

DEVONPORT, TAS Regional Outlook CONFERENCE

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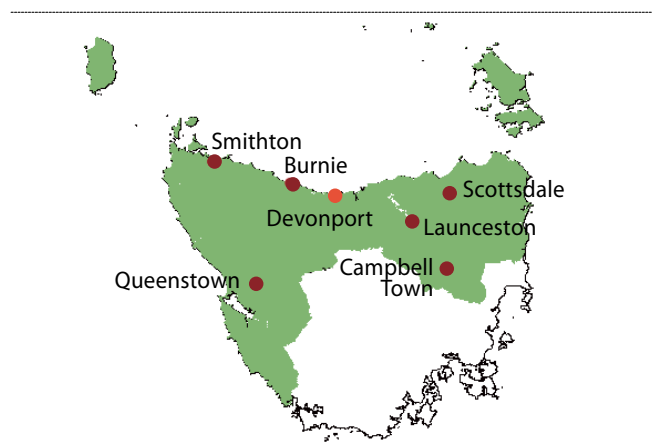
Commodity outlook and financial performance of key agricultural industries in Northern Tasmania

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 Tasmania and highlights the performance of dairy, sheep, beef and vegetable farms. Financial performance of broadacre farms in the Northern Tasmanian region is also reported and discussed.

The agricultural sector profile for the Northern Tasmanian region covered in the opening section of this paper is based on Australian Bureau of Statistics data for an area covering the major regional centres of Smithton, Queenstown, Burnie, Devonport, Launceston, Scottsdale and Campbell Town (map 1). The analysis of broadacre farm performance in the region which is presented later in the paper draws from estimates for a slightly smaller area that excludes the southern west coast including the regional centres of Queenstown and Zeehan (see map 2).

map 1 Northern Tasmania (ABS)



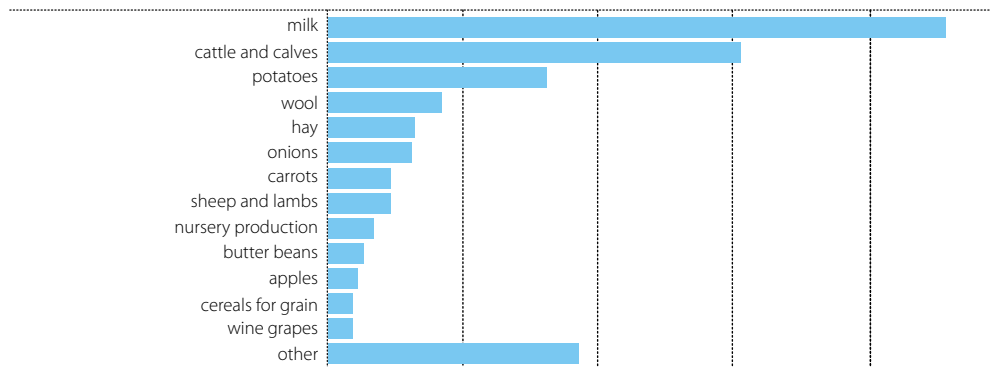
Agricultural sector profile

Northern Tasmania hosts a diverse range of agricultural activities and is more reliant on milk production and horticulture than most Australian regions.

In dollar value terms, milk was the most significant agricultural product in the Northern Tasmanian region, accounting for 30 per cent, or \$229 million of the \$767 million total value of agricultural production for the

region 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, Northern Tasmania, 2006-07



Source: Australian Bureau of Statistics.

In aggregate, vegetables accounted for 24 per cent (\$184 million) of the region’s total value of agricultural production in 2006-07, with potatoes accounting for 44 per cent of the total vegetable production, onions 17 per cent and carrots 13 per cent.

Cattle and calves contributed a further 20 per cent (\$153 million), wool 5 per cent (\$42 million) and sheep and lambs around 3 per cent (\$23 million) of the total value of agricultural production in the region in 2006-07.

Fisheries in Tasmania

The gross value of Tasmanian fisheries production was around \$476 million in 2007-08, a decrease of 3 per cent from 2006-07. This was the result of a 15 per cent (\$27 million) decline in the value of wildcatch production, which was partly offset by a 4 per cent (\$12 million) increase in the value of aquaculture production.

In 2007-08, Tasmanian wildcatch production was valued at around \$157 million, a decrease of 15 per cent from 2006-07. Rock lobster and abalone accounted for 94 per cent (\$147 million) of this value. In 2007-08, the value of rock lobster and abalone production fell by \$2 million and \$17 million, respectively, as a result of lower production volumes and wildcaught finfish production also declined by \$2 million.

The value of Tasmanian aquaculture production was \$319 million in 2007-08 and accounted for 67 per cent of the gross value of Tasmanian fisheries production. The most valuable species produced were salmonids, abalone and oysters which accounted for about 99 per cent (\$316 million) of the gross value of Tasmanian aquaculture production in 2007-08.

Forestry in Tasmania

The volume of logs harvested from Tasmanian forests in 2007–08 was around 6.9 million cubic metres, with an estimated gross value (measured at mill door prices) of \$438 million. Native forests remain the largest source of logs for the Tasmanian timber industry, with 4.3 million cubic metres harvested in 2007–08, valued at \$258 million (ABARE 2009a). Almost three-quarters of these logs are harvested from crown forests. Around 78 per cent of native forest logs are exported as woodchips, with the remainder used to produce sawnwood and veneer products.

The volume of broadleaved logs harvested from plantations in Tasmania increased to around 1.3 million cubic metres in 2007–08, slightly exceeding the amount of coniferous logs harvested. Tasmania has experienced significant investment in timber plantations in recent years, with almost 20 000 hectares of new plantations established in 2008. Around 93 per cent of investment in broadleaved plantations is undertaken by private investors. In total, there are around 217 000 hectares of broadleaved (eucalyptus) plantations and 77 000 hectares of coniferous plantations in Tasmania (BRS 2009).

Tasmania is estimated to have around 72 broadleaved sawmills, 64 per cent of which process less than 3000 cubic metres of logs each year (ABARE 2009b). There are also estimated to be seven coniferous sawmills in the state, based on both the plantation estate and native resources. In 2006–07, these mills produced around 178 800 cubic metres of broadleaved sawnwood, and 179 100 cubic metres of coniferous sawnwood. The total value of production in the Tasmanian wood manufacturing industry (sawmilling, wood chipping and panel manufacture) in 2006–07 was \$678 million (ABS 2008).

