

Bunbury Regional Outlook conference

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Commodity outlook and financial performance of key agricultural industries in South West Western Australia

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This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in Western Australia, highlighting the performance of beef, dairy and grains farms. Financial performance of broad-acre farms within the South West region of Western Australia is also reported and discussed.

The South West region – defined by the Australian Bureau of Statistics (ABS) and covered in this paper – is outlined in map 1 and includes the regional centers of Bunbury, Manjimup and Margaret River. However, for the analysis of broadacre farm performance, estimates are drawn from a larger area including those areas just north of Perth and west to Albany (see map 2).

map 1 South West Western Australia



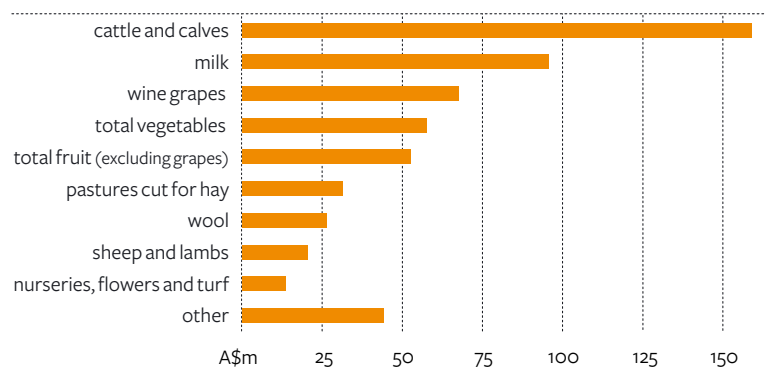
Agricultural sector profile

In dollar value terms, beef cattle are the most significant agricultural enterprise in South West Western Australia, accounting for 28 per cent, or nearly \$160 million of the \$568 million total value of agricultural production in the region in 2004-05, the last year for which Australian Bureau of Statistics data are available (figure a).

Milk accounted for a further 17 per cent (\$96 million) of the total value of agricultural production in the region in 2004-05, while wine grapes accounted for 12 per cent (\$67 million) and vegetables 10 per cent (\$58 million).

Fruit (excluding grapes) accounted for 9 per cent of the total value of agricultural production in the region in 2004-05 and pasture cut for hay for slightly more than 5 per cent.

a Value of agricultural production, South West Western Australia, 2004-05



Number and type of farms

Australian Bureau of Statistics data show that in 2004-05 there were 2399 farms in the South West Western Australia region with an estimated individual value of agricultural operations of more than \$5000 (table 1).

Farms are classified in table 1 according to the activities generating most of their value of production. In South West Western Australia, around 40 per cent of farms operated beef cattle enterprises, compared with 18 per cent at the state level. Wine grape farms were the second most common farm in 2004-05, accounting for around 12 per cent, followed by dairy farms with 11 per cent and sheep farms with 9 per cent.

The majority of farms in South West Western Australia are small in size, with 46 per cent of all farms producing less than \$50 000 worth of agricultural output and a

1 Number of farms, South West Western Australia, 2004-05 by industry classification^a

| | South West Western Australia | | Western Australia | |
|------------------------|------------------------------|-----|-------------------|-----|
| | no. | % | no. | % |
| Beef cattle | 959 | 40 | 1892 | 18 |
| Wine grapes | 283 | 12 | 443 | 4 |
| Dairy | 271 | 11 | 282 | 3 |
| Sheep | 227 | 9 | 1262 | 12 |
| Apples and pears | 137 | 6 | 137 | 1 |
| Vegetables | 125 | 5 | 251 | 2 |
| Sheep-beef cattle | 94 | 4 | 427 | 4 |
| Stone Fruit | 80 | 3 | 81 | 1 |
| Grain | 52 | 2 | 94 | 1 |
| Mixed grains livestock | 47 | 2 | 3075 | 29 |
| Other | 124 | 5 | 2836 | 26 |
| All industries | 2399 | 100 | 10781 | 100 |

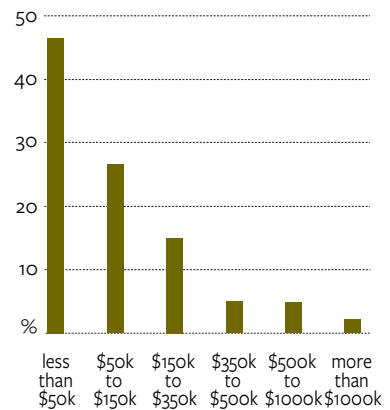
^a Where the estimated value of agricultural operations is more than \$5000.

further 27 per cent producing between \$50 000 and \$150 000 in 2005-06 (figure b). Around 27 per cent of farms produced more than \$150 000 worth of agricultural output and just 2 per cent of farms in the region produced more than \$1 million of agricultural output, in the same period.

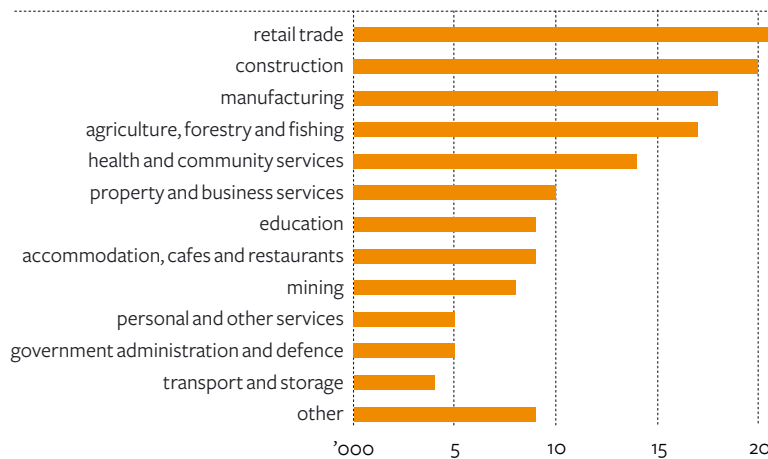
Employment

Australian Bureau of Statistics quarterly data from August 2007 show that 150 000 people were employed in South West Western Australia. The agriculture, forestry and fishing industries were the fourth largest employer with 11 per cent (17 000 people) of the South West Western Australia labour force. The retail trade industry employed the largest number of people, with approximately 14 per cent (21 200) of the total labour force (figure c). Construction industries accounted for a further 14 per cent (20 300) and the manufacturing industry 12 per cent (18 100) for the August quarter in 2007.

