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# Commodity outlook and financial performance of key agricultural industries in Tasmania

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Agriculture plays an important role in the Tasmanian economy, more so than for the economy of other Australian states. Agriculture accounted for 5 per cent of Tasmania's gross domestic product (GDP) and 7 per cent of state employment in 2005-06, according to the Australian Bureau of Statistics (ABS). In the same period, agriculture accounted for 3 per cent of Australian GDP and 4 per cent of employment nationally. In addition, Tasmania's food and agricultural sector has a reputation for producing quality products, much of which is destined for international markets.

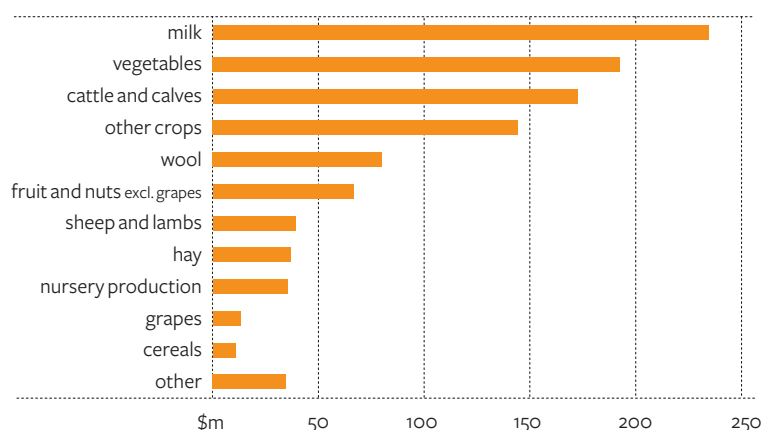
In this paper, the recent financial performance of some key Tasmanian agricultural industries is reviewed, including the performance of sheep, beef, dairy and vegetable farms, and the current commodity outlook is discussed.

## Agricultural sector profile

In value terms, milk is the most important agricultural product in Tasmania, accounting for 22 per cent, or more than \$234 million of the \$1060 million total value of agricultural production in the state in 2006-07 (figure a).

Vegetables accounted for 18 per cent (\$193 million) of total value of agricultural production in the state in 2006-07, with potatoes accounting for 43 per cent, onions 16 per cent and carrots 12 per cent of the total value of vegetable production.

Cattle and calves accounted for a further 16 per cent (\$173 million), other crops (including oil poppies, pyrethrum and other non cereal, fruit, nut and vegetable crops) 14 per cent (\$144 million), and wool 8 per cent (\$80 million) of the total value of agricultural production in 2006-07.

**a** Value of agricultural production, Tasmania, 2006-07

Source: Australian Bureau of Statistics 2007 Agricultural Commodity Survey

## Number and type of farms

Australian Bureau of Statistics (ABS) data indicate there were 4079 farms in Tasmania with an estimated value of agricultural operations of more than \$5000 in 2006-07 (table 1).

### 1 Number of farms, Tasmania, 2006-07 by industry classification a

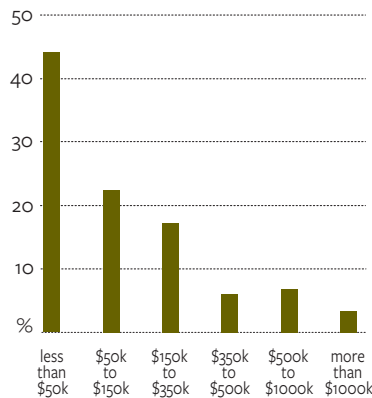
	Tasmania		Australia	
	no.	%	no.	%
Beef cattle	1456	36	44 914	33
Sheep	552	14	12 285	9
Dairy	517	13	8 993	7
Vegetables	424	10	4 006	3
Sheep-beef cattle	339	8	8 443	6
Grapes	127	3	6 091	5
Other crops (n.e.c.)	105	3	2 401	2
Apples and pears	85	2	743	1
Grain-livestock	64	2	13 782	10
Berries	56	1	549	
Other	354	9	32 146	24
All agriculture	4 079	100	134 353	100

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

Farms are classified in table 1 according to activities that generate most of their value of production. In 2006-07 in Tasmania, around 36 per cent of farms were classified as beef cattle farms compared to 33 per cent nationally. Sheep farms were the second most common farm type in 2006-07, accounting for 14 per cent of all Tasmanian farms, followed by dairy farms which accounted for around 13 per cent. However, vegetable growing farms accounted for 10 per cent compared with only 3 per cent nationally in 2006-07.

The majority of farms in Tasmania are small in size. According to the 2005-06 ABS Agricultural Census, 44 per cent of Tasmanian farms produced less than \$50 000 worth of agricultural output that year (figure b). A large proportion of these small farms are beef farms. A further 22 per cent of farms produced between \$50 000 and \$150 000 of agricultural output, and 17 per cent between \$150 000 and \$350 000 in 2005-06. Around 16 per cent of farms produced more than \$350 000 worth of agricultural output and just 3 per cent of farms in the state produced more than \$1 million of agricultural output.

