

## Week 12 – farm income and rising costs

14 September

Media reports indicate commodity prices won't increase at the same rate as inflation over the next 20 years. This week, BCG asked Wimmera and Mallee farmers the following question:

**Do you think farm income will keep pace with rising costs? Is the declining terms of trade continue, how will you ensure that your farm remains profitable?**



### Anthony Patton – Gooroc

Anthony Patton farms with his wife Larissa and parents Des and Dorothy at Gooroc, 20km north of St Arnaud, on Wimmera self-mulching soils. Fifty percent of their property is sown to cereals, 30 percent to pulses and 20 percent is left in fallow.

**Keeping pace:** “Capacity to increase production has always been the defence against rising cost and declining terms of trade. It can be hard to see where the next increase in capacity is coming from, but I’m sure that has always been true. If you told your grandfather you would mist the crop with a product mixed in water to take the bad grass out of the good grass, he’d think the mixo had you as well as

the rabbits.

Bigger machinery, chemicals, hectares (they’re bigger than acres), rotational crops, continuous cropping, better science and understanding of agronomy have allowed us to continue to live and prosper on farms. Many have left; those that remain are business-oriented, well-educated and informed, and have enormous information at their disposal. Despite appearances at times, we are optimists and enthusiasts.

Being aware of costs – carefully managing them – responding to change in markets and production cycles quickly, waiting for opportunities and taking them is essential to survive and part of the fun.

China and India are emerging market forces greater than any other in modern history. They may take more grain than the world can produce in the future.

Biotechnology has huge potential for reducing costs and increasing production. Sensible debate in this area may have great results for farming and the environment as a whole.

Anyway, I’ve got to go chop some marshmallow.”



### Denis Goode – St Arnaud

Denis and Trish Goode and their son Simon have a mixed farm of 2700ha 15km northwest of St Arnaud. Their soils range from red loams to Wimmera black soils. Almost half of the area cropped is sown to wheat and barley, with smaller areas of lentils, chickpeas, vetch and canola. Twenty-five percent of their land carries 1900 Merino ewes, half joined to Merino and half to Border Leicester.

**Keeping pace:** “It is hard to see income keeping pace with rising costs in grain production unless there is a change in government policy around the world and a return to normal rainfall.

This present situation with rapidly rising costs and low commodity prices, while only getting 65-70 percent of average rainfall, is the most challenging period of my 35 years in farming.

I think the only way for us to remain profitable is to put ourselves in survival mode by cutting costs and growing crops with low inputs and with potential for the best gross margin, until this run of dry years ends.

During the 80’s and early 90’s when we had average to above average rainfall, good crops were easy to grow. High yields can offset low commodity prices but generally demand high inputs, particularly in a continuous cropping program.

Dryland farming is high risk anytime, but coupled with rising costs and low commodity prices and a run of dry/drought years, it is placing the viability of most farms in doubt, as we desperately strive for that “bumper year”, which only comes around every eight to ten years.

We have decided to forget about chasing that bumper year. We are decreasing our cropping area by 30 percent and increasing our sheep numbers and vetch hay area. While wool returns are low, sheep meat returns are good and vetch hay sometimes returns the best margin, particularly in dry seasons. Both sheep and hay have very little costs compared to cropping, while improving soil fertility and reducing weed resistance to chemicals, thus reducing costs when returning to crops.”



### **Cameron Warne - Culgoa**

Cameron Warne farms with his wife Lisa and parents Stewart and Maree 7km south of Culgoa. Eighty percent of their enterprise is crop production, and 20 percent prime lamb production, although opportunity cropping can be up to 100 percent. The Warnes have 2600ha of sandy clay loam with the majority sown to cereals. Canola and legumes are also grown.

**Keeping pace:** “No – if the current trend of increased costs and stagnant commodity prices continues.

Farm income and input costs are heavily reliant on the A\$ and international markets. A high A\$ increases input costs and lowers commodity prices, a lower A\$ lessens input costs and increases our returns from what we produce.

I think (hope!) that the only way that farm income can keep pace with rising costs is through farmers being flexible. This involves increasing cropping intensity in years with subsoil moisture through summer rains, fallowing or a significant early break.

Conversely, we decrease intensity when we have minimal or no subsoil moisture. This allows farmers to maximise income in good years and minimise losses in poor years.

We attempt to remain profitable by utilising the numerous resources available. These resources include consultants (agronomic, marketing and financial) and the extensive information available via the internet, research carried out by DPI, CSIRO etc, farming systems groups like BCG and tools such as the Yield Prophet.

These resources assist us in strategically managing inputs to maximise returns from the dollars spent.

We also rely on diversified investments which return an income off-farm.”