b Distribution of farms by value of agricultural output, South West Western Australia, 2005-06



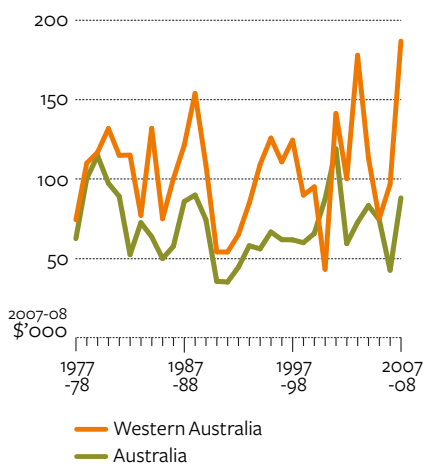
C Employment profile, South West Western Australia, August 2007



Broadacre farm performance – Australia and Western Australia

Farm cash income for Australian broadacre farms is estimated to have improved from the low income of \$42 500 in 2006-07 to an estimated \$88 000 per farm in 2007-08 (figure d). Increased grain and livestock production, as seasonal conditions improved in some states, combined with higher grain and wool prices, strong prices for beef cattle, sheep and lambs together with reduced expenditure on fodder are estimated to have contributed to the increase.

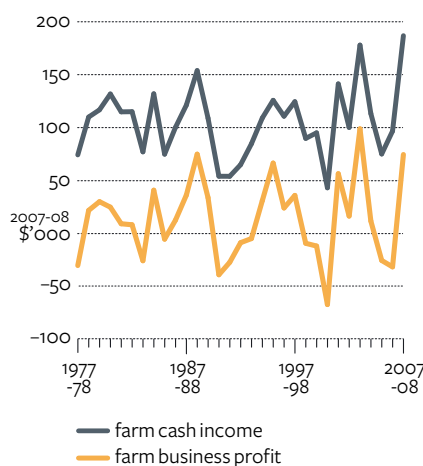
d Farm cash income
broadacre farms



Western Australian broadacre farms are estimated to have recorded a much larger improvement in average farm cash income in 2007-08, compared to that recorded nationally. Average farm cash income is estimated to have almost doubled, from \$94 300 in 2006-07 to \$187 000 in 2007-08 (table 2). Much of this increase is because of the large increase in grain prices in 2007-08, particularly for wheat. This was combined with the relative success of crop plantings in Western Australia compared to eastern states where drought severely reduced grain yields.

Average farm business profit for Australian broadacre farms is estimated to have increased in 2007-08 (table 2) as higher cash flow was augmented by a build-up in the value of trading stocks as producers increased livestock numbers and on-farm inventories of fodder and grain. Similarly, with the large improvement in farm cash income in Western Australia, farm business profit is estimated to have increased to \$75 000 in 2007-08, compared to the average farm business loss of \$30 500 in 2006-07 (figure e).

e Western Australia
broadacre farms



Historically, farm cash incomes for broadacre farms in Western Australia have generally been above the national average (figure d). In part, this is a consequence of the larger average size of Western Australian farms compared with broadacre farms nationally.

In 2006-07, farm debt increased markedly for broadacre producers in Western Australia, indicating that as for the rest of Australia, broadacre producers in Western Australia increased their reliance on debt facilities. Around 39 per cent of Western Australian broadacre farms recorded negative farm cash incomes in 2006-07, slightly less than the percentage nationally (table 2).

Grain farms

In 2006-07, average farm cash income dropped sharply for grains farms across Australia, with reduced crop receipts caused by widespread crop failures. Grain farms include farms classified to the grain and mixing grains livestock industry by the ABS. Even though the reduction in receipts was softened by deferred and pool payments from the 2005-06 crop received in 2006-07, average farm cash income for Australian grains industry farms fell to \$46 000.

In contrast to the rest of Australia, average farm cash incomes for Western Australian grains industry farms improved slightly. Carryover crop payments, strong wheat prices and good winter crop production in the southern cropping belt resulted in average farm cash incomes for grains industry farms in Western Australia improving. However, producers in the north of the cropping zone in Western Australia were badly affected by below average seasonal conditions.

