abare.gov.au

Conference paper 09.5

KINGAROY, QLD Regional Outlook CONFERENCE

Wednesday 29 April 2009

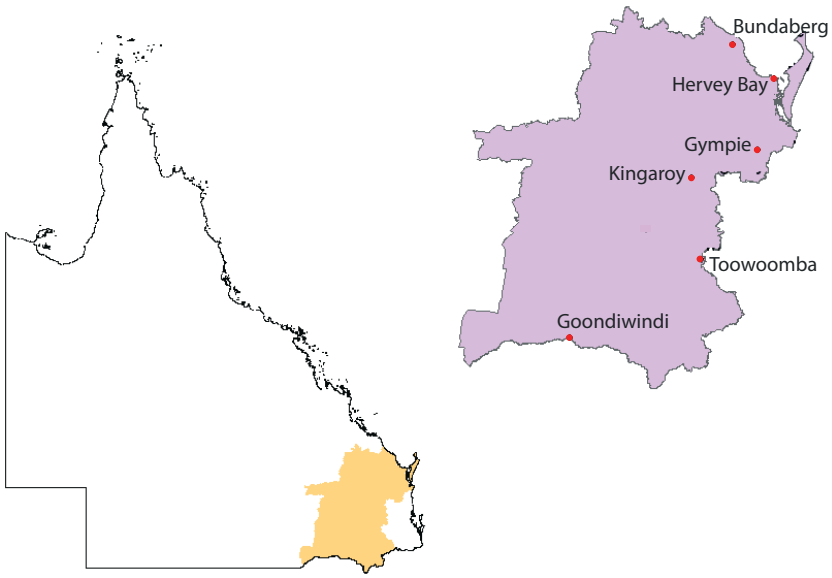
Commodity outlook and financial performance of key agricultural industries in South East Queensland

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 Queensland, highlighting the performance of grains, beef and dairy farms. Financial performance of South East Queensland broadacre farms is also reported and discussed.

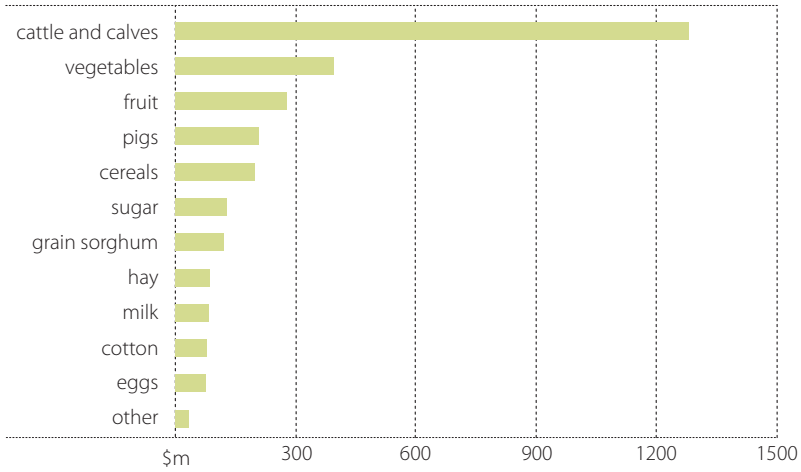
The South East Queensland region covered in this paper contains the Australian Bureau of Statistics (ABS) defined regions of Wide Bay-Burnett and Darling Downs, and includes the regional centres of Bundaberg, Hervey Bay, Gympie, Toowoomba, Kingaroy and Goondiwindi (map 1). However, for the analysis of South East Queensland broadacre farm performance, estimates are drawn from a larger area which extends from the New South Wales-Queensland border to just south of Mackay, west to Dalby in the south and Emerald in the north (see map 2).

map 1 South East Queensland



In dollar value terms, beef cattle are the most significant agricultural product in the South East Queensland region, accounting for 43 per cent or almost $1.3 billion of the $3 billion total value of agricultural production for the region in 2006-07. This is the most recent year for which Australian Bureau of Statistics data is available on a regional basis (figure a).

a Value of agricultural production, South East Queensland, 2006-07



Source: Australian Bureau of Statistics

Vegetables accounted for a further 13 per cent ($395 million) of the total value of agricultural production in the region in 2006-07, with tomatoes accounting for around 28 per cent of this value. Fruit accounted for 9 per cent ($278 million) of the total value of agricultural production, of which more than 60 per cent was citrus fruits.

Pigs were the fourth largest agricultural product produced, accounting for 7 per cent or almost $209 million of the total value of agricultural production in the South East Queensland region in 2006-07.

Number and type of farms

Australian Bureau of Statistics data indicates that in 2006-07 there were 10 741 farms in the South East Queensland region 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 South East Queensland, around 56 per cent of farms operated beef cattle enterprises, compared with 52 per cent at the state level. Grains farms were the second most common farm type in 2006-07, accounting for around 8 per cent of farms, followed by mixed grains-livestock farms accounting for around 5 per cent of all farms in the region.

The majority of farms in South East Queensland are small in size, with more than a quarter of all farms having a value of agricultural operations less than $25 000 and a further 21 per cent having a value between $25 000 and $50 000 in 2006-07 (figure b). Around 35 per cent of farms had a value of agricultural operations greater than $100 000. Just 7 per cent of farms in the region had more than $500 000 worth of agricultural operations in 2006-07.

Employment

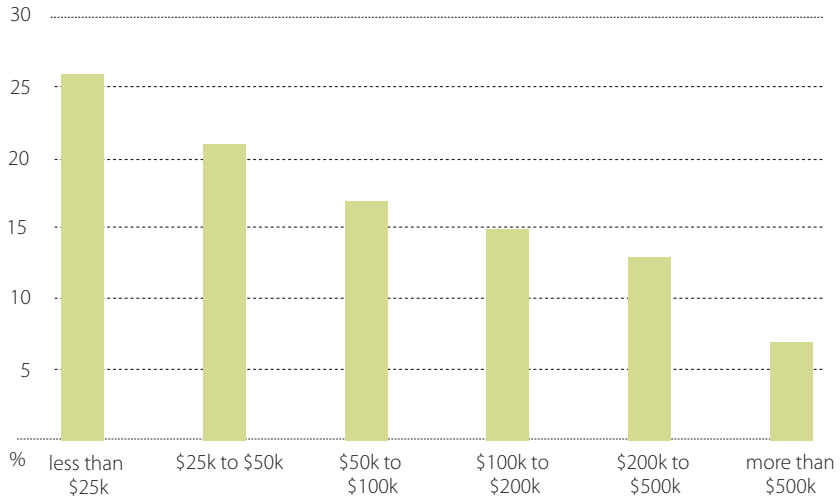
Australian Bureau of Statistics quarterly data from November 2008 shows that around 246 000 people were employed in the South East Queensland region (also including the South West Queensland statistical region), with the retail trade industry employing the largest number of people — approximately 14 per cent (35