### b Distribution of farms, by value of agricultural output, Tasmania, 2005-06

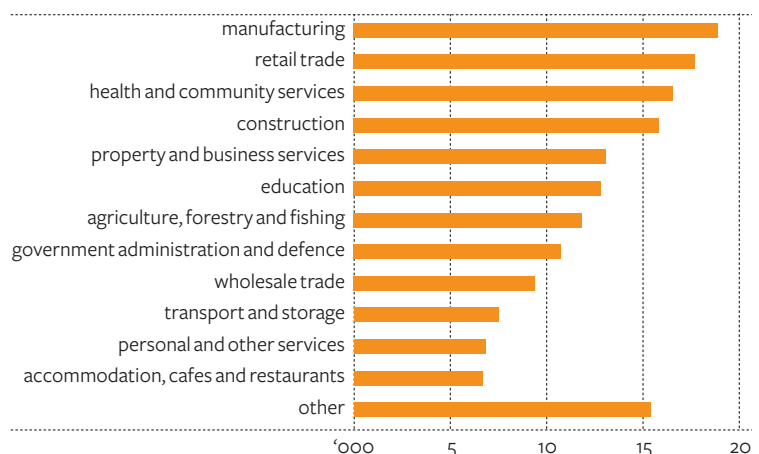


Source: ABS 2006 Agricultural Census

## Employment

Employment data for the three months ended May 2008 from the ABS indicate that 163 000 people were employed in Tasmania. The manufacturing sector employed the largest number of people, accounting for 12 per cent (18 900) of total employment in the state, followed by the retail trade industry which employed 11 per cent (17 700). The health and community services sector accounted for a further 10 per cent (16 600) and the construction industry another 10 per cent (15 800). Agriculture, forestry and fishing was the seventh largest employer by industry in Tasmania, accounting for 7 per cent (11 800) of the total labour force (figure c).

### c Employment profile, Tasmania, May 2008



Source: ABS

## Broadacre farm performance – Australia and Tasmania

The broadacre sector of agriculture is defined to include five industry types: wheat and other crops; mixed livestock–crops; sheep; beef; and sheep–beef. In simple terms, broadacre farms are those running beef cattle or sheep or grow grains, pulses or oilseeds or some combination of these activities.

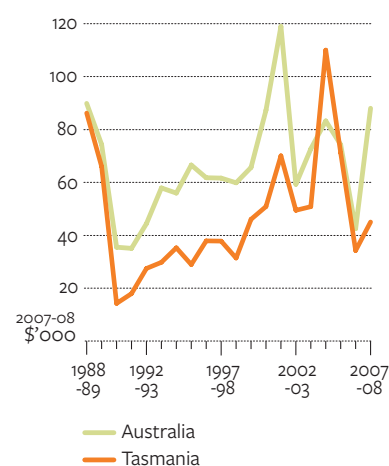
Farm cash income for Australian broadacre farms strengthened in 2007-08, from the very low income recorded in 2006-07 (figure d). This was because of the combination of improved seasonal conditions in some states which enabled those producers in these states to reduce expenditure on fodder and increase grain and livestock production, and because of higher commodity prices – particularly for grains. Farm cash income for Australian broadacre farms rose from an average of \$42 500 per farm in 2006-07 to an estimated \$88 000 per farm in 2007-08.

Average farm business profit for Australian broadacre farms also increased in 2007-08. Farm business profit, is estimated to have increased by more than the increase in farm cash income. Higher cash flow was augmented by a build up in the value of farm trading stocks as producers, particularly in northern Australia, increased livestock numbers and on-farm reserves of fodder and grain.

Tasmanian broadacre farms are estimated to have recorded a small improvement in average farm cash income compared with the national average in 2007-08. In Tasmania, average farm cash income is estimated to have risen from \$34 200 in 2006-07 to around \$42 000 in 2007-08 (figure d). Dry seasonal conditions persisting in most parts of Tasmania through 2007-08 and were particularly severe in the Central Highlands and Midlands. Higher sheep and beef cattle turn-off, in response to the dry seasonal conditions meant an increase in total farm receipts. Higher livestock receipts were partially offset by reduced wool and crop receipts. Lower sheep numbers and lower wool cut per head resulted in lower wool production and lower wool receipts, despite a small increase in auction prices. Crop production fell and, despite an increase in grain and fodder prices, overall crop receipts were reduced.

Substantial increases in expenditure on fertiliser, sprays, fuel, administration costs and interest payments in 2007-08 partially offset higher total farm cash receipts, meaning farm cash income rose only slightly (table 2).

**d** Farm cash income broadacre farms



### Major financial performance indicators

Farm cash income = total cash receipts – total cash costs

*total revenues received by the farm business during the financial year*      *payments made by the farm business for materials and services and for permanent and casual hired labour (excluding owner manager, partner and family labour)*

Farm business profit = farm cash income + changes in – depreciation – imputed labour costs trading stock

Profit at full equity = farm business profit + rent + interest and – depreciation on leased items  
*(return produced by all the resources used in the farm business)*      *finance lease payments*

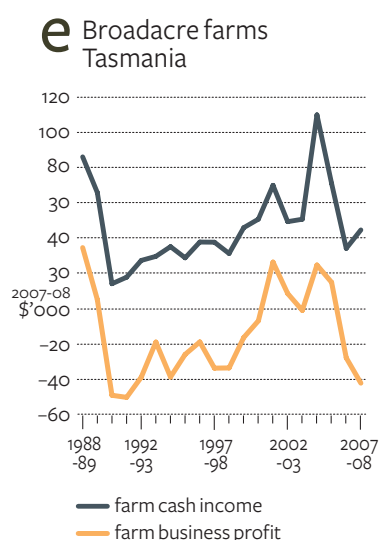
Rate of return = profit at full equity ÷ total opening capital x 100  
*(return to all capital used)*