2 Financial performance, broadacre industries

average per farm

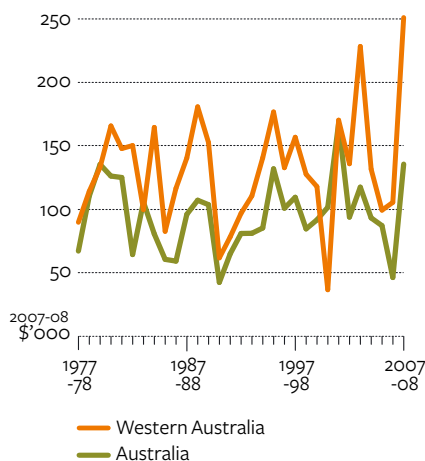
| | Western Australia | | | Australia | | |
|--|-------------------|----------------------|----------------------|-----------|----------------------|----------------------|
| | 2005-06 | 2006-07 ^p | 2007-08 ^s | 2005-06 | 2006-07 ^p | 2007-08 ^s |
| Receipts | | | | | | |
| Wheat | \$ 194 680 | 134 200 (11) | 218 000 | 70 470 | 41 100 (7) | 76 000 |
| Barley | \$ 43 100 | 51 700 (16) | 69 000 | 21 450 | 17 600 (9) | 22 000 |
| Grain legumes | \$ 16 720 | 11 500 (31) | 17 000 | 7 470 | 6 400 (16) | 4 000 |
| Oilseeds | \$ 19 680 | 21 700 (30) | 35 000 | 8 950 | 4 600 (19) | 8 000 |
| Other crops | \$ 18 990 | 16 200 (30) | 23 000 | 24 890 | 19 500 (95) | 15 000 |
| Sheep and lamb sales | \$ 71 480 | 60 400 (10) | 76 000 | 41 280 | 36 000 (5) | 40 000 |
| Wool sales | \$ 63 500 | 74 500 (12) | 71 000 | 30 990 | 35 700 (5) | 38 000 |
| Beef cattle sales | \$ 51 710 | 52 300 (30) | 47 000 | 111 210 | 98 200 (6) | 90 000 |
| Total cash receipts | \$ 498 520 | 488 700 (7) | 587 000 | 355 610 | 303 500 (3) | 333 000 |
| Costs | | | | | | |
| Sheep and lamb purchases | \$ 14 680 | 9 100 (34) | 6 000 | 9 010 | 6 300 (10) | 4 000 |
| Beef cattle purchases | \$ 6 310 | 9 100 (49) | 7 000 | 25 300 | 22 000 (10) | 12 000 |
| Fodder | \$ 7 090 | 11 500 (29) | 7 000 | 11 680 | 18 500 (7) | 9 000 |
| Fertiliser | \$ 75 250 | 68 600 (9) | 71 000 | 26 500 | 23 400 (5) | 25 000 |
| Sprays | \$ 41 280 | 34 900 (9) | 35 000 | 17 620 | 15 500 (5) | 16 000 |
| Fuel, oil and lubricants | \$ 35 530 | 34 900 (7) | 38 000 | 24 060 | 20 600 (3) | 21 000 |
| Total cash costs | \$ 422 220 | 394 400 (7) | 400 000 | 281 370 | 261 000 (3) | 245 000 |
| Financial performance | | | | | | |
| Farm cash income | \$ 76 290 | 94 300 (30) | 187 000 | 74 240 | 42 500 (12) | 88 000 |
| Proportion of farms with negative farm cash income | % 29 | 39 (14) | 30 | 24 | 42 (5) | 32 |
| Farm business profit | \$ -23 700 | -30 500 (58) | 75 000 | -8 190 | -51 200 (10) | 23 000 |
| Proportion of farms with negative farm business profit | % 64 | 70 (6) | 56 | 65 | 79 (2) | 61 |
| Farm capital and debt | | | | | | |
| Farm capital at 30 June ^a | \$ 4 497 880 | 4 829 300 (9) | na | 3 466 940 | 3 713 400 (2) | na |
| Farm debt at 30 June ^{b,c} | \$ 604 120 | 799 500 (10) | na | 360 540 | 450 600 (4) | na |
| Equity ratio at 30 June ^{b,d} | % 86 | 83 (3) | na | 90 | 88 (1) | na |
| Rate of return^e | | | | | | |
| - excl. capital appreciation | % 0.8 | 1.0 (93) | 3.3 | 0.8 | -0.3 (44) | 1.9 |
| - incl. capital appreciation | % 14.9 | 11.6 (21) | na | 7.4 | 8.1 (9) | na |
| Population | no. 8 011 | 8 011 | | 61 198 | 61 188 | |
| Sample | no. 165 | 165 | | 1 458 | 1 461 | |

^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.

Nationally, some improvement to seasonal conditions combined with high grain, oilseed and grain legume prices lead to a substantial increase in average farm cash income for grain farms, although crop production remained severely constrained by drought in New South Wales in particular (figure f).

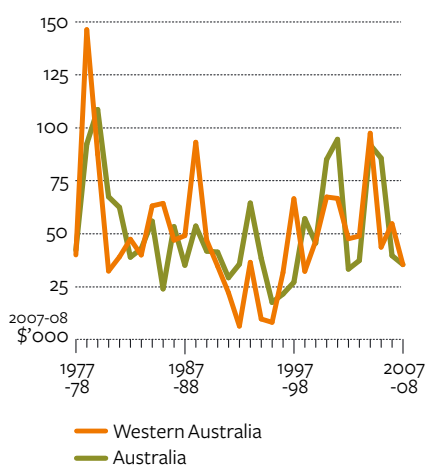
f Farm cash income
grain industry farms



In Western Australia, winter crop production increased in 2007-08 by around 20 per cent compared with production in the previous season. The northern part of the Western Australian grains belt had a poor start to the season and despite production being below average in that region, the quality of the grain delivered was high. In the southern and central regions, seasonal conditions were more favourable and crop yields were around average. Increased grain, production combined with the large increases in grain prices and strong sheep, lamb and wool prices resulted in a very large increase in total cash receipts. Average farm cash income for grains industry farms is estimated to have risen to an historical high of around \$250 000 per farm in 2007-08.

