

Bendigo Regional Outlook conference

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Commodity outlook and financial performance of agriculture in Central Northern Victoria

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- Farm cash incomes for Victorian broadacre and dairy farms are estimated to have improved in 2007-08 on the back of higher milk, wool and grain prices.
- However, increased farm costs and continued dry conditions in 2008, combined with historically low availability of irrigation water, constrained improvement in farm incomes particularly in Central Northern Victoria. Farm cash incomes for broadacre and dairy farms in Central Northern Victoria have been below those for the rest of Victoria in the past two years.
- Looking forward to 2008-09, the price outlook for the agriculture sector is positive. The farm sector does however face the ongoing challenges of low availability of irrigation water and increasing farm costs.

This paper presents the current commodity outlook and recent financial performance of some key agricultural industries in Victoria, highlighting the performance of the dairying, beef, cropping and sheep farms within the state as well as at the regional level.

The Central Northern region covered in this paper is outlined in map 1. The major regional centres include Bendigo, Benalla, Echuca, Shepparton and Wangaratta.

Agricultural sector profile

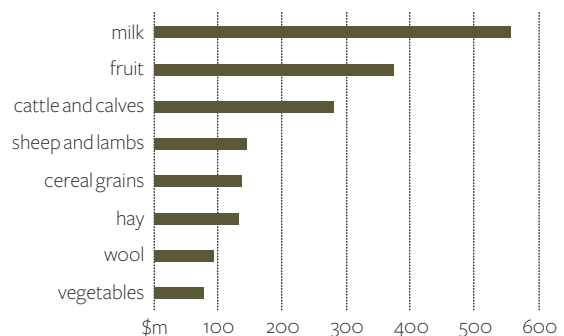
Milk is Central Northern Victoria's most significant agricultural product in dollar value terms. In 2004-05 (the latest year for which the value of agricultural production data at a regional level is available), milk accounted for 27 per cent (\$555 million) of the \$2052 million total value of agricultural production in the region (figure a).

Fruit production accounted for a further 18 per cent (\$374 million) of the total value of regional agricultural

map 1 Central Northern region



a Value of agricultural production, Central Northern Victoria, 2004-05



Source: Australian Bureau of Statistics Agricultural Commodities Survey.

production, with apples being the most important fruit crop. Cattle slaughter accounted for 14 per cent of total production while sheep and lamb slaughter contributed 7 per cent to the total value of agricultural production.

Cereal grains accounted for around 7 per cent of the total value of agricultural production for the region, and pasture and hay production slightly more than 6 per cent in 2004-05.

Number and type of farms

1 Number of farms, Central Northern Victoria, 2004-05 by industry classification a

	Central Northern Victoria		Victoria	
	no.	%	no.	%
Dairying	1 701	23	6 199	19
Beef cattle	1 570	21	7 924	25
Mixed livestock and grains	1 008	13	3 169	10
Sheep	982	13	3 790	12
Sheep-beef cattle	545	7	2 255	7
Grain	450	6	2 690	8
Apple and pears	214	3	322	1
Grapes	207	3	2 027	6
Other	845	11	3 674	11
All Industries	7 522	100	32 050	100

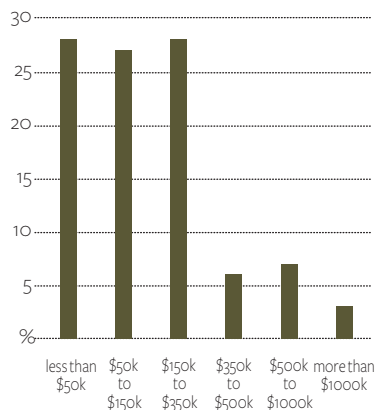
a Where the estimated value of agricultural operations is more than \$5000.

Source ABS.

Australian Bureau of Statistics data indicate there were 7522 farms in the Central Northern Victoria region with an estimated value of agricultural operations of more than \$5000 in 2004-05 (table 1).

In the Central Northern region, around three-quarters of farms were involved in livestock production; with dairying and beef cattle production the most common activities. Farms are classed in table 1 according to the activities that generate most of their value of agricultural production. Dairy producers accounted for the largest number of farms with 1701 farms (23 per cent) while beef farms are the next most common, accounting for 21 per cent of farms. Only a relatively small number of farms in the region receive most of their income from grains – around 6 per cent. However, farms that combine sheep or beef production with cereal grain production accounted for 13 per cent of farms. Apple and pear farms and grape farms each account for 3 per cent of farms.

b Distribution of farms by value of output, 2004-05, Central Northern Victoria



Source: Australian Bureau of Statistics Agricultural Commodities Survey.

