

Agriculture outlook for 2003-04 and farm performance estimates for the Lismore region

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With 60–70 per cent of Australian agricultural production exported each year, developments in world markets will be crucial to the future prosperity of the farm sector. World economic activity will be driven largely by developments in the US economy, which is assumed to improve only modestly this calendar year following poor performance in 2001 and 2002.

The drought has proven costly to the national economy in 2002-03. It is estimated that the value of lost production and the flow-on effects to the rest of the community will cut around 0.9 per cent — or \$6.6 billion — from Australia's gross domestic product for the year.

Assuming there are timely rains in most cropping areas, the area planted to grains is forecast to rebound in 2003-04, with total winter crop production forecast to more than double that produced in drought affected 2002-03. Cattle saleyard prices can also be expected to rise sharply if there are drought breaking rains and producers withhold stock for herd rebuilding.

As a result of the drought, average farm cash incomes of beef and dairy producers on the North Coast of New South Wales are estimated to be negative in 2002-03. Reduced output and higher input costs, especially for purchased feed, are the main reasons for the poorer economic performance.

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World economic outlook

World economic growth is likely to be modest in 2003. For example, in the world's largest economy, the United States, the pace of economic recovery weakened markedly in late 2002 and has remained relatively slow since the beginning of 2003. The possibility for a rapid return of strong US economic growth in 2003 looks remote at this stage. Of particular concern is that growth in consumer spending could ease. Consumers worried about higher unemployment and lower valuations of their investment portfolio holdings could significantly reduce their spending in the near future.

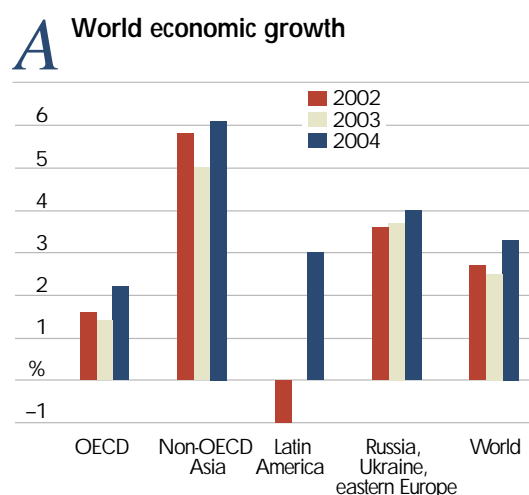
Modest economic growth in the United States does not augur well for a significant increase in world economic performance in 2003. Because the United States is an important destination for exports from many western European and Asian countries, taking around 20–30 per cent of their exports, its economic performance, especially growth in import demand, could significantly affect these countries' economic growth.

Economic activity in Japan increased by 0.3 per cent in 2002, after an economic contraction in the previous year. Since late 2002, however, signs of renewed weakness — declines in industrial production, lower retail sales volumes and weaker export performance — have emerged in Japan's economy. In Western Europe recent indicators of activity and confidence — including retail sales, industrial production and consumer business surveys — suggest that economic activity is likely to remain weak in the short term.

In the principal economies of east and south east Asia, including the Republic of Korea, Chinese Taipei, Singapore, Malaysia and Thailand, economic performance is expected to be modest in 2003, before strengthening in 2004. The recent outbreaks of Severe Acute Respiratory Syndrome (SARS) have adversely affected the economic outlook for a number of Asian countries.

In Latin America, economic activity is assumed to stabilise in 2003 after a year of turbulence in 2002 when the economy contracted by 1.0 per cent. In other emerging markets, including the Russian Federation, the Ukraine and eastern Europe, economic recovery is assumed to continue over the short to medium term.

Overall, world economic growth is assumed to decline marginally from 2.7 per cent in 2002 to 2.5 per cent in 2003, before increasing to 3.3 per cent in 2004 (figure A).



Australian economy

Despite the weakness of economic performance in the major OECD countries, growth in the Australian economy remains relatively strong. Economic growth in Australia is estimated to have averaged around 3.0 per cent in 2002-03 (down from 3.9 per cent the previous year), and is assumed to increase to 3.2 per cent in 2003-04 (figure B).

