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Commodity outlook and financial performance of key agricultural industries in New South Wales

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This paper highlights commodity prospects and financial performance of beef, sheep, cropping and mixed livestock-cropping farms in the Central West and Central Tablelands regions of New South Wales.

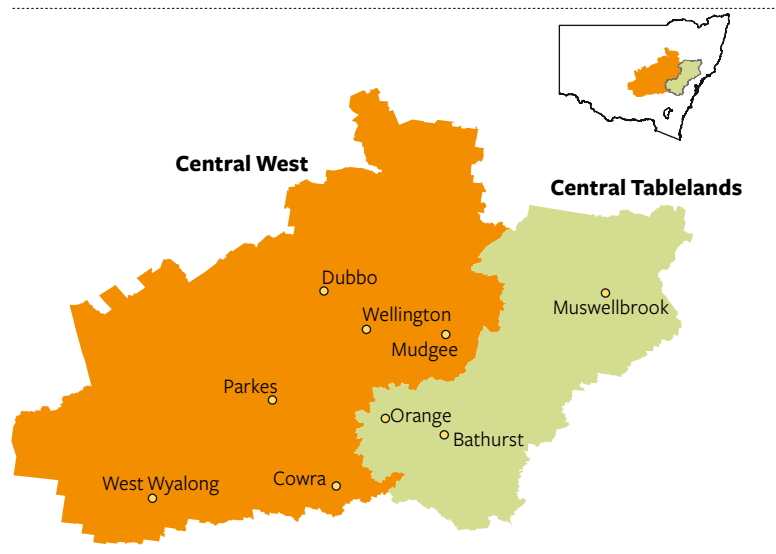
The Central New South Wales region covered in this paper (map 1), includes the regional centres of Bathurst, Cowra, Dubbo, Mudgee, Muswellbrook, Orange, Parkes, Wellington and West Wyalong.

Agricultural sector profile

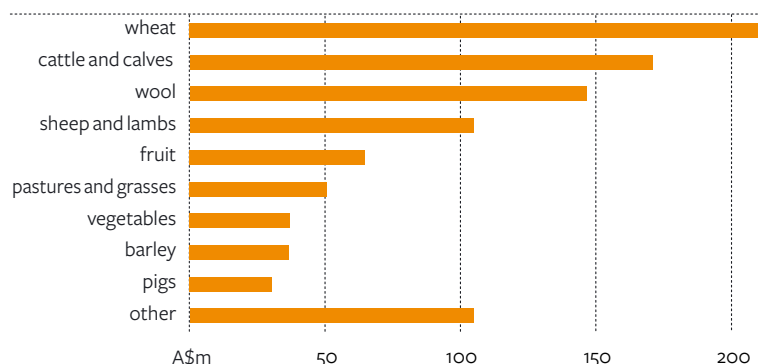
In dollar value terms, wheat is the most significant agricultural product in Central New South Wales, accounting for 22 per cent, or slightly more than \$215 million of the \$962 million total value of agricultural production in the region in 2004-05. This is the last year for which Australian Bureau of Statistics value of production data are available (figure a).

Beef cattle accounted for a further 18 per cent (\$171 million) of the total value of regional agricultural production in 2004-05, while wool production accounted for 15 per cent (\$147 million) and sheep 11 per cent (\$105 million).

map 1 Central New South Wales



a Value of agricultural production, Central New South Wales, 2004-05



Fruit (including grapes) accounted for 7 per cent of the total value of agricultural production in the region in 2004-05 and pasture and hay production for just more than 5 per cent.

Australian Bureau of Statistics data presented are for the statistical division of Central West New South Wales, which is smaller than the Central New South Wales region defined in map 1 as it excludes the northern areas of the Hunter Valley and the area around Dubbo.

Number and type of farms

Australian Bureau of Statistics data show that in 2004-05 there were 5523 farms in the Central New South Wales region with an estimated value of agricultural operations of more than \$5000 (table 1).