1 Number of farms, South East Queensland, 2006-07, by industry classification [a]

	South East Queensland		Queensland	
	no.	%	no.	%
Beef cattle	5 979	56	14 274	52
Grains	815	8	1 059	4
Mixed grains-livestock	533	5	889	3
Sugar	446	4	3 516	13
Dairy	423	4	813	3
Vegetables (outdoors)	361	3	1 033	4
Horses	286	3	777	3
Pigs	181	2	241	1
Cotton	171	2	218	1
Sheep	151	1	349	1
Other	1 395	13	4 488	16
All agricultural industries	10 741	100	27 656	100

a Where the estimated value of agricultural operations is more than $5000.
Source: Australian Bureau of Statistics.

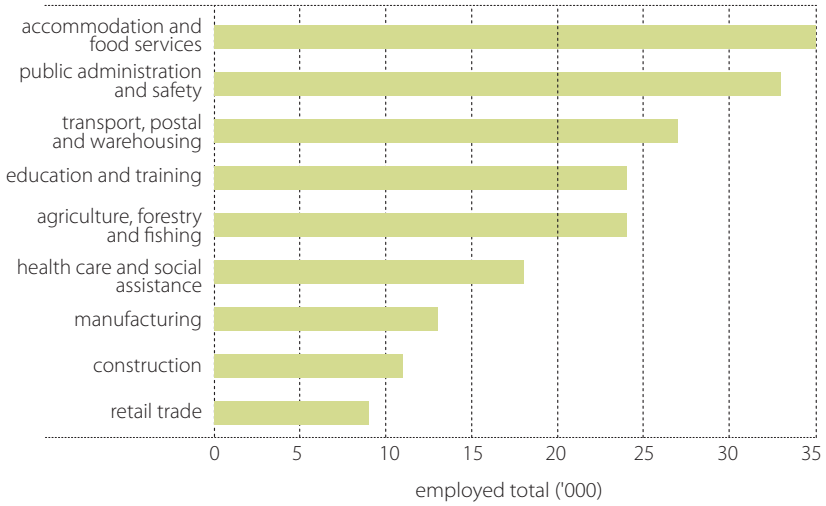
b Distribution of farms by estimated value of agricultural operations, South East Queensland, 2006-07



Source: Australian Bureau of Statistics

000 people) of the total labour force (figure c). Construction industries accounted for a further 13 per cent (33 000 people) and the manufacturing industry 11 per cent (27 000 people). The agriculture, fishing and forestry industries were the equal fourth largest employer with 10 per cent (24 000 people) of the South East Queensland labour force for the November quarter in 2008.

C Employment profile, South East Queensland, November 2008 [a]



Source: Australian Bureau of Statistics

Broadacre farm performance – Australia and Queensland

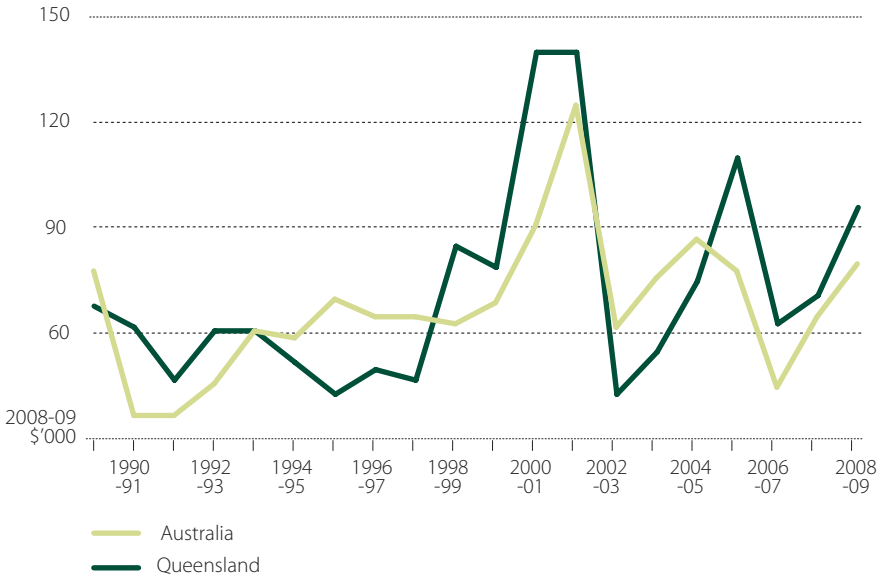
Financial performance of Australian broadacre farms is projected to strengthen in 2008-09, adding to the improvement in farm financial performance recorded in 2007-08. Increased grain production, combined with favorable prices for livestock and reductions in fodder prices and interest rates, are projected to result in farm cash incomes on broadacre farms rising, to average 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 because of producers increasing cattle numbers in northern Australia and increasing on-farm inventories of fodder and grain.

Queensland broadacre farms are estimated to have recorded a larger improvement in farm cash income in 2008-09, compared with that recorded nationally (figure d). In 2008-09, Queensland broadacre incomes are projected to increase, mainly through increased winter crop production and higher beef cattle receipts. Receipts from summer crops are projected to be lower because of expected lower prices for feed grains, and reduced grain sorghum production because of lower plantings compared with 2007-08. Beef cattle receipts are projected to increase in 2008-09, with beef cattle turn-off projected to increase slightly after two successive years of growth in beef cattle numbers, combined with higher beef cattle prices. Overall, farm cash incomes for broadacre farms in Queensland are projected to rise to average $96 000 a farm in 2008-09 (table 2).