Indications are that the area planted to winter crops for 2008-09 has increased by around 20 per cent on the area planted in 2007-08. This is a substantially larger area than that anticipated by grains farms when they were surveyed by ABARE in late 2007. It is likely, therefore, that total cash costs incurred by June 2008 will have increased well beyond that anticipated at the time of interview, reducing the 2007-08 farm cash income below the estimate provided.

g Farm cash income
beef industry farms



Beef farms

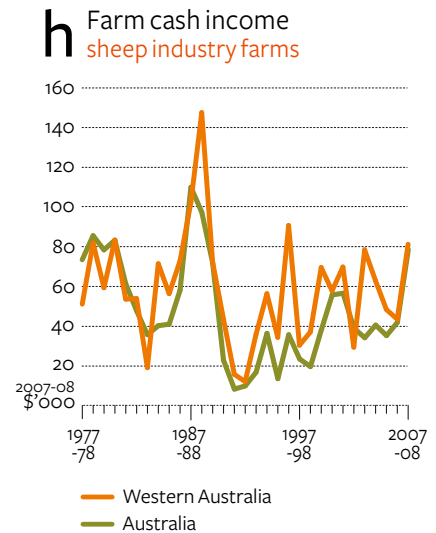
Farm cash incomes for beef industry farms in Western Australia have broadly followed the pattern recorded nationally during the past 30 years. In 2006-07, farm cash incomes for Australian beef industry farms declined markedly as drought conditions reduced farm production and contributed to increased production costs (figure g). The impact of reduced sale numbers on farm receipts was exacerbated by lower prices, caused by increased turnoff of more unfinished and younger stock. In Western Australia the turnoff increased by more than that nationally, boosting farm receipts, and farm cash income increased slightly.

In 2007-08, farm cash income for Western Australian beef industry farms is estimated to have fallen (figure g). Beef receipts were constrained by reduced turnoff as farms began to rebuild beef cattle numbers while farm expenditure remained relatively high. Nevertheless, farm cash incomes for Western Australian beef farms are estimated to have remained relatively high in historic terms, averaging around \$35 000 per farm. In addition, increases in beef cattle numbers are estimated to have boosted the value of trading stocks thereby raising farm business profit in 2007-08.

Sheep farms

Historically, farm cash income for Western Australian sheep industry farms has followed the broad pattern recorded nationally (figure h), despite there being some distinctly different features of the Western Australian sheep industry. In particular, sheep farms in Western Australia typically sell a higher proportion of their sheep for live export than the national average. During the past 20 years, farm cash income for Western Australian sheep industry farms has exceeded that recorded nationally, partly because of the larger scale of farms in Western Australia, better seasonal conditions in southern Western Australia and relatively high sheep and lamb turnoff. However, in recent years, farm cash incomes in pastoral areas have generally remained low following substantial de-stocking during 2002 and 2003.

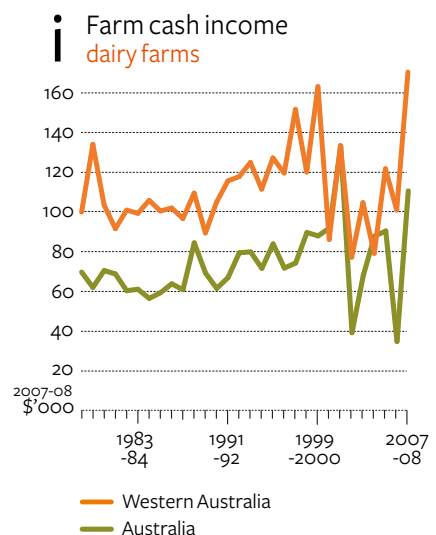
In 2007-08, farm cash incomes for Western Australian sheep industry farms are estimated to have increased significantly as a result of higher wool prices, strong sheep and lamb prices, increased receipts from cropping and reductions in expenditure on fodder. (figure h).

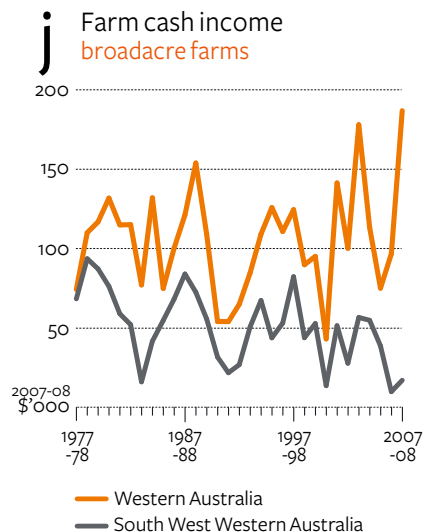


Dairy in Western Australia

Average farm cash income for dairy farms in Western Australian exceeded the Australian average until 2000-01, because of the larger average herd size of Western Australian dairy farms, the high percentage of milk sold at higher fresh milk prices and the relatively higher level of non-milk receipts. Following de-regulation of the dairy industry in 2000, farm cash incomes of Western Australian dairy farms fell while nationally farm cash incomes increased such that the two became more closely aligned (figure i). Widespread drought in 2002-03, resulted in a sharp decline in farm cash incomes in eastern Australian states. Since then, farm cash incomes for eastern states dairy farms have remained constrained by continued dry seasonal conditions, high grain and hay prices and severe shortages of irrigation water, particularly in the key Murray-Darling basin irrigation areas.

During 2006-07, dairy producers in eastern 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 much less pronounced for Western Australian producers during 2006-07, with income falling by around 15 per cent compared to a decline of 62 per cent nationally.





In 2007-08, farm cash incomes for Australian dairy farms is estimated to have increased markedly, on the back of an increase in average milk prices received of around 35 per cent and despite continued high farm expenditure on fodder and increases in other farm costs.

For Western Australia, average milk production per farm fell slightly in 2007-08, a reduction in the number of cows milked more than offsetting an increase in milk production per cow (table 3). Despite lower milk production, much higher milk prices led to a marked increase in total cash receipts per farm in 2007-08. Combined with some reduction in expenditure on fodder, it is estimated that farm cash income for dairy farms in Western Australia increased to average around \$170 000 in 2007-08, compared with the \$101 000 recorded in 2006-07 (figure i).