Reflecting the effect of the global economic downturn on Japan's paper industry, Tasmanian exports of woodchips fell by 18 per cent to 2 million bone dry tonnes in 2008–09, valued at \$363 million (ABS 2009). In contrast, the additional value of exports from Ta Ann's veneer mills reached \$32 million in 2008–09.

Number of farms

Australian Bureau of Statistics data indicate that in 2006–07 there were 2984 farms in the Northern Tasmanian region with an estimated value of agricultural operations of more than \$5000 (table 1).

1 Number of farms, by industry classification, 2006–07 ^a

	Northern Tasmania		Tasmania	
	no.	%	no.	%
Beef cattle (specialised)	1 217	41	1 456	36
Dairy	510	17	517	13
Vegetables (outdoors)	393	13	424	10
Sheep (specialised)	263	9	552	14
Sheep-beef	200	7	339	8
Grapes	54	2	127	3
Mixed grain-livestock	42	1	64	2
Horses	25	1	52	1
Berry fruits	24	1	56	1
Pigs	19	1	30	1
Other	238	8	464	11
All agricultural industries	2 984	100	4 079	100

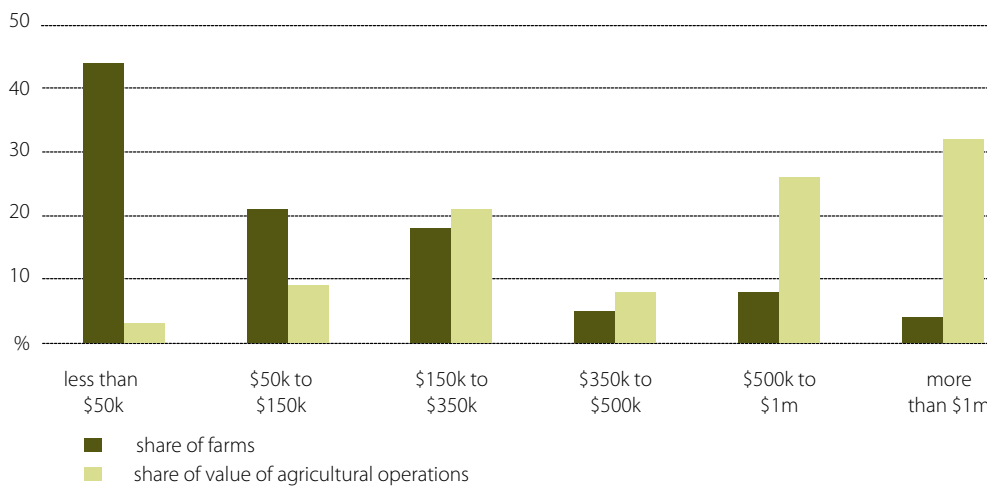
^a Where the estimated value of agricultural operations is more than \$5000.

Source: Australian Bureau of Statistics.

Farms are classified in table 1 according to the activities that generate most of their value of production. In the Northern Tasmanian region, around 41 per cent of farms were specialised beef cattle farms in 2006-07. The region accounts for 83 per cent of Tasmania's beef cattle farms. Dairy farms were the region's second most common farm type in 2006-07, accounting for around 17 per cent, followed by outdoor vegetable producers which accounted for around 13 per cent of all farms in the region. Specialised sheep and sheep-beef operations accounted for only 9 per cent and 7 per cent of farms in the region, respectively, in 2006-07.

As in most parts of Australia, a large proportion of farms in the region are small in terms of their business size. Estimated value of agricultural operations (EVAO) is a measure of the value of production from farms and of their business size, which is somewhat similar to turnover. Around 44 per cent of farms in the Northern

b Distribution of farms by estimated value of agricultural operations, Northern Tasmania, 2006-07



Source: Australian Bureau of Statistics.

Tasmanian region had an estimated value of agricultural operations of less than \$50 000 and a further 21 per cent had a value between \$50 000 and \$150 000 (figure b). In comparison, 12 per cent of farms in the region had agricultural operations worth more than \$500 000 and these farms accounted for almost 59 per cent of the value of agricultural operations in 2006-07.

Employment profile

Australian Bureau of Statistics quarterly data from May 2009 show that around 117 000 people were employed in the Northern Tasmanian region. The retail trade industry employed the largest number of people, with approximately 13 per cent (14 900 people) of the total labour force (figure c). The healthcare and social assistance and manufacturing industries both accounted for around 12 per cent of the region's labour force, employing 14 200 people and 14 100 people, respectively. Agriculture, forestry and fishing was the fourth largest employing sector, accounting for 9 per cent (10 400 people) of the Northern Tasmanian labour force for the May quarter in 2009.

Dairy farm performance – Australia and Tasmania

Farm cash income for Australian dairy farms increased by 150 per cent in 2007-08 to average \$109 000 a farm, the second highest average farm cash income recorded in the past 20 years and a large increase from

C Employment profile, Northern Tasmania, May 2009



Source: Australian Bureau of Statistics.

\$43 110 in the previous year (figure d). This was because of record farm-gate milk prices and was achieved despite a significant increase in expenditure on major dairy farm inputs. Average total cash costs increased by 47 per cent (table 2) because of increases in fertiliser and fuel prices, combined with higher interest rates. Expenditure on hay and grains also rose as farmers sought to increase production or, in regions affected by drought and low availability of irrigation water, to maintain production.

In 2008-09, average farm cash income for Australian dairy industry farms is estimated to have fallen to around \$74 000 a farm in response to lower manufacturing milk prices. Average farm-gate milk prices fell sharply in regions where milk is predominantly used for manufactured dairy products, because of the decline in prices on international markets. Despite increased milk production in most states, average total cash receipts per farm are estimated to fall by around 19 per cent in 2008-09.

Partly offsetting this reduction in milk receipts, average total cash costs are estimated to have fallen by around 16 per cent at the national level in 2008-09 because of lower hay and feed grain prices, combined with lower interest rates. However, despite increased availability of feed grains, particularly in eastern Australia, and improved on-farm pasture growth in some regions, overall expenditure on fodder by dairy farms remained relatively high. In particular, water inflows and storage levels remained historically low in northern Victoria and southern New South Wales irrigation regions, and therefore irrigated dairy farms in these regions were heavily reliant on purchased feed grains and hay in 2008-09.