These economic growth assumptions are based on an underlying assumption that the drought will break in the first half of 2003.

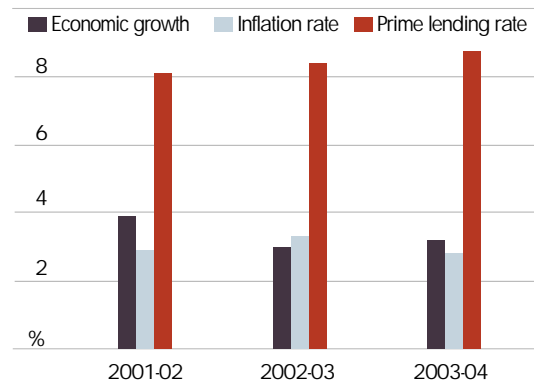
The drought has had a significant effect on the farm economy in Australia, resulting in large falls in farm production, exports and incomes. While the agriculture sector now accounts for about 3 per cent of gross domestic product in Australia, the drought will have a significant impact on economic growth through the direct and indirect linkages between agricultural and other industries. The Treasury estimates that the drought will reduce the rate of economic growth in Australia in 2002-03 by around 0.9 percentage points, or around \$6.6 billion, from what would otherwise have been achieved.

After remaining relatively stable on a trade weighted basis in the first three months of 2002, the Australian dollar appreciated gradually both against the US dollar and on a trade weighted basis over the remainder of 2002. Since the beginning of 2003, the Australian dollar has appreciated markedly against the US dollar and the Japanese yen. Against the euro, however, the Australian exchange rate has remained relatively stable.

The recent appreciation of the Australian dollar reflects, in part, an improved market sentiment toward the Australian currency as a result of relatively robust economic performance and increased interest rate differentials between Australia and the major world economies, especially the United States. It also reflects growing concerns in financial markets about the outlook for economic performance in the United States and Japan. At the end of May 2003, the Australian dollar was trading around US65c, 75 yen and 0.55 euro, compared with US56c, 67 yen and 0.54 euro in late December 2002.

It is important to note that significant fluctuations in the Australian dollar are likely during the year. Since the floating of the Australian dollar in December 1983, for example, the Australian currency has had an average fluctuation range of around US10 cents a year. In preparing the current set of commodity forecasts, the Australian dollar is assumed to average around US58c in 2002-03, before appreciating to an average of US63c in 2003-04. The impact of a higher Australian dollar on farm incomes is explored in box 1.

B Australian economic indicators



Box 1: **Effect of a higher Australian dollar on farm incomes**

The exchange rate is one of the key domestic macroeconomic variables for Australia’s primary industries. An appreciation of the Australian dollar will reduce the returns on commodity exports, although the price of traded inputs to primary industries will also decline.

Using ABARE’s current farm income forecasts for 2002-03 as a base, and leaving aside the possible effects on returns of exchange rate hedging by some producers and marketing organisations, it is estimated that a 1 per cent increase in the average value of the Australian dollar would result in a decline in farm cash incomes of Australian broadacre farms, on average, of around \$1230 — see the estimated effects in the table below.

There is considerable variation in the impact of an increase in the average value of the Australian dollar between different types of farms. For example, it is estimated that average farm cash incomes in the mixed livestock–crops industry would be around \$1520 lower per farm as a result of a 1 per cent increase in the average value of the Australian dollar. This compares with an estimated average reduction of around \$900 per farm for specialist beef producers. Despite the diversity of outcomes between sectors, the estimates help to highlight the extent to which an increase in the average value of the Australian dollar influences primary industries in the short term.

For broadacre industries as a whole, it is estimated that total farm cash incomes would be around \$84 million lower in 2002-03 as a result of a 1 per cent increase in the average value of the Australian dollar.

Effect of a 1 per cent appreciation of the Australian dollar on farm incomes, 2002-03 ^a

	Average farm impact	Total industry impact
	\$/farm	\$m
Wheat and other crops	-1 250	-17.4
Mixed livestock and crops	-1 520	-24.2
Sheep	-1 300	-15.4
Beef	-900	-16.7
Sheep–beef	-1 260	-10.5
All broadacre industries	-1 230	-84.4

^a Based on provisional farm survey data.

