

## ARMIDALE, NSW Regional Outlook CONFERENCE

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# Commodity outlook and financial performance of key agricultural industries in New England, and North West Slopes and Plains

Daniel Mackinnon, Peter Martin and commodity analysts

This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in New South Wales and highlights the performance of beef, grains and sheep farms. The financial performance of broadacre farms in the New England, and North West Slopes and Plains regions is also discussed.

The New England, and North West Slopes and Plains regions as defined in this paper are outlined in map 1. These regions include the regional centres of Armidale, Glen Innes, Gunnedah, Moree, Narrabri and Tamworth (map 1).

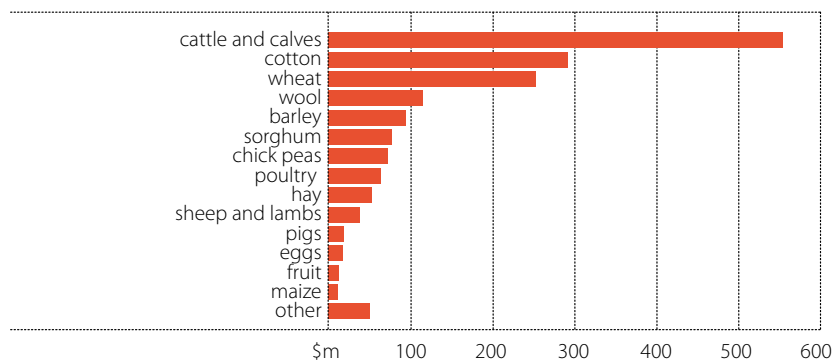
map 1 New England and North West Slopes and Plains region



### Agricultural profile

In dollar value terms, beef cattle are the most significant agricultural product in the New England, and North West Slopes and Plains regions, accounting for 32 per cent, or \$555 million, of the \$1.7 billion total value of agricultural production for these regions in 2006-07. This is the most recent year for which Australian Bureau of Statistics data are available on a regional basis (figure a).

**a** Value of agricultural production, New England and North West Slopes and Plains, 2006-07



Source: Australian Bureau of Statistics.

Cotton and wheat accounted for a further 17 per cent (\$292 million) and 15 per cent (\$253 million) of the total value of agricultural production in these regions, respectively. Wool was the fourth most important product produced in 2006-07, accounting for 7 per cent (\$116 million) of the total value of agricultural production. Barley, grain sorghum, chick peas and poultry were also important contributors to the total value of production in the regions in 2006-07.

## Number of farms

Australian Bureau of Statistics data indicate that in 2006-07 there were 6805 farms in the New England, and North West Slopes and Plains regions, with an estimated value of agricultural operations of more than \$5000 (table 1).

Farms are classified in table 1 according to the activities which generate most of their value of production. In the New England, and North West Slopes and Plains regions, around 47 per cent of farms operated beef cattle enterprises, compared with only 34 per cent at the state level. Sheep-beef cattle farms were the second most common farm type in 2006-07, accounting for around 17 per cent of farms, followed by grain growing farms which accounted for around 9 per cent of all farms in the regions. Specialised sheep farms and mixed grain-livestock farms both accounted for around 8 per cent of farms in the regions in 2006-07.

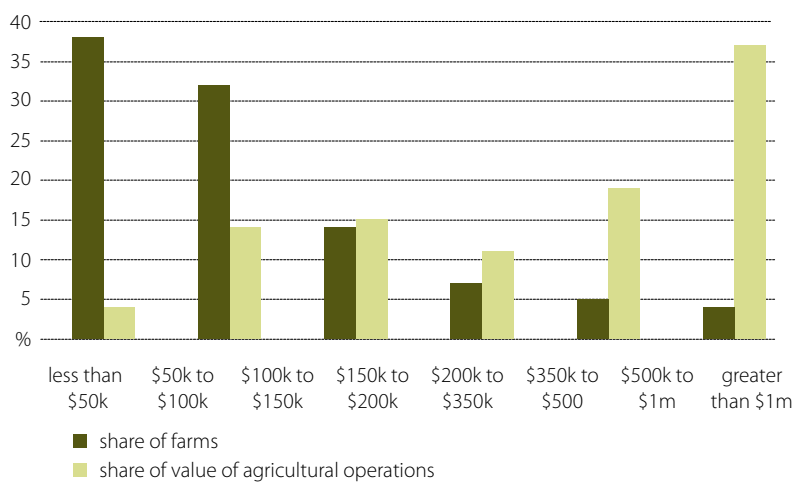
### 1 Number of farms, by industry classification, 2006-07 <sup>a</sup>

	New England and North West Slopes and Plains		New South Wales	
	no.	%	no.	%
Beef cattle	3 203	47	14 274	34
Sheep-beef cattle	1 181	17	1 059	3
Grain	640	9	889	2
Sheep	536	8	3 516	8
Grain-livestock	524	8	813	2
Horses	214	3	1 033	2
Cotton	186	3	777	2
Pigs	45	1	241	1
Poultry (eggs)	30	0.4	218	1
Other	247	4	349	1
All agricultural industries	6 805	100	42 011	100

<sup>a</sup> Where the estimated value of agricultural operations is more than \$5000.  
Source: Australian Bureau of Statistics.

As in most parts of Australia, a high proportion of farms are small in terms of their business size and these farms make a relatively small contribution to the total value of production. The estimated value of agricultural operations (EVAO) is a measure of the value of production by farms and of a farm's business size, which is somewhat similar to turnover. Around 38 per cent of farms in the New England, and North West Slopes and Plains regions had an EVAO of less than \$50 000, and a further 19 per cent had a value between \$50 000 and \$100 000 (figure b). Just 9 per cent of farms in the regions were classified as having an EVAO of more than \$500 000 in 2006-07, but these farms produced 56 per cent of the total value of agricultural operations.