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*

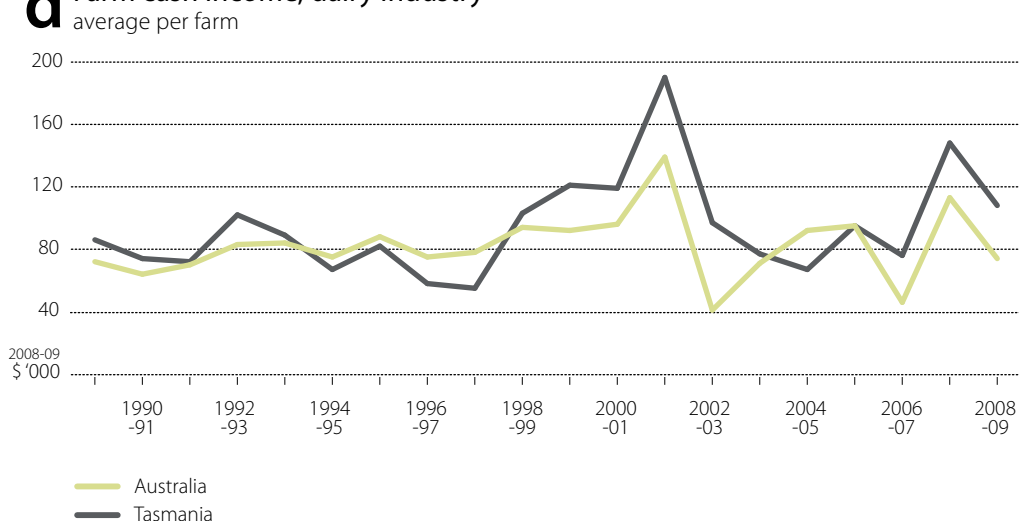
Farm business profit: *farm cash income + changes in trading stocks – depreciation – imputed labour costs*

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 $\frac{\text{profit at full equity}}{\text{total opening capital}} \times 100$

d Farm cash income, dairy industry



2 Financial performance, dairy industry

average per farm

	Tasmania			Australia		
	2006-07	2007-08 ^p	2008-09 ^s	2006-07	2007-08 ^p	2008-09 ^s
Receipts						
Milk – net of freight	\$ 414 700	690 200 (12)	562 000	334 920	538 100 (4)	439 000
Dairy cattle	\$ 31 480	34 000 (21)	29 000	31 730	29 900 (5)	32 000
Total cash receipts	\$ 486 470	822 100 (12)	701 000	394 580	625 500 (4)	507 000
Costs						
Dairy cattle purchases	\$ 17 580	24 700 (42)	21 000	6 630	9 300 (18)	7 000
Fodder	\$ 98 880	159 300 (15)	153 000	135 610	185 200 (5)	166 000
Fertiliser	\$ 48 780	83 200 (17)	89 000	22 580	35 600 (6)	33 000
Fuel, oil and lubricants	\$ 11 500	14 400 (15)	14 000	13 680	15 800 (6)	15 000
Repairs and maintenance	\$ 27 090	40 600 (15)	37 000	22 510	34 500 (7)	28 000
Water charges	\$ 10 840	24 700 (59)	27 000	16 980	19 500 (10)	18 000
Interest payments	\$ 57 400	70 200 (24)	59 000	32 690	44 800 (8)	31 000
Hired labour	\$ 31 590	42 800 (19)	35 000	20 950	23 200 (7)	22 000
Total cash costs	\$ 416 320	678 900 (14)	593 000	351 460	516 500 (4)	433 000
Financial performance						
Farm cash income	\$ 70 160	143 200 (22)	108 000	43 110	109 000 (9)	74 000
Farms with negative farm cash income	% 9	12 (86)	16	32	12 (33)	26
Farm business profit	\$ 17 150	92 100 (24)	25 000	–30 060	45 500 (22)	–6 000
Rate of return						
– excluding capital appreciation	% 2.4	4.3 (14)	2.5	0.3	3.1 (10)	1.2
Farm capital, debt and equity						
Farm capital at 30 June ^a	\$ 3 388 080	4 966 800 (10)	na	3 206 040	3 550 200 (0)	na
Farm debt at 30 June ^{bc}	\$ 775 740	958 200 (20)	na	479 760	571 800 (10)	na
Equity ratio at 30 June ^{bd}	% 77	81 (4)	na	85	84 (1)	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. ^p Preliminary estimates. ^s Provisional estimates. ^{na} Not available.

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

Farm cash income for Tasmanian dairy farms more than doubled in 2007-08 to average \$143 200 a farm, the second highest average farm cash income recorded in the past 20 years (table 2). Farm-gate milk prices increased by 44 per cent and, combined with a large increase in average milk production per farm, more than offset a nearly two-third increase in total farm costs, mostly because of increased fodder and fertiliser expenditure.

In 2008-09, farm cash income for Tasmanian dairy farms is estimated to have averaged \$108 000, sharply down on the previous year but still higher than the national average. The effect of lower milk prices on farm cash income was partially offset by an increase in average milk production per farm and by lower cash costs, particularly for interest payments and hired labour (table 2).

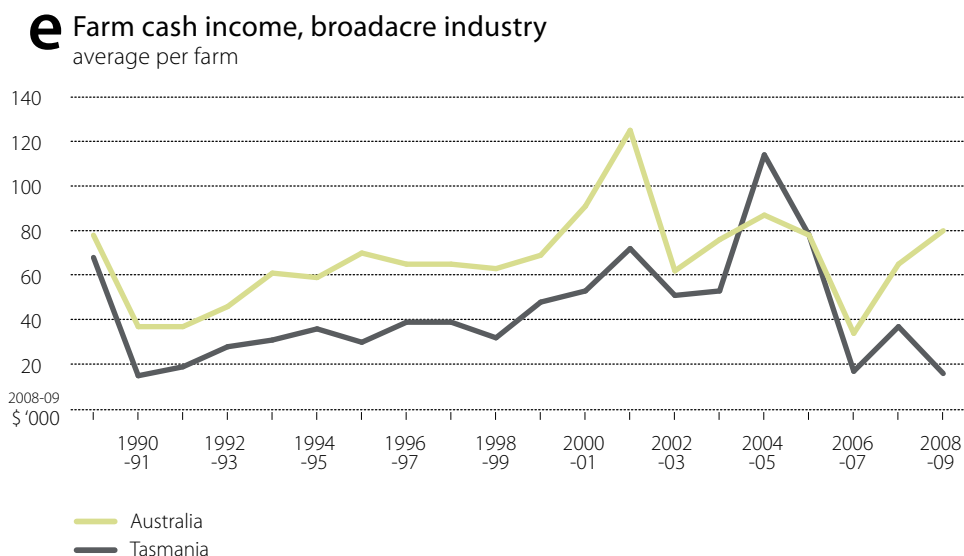
Broadacre farm performance – Australia and Tasmania

In 2007-08, improved seasonal conditions, combined with high prices for grains and sheep meat led to a doubling of average farm cash income for Australian broadacre farms from the historical low recorded in 2006-07 (figure e). Higher farm cash income was achieved despite a substantial increase in farm total cash costs, resulting mainly from a large increase in fertiliser and fuel prices, combined with higher interest rates (table 3).

