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

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This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in South Australia, highlighting the performance of livestock, grains and dairy farms. Financial performance of broadacre farms within the South East region of South Australia is also reported and discussed.

The South East region, as defined by the Australian Bureau of Statistics (ABS) and covered in this paper, is outlined in map 1 and includes the regional centers of Keith, Naracoorte and Mt Gambier. However, for the analysis of broadacre farm performance, estimates are drawn from a larger area that extends up to and around Adelaide (see map 2).

Agricultural sector profile

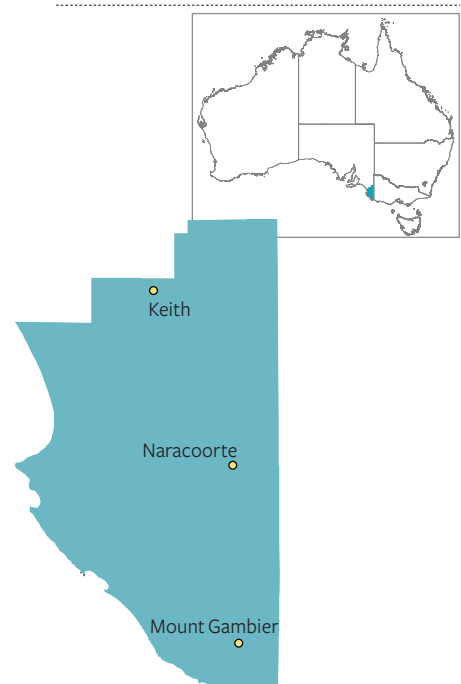
In dollar value terms, beef cattle and calves are the most significant agricultural product in South East South Australia, accounting for 20 per cent, or more than \$136 million of the \$698 million total value of agricultural production in the region in 2004-05. This is the last year for which Australian Bureau of Statistics data on value of agricultural production are available at a lower than state level (figure a).

Sheep and lambs accounted for a further 17 per cent (\$118 million) of the total value of agricultural production in the region in 2004-05, while wine grapes and wool accounted for 12 per cent each (\$84 million) and milk production 8 per cent (\$56 million).

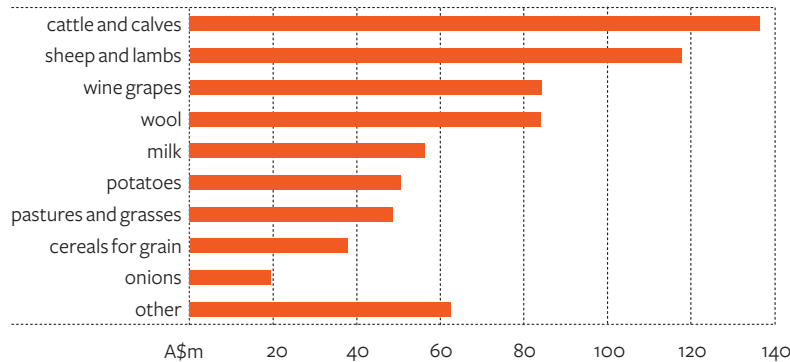
Potatoes and onions were the main vegetables produced in the region, with potatoes accounting for 7 per cent (\$51 million) and onions 3 per cent (\$20 million) of the total value of agricultural production in 2004-05.

Pastures and grasses, including those cut for hay and for seed, accounted for a further 7 per cent (\$49 million), while cereals cut for grain accounted for just 5 per cent (\$38 million) of the total value of agricultural production in 2004-05.

map 1 South East South Australia



a Value of agricultural production, South East South Australia, 2004-05



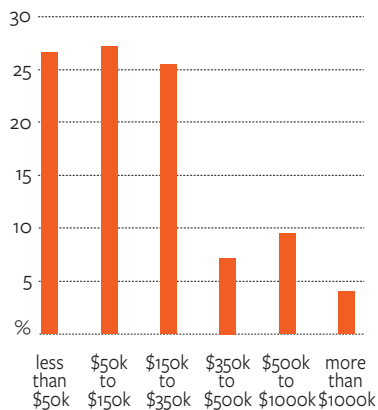
Source: Australian Bureau of Statistics 2005 Agricultural Commodities Survey.