Despite an increase in average beef cattle inventories on Queensland broadacre farms in 2008-09, a much smaller increase in grain stocks on-farm in 2008-09 compared with 2007-08 is projected to lead to a smaller buildup in trading stocks compared with 2007-08. Subsequently, average farm business profit is projected to increase by a smaller amount than farm cash income in 2008-09 (figure e).

d Farm cash income, broadacre industry, average per farm



e Queensland broadacre industry, average per farm

Grains industry – Australia and Queensland

Historically, farm cash income of Queensland grains farms (defined as farms in the grains and grains-livestock industries) has been below the national average. Farm cash incomes for Queensland grains farms have displayed increased volatility in the past decade mainly because of increased variability in seasonal conditions (figure f).

2 Financial performance, broadacre industry
average per farm

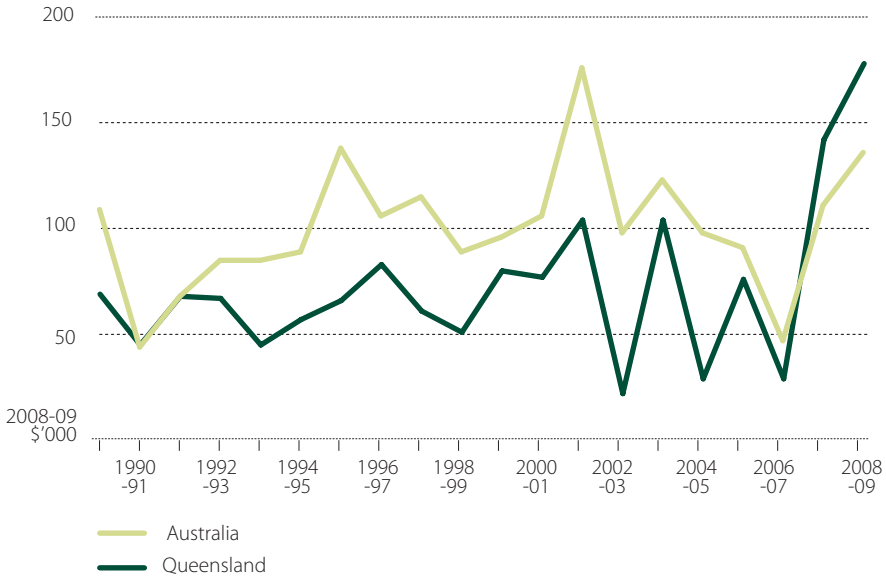
		Queensland				Australia			
		2006-07	2007-08 p		2008-09 s	2006-07	2007-08 p		2008-09 s
Receipts									
Total crop receipts	$	66 150	119 200	(11)	131 000	109 150	166 700	(5)	196 000
Beef cattle sales	$	246 060	216 100	(10)	267 000	125 880	103 800	(5)	116 000
Total cash receipts	$	481 290	463 800	(8)	522 000	394 200	429 600	(3)	450 000
Costs									
Beef cattle purchases	$	69 950	40 900	(19)	40 000	38 350	27 000	(12)	26 000
Fodder	$	42 710	18 600	(17)	15 000	27 750	12 900	(12)	10 000
Fertilizer	$	7 490	10 400	(14)	11 000	27 950	40 600	(4)	45 000
Fuel, oil and lubricants	$	22 700	28 200	(5)	27 000	25 950	29 300	(4)	29 000
Repairs and maintenance	$	29 070	33 100	(6)	33 000	27 810	29 000	(4)	28 000
Administration expenses	$	13 880	15 200	(9)	15 000	12 450	12 300	(3)	12 000
Interest payments	$	39 920	54 500	(9)	39 000	36 850	45 400	(5)	33 000
Hired labour	$	17 580	15 800	(10)	18 000	14 760	13 900	(6)	15 000
Total cash costs	$	418 310	393 200	(8)	426 000	349 570	365 100	(3)	370 000
Financial performance									
Farm cash income	$	62 990	70 600	(21)	96 000	44 620	64 500	(11)	80 000
Farms with negative farm cash income	%	37	45	(12)	37	40	38	(4)	36
Farm business profit	$	–11 570	7 000	(238)	12 000	–63 590	–22 000	(34)	–7 000
Farms with negative farm business profit	%	71	72	(4)	70	80	70	(2)	69
Farm capital, debt and equity									
Farm capital at 30 June a	$	5 127 800	5 767 900	(5)	na	4 043 840	4 354 600	(2)	na
Farm debt at 30 June bc	$	545 430	704 900	(9)	656 000	499 690	566 300	(4)	551 000
Equity ratio at 30 June bd	%	88	87	(1)	na	87	87	(1)	na
Rate of return e	$								
– excluding capital appreciation	%	0.8	1.3	(24)	1.1	-0.5	0.8	(22)	0.9
– including capital appreciation	%	14.2	2.1	(37)	na	7.9	2.8	(13)	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.

In 2007-08, farm cash income for Australian grains industry farms rebounded from the drought reduced income of 2006-07. This was on the back of record grains prices and production increases in some regions, and despite increased expenditure on the key crop inputs of fuel, chemicals and fertiliser. For Queensland grains farms, a record sorghum harvest, combined with increased winter grain production and higher grain prices, led to a much larger increase in farm cash income compared with the national average (figure f).

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. This is 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 Queensland grains farms is projected to increase to average $178 000 a farm, because of higher winter grains receipts and higher beef cattle receipts, and despite increased total cash costs in 2008-09.