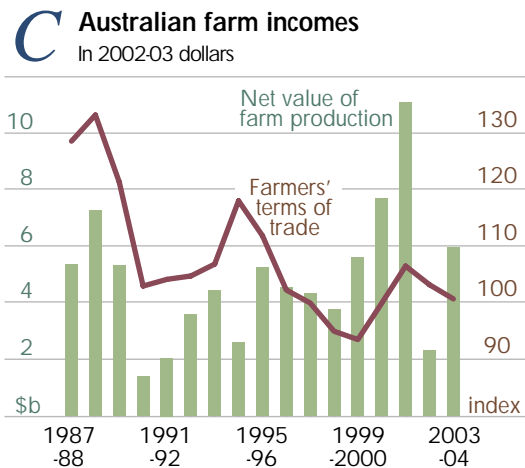
Agricultural prospects

Farm incomes are forecast to rise substantially in 2003-04 from the drought induced lows of 2002-03 (figure C). Drought is estimated to cut the net value of farm production to around \$2.3 billion in 2002-03, close to 80 per cent less than in 2001-02 when farm incomes were the highest in over two decades.

On 7 May the National Climate Centre declared the drought causing El Niño officially over, with temperature, wind and cloud data from the Pacific showing the establishment

of neutral conditions. This means that most drought affected areas in Australia should receive appreciably more winter and spring rains in 2003 than in 2002. Above average April rainfall eased the existing rainfall deficiencies across much of northern New South Wales. However, at this stage there has been little change to the rainfall deficiencies in other parts of eastern Australia.

On the assumption that drought breaking rains in the coming months prevent a further large scale selloff of livestock and allow the planting and harvest of a successful winter crop, the net value of farm production is forecast to rise by 165 per cent in 2003-04 to around \$6.1 billion (or \$5.9 billion in 2002-03 dollars, as shown in figure C) (table 1).



Total farm costs are forecast to rise by around 5 per cent to \$29.6 billion in 2003-04. The recovery in cropping activity will be the major factor in the rise as expenditures associated with planting, growing, harvesting and marketing of crops will be much greater than in the 2002-03 drought year. With lower demand for fodder expected in 2003-04 and lower fodder prices, expenditure on fodder is forecast to be much lower.

The gross value of farm production is forecast to rise by 17 per cent to \$35.7 billion in 2003-04 — due largely to a 50 per cent rise in the volume of crop production, compared with a forecast 6 per cent fall in livestock production.

The total value of Australian farm exports is forecast to fall by 1 per cent to \$26.8 billion (fob) in 2003-04, after falling by 13.5 per cent in 2002-03. The assumed higher Australian dollar, together with reduced exports of beef, wool, dairy products, cotton and sugar are forecast to offset the effect on returns of higher grain exports.

1 Outlook for Australia's farm sector

	Unit	2000-01	2001-02	2002-03	2003-04	% change
Gross value of production	A\$m	34 417	39 352	30 589	35 679	16.6
Value of farm exports	A\$m	29 551	31 323	27 092	26 821	-1.0
Total farm costs	A\$m	27 145	28 351	28 277	29 563	4.5
Farm net cash income	A\$m	9 692	13 397	6 791	9 618	41.6
Net value of farm production	A\$m	7 272	11 001	2 312	6 116	164.5
Farmers' terms of trade	index	100.0	106.6	103.3	100.8	-2.4

Grains

World wheat prices increased sharply from mid-2002 to peak in October as the effects of droughts on crops in the United States, Canada and Australia became clearer. Prices drifted lower in subsequent months as weather conditions were favorable for the planting and establishment of a large winter wheat crop in the United States and as the Australian and Canadian supply situations were confirmed.