Australian broadacre farm financial performance improved in 2008-09, building on the recovery recorded in 2007-08.

Seasonal conditions were very dry for many Tasmanian broadacre farms in 2007-08, leading to reduced crop production and lower crop receipts, increased cattle turn-off and higher beef cattle receipts. The average number of sheep carried was also reduced, largely because of lower lambing rates. Despite a reduction in wool production per farm, higher wool prices and a liquidation of on-farm stocks of wool boosted wool receipts and offset most of the reduction in total crop receipts. On the costs side, increased beef cattle purchases and interest paid led to higher total cash costs in 2007-08. However, the increase in total cash receipts was larger than the increase in total cash costs, resulting in a small improvement in average farm cash income for Tasmanian broadacre farms to \$36 100 a farm.

Tasmanian broadacre farm cash income is estimated to have declined to around \$16 000 in 2008-09. This is largely because of continued dry seasonal conditions in the midlands and central highlands. Sheep farm production is projected to have been lower in 2008-09 with many farms running smaller flocks. The decline in flock size is estimated to have resulted in lower receipts for sheep and wool in 2008-09. Beef cattle receipts are also estimated to have been lower with farms turning off fewer beef cattle. Despite lower turn-off, the average



3 Financial performance, broadacre industry average per farm

	Tasmania			Australia		
	2006-07	2007-08 ^p	2008-09 ^s	2006-07	2007-08 ^p	2008-09 ^s
Receipts						
Total crop receipts	\$ 53 190	32 400 (27)	21 000	102 920	166 700 (10)	196 000
Beef cattle sales	\$ 59 900	94 200 (16)	73 000	115 250	100 300 (5)	116 000
Sheep and lambs	\$ 44 050	37 700 (14)	36 000	36 650	44 200 (5)	47 000
Wool	\$ 41 250	60 200 (14)	48 000	28 280	37 300 (4)	30 000
Total cash receipts	\$ 226 110	273 000 (12)	202 000	346 950	415 100 (3)	450 000
Costs						
Sheep and lamb purchases	\$ 4 420	3 300 (32)	1 000	6 840	8 100 (9)	7 000
Beef cattle purchases	\$ 9 710	16 800 (53)	4 000	34 410	26 100 (12)	26 000
Fodder	\$ 12 330	11 200 (28)	9 000	23 150	12 500 (12)	10 000
Fertiliser	\$ 19 810	22 500 (12)	21 000	24 470	39 300 (4)	45 000
Sprays	\$ 7 700	8 600 (38)	6 000	16 380	23 400 (4)	26 000
Fuel, oil and lubricants	\$ 11 100	12 500 (11)	11 000	21 900	28 300 (4)	29 000
Repairs and maintenance	\$ 25 750	18 200 (11)	17 000	24 870	28 000 (4)	28 000
Interest payments	\$ 17 270	22 500 (18)	15 000	34 430	43 900 (5)	33 000
Hired labour	\$ 15 200	18 500 (17)	15 000	12 730	13 400 (6)	15 000
Total cash costs	\$ 210 600	236 900 (13)	186 000	315 800	352 800 (3)	370 000
Financial performance						
Farm cash income	\$ 15 520	36 100 (37)	16 000	31 150	62 300 (11)	80 000
Farms with negative farm cash income	% 47	39 (28)	65	45	38 (5)	36
Farm business profit	\$ -47 800	-47 100 (29)	-67 000	-64 750	-21 300 (34)	-7 000
Rate of return						
- excluding capital appreciation	% -1.0	-0.7 (72)	-1.5	-0.7	0.8 (22)	0.9
- including capital appreciation	% 7.2	2.5 (68)	na	7.1	2.7 (13)	na
Farm capital, debt and equity						
Farm capital at 30 June ^a	\$ 2 962 840	3 064 800 (8)	na	3 697 750	4 207 300 (2)	na
Farm debt at 30 June ^{bc}	\$ 266 690	284 400 (18)	na	471 650	547 200 (4)	na
Equity ratio at 30 June ^{bd}	% 91	91 (2)	na	87	87 (1)	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. ^p Preliminary estimates. ^s Provisional estimates. ^{na} Not available.

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

number of beef cattle per farm is also estimated to have fallen in 2008-09 because of reduced calving and fewer beef cattle purchases. The reduction in livestock numbers is estimated to have resulted in a fall in the value of on-farm inventories and substantial farm business losses, for the third consecutive year.

Sheep farm performance – Australia and Tasmania

Sheep farms have been defined in this section as farms classified to the specialised sheep industry (table 1).

Higher wool prices, combined with increased turn-off of sheep and lambs, resulted in an increase in average farm cash income for Australian sheep farms in 2007-08 (figure f). This increase occurred despite total cash costs increasing by around 5 per cent, on average, mainly because of higher interest rates.

In 2008-09, average farm cash income for Australian sheep farms is estimated to have improved further, despite a fall in wool receipts resulting from lower wool prices and production. On average, lower wool receipts were more than offset by increased receipts from sheep, lambs and crops. Total cash costs are estimated to have fallen by around 6 per cent on average, mainly because of lower interest rates together with a reduction in fodder expenditure. Farm cash income is estimated to have increased to average \$47 500 a farm.

Change in average farm cash income for sheep farms in Tasmania is substantially different from that nationally (figure f). Farm cash income in the early 2000s was much higher in Tasmania than nationally, mainly because of the higher wool prices received by Tasmanian sheep farms for the finer grades of wool they generally produce.

The onset of dry seasonal conditions in 2004-05 led to a sharp increase in sheep turn-off, boosting receipts in that year but reducing flock sizes and wool production in the years that followed.

In 2007-08, higher wool prices and a liquidation of on-farm stocks of wool resulted in higher wool receipts and, in combination with increased sheep and lamb turn-off because of dry seasonal conditions, resulted in an increase in average farm cash income for Tasmanian sheep farms.

