of \$100,000 to \$125,000 every year since 2010-11. However, profits have slightly decreased since the previous financial year despite vegetable cash receipts increasing by approximately 11 per cent, due to cash costs increasing by 14 per cent.

Figure 11: Australian and South Australian vegetable growers' rate of return (average per farm)



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

South Australian growers on average have been experiencing a decreasing rate of return on capital since 2010-11, despite profit staying relatively stable. From 2010-11 to 2011-12, profits actually increased for South Australian growers, despite the rate of return on capital decreasing. This is due to investment in total farm capital increasing by almost 50 per cent in 2011-12 from the previous year. Figure 11 also depicts the national rate of return on capital decreasing since 2010-11 in line with South Australia.

Compared to national averages, South Australia has similar vegetable cash receipts, but has also traditionally had much lower cash costs, which is a significant contributor to South Australian growers attaining higher profits than the national average.

On another positive note, South Australian growers experienced a consistently lower interest to receipts ratio than Australia's average, meaning they have greater capacity to service their debts. Although South Australian vegetable growers appear to be in a reasonable position compared to other states, this is unlikely to be the case for all vegetable types grown in South Australia, and should be considered a general overview.

Figure 12: South Australia and Australia's interest to receipts ratio

Interest to Receipts Ratio	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
AUS	5.9%	5.1%	6.3%	5.9%	4.8%	5.1%	4.5%
SA	4.8%	4.0%	4.4%	4.1%	3.6%	3.5%	3.4%

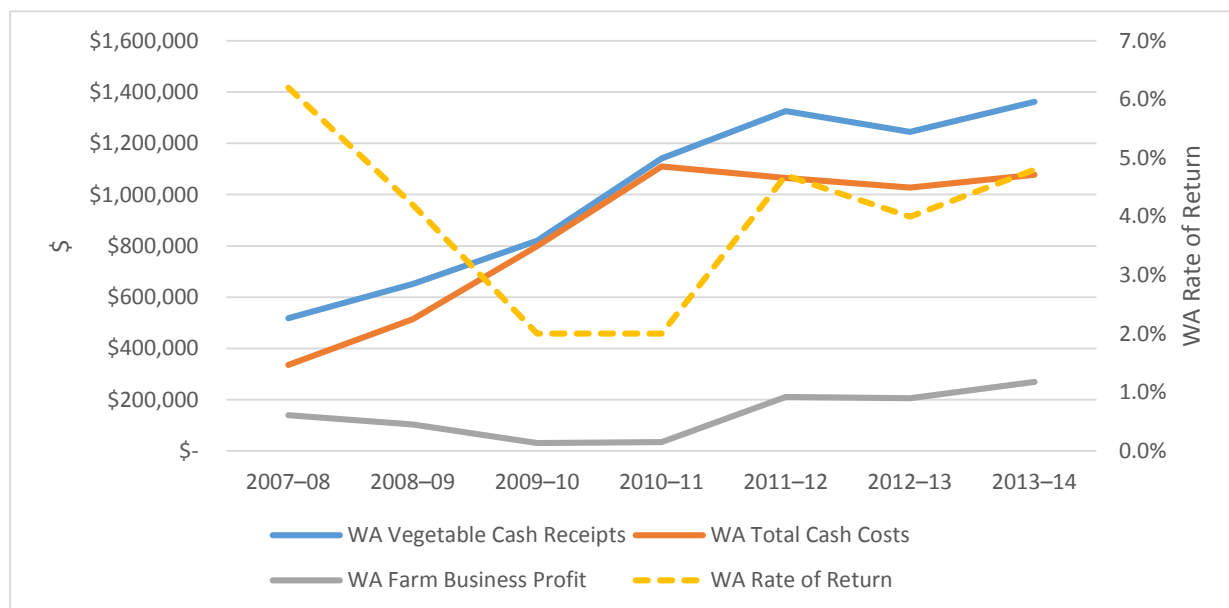
Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Western Australian vegetable growers' financial performance

There were approximately 212 NVL paying enterprises in Western Australia in 2013-14 – around one third of the number of vegetable growers in New South Wales. Western Australian vegetable farms are generally larger in size than the national average.