**b** Distribution of farms, by value of agricultural operations, New England and North West Slopes and Plains, 2006-07

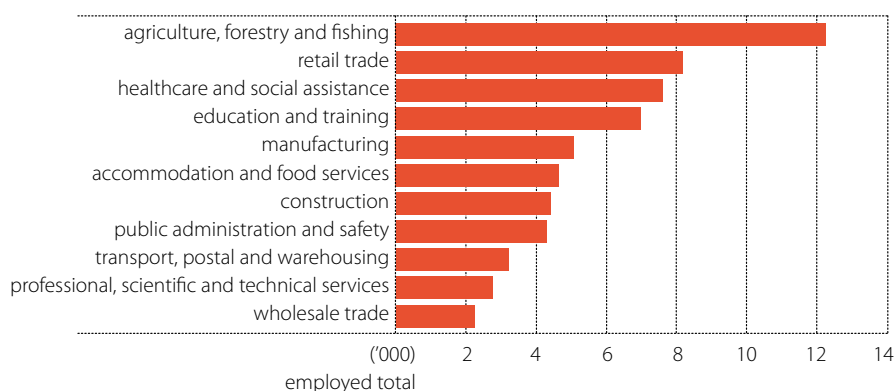


Source: Australian Bureau of Statistics.

## Employment

Australian Bureau of Statistics data from the 2006 Census show that around 72 700 people were employed in the New England, and North West Slopes and Plains regions. The agriculture, forestry and fishing industry employed the largest number of people, accounting for 17 per cent (12 300 people) of the total labour force (figure c). Retail trade was the second largest employment group accounting for 11 per cent (8200 people), and the healthcare and social assistance industry accounted for a further 10 per cent (7600 people) of the total New England, and North West Slopes and Plains labour force.

**c** Employment profile, New England and North West Slopes and Plains, 2006 Census of Population and Housing



Source: Australian Bureau of Statistics.

## Broadacre farm performance – Australia and New South Wales

Farm financial performance of Australian broadacre farms is projected to strengthen in 2008-09, adding to the improvement in farm financial performance recorded in 2007-08. Increased grain production, combined with favourable prices for livestock, and reductions in fodder prices and interest rates, are projected to result in farm cash incomes on broadacre farms rising to an average of around \$80 000 a farm in 2008-09 (figure d and table 2).

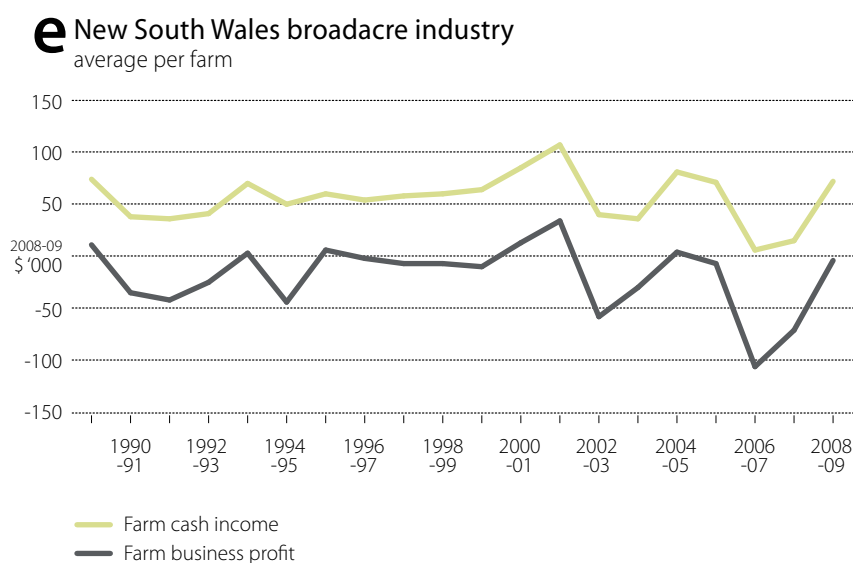


Average farm business profit of Australian broadacre farms is projected to recover more strongly than the increase in farm cash income in 2008-09 (table 2). This largely reflects a small buildup in the value of trading stocks as a result of producers increasing cattle numbers in northern Australia and increasing on-farm inventories of fodder and grain.

Broadacre farms in the grain growing areas of north-western and central New South Wales are projected to have higher farm cash incomes in 2008-09, despite crop losses and grain quality downgrading caused by rainfall and by flooding during the harvest period. In contrast, farm cash incomes are projected to be relatively low across most of southern New South Wales, where dry seasonal conditions have continued, particularly in the irrigated areas of the southern Murray-Darling Basin.

Higher livestock prices and reductions in cash costs are projected to slightly increase average farm cash incomes for livestock farms, despite lower wool prices. Improvement will mainly occur in the north and east, where turn-off of cattle and sheep is also expected to increase slightly.

On average, farm cash income of broadacre farms in New South Wales is projected to increase from \$14 300 in 2007-08 to \$72 000 in 2008-09 (figure f and table 2). Higher farm cash incomes and a small buildup in farm trading stocks are also projected to reduce farm business losses for New South Wales broadacre farms, on average, in 2008-09 (figure e).



## 2 Financial performance, broadacre industry

average per farm

	New South Wales				Australia			
	2006-07	2007-08 <sup>p</sup>	2008-09 <sup>s</sup>	2006-07	2007-08 <sup>p</sup>	2008-09 <sup>s</sup>		
<b>Receipts</b>								
Total crops	\$ 101 280	100 300	(16)	176 000	102 920	166 700	(5)	196 000
Beef cattle	\$ 115 420	94 100	(10)	97 000	115 250	100 300	(5)	116 000
Sheep and lambs	\$ 38 970	54 300	(8)	56 000	36 650	44 200	(5)	47 000
Wool	\$ 28 760	42 500	(8)	32 000	28 280	37 300	(4)	30 000
Total cash receipts	\$ 335 030	353 700	(6)	415 000	346 950	415 100	(3)	450 000
<b>Costs</b>								
Beef cattle purchases	\$ 45 960	30 700	(18)	32 000	34 410	26 100	(12)	26 000
Fodder	\$ 27 170	12 200	(28)	8 000	23 150	12 500	(12)	10 000
Fertiliser	\$ 20 780	26 700	(9)	32 000	24 470	39 300	(4)	45 000
Sprays	\$ 15 770	21 000	(8)	26 000	16 380	23 400	(4)	26 000
Fuel, oil and lubricants	\$ 21 440	28 600	(10)	30 000	21 900	28 300	(4)	29 000
Repairs and maintenance	\$ 25 870	29 000	(10)	28 000	24 870	28 000	(4)	28 000
Interest payments	\$ 35 680	49 700	(9)	39 000	34 430	43 900	(5)	33 000
Total cash costs	\$ 329 750	339 400	(6)	343 000	315 800	352 800	(3)	370 000
<b>Financial performance</b>								
Farm cash income	\$ 5 280	14 300	(84)	72 000	31 150	62 300	(11)	80 000
Farms with negative farm cash income	% 52	44	(9)	35	45	38	(5)	36
Farm business profit	\$ -98 750	-68 200	(18)	-4 000	-64 750	-21 300	(34)	-7 000
Farms with negative farm business profit	% 87	79	(3)	66	81	70	(2)	69
<b>Farm capital, debt and equity</b>								
Farm capital at 30 June <sup>a</sup>	\$ 3 416 380	3 926 300	(4)	na	3 697 750	4 207 300	(2)	na
Farm debt at 30 June <sup>bc</sup>	\$ 519 740	597 000	(9)	634 000	471 650	547 200	(4)	551 000
Equity ratio at 30 June <sup>bd</sup>	% 85	84	(1)	na	87	87	(1)	na
<b>Rate of return <sup>e</sup></b>								
- excl. capital appreciation	% -1.7	-0.3	(103)	1.1	-0.7	0.8	(22)	0.9
- incl. capital appreciation	% 3.3	0.7	(100)	na	7.1	2.7	(13)	na