Given average seasonal conditions in major producing countries in 2003, world wheat prices are forecast to decline further. The world wheat indicator price (US hard red winter wheat, fob Gulf ports) is forecast to average US\$135 a tonne in 2003-04 (July–June), approximately US\$25 below the average for 2002-03. Similarly, the world coarse grains indicator price (US corn, fob Gulf) is forecast to fall by 8 per cent to average US\$98 a tonne in 2003-04 as north American coarse grains production recovers from the drought affected crop of the previous year.

World oilseeds prices, however, are forecast to remain relatively strong in 2003-04 (October–September) as a result of continued strong global demand for vegetable oils. Over the next few months, prices may ease temporarily as supplies from the 2003 Latin American soybean crop become available. The world oilseeds indicator price (soybeans, cif

2 Outlook for grains

	Unit	2000-01	2001-02	2002-03	2003-04	% change
Wheat						
Area	'000 ha	12 141	11 597	11 031	12 456	12.9
Production	kt	22 108	24 854	9 385	24 305	159.0
Exports	kt	16 570	16 406	9 801	14 548	48.4
APW pool return	A\$/t	234	256	265	234	-11.7
Coarse grains						
Area	'000 ha	5 325	5 714	4 617	5 377	16.5
Production	kt	10 947	13 038	5 276	10 983	108.2
Exports	kt	4 931	5 680	2 828	3 749	32.6
Price						
– feed barley	A\$/t	181	195	240	195	-18.8
– malting barley	A\$/t	230	242	295	240	-18.6
– grain sorghum	A\$/t	144	199	238	174	-26.9
Oilseeds						
Total production	kt	3 082	2 984	1 158	2 548	120.0
– winter	kt	1 793	1 834	656	2 066	214.9
– summer	kt	1 288	1 150	502	482	-4.0
Canola						
Production	kt	1 775	1 797	621	2 025	226.1
Exports (Nov–Oct)	kt	1 392	1 380	313	1 625	419.2
Price (Nov–Oct) (delivered Melbourne)	A\$/t	367	427	515	490	-4.9

Rotterdam) is forecast to average around US\$280 a tonne, up 14 per cent from the previous year.

Australian cropping to rebound in 2003-04

Rains in early December and early January enabled sorghum plantings to take place in some of the summer cropping areas of New South Wales and Queensland. However, the rains were not sufficiently widespread to ensure that a full sorghum planting took place. With lower areas planted to sorghum, production in 2002-03 is estimated to be 64 per cent lower than last season, at 0.76 million tonnes.

On the assumption that there is a clear break in the drought over the next month or so, it is likely that there will be a sharp increase in the area sown to grains in 2003 (table 2). Many livestock producers significantly reduced their animal numbers during the second half of 2002 as the drought intensified. Prices of replacement livestock are likely to be high once the drought breaks and, where possible, producers will be turning to cropping enterprises to improve farm incomes in the short term. As a result the area sown to winter grain crops in 2003-04 is forecast to increase by around 12 per cent from last season to a record 20.5 million hectares.

Given average seasonal conditions, total winter crop production in 2003-04 would be nearly 37 million tonnes, up by more than 21 million tonnes from 2002-03. Wheat production is forecast to be over 24 million tonnes, winter coarse grains production around 8.5 million tonnes, winter pulse production slightly over 2 million tonnes and canola around 2 million tonnes. A late break to the season could result in an even greater area sown to wheat and barley crops at the expense of canola and pulse crops, as these cereal crops generally have a shorter growing season and do better in less favorable conditions.

Beef

Drought conditions in Australia are having a major effect on livestock industries, with beef prices falling as a result of high turnoff of drought stressed cattle, lamb prices being high as a result of low lamb availability, and high feed grain prices reducing profitability in the pig meat, poultry meat and grain fed cattle industries.

The Australian beef industry benefited from a boom year in 2001-02, with Australian sale-yard prices averaging 306 cents a kilogram (dressed weight). However, for 2002-03, beef prices are estimated to average just 237 cents a kilogram, down 23 per cent from the previous year (table 3). This dramatic fall in price has been driven primarily by the drought, which has resulted in yardings rising sharply and prices falling as producers offload stock they can no longer afford to feed. Weak demand from Japan since the discovery of BSE (bovine spongiform encephalopathy or 'mad cow' disease) in that country in September 2001 has also contributed to the lower prices in 2002-03.