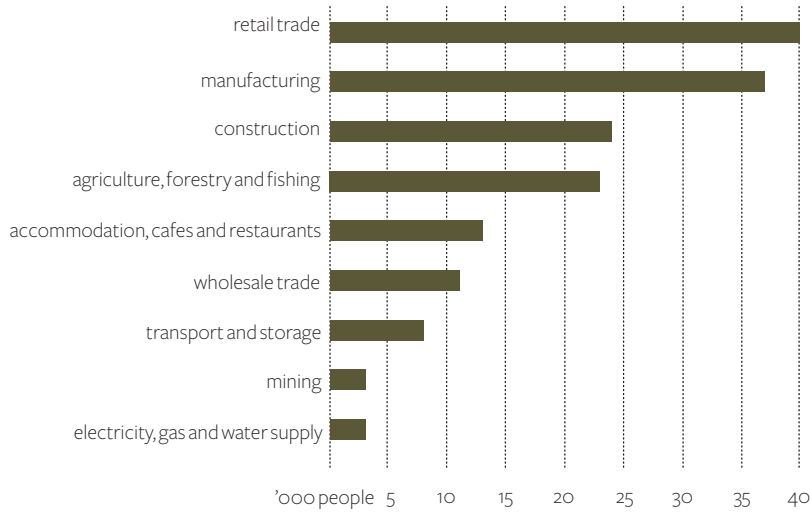
Most farms in the Central Northern region are small to medium in size (measured in terms of value of agricultural output) with more than half of the farms producing less than \$150 000 in agricultural output in 2004-05 (figure b). More than a quarter of farms produced between \$150 000 and \$350 000 and fewer than 3 per cent of farms produced more than \$1 million of agricultural production in 2004-05.

The majority of the smaller farms in the region are beef cattle or sheep farms and the majority of the larger farms produce fruit.

Employment

Australian Bureau of Statistics employment data for 2007 indicate the retail sector employs the largest number of people in the Central Northern Victoria region (figure c). The retail sector employed 25 per cent (39 600 people) of the workforce and 23 per cent of the workforce was employed in the manufacturing sector, including the food processing industries.

C Central Northern Victoria employment profile, 2007



Source: Australian Bureau of Statistics Labour Force Survey.

Around 23 900 people were employed in the construction sector while the agriculture, forestry and fisheries sector was the fourth largest employer within the Central Northern region employing more than 23 000 people.

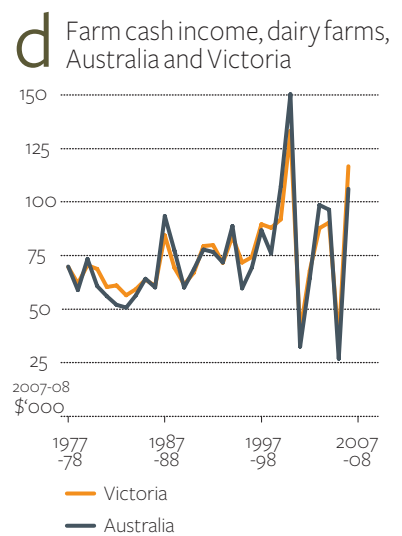
These employment estimates include the Goulburn and Loddon regions as well as the Ovens-Murray and Mallee regions.

Dairy farm performance — Victoria and Australia

During 2006-07, dairy producers in Victoria and Australia recorded large reductions in farm cash incomes as drought conditions resulted in increased farm fodder expenditure and reduced milk production. The effect of dry seasonal conditions was more pronounced for Victorian producers during 2006-07, with income falling by more than 70 per cent compared to a decline of 62 per cent nationally.

In 2007-08, farm cash income is forecast to improve significantly for dairy producers in both Victoria and across Australia (table 2). With milk prices rising by around 30 per cent in 2007-08, farm cash income is projected to improve by one of the largest amounts in 20 years at both the state and national levels (figure d).

Total cash receipts for Victorian dairy farms are forecast to increase by more than 25 per cent, on average, while farm cash costs are forecast to increase by only 5 per cent as improved seasonal conditions allow for a reduction in fodder expenditure. However, the number of dairy cattle milked is estimated to have fallen in 2007-08, constraining improvement in milk production and limiting increases in farm expenditure.