## 2 Financial performance, Tasmanian broadacre industries average per farm

		2005-06	2006-07 p	2007-08 s
<b>Receipts</b>				
Total crop receipts	\$	24 230	31 800 (42)	22 000
Sheep and lamb sales	\$	48 020	43 000 (17)	53 000
Wool sales	\$	48 800	54 100 (24)	50 000
Beef cattle sales	\$	108 770	74 600 (22)	107 000
Total cash receipts	\$	268 010	226 300 (12)	269 000
<b>Costs</b>				
Fodder	\$	5 180	13 100 (27)	8 000
Fertilizer	\$	24 700	19 700 (17)	25 000
Sprays	\$	3 870	4 800 (23)	7 000
Fuel, oil and lubricants	\$	10 250	10 800 (13)	14 000
Repairs and maintenance	\$	19 070	24 500 (35)	30 000
Interest payments	\$	21 010	19 200 (16)	24 000
Hired labour	\$	12 400	13 700 (21)	17 000
Total cash costs	\$	196 910	192 000 (11)	225 000
<b>Financial performance</b>				
Farm cash income	\$	71 100	34 200 (62)	45 000
Farms with negative farm cash income	%	21	44 (29)	25
Farm business profit	\$	15 010	-27 800 (66)	-42 000
<b>Farm capital, debt and equity</b>				
Farm capital at 30 June a	\$	2 999 930	2 981 000 (10)	na
Farm debt at 30 June b c	\$	275 180	239 100 (35)	na
Equity ratio at 30 June b d	%	90.8	91.6 (4)	na
Rate of return e				
- excl. capital appreciation	%	1.3	-0.3 (233)	-0.6
- incl. capital appreciation	%	4.2	8.4 (33)	na
Total number of farms	no.		1 068	
Farms surveyed	no.		62	

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. f Including farm managed deposits. p Preliminary estimates. s Provisional estimates. na Not Available.

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



High turn-off of sheep and beef cattle reduced livestock numbers and, combined with lower on-farm stocks of fodder and grain, caused a reduction in the value of trading stocks resulting in Tasmanian broadacre farms recording an estimated farm business loss of \$42 000 in 2007-08. This is a larger loss than the \$27 800 loss per farm recorded in 2006-07 (figure e).

### Sheep farms

Change in farm cash incomes for sheep farms in Tasmania is substantially different from that nationally (figure f). Farm cash income in the early 2000s was much higher in Tasmania mainly because of the higher wool prices received by Tasmanian sheep farms for the finer grades of wool that they generally produce. Tasmanian sheep industry farms are more reliant on receipts from wool than are sheep industry farms nationally, which have increased the proportion of farm receipts from sales of lambs and sheep.

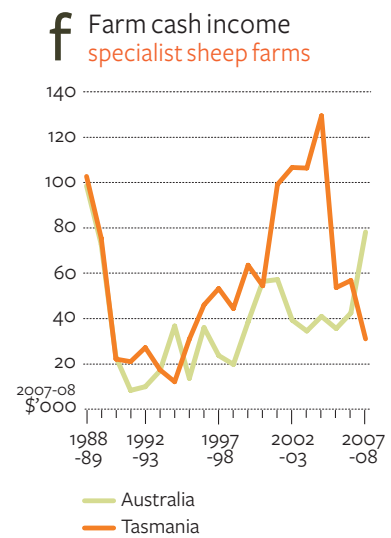
The onset of lower wool prices in 2005, combined with reduced wool production and Tasmanian sheep farms' greater reliance on wool, resulted in farm cash incomes on average falling more in Tasmania than for the whole of Australia

on a per farm basis in 2005-06. In 2006-07, Tasmanian sheep industry farms recorded slight increases in farm cash income as dry seasonal conditions led to an increase in sheep turn-off, higher sheep and lamb receipts and liquidation of most on-farm wool stocks. Farm cash costs, particularly expenditure on fodder, rose markedly. With only a small increase in farm cash income and reduced sheep numbers and wool stocks (reducing the value of farm trading stocks), farm business profits fell.

Nationally, the farm cash income of sheep industry farms is estimated to have risen in 2007-08 despite increases in farm costs. Farm cash income rose as a result of higher wool prices, strong sheep and lamb prices and reductions in expenditure on fodder in some regions. In contrast, average farm cash income for Tasmanian sheep industry farms is estimated to have fallen to \$31 000 per farm in 2007-08, compared with an average of \$56 800 per farm in 2006-07 (figure f).

For Tasmanian sheep farms, total cash receipts fell in 2007-08, despite an increase in sheep turn-off as wool and crop production fell. Farm cash costs increased markedly as expenditure on fertiliser, fuel and chemicals rose sharply and fodder expenditure remaining high.

Reductions in sheep numbers and the resulting fall in value of trading stocks is estimated to have led to farm business profit deteriorating further from a loss of \$32 000 in 2006-07 to a loss of \$67 000 in 2007-08.



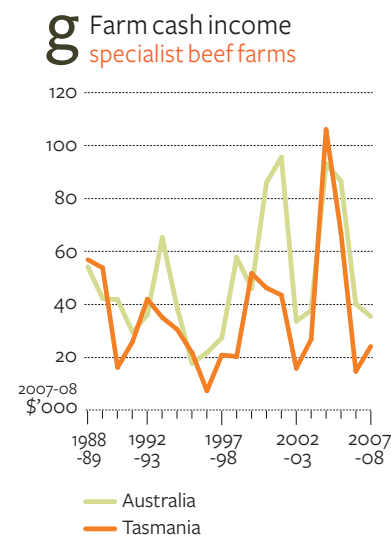
## Beef farms

Average farm cash incomes for beef industry farms in Tasmania have generally been below those for the whole of Australia for most of the past 20 years (figure g). To a large extent, this difference can be explained by the difference in scale of farm operations, with Tasmanian farms typically much smaller on average.

Farm cash incomes for Australian beef industry farms fell in 2006-07 as cattle turn-off was reduced and many farms, particularly those in northern Australia, began to slowly rebuild herds. As a consequence, while farm cash income remained subdued, the increase in cattle numbers and the value of trading stocks resulted in an increase in farm business profit. Similarly, Tasmanian beef industry farms recorded a much lower farm cash income in 2006-07, with lower beef cattle receipts accounting for much of the reduction in total cash receipts while total cash costs fell by a much lesser amount.