1 Number of farms, South East South Australia, 2004-05 by industry classification a

	South East South Australia		South Australia	
	no.	%	no.	%
Sheep-beef cattle	627	25	926	7
Sheep	544	22	1 448	10
Beef cattle	525	21	1 339	10
Grain-livestock	226	9	2 561	18
Grapes	146	6	2 300	17
Grain	143	6	3 143	23
Dairy	110	4	409	3
Vegetables	65	3	359	3
Other crops-plants	39	2	148	1
Other	43	2	1 300	9
All agriculture	2 466	100	13 933	100

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

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



Source: Australian Bureau of Statistics 2006 agricultural census.

Number and type of farms

Australian Bureau of Statistics data show that in 2004-05 there were 2466 farms in the South East region of South Australia with an estimated value of agricultural operations of more than \$5000 each (table 1).

Farms in table 1 are classified according to the activities that generate most of their value of production. In South East South Australia, around 25 per cent of farms operated sheep-beef cattle

enterprises, compared with 7 per cent at the state level. Sheep farms were the second most common by number of farms in 2004-05, accounting for around 22 per cent, followed by beef cattle farms (21 per cent) and mixed grain-livestock farms (9 per cent).

Data collected as part of the 2006 ABS agricultural census indicates that the majority of farms in South East South Australia are small to medium in size, with around 54 per cent of all farms producing less than \$150 000 worth of agricultural output (figure b). A further 26 per cent produced between \$150 000 and \$350 000 of agricultural output in 2005-06. Around 21 per cent of farms produced more than \$350 000 worth of agricultural output and just 4 per cent of farms in the region produced more than \$1 million of agricultural output, in 2005-06.

Employment

Based on Australian Bureau of Statistics 2006 census data, almost 30 000 people were employed in South East South Australia in 2005-06, with the agricultural, forestry and fisheries industries employing the largest number of people, accounting for approximately 19 per cent (5600 people) of the total labour force (figure c). The manufacturing industry accounted for a further 16 per cent (4900 people) and the retail industry 12 per cent (3500 people). The healthcare and social assistance sector was the fourth largest employer accounting for 8 per cent (2400 people) of the South East South Australia labour force in 2005-06.

Broadacre farm performance – Australia and South Australia

Farm cash income for Australian broadacre farms strengthened in 2007-08, from the very low income recorded in 2006-07 (figure d). This is largely because of improved seasonal conditions which enabled producers in some states to reduce expenditure on fodder and increase grain and livestock production.

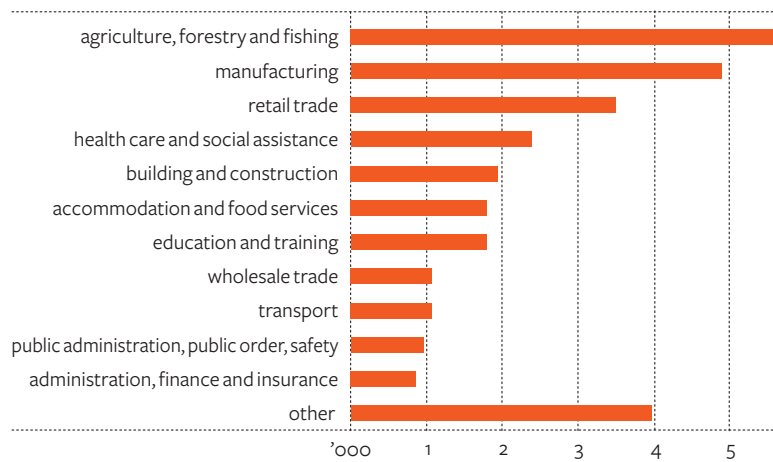
Also, farm incomes were boosted by higher commodity prices – particularly for grains and wool. On average, farm cash income for Australian broadacre farms rose from \$42 500 in 2006-07 to an estimated \$88 000 per farm in 2007-08.