Western Australian vegetable growers' business profits have traditionally been very high relative to the national average, steadily increasing from 2009-10 each year to an average profit of \$269,000 in 2013-14. Since 2007-08, Western Australian vegetable growers' profits have almost doubled, from \$139,500 per farm to \$269,000. From 2009-10 to 2010-11, Western Australian growers on average received relatively low profits of around \$30,000 to \$33,000. This fall in profits could be attributed to the drought period suffered in Western Australia from 2009 to 2011. A key reason why profits increased after 2010-11 is due to vegetable cash costs flattening out relative to cash receipts. Since 2010-11, vegetable cash receipts have increased by approximately 20 per cent, whereas cash costs have decreased by 3 per cent. In contrast with the other states, hired labour costs decreased by 10 per cent since 2010-11.

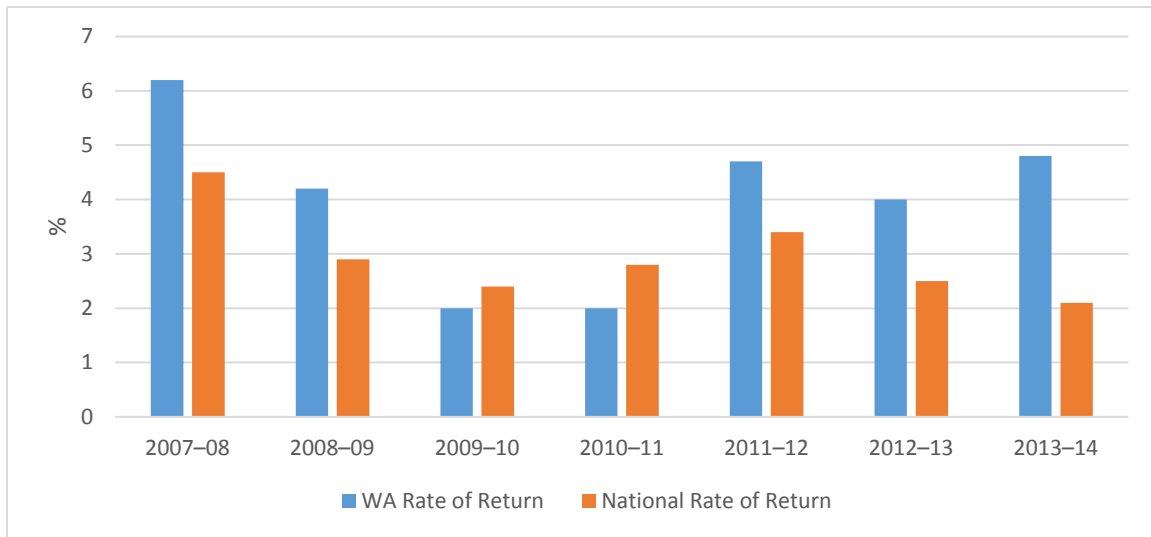
Figure 13: Western Australia's financial performance (average per farm)



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

The rate of return on capital for Western Australian growers has been consistently higher than the national average, except from 2009 to 2011 during the drought which lowered profits.