2 Financial performance, Australia and Victoria, dairy industry

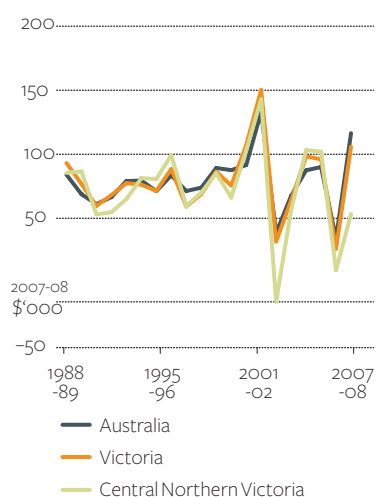
Average per farm

	Australia			Victoria		
	2005-06	2006-07 ^p	2007-08 ^s	2005-06	2006-07 ^p	2007-08 ^s
Milk receipts	\$ 373 500	344 300 (3)	433 000	364 800	327 200 (5)	411 000
Total cash receipts	\$ 441 000	405 600 (3)	506 000	424 100	383 100 (5)	479 000
Total cash costs	\$ 350 600	370 900 (4)	389 000	327 800	356 300 (5)	373 000
Farm cash income	\$ 90 400	34 700 (21)	117 000	96 400	26 700 (38)	106 000
Farms with negative farm cash income	% 15	36 (15)	17	13	39 (20)	19
Farm business profit	\$ 20 100	-40 500 (17)	29 000	24 000	-46 800 (20)	23 000
Farms with negative farm business profit	% 49	76 (4)	51	49	81 (5)	50
Farm capital at 30 June ^a	\$ 2 999 300	3 244 700 (5)	3 013 000	2 644 900	2 810 100 (6)	2 493 000
Farm debt at 30 June ^{b,c}	\$ 468 500	507 600 (8)	na	462 600	486 400 (12)	na
Equity ratio ^{b,d}	% 84	84 (4)	na	82	83 (7)	na
Rate of return ^e						
– excl. cap. appreciation	% 2.4	0.0 (3058)	3.1	2.9	-0.3 (116)	3.4
– incl. cap. appreciation	% 7.4	10.2 (17)	na	5	11 (19)	na

a Excludes leased plant and equipment. b Average per responding farm. c Harvest loans are not included in farm debt. d Equity expressed as a percentage of farm capital. e Rate of return to farm capital at 1 July calculated as farm business profit plus interest paid expressed as a percentage of total farm capital. p Preliminary estimates. s Provisional estimates. na Not Available.

Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.

e Farm cash income, dairy farms, Central Northern Victoria



Dairy farm performance — Central Northern Victoria

Farm cash income for the Central Northern dairy farms fell sharply in 2006-07. Drought within the region, low irrigation water allocations and record fodder prices combined to result in producers reducing dairy cow numbers and feed inputs. Reductions in the number of cows milked and in milk yields were larger in northern Victoria than in most other dairying regions resulting in a relatively larger fall in farm cash income (figure e).

During the four years to 2006-07, fodder expenditure within the Central Northern region increased by almost 130 per cent to average more than \$175 000 per farm with the largest increase occurring in 2006-07.

In 2007-08, farm cash incomes in the Central Northern region are forecast to improve, however not by as much as elsewhere in Victoria (table 3). Central Northern dairy farms are expected to further reduce cow numbers because of limited availability of irrigation water. Farm business profit is expected to be negative again in 2007-08, following substantial losses in 2006-07.

3 Financial performance, Central Northern Victoria, dairy industry Average per farm

		2005-06	2006-07 ^p	2007-08 ^s
Farm cash income	\$	102 200	10 100 (166)	54 000
Farms with negative farm cash income	%	5	54 (166)	30
Farm business profit	\$	33 100	-71 200 (20)	-31 000
Farms with negative farm business profit	%	53	84 (20)	59
Farm capital at 30 June ^a	\$	2 537 700	2 407 000 (10)	na
Farm debt at 30 June ^{b c}	\$	473 900	411 900 (24)	na
Equity ratio ^{b d}	%	81	83 (18)	na
Rate of return ^e				
- excl. cap. appreciation	%	3.5	-1.7 (40)	0.4
- incl. cap. appreciation	%	2.3	10.0 (23)	na

^a Excludes leased plant and equipment. ^b Average per responding farm. ^c Harvest loans are not included in farm debt. ^d Equity expressed as a percentage of farm capital. ^e Rate of return to farm capital at 1 July calculated as farm business profit plus interest paid expressed as a percentage of total farm capital. ^p Preliminary estimates. ^s Provisional estimates. ^{na} Not Available.

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Broadacre farm performance — Victoria and Australia

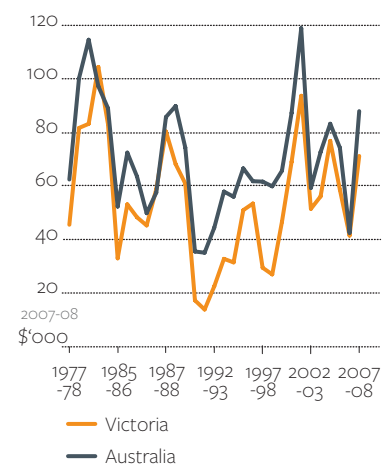
Australian broadacre farm financial performance is projected to strengthen markedly in 2007-08, after, in 2006-07, recording the lowest incomes since 1992-93. Increased grain and livestock production, combined with higher grain and wool prices and strong prices for beef cattle, sheep and lambs are forecast to result in farm cash incomes on broadacre farms more than doubling in 2007-08, to average around \$88 000 per farm (figure f). In addition, total cash costs are projected to be slightly lower as improved seasonal conditions enable reduced expenditure on fodder and agistment.