Average farm business profit for Australian broadacre farms is estimated to have increased in 2007-08 (table 2) as higher cash flows were augmented by a build up in the value of trading stocks as producers increased livestock numbers and on-farm inventories of fodder and grain.

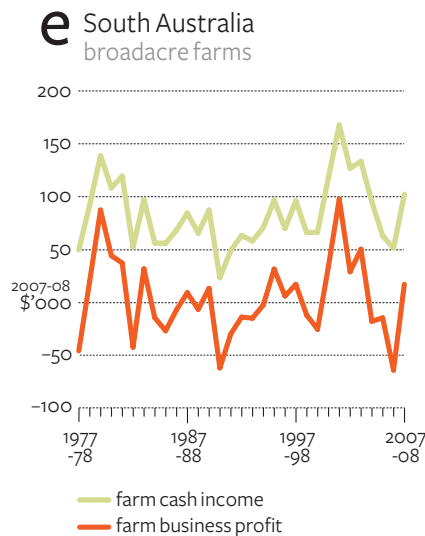
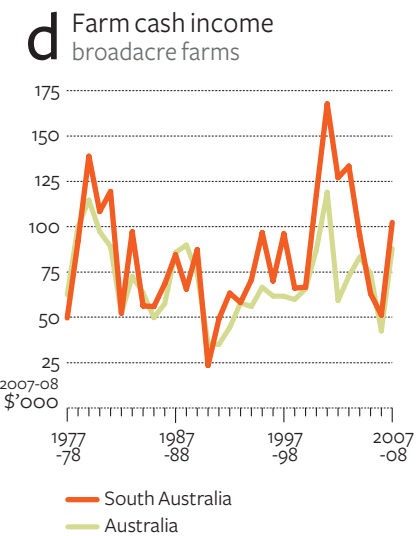
South Australian broadacre farms are estimated to have recorded a similar improvement in average farm cash income in 2007-08, compared to that recorded nationally. Average farm cash income is estimated to have almost doubled, from \$51 200 in 2006-07 to \$102 000 in 2007-08 (table 2), reflecting a recovery in grain production and significantly higher grain prices, particularly for wheat. With the improvement in farm cash income and the increase in farm trading stocks relative to the previous year, farm business profit is estimated to have increased to \$17 000 in 2007-08, compared to the average farm business loss of \$63 900 in 2006-07 (figure e).

Around 40 per cent of South Australian broadacre farms recorded negative farm cash incomes in 2006-07, slightly less than the percentage nationally (table 2). Farm debt increased by around 5 per cent for broadacre producers in South Australia in 2006-07.

C Employment profile, South East South Australia, 2005-06



Source: Australian Bureau of Statistics 2006 Census of Population and Housing.



