Diverse financial state

The latest annual survey of the Australian vegetable industry undertaken by the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) reveals that the vegetable industry's financial performance deteriorated in 2009-10, writes Ian James, industry economist and Leader of the Vegetable Industry Development Program's Economic sub-program.

The financial data was collected in interviews with growers from February to August 2011 and published in November 2011. Data relates to overall industry performance, and the financial position of individual growers can vary significantly from industry averages.

While cash receipts on vegetable farms rose, this was due to non-vegetable growing activities. On average, returns from vegetable growing fell, with receipts down (0.8%) and costs up (4.9%). Vegetable growers were caught in a classic cost-price squeeze. Labour costs were restrained but there were large cost increases in a range of overheads, including crop chemicals, administrative expenses, seed, fuel, repairs and maintenance, rates and freight. The relentless upward pressure on costs has been a feature of these surveys since they began in 2007. Vegetable growers have had to push through more product at thin margins to stay abreast of this cost pressure. The result of this rational action by individual growers has led to supply depressing prices undermining grower profitability.

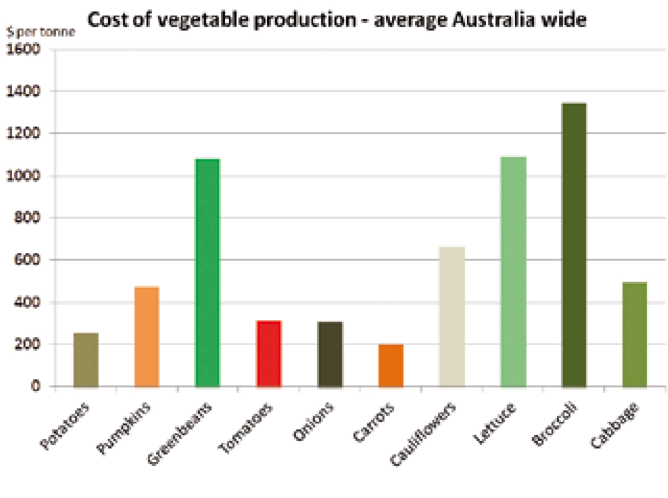
Reflecting the wide diversity of the Australian vegetable industry, the financial position of vegetable growers is also diverse. Some of these diversities from the latest survey are highlighted below.

State variation

There was a marked contrast in financial conditions between the States. On average, NSW growers had the lowest cash incomes due to smaller average cash receipts, reflecting the fact that vegetable farms on average are smaller in NSW. South Australian vegetable growers were the most profitable on a range of financial indicators. The deterioration in the financial performance of the industry was concentrated in Victoria, where receipts fell significantly from the previous year, and in Western Australia, where a combination of falling receipts and rising costs reduced returns.

Scale variation

As to be expected, receipts and costs were higher the larger the size of the vegetable farm. Farm cash income as a proportion of total cash receipts declined as size increased, indicating thinner margins. Nonetheless, overall rates of return improved as farm size increased. Rates of return on capital were an abysmal 0.2% for growers with vegetable plantings under 5 hectares, rising to a more respectable 5.5% for growers with plantings above 70 hectares. Most smaller growers in 2009-10 could generate positive cash flows, but only 38% recorded business profits (farm cash income + changes in trading stock – depreciation – imputed labour costs), indicating that they failed to earn sufficient returns to adequately compensate for their own labour and family labour employed on farm. These figures suggest that scale impacts on profitability and that many smaller growers would be financially better off deploying their labour and capital elsewhere.



Source of data: ABARES November 2011 - Australian vegetable growing farms: an economic survey

Production technique variation

There was a significant difference in cost structure between field and undercover growers. Field growers spent higher proportions of their total costs on labour, freight, fertiliser, vehicle maintenance and fuel. In contrast, protected crop growers spent higher proportions on packing, chemicals, rates, building maintenance, electricity and land rent. Undercover growers received higher prices for their product, had higher farm equity and lower farm debt than vegetable field growers. Their financial performance was, however, lower than for field producers. Farm cash income averaged $70,600 for undercover growers compared to $148,600 for field growers, with rates of return on capital employed of 1.8% compared to 2.8% for field growers.