Average farm business profit across Australia is projected to recover by even more than the increase in farm cash income in 2007-08 (table 4). This largely reflects a build up in the value of trading stocks as producers increase livestock numbers and replenish on-farm inventories of fodder and grain.

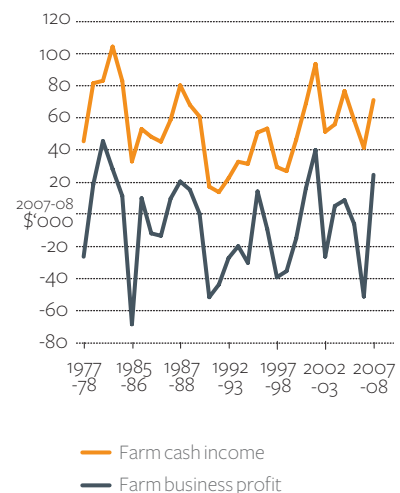
Average farm cash income for Victorian broadacre farms is projected to rise by more than 70 per cent to \$71 000 in 2007-08. Further, positive farm business profit is forecast for Victoria following two losses in 2005-06 and 2006-07 (figure g).

Over the past four years the demand for rural land has remained strong. Rising land values have increased average farm capital values underpinning farm equity and offsetting the impact of higher farm debt. This has enabled producers to borrow more for working capital to meet the reduced cash flow during the drought and for new investment in land, plant, machinery, vehicles and improvements. Increases in farm capital values have resulted in rising rates

f Farm cash income, broadacre farms, Australia and Victoria



g Financial performance, broadacre farms, Victoria



4 Financial performance, Australia and Victoria, broadacre industry

Average per farm

	Australia				Victoria			
	2005-06	2006-07 ^p	2007-08 ^s		2005-06	2006-07 ^p	2007-08 ^s	
Total crop receipts	\$	122 320	85 900 (5)	125 000	89 840	56 400 (8)	96 000	
Beef cattle sales	\$	111 210	98 200 (6)	90 000	72 170	59 300 (22)	40 000	
Sheep and lamb sales	\$	41 280	36 000 (5)	40 000	47 710	40 300 (10)	48 000	
Wool sales	\$	30 990	35 700 (5)	38 000	29 840	30 300 (12)	34 000	
Total cash receipts	\$	355 610	303 500 (3)	333 000	269 760	206 700 (6)	248 000	
Less total cash costs	\$	281 370	261 000 (3)	245 000	211 190	165 300 (5)	177 000	
Farm cash income	\$	74 240	42 500 (13)	88 000	58 570	41 400 (15)	71 000	
Farms with negative farm cash income	%	24	42 (5)	32	20	35 (15)	23	
Farm business profit	\$	-8 190	-51 200 (10)	23 000	-6 090	-51 200 (13)	25 000	
Farms with negative farm business profit	%	65	79 (2)	61	57	83 (3)	50	
Farm capital at 30 June ^a	\$	3 466 940	3 713 400 (2)	na	2 770 630	2 629 700 (5)	na	
Farm debt at 30 June ^{b c}	\$	360 540	450 600 (4)	376 000	227 230	227 900 (9)	190 000	
Equity ratio ^{b d}	%	90	88 (1)	na	92	91 (1)	na	
Rate of return ^e								
- excl. capital appreciation	%	0.8	-0.3 (38)	1.9	0.8	-1.2 (23)	1.9	
- incl. capital appreciation	%	7.4	8.1 (10)	na	4.2	7.1 (26)	na	

^a Excludes leased plant and equipment. ^b Average per responding farm. ^c Harvest loans are not included in farm debt. ^d Equity expressed as a percentage of farm capital. ^e Rate of return to farm capital at 1 July calculated as farm business profit plus interest paid expressed as a percentage of total farm capital. ^p Preliminary estimates. ^s Provisional estimates. ^{na} Not Available.

Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.