<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>p</sup> Preliminary estimates. <sup>s</sup> Provisional estimates. <sup>na</sup> Not available.

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

box 1 Major financial performance indicators

**Total cash receipts:** total revenues received by the business during the financial year.

**Total cash costs:** payments made by the business for materials and services and for permanent and casual hired labour (excluding owner manager, partner and family labour).

**Farm cash income:** *total cash receipts – total cash costs*

**Farm business profit:** *farm cash income + changes in trading stocks – depreciation – imputed labour costs*

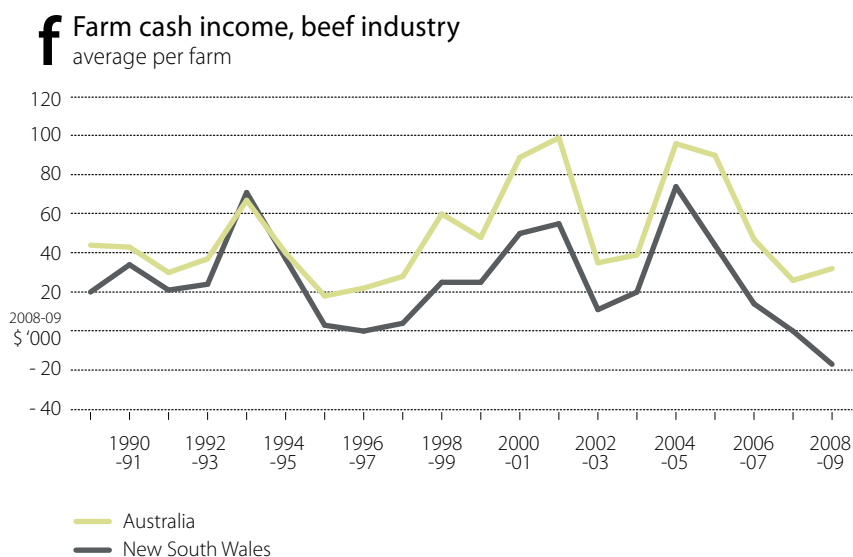
**Profit at full equity:** return produced by all the resources used in the business.

*farm business profit + rent + interest + finance lease payments – depreciation on leased items*

**Rate of return:** return to all capital used  $\frac{\text{profit at full equity}}{\text{total opening capital}} \times 100$

## Beef industry – Australia and New South Wales

Since peaking in 2004-05, average farm cash income of New South Wales beef industry farms (defined as farms with the majority of their income derived from beef cattle sales) has declined sharply as severe drought, particularly in southern New South Wales, restricted beef cattle production and contributed to higher farm costs (figure f).



Nationally, reduced beef cattle turn-off and lower beef cattle prices received resulted in a large fall in total cash receipts in 2007-08 as herd rebuilding occurred. Average total cash costs were also lower with the biggest cut-back in spending resulting from a reduction in beef cattle purchases. New South Wales beef industry farms reduced beef cattle turn-off in 2007-08, leading to much lower average farm receipts. Reduced expenditure on fodder and beef cattle purchases were not enough to offset the fall in farm receipts, resulting in lower average farm cash income for New South Wales beef industry farms in 2007-08.

In 2008-09, higher beef cattle prices and increased beef cattle turn-off, particularly in northern Australia, are projected to result in a larger increase in beef cattle receipts nationally than for those in New South Wales. Total cash costs at both the state and national levels are projected to rise in 2008-09, largely because of increased

expenditure on beef cattle purchases in areas where seasonal conditions have improved. Nationally, a bigger rise in farm receipts relative to farm costs is projected to increase farm cash income of beef industry farms to an average of around \$32 000 a farm in 2008-09. However, for New South Wales beef industry farms only a small increase is projected in farm receipts. A much larger increase is projected in total cash costs for these farms as a consequence of continued drought in the southern regions, combined with increased beef cattle purchases and is expected to lead to a projected fall in farm cash income to around -\$17 000, on average, in 2008-09.

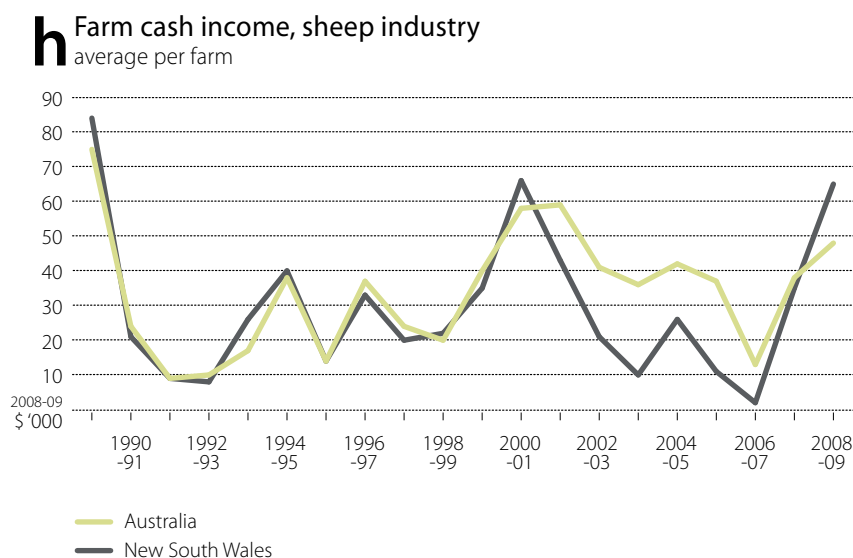
## Grains industry – Australia and New South Wales

Most of the New South Wales grains belt was affected by severe drought in 2006-07, resulting in low grain yields and a much lower farm cash income for grains industry farms (defined as farms in the grains and grains-livestock industries) (figure g). 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.