Around 96 per cent of the Western Australian dairy industry is located in the South West region of Western Australia. Over the past 5 years, there have been large increases in land values for dairy farms in this region - much larger increases than in eastern states - this has led to very high rates of return including capital appreciation (table 3) but to subsequent low rates of return excluding capital appreciation. On average, dairy farmers in Western Australia are expected to record a rate of return to capital and management (excluding capital appreciation) of around 1.3 per cent in 2007-08, but the estimated rate of return including capital appreciation has exceeded 25 per cent in each of the previous three years.

map 2 ABARE South West region



Broadacre farm financial performance - South West Western Australia

For all of the past 30 years, average farm cash income for broad-acre farms in ABARE's survey region of South West Western Australia (map 2) have been below both the national and Western Australian averages (figure j). This is largely because of the predominance of small farms in this region, most of which are beef industry farms (table 1). The operators of many of these small farms have significant, off-farm income from wages and investments.

In 2005-06 and 2006-07, dry seasonal conditions in the South West resulted in increased turnoff of beef cattle boosting farm receipts. However, higher expenditure on fodder, fertiliser and beef cattle purchases resulted in farm cash income falling to

3 Financial performance, dairy industry

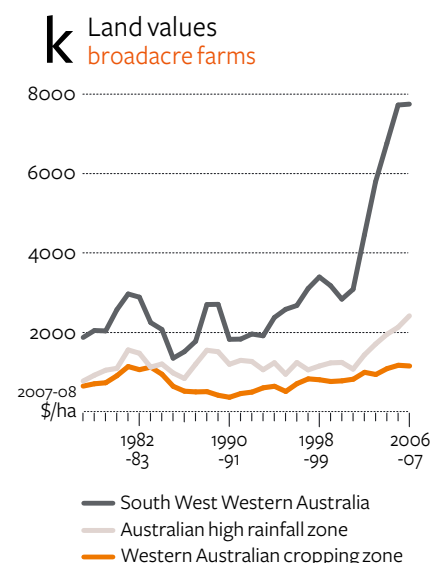
| | Western Australia | | | | | Australia | | | | |
|--|-------------------|----------------------|----------------------|---------|----------------------|----------------------|---------|----------------------|----------------------|--|
| | 2005-06 | 2006-07 ^p | 2007-08 ^s | 2005-06 | 2006-07 ^p | 2007-08 ^s | 2005-06 | 2006-07 ^p | 2007-08 ^s | |
| Physical | | | | | | | | | | |
| Dairy cattle at 30 June | no | 399 | 394 (5) | 352 | 322 | 310 (3) | 282 | | | |
| Dairy cows | no | 229 | 218 (5) | 200 | 208 | 211 (3) | 193 | | | |
| Milk production | L | 1340373 | 1258184 (6) | 1208735 | 1081596 | 1044475 (3) | 985492 | | | |
| Milk yield per cow | L | 5862 | 5777 (5) | 6045 | 5205 | 4949 (2) | 5111 | | | |
| Receipts | | | | | | | | | | |
| Milk – net of freight | \$ | 391800 | 396200 (7) | 443000 | 373500 | 344300 (3) | 426000 | | | |
| Dairy cattle sales | \$ | 60200 | 49000 (16) | 56000 | 36800 | 32500 (5) | 30000 | | | |
| Total cash receipts | \$ | 531400 | 481900 (7) | 532000 | 441000 | 405600 (3) | 497000 | | | |
| Costs | | | | | | | | | | |
| Dairy cattle purchases | \$ | 13500 | 10000 (29) | 13000 | 8700 | 6800 (16) | 7000 | | | |
| Fodder | \$ | 107100 | 113700 (9) | 102000 | 97000 | 139400 (5) | 142000 | | | |
| Fertiliser | \$ | 44000 | 45600 (8) | 56000 | 27000 | 23200 (5) | 27000 | | | |
| Fuel, oil and lubricants | \$ | 17100 | 16800 (12) | 17000 | 13800 | 14100 (5) | 13000 | | | |
| Repairs and maintenance | \$ | 28200 | 27300 (13) | 26000 | 26600 | 23200 (6) | 24000 | | | |
| Total cash costs | \$ | 409900 | 381000 (6) | 362000 | 350600 | 370900 (4) | 386000 | | | |
| Financial performance | | | | | | | | | | |
| Farm cash income | \$ | 121500 | 101000 (24) | 170000 | 90400 | 34700 (21) | 111000 | | | |
| Farms with negative farm cash income | % | 11 | 9 (48) | 7 | 15 | 36 (15) | 17 | | | |
| Farm business profit | \$ | 51500 | 39200 (86) | 66000 | 20100 | -40500 (17) | 24000 | | | |
| Farms with negative farm business profit | % | 26 | 34 (43) | 34 | 49 | 76 (4) | 51 | | | |
| Farm debt and equity | | | | | | | | | | |
| Farm capital at 30 June ^a | \$ | 6762900 | 8111900 (18) | 8342000 | 2999300 | 3244700 (5) | 2978000 | | | |
| Farm debt at 30 June ^{b,c} | \$ | 592200 | 506200 (18) | na | 468500 | 507600 (8) | na | | | |
| Equity ratio at 30 June ^{b,d} | % | 91 | 94 (24) | na | 84 | 84 (4) | na | | | |
| Rate of return ^e | | | | | | | | | | |
| – excl. capital appreciation | % | 2.1 | 1.0 (45) | 1.3 | 2.4 | 0.0 (3058) | 2.9 | | | |
| – incl. capital appreciation | % | 31.7 | 27.0 (18) | na | 7.4 | 10.2 (17) | na | | | |
| Population | | 274 | 262 | | 9361 | 9081 | | | | |
| Sample | | 32 | 30 | | 296 | 291 | | | | |

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.

just \$9200 in 2006-07. In 2007-08, improved seasonal conditions reduced turnoff of beef cattle and sharply reduced total cash receipts, but with expenditure on fodder and cattle purchases also falling sharply, average farm cash income is estimated to have increased to around \$17 000.