Figure 14: Australian and Western Australian vegetable growers' rate of return (average per farm)

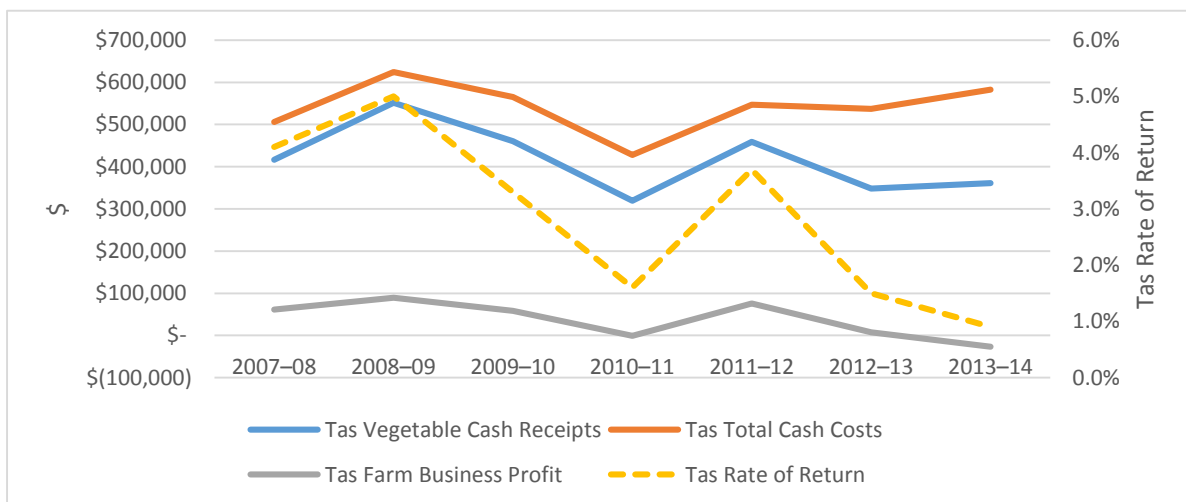


Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Tasmanian vegetable growers' financial performance

There were approximately 94 NVL paying vegetable farms in Tasmania, the smallest number out of all the states.

Figure 15: Tasmania's financial performance (average per farm)

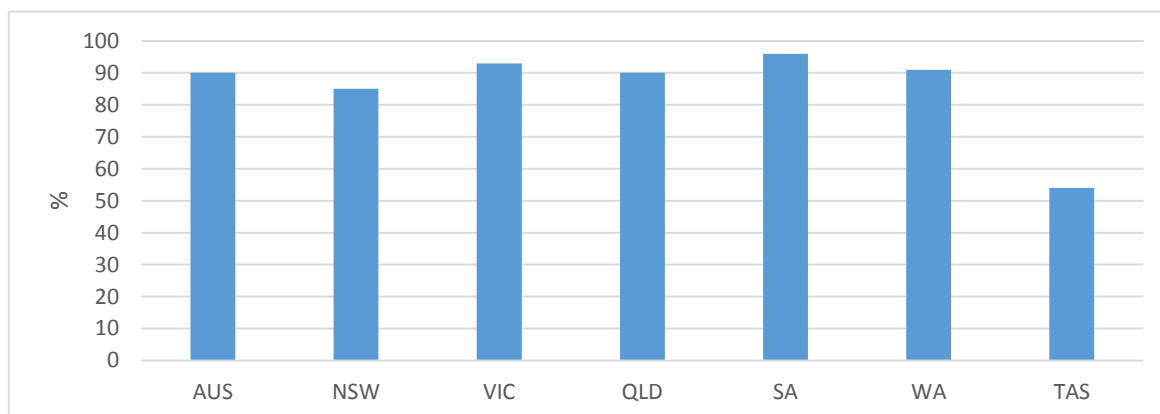


Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

In Figure 15, it can be seen that cash costs increased on average and cash receipts decreased from 2011-12 onwards, leading to a decrease in profit. This can partially be explained by damaged crops in late 2013 due to excessive rain. Despite this, Tasmania's average losses of \$27,000 were still lower than the national average of \$40,000 in losses.

Often, vegetable growers derive incomes from other sources (i.e. cattle, sheep or growing non-vegetable crops). This is particularly prevalent in Tasmania. As shown in Figure 16, Tasmanian growers' percentage of cash receipts from vegetables is considerably less than any other state at 54 per cent, with the next nearest being New South Wales at 85 per cent.