In 2007-08, farm cash income for Australian grains industry farms increased from the drought reduced levels of 2006-07. This was mainly on the back of high grains prices and production increases in northern regions, and despite increased expenditure on the key crop inputs of fuel, chemicals and fertiliser. For New South Wales grains farms, increased winter grain production in northern regions and high grains prices were offset by a poor harvest in the south of the state, higher crop input costs and increased interest expenditure (figure g). In 2007-08, there was a good grain sorghum harvest in north-eastern and north-central New South Wales, but most sales from this harvest occurred in 2008-09.



In 2008-09, increased grain production in New South Wales, Queensland and Western Australia is expected to result in average farm cash income for Australian grains farms increasing to around \$136 000 a farm, despite low grain yields in southern and eastern states, weaker grains prices and an overall increase in expenditure on crop inputs. Average farm cash income for New South Wales grains farms is projected to increase to average \$148 000 a farm, mostly because of improved wheat yields in northern and central areas, together with receipts from the sale of grain sorghum produced in 2007-08. This increase in farm cash income is projected to occur despite crop losses and grain quality downgrading caused by rainfall and flooding during the harvest period and high total cash costs in 2008-09.



## Sheep industry – Australia and New South Wales

Historically, farm cash income for New South Wales sheep industry farms (defined as farms with the majority of their income derived from sheep and wool) has closely followed the national average. However, widespread severe drought conditions across New South Wales since 2002-03 has resulted in farm cash income falling below the national average (figure h). In the period between 2002-03 and 2006-07, farm cash incomes for New South Wales sheep industry farms have been similar to the low incomes of the early 1990s.

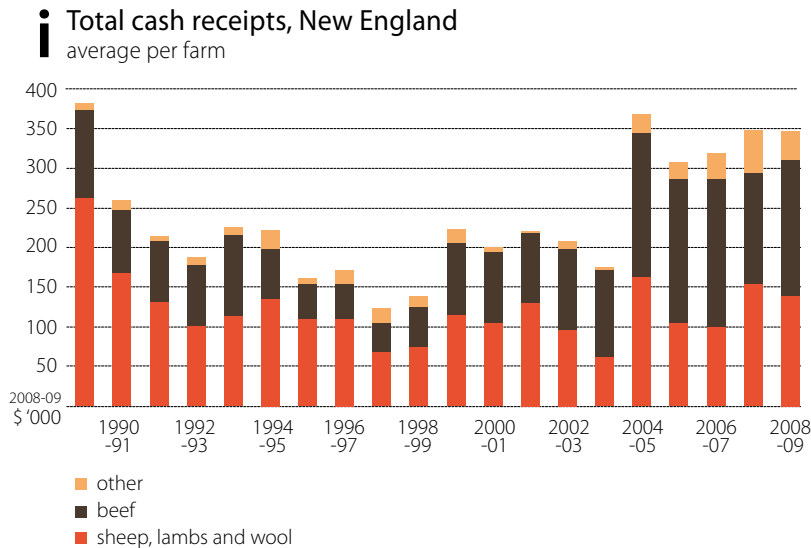
In 2007-08, higher wool prices and increased sheep and lamb turn-off boosted the average farm cash income of sheep industry farms nationally. This was despite a rise in average interest paid and total cash costs. Farm cash incomes for New South Wales sheep industry farms increased by more than that recorded nationally because of a bigger increase in wool production and turn-off of sheep and lambs, on average.

In 2008-09, average farm cash income of Australian and New South Wales sheep industry farms is projected to improve further, with strong sheep and lamb prices and increased crop receipts more than offsetting lower wool prices and wool production.

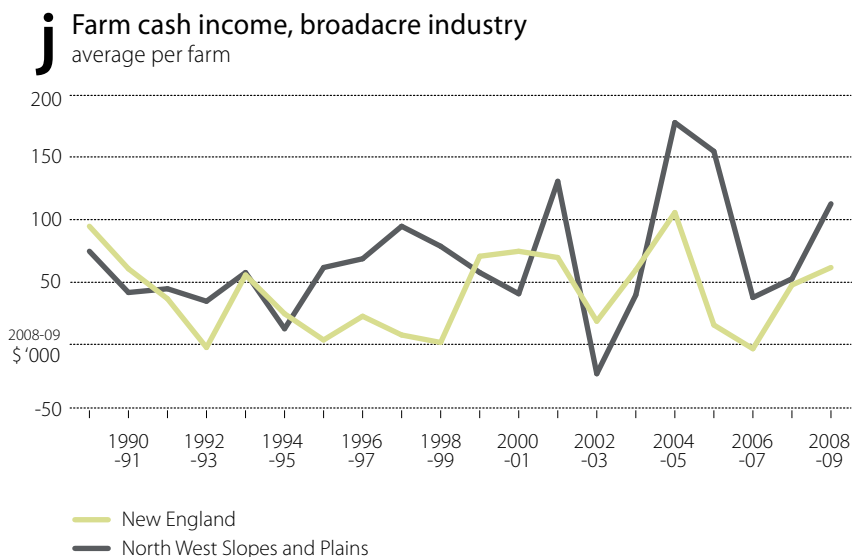
## New England broadacre farm performance

Over the past 20 years, the proportion of farms mainly dependent on sheep in the New England region has declined and beef cattle operations have become much more prominent. Consequently, the proportion of total cash receipts generated from the sale of sheep, lambs and wool has fallen from around 70 per cent in 1989-90 to an average of around 40 per cent in 2007-08 and 2008-09 (figure i).