A feature of farm financial performance in the South West in recent years has been the substantial increases in land values. This has led to very high rates of return including capital appreciation (table 4 and figure k), driven mostly by non-farm sector influences, particularly the general increase in wealth and property prices in Western Australia flowing from the boom in mineral and energy exports. Average land values for broadacre farms in the South West have



increased by 275 per cent since 2000, a much larger increase than that recorded in land values for similar high rainfall zone regions in all other states.

Increases in land values in the inland cropping zone of Western Australia where there are few non-agricultural influences on land values have been much more modest, averaging around 50 per cent since 2000.

4 Financial performance, South West Western Australian broadacre farms average per farm

| | | South West Western Australia | | | |
|---|-----|------------------------------|----------------------|-------|----------------------|
| | | 2005-06 | 2006-07 ^p | | 2007-08 ^s |
| Receipts | | | | | |
| Total crop receipts | \$ | 33 230 | 46 600 | (53) | 52 000 |
| Sheep and lamb sales | \$ | 49 430 | 41 500 | (33) | 44 000 |
| Wool sales | \$ | 40 410 | 36 200 | (37) | 35 000 |
| Beef cattle sales | \$ | 103 950 | 122 200 | (54) | 85 000 |
| Total cash receipts | \$ | 247 510 | 266 000 | (35) | 230 000 |
| Costs | | | | | |
| Beef cattle purchases | \$ | 17 360 | 27 200 | (69) | 16 000 |
| Fodder | \$ | 12 050 | 25 700 | (56) | 15 000 |
| Fertiliser | \$ | 30 200 | 35 900 | (36) | 33 000 |
| Fuel, oil and lubricants | \$ | 13 470 | 14 800 | (27) | 16 000 |
| Total cash costs | \$ | 209 170 | 256 800 | (30) | 214 000 |
| Financial performance | | | | | |
| Farm cash income | \$ | 38 340 | 9 200 | (278) | 17 000 |
| Proportion of farms with negative farm cash income | % | 36 | 58 | (17) | 45 |
| Farm business profit | \$ | -37 520 | -46 400 | (45) | -53 000 |
| Proportion of farms with negative farm business profit | % | 78 | 77 | (10) | 72 |
| Farm capital and debt | | | | | |
| Farm capital at 30 June ^a | \$ | 4 809 030 | 5 595 900 | (27) | na |
| Farm debt at 30 June ^{b,c} | \$ | 239 050 | 346 000 | (30) | na |
| Equity ratio at 30 June ^{b,d} | % | 95 | 95 | (2) | na |
| Rate of return ^e | | | | | |
| - excl. capital appreciation | % | -0.3 | -0.1 | (485) | -0.4 |
| - incl. capital appreciation | % | 40.1 | 30.0 | (23) | na |
| Population | no. | 1719 | | | |
| Sample | no. | 55 | | | |

^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.

Outlook for selected commodities

ABARE's assessment of the outlook for world economic growth is provided in its quarterly publication, *Australian Commodities*, which also includes market forecasts and detailed discussions of major Australian agricultural, mineral and energy commodities. The forecast summaries presented here for a number of the commodities important in this region are based on information in the June 2008 issue of *Australian Commodities*.

Seasonal outlook

The Australian Bureau of Meteorology (BOM) in its seasonal rainfall outlook for the June to August period (27 May 2008), indicates the chance of exceeding average rainfall across most of Queensland and northern New South Wales was between 60 to 70 per cent. In contrast, the Bureau forecasts that South West Western Australia had only a 30-40 per cent chance of exceeding average rainfall for the season.

On 26 June 2008 BOM released a new three month rainfall outlook that significantly downgrades its three month rainfall outlook for July to September. The new rainfall outlook shows that the chance of average rainfall over the next three months is between 25 and 45 per cent across most of the Australian grains belt. If this rainfall outlook turns into a drier than previously expected season, there will be an increased risk that the Australian winter grains crop will be smaller than currently forecast.

Livestock

Beef and veal

The Australian weighted average saleyard price of cattle is forecast to increase by 3 per cent in 2008-09 to 294 cents a kilogram (dressed weight). The forecast increase in prices reflects a decline in slaughterings, particularly of cows and heifers, and an increase in re-stocker demand as producers begin to rebuild herds, assuming a return to average seasonal conditions. An increase in the quality of cattle being turned off is also expected to contribute to the forecast higher saleyard prices in 2008-09. However, a forecast fall in the demand for Australian beef in the Republic of Korea, and possibly Japan, as competition from US beef increases, is expected to largely offset the upward pressure on saleyard prices.

An agreement relaxing the Republic of Korea's import protocols on US beef was reached in April 2008. This agreement is to replace the standards set in January 2006 that limit Korean imports of US beef to boneless beef from cattle aged 30 months or younger. However, there have been delays in implementing the new protocols.

Assuming an improvement in seasonal conditions, total cattle slaughterings are forecast to fall in 2008-09 to 8.7 million as producers retain cows and heifers to rebuild herds. Reflecting the overall decline in slaughterings, beef and veal production is forecast to fall by 1 per cent to around 2.1 million tonnes in 2008-09.

In response to reduced production and lower demand for Australian beef in key export markets, Australian beef exports are forecast to fall by 3 per cent in 2008-09 to 900 000 tonnes. The value of beef exports in 2008-09 is forecast to fall by 2 per cent to around \$4.1 billion.

Live exports are forecast to decline slightly in 2008-09, reflecting the forecast increase in Australian cattle prices and an assumed high Australian dollar. Live cattle exports are forecast to fall by 3 per cent to 680 000 head.

Sheep meat

The Australian weighted average saleyard lamb price is forecast to increase by 5 per cent in 2008-09, to average 345 cents a kilogram. This forecast reflects a tightening in domestic supply conditions for Australian lamb and steady demand growth in both domestic and export markets.