2 Financial performance, broadacre industries

average per farm

	South Australia				Australia			
	2005-06	2006-07 ^p	2007-08 ^s		2005-06	2006-07 ^p	2007-08 ^s	
Receipts								
Wheat	\$ 99 940	55 100	(11)	112 000	70 470	41 100	(7)	76 000
Barley	\$ 46 610	37 000	(17)	45 000	21 450	17 600	(9)	22 000
Other crops	\$ 42 290	32 800	(26)	23 000	41 310	30 500	(5)	27 000
Sheep and lamb sales	\$ 52 970	44 900	(11)	43 000	41 280	36 000	(5)	40 000
Wool sales	\$ 31 260	40 500	(10)	41 000	30 990	35 700	(5)	38 000
Beef cattle sales	\$ 43 640	46 700	(16)	39 000	111 210	98 200	(6)	90 000
Total cash receipts	\$ 346 690	290 700	(6)	335 000	355 610	303 500	(3)	333 000
Costs								
Fertilizer	\$ 32 660	31 200	(12)	35 000	26 500	23 400	(5)	25 000
Sprays	\$ 25 290	26 100	(10)	27 000	17 620	15 500	(5)	16 000
Fuel, oil and lubricants	\$ 25 930	23 700	(9)	23 000	24 060	20 600	(3)	21 000
Repairs and maintenance	\$ 24 470	21 000	(7)	25 000	24 990	23 700	(3)	25 000
Interest payments	\$ 22 260	24 300	(9)	26 000	25 320	32 400	(5)	35 000
Total cash costs	\$ 283 610	239 600	(7)	233 000	281 370	261 000	(3)	245 000
Financial performance								
Farm cash income	\$ 63 080	51 200	(23)	102 000	74 240	42 500	(12)	88 000
Farms with negative farm cash income	% 29	40	(12)	20	24	42	(5)	32
Farm business profit	\$ -14 600	-63 900	(20)	17 000	-8 190	-51 200	(10)	23 000
Farms with negative farm business profit	% 65	74	(5)	55	65	79	(2)	61
Farm capital, debt and equity								
Farm capital at 30 June ^a	\$ 3 308 100	3 217 600	(5)	na	3 466 940	3 713 400	(2)	na
Farm debt at 30 June ^{bc}	\$ 327 390	344 000	(10)	na	360 540	450 600	(4)	na
Equity ratio at 30 June ^{bd}	% 90	89	(1)	na	90	88	(1)	na
Rate of return^e								
- excluding capital appreciation	% 0.5	-1.1	(39)	1.8	0.8	-0.3	(44)	1.9
- including capital appreciation	% 2.5	2.7	(50)	na	7.4	8.1	(9)	na
Total number of farms	no	7 349				61 188		
Farms surveyed	no	193				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.

Grain farms

In 2006-07, average farm cash income dropped sharply for Australian grain farms (defined as farms in the grains and grain-livestock industries), with widespread crop failures reducing crop receipts significantly. 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 (figure f).

Nationally, some improvement to seasonal conditions, combined with high grain prices, lead to a substantial increase in average farm cash income for grain farms in 2007-08. A similar improvement in seasonal conditions in South Australia resulted in increased winter crop production in 2007-08. This combined with the rise in grain prices is estimated to have aided the substantial

increase in total cash receipts. Despite rising production costs in 2007-08, average farm cash income for South Australian grain farms is estimated to have increased to around \$104 000.

Livestock farms

Historically, farm cash income for South Australian livestock farms (defined as farms in the sheep, beef cattle or sheep-beef cattle industries) has broadly followed the movements in average farm cash income recorded for Australia as a whole. In the two years following 1999-2000, livestock farm cash income at both the state and national levels increased, reflecting increases in beef, lamb and wool prices. However, in 2002-03 the gap between state and national farm cash income widened considerably. Drought greatly reduced production and overall farm cash incomes in many parts of eastern Australia. However, in South Australia, producers' farm cash income remained relatively unchanged as the drought had a relatively lesser effect on production (figure g).

In 2006-07, increased wool production and higher turnoff of beef cattle resulted in a significant increase in total cash receipts in South Australia. While total cash costs also rose with increased fodder, shearing and crutching expenses and interest payments, farm cash income per farm increased to around \$72 900. However, a large rundown in trading stocks, largely from a reduction in beef cattle numbers led to an average farm business loss of \$33 400.

In 2007-08, farm cash income is estimated to have increased to its highest since 1980-81 (figure g). Total cash receipts for South Australian livestock producers is estimated to have reduced slightly with lower turnoff of beef cattle and sheep (because of producers retaining livestock for herd or flock rebuilding) being partially offset by higher livestock prices. While an improvement in seasonal conditions resulted in fodder expenditure falling, outlays on fertiliser and interest payments increased in 2007-08. Overall, farm cash income and farm business profit are estimated to have risen to \$99 000 and \$32 000 per farm respectively in 2007-08.