5 Financial performance, Central Northern Victoria, broadacre industries

Average per farm

		2005-06	2006-07 ^p	2007-08 ^s
Farm cash income	\$	36 410	14 600 (63)	25 000
Farms with negative farm cash income	%	31	48 (32)	37
Farm business profit	\$	-15 570	-68 100 (20)	-24 000
Farms with negative farm business profit	%	67	91 (4)	63
Farm capital at 30 June ^a	\$	2 093 600	2 184 900 (11)	na
Farm debt at 30 June ^{b c}	\$	185 630	203 000 (20)	na
Equity ratio ^{b d}	%	91	90 (3)	na
Rate of return ^e				
- excl. capital appreciation	%	0.2	-2.4 (21)	-0.2
- incl. capital appreciation	%	2.9	5.0 (93)	na

^a Excludes leased plant and equipment. ^b Average per responding farm. ^c Harvest loans are not included in farm debt. ^d Equity expressed as a percentage of farm capital. ^e Rate of return to farm capital at 1 July calculated as farm business profit plus interest paid expressed as a percentage of total farm capital.

^p Preliminary estimates. ^s Provisional estimates. ^{na} Not Available.

Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.

of return including capital appreciation in recent years despite average rates of return excluding capital appreciation remaining very low. Rates of return are calculated on a full equity basis (farm business profit plus interest paid), as if the farm were fully owned by the operators.

Broadacre farm performance — Central Northern Victoria

Farm cash income in the Central Northern region fell to one of the lowest levels in 30 years during 2006-07, reflecting the prolonged drought conditions within the region (table 5). According to the Bureau of Meteorology, the region recorded 'below average' to 'much below average' rainfall in six out of seven quarters to November 2007.

Farm cash income in the region was similar to the state average throughout the 1990s and early 2000s (figure h). However, in the three years since 2003-04, Central Northern broadacre farms have recorded farm financial performance markedly below the state average, reflecting a more severe impact of drought in this region. Many producers in the region were forced to de-stock large numbers of beef cattle and sheep during these drought affected periods.

In 2007-08, the increase in farm cash income in Central Northern Victoria is not forecast to be as large as for all of Victoria. Early in 2007-08, planting conditions in the Central Northern region for winter crops looked promising, however adverse spring conditions resulted in poor crop establishment and subsequently low yields.

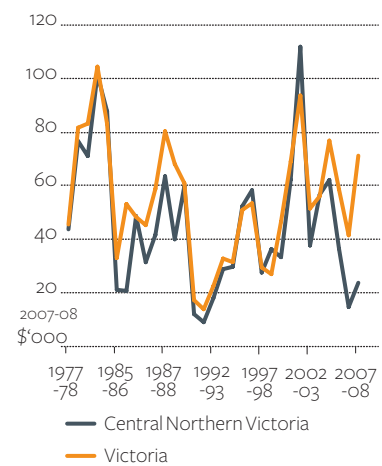
Average to above average rainfall in the early summer months encouraged producers to commence herd and flock rebuilding. Consequently the number of beef cattle sold is projected to fall in 2007-08 and beef cattle receipts are forecast to be lower. Recoveries in lamb marking rates are projected to be sufficient to allow a small increase in sheep and lamb turnoff, which should partially offset lower beef cattle receipts.

Beef farm performance — Victoria and Australia

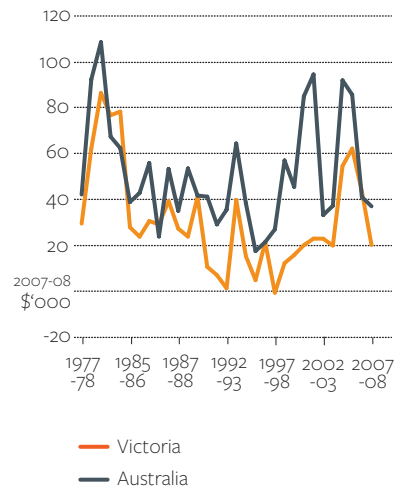
In 2006-07, farm cash incomes for Victorian beef specialist producers (defined as farms with the majority of their income derived from beef cattle sales) fell as drought conditions increased production costs. Farm receipts were also cut by lower saleyard prices caused by increased turnoff of more unfinished and younger stock (figure i).

Farm cash income for Victorian beef specialists in 2007-08 is forecast to fall by more than the decline nationally. Beef receipts are estimated to be constrained by the reduction in turnoff as farms rebuild beef cattle numbers while farm expenditure is expected to remain relatively high. Nevertheless, farm cash incomes for Victorian beef farms are expected to remain relatively high in historic terms. In addition, increases in beef cattle numbers are projected to boost the value of trading stocks raising farm business profit in 2007-08 following an estimated average business loss of \$40 000 in 2006-07.