1 Number of farms, central New South Wales, 2004-05 by industry classification^a

	Central New South Wales		New South Wales	
	no.	%	no.	%
Mixed grains and livestock	2 022	37	7 078	18
Beef cattle	1 101	20	11 228	28
Sheep	896	16	5 446	14
Sheep-beef cattle	576	10	3 585	9
Grain	408	7	3 164	8
Grapes	80	1	1 199	3
Livestock n.e.c.	76	1	295	1
Horses	54	1	627	2
Stone fruit	52	1	401	1
Vegetables	50	1	730	2
Other	209	4	5 834	15
All Industries	5 523	100	39 586	100

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

Farms are classified in Table 1 according to the activities that generate most of their value of production. In Central New South Wales, around 37 per cent of farms operate mixed grain and livestock enterprises, compared with 18 per cent at the state level. Beef cattle farms were the second most common farm type in 2004-05, accounting for around 20 per cent. Close to 900 farms, around 16 per cent, were sheep farms and 10 per cent were sheep-beef cattle farms.

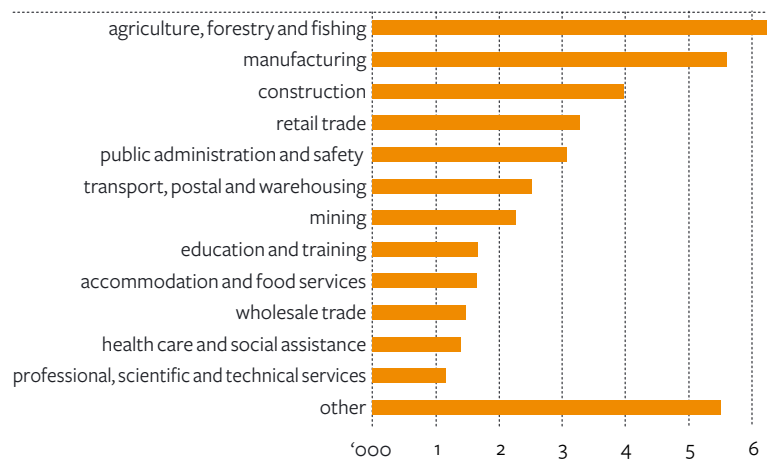
The majority of farms in Central New South Wales are small to medium in size, with 37 per cent of all farms producing less than \$50 000 worth of agricultural outputs and 29 per cent between \$50 000 and \$150 000 in 2004-05 (figure b). Around 14 per cent of farms produced more than \$350 000 worth of agricultural

output and 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 data from the 2006 census show that 40 000 people were employed in Central New South Wales in 2005-06, with the agriculture, forestry and fishing industry employing the largest number of people, with approximately 16 per cent (6400 people) of the total labour force (figure c). Manufacturing industries accounted for a further 14 per cent (5600 people) and the construction industry 10 per cent (4000 people), while the retail trade sector employed around 8 per cent (3300 people) of the Central New South Wales labour force in 2005-06.

