1-1-1985

Farm debt in the wheatbelt: 1984 survey results

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In recent years many farms in Western Australia’s wheat-growing areas have experienced adverse seasons. For example, the 1983-84 season was characterised by a late start, dry spring and wet harvest which resulted in many farms suffering a combination of low yields and the downgrading or dockage of their grain.

Poor seasons and poor profitability prospects for wheat-growing caused some concern about farm indebtedness in these areas.

In late 1983, a Parliamentary select committee was appointed to inquire into rural hardship. The State Minister for Agriculture also announced that the Department of Agriculture would conduct a farm survey to determine the nature and extent of the Western Australian farm debt.

This article summarizes the results of the farm debt survey and provides information about the capacities of farms to service their debts in the Western Australian wheatbelt and its regions.

Survey design and response

The survey was based on mail questionnaires sent to half of about 8,000 farmers in wheat-growing areas. Questionnaires were pre-tested to remove ambiguity in questions and to ensure appropriate responses. They were designed to be fairly easy to complete and included internal checks on the consistency of response. After a follow-up of partial respondents, 1,685 usable replies were received which represents a high response rate for a survey based on mail questionnaires.

State results

Indebtedness

The survey examined farm indebtedness as at 1 March in 1983 and 1984. Information was collected on all sources of indebtedness ranging from short-term debts such as overdraft deficits to long-term debts such as amounts owed on Primary Industry Bank of Australia loans.

The main findings were:

- indebtedness increased on average by 11 per cent over the period 1 March 1983 to 1 March 1984;
- on average, farm indebtedness was estimated as $171,034 at 1 March 1984;
- amounts owed in all debt classes increased, except for hire purchase and machinery leasing debts;
Although in each year only about 10 per cent of indebtedness of less than $50,000, about one-third of farms recorded an example, though average indebtedness in 1984. However most farms had debts less than the average level of indebtedness in each year. For example, though average indebtedness in 1984 was $171,034, 60 per cent of farms recorded debts less than $150,000. Although in each year only about 10 per cent of farms were debt-free, altogether in each year about one-third of farms recorded an indebtedness of less than $50,000.

**Debt servicing ability**

As part of the survey respondents supplied an income and expenditure budget for the farm year 1984-85 based on average yields and average seasonal conditions. From these budgets the debt servicing abilities of farms could be gauged. Farms were classed as being initially able or unable to service their debts. For farms initially unable to service current debt, the following options were available:

(i) revise the budget to see where savings in operating costs were possible without jeopardising income;
(ii) adopt a new farm plan that would yield greater net income;
(iii) restructure, where possible, short-term debt to longer-term loans with reduced annual payments;
(iv) run down credit funds;
(v) defer capital expenditure;
(vi) reduce farm family personal expenses;
(vii) use off-farm revenue, seek off-farm work or liquidate some off-farm assets;
(viii) liquidate some farm assets (for example, some land or little used farm machinery);
(ix) borrow funds in the hope of better seasons or favourable cost-price movements;
(x) take on a partner with capital;
(xi) sell out.

Farmers whose budgets indicated an initial inability to service debts may have adopted options (such as options i, ii, or iii) which subsequently enabled servicing of their debts. Also the favourable nature of the 1984 season would have improved the ability of many farms to service their debts. These considerations lead to an interpretation of the survey results which is that in 1984-85 between 5 and 15 per cent of farms would be unable to service their farm debt from farm production revenue. In other words, these farms would likely be worse off in March 1985 compared to March 1984. These farms would be forced into the other options previously listed, such as running down credit funds or liquidating off-farm assets.

To partly examine why some farms are unable to service their debts, the characteristics of farms able to service their debts were compared with the characteristics of farms unable to service their debts (Table 1). Farms classed as unable to service their debts had consistently greater indebtedness, less equity in dollar and percentage terms and had farmed their home blocks for fewer years. In most of the regions (see map) farms unable to service their debts had a greater percentage of the farm area in crop, a greater likelihood of
For example, some farmers in the late seventies and early eighties bought extra land. Often the servicing of the loans required for the land purchases forced farmers into the then more profitable cropping activities. Increasing the size of their cropping operations required further investment in crop machinery and greater demands for short-term finance. However, poor seasons and adverse cost-price movements in recent years have worsened the financial positions of many of these farmers.

In hindsight, for many farms, less capital intensive and risk-offsetting strategies would have been preferable. However, many farmers in the short-term were more or less locked into cropping strategies by virtue of hire purchase and lease commitments on machinery and because they had reduced their sheep numbers to cater for increased cropping.

The cost of being locked into cropping dominant strategies during poor seasons and adverse cost-price movements can be high and is a reason for the increase in farm indebtedness. In other words, management strategies in combination with seasonal changes and changes in the profitability of farm enterprises substantially influence a farm’s ability to service debt.

<table>
<thead>
<tr>
<th>Region (a)</th>
<th>No. of farms (1)</th>
<th>Debt-serving ability able (A) or unable (U)</th>
<th>Cleared area ha</th>
<th>No. of years farming home farm</th>
<th>Per cent of farms who had bought more land in last 5 yrs</th>
<th>Per cent of farm area in crop in 1983-84</th>
<th>Equity as a per cent (a)</th>
<th>Farm indebtedness $</th>
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<td>21*</td>
<td>50</td>
<td>64</td>
<td>71*</td>
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(a) See map.

1 Not all respondents in each region were included due to missing data on any item.

* Indicates a significant difference at the 10 per cent or less probability level.

+ In the survey farmers' own valuations of land and plant assets were used. Consequently equity values may be inflated and the actual difference in equities between the groups could be larger than given in this table.

Regional results

Given that the 1983-84 season affected regions of the wheatbelt differently, the variation in indebtedness across regions (see map) was examined.

Results indicated that, apart from the north-eastern wheatbelt, the largest increases in indebtedness were recorded in the lower rainfall marginal areas of the wheatbelt (regions 7, 9 and 11). Farms in these areas had a higher percentage of farm area in crop and were on average larger farms. The late start and dry spring of the 1983 season resulted in low yields in these areas and reduced farm revenue. As a result many farms retained overdraft deficits in March 1984. Particularly in the far south-east areas of the wheatbelt (regions 11, 12 and 13), debt-servicing was a common problem.

Further reading