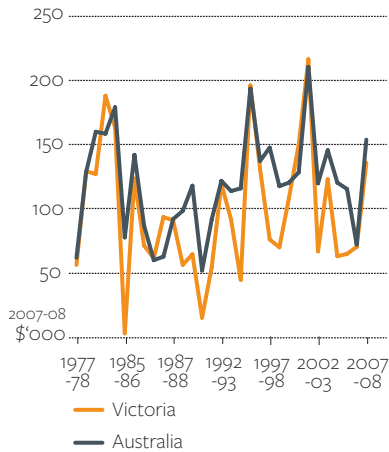
h Farm cash income, broadacre farms, Central Northern Victoria



i Farm cash income, beef specialists, Australia and Victoria



j Farm cash income, grains specialists, Australia and Victoria

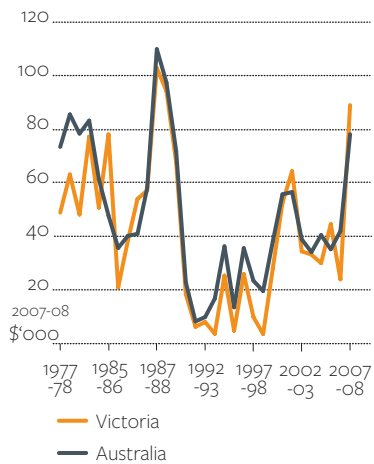


Grains farm performance — Victoria and Australia

The financial performance of Australian grain specialist producers (defined as farms with the majority of income derived from crop sales) was relatively poor in 2006-07 as adverse seasonal conditions in much of the grain-belt restricted winter crop plantings and production (figure j).

In 2007-08 farm cash incomes are forecast to improve significantly because of increases in grain production and higher grain prices. Increased receipts from grain are expected to be partially offset by a rise in farm cash costs.

k Farm cash income, sheep specialists, Australia and Victoria



Sheep farm performance — Victoria and Australia

The financial performance of Victorian sheep specialist farms (defined as farms with the majority of their income derived from sheep and wool) declined in 2006-07, the result of increased production costs as producers increased expenditure on fodder and agistment (figure k).

In 2007-08, farm cash incomes for Victorian sheep specialist farms are projected to increase sharply as a result of higher wool prices, strong sheep and lamb prices and a reduction in expenditure on fodder in some regions. The improvement to sheep producer incomes in Victoria is expected to exceed that of Australia because of a larger increase in cash receipts.

Outlook for selected commodities

Seasonal conditions update

The Australian Bureau of Meteorology in its seasonal rainfall outlook for the May to July period (23 April 2008), indicates there is a moderate shift in the odds favouring a wetter than normal season through northern Western Australia and the Northern Territory through to southern Queensland and northern New South Wales. However the chance of exceeding the three month median rainfall is between 45 and 50 per cent in southern Australia. So the chances of being wetter than normal are about the same as the chances of being drier.

The bureau also states the La Niña in the Pacific Basin is weakening. Computer models indicate a return to neutral conditions over the May to July period. La Niña events typically bring wetter than normal conditions across much of the eastern half of Australia.

Livestock

Dairy

World prices for the major dairy products rose sharply in 2007-08 and have remained relatively high in the first two months of 2008. In 2007-08, world prices for cheese are forecast to be up by 70 per cent, skim milk powder prices up by 40 per cent and butter prices up by 95 per cent. In 2008-09 world prices for most dairy products are forecast to decline as production and exports rise in response to recent higher world prices.

In 2008-09 and 2009-10, world dairy production is forecast to grow at a relatively slow rate. Production in the major dairy exporting countries of the European Union, New Zealand and Australia is forecast to grow relatively slowly. This is a result of changes to production incentives under the Common Agricultural Policy in the European Union, higher feed prices and lead times in herd-building in New Zealand, and recovery from recent drought conditions and associated irrigation water supply constraints in Australia.

Global demand for dairy products remains relatively strong in a world market influenced by strong economic growth, particularly in developing regions in Asia. Demand is also expected to be strong in developed such as the European Union.

The ability of Australian dairy farmers to recover quickly from drought will depend largely on the financial situation of individual farmers, the availability of irrigation water and the ability of farmers to rebuild milking cow numbers. While good rains in late 2007 and early 2008 have been helpful, uncertainty remains about the possibility and timing of increased allocations of irrigation water in the southern Murray Darling Basin, and the availability and price of fodder.

Australian milk production is estimated to have fallen by more than 5 per cent in 2007-08, to around 9.1 billion litres. In 2008-09, Australian milk production is forecast to begin to recover, rising by almost 2 per cent to around 9.25 billion litres.

After averaging around 45 cents a litre in 2007-08, Australian farm-gate milk prices are forecast to rise by a further 20 per cent to 54 cents a litre in 2008-09. The forecast of relatively high farm-gate milk prices reflects both the prices needed by dairy farmers to cover the high cost of feed and other inputs (such as purchased irrigation water entitlements) and the ability of the dairy industry to benefit from strong world prices for dairy products.

Beef

The Australian weighted saleyard price of beef is forecast to increase by 7 per cent in 2008-09 to average 315 cents a kilogram. Underpinning the rise in prices will be a decline in numbers of cattle turned off for slaughter as producers move to rebuild herds. The extent of the price increase is expected to be moderated by weaker demand for Australian beef in Japan and Korea as competition from the United States increases, particularly toward the latter half of the year.