f Farm cash income, grains industries, average per farm

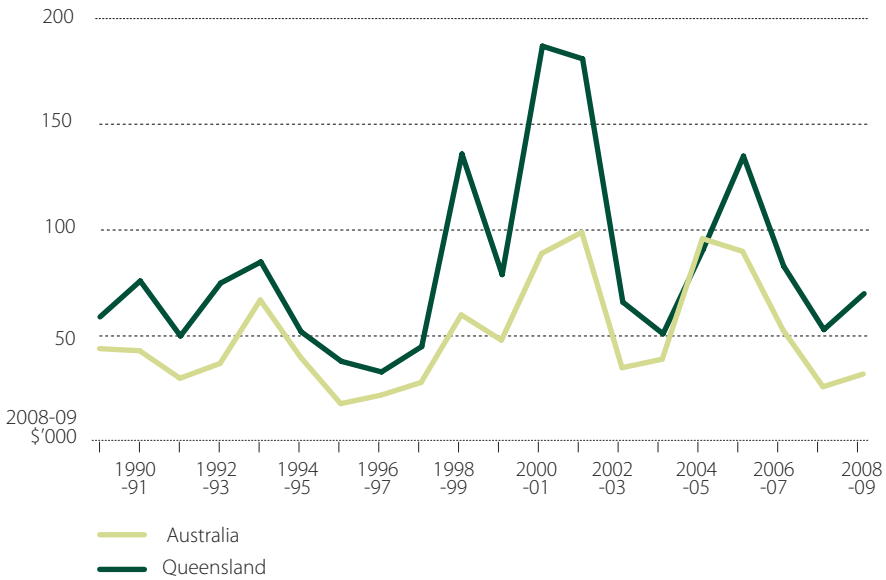


Beef industry – Australia and Queensland

Average farm cash income of Queensland beef industry farms has historically exceeded the national average, mostly because of the larger average herd size of Queensland beef industry farms (figure g).

Nationally, reduced beef cattle turn-off and lower beef cattle prices 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 cutback in

g Farm cash income, beef industry, average per farm



spending coming from reduced beef cattle purchases. With larger falls in total cash receipts compared with total cash costs, average farm cash income for both Australian and Queensland beef industry farms declined in 2007-08.

In 2008-09, higher beef cattle prices, combined with a projected increase in beef cattle turn-off in northern Australia, is projected to result in beef cattle receipts increasing by a larger amount in Queensland compared with the increase in the national average. Total cash costs at both the state and national levels are projected to rise in 2008-09, with increased beef cattle purchases in areas where seasonal conditions have improved more than offsetting reduced fodder expenditure and interest paid. With a bigger increase in total cash receipts compared with total cash costs, average farm cash income is projected to increase to around $70 000 in Queensland and to around $32 000 nationally (figure g).

Dairy farm performance – Australia and Queensland

Farm cash income for Australian dairy farms more than tripled in 2007-08 to average $144 300 a farm, the highest average farm cash income recorded in the past 20 years (figure h). Record farm-gate milk prices more than compensated for reduced milk yield per cow because of dry seasonal conditions and higher total cash costs (because of increased expenditure on fodder, fertilisers, chemicals, fuel and interest paid) (table 3).

h Farm cash income, dairy industry, average per farm

In Queensland, tightening milk supplies and competition between milk processors led to an increase of more than 30 per cent in average farm-gate milk prices received. However, while the average increase in milk price received by Queensland dairy farms was not as large as the increases recorded in states such as Victoria and Tasmania where milk is used mainly for manufactured dairy products, the average price received by Queensland farmers was the highest paid in Australia in 2007-08 at around 52 cents a litre (Dairy Australia 2008). With a much bigger increase in total cash receipts relative to the increase in total cash costs, average farm cash income for Queensland dairy farms increased from $58 810 in 2006-07 to around $117 500 in 2007-08 (table 3).

3 Financial performance, dairy industry
average per farm

		Queensland				Australia			
		2006-07	2007-08 p		2008-09 s	2006-07	2007-08 p		2008-09 s
Receipts									
Milk – net of freight	$	271 620	369 000	(6)	367 000	360 510	556 900	(4)	439 000
Dairy cattle	$	31 450	21 200	(13)	23 000	34 160	30 900	(5)	32 000
Total cash receipts	$	350 550	450 200	(6)	433 000	424 720	638 000	(4)	507 000
Costs									
Dairy cattle purchases	$	12 210	8 700	(70)	5 000	7 130	9 600	(18)	7 000
Fodder	$	130 070	136 700	(9)	121 000	145 970	191 700	(5)	166 000
Fertilizer	$	13 240	17 900	(16)	17 000	24 310	36 800	(6)	33 000
Fuel, oil and lubricants	$	13 090	15 500	(12)	15 000	14 730	16 300	(6)	15 000
Repairs and maintainance	$	18 700	25 600	(12)	20 000	24 220	35 800	(7)	28 000
Interest payments	$	22 890	25 600	(22)	16 000	35 190	46 300	(8)	31 000
Hired labour	$	15 470	18 200	(19)	19 000	22 550	24 000	(7)	22 000
Total cash costs	$	291 730	332 700	(7)	300 000	378 320	493 700	(4)	433 000
Financial performance									
Farm cash income	$	58 810	117 500	(12)	133 000	46 410	144 300	(8)	74 000
Farms with negative farm cash income	%	45	7	(75)	24	32	8	(38)	26
Farm business profit	$	–25 310	56 700	(26)	43 000	–32 360	76 700	(16)	–6 000
Farms with negative farm business profit	%	65	46	(20)	42	73	37	(14)	65
Farm capital, debt and equity									
Farm capital at 30 June a	$	3 400 740	3 318 600	(10)	3 264 000	3 450 980	3 598 200	–	3 467 000
Farm debt at 30 June bc	$	340 640	450 200	(10)	433 000	516 410	591 900	(10)	513 000
Equity ratio at 30 June bd	%	89	90	(2)	na	85	84	(1)	na
Rate of return e									
– excluding capital appreciation	%	0.0	2.9	(19)	2.2	0.4	4.2	(9)	1.2
– including capital appreciation	%	6.3	10.1	(22)	na	11.0	11.3	(9)	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.