The weighted average saleyard price of sheep is forecast to increase by 10 per cent to 175 cents a kilogram in 2008-09, as producers retain sheep for flock rebuilding. If an improvement in seasonal conditions does not eventuate, sheep slaughter rates would be expected to remain high, putting downward pressure on saleyard prices.

The number of lambs marked is expected to be lower in 2008-09, following two years of high sheep slaughter. Reflecting this, lamb slaughterings are forecast to decline by 4 per cent in 2008-09 to 19.8 million, with lamb production forecast to fall by 5 per cent to 410 000 tonnes. Assuming improved seasonal conditions, sheep slaughterings in 2008-09 are forecast to decline by 24 per cent to 9 million and mutton production is forecast to fall by 25 per cent to 194 000 tonnes.

In 2008-09, exports of Australian lamb are forecast to decline by 5 per cent to 158 000 tonnes. This would represent the first reduction in lamb exports since 2002-03 and reflects lower expected lamb supplies in 2008-09. Australian mutton exports are forecast to decline by 25 per cent in 2008-09 as a result of higher domestic prices for Australian mutton arising from lower sheep slaughter and the assumed strength in the value of the Australian dollar against other currencies. The supply of sheep for live export is also expected to decline as producers rebuild flocks. As a result, the number of live sheep exported from Australia is forecast to fall by 12 per cent to 3.7 million in 2008-09.

Wool

Wool remains relatively high despite a steady decline that began in February 2008. In May 2008, the western market indicator (WMI) fell below 900 cents for the first time since August 2007. Reflecting the assumed strength in the Australian dollar and forecast weaker consumer demand, the WMI is forecast to fall by 10 per cent to average 857 cents a kilogram clean in 2008-09.

The price fall might be mitigated to the extent that some wool producers have shifted out of wool production and into cropping for the coming year.

This situation is most apparent in Western Australia but is also occurring in the eastern states. The national sheep flock is estimated to have declined to 82 million by June 2008 as a result of high slaughter numbers in 2007-08. Reflecting this, the number of sheep shorn is forecast to decline by 3 per cent in 2008-09. Assuming average seasonal conditions, the average cut per head is forecast to remain largely unchanged in 2008-09, with shorn wool production forecast to decline by 1.7 per cent to 398 000 tonnes.

A constrained wool supply will affect the market in 2008-09, however, lower demand will have the greatest effect on prices. China will continue to be the largest buyer of Australian wool in 2008-09, although its demand is likely to be affected by the state of the US economy. In the United States, demand for woollen apparel from China is expected to fall in 2008-09 as a result of the US economic downturn and a weak US dollar. The volume of total raw wool exports is therefore forecast to fall by 2 per cent in 2008-09 to 482 000 tonnes. Weaker average prices are forecast to result in a proportionately larger drop in export earnings, with an anticipated decline of almost 11 per cent to \$2.7 billion.

Dairy

After reaching record highs in late 2007, world prices for the major dairy products declined in the first half of 2008, as additional supplies from major dairy producers became available on world markets. In 2008-09 world dairy prices are forecast to decline further but to remain high in historical terms.

Growth in export supplies is expected to be relatively slow in 2008-09 as a result of production constraints in the major dairy exporters. In New Zealand, milk production and exports are expected to increase by around 2 per cent in 2008-09, with growth limited by competing land use and effluent disposal issues together with lead-times in herd expansion. In the European Union, production quotas and reforms to the Common Agricultural Policy will constrain growth in milk production to around 2 per cent in 2008-09, while increased domestic demand for cheese will result in more milk being diverted from the manufacture of milk powders.

Global demand for dairy products is forecast to remain relatively strong in 2008-09, driven by growth in average incomes — particularly in developing countries in Asia and the Middle-East. Demand is also expected to be firm in developed regions such as the European Union.

Australian-farm gate milk prices are forecast to rise by 10 per cent to 54 cents a litre in 2008-09 after averaging around 49 cents a litre in 2007-08. Higher domestic milk prices reflect high world prices for manufactured dairy products. However, despite the high domestic prices on offer, lead times in herd rebuilding and continuing low irrigation water allocations (particularly in the Murray-Darling Basin) will limit the ability of many Australian dairy farmers to increase production in 2008-09.

In Australia, an assumed return to average rainfall and improved water allocations to irrigation dependent dairy farms — together with high farm gate milk prices — are expected to encourage some rebuilding of the dairy herd. As a result, milk and dairy product output are expected to begin to recover in 2008-09.

Grains

Wheat

The world wheat indicator price is forecast to average US\$320 a tonne in 2008-09 compared with an estimated average of US\$362 a tonne in 2007-08. Prices are expected to fall as world wheat supplies are forecast to rise by more than the expected increase in consumption. Despite the forecast fall in prices, low stocks will continue to support relatively high prices.

World wheat production is forecast to increase by around 45 million tonnes in 2008-09 as yields are expected to return to closer to historical averages. This expected increase in production, combined with opening season stocks, is forecast to lead to a 5 per cent increase in global wheat supplies in 2008-09. Out of the five major wheat producing regions, production in 2008-09 is forecast to increase in the European Union and the United States by 17 per cent and 13 per cent, respectively. In China, India and the Russian Federation, production is forecast to remain largely unchanged from the relatively high levels of the previous year.

Despite the expectation that wheat prices will remain relatively high in 2008-09, global wheat consumption is forecast to increase by around 3 per cent. The largest use of wheat is for human consumption, accounting for more than 70 per cent of global use. Wheat used for human consumption has been increasing by around 1 per cent a year over the past 10 years. In 2008-09, wheat used for human consumption is forecast to increase again by around 1 per cent. In 2008-09 the use of wheat for livestock feed is forecast to increase by around 15 per cent.