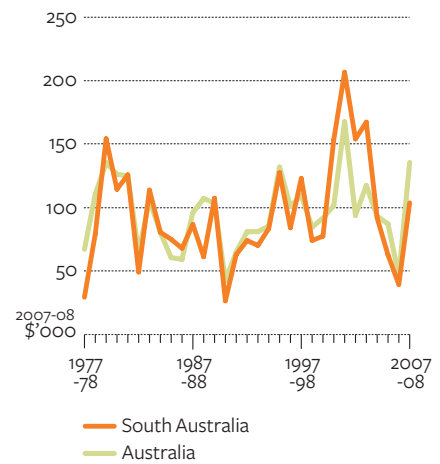
Dairy farm financial performance – South Australia

Average farm cash income of South Australian dairy farms has varied considerably over the past 30 years. From a historically high farm cash income in 2001-02, South Australian dairy producers experienced a number of years of below average seasonal conditions that resulted in a significant decline in farm cash income (figure h).

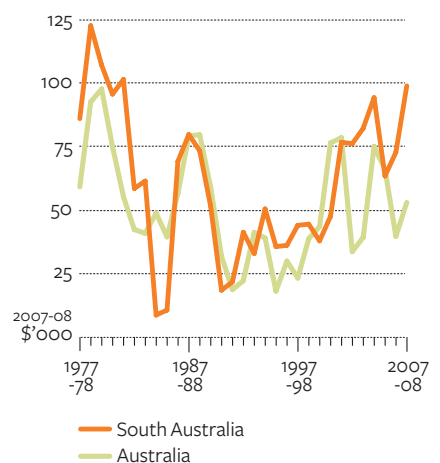
During 2006-07, dairy producers in eastern Australia recorded a large fall in farm cash incomes as drought conditions led to increased fodder purchases and reduced milk production. Nationally, farm cash income declined by more than 60 per cent in 2006-07 to average around \$35 100 (table 3).

In South Australia, producers maintained their number of cows being milked by significantly increasing purchases of fodder. Despite milk yields falling