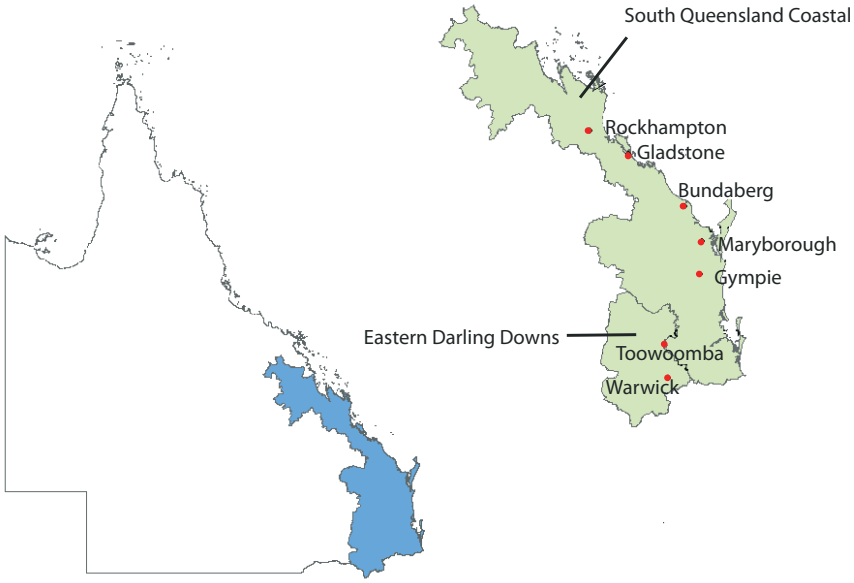
At the national level, average farm cash income for Australian dairy farms is projected to fall to around $74 000 a farm in 2008-09, in response to lower manufacturing milk prices. Despite a small increase in milk production in all states, average total cash receipts are projected to fall by around one-fifth in 2008-09. Lessening the effect of reduced milk receipts on farm cash income, total cash costs are projected to fall by around 12 per cent because of falls in hay and feed grain prices, together with a decline in interest rates.

In contrast to the marked decline in farm cash income nationally, a small increase is projected in farm cash income for Queensland dairy farms in 2008-09. In Queensland, average farm-gate milk prices are expected to remain close to those of 2007-08, as demand for fresh milk remains strong. In addition, increased milk production is projected to boost total cash receipts and, combined with falls in average total cash costs because of reduced fodder expenditure and interest paid, average farm cash income is projected to increase to around $133 000 in 2008-09.

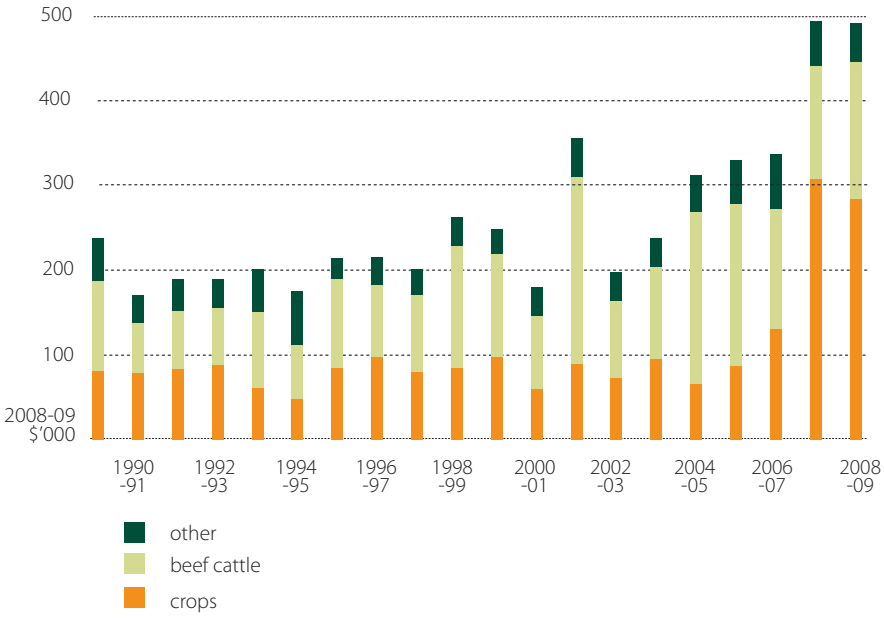
Broadacre farm performance – South East Queensland

In this section, South East Queensland is defined to cover the two ABARE survey regions of Eastern Darling Downs and South Queensland Coastal (map 2). Although these regions are fairly close in proximity, their relative enterprise mixes are quite different. The inland Eastern Darling Downs region has historically generated farm receipts from a combination of beef cattle and crop production, whereas the South Queensland Coastal region has generally had a greater focus on beef cattle production. However, in the past two years the proportion of total cash receipts generated from crops increased in both regions (figures i and j).

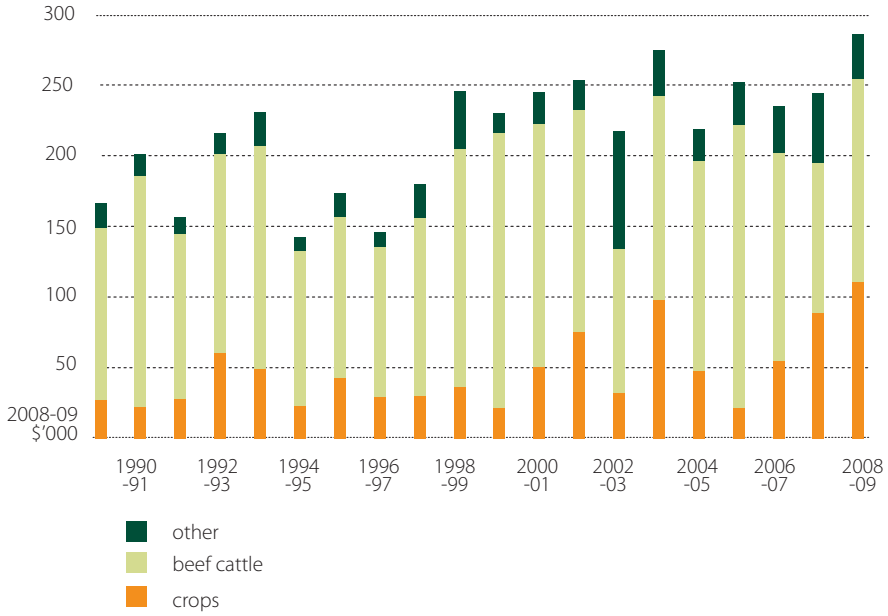
map 2 South East Queensland



i Total cash receipts, Eastern Darling Downs broadacre industry, average per farm