In 2007-08, Australian beef industry farms are estimated to have recorded a reduction in average farm cash income compared with that recorded in 2006-07. This was partly because of a reduction in beef cattle turn-off as farms rebuilt herds and partly because of increases in farm cash costs. Cattle purchases increased and fuel, fertiliser and interest costs rose while fodder expenditure remained high, particularly in the southern states. While farm cash income is estimated to have fallen for the beef industry nationally, increases in beef cattle numbers resulted in a higher value of trading stocks and an increase in farm business profits.

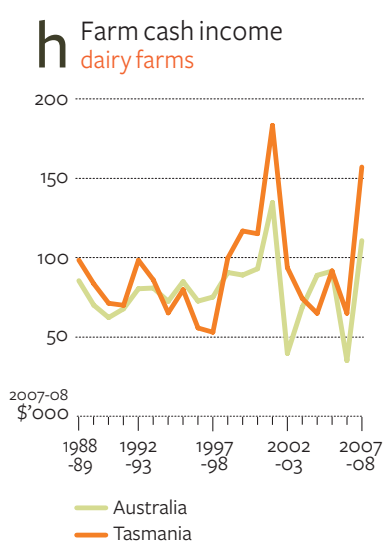
In contrast to the national picture, Tasmanian beef industry farms increased cattle turn-off in 2007-08, with dry seasonal conditions persisting throughout 2007-08. Much higher beef cattle turn-off boosted farm cash receipts; but reduced the value of livestock inventories. Farm cash costs are estimated to have increased in 2007-08 mainly because of higher expenditure on the



purchase of beef cattle. Expenditure on fuel and many other cash inputs increased, but increases in expenditure on fertiliser are estimated to have been less than that recorded nationally, perhaps because dry seasonal conditions in Tasmania constrained fertiliser use. Average farm cash income for Tasmanian beef farms is estimated to have increased from close to \$14 600 per farm in 2006-07 to around \$24 000 in 2007-08. However, farm business loss is estimated to have increased from an average \$29 000 per farm in 2006-07 to \$33 000 in 2007-08.

## Dairy farm performance – Tasmania and Australia

Since 2000-01, the average farm cash income for Australian dairy farms has displayed great variability (figure h), partly because of the impact of drought on milk production and feed input costs, and partly because of fluctuations in milk prices.



From the peak in 2001-02, farm cash incomes for Tasmanian dairy farms were reduced as a result of lower farm-gate milk prices and lower milk production. However, Tasmania experienced less of the extremely dry seasonal conditions than many mainland dairying regions did during this period.

In 2006-07, dairy producers in eastern Australia recorded a large decrease in farm cash incomes as drought conditions led to increased fodder purchases and reduced milk production. Nationally, farm cash income declined by more than 60 per cent in 2006-07 to average around \$35 100 (table 3).

In Tasmania, drought conditions also had a major impact in 2006-07. Tasmanian dairy farmers reduced the number of cows milked, but increased purchases of fodder, which helped to increase milk yields and overall production. However, weaker milk prices, combined with the higher costs of production resulted in a sharp reduction in average farm cash income per farm in 2006-07. Average debt per farm rose significantly and equity ratios for Tasmanian dairy farms were reduced slightly in 2006-07 (table 3).

In 2007-08, a 48 per cent increase in the average farm-gate price for milk resulted in a tripling in average farm cash income for Australian dairy farms, despite large increases in many costs of production and further declines in milk production per farm.

For Tasmania, average milk production per farm is estimated to have risen in 2007-08 because of an increase in the number of cows milked. Higher milk production, coupled with higher milk prices is estimated to have resulted in total farm cash receipts increasing markedly in 2007-08. Farm cash income for dairy farms in Tasmania is estimated to have averaged around \$157 000 per farm in 2007-08, compared with \$64 900 in 2006-07.

## Vegetables – Tasmania and Australia – 2005-06

In 2005-06, there were an estimated 2822 commercial vegetable farms in Australia – defined as farms with an estimated value of agricultural operations greater than \$40 000 and mainly engaged in growing vegetables. Of this, around 346 were based in Tasmania.

Nationally, the average area operated by vegetable growers was estimated to have been around 304 hectares per farm in 2005-06. Of this area, around 36 hectares were sown to vegetables, with potatoes and tomatoes being the main crops, and relatively small areas sown to a range of other vegetables.

### 3 Financial performance, Tasmania dairy farms

average per farm

		2005-06	2006-07 <sup>p</sup>		2007-08 <sup>s</sup>
<b>Physical</b>					
Dairy cattle at 30 June	no.	367	373	(11)	381
Dairy cows	no.	253	245	(10)	271
Milk production	L	1 173 396	1 251 852	(8)	1 294 036
Milk yield	L	4 642	5 100	(5)	4 780
<b>Receipts</b>					
Milk - net of freight	\$	404 800	431 300	(8)	546 000
Dairy cattle	\$	35 300	32 700	(12)	30 000
Total cash receipts	\$	482 700	506 700	(8)	621 000
<b>Costs</b>					
Dairy cattle purchases	\$	9 000	18 300	(56)	17 000
Fodder	\$	74 800	102 700	(12)	82 000
Fertilizer	\$	59 100	51 400	(11)	66 000
Fuel, oil and lubricants	\$	11 100	11 900	(12)	13 000
Repairs and maintainance	\$	28 100	28 600	(13)	37 000
Interest payments	\$	43 600	59 700	(17)	74 000
Hired labour	\$	26 700	32 900	(17)	38 000
Total cash costs	\$	391 100	441 900	(11)	464 000
<b>Financial performance</b>					
Farm cash income	\$	91 600	64 900	(27)	157 000
Farms with negative farm cash income	%	16	12	(49)	2
Farm business profit	\$	33 400	9 700	(144)	90 000
Farms with negative farm business profit	%	56	63	(16)	51
<b>Farm capital, debt and equity</b>					
Farm capital at 30 June <sup>a</sup>	\$	3 531 700	3 498 100	(10)	na
Farm debt at 30 June <sup>b,c</sup>	\$	602 500	806 800	(19)	na
Equity ratio at 30 June <sup>b,d</sup>	%	82.9	76.9	(4)	na
<b>Rate of return<sup>e</sup></b>					
- excluding capital appreciation	%	3.3	2.3	(23)	6.1
Total number of farms			513		
Farms surveyed			31		