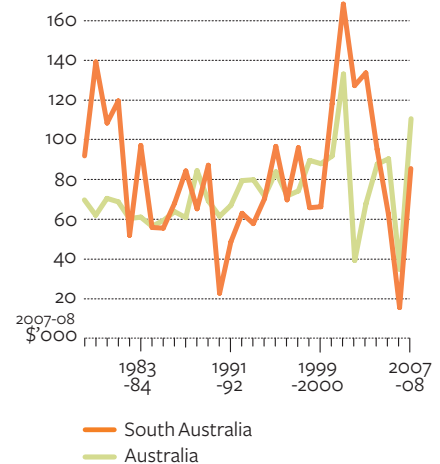
f Farm cash income
grain farms



g Farm cash income
livestock farms



h Farm cash income
dairy farms



3 Financial performance, South Australia, dairy industry

average per farm

		South Australia				Australia			
		2005-06	2006-07 ^p	2007-08 ^s	2005-06	2006-07 ^p	2007-08 ^s		
Physical									
Dairy cattle at 30 June	no	388	423	(5)	412	322	310	(3)	282
Dairy cows	no	233	257	(4)	235	208	211	(3)	193
Milk production	L	1 535 440	1 566 270	(6)	1 401 248	1 081 596	1 044 475	(3)	985 492
Milk yield	L	6 599	6 099	(5)	5 972	5 205	4 949	(2)	5 111
Receipts									
Milk – net of freight	\$	523 700	527 000	(6)	569 000	377 900	348 300	(3)	426 000
Dairy cattle	\$	45 600	45 900	(11)	40 000	37 300	32 900	(5)	30 000
Total cash receipts	\$	604 200	609 000	(6)	686 000	446 100	410 300	(3)	497 000
Costs									
Fodder	\$	182 000	219 600	(7)	205 000	98 100	141 000	(5)	142 000
Fertilizer	\$	32 400	25 200	(12)	34 000	27 300	23 500	(5)	27 000
Fuel, oil and lubricants	\$	18 100	24 500	(21)	23 000	14 000	14 200	(5)	13 000
Repairs and maintainance	\$	41 400	39 700	(10)	41 000	26 900	23 400	(6)	24 000
Water charges	\$	15 500	19 200	(23)	18 000	18 400	17 600	(8)	18 000
Interest payments	\$	48 600	65 100	(13)	69 000	34 900	34 000	(8)	42 000
Hired labour	\$	39 700	41 800	(18)	48 000	20 100	21 800	(9)	17 000
Total cash costs	\$	543 800	592 800	(5)	601 000	354 700	375 200	(4)	386 000
Financial performance									
Farm cash income	\$	60 400	16 300	(192)	86 000	91 400	35 100	(21)	111 000
Farms with negative farm cash income	%	24	46	(26)	37	15	36	(15)	17
Farm business profit	\$	-29 400	-92 600	(46)	9 000	20 300	-41 000	(17)	24 000
Farms with negative farm business profit	%	59	62	(19)	46	49	76	(4)	51
Farm capital, debt and equity									
Farm capital at 30 June ^a	\$	3 117 000	3 819 200	(8)	na	2 999 300	3 244 700	(5)	na
Farm debt at 30 June ^{bc}	\$	622 300	811 000	(12)	na	468 500	507 600	(8)	na
Equity ratio at 30 June ^{bd}	%	80.0	78.7	(4)	na	84.3	84.3	(4)	na
Rate of return^e									
– excl. capital appreciation	%	1.0	-0.6	(181)	3.1	2.4	0.0 ⁽³⁰⁵⁸⁾		2.9
– incl. capital appreciation	%	4.7	7.0	(40)	na	7.5	10.3	(17)	na
Total number of farms			418				9 081		
Farms surveyed			33				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.

sharply in 2006-07, milk production increased slightly (table 3). However, weaker milk prices and higher costs of production resulted in farm cash income per farm falling significantly. In 2006-07, almost half of all dairy farms in South Australia recorded a negative farm cash income, compared with a quarter in 2005-06 (table 3).

Despite higher costs of production and further declines in milk production per farm, farm cash income for Australian dairy farms is estimated to have increased in 2007-08, reflecting a 48 per cent increase in the average farm-gate price for milk.

For South Australia, average milk production per farm is estimated to have fallen in 2007-08 because of a reduction in the number of cows milked and a lower milk yield per cow. Despite this,

higher milk prices led to a marked increase in total farm cash receipts in 2007-08. Also, improved seasonal conditions resulted in a reduction in expenditure on fodder. Consequently, farm cash income for dairy farms in South Australia is estimated to have averaged around \$86 000 in 2007-08, compared to \$16 300 recorded in 2006-07.

Broadacre farm financial performance - South East South Australia

For most of the past 30 years, average farm cash income for broadacre farms in ABARE's survey region of South East South Australia (map 2) have been below the South Australian average (figure 1). This is largely because of the predominance of small farms in this region, most of which are producing sheep or beef or both (table 1). Over the past decade, broadacre producers' in South East South Australia have been increasing winter crop production. In 2005-06, crop receipts accounted, on average, for 28 per cent of farm cash receipts.