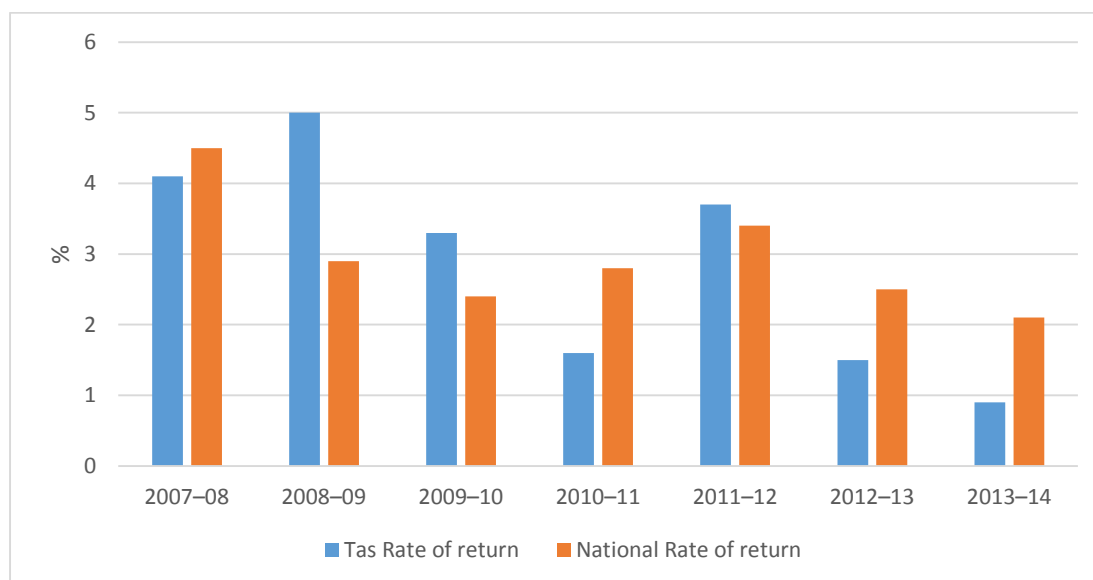
Figure 16: Percentage of cash receipts from vegetables (average per farm)



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

In terms of rate of return on capital for Tasmanian growers, Figure 17 below depicts volatility relative to the national rate of return on capital over time. In 2011-12, Tasmanian vegetable growers' rate of return was 3.7 per cent, higher than the national average of 3.4 per cent. However, in the year prior, Tasmania's rate of return on capital of 1.6 per cent was much less than the national average.

Figure 17: Tasmania and Australia's rate of return (average per farm excluding capital appreciation)



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

The most pressing concern for Tasmanian vegetable growers is the less than favourable interest to receipts ratio. For all years discussed in this paper, Tasmanian growers' interest to receipts ratio has been generally well above the national average. This means that the percentage of receipts required to pay interest is a concern for some growers in Tasmania. This could be largely due to the two variables in question: either interest payable increasing (due to increased debt and/or an increase in the interest rate itself) or Tasmanian growers' receipts falling.

Figure 18: Tasmania and Australia's interest to receipts ratio

Interest to Receipts Ratio	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
AUS	5.9%	5.1%	6.3%	5.9%	4.8%	5.1%	4.5%
TAS	8.7%	6.3%	9.3%	12.6%	10.5%	13.7%	13.9%