In contrast to the increase nationally in 2008-09, Tasmanian sheep farms are estimated to have recorded a sharp reduction in average farm cash income. Total cash receipts are projected to have fallen further because of reduced wool prices and wool production, lower sheep and lamb turn-off and a reduction in crop receipts. Total cash costs are estimated to have fallen only slightly.



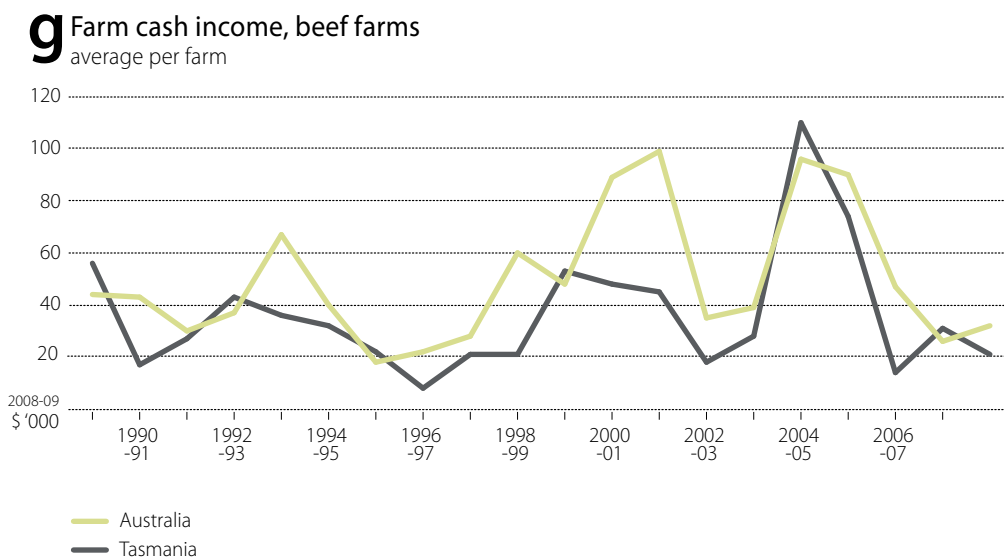
Beef farm performance – Australia and Tasmania

Beef farms have been defined in this section as farms classified as specialised beef (table 1).

In 2007-08, the average farm cash income for Australian beef farms almost halved, falling to \$25 100 a farm (figure g). Beef cattle turn-off was reduced and prices received for beef cattle fell, leading to a fall in average total cash receipts. While average total cash costs were also lower, largely because of reduced expenditure on beef cattle purchases, it was not enough to offset the reduction in cash receipts. Total cash costs remained relatively high because of increases in fuel, fertiliser, chemicals, freight and interest paid.

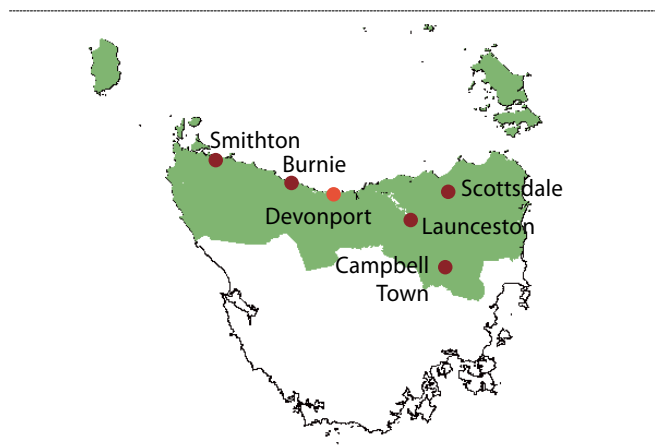
In 2008-09, average farm cash income is estimated to have risen by 27 per cent for beef farms nationally because of higher beef cattle prices and an increase in beef cattle turn-off in northern Australia. The rise in farm cash receipts is estimated to have been partly offset by a rise in average total cash costs as expenditure on cattle purchases and hired labour increased. Farm cash income for beef farms nationally is estimated to have averaged \$32 000 a farm in 2008-09.

In contrast to the national picture, Tasmanian beef industry farms increased cattle turn-off in 2007-08 as dry seasonal conditions persisted throughout most of the year. This had the effect of boosting beef cattle receipts, but also resulted in reduced numbers of beef cattle. Despite an increase in average cash costs, farm cash income for Tasmanian beef farms increased to average around \$30 900 a farm in 2007-08 (figure g).



While farm cash incomes are estimated to have risen for beef farms nationally in 2008-09, average farm cash income for Tasmanian beef farms is estimated to have declined to around \$21 000 (figure g). Receipts from the sale of beef cattle are estimated to have fallen because of reduced cattle turn-off. Total cash costs are also estimated to have declined, but not sufficiently enough to offset the reduction in total cash receipts.

map **2** Northern Tasmania

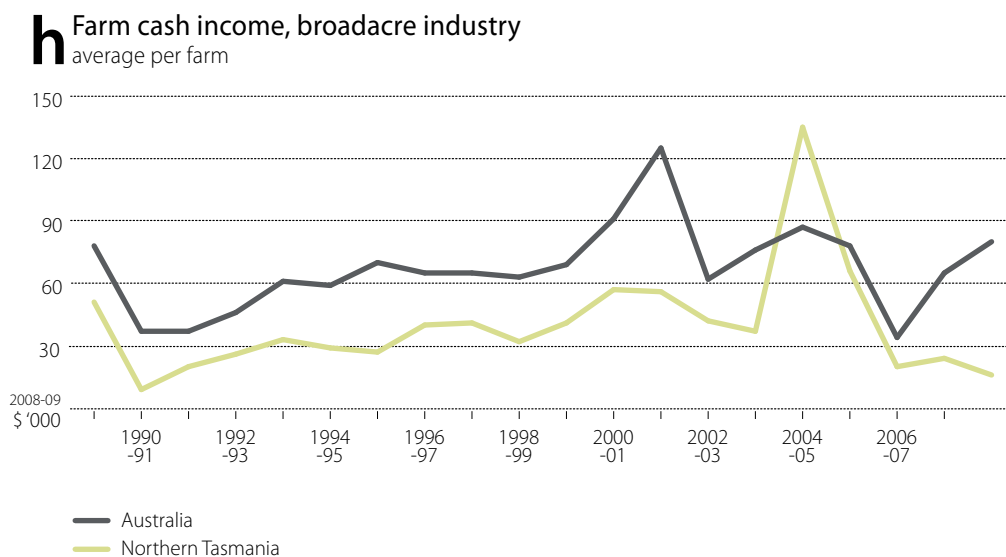


Broadacre farm performance – Northern Tasmania

The Northern Tasmanian region covered in this section includes the regional centres of Smithton, Burnie, Devonport, Launceston, Scottsdale and Campbell Town (map 2). Broadacre farms in this region are mainly involved in the production of beef, sheep and wool.