Previous experience suggests that, following drought breaking rains, the saleyard price of cattle is likely to spike upwards as producers withhold stock and restocker demand increases. Assuming a general break to the drought in the next month or two, there are likely to be strong prices for cattle in the second and third quarters of calendar year 2003. Prices can be expected to ease from spring onwards as turnoff increases. Saleyard beef prices are forecast to average 20 per cent higher in 2003-04 at 285 cents a kilogram (dressed weight).

Cattle numbers are forecast to fall by 1.3 million to 27.2 million in the year to June 2003 due to additional drought induced turnoff. Although rebuilding of the cattle herd is expected to begin once the drought breaks, low calving rates in 2003-04, because of cows lacking condition at joining time, are projected to result in a small further reduction in numbers during the course of 2003-04.

Beef production is estimated to be up slightly in 2002-03. Higher cattle slaughter in response to the drought is expected to be offset in part by lower slaughter weights resulting from the larger proportion of cows and underfinished stock in the kill. Production is forecast to drop sharply in 2003-04 as producers withhold stock from slaughter to rebuild depleted herds.

Grain finishing of cattle continues to grow as producers seek to increase the quality and value of their product. However, a shortage of suitable feeder cattle as herd rebuilding occurs and continued relatively high feed costs are expected to limit growth in grain fed beef production in 2003-04.

3 Outlook for beef and veal

	Unit	2000-01	2001-02	2002-03	2003-04	% change
Saleyard price	Ac/kg	266	306	237	285	20.3
Cattle numbers	million	27.7	28.5	27.2	27.0	-0.7
– beef cattle	million	24.5	25.4	24.2	23.9	-1.2
Slaughterings	'000	8 899	8 615	9 467	7 685	-18.8
Beef production	kt	2 080	2 034	2 104	1 740	-17.3
Exports						
– value	A\$m	4 127	4 331	3 708	3 521	-5.0
– volume (shipped weight)	kt	959	902	916	723	-21.1
– live cattle	'000	846	797	950	900	-5.3

Dairy

Reflecting weaker world prices for manufactured dairy products, average farm gate prices for milk fell in 2002-03 (table 4). However, international spot prices for milk powders and cheese have risen substantially over the past six months, largely because of lower milk supplies in Australia and stronger demand for milk powder in EU vealer markets. Prices are expected to stabilise over the remainder of the 2002-03 financial year before easing slightly in 2003-04, as Australian milk production recovers from the drought, but to remain well above the lows of 2002. As a result, world prices for dairy products are forecast to average slightly higher in 2003-04 than in 2002-03, feeding through to higher farm gate prices in Australia in 2003-04.

Drought in most dairying regions of Australia has resulted in the largest fall in milk production since 1976-77. The most substantial reduction (in volume terms) has occurred in the irrigation districts of northern Victoria. For the nine months from July 2002 to March 2003, total Australian milk production was around 7 per cent lower than for the same period in the previous financial year.

With the worsening of the drought in the second half of 2002 and early 2003, dairy farmers reduced cow numbers by selling surplus or cull cows, and drying cows earlier than usual. As a result, the dairy cow herd in 2002-03 is estimated to have fallen by around 3 per cent nationally. This follows a 2 per cent decline in the previous year when dry seasonal conditions also contributed to a fall in cow numbers.

Higher feed grain prices and reduced supplies, mainly as a result of the drought, have resulted in reduced supplementary feeding of dairy cattle in 2002-03, subsequently resulting in an estimated 7 per cent fall in average milk yields. The combined effect of fewer cows being milked and lower milk yields is an estimated 10 per cent fall in national milk production to around 10.2 billion litres in 2002-03. Higher milk yields in 2003-04 and a slight rise in cow numbers are forecast to result in a slow recovery in milk production.