The area sown to wheat in Australia in 2008-09 is forecast to increase to a record 14 million hectares, a 13 per cent increase on the previous year. High wheat prices and the need to secure a quick recovery in incomes, have encouraged growers to expand their plantings. Wheat production in 2008-09 is forecast to be 23.7 million tonnes, nearly 11 million tonnes higher than the previous year. Rainfall during the growing season will be critical for these forecasts to be realised.

Rainfall in April 2008 across the Western Australian grains belt was above average, however, a lack of follow-up rainfall since has seen crop prospects weaken slightly. In the other states seasonal conditions have been variable and rainfall throughout the season will be critical for Australia's 2008-09 wheat production.

Forecast lower global wheat prices and an expected increase in domestic production are likely to result in Australian wheat prices being lower in 2008-09. The pool return for Australian premium white wheat (APW 10) is forecast to decline from an estimated A\$419 a tonne in 2007-08 to A\$370 a tonne in 2008-09.

Coarse grains

Continued strong demand for coarse grains, particularly corn as feedstock for the production of ethanol, is forecast to place upward pressure on world coarse grains prices in 2008-09. The world coarse grains indicator price (US corn, fob Gulf) is forecast to increase by US\$11 a tonne to average US\$225 a tonne in 2008-09.

Total world coarse grains production is forecast to remain around 1.1 billion tonnes in 2008-09, despite a forecast decline in world corn production. Corn is the major coarse grain produced around the world, accounting for around 71 per cent of total world production. Corn production is forecast to decline in 2008-09. This decline is expected to be partially offset by an 8 million tonne increase in world barley production, the second major coarse grain produced.

In 2008-09, global coarse grains consumption is forecast to remain at around 1.1 billion tonnes. A forecast decline in demand for coarse grains for livestock feed is likely to be outweighed by an increase in the demand for coarse grains for industrial purposes, particularly the production of ethanol.

In Australia, the area sown to barley is forecast to remain largely unchanged in 2008-09 at 4.5 million hectares but with increased yields production is forecast to increase by 2 million tonnes to close to 8 million tonnes.

Despite an expected rise in world prices, Australian feed and malting barley prices are forecast to fall in 2008-09 as Australian barley production rebounds from the drought reduced harvest of 2007-08. Australian feed barley prices in 2008-09 are forecast to fall by 10 per cent to average A\$284 a tonne and malting barley by 8 per cent to average A\$327 a tonne. Despite the forecast falls, these prices are still historically high.

The recently harvested 2007-08 summer grain crops were significantly larger than historical averages. Above average summer rainfall in northern New South Wales and Queensland was of benefit to grain sorghum crops with yields being above the long-term average in both states. Total grain sorghum production is estimated to have reached a record 2.7 million tonnes in 2007-08, close to 600 000 tonnes greater than the previous record production in 1999-2000.

Oilseeds

The world oilseed indicator price (soybeans, cif, Rotterdam) has been at record highs during 2007-08. In 2008-09, prices are forecast to remain high as demand for oilseeds and oilseed products is expected to increase. The world oilseed indicator price is forecast to increase from an average of US\$550 a tonne in 2007-08 to an average of US\$578 a tonne in 2008-09.

World oilseed production is forecast to rise to 419 million tonnes in 2008-09, an 8 per cent increase from the previous year. Production of soybeans and canola/rapeseed, two of the major oilseeds, are both forecast to increase in 2008-09. In the United States, the area sown to soybeans is forecast to increase to 30 million hectares in 2008-09. This is just under the record of 31 million hectares planted in the 2006-07 season and up from the 26 million hectares planted last year. Assuming average seasonal conditions, soybean production in the United States is forecast to increase by 20 per cent to 85 million tonnes in 2008-09.

In 2008-09, world oilseed consumption is forecast to increase by 3 per cent to 416 million tonnes, with vegetable oil consumption expected to increase by 5 per cent to 132 million tonnes and oilseed meal consumption expected to rise by 3 per cent to 236 million tonnes. Industrial use of vegetable oil has increased strongly in the past several years, from below 10 million tonnes in 2000-01 to above 23 million tonnes in 2007-08. With high crude oil prices, mandated biofuels use and investment in biodiesel plants across the world, industrial use of vegetable oil is forecast to rise to 25 million tonnes in 2008-09.

Variable rainfall across the Australian grains belt has resulted in a mixed outlook for canola plantings in different regions. However, the total area sown to canola is estimated to rise by 16 per cent to 1.2 million hectares in 2008-09. Australian canola production is forecast to increase to 1.7 million tonnes in 2008-09, compared with 1.1 million tonnes in 2007-08.

Wine

Australian wine grape production in 2007-08 is estimated to have rebounded by at least 20 per cent from the drought and frost-affected crop of 1.4 million tonnes in 2006-07. This increase in production was achieved despite ongoing shortages of water for irrigation, reflecting better than expected resilience of vines to water stress and otherwise reasonable seasonal conditions in grape-producing areas of Australia.

In 2007-08, Western Australia is estimated to have accounted for around 5 per cent of total Australian wine grape production. Within Western Australia, Margaret River is the largest region, accounting for around 50 per cent of total production in 2007-08. Great Southern and Geographe are the next largest regions, representing 15 per cent and 10 per cent of total production, respectively.

In 2008-09, Australian wine grape production is forecast to increase from the previous year to 1.8 million tonnes, but to remain somewhat constrained by water availability in irrigation areas. The weighted average price of wine grapes is forecast to increase in 2008-09, reflecting an expected increase in average export unit values for Australian wine.

The increase in average wine grape prices in 2008-09 is contingent on the success of industry efforts to increase the value of Australian wine exports. As identified in the *Directions to 2025* strategy, to achieve this, greater proportions of wine will need to be sold at higher prices than has been the case over the last five years. Whether or not this happens will depend on the success of marketing efforts and conditions in the global wine market, as well as on exchange rates.