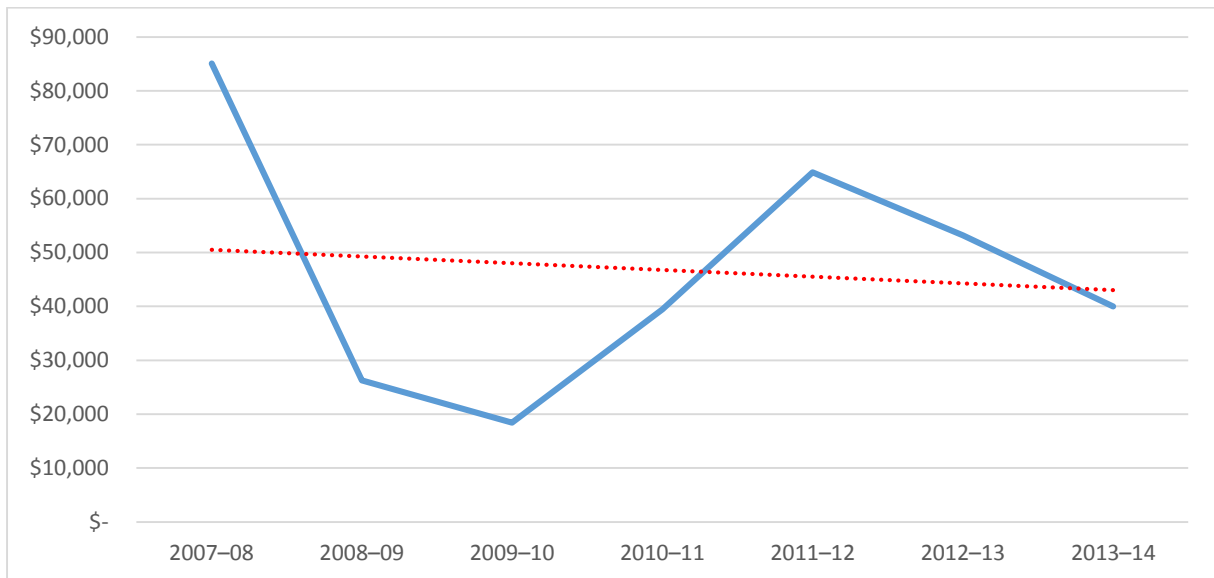
Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Conclusion

Analysing the data in its entirety clearly identifies the best and worst performing vegetable growing states. As shown in Figure 19, business profits for most states have fluctuated extensively, however, on average, the best performing states (in terms of business profits) have been South Australia, Western Australia and Victoria. Of all states, Western Australia's profits have been the most impressive, with the three-year average around \$228,000, followed by Victoria's average of \$146,000 and South Australia's average of \$116,000. In contrast, New South Wales is the only state to consistently make losses over the last three years, averaging a loss of \$17,563 from the last three years.

The strong performance of a state in terms of profitability also appears to translate to relatively strong rates of return. When compared to the Australian average, South Australia, Victoria and Western Australia all experienced the best rates of return in 2012-13 and 2013-14. The national average of business profit has a slightly downward trend over time, but is extremely volatile as shown in Figure 19.

Figure 19: Australian vegetable growers' business profits and linear average



Source: ABARES Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14

Australian vegetable growers continue to battle rising production costs, which are outpacing prices growers receive for produce and consequently affecting vegetable growers' margins. Australian vegetable growers need to explore options to reduce production costs. This could be achieved through substituting labour for capital (mechanisation); alternatively, vegetable growers could pursue markets where they receive the most value for produce, including exports.

Historically, most Australian vegetable growers have supplied the domestic market, leading to an oversupply of produce which translates to growers receiving lower prices. Exports may provide some growers a promising opportunity to improve their returns, with vegetable exports particularly to Asia and the Middle East expected to grow in the future.

Australian vegetable growers must also ensure that they do not overcapitalise on their borrowings. Whilst borrowing funds enables growers to expand or improve on their business, this should be done in a way that enables growers to still meet their repayments, especially in the long-term.

Overall, vegetable growers are unlikely to receive any respite from financial pressure, particularly in the short-term, as production costs are expected to rise and prices received are unlikely to rise enough to offset these cost pressures. Australian vegetable growers must continue being resilient and explore opportunities to minimise production costs whilst simultaneously continuing to be innovative and identifying markets outside of Australia.