C Employment profile, Central New South Wales, 2005-06

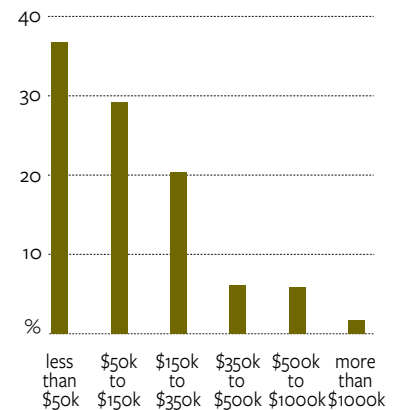


Broadacre farm performance – Australia and New South Wales

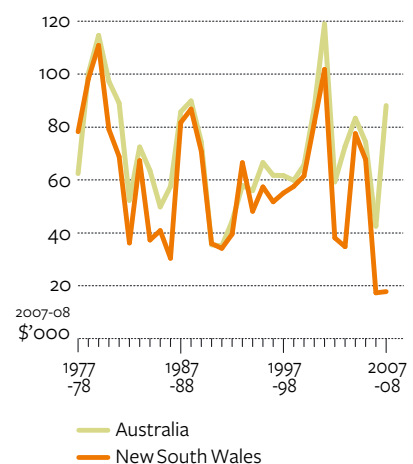
Average farm cash income for Australian broadacre farms increased to an estimated \$88 000 per farm in 2007-08 (figure d), following increased production of grain and livestock as seasonal conditions improved in some states. This, combined with higher grain and wool prices, strong prices for beef cattle,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

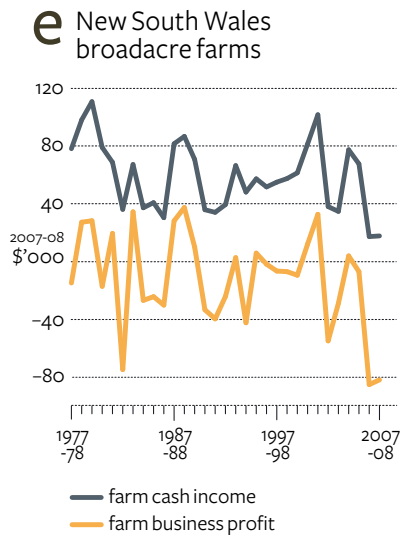
In contrast to the national improvement in farm cash income, average farm cash income for New South Wales broadacre farms in

b Distribution of farms by value of agricultural output, Central New South Wales, 2005-06



d Farm cash income broadacre farms





2007-08 is estimated to have altered little since 2006-07, remaining historically low at an average of \$18 000 per farm (figure d). New South Wales broadacre farms recorded lower receipts from cropping in 2007-08. Livestock receipts remained subdued and farm expenditure on livestock and fodder purchase was also reduced.

Average farm business profit across Australia 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. However, in New South Wales, farm business losses are estimated to have averaged \$82 000 per farm in 2007-08, only a slight improvement from 2006-07 (figure e).

2 Financial performance, Australia and New South Wales Broadacre industry average per farm

	Australia			New South Wales		
	2005-06	2006-07 ^p	2007-08 ^s	2005-06	2006-07 ^p	2007-08 ^s
Total crop receipts	\$ 122 320	85 900 (5)	125 000	118 180	61 400 (11)	45 000
Beef cattle sales	\$ 111 210	98 200 (6)	90 000	88 570	84 800 (11)	83 000
Sheep and lamb sales	\$ 41 280	36 000 (5)	40 000	39 920	37 500 (9)	37 000
Wool sales	\$ 30 990	35 700 (5)	38 000	29 810	34 800 (9)	39 000
Total cash receipts	\$ 355 610	303 500 (3)	333 000	322 500	262 800 (5)	235 000
Less total cash costs	\$ 281 370	261 000 (3)	245 000	254 820	245 500 (5)	218 000
Farm cash income	\$ 74 240	42 500 (12)	88 000	67 670	17 300 (44)	18 000
Farms with negative farm cash income	% 24	42 (5)	32	22	49 (8)	41
Farm business profit	\$ -8 190	-51 200 (10)	23 000	-7 050	-85 300 (9)	-82 000
Farms with negative farm business profit	% 65	79 (2)	62	70	86 (2)	77
Farm capital at 30 June ^a	\$ 3 466 940	3 632 300 (2)	3 449 000	2 903 900	3 312 600 (4)	2 834 000
Farm debt at 30 June ^{b,c}	\$ 360 540	450 600 (4)	na	294 990	416 600 (8)	na
Equity ratio ^{b,d}	% 90	88 (1)	na	90	87 (2)	na
Rate of return ^e						
- excl. capital appreciation	% 0.8	-0.3 (44)	1.9	0.8	-1.6 (17)	-1.5
- incl. capital appreciation	% 7.4	8.1 (9)	na	5.0	3.7 (34)	na