4 Outlook for dairy

	Unit	2000-01	2001-02	2002-03	2003-04	% change
World indicative prices						
Butter	US\$/t	1 293	1 127	1 082	1 280	18.3
Skim milk powder	US\$/t	2 167	1 625	1 453	1 650	13.6
Cheese	US\$/t	2 070	1 988	1 685	1 800	6.8
Australia						
Cow numbers	'000	2 176	2 123	2 055	2 086	1.5
Yield per cow	L	4 846	5 309	4 944	4 953	0.2
Milk production	ML	10 545	11 271	10 160	10 333	1.7
Milk price	Ac/L	29.0	30.3	27.0	28.5	5.6

Sugar

The world indicator sugar price (New York no. 11 raw) is forecast to ease by 6 per cent to average around US8c/lb in 2003-04, following an estimated 12 per cent rise in 2002-03 (table 5). Global sugar production is forecast to remain steady at around 140 million tonnes in 2003-04 with consumption forecast to be around 138 million tonnes. With production expected to continue to exceed consumption in the near term, prices are likely to remain under downward pressure.

5 Outlook for sugar

	Unit	2000-01	2001-02	2002-03	2003-04	% change
World						
Production	Mt	131.2	138.2	140.1	140.3	0.1
Consumption	Mt	131.4	133.9	136.6	137.9	1.0
Stocks	Mt	60.8	63.2	67.7	70.1	3.5
Price	USc/lb	10.0	7.6	8.5	8.0	-5.9
Australia						
Production	kt	4 162	4 987	5 371	4 920	-8.4
Exports	kt	2 966	3 594	4 219	3 719	-11.9
Value of exports	A\$m	1 111	1 392	1 415	1 121	-20.8

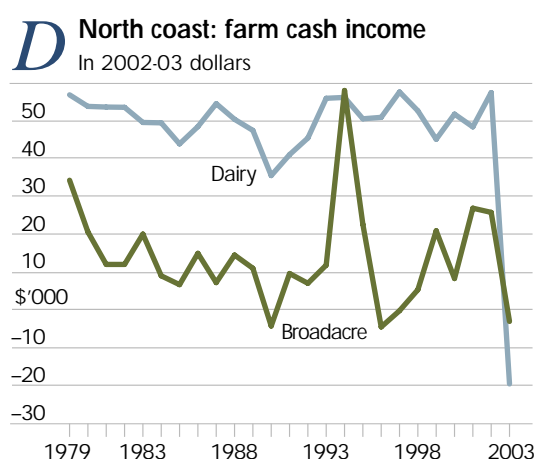
In Australia, drought conditions stunted the growth of the 2003-04 cane crop early in the growth phase. However, rain along much of the Queensland coast in early February 2003 provided relief and promoted growth. Nevertheless, the drought conditions early in the growing season have delayed cane growth, causing the rapid growth phase of the crop to be delayed — thereby keeping sugar concentrations lower as harvest approaches. The Mackay–Proserpine region has been the hardest hit by drought conditions, and considerable areas of canefields have been ploughed-in. It is the decline in this region that will contribute most significantly to an expected drop in Australia’s cane harvest in 2003-04.

Farm performance

The drought has had a serious impact on rural businesses, families and communities. Loss of ground cover resulting in soil degradation may have serious long term effects on productivity in many areas. The 2002-03 drought has been accompanied by critically low availability of irrigation water in a number of key storages after years of below average rainfall.

Fortunately, many farm families entered the 2002-03 drought with incomes and farm equity levels relatively high as a consequence of several years of generally good commodity prices and mainly favorable production conditions. Results from ABARE’s annual farm survey provide a basis for evaluating the financial performance of the rural sector.

In the North Coast region of New South Wales, which includes Lismore, farm cash incomes of broadacre farmers (principally beef, but with some grains and lambs) are estimated to be negative in 2002-03. Incomes are estimated to fall by 112 per cent to an average loss of \$3200 in 2002-03 (table 6). This follows two years of farm cash incomes in excess of \$25 000 (figure D). Total cash costs per farm are estimated to average 11 per cent higher than in 2001-02.