<sup>a</sup> Excludes leased plant and equipment. <sup>b</sup> Average per responding farm. <sup>c</sup> Harvest loans are not included in farm debt. <sup>d</sup> Equity expressed as a percentage of farm capital. <sup>e</sup> 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. <sup>f</sup> Including farm managed deposits. <sup>p</sup> Preliminary estimates. <sup>s</sup> Provisional estimates. **na** Not Available.

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

In Tasmania, around 31 hectares per farm were sown to vegetables, with potato production accounting for more than one-third of this area. On average, around 60 per cent of all Tasmanian vegetable growers grew more than one crop in 2005-06, compared with around one-third nationally.

On average, receipts from the sale of vegetables accounted for around 87 per cent of total cash receipts for vegetable growing farms nationally in 2005-06. The remainder was largely from the sale of crops other than vegetables.

Tasmania vegetable growers received around 64 per cent of their total vegetable receipts from the sale of potatoes, a much larger proportion than the 25 per cent recorded nationally. A further 9 per cent of Tasmanian vegetable receipts came from onions (table 4).

Contracting, fertiliser, seed and hired labour costs were the largest individual costs for Tasmanian vegetable growers on average in 2005-06. Overall, Tasmanian vegetable growers recorded the lowest farm cash income and largest farm business loss of any of the states in 2005-06, averaging

## 4 Vegetable growing industry, 2005-06

average per farm

		Tasmania		Australia	
<b>Cash receipts</b>					
Potatoes	\$	140 290	(10)	140 530	(13)
Beans	\$	11 210	(27)	7 743	(49)
Onions	\$	20 890	(21)	27 760	(29)
Carrots	\$	10 070	(29)	23 523	(52)
Other cash receipts	\$	107 510	(45)	438 614	(40)
Total cash receipts	\$	289 970	(6)	638 170	(9)
<b>Cash costs</b>					
Hired labour	\$	28 100	(15)	102 270	(13)
Fertiliser	\$	34 630	(93)	39 180	(58)
Seed	\$	28 360	(15)	32 310	(94)
Crop and pasture chemicals	\$	24 080	(10)	26 390	(9)
Fuel, oil and grease	\$	20 200	(37)	30 530	(32)
Contracts paid	\$	36 900	(15)	38 390	(9)
Interest paid	\$	24 990	(81)	19 640	(19)
Other cash costs	\$	87 360	(13)	196 500	(38)
Total cash costs	\$	284 620	(6)	485 210	(10)
<b>Financial performance</b>					
Farm cash income	\$	5 350	(99)	152 960	(12)
Percent of farms with negative cash income	%	46	(15)	24	(16)
Farm business profit	\$	-72 930	(22)	66 410	(26)
<b>Debt, capital and equity</b>					
Total farm debt at 30 June a	\$	268 280	(17)	224 100	(11)
Total farm capital at 30 June	\$	2 541 110	(6)	3 084 000	(7)
Farm equity ratio a	%	90	(2)	92	(1)
<b>Rate of return</b>					
- excl. cap. appreciation	%	-1.7	(37)	3.2	(19)
- incl. cap. appreciation	%	2.3	(67)	9.2	(16)

a Average per farm responding to questions on debt.

\$5350 and -\$72 930 respectively. This compared to the national farm cash income of \$152 960 and farm business profit of \$66 410 (table 4).

## 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 are for a number of the commodities important in this region and are based on information in the September 2008 issue of *Australian commodities*.

## Seasonal outlook

On 25 September 2008 the Australia Bureau of Meteorology released a three month rainfall outlook for the October to December period. The assessment shows a moderate to strong shift in the odds toward wetter than average conditions over much of the north and west of the continent, which if realised, will improve prospects for winter crops in Western Australia, northern New South Wales and Queensland. The outlook has also improved for southern South Australia. However, there is a moderate shift in the odds toward drier conditions in

south-eastern Australia, particularly southern Victoria and Tasmania, which, if realised, could have a negative impact on winter crop yields and pasture growth in those areas.

## Livestock

### Beef and veal

The Australian weighted average saleyard price of cattle is forecast to increase by 3 per cent in 2008-09 to 295 cents a kilogram (dressed weight). The forecast increase in prices reflects a decline in slaughterings, particularly of cows and heifers, and an increase in restocker demand as producers begin to rebuild herds, assuming average seasonal conditions for the rest of the financial year.

There are a number of factors which could influence cattle prices in 2008-09. A decline in cattle turn-off, an assumed depreciation of the Australian dollar, weaker competition from South American beef and strong demand for Australian beef in emerging markets are all expected to provide support for saleyard prices. Any increase in prices, however, is likely to be partially offset by the effects on prices of increased competition from the United States in the Korean and Japanese markets. Given the uncertainty surrounding these factors, there are both upside and downside risks to the price forecasts.

In 2008-09, total Australian cattle slaughterings are forecast to fall to around 8.7 million head, as producers retain cows and heifers to begin rebuilding herds. However, lower female cattle slaughter is expected to be partially offset by an increase in steer slaughter as a larger number of finished grass fed steers, particularly in Queensland, are turned off.

