The effect of drought on relative returns for the major broadacre enterprises

Background

- The figures shown below are gross margins for the major broadacre enterprises for south eastern Australia.
- Figures for 2002/03 show the actual figures for farms that were affected by drought versus those that weren’t.
- Figures for ‘Current Drought’ are based on actual performance in the 04/05 then adjusted for the effect of drought (05/06 data is still to be finalised so could not be used). The changes are pro rata based on the 02/03 data.
- Figures for crops are shown per hectare. Figures for livestock are shown per DSE.

Graph 1: Wheat gross margin per hectare

![Graph showing wheat gross margin per hectare for 2002/03 and current years, with non-drought and drought categories.]
Graph 2: Canola gross margin per hectare

Graph 3: Wool flocks gross margin per DSE
The key points from these graphs are:

- Of the four enterprises analysed canola is the most severely affected by drought with zero or negative gross margins.
- The increase in grain prices in a drought are not sufficient to compensate for the reduction in yield for both wheat and canola.
- Wool enterprises are the most resilient when it comes to maintaining gross margins during drought. This is because a substantial proportion of the income in self replacing merino flocks is from wool (50%-80%) which though affected by drought is not nearly as vulnerable as enterprises that rely entirely on weight such as beef production.
- Beef gross margins are severely affected by drought due to the reduction in weight gain. Without weight gain (producing kilograms), beef returns are slashed.