Reflecting an increased retention of female cattle for breeding, total slaughterings are forecast to fall by 2 per cent to 8.6 million in 2008-09. As a result, beef production is also forecast to decline by 2 per cent in 2008-09, to 2.1 million tonnes.

Total beef exports are forecast to fall to 880 000 tonnes in 2008-09 as a result of lower production, as well as an expected increase in competition from US beef in Japan and Korea. Exports to Japan in 2008-09 are forecast to fall by 6 per cent, while exports to Korea are forecast to fall by 19 per cent.

Exports of live cattle are forecast to increase in 2008-09, to 700 000 head, despite a forecast rise in prices, reflecting an expected increase in demand. Over the medium term, the number of cattle exported live is projected to rise, driven by solid demand in South East Asian markets, a projected fall in cattle prices and an assumed weaker Australian dollar.

Sheep meat

Lamb production is forecast to remain at around a historically high 412 000 tonnes in 2008-09, as a result of high slaughterings. Reflecting an expected increase in export and domestic demand, the Australian weighted saleyard price for lambs is forecast to rise by 7 per cent in 2008-09 to 355 cents a kilogram (dressed weight).

High wool prices over the past year, combined with strong saleyard prices for lambs and sheep, are expected to provide an incentive for producers to begin rebuilding flocks in 2008-09 and beyond. With producers likely to hold on to additional ewes for flock rebuilding in 2008-09, slaughterings of sheep are forecast to fall by 17 per cent to 8.5 million, but then to increase gradually as flock numbers grow over the medium term. Reflecting lower supply of sheep and increased demand as producers begin to restock, the Australian weighted saleyard price of mutton is forecast to rise by 9 per cent in 2008-09 to average 180 cents a kilogram.

Total Australian lamb exports are projected to increase by around 2 per cent, to 163 000 tonnes in 2008-09. In 2008-09, mutton exports are forecast to fall by 24 per cent to 108 000 tonnes (shipped weight), as a result of lower production. Live sheep exports are forecast to fall to 3.7 million in 2008-09, constrained by a limited supply of sheep suitable for live export.

Wool

Strong prices for both sheep meat and wool, in addition to the encouragement provided by the recent good rains in many areas, can be expected to result in wool producers moving to expand flock sizes. Australian shorn wool production in 2007-08 is forecast at 395 000 tonnes, down 7 per cent from the previous year. Australian shorn wool production is forecast to rise slightly in 2008-09 to 404 000 tonnes, largely as a result of a slightly higher number of sheep shorn and increasing fleece weights.

In the face of strong export demand, the lower production of shorn wool contributed to continued increases in the eastern market indicator price in 2007-08. Reflecting these further upward movements in wool prices, the eastern market indicator price in 2007-08 is forecast to average 970 cents a kilogram clean, 12 per cent higher than in 2006-07.

China is by far the largest consumer of Australian raw wool, which it processes and manufactures into a range of commodities from textiles to clothing. Substantial quantities of these products are exported to developed country markets. Since the largest export market for wool products is the United States, changes in US demand will have repercussions along the supply chain. Chinese imports of raw wool from Australia will be affected by expectations of Chinese processors about next year's US orders for wool products. Any perceptions on the part of Chinese buyers of a softening in US demand for wool apparel and textiles could translate into lower Chinese imports of raw wool, thereby putting downward pressure on Australian wool prices.

Reflecting uncertainty about US economic growth and its effect on demand for finished wool products the eastern market indicator price is forecast to fall by 1 per cent in 2008-09, to an average of 960 cents a kilogram clean.

Grains

Wheat

The world wheat indicator price (US hard red winter, fob Gulf ports) has been at record highs in both nominal and real terms, in 2007-08, at US\$339 a tonne. In 2008-09, world wheat supplies are forecast to increase by 12 million tonnes as global wheat production is forecast to increase. This increase in wheat supplies is forecast to outweigh an increase in wheat demand and result in the world wheat indicator price falling by around 15 per cent in 2008-09. However, low wheat stocks will provide support to prices, maintaining them at relatively high levels.

Global wheat production in 2008-09 is forecast to increase to 622 million tonnes, an increase of 3 per cent on the previous year. High wheat prices in 2007 and early 2008 encouraged a larger area to be sown to wheat in many northern hemisphere countries, and are also likely to result in an increased area sown to wheat in southern hemisphere countries later in the year.

World wheat consumption is forecast to increase to 616 million tonnes in 2008-09, 5 million tonnes above the previous season. The major use of wheat is for human consumption, which accounts for around 70 per cent of global consumption. However, the increase in wheat consumption forecast for 2008-09 is largely the result of a forecast increase in demand for wheat for livestock feeding purposes.