Reflecting the forecast decline in slaughterings, beef production is forecast to fall by 1 per cent to 2.1 million tonnes.

Australian beef and veal exports are forecast to fall by 2 per cent in 2008-09, to around 910 000 tonnes (shipped weight), reflecting lower supply and a decline in exports to north Asia as competition from the United States increases. However, the demand for Australian beef in emerging markets, such as the Russian Federation and Indonesia, is expected to remain strong, partially offsetting expected lower demand in other markets.

## Sheep meat

The Australian weighted average saleyard price of lambs is forecast to increase by 16 per cent in 2008-09, to an average of 390 cents a kilogram. In real terms, this is the highest annual price since 2004-05. The forecast price increase primarily reflects tighter domestic supply conditions.

In 2008-09, the weighted average saleyard price of sheep is forecast to increase by 10 per cent to be 175 cents a kilogram. This forecast is based on the assumption that improved seasonal conditions and high lamb prices are providing sheep producers with incentives to hold on to more female sheep for breeding in the year ahead.

The price forecasts for lamb and sheep are contingent on favourable seasonal conditions for the remainder of 2008-09. Should there be another poor season restricting pasture availability, producers will turn-off more sheep and lambs, which will put downward pressure on prices.

In 2008-09, lamb slaughter is forecast to decline by 4 per cent to 20 million head, and lamb production is forecast to fall 6 per cent to 408 000 tonnes. These forecasts primarily reflect an expected decline in the number of lambs marked in 2008-09.

Sheep slaughter and mutton production are both forecast to decline by around 15 per cent in 2008-09, to 10.1 million head and 117 000 tonnes, respectively.

Reflecting lower expected slaughter and production in 2008-09, exports of lamb are forecast to decline by 2 per cent to 160 000 tonnes. Similarly, mutton exports are forecast to decline by 12 per cent to 139 000 tonnes.

Live sheep exports in 2008-09 are forecast to decline by 9 per cent to 3.7 million head. This decline reflects the lower number of sheep available for export arising from relatively high sheep and lamb slaughter during the past two years. Demand for live sheep is expected to remain steady.

## Wool

Australian shorn wool production is forecast to continue its downward trend in 2008-09, reaching a 50 year low of 387 000 tonnes. The global economic slowdown will continue to affect the consumption of woollen products, resulting in a softening of demand for raw wool. Reflecting this, the eastern market indicator price (EMI) is forecast to average 880 cents a kilogram clean, around 7 per cent lower than in 2007-08.

The number of sheep shorn is forecast to decline to 87 million in 2008-09 – a fall of 4.4 per cent from the 2007-08 season – as a result of a smaller flock size. Good summer rains in many areas of the wheat-sheep zone are expected to translate into better fleece quality and improved average cut per head during the spring of 2008. So far this season this has been reflected in the Australian Wool Testing Authority (AWTA) key test data which indicate that staple strength for July and August was 1.3 per cent higher than for the same period last year. For New South Wales, the largest wool-producing state, the increase was even higher at 3.3 per cent. Average cut per head for 2008-09 is forecast to increase by 6 per cent compared to 2007-08, to 4.47 kilograms a head.

China is, and will continue to be, the largest buyer of Australian wool, accounting for roughly two-thirds of Australian exports of wool (greasy equivalent). However, in 2008-09 supply constraints will lead to a smaller volume of raw wool shipments. The volume of total Australian wool exports (which includes greasy wool, semi-processed wool and skins expressed in greasy wool equivalents) is forecast to decline to 459 000 tonnes, a fall of 6.7 per cent from 2007-08. When combined with the anticipated fall in the wool price, export earnings are forecast to fall by 12.8 per cent to \$2.4 billion.

### Dairy

Growth in milk production in the major dairy exporting countries is expected to be mixed in 2008-09, with slow growth in Australia and the European Union, but more rapid growth in New Zealand. This is expected to result in moderate growth in traded dairy supplies for the year and a fall in world dairy prices. However, despite this fall dairy prices are expected to remain at relatively high levels. In 2008-09, world cheese prices are forecast to be down by 8 per cent, skim milk powder prices down by 17 per cent and butter prices down by 9 per cent.

New Zealand is expected to be the major source of growth in dairy product exports, with milk production forecast to grow by around 8 per cent in 2008-09, after falling by 4 per cent as a result of drought in 2007-08. However, in the short term, growth in New Zealand dairy production will be limited by lead-times in herd expansion, the speed at which land can be converted from other uses such as sheep and wool, and effluent disposal regulations. Other major dairy exporters continue to face significant supply constraints.

In the European Union, milk production is forecast to grow by around 1 per cent in 2008-09, as production quotas and reforms to the Common Agricultural Policy have removed some incentives to produce surpluses. In addition, an increase in the EU's domestic consumption as a proportion of total dairy production is expected to reduce export availability in 2008-09. As a result, the EU's importance as an exporter of dairy products is expected to decline over the next few years. In the United States, relatively high world dairy product prices and a lower US dollar have increased the price competitiveness of dairy exports, particularly of skim milk powder and cheese. However, higher feed costs (as a result of continued growth in demand for biofuel feedstocks) are expected to dampen growth in production and exports over the remainder of the year. 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 promote dairy herd rebuilding. As a result, milk and dairy product output are expected to begin to recover in 2008-09.

Growth in global demand for dairy products remains relatively strong, driven by rising 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.

In 2008-09, Australian milk production is expected to rise by 1.6 per cent to 9.4 billion litres, with dairy product output and exports expected to increase as a result. Lower export prices are expected to be partially offset by an assumed lower Australian dollar. The value of Australian dairy exports is forecast to fall by 1.5 per cent to \$2.7 billion for the year.