In 2007-08, average farm cash income of Northern Tasmanian broadacre farms is estimated to have remained relatively low and well below the state and national averages (figure h). Despite higher beef cattle receipts because of higher average beef cattle prices received, total cash receipts fell because of much lower crop receipts and reduced sheep and lamb receipts. However, farms in the region offset this reduction with reduced spending on average on many farm inputs including repairs and maintenance, fuel, fertiliser and fodder (table 4).

In 2008-09, the average value of crop receipts is estimated to have remained low for Northern Tasmanian broadacre farms. Beef cattle receipts are estimated to have been constrained by reduced beef cattle numbers. Likewise, wool receipts are estimated to have been constrained by reduced wool production and lower wool prices. However, higher sheep and lamb prices are estimated to have more than compensated for reduced sheep and lamb turn-off. Overall, a greater reduction in cash receipts compared with cash costs is estimated to have led to a fall in average farm cash income of Northern Tasmanian broadacre farms to around \$16 000 a farm in 2008-09.

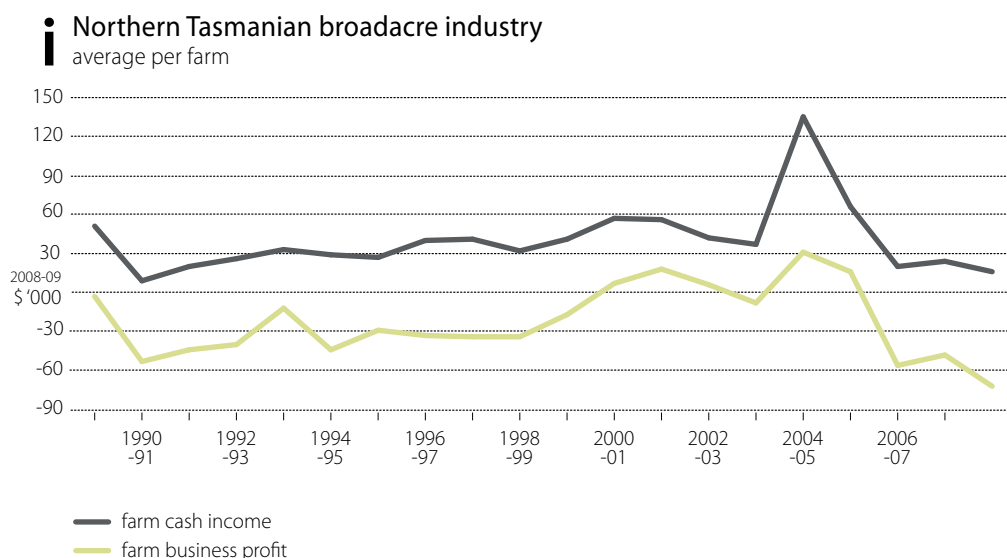


Despite reduced livestock turn-off in 2008-09, livestock numbers are estimated to have still fallen, which resulted in a further reduction in the value of on-farm inventories and farm business profit is estimated to have fallen to the lowest in more than 20 years (figure i).

The average rate of return to capital (excluding capital appreciation) of broadacre farms in the region is estimated to have fallen to average around -2 per cent in 2008-09 (table 4). This compares with an average of -1.5 per cent and 0.9 per cent at the state and national levels, respectively, in 2008-09 (table 3).

Vegetable farm performance – Australia and Tasmania

In 2007-08, average farm cash income of Australian vegetable farms fell by around 3 per cent to \$166 100 a farm because of a larger increase in total cash costs compared with total cash receipts (table 5). However, at the same time, the proportion of vegetable farms realising a negative farm cash income fell to 13 per cent in 2007-08, compared with 17 per cent in 2006-07.



4 Financial performance, Northern Tasmania, broadacre industry

average per farm

		2006-07	2007-08 p	2008-09 s
Receipts				
Total crop receipts	\$	79 670	24 200 (30)	20 000
Beef cattle sales	\$	86 580	101 900 (19)	81 000
Sheep and lambs	\$	58 590	36 200 (18)	39 000
Wool	\$	45 110	45 000 (23)	35 000
Total cash receipts	\$	308 750	248 100 (17)	192 000
Costs				
Sheep and lamb purchases	\$	5 940	2 500 (35)	1 000
Beef cattle purchases	\$	15 610	22 400 (55)	5 000
Fodder	\$	17 610	10 900 (34)	9 000
Fertiliser	\$	29 640	23 000 (13)	22 000
Sprays	\$	10 920	8 600 (52)	5 000
Fuel, oil and lubricants	\$	14 960	11 300 (16)	10 000
Repairs and maintenance	\$	37 120	15 600 (13)	18 000
Interest payments	\$	23 290	23 500 (18)	13 000
Hired labour	\$	19 350	13 300 (28)	12 000
Total cash costs	\$	290 140	225 100 (18)	176 000
Financial performance				
Farm cash income	\$	18 610	22 900 (44)	16 000
Farms with negative farm cash income	%	43	43 (34)	61
Farm business profit	\$	-51 690	-46 800 (23)	-72 000
Rate of return				
- excluding capital appreciation	%	-0.7	-0.7 (69)	-2.0
- including capital appreciation	%	6.9	4.0 (34)	na
Farm capital, debt and equity				
Farm capital at 30 June a	\$	3 904 220	2 723 300 (9)	na
Farm debt at 30 June bc	\$	371 130	258 000 (16)	na
Equity ratio at 30 June bd	%	90	90 (2)	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. p Preliminary estimates. s Provisional estimates. na Not available.

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

Nationally, total cash receipts averaged \$570 100 a farm in 2007-08, of which 83 per cent came from the sale of vegetables. The remainder was largely from the sale of crops other than vegetables. While receipts from the sale of vegetables are estimated to have fallen by 6 per cent on average since 2006-07, there was an increase in receipts from the sale of beef cattle, sheep, wool and grains resulting in total cash receipts rising marginally in 2007-08. Total cash costs were up by around 2 per cent from the previous year with the largest share of average cash expenditure on hired labour (19 per cent), fertiliser (11 per cent) and contracts paid (10 per cent).