Assuming average seasonal conditions in Australia, it is reasonable to expect a sharp increase in the area sown to wheat in 2008-09. The area sown to wheat is forecast to be a record 13.4 million hectares in 2008-09. Wheat production is forecast to increase to nearly 26 million tonnes in 2008-09.

Increased Australian wheat production in 2008-09 means wheat exports will rise by a forecast 9 million tonnes. The value of Australian wheat exports is forecast to increase to \$4.7 billion — more than double the value in 2007-08. The pool return for Australian premium white wheat (APW 10) is forecast to decline by around A\$80 a tonne to average A\$359 a tonne in 2008-09.

Coarse grains

World coarse grain prices are forecast to remain high through 2008-09 as production and consumption remain firmly balanced for a second year. The world indicator price for coarse grains (US corn, fob Gulf) is forecast to average around US\$198 a tonne in 2008-09, around US\$5 a tonne higher than the previous year.

World coarse grain production is forecast to reach 1.1 billion tonnes in 2008-09 — 16 million tonnes higher than the record output of the previous year, and reflects the expectation of continuing strong grain prices. A recovery in coarse grain production in the European Union, Ukraine and Australia will more than offset a forecast decline in US corn production.

World coarse grain consumption is forecast to rise by 1 per cent to 1.1 billion tonnes in 2008-09, reflecting the continuing growth of the worldwide ethanol industry and the use of corn as a major feedstock. In the United States, the amount of corn used in ethanol production increased by 50 per cent to an estimated 81 million tonnes in 2007-08 — representing around a quarter of US corn production. Adding to the tight coarse grain market in the United States has been the strong growth in corn exports. US corn exports are estimated to have increased by 15 per cent to 62 million tonnes in 2007-08, reflecting to a large extent the effect of a weaker US dollar on price in importing country currencies and stronger demand from the European Union.

In Australia the area planted to barley is forecast to increase by 4 per cent in 2008-09, while production is forecast to increase by 51 per cent. The expected larger harvest means total coarse grain exports are forecast to increase by 83 per cent in 2008-09, with the bulk of the increase comprising shipments of barley, which are forecast to increase by 80 per cent to around 5 million tonnes. The value of coarse grains exports is forecast to rise by 72 per cent to around \$1.8 billion, reflecting larger volumes shipped and continued relatively high prices in the global market. In response to a forecast dramatic improvement in production, Australian grain prices are likely to fall in 2008-09, however, prices are expected to remain at relatively high levels.

Oilseeds

The world oilseed indicator price (soy beans, cif, Rotterdam), has been at record highs during 2007-08. In 2008-09 prices are forecast to increase further as increased demand (particularly for biodiesel) provides support to prices. The world oilseed indicator price is forecast to increase from an average US\$503 a tonne in 2007-08 to an average US\$513 a tonne in 2008-09.

World oilseed production is forecast to increase to 405 million tonnes in 2008-09, a 4 per cent increase compared with the previous year. Production of soy beans and canola/rapeseed (two of the major oilseeds) are both forecast to increase in 2008-09. In the United States — the world's largest soybean producer — the area sown to soy beans is forecast to increase in 2008-09. In 2008-09 the area sown in Brazil is forecast to increase once again. However, the strong appreciation of the Brazilian real against the US dollar may limit price incentives for expanded plantings. In 2008-09, Canadian yields are forecast to be closer to historical averages and production is forecast to increase. In 2008-09, the total area sown to canola/rapeseed in the European Union is expected to fall slightly. Despite record canola prices and policy changes to 'set-aside' land (reduced to zero) in the European Union, a larger area is expected to be sown to wheat.

World oilseed consumption is forecast to increase by 2 per cent to 414 million tonnes in 2008-09 compared with the previous year, as demand for oilseed products increases. Vegetable oil consumption is forecast to increase to 130 million tonnes in 2008-09, and oilseed meal consumption is forecast to rise by 9 million tonnes. The growth of biodiesel is leading to increased demand for vegetable oil, a product derived from oilseeds. Industrial use of vegetable oil has more than doubled since 2000-01, from 8.7 million tonnes in 2000-01 to 22.8 million tonnes in 2007-08. With rising investment in biodiesel plants across the world, industrial use of vegetable oils is expected to continue to increase in 2008-09.

With grains prices remaining high and early seasonal indicators looking reasonably favourable, a record area is forecast to be sown to winter crops in 2008-09. The area sown to canola is forecast to increase by 10 per cent in 2008-09. Australian canola prices are forecast to fall by 10 per cent in 2008-09 to average A\$568 a tonne. The decrease in price can be attributed to forecast increases in production. However, prices are expected to remain relatively high in both the short and medium term.