In 2007-08, broadacre farms in the New England region continued to expand beef cattle numbers, mostly through a reduction in beef cattle turn-off. As a result, average beef cattle receipts per farm were lower, but increased wool prices and wool production, and increased turn-off of sheep and lambs, pushed average farm receipts up by around 13 per cent (table 3). Average farm costs were lower in 2007-08 with reduced beef cattle purchase expenditure and interest payments more than offsetting increased fodder, fertiliser, and repairs and maintenance costs. Consequently, average farm cash income of broadacre farms in the region increased from around -\$2760 in 2006-07 to \$46 500 in 2007-08 (figure j), and the proportion of farms recording negative farm cash income more than halved from 60 per cent in 2006-07 to around 26 per cent in 2007-08 (table 3).



In 2008-09, average farm receipts for New England broadacre farms are projected to increase by around 3 per cent, with an increase in beef cattle turn-off combined with continued strong sheep and lamb receipts more than offsetting lower wool receipts. Average farm costs are projected to remain steady in 2008-09 with higher repairs and maintenance costs largely offset by reduced fodder costs and a reduction in beef cattle purchases. As a result, average farm cash income for broadacre farms in the region is projected to increase to around \$62 000 a farm in 2008-09, and the proportion of farms recording negative farm cash income is projected to fall further.



## North West Slopes and Plains farm performance

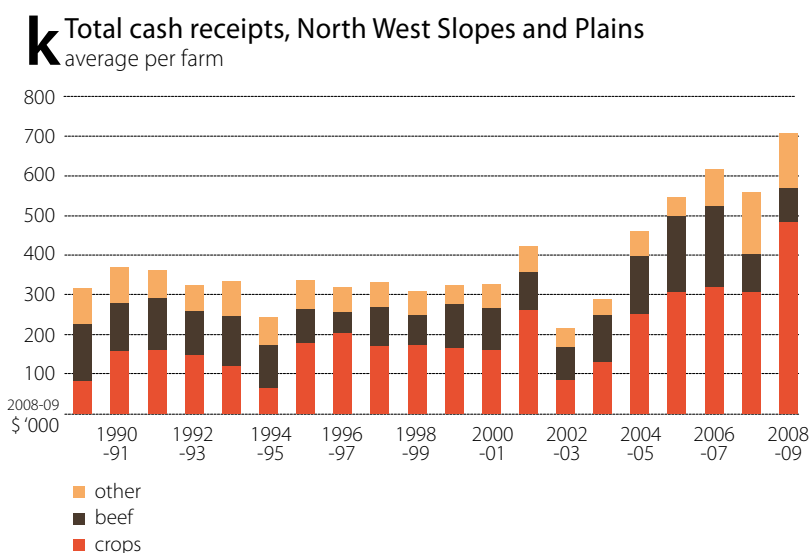
The North West Slopes and Plains region is dominated by grains and beef industry farms, with the grains industry (which includes farms undertaking grains and mixed grains-livestock enterprises) accounting for around 42 per cent of farms in the region in 2007-08, and beef industry farms accounting for a further 39 per cent. Since the severe drought in 2002-03, grain production in the region has expanded sharply, leading to much higher cropping receipts both in total and as a proportion of average farm receipts (figure k).

### 3 Financial performance, broadacre industry average per farm

	New England				North West Slopes and Plains			
	2006-07	2007-08 <sup>p</sup>	2008-09 <sup>s</sup>	2006-07	2007-08 <sup>p</sup>	2008-09 <sup>s</sup>		
<b>Receipts</b>								
Total crops	\$ 10 560	21 900 (88)	8 000	297 490	295 600 (29)	482 000		
Beef cattle	\$ 173 410	135 400 (27)	171 000	189 930	92 900 (25)	87 000		
Sheep and lambs	\$ 41 450	60 700 (19)	60 000	10 650	13 200 (40)	15 000		
Wool	\$ 50 950	87 000 (30)	78 000	6 670	14 000 (49)	12 000		
Total cash receipts	\$ 296 890	335 800 (15)	347 000	574 050	540 400 (17)	706 000		
<b>Costs</b>								
Beef cattle purchases	\$ 48 190	42 200 (42)	34 000	73 640	24 000 (36)	24 000		
Fodder	\$ 18 100	20 400 (32)	14 000	29 400	8 000 (45)	5 000		
Fertiliser	\$ 20 630	27 100 (19)	30 000	33 880	31 800 (21)	48 000		
Sprays	\$ 2 690	4 400 62	2 000	42 930	45 600 15	74 000		
Fuel, oil and lubricants	\$ 13 640	12 400 (36)	10 000	40 010	55 100 (23)	58 000		
Repairs and maintenance	\$ 16 120	20 400 (17)	25 000	38 860	52 100 (20)	56 000		
Interest payments	\$ 39 760	31 300 (18)	27 000	66 690	83 100 (32)	84 000		
Total cash costs	\$ 299 650	289 300 (16)	286 000	538 350	489 000 (18)	594 000		
<b>Financial performance</b>								
Farm cash income	\$ -2 760	46 500 (43)	62 000	35 710	51 400 (104)	113 000		
Farms with negative farm cash income	% 60	26 (29)	13	41	49 (28)	39		
Farm business profit	\$ -37 370	9 000 (211)	-10 000	-81 990	-25 600 (160)	18 000		
Farms with negative farm business profit	% 72	70 (11)	76	82	80 (10)	71		
<b>Farm capital, debt and equity</b>								
Farm capital at 30 June <sup>a</sup>	\$ 4 448 600	4 590 500 (17)	na	4 785 930	5 262 400 (17)	na		
Farm debt at 30 June <sup>bc</sup>	\$ 454 080	443 700 (15)	na	1 004 150	946 300 (35)	na		
Equity ratio at 30 June <sup>bd</sup>	% 90	90 (2)	na	79	79 (5)	na		
<b>Rate of return <sup>e</sup></b>								
- excl. capital appreciation	% 0.3	1.0 (34)	0.4	0.1	1.3 (56)	1.9		
- incl. capital appreciation	% 5.6	-1.2 (113)	na	7.0	0.6 (445)	na		

<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>p</sup> Preliminary estimates. <sup>s</sup> Provisional estimates. <sup>na</sup> Not available.