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

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

box 1 Major financial performance indicators

Farm cash income = total cash receipts – total cash costs

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

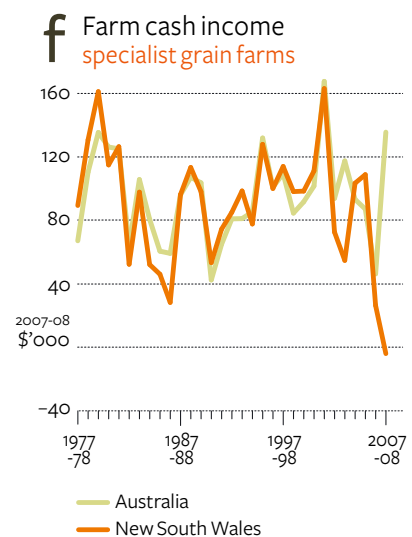
Grain farm performance — New South Wales and Australia

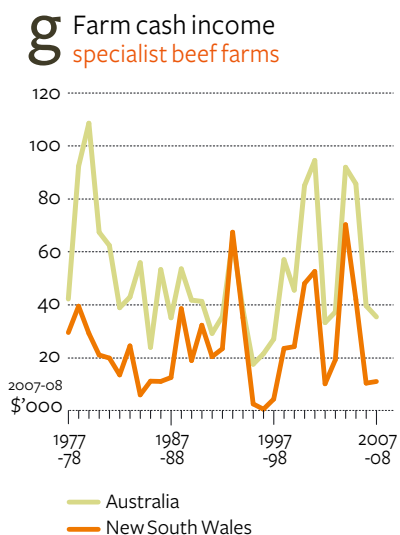
Most of the New South Wales grains belt was affected by severe drought in 2006-07, resulting in low grain yields. The reduced availability of irrigation water in the Murray Darling Basin also led to a severe decline in the planting of irrigated crops, particularly rice.

Average farm cash income in 2006-07 for New South Wales grain farms (including farms classified as grain or mixed grain-livestock farms) was the lowest in more than 30 years (figure f), and is estimated to have fallen further in 2007-08.

The very dry seasonal conditions during spring slashed winter crop yields for a second year and, despite higher grain prices and an increase in grain sorghum production in northern New South Wales during summer, total crop receipts are estimated to have fallen sharply in 2007-08. Although crop receipts are estimated to have increased in some regions of northern New South Wales, crop receipts in the southern area remained low and irrigated crop receipts were sharply reduced.

In marked contrast, total cash receipts for grain farms rose nationally in 2007-08, as some improvement in seasonal conditions, combined with high grain, oilseed and grain legume prices, led to a substantial increase in average farm cash income for grain farms (figure f).





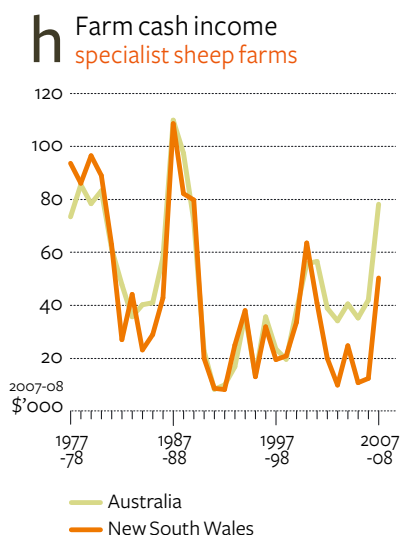
Beef farm performance — New South Wales and Australia

Severe drought conditions resulted in a sharp decline in farm cash income of New South Wales beef specialist farms (defined as farms with the majority of their income derived from beef cattle sales), relative to the national average in 2006-07 (figure g).

In 2007-08, farm cash income of New South Wales beef specialists is estimated to average \$11 000 per farm, which is historically low and relatively unchanged from 2006-07. Receipts from beef cattle are estimated to have been lower than the previous year, as is the expenditure on beef cattle purchases and fodder.

