

Review of 2010: Factors Influencing Equity Growth

An analysis of client's results from the 2010 season found that income was the most significant factor contributing to equity growth in 2010. Farms in the top 20% of equity growth for their region typically had dollar water use efficiencies for wheat that were significantly higher than farms in the bottom 20% of equity growth.

Dollar water use efficiency takes into account the price received for wheat, as well as the overall yield achieved, giving a dollar return per 100mm of available water. The results of this analysis are summarised as follows:

	Level Of Equity Growth	Average Equity Growth (% of Total Asset Value)	Income as WUE \$/ha/100mm
Mallee Region	Top 20%	16%	356
	Bottom 20%	-1%	147
Wimmera Region	Top 20%	12%	393
	Bottom 20%	6%	241
Southern Wimmera Region	Top 20%	6%	310
	Bottom 20%	-3%	66

Please note: Equity values used in this analysis are as a result of business operating performance and do not include changes in land values.

Average dollar water use efficiency for wheat, for top performing farms in the Mallee Region, was 2.4 times the level achieved by the bottom 20% of farms. In the Wimmera Region, the top performers were around 1.6 times higher than the bottom 20%, while in the Southern Wimmera dollar water use efficiency differed by a factor of 4.7 between the top and bottom performing farms.

These variances in dollar water use efficiency highlight yield and price, and therefore income as the key factors which influenced equity growth throughout 2010.

A yield comparison of the top and bottom performers for equity growth can be undertaken by comparing their kg/ha/mm water use efficiency which is outlined as follows:

	Level Of Equity Growth	Average Equity Growth (% of Total Asset Value)	Yield as WUE kg/ha/100mm
Mallee Region	Top 20%	16%	16
	Bottom 20%	-1%	9
Wimmera Region	Top 20%	12%	14
	Bottom 20%	6%	10
Southern Wimmera Region	Top 20%	6%	12
	Bottom 20%	-3%	3

Average kilograms water use efficiency for wheat for top performing farms in the Mallee Region, was 1.8 times the level achieved by the bottom 20% of farms. In the Wimmera Region the top performers were around 1.5 times higher than the bottom 20%, while in the Southern Wimmera there was a fourfold difference in wheat kilograms water use efficiency between the top and bottom performing farms. Hence kilograms water use efficiency and therefore yield, was a significant factor in determining equity growth.

General observations of client results suggest several key factors may have contributed to yield and price as follows:

- Crop Nutrition: Adequate nutrition given the high yield potential of a wet year: particularly in the Mallee. In 2010, the top 20% of farms spent between \$40-50 per crop hectare on fertiliser.
- Crop Weed & Disease Control: Strategic and effective use of herbicides and fungicides. In 2010 the top 20% of farms spent between \$45-70 per crop hectare on chemicals.
- Timeliness of Operation:
 - Timely and strategic use of inputs, to maximise efficiency.
 - Timeliness of harvest operations to minimise yield losses and grain quality down grading. To some extent determined by adequacy of machinery and labour to conduct field work in a time efficient manner.

The four year average machinery costs for the top 20% averaged \$82, \$119, and \$129 per effective hectare for the Mallee, Wimmera, and Southern Wimmera regions respectively. Machinery costs take into account repairs, fuel, freight, contracting, and depreciation.

The four year average labour cost for the top 20% averaged \$50, \$55, and \$66 effective hectare for the Mallee, Wimmera, and Southern Wimmera regions respectively.

Adjusting for interest cost did not change a business's overall position, in terms of percentage equity growth ranking. Regardless of debt and interest paid, each business still ranked in a similar position. This suggests that factors other than financing costs were influential in determining the level of equity growth achieved. However, debt level may have influenced manager's attitudes and therefore had an indirect effect, as debt levels for the top 20% were typically half to a third that of bottom 20%, which is outlined as follows:

	Level Of Equity Growth	Average Equity Growth (% of Total Asset Value)	Debt \$/Effective Hectare
Mallee Region	Top 20%	16%	294
	Bottom 20%	-1%	890
Wimmera Region	Top 20%	12%	727
	Bottom 20%	6%	1369
Southern Wimmera Region	Top 20%	6%	651
	Bottom 20%	-3%	1653

In summary 2010 provided excellent growing conditions and prices, with the downside being the wet harvest. For some the wet harvest commenced before crops were ready to harvest so there was little they could do. The top 20% of businesses maximised income through harvest efficiency at harvest, and yield potential throughout the season. In a year with such high potential cost control was less important, as the best results were from maximising income.