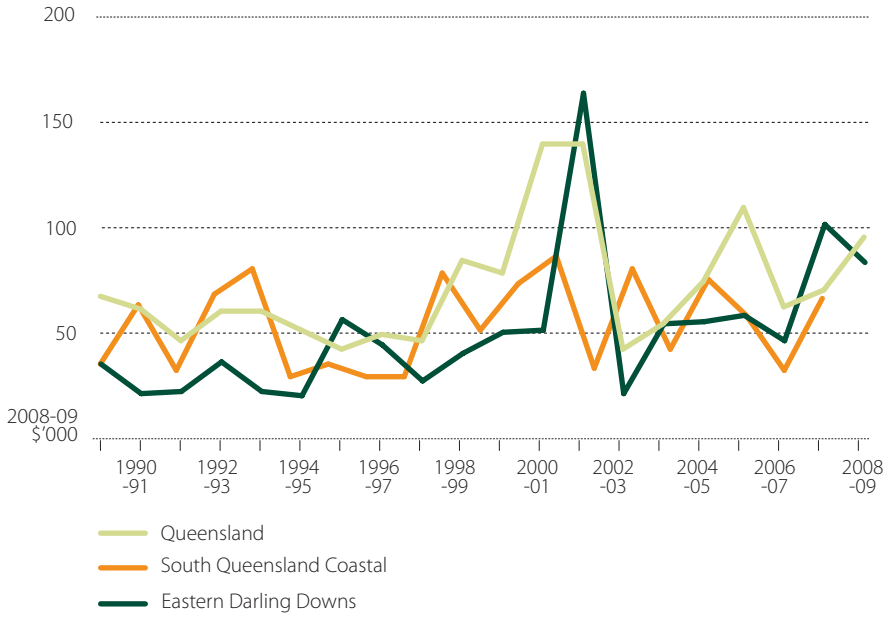
j Total cash receipts, South Queensland Coastal broadacre industry, average per farm



Eastern Darling Downs

Farm cash income of broadacre farms in the Eastern Darling Downs region is projected to remain high in 2008-09, but lower than the historically high income recorded in 2007-08 (figure k). Despite some improvement in projected beef cattle and winter grains receipts, total cash receipts are projected to remain close to 2007-08

k Farm cash income, broadacre industry, average per farm



levels because of an expected reduction in grain sorghum receipts. Although interest costs are projected to decrease, increased beef cattle purchases and fertiliser costs are projected to raise total cash costs, on average, by 4 per cent in 2008-09. Overall, average farm cash income in the Eastern Darling Downs is projected to fall from $101 700 a farm in 2007-08 to around $84 000 a farm in 2008-09 (table 4).

4 Financial performance, broadacre industry

average per farm

		Eastern Darling Downs				South Queensland Coastal			
		2006-07	2007-08 p		2008-09 s	2006-07	2007-08 p		2008-09 s
Receipts									
Total crop receipts	$	120 980	297 700	(15)	284 000	51 330	85 900	(35)	111 000
Beef cattle sales	$	141 670	133 700	(19)	163 000	147 390	106 800	(19)	144 000
Total cash receipts	$	337 430	493 800	(10)	492 000	235 860	244 700	(18)	287 000
Costs									
Beef cattle purchases	$	22 730	31 800	(32)	42 000	27 320	20 300	(27)	21 000
Fodder	$	36 190	19 500	(23)	18 000	17 790	9 600	(22)	8 000
Fertilizer	$	19 720	36 400	(23)	44 000	4 750	7 600	(20)	8 000
Fuel, oil and lubricants	$	19 500	32 300	(11)	32 000	12 440	18 300	(13)	19 000
Repairs and maintenance	$	25 590	35 400	(12)	36 000	16 430	24 600	(15)	22 000
Administration expenses	$	15 040	13 600	(13)	15 000	11 920	13 200	(30)	15 000
Interest payments	$	32 520	61 300	(26)	42 000	26 070	26 800	(22)	20 000
Hired labour	$	15 420	15 200	(32)	17 000	4 060	5 900	(32)	8 000
Total cash costs	$	290 720	392 200	(10)	408 000	176 680	211 900	(14)	220 000
Financial performance									
Farm cash income	$	46 710	101 700	(34)	84 000	59 190	32 800	(78)	67 000
Farms with negative farm cash income	%	49	36	(20)	38	29	51	(18)	50
Farm business profit	$	–76 110	71 900	(63)	–18 000	–10 660	–36 400	(61)	–21 000
Farms with negative farm business profit	%	88	57	(12)	73	62	81	(9)	75
Farm capital, debt and equity									
Farm capital at 30 June a	$	4 365 370	5 588 600	(9)	na	3 809 030	4 590 800	(12)	na
Farm debt at 30 June bc	$	533 080	697 700	(28)	712 000	364 810	308 300	(23)	361 000
Equity ratio at 30 June bd	%	87	87	(4)	na	90	93	(2)	na
Rate of return e	$								
– excluding capital appreciation	%	-1.0	2.8	(28)	0.7	0.6	0.0	(1249)	0.3
– including capital appreciation	%	4.0	3.6	(41)	na	13.2	-2.7	(71)	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.

Eastern Darling Downs broadacre farms are projected to record a larger fall in farm business profits in 2008-09 because of a much smaller buildup in trading stocks compared with the previous year. In 2007-08, the average value of farm trading stocks increased significantly as farms increased inventories of grain following the record grain sorghum harvest and high grain prices.

South Queensland Coastal

Farm cash income of South Queensland Coastal broadacre farms is projected to improve markedly in 2008-09, but will remain well below the average for Eastern Darling Downs and Queensland farms, reflecting the smaller

average size of farms in this region (figure k). Farms in the region are expected to increase beef cattle turn-off in 2008-09, which, when combined with higher beef cattle prices, is projected to boost beef cattle receipts by around 35 per cent. Higher beef cattle receipts combined with increased crop receipts are projected to more than offset increases in farm cash costs, leading to average farm cash income increasing from $32 800 a farm in 2007-08 to around $67 000 a farm in 2008-09 (table 4).

Outlook for selected commodities

ABARE's assessment of the outlook for world economic growth is provided in its quarterly publication, *Australian commodities*, which also includes market forecasts and detailed discussions of major Australian agricultural, mineral and energy commodities. The forecast summaries presented here for a number of the commodities important in this region are based on information in the March 2009 issue of *Australian commodities*.