Tasmanian vegetable farms generally receive a much larger proportion of their total revenue from sales directly to processors compared with the other states and territories. In 2007-08, around 86 per cent of total vegetable revenue was generated from sales to processors, compared with only 20 per cent nationally.

Average farm cash income for Tasmanian vegetable farms increased to around \$109 500 a farm in 2007-08, compared with only \$19 600 in 2006-07, because of a larger increase in total cash receipts compared with total cash costs (table 5). Additionally, the proportion of Tasmanian vegetable farms experiencing negative farm cash income fell from an estimated 44 per cent in 2006-07 to 19 per cent in 2007-08.

5 Financial performance of vegetable growing farms, 2005-06 to 2007-08

average per farm

	Tasmania			Australia		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Receipts						
Potatoes	\$ 108 079	146 191	195 873	122 741	134 219	113 596
Onions	\$ 17 454	22 829	20 895	29 177	29 961	22 144
Carrots	\$ 7 088	10 207	25 956	17 615	17 252	36 570
Cauliflower	\$ 5 882	11 364	21 745	7 896	10 099	13 249
Other vegetables	\$ 32 998	37 458	52 435	192 397	311 609	285 860
Other cash receipts	\$ 64 454	103 558	201 591	61 307	66 409	98 670
Total cash receipts	\$ 235 955	331 606	518 494	431 133	569 549	570 089
% of cash receipts from vegetables	% 73	69	61	86	88	83
Costs						
Contracts paid	\$ 28 392	46 011	61 410	19 661	38 541	40 005
Fertiliser	\$ 27 330	44 727	57 341	26 957	35 179	42 899
Hired labour	\$ 17 184	23 653	39 774	53 472	75 795	76 251
Seed	\$ 21 454	33 212	32 500	24 933	29 728	28 612
Crop and pasture chemicals	\$ 19 436	26 097	31 366	20 196	20 211	21 203
Interest paid	\$ 18 368	25 276	30 054	13 872	18 992	27 736
Fuel, oil and grease	\$ 16 785	20 171	22 981	23 607	27 569	26 784
Total cash costs	\$ 218 034	312 053	409 041	303 084	397 555	403 992
Financial performance						
Farm cash income	\$ 17 921	19 554	109 453	128 049	171 994	166 097
Farms with negative farm cash income	% 43	44	19	18	17	13
Farm business profit	\$ -57 381	-54 993	31 961	46 043	82 292	74 889
Rate of return						
- excl. cap. appreciation	% -1.5	-0.9	3.3	2.5	4.2	4.0
- incl. cap. appreciation	% 2.5	10.8	11.8	9.8	7.7	4.1
Farm capital, debt and equity						
Farm capital at 30 June a	\$ 2 320 921	2 404 011	2 513 910	2 750 649	2 606 899	2 872 202
Farm debt at 30 June bc	\$ 192 270	338 666	375 465	164 985	262 522	378 346
Equity ratio at 30 June bd	% 92	84	85	94	90	87

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.

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

In 2007-08, total cash receipts for Tasmanian vegetable farms were much higher on average because of a 39 per cent increase in vegetable receipts and an almost doubling of other cash receipts. Increased production and average prices received for potatoes and carrots combined to increased potato and carrot receipts, while reduced onion production more than offset higher average onion prices received 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 commodities important in this region are based on information in the September 2009 issue of *Australian commodities*.

Seasonal outlook

The Australian Bureau of Meteorology in its latest seasonal rainfall outlook (22 September 2009) for the October to December period indicates there is a moderate swing in the odds favouring a drier than normal season across parts of north eastern, south eastern Australia and Tasmania. However, there is an increased chance of above average rainfall in western and central Western Australia.

Livestock

Dairy

In 2009-10, world dairy product markets will be influenced by continuing high supplies of dairy products in the major producing countries, an expected further buildup of intervention stocks in the European Union and the United States, and relatively weak growth in demand for dairy products. Furthermore, export subsidies provided by the European Union and the United States for major dairy products are also likely to have a dampening effect on world dairy product prices.

Since February 2009, world dairy product prices have recovered slightly but remain well below the prices experienced in July 2008. Overall, world prices for butter and cheese are forecast to decline by around 15 per cent in 2009-10 while world prices for milk powders are forecast to average around 11 per cent lower than in 2008-09.

Supplies of dairy products in the major producing and exporting countries are expected to remain relatively high. With a 1 per cent increase in the European Union milk quota, milk production in 2009-10 is forecast to be close to that achieved in the previous year, reflecting continuing low returns for European Union dairy farmers. US milk production is forecast to decline by around 1 per cent to 84.6 million tonnes in 2010. The effect on milk production of lower US cow numbers is expected to be partly offset by continued gains in milk yield per cow. New Zealand milk production in 2009-10 is expected to be close to the record output of 2008-09.

An assumed strengthening of US economic growth during 2010 is expected to underpin a gradual recovery in demand for dairy products in the United States. This, together with forecast lower US dairy production, is expected to lead to a strengthening of US domestic dairy product prices in 2010.

In 2009-10, the global demand for dairy products is expected to remain weak, reflecting reduced economic activity in major consuming countries. However, an assumed improvement in economic growth in the emerging and developing economies in the latter part of 2009, together with a gradual recovery in the developed economies in 2010, is likely to lead to an increase in dairy demand.

Developments in key dairy markets will be important in determining trade and import demand for products in the short term. The pace of economic recovery in the Russian Federation over the next 12 months will be an important determinant of its imports of butter and cheese in 2010. Sharply lower world dairy prices and a relatively strong yen against the US dollar are also expected to support higher Japanese cheese imports in 2010.

Given the relatively weak outlook for world dairy prices, the average Australian farm-gate milk price is forecast to decline by 22 per cent to 33 cents a litre in 2009-10. Opening prices for manufacturing milk for the 2009-10 season set by dairy processors in Victoria averaged around 26 cents a litre. Milk prices in the predominantly market milk producing regions are expected to average higher than those obtained for manufacturing milk.

In 2009-10, Australian milk production is forecast to decline by 2 per cent to 9200 million litres. In the short term, milk production in Australia will continue to be influenced by the relatively low milk prices for manufacturing milk, limited irrigation water allocations in the Murray-Darling Basin producing areas, seasonal conditions and the cost of supplementary feeds.