## Grains

### Wheat

In 2008-09, the world wheat indicator price is forecast to average US\$325 a tonne, US\$37 a tonne lower than the previous year. World wheat supplies are forecast to rise by more than the increase in consumption, resulting in a decline in the world wheat indicator price. Despite this forecast decline, world wheat prices are expected to remain at historical highs.

Harvest of the 2008-09 northern hemisphere wheat crop is well underway and seasonal conditions have generally been favourable. Global wheat production is forecast to be more than 60 million tonnes higher in 2008-09 than in the previous year. When combined with opening season stocks, global wheat supplies are forecast to be 8 per cent higher in 2008-09 compared with global supplies in 2007-08.

Global wheat consumption is forecast to increase by 5 per cent in 2008-09 compared with 2007-08. While human consumption accounts for the majority of wheat used (accounting for more than 70 per cent of total consumption), the forecast increase in consumption is largely the result of increased livestock feeding. The use of wheat for human consumption is forecast to increase by 5 million tonnes and the use of wheat for livestock feed is forecast to rise by 24 million tonnes.

World wheat trade is forecast to be 115 million tonnes in 2008-09, a 6 per cent increase on the volume traded in 2007-08. Higher imports from Iran, Indonesia, Pakistan and Algeria are forecast to outweigh lower imports from India, Morocco and the European Union.

World wheat stocks at the end of 2008-09 are forecast to be nearly 30 million tonnes higher than at the end of the 2007-08 season. Production has improved in 2008-09 in many wheat producing countries and has outpaced the forecast increase in consumption. This is forecast to be the highest level of stocks since 2002-03.

The pool return for Australian premium white wheat (APW 10) is forecast to be \$A375 a tonne in 2008-09, \$A43 a tonne lower than in 2007-08. Lower global wheat prices and a forecast increase in domestic production are factors contributing to the forecast fall in price.

Average to above average rainfall was received across most of the Australian grains belt in July 2008. Total rainfall in August 2008 was very much below average across the Western Australian grains belt, while in the remaining states total August rainfall was average or below average. Despite the below average August rainfall, crops are still in a reasonable position leading into the critical spring months. Australian wheat production is forecast to be around 22.5 million tonnes, a 9.4 million tonne increase on the drought affected harvest of 2007-08.

Reflecting an expected better harvest, Australian wheat exports (October-September marketing year) are forecast to increase to around 15.7 million tonnes in 2008-09. The value of wheat exports in the financial year 2008-09 (July-June) is forecast to increase by 76 per cent to \$5.3 billion.

### Coarse grains

In 2008-09, continued strong demand for coarse grains, particularly corn as a feed stock for ethanol production, is forecast to place upward pressure on corn prices. The world coarse grains indicator price is forecast to average US\$230 a tonne in 2008-09, US\$12 a tonne above the average 2007-08 price.

World coarse grains production is forecast to remain largely unchanged at around 1.1 billion tonnes in 2008-09. A 6 per cent decline in US production, the world's largest coarse grains

producer, is expected to be outweighed by production increases in China and the European Union (by 1 and 13 per cent respectively).

Global end of season coarse grain stocks were at a low of 148 million tonnes in 2007-08. In 2008-09, end of season stocks are forecast to fall further to around 144 million tonnes. Although stocks are low, the expected record level of production in 2008-09 will lead to an increase in coarse grains supplies. In 2008-09, world coarse grain supplies are forecast to be slightly more than 1.2 billion tonnes, 2 per cent more than in the previous year.

For a third consecutive year, world coarse grains consumption is forecast to be more than 1 billion tonnes. In 2008-09, world coarse grains consumption is forecast to be 25 million tonnes more than the previous year at 1.1 billion tonnes. Increased coarse grains consumption is being driven by a forecast 32 million tonne increase in industrial use (primarily for ethanol), while feed use is forecast to decline by 6.8 million tonnes. The US ethanol industry has expanded rapidly with production capacity increasing from 6.7 billion litres in 2000 to an estimated 27.4 billion litres in 2008. In 2008-09, industrial use of corn is forecast to increase to 138 million tonnes, which will be around 44 per cent of the total US corn production.

Australian barley crops are currently in a reasonable condition heading into the critical spring months. The 2008-09 barley crop is forecast to be 7.8 million tonnes, close to 2 million tonnes more than was harvested in the previous year. The total area planted to grain sorghum is forecast to be 767 000 hectares in 2008-09, a 4 per cent decline from the area sown in the previous year. Parts of the 2007-08 grain sorghum area were doubled cropped into winter cereal crops and will therefore not be planted to grain sorghum in 2008-09. Assuming average yields, grain sorghum production in 2008-09 is forecast to be slightly less than 2 million tonnes.

The rebound in production from the drought affected harvest of 2007-08 is expected to place downward pressure on domestic prices. Australian feed barley prices are forecast to fall by 21 per cent to \$A242 a tonne and malting barley by 17 per cent to \$A287 a tonne in 2008-09.

Total coarse grains exports, in volume terms, are forecast to be 5.8 million tonnes in 2008-09, a 1.4 million tonne increase from the shipments in 2007-08. The value of Australian coarse grains exports is forecast to rise by 29 per cent to around \$2.1 billion in 2008-09.

### Oilseeds

In 2008-09 prices are forecast to remain at record highs as demand for oilseeds and oilseed products are expected to increase. The world oilseed indicator price (soybeans, cif Rotterdam) is forecast to increase from an average of US\$555 a tonne in 2007-08 to US\$566 a tonne in 2008-09.