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



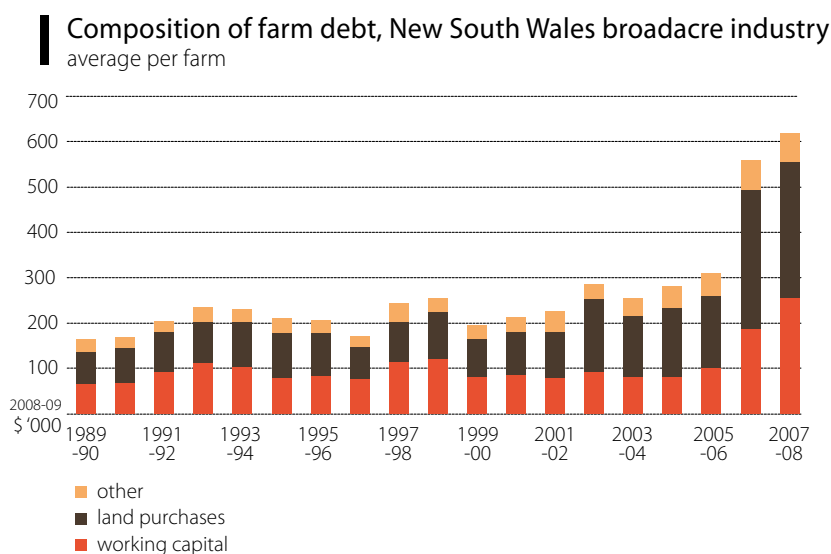
After promising early rains in 2007, the area planted to winter crops for 2007-08 was expanded. However, dry conditions through spring resulted in lower grain yields compared with those recorded in 2006-07. Conditions for dryland summer crops were much more favourable in 2007-08 and grain sorghum production increased. However, most sales of crops from this harvest were carried forward into 2008-09 and therefore crop receipts in 2007-08 remained low. Total cash receipts fell by around 6 per cent with little increase in crop receipts and a large reduction in beef cattle receipts from the drought induced high turn-off of 2006-07. Despite an increase in cropping input costs, total farm costs were down by an average of 9 per cent because of reduced outlays on beef cattle purchase and fodder. With a greater fall in farm costs compared to farm receipts, average farm cash income of North West Slopes and Plains broadacre farms increased from \$35 710 a farm in 2006-07 to around \$51 400 a farm in 2007-08 (table 3).

Expansion of areas sown to wheat, barley, grain sorghum and grain legumes combined with favourable seasonal conditions during spring, boosted winter crop production and, in combination with increased receipts from the sale of grain sorghum carried forward from 2007-08, led to much higher projected average crop receipts and total farm receipts in the region in 2008-09. Overall, average farm cash income of North West Slopes and Plains broadacre farms is projected to more than double to average around \$113 000 a farm in 2008-09, despite higher farm costs (table 3).

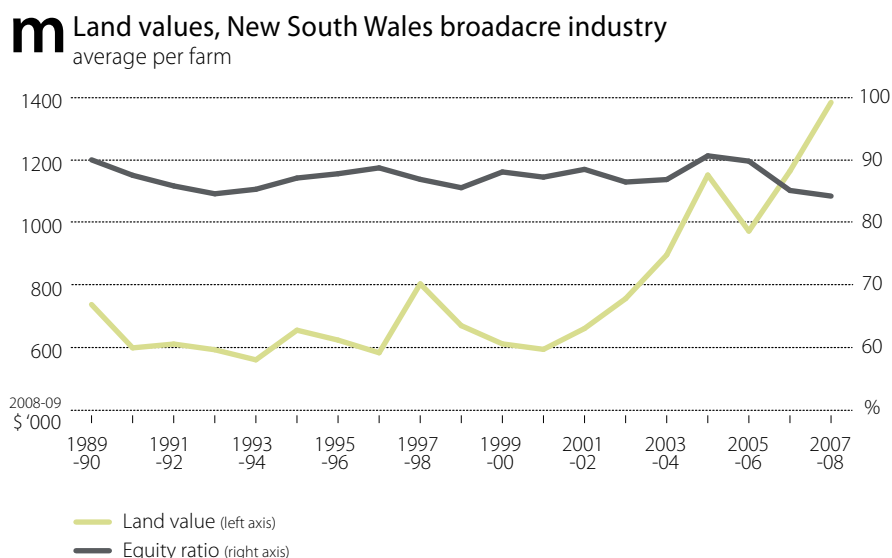
## Farm debt and investment – New South Wales

In 2007-08, average farm business debt for broadacre farms is estimated to have increased by 15 per cent in New South Wales and by 16 per cent nationally. Farm businesses interviewed by ABARE in November 2008 indicated they expected to make smaller increases in farm debt in 2008-09, on average (table 2).

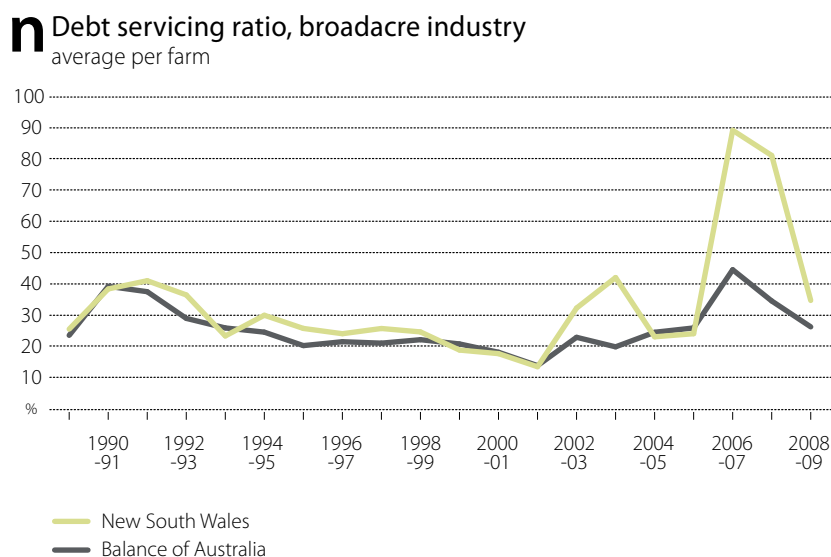
Historically, farm business debt in New South Wales has mainly funded investment (land purchases, machinery, improvements and livestock purchases), but much of the sharp rise in debt in 2006-07 and 2007-08 has been to finance working capital (figure 1). During this period there was a large increase in the proportion of farms recording negative farm cash income.