Seasonal outlook

The Australian Bureau of Meteorology in its latest (24 March 2009) seasonal rainfall outlook for the June quarter shows a mixed outlook for exceeding median rainfall. A wetter than normal season is favoured in parts of eastern New South Wales and south-east Queensland, with a 55 to 60 per cent chance of exceeding median rainfall. A drier than normal quarter is more likely over north-west Western Australia, parts of South Australia, Victoria, south-west New South Wales and northern Tasmania.

Livestock

Beef

The Australian weighted average saleyard price for cattle is forecast to rise by around 2 per cent in 2009-10 to 305 cents a kilogram. This follows a forecast 4 per cent increase in prices in 2008-09 because of stronger restocker demand, the depreciation of the Australian dollar and continued low cattle turn-off. Slaughterings are forecast to increase by 1 per cent in 2009-10 to 8.8 million, reflecting the expectation that there will be more young cattle available for slaughter, particularly toward the latter half of the year. Higher slaughterings will translate into higher beef and veal production, which is also forecast to rise by around 1 per cent in 2009-10.

A key factor putting upward pressure on saleyard prices is the increased incentive for herd rebuilding in 2009-10. This stronger restocker demand is the combined result of lower forecast feed grain prices and an expected improvement in pasture conditions resulting from above-average rainfall in much of northern Australia in late 2008 and early 2009. Furthermore, the proportion of females in the beef cattle herd has reached its highest level in the past 20 years, which will facilitate a quicker recovery in herd numbers. The depreciation of the Australian dollar and continued low cattle turn-off will also put upward pressure on saleyard prices.

Beef cattle numbers are forecast to increase by 2 per cent in 2009-10 to 25.9 million, with the majority of growth expected to occur in the northern states. The slight expected increase in slaughterings, despite the incentive to rebuild herds, reflects the expectation that there will be more young cattle available for slaughter. However, the recent floods in northern Queensland are likely to delay herd rebuilding efforts in those regions. Stock losses and damage to infrastructure is likely to adversely affect production and operations on some northern Queensland properties in the short term.

Lower export demand for Australian beef in some markets because of the global financial crisis is expected to limit the rise in Australian saleyard prices. Assumed economic contractions in the Republic of Korea and Japan in 2009, and weak economic growth in 2010, are expected to place downward pressure on the demand for

beef as consumers substitute toward cheaper protein sources. Demand in smaller markets, such as the Russian Federation and South-East Asia, could also be weaker. Increased competition from US beef is expected to further weaken the demand for Australian beef in the Korean and Japanese markets. However, the assumed depreciation of the Australian dollar against the US dollar will increase the international competitiveness of Australian beef.

Total Australian beef exports are forecast to fall in 2009-10 to 920 000 tonnes because of lower demand in export markets. Australian beef exports to Japan are forecast to fall by 4 per cent to around 345 000 tonnes in 2009-10. Exports to the Republic of Korea are forecast to fall by 6 per cent, to 105 000 tonnes, as competition from US beef increases following the easing of Korean import restrictions on US beef over the past year. In contrast, Australian beef exports to the United States are forecast to increase by around 11 per cent in 2009-10 to 300 000 tonnes. US consumers are expected to substitute away from more high value cuts towards manufacturing beef, which accounts for the majority of Australian beef exported to the United States.

Australian live cattle exports are estimated to fall by 3 per cent in 2009-10, to around 760 000 head, as a result of demand for beef in Indonesia and other South-East Asian countries weakening, in line with sharply lower economic growth. However, the demand for beef is expected to recover over the medium term as economic growth in Indonesia improves. Australia is well placed geographically to export live cattle to Indonesia to be finished in feedlots to meet this demand. One downside risk to Australia's live cattle trade is the possibility of increased competition from Brazilian beef, following an announcement from the Indonesian Government they would again import beef from Brazil. However, this prospect remains uncertain at this stage.

Dairy

World dairy product prices fell sharply in the first half of 2008-09 in the wake of the global economic slowdown, with growth in consumption falling in many regions. While dairy consumption has remained relatively unchanged in some developed countries, growth has declined markedly in many developing countries, especially in the emerging markets of Asia and Africa, where dairy items are considered luxury goods. World dairy prices have also been affected by a moderate increase in world dairy production, to which New Zealand has been the major contributor.

Internationally, growth in consumption of dairy products is forecast to slow in 2009-10, with import demand and world trade volumes to be relatively unchanged from 2008-09. Increased global production and slower growth in world import demand has contributed to a buildup of stocks in some of the major exporting countries, particularly the European Union, New Zealand (the world's largest dairy exporter) and the United States. The significant rise in stocks has placed significant downward pressure on world dairy prices.

In Australia, moderate herd rebuilding and a steady increase in yield per cow will contribute to an increase in production. However, relatively dry conditions and low irrigation water allocations persist across many dairying regions, which will limit growth in herd numbers and increases in yield per cow. Lower feed prices have provided some relief to dairy farmers, but sharply lower farm-gate milk prices, particularly in the export oriented states of Victoria, South Australia and Tasmania, will reduce profitability in the short term.

Declines in world dairy prices are expected to result in average Australian farm-gate milk prices falling by 14 per cent to 34.5 cents a litre in 2009-10. Farm-gate prices are expected to be highly variable across the country, with larger declines projected for regions which are more exposed to export markets. Australian milk production is estimated to increase by 1.9 per cent to around 9.4 billion litres in 2008-09. In 2009-10, Australian milk production is forecast to increase by 1.6 per cent to 9.55 billion litres. The total value of Australian dairy product exports is forecast to fall by 19 per cent to $2.13 billion in 2009-10, despite the positive effects of increased export volumes and a lower exchange rate.

For the year 2009-10, the value of Australian skim milk powder exports is forecast to be down by 22 per cent, to $337 million and whole milk powder export earnings down by 21 per cent to $315 million. Australian butter exports value is forecast to be down by 25 per cent to $154 million, while export earnings from casein and cheese are expected to be down by 20 per cent and 16 per cent, to $89 million and $835 million respectively.

Pig meat

In 2007-08, high feed grain prices combined with a strong Australian dollar placed the Australian pig industry under pressure, causing many producers to leave the industry or to sell off stock. The reduction in the breeding herd has placed upward pressure on pig prices in 2008-09, providing respite for producers. The decline in feed grain prices and the depreciation of the Australian dollar have further improved prospects for the industry. Largely reflecting lower supply of pig meat, pig prices are estimated to be 31 per cent higher in 2008-09 than in 2007-08.