In 2006-07, dry seasonal conditions in the South East South Australian region resulted in a much smaller area being sown to winter crops and reduced grain yields. Despite grain prices rising significantly, cropping receipts fell, with grain production falling in 2006-07. Partially offsetting this were higher beef cattle and wool receipts (table 4). Overall, lower farm receipts and higher costs (principally because of increased expenditure on fodder and interest payments) resulted in

Map 2 ABARE's South East South Australia region

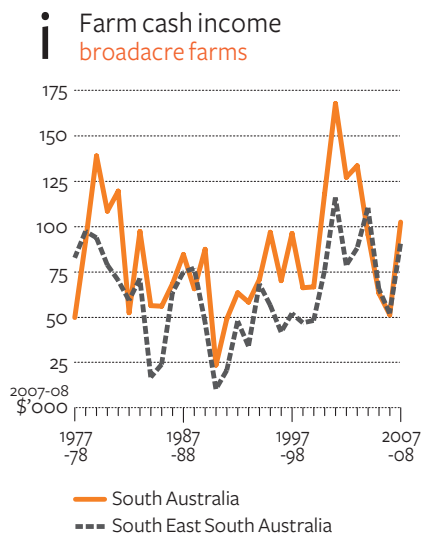


4 Financial performance, South East South Australian broadacre farms average per farm

	South East South Australia			
	2005-06	2006-07		2007-08 ^p
Receipts				
Total crop receipts	\$ 90 100	42 500	(28)	67 000
Sheep and lamb sales	\$ 72 750	74 500	(16)	70 000
Wool sales	\$ 40 310	46 600	(16)	48 000
Beef cattle sales	\$ 92 370	105 700	(19)	104 000
Total cash receipts	\$ 321 300	301 100	(11)	322 000
Costs				
Sheep and lamb purchases	\$ 17 530	13 400	(40)	8 000
Beef cattle purchases	\$ 16 230	17 900	(29)	15 000
Fodder	\$ 9 400	18 500	(38)	5 000
Fertilizer	\$ 25 550	19 700	(11)	24 000
Fuel, oil and lubricants	\$ 19 770	20 000	(12)	20 000
Repairs and maintenance	\$ 22 560	23 700	(13)	25 000
Interest payments	\$ 25 950	32 600	(14)	35 000
Total cash costs	\$ 255 770	249 200	(11)	231 000
Financial performance				
Farm cash income	\$ 65 530	51 900	(28)	91 000
Farms with negative farm cash income	% 35	24	(28)	20
Farm business profit	\$ -2 570	-51 900	(47)	22 000
Farms with negative farm business profit	% 65	66	(10)	41
Farm capital, debt and equity				
Farm capital at 30 June ^a	\$ 3 956 010	3 980 600	(9)	na
Farm debt at 30 June ^{b,c}	\$ 388 910	469 000	(14)	309 000
Equity ratio at 30 June ^{b,d}	% 90.2	87.9	(2)	na
Rate of return^e				
- excl. capital appreciation	% 0.9	-0.5	(150)	1.8
- incl. capital appreciation	% 3.8	7.5	(42)	na
Total number of farms	no	2407		
Farms surveyed	no	67		

^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.



the average farm cash income per farm falling to \$51 900 in 2006-07 (figure 1). Almost a quarter of broadacre producers in South East South Australia recorded a negative farm cash income in 2006-07 (table 4).

Improved seasonal conditions in 2007-08 resulted in higher grain yields on average, and encouraged producers to reduce livestock turnoff in order to begin rebuilding animal numbers. Overall, farm cash receipts increased in 2007-08 as higher grain receipts offset the impact of reduced livestock sales. Average farm cash costs in the South East fell in 2007-08, mainly because of a reduction in additional fodder purchases as seasonal conditions improved. With receipts increasing significantly and costs falling, average farm cash income in the South East region is estimated to have risen by around 75 per cent to \$91 000 in 2007-08.

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 forecast that South West Western Australia had only a 30-40 per cent chance of exceeding average rainfall. In South Australia there was a 50 per cent chance of exceeding average rainfall.

On 25 July 2008, BOM released a new three month rainfall outlook for the August to October period. The new rainfall outlook improved the chance of exceeding average rainfall across Western Australia with a 60 to 65 per cent chance of exceeding average rainfall. In South Australia and northern Queensland the chance of exceeding average rainfall was significantly downgraded with a 35 to 40 per cent chance of exceeding average rainfall. Across the rest of the country the chance of exceeding average rainfall was 50 per cent. If rainfall is lower than currently expected, there will be an increased risk that the Australian winter grains crop will be smaller than currently forecast and livestock slaughter will be higher.