Although farm debt has been rising, there have also been increases in land prices, largely as a result of strong demand for rural land. This has raised farm capital values and has substantially offset the effect of debt increases on farm equity (figure m). 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.



For New South Wales broadacre farms, the proportion of farm cash income needed to meet interest payments on farm debt (debt servicing ratio) increased sharply in 2006-07 and remained high in 2007-08 (figure n). The debt servicing ratio is defined as interest paid as a percentage of farm cash income plus interest paid. The sharp increase in the debt servicing ratio for New South Wales broadacre farms was exacerbated by historically low farm cash incomes compared with other states and territories. In 2008-09, improvement in the debt servicing ratio is expected with higher broadacre farm cash incomes and reduced interest rates.



## 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 2009 issue of *Australian commodities*.

### Seasonal outlook

The Australian Bureau of Meteorology in its latest (23 June 2009) seasonal rainfall outlook for the July to September period shows that some areas, generally across the south of the country, have a moderate shift in the odds favouring a drier than normal season. On the whole though, the chances of above normal rainfall are about the same as the chances of below average rainfall.

### Livestock

#### Beef

The Australian weighted average saleyard price of cattle is forecast to be largely unchanged in 2009-10 at an average of 296 cents a kilogram. This forecast is contingent on the assumption of an improvement in seasonal conditions.

The number of cows and heifers slaughtered is expected to fall as producers begin to rebuild herds. However, this is likely to be offset by an increase in steer slaughter. Beef production is forecast to remain slightly less than 2.2 million tonnes in 2009-10, with the total number of cattle slaughtered forecast to remain around 8.8 million head.

Total Australian beef exports are forecast to fall by 2 per cent in 2009-10 to 940 000 tonnes. While exports to the United States are forecast to rise, lower export volumes are expected for Japan, the Republic of Korea and emerging markets, particularly the Russian Federation. Exports of Australian beef to the Republic of Korea are forecast to fall by 5 per cent in 2009-10, as competition from US beef increases. However, export volumes are forecast to remain above pre-2003 volumes (prior to the US beef ban), at around 105 000 tonnes.

Australian beef exports to Japan are also forecast to fall in 2009-10, by around 3 per cent, to 350 000 tonnes. The principal reasons are increased competition with US beef for market share and dampened demand for beef arising from the economic slowdown in Japan.

Australian beef exports to the United States are forecast to increase by 7 per cent in 2009-10 to around 300 000 tonnes. US imports of Australian beef began to increase from September 2008, as the US dollar appreciated and the demand for cheaper beef cuts strengthened as a result of the economic downturn. The demand for cheaper meat, such as ground beef, is expected to remain strong throughout 2009-10.

Australian live cattle exports are estimated to increase in 2008-09 for the third consecutive year, largely reflecting strong demand in Indonesia. With lower economic growth assumed for Indonesia, other South-East Asian countries and the Middle East in 2009 and 2010, the demand for Australian live cattle is expected to be adversely affected, albeit not significantly. Live cattle exports are forecast to decline by 2 per cent to 780 000 head in 2009-10.

#### Sheep meat

Throughout 2008-09 lamb supplies have been tight, while demand has remained strong. As a result, prices during 2008-09 have been high. In 2009-10, lamb slaughter is forecast to increase slightly, as farmers are expected to respond to the high prices of the previous season by breeding more lambs for slaughter in 2009-10. This higher slaughter is expected to translate into higher lamb production for 2009-10. As a result, the Australian weighted average price of lambs is expected to fall by 1.7 per cent to 415 cents a kilogram in 2009-10.

The average slaughter weight of lambs is forecast to increase by 1.5 per cent in 2009-10 compared with 2008-09. This reflects expected lower feed costs, an increased proportion of crossbred lambs slaughtered relative to merino lambs, and an assumed improvement in seasonal conditions. As a result of increased lamb slaughter and heavier slaughter weights, lamb production is forecast to increase by 2 per cent in 2009-10, to 422 000 tonnes.

The weighted average saleyard price of sheep is forecast to increase by 2.6 per cent in 2009-10, to average 200 cents a kilogram. This forecast increase mainly reflects continued strong demand for mutton and live sheep in export markets, combined with expected lower production of mutton. Mutton production is forecast to fall by around 3 per cent in 2009-10, to 235 000 tonnes, reflecting the decreasing national flock and the retention of breeding animals in response to high lamb prices. This decline is smaller than the fall in sheep slaughter and reflects higher expected average slaughter weights as a result of assumed greater pasture availability.

The price forecasts for lamb and sheep are dependent on the assumption of a sustained improvement in seasonal conditions throughout 2009-10. Recent rains have increased re-stocker demand for lambs and sheep, which has contributed to higher prices. If seasonal conditions deteriorate, producers will turn-off more animals which will put downward pressure on saleyard prices.

The volume of lamb exports from July 2008 to April 2009 fell relative to the same period in 2007-08. This decline is expected to continue to the end of 2008-09 given the decline in lamb production. Lamb exports in 2008-09 are estimated to total 151 000 tonnes, a decline of 7 per cent from the previous year.

In 2009-10, lamb exports are forecast to increase by around 5 per cent to 158 000 tonnes, reflecting the expected increase in lamb production. Growth in world demand for Australian lamb in 2009-10 is expected to be weaker than in the past few years because of the effects of the economic slowdown in some export markets.

As a result of lower sheep slaughter, mutton exports in 2008-09 are estimated to fall by 7 per cent, to 147 000 tonnes. In 2009-10, mutton exports are forecast to fall by a further 3 per cent to 143 000 tonnes, reflecting lower domestic mutton production and the effect of weaker income growth in a number of key export markets.

Despite a 10 per cent decline in the Australian adult sheep flock during 2008-09, live sheep exports in 2008-09 are estimated to fall by 2 per cent to around 4 million head and remain similar in 2009-10. The relatively small decline in live sheep exports reflects a significant increase in live sheep export prices, which averaged around 20 per cent higher between July 2008 and March 2009 than for the same period in 2007-08. The value of live exports in 2008-09 is estimated to increase by 16 per cent relative to 2007-08, to \$334 million. The value of live sheep exports is forecast to further increase in 2009-10, by 0.5 per cent to \$336 million.