In the case of beef, drought affected both pasture and water availability, leading to a reduction in numbers of cattle on farms. At the end of June 2003, the number of beef cattle per farm in the North Coast region is forecast to be 17 per cent lower than in the previous June. Lower saleyard prices for cattle are expected to result in reduced returns from livestock. Receipts from cattle sales are forecast to be down 33 per cent in 2002-03 relative to the previous year. Extended supplementary feeding of livestock and sharply higher feed grain and fodder prices have contributed to a large increase in cash costs for North Coast livestock farms in 2002-03.

6 North Coast broadacre industries farm performance Average per farm

		2000-01	2001-02 ^p	2002-03 ^s
Physical estimates				
Area of land operated 30 June	ha	492	456	456
Oilseeds area sown	ha	2	1	2
Other crops area sown	ha	11	4	2
Beef cattle numbers at 30 June	no.	268	238	207
Receipts				
Oilseeds	\$	1 456	1 970	600
Other crops	\$	927	2 320	2 100
Sheep and lamb sales	\$	3 990	6 850	5 400
Beef cattle sales	\$	67 992	66 920	45 100
Farm performance				
Total cash receipts	\$	87 465	85 140	62 700
less total cash costs	\$	60 677	59 460	65 900
Farm cash income	\$	26 788	25 680	-3 200
plus buildup in trading stocks	\$	-4 956	-16 380	-21 300
less depreciation	\$	12 424	12 020	12 000
less operator / manager and family labor	\$	33 680	31 120	31 900
Farm business profit	\$	-24 271	-33 840	-68 400
Rate of return – excl. capital appreciation	%	-2.0	-2.6	-5.3

^p Preliminary. ^s Provisional estimate.

Although only relatively small areas are sown to grain crops in the North Coast region, the drought nevertheless has resulted in reduced areas planted and substantially lower yields. Total receipts from cropping activities on farms in the region are forecast to fall by over a third in 2002-03. Average receipts per farm from oilseeds are forecast to fall by 70 per cent. Not surprisingly, expenditure on crop harvesting and marketing, fuel, fertiliser, repairs and maintenance are estimated to be lower.

Average farm cash incomes of dairy farmers in the North Coast region (table 7) are also expected to be negative in 2002-03. Incomes are estimated to fall by 134 per cent to an average loss of \$19 700, following two years of farm cash incomes of around \$50 000. Lower milk prices and an estimated 7 per cent fall in average milk production per farm are forecast to result in milk receipts falling 21 per cent in 2002-03.

Sharply higher feed grain and fodder prices led to a large increase in cash costs for dairy farms in 2002-03. At around \$82 400 per farm, fodder purchases are estimated to be almost twice those of 2001-02 when they averaged \$44 700. Fodder costs are estimated to account for 48 per cent of total cash costs for dairy farmers in 2002-03, compared with the previous year when they accounted for around 34 per cent of total cash costs. Overall, average cash costs per North Coast region dairy farm in 2002-03 are estimated to be close to 30 per cent higher than in 2001-02.

7 North Coast dairy industries farm performance Average per farm

		2000-01	2001-02 ^p	2002-03 ^s
Physical estimates				
Area of land operated 30 June	ha	158	166	166
Dairy cattle numbers at 30 June	no.	199	191	165
Milk production	L	497 678	503 380	468 100
Crop area sown	ha	26	20	na
Beef cattle numbers at 30 June	no.	15	18	na
Receipts				
Milk – net of freight	\$	147 856	166 350	131 500
Dairy cattle sales	\$	14 750	15 970	10 200
Beef cattle sales	\$	761	2 020	1 400
Farm performance				
Total cash receipts	\$	177 586	190 150	152 000
<i>less</i> total cash costs	\$	129 272	132 750	171 800
Farm cash income	\$	48 314	57 400	-19 700
<i>plus</i> buildup in trading stocks	\$	23 428	-3 700	-18 200
<i>less</i> depreciation	\$	15 373	12 520	12 500
<i>less</i> operator / manager and family labor	\$	54 308	53 240	57 300
Farm business profit	\$	2 061	-12 050	-107 700
Rate of return – excl. capital appreciation	%	1.9	0.2	-7.3

^p Preliminary. ^s Provisional estimate.