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 prices remain relatively high despite a steady decline that began in February 2008. In May 2008, the eastern market indicator (EMI) fell below 900 cents for the first time since August 2007. Since the beginning of the 2008-09 financial year the EMI has averaged 861 cents a kilogram. Reflecting the assumed strength in the Australian dollar and forecast weaker consumer demand, the EMI is forecast to decline by 9 per cent to average 860 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 in the short term.

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.

Good rainfall in late April, encouraged winter crop planting in a number of South Australia's grain producing regions. In the Eyre Peninsula, parts of the upper north and through the Mallee districts rainfall has been light and variable. These regions have no sub-soil moisture and rainfall throughout the growing season will be critical. The area planted to wheat in South Australia is forecast to remain similar to the previous year at 2.2 million hectares.

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 \$A419 a tonne in 2007-08 to \$A370 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. The decline in corn production 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 \$A284 a tonne and malting barley by 8 per cent to average \$A327 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 less than 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, South Australia is estimated to have accounted for around 46 per cent of total Australian wine grape production. The Riverland is the largest production region in South Australia, accounting for around 43 per cent of total production in 2007-08. The Barossa Valley and Padthaway are the next largest regions, accounting for 11 per cent and 8 per cent of total production, respectively. Wine grape production is highly concentrated in South Australia: Shiraz, Chardonnay, Cabernet Sauvignon, Merlot and Riesling accounted for nearly 80 per cent of total production in 2007-08.

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. Greater proportions of wine will need to be sold at higher prices than has been the case over the past 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 the value of the Australian dollar.

Forestry

The main timber processing industries in South Australia are located at Mt Gambier, Tarpeena and Millicent, while woodchips are exported from the port of Portland. According to ABS data, the wood and paper product manufacturing industry in South Australia contributes around \$728 million to state domestic product, or around 9.2 per cent of the state's manufacturing value added. The industry is estimated to employ around 6500 people.

In 2006-07, the gross value of logs harvested in South Australia was estimated at \$145 million. This is the measured at mill door prices, which includes harvesting and transport charges, and includes 2.3 million cubic metres of coniferous plantation logs, three-quarters of which were sourced from crown land (ABARE 2007). Seventy-three per cent of the harvested logs were sawlogs (used for sawnwood production), with the remaining pulpwood used for the production of panels, tissue paper and export woodchips. There is no significant harvesting of native forest in South Australia, and harvesting of broadleaved plantations has been on an irregular basis with large scale harvesting expected to commence in the next few years.

There has been considerable expansion of forest plantations in South Australia, principally broadleaved (*E. globulus*) plantations in the Green Triangle region straddling the South Australia-Victoria border. The total hardwood plantation area in South Australia reached 55 000 hectares in 2007, and in the adjoining area in Victoria there is now more than 100 000 hectares, most of which has been established through Managed Investment Schemes (MIS). In contrast, the total area of coniferous plantations in South Australia has remained static over the past five years at around 123 000 hectares.

The volume of broadleaved pulpwood harvesting is expected to increase rapidly in the Green Triangle region over the next few years, and is forecast to reach a long-term sustainable supply level of around 3.7 million cubic metres per year in the next 5-10 years (BRS 2007). At current prices, this would equate to a gross value of production of around \$250 million, with around one-quarter of these plantations in the South Australian part of the region. Woodchip export markets are currently the only option for the hardwood pulplogs, however there is a proposal to develop a pulpmill at Penola based on this resource.

References

ABARE 2007, *Australian Forest and Wood Products Statistics September and December quarters 2007*, Canberra.

BRS 2007, *Australia's Plantation Log Supply 2005-2049*, Canberra.