Australian pig prices are forecast to fall by 5 per cent in 2009-10, to average 300 cents a kilogram. This forecast decline in prices follows the high pig prices in 2008-09, and reflects an expected increase in the supply of pig meat and lower feed grain prices. In 2009-10, Australian pig meat production is forecast to increase by 6 per cent relative to 2008-09, to 340 000 tonnes. The forecast increase reflects the expected response by producers to the high returns achieved in 2008-09.

Increasing import volumes have also concerned the industry in recent years. However, imports are forecast to decline by 3 per cent in 2009-10 because of a lower Australian dollar and a decline in breeding sow numbers in Canada, Denmark and the United States.

Crops

Grains

Global grain production in 2009-10 is forecast to decline, as yields are assumed to return closer to historical averages from record highs in 2008-09. In 2009-10, world production of wheat is forecast to fall to 632 million tonnes from last year's record 687 million tonnes. World coarse grains and oilseeds are also forecast to fall, to 1.07 billion tonnes and 396 million tonnes, respectively. Prices in 2009-10 are forecast to fall, although will remain at relatively high levels by historical standards. The world indicator price for wheat (US hard red winter, fob Gulf ports) is forecast to fall by 5 per cent in 2009-10 to average US$248 a tonne. The coarse grains indicator price (US corn, fob Gulf) and oilseeds indicator price (soybeans, cif, Rotterdam) are forecast to fall in 2009-10 by US$6 a tonne and US$15 a tonne, respectively.

Reductions in world wheat consumption in 2009-10 are expected to be driven by a decline in the use of wheat for livestock feed. Food wheat consumption over recent years has increased by around 1 per cent a year. Global wheat consumption is forecast to fall from 648 million tonnes in 2008-09, to 628 million tonnes in 2009-10. World coarse grain consumption is forecast to decline by 9 million tonnes to 1.07 billion tonnes in 2009-10, reflecting reduced demand for feed grains as livestock production contracts in response to weaker demand for livestock products. World oilseed consumption is forecast to decline by 9 million tonnes in 2009-10, as the derived demand for oilseed products falls. Oilseed meal consumption is forecast to decline by 3 per cent in 2009-10 and vegetable oil consumption by 2 per cent.

In Australia, the split up of winter crop area will depend on the timing and extent of autumn rainfall. Crop rotation factors will also be a consideration for individual growers. A later break to the season could result in a smaller area being planted to canola and pulses, as these crops are generally planted earlier in the growing cycle than wheat and barley crops. The area planted to winter crops is forecast to be 21.1 million hectares in 2009-10, compared with 21.8 million hectares planted in the previous season.

The 2008-09 winter cropping season was highly variable across Australia, with mixed yield and quality results between and within states. Assuming yields return closer to the longer term average, winter crop production is forecast to increase by 3 per cent in 2009-10, compared with the harvest in 2008-09. Of the major winter crops, wheat production is forecast to increase to 22 million tones, up from 21 million tones harvested in the previous season. Barley production is forecast to increase to 7.3 million tonnes, up from 6.8 million tonnes in 2008-09. Canola production is forecast to be 1.4 million tonnes in 2009-10, a decline of around 220 000 tonnes.

Increased domestic supplies and lower world grain prices in 2009-10 are factors contributing to a forecast decline in Australian grain prices. The world wheat indicator price is forecast to decline by 5 per cent in 2009-10. However, an assumed depreciation of the Australian dollar against the US dollar will support the returns for Australian growers. The pool return for Australian premium white wheat (APW 10) is forecast to average A$315 a tonne, 3 per cent lower than the previous year. Australian feed barley and canola prices are forecast to fall in 2009-10 to an average of A$186 a tonne and A$570 a tonne, respectively, down 3 per cent and 4 per cent on last year.

Australian export volumes of wheat, coarse grains and canola are also expected to rise in 2009-10, to 14.7 million tonnes, 5.2 million tonnes, and 975 000 tonnes, respectively.

Sugar

The world indicator price for sugar (Intercontinental Commodities Exchange no.11 spot, fob Caribbean) is forecast to average US13 cents a pound in 2008-09 (October-September year), buoyed by lower world sugar production in 2008-09 and increased use of sugar cane for ethanol production in Brazil. The sugar indicator price is forecast to decline only slightly to US12.8 cents a pound in 2009-10. Aggregate world demand for sugar is unresponsive to changes in consumer incomes, so the global financial crisis is forecast to only slightly dampen the rate of growth in sugar consumption in 2008-09. Global sugar production is expected to rebound somewhat to 166.1 million tonnes in 2009-10, with India contributing to the majority of the increase.

Key factors underpinning world sugar prices over the short term are: production reductions in the European Union induced by government policy reforms; the positive demand effects of strong income growth in developing countries, such as China and India; and the increasing diversion of Brazilian sugar cane into ethanol production. Further, world carryover stocks of sugar are forecast to decline by 2.1 million tonnes in 2008-09.

The low Australian dollar means sugar prices are favourable in Australian dollar terms for the 2008-09 and 2009-10 seasons. The current indication for Queensland Sugar Limited's 2009-10 seasonal pool is $446 to $466 a tonne, IPS (International Polarity Scale). At the same time, the seasonal pool price indications of QSL translate into returns to Australian sugar cane growers of around $29 a tonne in 2008-09 and $34 a tonne in 2009-10, compared with $25.40 a tonne in 2007-08.

Australian sugar production in 2009-10 is forecast to decline by 2.3 per cent to 4.56 million tonnes, despite a slight increase in the area harvested. Floods in the Herbert River, Burdekin River and Tully regions of Queensland in early February 2009 have probably reduced sugar yield potential, with the 2009-10 Australian cane harvest (crushed in the second half of 2009) down by around 6 per cent.

The necessity of using lower yielding cane varieties, which are resistant to the sugar cane smut since the outbreak of the disease in 2006, also negatively affects yields. Further, the landlocked major sugar producing regions along the Queensland coast and part of northern coastal New South Wales offer little scope to expand areas under sugar in these regions. At the farm level, there is a trend toward diversification of production on cane farms in Australia. As a result of these factors, there is unlikely to be any significant increases in Australian sugar production over the next five years.