Specialist producers' variation

In this year's survey, ABARES was requested to extract data for a specialist vegetable producer paying the vegetable levy and compare their financial performance against vegetables outside the levy. Lettuce growers were chosen and compared to specialist potato growers, who pay a separate levy, and tomato growers, who do not pay a levy. There were significant differences between the three.

Lettuce growers were more likely to grow other vegetables to counter the risk of monoculture. They had higher levels of debt, perhaps reflecting the investment on farm packaging. Farm cash income was higher at $207,700, compared to $203,200 for specialist potato growers and $134,600 for specialist tomato growers. Their rate of return on equity was higher.

Variation in costs of production

In the survey, vegetable growers were asked to apportion major cost components against the vegetables they produced. There was wide variation between the cash cost of production of major vegetables. Broccoli, lettuce and beans all had cash costs over $1000 per tonne. All three had much higher labour and fertiliser costs than the other vegetables surveyed. Conversely, root crops, where mechanisation is higher and labour costs lower, had much lower costs of production. Cost of production was lowest for carrots at $197 per tonne. It is therefore no surprise that Australia's major fresh vegetable export is carrots.

Capital and debt variation

Successful business enterprises have a sound capital base that enables them to raise debt to finance investment to develop and grow the business. The average capital value of

Financial performance of vegetable farms, by state, 2009-10							
Average per farm							
		NSW	Vic	Qld	SA	WA	TAS
Total cash receipts	$	366 900	755 900	909 600	800 600	916 400	614 800
Total cash costs	$	297 200	571 200	783 100	605 000	756 300	474 600
Farm cash income	$	697 00	184 700	126 400	195 600	160 000	140 200
% of farms with negative farm cash income	%	21	9	30	5	18	19
Buildup in trading stocks	$	- 4700	9100	- 500	7400	800	- 60
Depreciation	$	28 900	55 900	47 800	43 300	44 300	48 500
Operator and family imputed labour	$	58 000	57 500	58 600	57 300	59 400	53 200
Farm business profit	$	- 22 000	80 500	19 600	102 500	57 100	38 500
% of farms with negative farm business profit	%	80	46	70	29	55	47
Rate of return							
excluding capital appreciation	$	- 0.2	3.5	2.9	4.5	2.4	2.9
including capital appreciation	$	0.2	2.0	3.8	8.9	1.6	3.0
Total farm debt at 30 June	$	209 400	621 400	697 400	424 200	647 900	501 700
Total farm capital at 30 June	$	1 849 700	3 771 900	3 269 900	3 484 300	4 358 500	3 289 900
Farm equity ratio	%	81	80	79	80	84	84

Source of data : ABARES November 2011 - Australian vegetable growing farms: an economic survey

vegetable farms was $3.2 million in 2009-10. However, capital values varied across the country, with vegetable farms in NSW the lowest, averaging $1.8 million, and Western Australia the highest at $4.4 million. Average farm debt continued to climb to $514,100. The most noticeable feature of expenditure on additional capital was a surge in investment by South Australian growers after a number of years of underinvestment, and a marked reduction in investment by Western Australia growers after a number of years of above average expenditure. It is no coincidence that cash incomes for the year were highest in South Australia, and that Western Australian growers had the most dramatic cut in their farm cash incomes.

Conclusion

The financial data shows marked variations in financial performance and warns against the use of industry data averaging in analysing the Australian vegetable industry.

THE BOTTOM LINE

- A new survey reveals that the vegetable industry's financial performance deteriorated in 2009-10.
- The financial performance of lettuce growers was compared against both potato and tomato growers. Generally, they were shown to possess higher levels of debt.
- The varied findings suggest that the nuanced nature of the vegetable industry makes it difficult to rely on data averaging as a reliable reflection of the industry.

For more information:
Ian James
Project leader of the Vegetable Industry Development Program's Economic sub-program.
Project number: VG08040