Global oilseed production is forecast to increase to a record 418 million tonnes in 2008-09, with production in all major oilseed producing countries forecast to rise. Production in Argentina is forecast to increase to a record 56.4 million tonnes in 2008-09, a 9 per cent rise on 2007-08. In 2008-09, production in Brazil is set to increase by 2 per cent to a record 65.3 million tonnes, while in the United States it is forecast to rise by 10 per cent to 88.2 million tonnes.

World oilseed consumption is forecast to increase by 4 per cent to 414 million tonnes in 2008-09. Vegetable oil consumption is forecast to increase by 5 per cent to 131 million tonnes and oilseed meal consumption is forecast to rise by 3 per cent to 236 million tonnes.

World industrial use of vegetable oil (primarily biodiesel) has risen by an average of 16 per cent a year since 2002-03. The European Union is the largest biodiesel producer. Between 2002-03 and 2007-08, industrial use of vegetable oil in the EU more than doubled and has contributed to around 33 per cent of total world industrial vegetable oil consumption. Industrial use in the

United States has also been increasing, more than tripling over the same period. With continued mandated use of biofuels in the United States, as well as further investment in biofuel plants in the European Union, industrial use of vegetable oil is forecast to rise by 7 per cent in 2008-09.

Global oilseed meal consumption has risen by an average of 4 per cent a year over the past five years. Some of the highest growth consumers include Argentina, Brazil and India. Over the past five years, all of the above countries have nearly doubled their consumption of oilseed meal, as a result of increased feed use for poultry and other livestock production. World ending season oilseed stocks in 2008-09 are forecast to be 60 million tonnes, a 2 per cent increase from 2007-08.

The 2008-09 Australian canola crop is in a reasonable position leading into the critical spring months. The total area sown to canola is forecast to rise by 15 per cent to 1.2 million hectares in 2008-09. Canola production is forecast to increase to 1.6 million tonnes in 2008-09, compared with 1.1 million tonnes in 2007-08. An increase in production is likely to result in prices falling to \$A635 a tonne in 2008-09. Despite the forecast fall in price, it is still historically high. Australian canola exports are forecast to rise by 55 per cent to 939 000 tonnes in 2008-09, as increased production adds to exportable supplies.

## Wine

Australian wine grape production in 2007-08 is estimated to have rebounded by around 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 and otherwise reasonable seasonal conditions in some grape producing areas of Australia.

In 2008-09, Australian wine grape production is forecast to be around 1.8 million tonnes. This forecast reflects expected ongoing difficulties in securing irrigation water. The Australian weighted average price of wine grapes is forecast to fall in 2008-09, reflecting expected lower average export unit values for Australian wine in the year ahead.

Tasmania occupies a niche in the Australian wine industry, focusing on high-quality, cool climate wines. In Tasmania, more than 90 per cent of red wine grapes produced in 2007-08 were pinot noir. Chardonnay accounted for around 50 per cent of white wine grape production in 2007-08, followed by sauvignon blanc and riesling, both at around 20 per cent. According to the 2007 National Winegrape Crush and Price Report, grapes produced in Tasmania were ranked in the highest price category for these four major varieties. Wine grape production in Tasmania is forecast to continue to increase in the coming year.

## Forestry

In 2006-07, there was around 6 million cubic metres of logs harvested from Tasmanian forests, with an estimated gross value of \$351 million (measured in mill door prices, including harvesting and transport changes). Native forests are the largest source of logs for the Tasmanian timber industry, with around 3.9 million cubic metres harvested in 2006-07, valued at \$219 million (ABARE 2008a). Around three-quarters of these logs are harvested from crown forests. Of the total logs harvested from native forests in Tasmania, around 78 per cent are exported as woodchips. The remainder is used to produce sawnwood and veneer products.

There are also significant areas of timber plantations in Tasmania, with almost 200 000 hectares of broadleaved (eucalyptus) species and 75 000 hectares of coniferous (principally pinus radiata) species estimated in 2007 (BRS 2008). Currently the volume of broadleaved and coniferous logs harvested from plantations in Tasmania is roughly equal, at around 1.1 million cubic metres. While 94 per cent of broadleaved plantations logs are exported as woodchips, coniferous logs are utilised by domestic processors for sawnwood and paper production.

Most of the plantations established in recent years have been broadleaved species, with 25 000 hectares established in 2007, compared to 1445 hectares of coniferous species. In Tasmania, around 93 per cent of this investment in broadleaved plantations is undertaken by private investors, in particular Managed Investment Scheme companies. Because of this investment, the rate of growth of broadleaved plantation log production is expected to continue to outpace that of coniferous logs in coming years.

Tasmania is estimated to have around 72 broadleaved sawmills, 64 per cent of which process less than 3000 cubic metres of logs each year (ABARE 2008b). There are also estimated to be seven coniferous sawmills in the state, based on both the plantation estate and native resources. In 2006-07, these mills produced around 178 000 cubic metres of broadleaved sawnwood, and 179 000 cubic metres of coniferous sawnwood.

Tasmania exported 2.1 million bone dry tonnes of woodchips in 2006-07 valued at \$366 million (ABARE 2008a). The total value of production in the Tasmanian wood manufacturing industry (sawmilling, wood chipping and panel manufacture) in 2006-07 was \$668 million (ABS 2008).

There are three paper manufacturers in the state, located in Burnie, Wesley Vale and Boyer, producing printing paper and newsprint. The value of production of these products is estimated to be around \$545 million (Industry Edge 2008).

There have also been recent investments in processing capacity in Tasmania. The Ta Ann Tasmania mill is a joint venture between Forestry Tasmania and a Malaysian-owned company which produces and exports veneer products from native broadleaved logs. Forest Enterprises Australia Ltd has also recently commenced production of sawnwood from broadleaved plantation logs at its mill in Bell Bay.

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