Beef

The Australian weighted average saleyard price of cattle is forecast to fall by 3 per cent in 2009-10 to 285 cents a kilogram (dressed weight). The principal driver behind this forecast is an expected rise in cattle turn-off, as the Bureau of Meteorology forecasts (released on 26 August 2009) moderate to strong shifts in the odds favouring a drier than normal spring season across parts of eastern and southern Australia. An assumed appreciation of the Australian dollar relative to the US dollar in 2009-10 is also expected to put downward pressure on prices since export demand for Australian beef is unlikely to strengthen significantly in the short term.

In 2009-10, the likelihood of below average rainfall in south eastern Australia is forecast to contribute to a 2 per cent increase in total Australian cattle slaughter to around 8.84 million head. Demand for Australian beef in Japan is expected to remain steady as only modest economic growth is assumed for 2010 and there is increasing competition from US beef in that market. In contrast, demand for Australian beef in the Republic of Korea is likely to continue to soften as competition from US beef has been considerably more pronounced. In Australia's other key export market, the United States, demand growth will be constrained by increased domestic availability of manufacturing quality beef as slaughterings of dairy cattle rise.

Reflecting the forecast higher cattle slaughterings, and the assumption of a slight reduction in average slaughter weights because of less favourable seasonal conditions, Australian beef and veal production is forecast to increase by 1 per cent to around 2.2 million tonnes in 2009-10.

Australian beef and veal exports are forecast to fall to around 940 000 tonnes (shipped weight) in 2009-10. This largely reflects lower export volumes to north Asia, as well as to the Russian Federation. Australian beef exports are highly dependent on demand in three markets: Japan, the Republic of Korea and the United States to which Australia shipped 78 per cent of its total beef exports in 2008-09. This share fell from 81 per cent a year earlier as beef exports to Indonesia in 2008-09 increased by 20 per cent to 38 000 tonnes. Beef exports to the Russian Federation were 37 000 tonnes, a 19 per cent fall from 2007-08, but still significantly higher than the average of 3200 tonnes between 2000-01 and 2006-07.

The demand for beef, and therefore live exports, is expected to remain strong in south-east Asian countries. Live cattle exports increased by 20 per cent in 2008-09 to 856 000 head. This principally reflects steady Indonesian demand, to which Australia shipped 28 per cent more beef cattle than in 2007-08.

Given the gradual process of herd rebuilding occurring in Queensland, the supply of cattle suitable for export in 2009-10 will be less than in 2008-09. As a consequence live exports are forecast to fall by 3 per cent to 830 000 head. Despite this forecast decline, the number of live cattle exports in 2009-10 will remain high in historic terms.

Sheep meat

The Australian weighted saleyard price of lambs is forecast to average 410 cents a kilogram in 2009-10, a 3 per cent fall from the record price in 2008-09. Forecast higher lamb slaughter in 2009-10 is placing downward pressure on prices. Producers are expected to continue to respond to the high prices of 2008-09 by becoming increasingly focused on prime lamb production. Additionally, higher spring turn-off of both lambs and sheep is expected as a result of the forecast deterioration in spring seasonal conditions across parts of eastern and southern Australia.

The average slaughter weight of lambs is forecast to remain largely unchanged in 2009-10. Expected lower feed cost and the forecast increasing proportion of crossbred lambs slaughtered relative to merino lambs will have a positive effect on lamb carcass weights. However, this is expected to be offset by forecast below average seasonal conditions in spring. Lamb production in 2009-10 is forecast to increase by around 1 per cent in 2009-10, to 428 000 tonnes.

The weighted average saleyard price of sheep is forecast to increase by 10.6 per cent in 2009-10, to average 220 cents a kilogram. This forecast increase reflects continued strong demand for mutton and live sheep in export markets and high average mutton prices of around 300 cents a kilogram experienced in the beginning of 2009-10. Mutton production is forecast to increase by less than 1 per cent for 2009-10 as a whole, to 236 000 tonnes as a result of increased spring turn-off because of assumed poorer seasonal conditions. This forecast increase in slaughter rates is expected to outweigh the incentive producers have to retain breeding stock for prime lamb production.

In 2009-10, lamb exports are forecast to increase by around 4 per cent to 162 000 tonnes, reflecting the forecast increase in lamb production. Growth in world demand for Australian lamb in 2009-10 is expected to be stronger as economic growth is forecast to gradually recover in the key export market, the United States.

As a result of forecast higher sheep slaughter in 2009-10, mutton exports are forecast to increase by 0.7 per cent to 147 000 tonnes. This reflects increased mutton production and the effect of improving income growth in a number of key export markets.

Live exports are forecast to decline by around 9 per cent in 2009-10 to 3.7 million head. Australia was not awarded contracts to supply live sheep to the Middle East during the religious festival of hajj. These contracts typically involve around 500 000 head being exported from Australia. Live sheep export prices are expected to remain high throughout 2009-10. This reflects increased competition between the sheep meat and live export industries in Australia. The total value of live exports in 2009-10 is forecast to decrease by around 8 per cent to \$313 million.

Wool

The eastern market indicator price for wool is forecast to average 840 cents a kilogram clean in 2009-10, a 6 per cent increase from the previous year. This rise principally reflects continued low supply in the wool processing pipeline and gradually increasing demand for wool from China.

The number of sheep shorn in 2009-10 is forecast to fall to 78 million, a 7 per cent decline from the 2008-09 season. Shorn wool production is forecast to decline by around 8 per cent to 330 000 tonnes in 2009-10. This reduction is a combination of the shrinking size of the national flock and the changing focus of many enterprises away from wool toward the production of sheep meat.

Australian raw wool exports are forecast to decline in 2009-10. Weak retail activity in the United States and the European Union is expected to continue to affect orders for semi-durables such as yarn and apparel in the later half of 2009. However, demand for woollen apparel in the United States is expected to increase in 2010, along with the assumed improvement in economic growth.

China is the world's largest wool processor, exporter and consumer of apparel wool. Balanced against the weaker demand in the United States and the European Union is forecast strong domestic retail sales growth in China throughout 2009-10.

Despite increased retail sales in China and a forecast improved demand in the United States in 2010, total Australian wool exports (including greasy wool, semi-processed wool and skins) are forecast to fall by 8 per cent in 2009-10 to 406 000 tonnes greasy wool equivalent. However, reflecting the forecast improvement in wool prices, export earnings are forecast to fall by only 2.7 per cent to \$2.26 billion in 2009-10.

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