Farm business losses are expected to increase in 2007-08 because of lower cash flow, a further reduction in beef cattle numbers from 2006-07 and a rundown in on-farm fodder stocks.

Sheep farm performance — New South Wales and Australia



Historically, farm cash income for New South Wales sheep specialist farms (defined as farms with the majority of their income derived from sheep and wool) has closely followed the national average (figure h). However, the greater severity of drought conditions across New South Wales since 2002-03 has resulted in farm cash income falling below the national average. Since 2002-03, farm cash incomes for New South Wales sheep specialist farms have been similar to those of the early 1990s.

In 2007-08, farm cash incomes for New South Wales sheep specialist farms are estimated to have increased significantly as a result of higher wool prices, strong sheep and lamb prices and reductions in expenditure on fodder. Improvement in sheep specialist farm incomes in New South Wales is expected to exceed that for Australia because of a relatively larger increase in wool prices received and continued high turnoff of sheep and beef cattle.

Central West broadacre farm performance

Broadacre farms in the Central West region are mainly mixed enterprise farms, combining grain production with the running of sheep or beef cattle. Mixed grains-livestock farms account for 55 per cent of all farms in the region, while a further 13 per cent are mainly dependent on grain production. Sheep-beef farms account for 19 per cent of farms in the region.

An upward trend in farm cash incomes began in the early 1990s in the Central West region, before peaking in 2001-02. Since then, a series of drought and below average seasons in the region have led to much greater variability in farm incomes between years (figure i).

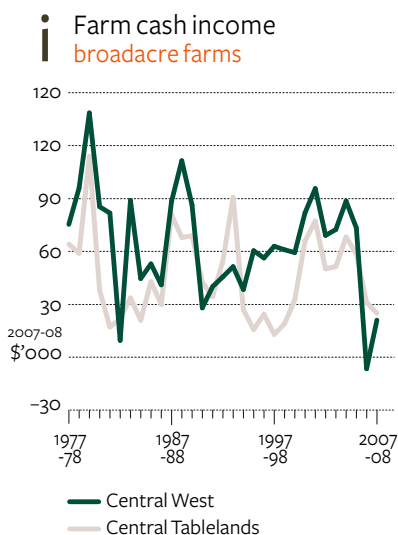
With promising planting conditions in 2006, the area sown to winter grain crops rose. However, dry conditions during spring resulted in poor yields and a sharp fall in crop receipts (table 3). Despite higher cattle and sheep turnoff, total cash receipts fell sharply in 2006-07. This, combined with higher fodder and crop expenses, meant farm cash income fell to -\$6600, the lowest farm cash income for broadacre farms in the region in more than 30 years.