### Wool

The eastern market indicator (EMI) price for wool is estimated to average 795 cents a kilogram in 2008-09, which is 16 per cent lower than in 2007-08. This is the result of the significant decline in demand brought about by the global economic downturn and fast-falling consumer confidence in major wool apparel consuming economies, including the United States, the European Union and Japan. In 2009-10 the EMI is forecast to increase 3 per cent, to 820 cents a kilogram clean. This is an upward revision to the price forecast presented in the March issue of *Australian commodities* and can be attributed to expected strong growth in Chinese domestic retail sales combined with a downward revision of Australian shorn wool production.

The number of sheep shorn is forecast to decline to 78 million in 2009-10, which is a fall of 7 per cent from the 2008-09 season and is a result of the ongoing decline in the size of the Australian flock. In light of the shrinking flock size and the changing focus of enterprises away from wool toward the production of sheep meat, shorn wool production is forecast to fall by 7 per cent to 330 000 tonnes in 2009-10.

Weak retail activity in the United States and European Union in 2009 is expected to continue to affect 2009-10 orders for semi-durables such as yarn and apparel. This will put downward pressure on demand for Australian raw wool by China as it is the world's largest wool processor and exporter. However, mitigating the downward pressure on wool demand in 2009 is the forecast of strong domestic retail sales growth for China, the largest global consumer of apparel wool. Australian wool exports in 2009-10 (including greasy wool, semi-processed wool and skins) are estimated to fall by 8 per cent, to 405 000 tonnes greasy wool equivalent. Coupled with lower prices, export earnings are forecast to fall by around 7 per cent, to \$2.12 billion.

## Crops

### *Wheat*

In 2009-10 world wheat production is forecast to be 6 per cent lower than last season's record harvest. Lower world wheat production will provide some support for the world indicator price. Nevertheless world stocks have increased from their recent lows and are forecast to continue to increase in the short term. As a result, the world wheat indicator price is forecast to average 4 per cent lower in the 2009-10 season compared with 2008-09.

World wheat production is forecast to fall by around 40 million tonnes in 2009-10 under the assumption that yields will be lower than the highs achieved in the previous season. Taking into account opening season stocks, global wheat supplies are forecast to be 3 million tonnes lower in 2009-10 compared with 2008-09.

World wheat consumption is forecast to remain largely unchanged in 2009-10 at around 641 million tonnes. Wheat used for human consumption is forecast to rise. However, this increase is expected to be largely offset by lower use of wheat for livestock feed.

The area sown to wheat in Australia in 2009-10 is forecast to decrease by less than 1 per cent from the previous year to 13.5 million hectares. Assuming that yields return closer to historical average, wheat production is forecast to around 22 million tonnes in 2009-10, which is a 3 per cent increase from the previous year. However, rainfall during the growing season will be critical for these forecasts to be realised.

In Victoria the major cropping areas received average rainfall throughout autumn. In particular, rainfall in late April 2009 provided most growers with a reasonable start to the 2009-10 winter cropping season. Subsequent rainfall in late May and early June across Victoria was timely for crops already sown. Wheat production in Victoria is forecast to be 2.6 million tonnes in 2009-10, which is around 1.1 million tonnes higher than the drought affected 2008-09 season.

Forecast lower global wheat prices and an expected increase in domestic production are likely to result in wheat prices being lower in 2009-10. The pool return for Australian premium white wheat (APW 10) is forecast to average \$291 a tonne, which is 3 per cent lower than the previous year.

### *Coarse grains*

The world coarse grain indicator price (US corn, fob Gulf) is forecast to increase by US\$5 a tonne in 2009-10 to average US\$182 in 2009-10. World coarse grains production in 2009-10 is forecast to fall slightly to around 1.07 billion tonnes from last season's record 1.1 billion tonnes. However, higher opening season stocks are expected to result in global coarse grains supplies in 2009-10 being largely unchanged from 2008-09.

In the United States, corn is the major coarse grain produced, accounting for 95 per cent of total coarse grain production in that country. The area planted to corn is forecast to fall by 1 per cent in 2009-10 as a result of an expected increase in plantings of soybeans. Corn production in the United States is forecast to decline to 303 million tonnes in 2009-10, compared with 307 million tonnes in 2008-09.

World coarse grain consumption is forecast to increase slightly to a record 1.09 billion tonnes in 2009-10, the fourth consecutive year in which global consumption could exceed 1 billion tonnes. The increase is forecast to be largely driven by strong growth in industrial use, in particular for ethanol production in the United States.

In Australia, the area sown to barley is forecast to decline by 1 per cent in 2009-10 to 4.5 million hectares but with increased yields, production is forecast to increase by around 893 000 tonnes to 7.7 million tonnes.

Despite an expected rise in world prices, Australian feed and malting barley prices are forecast to fall in 2009-10 as Australian barley production rebounds from the 2008-09 harvest. Australian feed barley prices in 2009-10 are forecast to fall by 4 per cent to average \$194 a tonne and malting barley prices to remain largely unchanged at \$232 a tonne.

### *Oilseeds*

In 2009-10 the world oilseed indicator price (soybeans, cif, Rotterdam) is forecast to decline, as an expected significant increase in production will outweigh the effect of any increase in consumption.

World oilseed production is forecast to rise to a record 422 million tonnes in 2009-10, a 7 per cent increase from the previous year. Production of soybeans, which account for around 57 per cent of total oilseed production, is forecast to increase in 2009-10.

World oilseed consumption is forecast to increase by 3 per cent in 2009-10 to 413 million tonnes, as the derived demand for oilseed products increases. Industrial use (mainly biodiesel) of vegetable oil is forecast to increase by 6 per cent, to a record 26 million tonnes in 2009-10. Continued mandated biodiesel use in South America, North America and the European Union is keeping biodiesel production, and hence vegetable oil consumption, growth strong.

Variable rainfall across the Australian grains belt has resulted in a mixed outlook for canola plantings in different regions. The total area sown to canola is forecast to increase by 7 per cent to 1.2 million hectares in 2009-10. Canola production is forecast to decline by 9 per cent in 2009-10 to 1.7 million tonnes, compared with 1.9 million tonnes in 2008-09. Much of the forecast decline relates to Western Australia, after record production was achieved in the previous season.