3 Financial performance, Central West and Central Tablelands Broadacre industry average per farm

	Central West			Central Tablelands		
	2005-06	2006-07 ^p	2007-08 ^s	2005-06	2006-07 ^p	2007-08 ^s
Receipts						
Wheat	\$ 89 890	30 100 (45)	52 000	10 840	1 100 (125)	5 000
Barley	\$ 21 550	15 400 (67)	5 000	1 850	500 (135)	1 000
Other crops	\$ 28 140	11 500 (53)	3 000	16 380	5 300 (20)	6 000
Sheep and lamb sales	\$ 55 640	65 400 (18)	48 000	34 100	21 100 (28)	32 000
Wool sales	\$ 36 250	42 700 (18)	37 000	21 880	25 800 (37)	22 000
Beef cattle sales	\$ 52 800	46 000 (42)	50 000	118 040	97 500 (37)	86 000
Total cash receipts	\$ 314 720	244 500 (13)	225 000	240 510	182 200 (30)	172 000
Costs						
Sheep and lamb purchases	\$ 16 710	15 700 (36)	8 000	3 560	2 300 (44)	4 000
Beef cattle purchases	\$ 13 730	21 200 (46)	8 000	20 610	24 600 (45)	31 000
Fodder	\$ 4 580	17 800 (32)	8 000	11 930	16 500 (25)	1 000
Fertilizer	\$ 26 020	22 500 (12)	25 000	12 910	5 800 (41)	6 000
Fuel, oil and lubricants	\$ 22 830	19 100 (9)	18 000	12 190	7 900 (19)	8 000
Total cash costs	\$ 241 410	251 100 (11)	204 000	181 910	151 900 (24)	148 000
Financial performance						
Farm cash income	\$ 73 310	-6 600 (276)	21 000	58 600	30 300 (109)	25 000
Farms with negative farm cash income	% 16	61 (14)	51	12	41 (29)	30
Farm business profit	\$ 1 520	-131 200 (12)	-71 000	-20 870	-68 700 (31)	-50 000
Farm with negative farm business profit	% 63	97 (2)	74	70	88 (7)	66
Farm capital and debt						
Farm capital at 30 June ^a	\$ 2 621 100	2 635 200 (8)	na	3 229 570	3 041 100 (18)	na
Farm debt at 30 June ^{b,c}	\$ 279 250	374 300 (15)	na	186 860	423 500 (30)	na
Equity ratio at 30 June ^{b,d}	% 89.3	85.3 (2)	na	94.2	89.3 (3)	na
Rate of return^e						
- excluding capital appreciation	% 1.2	-3.9 (20)	-1.6	-0.2	-1.6 (62)	-0.9
- including capital appreciation	% 3.5	-1.0 (219)	na	8.4	6.4 (126)	na

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

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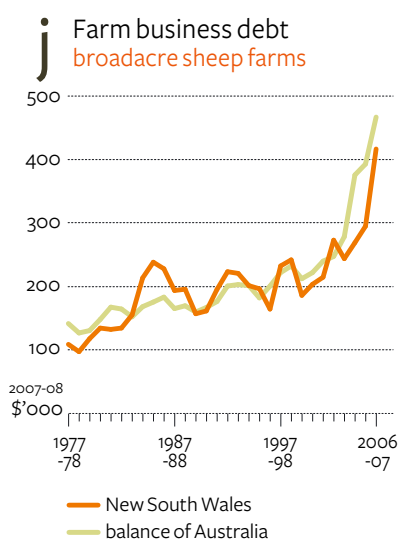


Farm cash income of Central West broadacre farms is estimated to have increased in 2007-08 to reach an average of around \$21 000 (table 3). In 2007-08, after promising early rains, the area planted to winter crops expanded. But once again, dry conditions through spring resulted in low crop yields, similar to those in 2006-07. While higher grain prices offset the decline in wheat production, average crop and livestock receipts declined in 2007-08. In response to two consecutive years of low cash receipts, cash costs are estimated to have declined markedly as spending on livestock purchase, fodder and repairs decreased, although expenditure on cropping increased.

Central Tablelands broadacre farm performance

From the mid 1990s the average farm cash income of Central Tablelands farms has mostly been below that achieved by farms in the Central West. This largely reflects the smaller size of farms in the Central Tablelands region, which operate mainly livestock enterprises. Beef farms account for around 40 per cent of the total number of farms in the region; 30 per cent are sheep-beef farms, and 20 per cent are mixed grains-livestock farms. Reflecting the lower reliance on cropping, the decline in farm cash income in 2006-07 was not as severe as in the Central West region (figure i).

Beef cattle, sheep and lamb sales fell sharply in the face of drought in 2006-07 and despite producers' attempts to contain costs, farm cash income was reduced markedly to an average of around \$30 000.



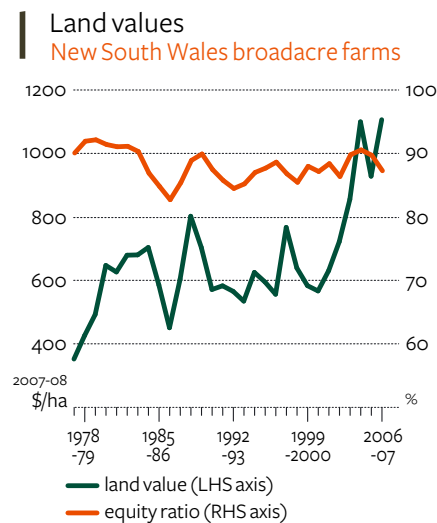
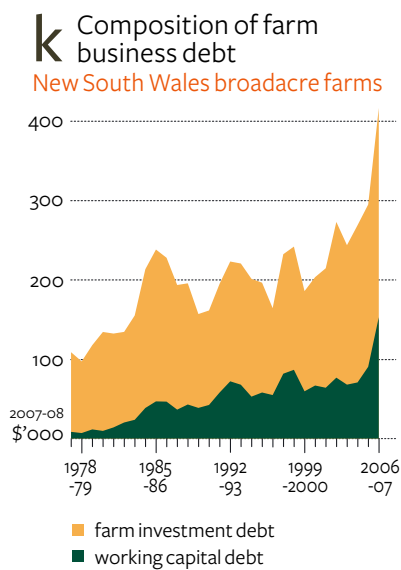
In 2007-08, Central Tablelands farms are estimated to have reduced sheep numbers by more than they have reduced beef cattle numbers. Sheep and lamb sales are estimated to be higher, while wool and beef receipts are estimated to be lower. Expenditure on beef purchases was higher in 2007-08, but overall total cash costs were lower because of reduced spending on fodder. With the larger fall in cash receipts relative to cash costs, farm cash income is estimated to have fallen further to average around \$25 000 per farm.

Debt and investment in New South Wales

Farm business debt rose steadily in New South Wales and other Australian states during the 25 years to 2002-03. The rate of increase has been steeper since then, with debt increases for New South Wales broadacre farms since 2002-03 similar to that for farms elsewhere in Australia (figure j).

Historically, farm business debt in New South Wales has mainly funded investment (land purchases, machinery, improvements and livestock purchases), but much of the sharp rise in debt in 2005-06 and 2006-07 has been to finance working capital (figure k). During this period there was a large increase in the proportion of farms recording negative farm cash income. In 2006-07, the proportion of farm business debt to fund working capital was 37 per cent, one of the highest proportions recorded since the ABARE survey began in 1977-78.

Although farm debt has been rising, there have also been increases in land prices, largely as the result of strong demand for rural land. This has raised farm capital values and has substantially offset the impact of debt increases on farm equity (figure l). This has enabled producers to borrow more for working capital to meet the reduced cash flow during the drought and for other investments. However, increases in working capital debt have added to the debt servicing burden of farm businesses.



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.

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. However, rainfall during the growing season will be critical for these forecasts to be realised.

Rainfall in early June 2008 across northern New South Wales and Queensland benefited crops that were dry sown in those regions providing the rainfall growers needed to plant remaining crops. In southern and central parts of New South Wales, continued dry conditions have seen most crops in those areas being dry sown. In South Australia and Victoria, rainfall in May across parts of the grains belt helped crops that had been dry sown and provided the opportunity for further plantings. Prolonged dry periods in these states mean follow-up rains will be critical.

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 mid-June 2008, flooding occurred across much of Iowa in the United States, one of the largest corn producing states. At the time of writing, little information was available on the extent of the damage to crops. If significant damage has occurred, then US corn production could be lower than currently forecast, resulting in a higher than forecast world indicator price.

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 mid-June 2008, flooding occurred across much of Iowa in the United States, one of the largest soybean producing states. At the time of writing, little information was available on the extent of the damage to crops. If significant damage has occurred, then US soybean production could be lower than currently forecast, resulting in a higher than forecast world indicator price.

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 esti-

mated 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.

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 an average of 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

The eastern market indicator (EMI) price for wool remains relatively high despite a steady decline that began in February 2008. In early May 2008, the EMI 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 EMI is forecast to fall 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 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 become 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.